småkraft©

SMÅKRAFT AS

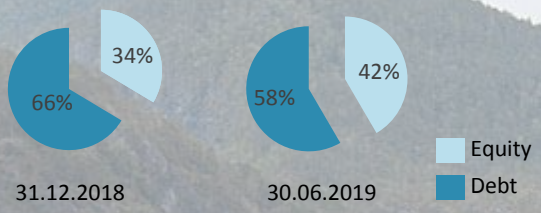
HALF YEAR REPORT

01.01.2019 – 30.06.2019

Bordalsgjelet
Photo: Heiko Kübler

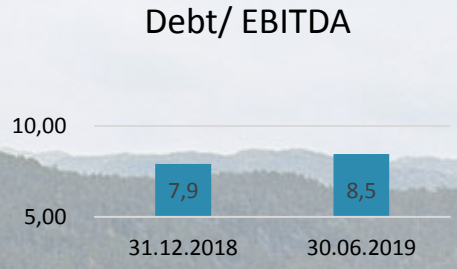
SMÅKRAFT AT A GLANCE

Debt repayments reduced gearing



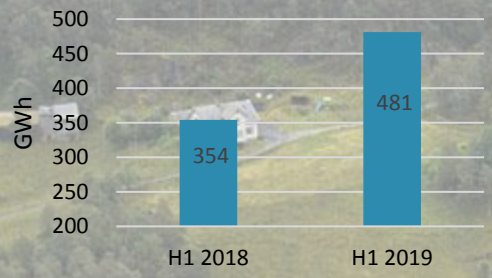
Småkraft raised a 50 mEUR Green Bond in 2018 to refinance certain power plants. The closing of the refinancing took place in 2019.

Leverage levels remain well within targeted bandwith



Debt: Debt net cash
EBITDA: Operating profit + depreciations + impairments + unrealised losses on energy hedges
Ratios are on a rolling twelve months basis

New power plants contributed to increased production



Net production delivered on the grid, excluding grid losses, consumption and bilateral agreements.

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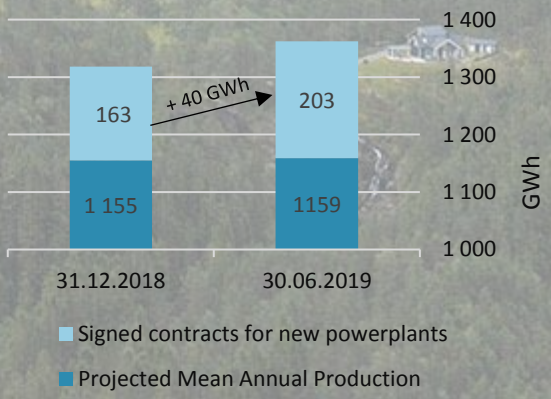
Additional 40 GWh projects under construction



Blådalselva Power Plant
Photo: Heiko Kübler

HIGHLIGHTS 1ST HALF OF 2019

Renewable Power Production

A cold and a late spring flood were observed in western parts of Norway leading to lower than expected production in May, while both the winter months and June were generally better than in 2018.

H1 2019 production for all Småkraft powerplants (including the ones partly owned), amounted to 481 GWh, compared to 354 GWh in H1 2018.

Sustainability

Småkraft issued its first Sustainability Report, including its Climate Reporting during H1 2019, see report on smaakraft.no.

During the reporting period, Småkraft experienced no material Health, Safety and Environmental- (HSE) incident. We have experienced one minor Health- incident.

Market update

The NordPool spot power prices remained high during the period, while for each of the next five years the yearly system prices in the Nordics remain above 32 EUR/ MWh.

The electricity certificates (el- cert) prices dropped significantly from around 180 SEK/ MWh to around 40 SEK/ MWh at the lowest. The yearly future el- cert prices are stable at low levels.

Company Objectives

During the period, Småkraft listed its first Green Bond on the Oslo Stock Exchange.

One new power plant with an annual production capacity of 4 GWh came on stream.

Additionally, in August 2019, Småkraft has signed new contracts for 40 GWh mean annual production. These power plants will come on stream in the years to come.

STATEMENT OF THE BOARD

Production and revenue have increased

Small scale hydro produces energy based upon the water that flows in the rivers at any given time. The water volume is based upon several hydrological factors, such as rainfall, temperature and snow melting. Thus, the Småkraft- portfolio faces seasonal and annual variations. For example, the spring flood came later in 2019 compared to 2018. Both the production and the revenue will thus vary significantly from period to period.

The Småkraft Group produced 481 GWh during the first half of 2019 ("the reporting period"), compared to 354 GWh in the first half of 2018. During the last part of 2018, Småkraft acquired 5 new powerplants that contributed well to the production increase in the reporting period. Additionally, Småkraft acquired one small power plant in the end of June 2019.

Power prices and hedging effects

While falling somewhat compared to 2018, NordPool power prices were still at good levels in a 10 year perspective. The el- cert prices, however, dropped significantly. Revenues were 19 MEUR, compared to 17,8 MEUR in H1 2018. Other operating income includes both realised and unrealised hedges. As Småkraft does not apply hedge accounting for its power price hedges, unrealised hedges led to negative other operating income of 13,7 MEUR in H1 2018. In H1 2019, many of the hedges increased in value because of falling prices. This led to a high other operating income in the reporting period of about 8,9 MEUR, compared to -13,7 in H1 2017. Småkraft expects considerable movements in other operating income due to the methodology employed.

Adjusted EBITDA

Småkraft has defined Alternative Performance Measures (APM, see notes). Adjusted EBITDA is the APM the firm uses to measure performance from operational activities.

Adjusted EBITDA was 9,2 mNOK in H1 2019, compared to 11,1 in H1 2018. The lower adjusted EBITDA was mainly due to lower income from electricity certificates, higher land lease rent payouts and grid costs.

Net financial items

Småkraft has several non- cash movements in its net financial expenses and its financial income. Firstly, Småkrafts assets are based in NOK, while the reporting currency is EUR. This leads to large non- cash changes in EUR for the assets, when the EUR/ NOK fluctuates.

Secondly, Småkraft enters currency forwards for future transactions, as the transactions have settlement in NOK, while the equity contribution is in EUR. According to IFRS, we do not use hedge accounting for these currency forwards which may have effects on the financial income and financial expenses for each period, based on movements in the EUR/ NOK currency exchange rate.

The interest expenses in the net financial items for H1 2019 were 2,3 MEUR, compared to 1,8 MEUR in H1 2018. The difference was mainly because of new debt following new acquisitions, as well as some settled interest rate swaps in connection with the bond issue.

Green Bond issue

Småkraft issued a Green Bond in H2 2018. The funds from the Green Bond were released in the reporting period. Småkraft used some of the funds to pay down debt. As the funds from the bond were settled after the balance sheet date during January and February 2019, this affects the cash positions and the debt positions per year end 2018. This settlement also effects the total balance- values and equity.

Risk factors for upcoming period

Main risk factors for the upcoming periods include hydrology that affect the production and price movements on el- certs and power prices. Småkrafts financial statements may also be affected by currency exchange changes EUR/ NOK.

Principle Change

This Interim Report is Småkrafts first Reporting in line with IFRS. Also, Småkraft presents its financial results in EUR for the first time. Please find explanations about the change in the notes below.

Consolidated Income Statement and Consolidated Statement of Other Comprehensive Income (unaudited)

Amounts in EUR thousand	*Note*	6 months ended 2019	6 months ended 2018	12 months ended 2018
Revenue	7	18 997	17 767	47 730
Other operating income	7,11	8 886	-13 704	-23 158
Total operating income		**27 883**	**4 063**	**24 572**
Water rights costs		1 760	731	3 253
Transmission costs		1 662	1 120	2 761
Payroll and related costs		1 131	984	2 386
Depreciation of fixed assets and intangible assets		5 832	5 373	10 953
Impairment of fixed assets and intangible assets		-	-	695
Property tax and licence fees		1 023	947	2 135
Other operating expenses		2 037	2 018	3 636
Total operating expenses		**13 445**	**11 173**	**25 819**
Operating profit/(loss)		**14 438**	**-7 109**	**-1 248**
Income from investments recognised under the equity method		-	-	-
Financial income	11,12	6 710	7 638	2 374
Financial expenses	11,12	-2 867	-2 277	-8 962
Net financial items		**3 843**	**5 361**	**-6 588**
Profit/(loss) before tax		**18 281**	**-1 749**	**-7 835**
Tax expense (income		-3 975	425	507
Profit (loss)		**14 305**	**-1 323**	**-7 328**
Profit/(loss) is attributable to:				
Equity holders of the parent company		14 214	-1 425	-7 833
Non-controlling interests		91	102	505
Other comprehensive income				
Items that can be recycled to profit or loss:				
Net changes in value of financial instruments related to cash flow hedge		8	-478	-673
Tax effect of changes in the value of financial instruments		-2	110	155
Items that cannot be recycled to profit or loss:				
Presentation currency effects		4 368	5 080	-2 718
Total other comprehensive income		**4 374**	**4 712**	**-3 237**
Total comprehensive income for the year		**18 679**	**3 388**	**-10 565**
Total comprehensive income is attributable to:				
Equity holders of the parent company		18 588	3 286	-11 070
Non-controlling interests		91	102	505

Consolidated Statement of Financial Position (unaudited)

Non - current assets

Amounts in EUR thousand	*Note*	**30.06.2019**	**31.12.2018**	**01.01.2018**
Goodwill	9	6 401	6 130	4 977
Intangible Assets		42 874	41 370	29 719
Property, plants and equipment		355 486	347 594	330 495
Deferred tax assets		326	5 365	5 697
Investments in companies recognised under the equity metl		52	295	298
Long-term receivables		7 500	6 750	5 792
Derivatives		-	-	-
Investment in marked based securities		98	96	97
Total non-current assets		**412 736**	**407 600**	**377 074**
Current assets				
Inventory		68	88	51
Inventory EL certificates	8	1 608	5 512	1 269
Trade receivables	11	2 098	2 413	3 626
Other receivables		6 463	2 718	3 119
Derivatives	11	5 548	2 310	3 635
Other current assets		499	97	96
Cash and Cash equivalents		28 321	70 615	18 743
Total current assets		**44 606**	**83 753**	**30 539**
Total assets		**457 342**	**491 353**	**407 614**

Shareholders equity

Amounts in EUR thousand	*Note*	30.06.2019	31.12.2018	01.01.2018
Share capital		15 892	14 539	14 186
Other equity		5 158	22 313	-
Share-premium reserve		146 750	121 629	131 361
Retained earnings		14 663	339	11 002
Total shareholders equity		**182 462**	**158 820**	**156 548**
Minority interests		5 608	5 552	2 305
Total equity		**188 071**	**164 372**	**158 853**
Non-current liabilities				
Deferred tax liability		-	1 376	877
Borrowings	11	244 943	266 997	227 157
Lease liability		82	157	310
Derivatives	11	901	896	1 469
Total non-current liabilities		**245 926**	**269 426**	**229 813**
Current liabilities				
Accounts payable		899	1 580	2 138
Taxes payable		1 284	1 251	475
Public duties payable		1 671	2 172	1 777
Lease liability		157	150	144
Dividends		-	20 050	-
Derivatives	11	8 583	17 858	3 056
Borrowings	11	6 747	8 035	7 860
Other current liabilities		4 004	6 458	3 497
Total current liabilities		**23 345**	**57 555**	**18 948**
Total liabilities		**269 271**	**326 981**	**248 761**
Total equity and liabilities		**457 342**	**491 353**	**407 614**

Oslo, Norway, 30 August 2019
The Board of Directors
Småkraft AS

Tor Søve Syverud
Chairman of the board

Annette Beate Wacknitz Malm Justad
Member of the Board

Jan Erik Schulien
Member of the Board

Oldrik Nicolaas Frits Verloop
Member of the board

Christian Heidfeld
Member of the board

Halle Aslaksen
Managing Director

Consolidated Statement of Equity (unaudited)

Amounts in EUR thousand	Share capital	Share premium	Not registered capital increase	Retained earnings	Total shareholders equty	Noncontrolling interests	Total equity
Equity at 01.01.2018	**14 186**	**131 361**	**0**	**9 216**	**154 762**	**2 305**	**157 067**
IFRS adjustments				1 786	**1 786**	0	**1 786**
Equity at 01.01.2018	**14 186**	**131 361**	**0**	**11 002**	**156 548**	**2 305**	**158 853**
Net profit				-7 820	**-7 820**	492	**-7 328**
Net changes in value of financial instruments related to cash flow hedge				-519	**-519**		**-519**
Currency presentation effect	-172	-1 855	-811	264	**-2 574**	-144	**-2 718**
Total comprehensive income for the year	**-172**	**-1 855**	**-811**	**-8 075**	**-10 913**	**348**	**-10 565**
Capital increase current period	525	12 227	23 124	-	**35 876**	-	**35 876**
Minority in acquired subsidiary					**0**	2 900	**2 900**
Dividend		-20 104		-2 604	**-22 708**		**-22 708**
Other changes				17	**17**	-0	**17**
Equity at 31.12.2018	**14 539**	**121 629**	**22 313**	**339**	**158 820**	**5 552**	**164 372**
Net profit				14 214	**14 214**	91	**14 305**
Net changes in value of financial instruments related to cash flow hedge				6	**6**		**6**
Currency presentation effect	382	3 193	586	61	**4 222**	146	**4 368**
Total comprehensive income for the period	**382**	**3 193**	**586**	**14 281**	**18 442**	**237**	**18 679**
Capital increase previous period registered current period	972	21 927	-22 899		**0**		**0**
Capital increase current period			5 158		**5 158**		**5 158**
Dividend					**0**	-182	**-182**
Other changes				43	**43**	1	**44**
Equity at 30.06.2019	**15 892**	**146 749**	**5 158**	**14 663**	**182 463**	**5 608**	**188 071**

Consolidated statement of cash flow (unaudited)

Amounts in EUR thousand	IFRS **6 months ended 2019**	IFRS **6 months ended 2018**	IFRS **12 months ended 2018**
Cash Flow from operations			
Profit (-loss) before taxation	18 281	-1 749	-7 835
Taxes paid for the period	33	0	-487
Depreciation, amortization, impairment	5 832	5 373	11 649
Unrealized currency gains/losses	-7 689	-7 015	3225
Change in inventory	3 924	-8	-37
Change in working capital	-5 756	6 522	9 908
Net cash flow from operations	**14 625**	**3 124**	**16 422**
Cash flow from investment activities			
Net inflows from sale of shares and market based securities	0	0	-6
Cash in acquired companies	81	0	1 875
Outflows due to purchases of fixed assets	-2 329	-980	-11 241
Outflows due to purchases of intangible assets	0	-646	-643
Outflows due to investments in subsidiaries	-1 149	0	-25 646
Outflows from loans to others	-4 495	0	-1 058
Net cash flow from investment activities	**-7 892**	**-1 626**	**-36 719**
Cash flow from financing activities			
Capital increases	5 039	0	23 124
Change in current liabilities (derivatives)	-9 275	0	0
Dividend payments	-20 708	-2 604	-2 604
Repayment of lease liability	8	83	-166
Net loan payment/raising	-24 091	0	51 816
Net Cash Flow from financing activities	**-49 027**	**-2 521**	**72 170**
Net change in bank deposits and cash	**-42 294**	**-1 023**	**51 872**
Bank deposits and cash at beginning of period	70 615	18 743	18 743
Bank deposits and cash at end of period	**28 322**	**17 720**	**70 615**

Notes (unaudited)

CONTENTS

1. About the business 11
2. Transactions and events in 2019 11
3. Reporting entity and basis of preparation 11
4. General accounting policies 12
5. Alternative Performance Measures (APM) 17
6. First time adoption and equity reconciliation 18
7. Revenues and other income 24
8. El certificates inventory 24
9. Goodwill 24
10. Impairment testing 25
11. Financial instruments 27
Financial assets 27
Cash and cash equivalents 28
Accounts receivables and accrued revenue 28
Financial liabilities 28
Borrowings 29
Maturity profile for financial liabilities 30
Derivatives and hedge accounting 31
Fair value 31
12. Financial result 33

1. About the business

The Småkraft group comprises Småkraft AS and the consolidated subsidiaries (Småkraft Group or the Group). Småkraft is located in Bergen, with local offices in Harstad, Flatanger and Oslo, Norway and the Group employs 20 people. All of Småkraft's business is in Norway. Småkraft is a supplier of renewable energy based on small scale hydro power plants. The Board of Directors and the CEO authorised these first time interim IFRS financial statements for issue on 30th of August 2019.

The interim consolidated financial statements for the first half year 2019, ending 30 June 2019, were prepared in accordance with IAS 34 Interim Financial Reporting, taking into account that this is the first time reporting under IFRS, hence additional information for selected notes are disclosed.

2. Transactions and events in 2019

Småkraft AS acquired the new subsidiary Spilling Kraft AS.

3. Reporting entity and basis of preparation

Basis of preparation

The financial statements have been prepared on a historical cost basis except for certain assets, liabilities and financial instruments which are measured at fair value. The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

Presentation and classification of items in the financial statements is consistent for the periods presented. Application of the accounting policies by the subsidiaries has been changed where necessary to ensure consistency with Group accounting policies. The functional currency of Småkraft AS is the Norwegian krone (NOK). The Group accounts are presented in EUR . Småkraft AS presents the financial statement in EUR, as the main revenue is noted in EUR, its debt is mainly in EUR and its owners are EUR- based.

First time application of IFRS

This is the first set of financial statements for Småkraft Group prepared in accordance with IFRS. IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied in the preparation of these financial statements.

In accordance with IFRS 1, Småkraft Group has prepared an IFRS opening balance sheet as of 1 January 2018 (transition date). Full IFRS was applied for all financial statement line items and transactions in the preparation of these consolidated financial statements except for business combinations occurring prior to the IFRS transition date of 1 January 2018, for which the option in IFRS 1.C1 has been exercised. IFRS 1.C1 allows the first time adopter of IFRS to not apply IFRS 3 *Business Combinations* retrospectively to past business combinations.

The financial statement effects from the transition from Norwegian Generally Accepted Accounting Principles (NGAAP) to IFRS are described in note 5 *First-time adoption of IFRS*.

New and amended standards early adopted by Småkraft Group

IFRS 16 Leases has been early adopted as of 1 January 2018 as part of the transition accounting to IFRS from NGAAP. For additional details refer to note 5 *First-time adoption of IFRS*.

4. General accounting policies

The interim condensed consolidated financial statements for Småkraft Group have been prepared in accordance with International Financial Reporting Standards (IFRS) and interpretations issued by the IFRS interpretations Committee (IFRIC), as adopted by the European Union (EU) effective as of 30 June 2019.

Basis of Consolidation

The condensed consolidated financial statements are comprised of the financial statements of the parent company Småkraft AS and its subsidiaries. Subsidiaries are all entities (including structured entities) over which Småkraft Group has control. Småkraft Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. Subsidiaries are no longer consolidated from the date when control ceases.

Profits and losses resulting from intercompany transactions have been eliminated, as well as unrealised gains on transactions between group companies. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the transferred asset.

Investments in joint ventures

Joint ventures are companies or entities where Småkraft AS has joint control with one or several other investors. In a joint venture company, decisions related to relevant activities must be unanimous between participants who have joint control. The Group's share of the companies' profit/loss after tax, adjusted for amortization of excess value and any deviations from the accounting policies, are presented on a separate line in the consolidated income statement. Investments in joint ventures are recognised in the consolidated accounts using the equity method and presented as a non-current asset.

Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the group.

Equity-accounted investments are reviewed each period to determine whether there is any objective evidence that the net investment is impaired.

Business combinations

The acquisition method of accounting is used to account for all business combinations. The consideration is measured at the fair value of any transferred assets, liabilities or issued equity instruments. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

If the consideration transferred (including any non-controlling interests and the fair value of previous assets) exceeds the fair value of identifiable net assets acquired, this is recognised as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase gain.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

Foreign currency translation

Functional and presentation currency

All entities of the Group have NOK as its functional currency. For the purpose of consolidation and translation to EUR, the Group are consolidated into the functional currency of the parent (NOK) and then translated to the presentation currency, EUR. The currency differences arising in the translation to the presentation currency are presented as "items that are not recycled" in Other Comprehensive Incomes. Also, in the statement of equity the translation difference is included in retained earnings as this is not a reserve that may later be recycled. All amounts are rounded to the nearest EUR thousand.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rate at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are generally recognised in profit or loss. The exchange gains or losses are deferred in equity if they relate to qualifying cash flow hedges. Småkraft uses currency exchange rates from Norges Bank.

Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses. Furthermore, the entity's component's operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance, and thus separate financial information is available. The company has determined that the board of directors is collectively the chief operating decision maker.

The Group has only one segment: power supply. Småkraft produces renewable energy and sells electricity, el- certs and guarantees of origin on the Nordic power market.

The segment information is reported in accordance with the reporting to board of directors (chief operating decision makers), and is consistent with financial information used for assessing performance and allocating resources. EBITDA is defined as segment profit or loss (please see page 17 of this report for definitions of Alternative Performance Measures including EBITDA).

Property, plant and equipment

Property, plant and equipment is measured at historical cost less accumulated depreciation. Land is not depreciated. Historical cost includes expenditures that are directly attributable to the acquisition of the item.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component

accounted for as a separate asset is derecognised when replaced. Periodic maintenance is capitalised and depreciated over the period until next maintenance. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate costs over their estimated useful lives. The assets' residual values and useful lives are reviewed annually, and adjusted if appropriate.

Gains and losses on disposals are determined by comparing actual proceeds with the carrying amount. Gains and losses on disposal are included in profit or loss.

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. Costs relating to intangible assets, including goodwill, are recognised in the statement of financial position when it is probable that the asset will generate future economic benefits and the costs can be measured reliably.

Intangible assets with an indefinite useful life, such as goodwill and water rights owned are not amortised but are instead tested annually for impairment.

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of the impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Leases

The Group's main lease type of agreements are related to water rights. The rights are considered intangible assets. Småkraft has elected to not recognise these types of agreements under IFRS 16 leases. The accounting treatment of the different water right lease agreements are described below:

Water right lease agreements

Småkraft enters into water right lease agreements with landowners, which entitles the company to utilise the water in the rivers. The agreement typically has a period varying from 40 to 75 years, starting when the power plant is put into commercial operation.

When Småkraft has a commitment to pay rent to the land owners, we account for this as a regular cost as the commitment arises. Such commitment arises, when:

1. *Gross agreement/ revenue-based agreement:* Småkraft pays landowner a percentage of the annual power plant revenue. Upon expiration of the agreement the landowners have the right to purchase the power plant with all rights and technical installations at a price based on certain specific conditions.

   Småkraft accounts for this land lease when the relevant power plant generates revenue, upon which this land lease bases.

2. *Fixed amount- agreement:* Småkraft pays landowner a fixed annual amount. Upon expiration of the agreement the landowner has the right to purchase the powerplant with all rights and technical installations at a price based on certain specific conditions.

Småkraft accounts for this land lease monthly based upon the agreed yearly payment.

3. *Profit share agreement:* Småkraft shares the yearly powerplant- profit with the land owner. Upon expiration of the agreement the landowners have the right to purchase the power plant with all rights and technical installations based on certain specific conditions.

   Småkraft accounts for this land lease type by calculating the actual profit for each individual power plant on a monthly basis. Småkraft then calculates the exact share of the profit, that the landowners have the right to receive. If Småkraft is in a position, where land lease should be paid to landowners, Småkraft accounts for the estimated payment as a cost.

In the case that Småkraft has a profit share lease agreement, where there (still) is an accumulated loss on the powerplant, Småkraft has the right to offset all accumulated losses before paying out land lease rent to the landowners. This will represent a future benefit for the company, that Småkraft does not recognise as an asset. This asset will be off- balance. Any positive or negative changes in these off-balance items, will not be recognised in Småkrafts books. In some instances, Småkraft may pay out loans or minimum payments to landowners. These loans are interest bearing loans and will be recognised as normal loans in the Group's Financial Statements.

Other leases

Further, the Småkraft Group has some lease related to office rental of which the following principles applies:

Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease, i.e. the date the underlying asset is available for use. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

Estimates and Judgment when calculating Land lease:

Land lease calculations are estimates based on the current revenue and costs related to the specific companies. While being estimates, there is minimal judgment involved in these estimates, as they are technical calculations with low complexity based upon the relevant input. Furthermore, most of the input is objective, as the revenue and most of the costs are known at the time of the estimate.

Taxes

Group companies that are engaged in energy generation in Norway are subject to the special rules for taxation of energy companies. The Group's tax expense therefore includes, in addition to ordinary income tax, natural resource tax and resource rent tax for those plants exceeding 10,000 KVA, currently only the Holmen power plant.

Income taxes

Income tax is calculated in accordance with ordinary tax rules and by applying the adopted tax rate. The tax expense in the statement of comprehensive income comprises taxes payable and changes in deferred tax liabilities and deferred tax assets. Taxes payable are calculated on the basis of the taxable

income for the year. Deferred tax liabilities and deferred tax assets are calculated on the basis of temporary differences between the accounting and tax values and the tax effect of losses carried forward.
Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Tax related to items recognised in other comprehensive income is also recognised in other comprehensive income, while tax related to equity transactions is recognised in equity.

Natural resource tax

Natural resource tax is a profit-independent tax that is calculated on the basis of the individual power plant's average output over the past seven years. Natural resources tax consists of NOK 0.013 per kilowatt hour (KWh) to the municipality and NOK 0.002 per kwh to the county. Income tax can be offset against the natural resource tax paid. Any natural resource tax that exceeds income tax can be carried forward with interest to subsequent years, and is recognised as prepaid tax.

Resource rent tax

Resource rent tax is a profit-dependent tax levied on the net resource rent revenue generated by each power plant. Resource rent tax is calculated with 34.3% of the resource rent income for each power plant. Negative resource rent tax is carried forward against future positive resource rent tax interest. Negative resource rent tax is included in the deferred tax asset, together with temporary differences regarding the power plant. Deferred tax assets related to negative resource rent tax and temporary tax differences are capitalised if it is probable that the power plant has resource rent income within a time limit of 15 years, and is settled against future payable resource rent tax. Deferred tax liabilities/deferred tax assets related to resource rent tax is calculated with a tax rate of 34,3%.

Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

Contributed equity

Ordinary shares are classified as equity. Issuance of new shares are recognised when paid, based upon the decision by the General Meeting. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

5. Alternative Performance Measures (APM)

Adjusted EBITDA is defined as operating profit (-loss) + depreciation of fixed assets and intangible assets + impairment of fixed assets and intangible assets – unrealised value change on energy derivatives. The APM is used to measure performance from operational activities. EBITDA should not be considered as an alternative to operating profit/loss and profit/loss before tax as an indicator of the company's operations in accordance with generally accepted accounting principles. Nor is EBITDA underlying an alternative to cash flow from operating activities in accordance with generally accepted accounting principles.

Adjusted EBIT is an APM used to measure performance from operational activities.

ROACE is defined as operating profit/loss (adjusted EBIT) divided by capital employed. ROACE is calculated on a rolling 12 month average (LTM- Last-twelve- months) and is used to measure return from the operational activities as well as benchmarking performance.

	H1 2019	**H1 2018**
Operating profit (loss)	14 438	-7 109
+Depreciation of fixed assets and intangible assets	5 832	5 373
+Impairment of fixed assets and intangible assets	-	-
-Unrealised value change on energy derivatives	-11 064	12 898
Adjusted EBITDA	**9 206**	**11 162**

	H1 2019 LTM	**31.12.2018 LTM**
Operating profit (loss), twelve months rolling	20 299	-1 248
+Impairment of fixed assets and intangible assets	-	-
-Unrealised value change on energy derivatives	- 6 013	17 949
Adjusted EBIT	**14 286**	**16 701**

	H1 2019 LTM	**31.12.2018 LTM**
Adjusted EBIT	14 286	16 701
Average capital employeed	433 898	411 232
ROACE	**3,3%**	**4,1%**

6. First time adoption and equity reconciliation

This is the group's first time preparing the Consolidated Financial Statements prepared in accordance with IFRS.

The accounting policies described in note 1 have been applied in the preparation of the Interim Consolidated Financial Statements for the six months period ended 30 June 2019, comparable figures for the six months period ended 30 June 2018 and for the preparation of the IFRS opening balance sheet. 1 January 2018 was the Group's transition date for conversion from NGAAP to IFRS.

In preparing the IFRS consolidated accounts, the group has made some adjustments in relation to what has been reported previously in the Group's Consolidated Financial Statements prepared in accordance with NGAAP. The effect of the transition from NGAAP to IFRS on the Consolidated Balance Sheet and Consolidated Statement of Profit or loss is explained further in this note.

Changes in equity NGAAP vs. IFRS

(all amounts in EUR thousands)	*Note*	**31 December 2018**	**1 January 2018**
Equity in accordance with previously reported NGAAP		**165 007**	**157 067**
Changes to amortised goodwill	*A*	*95*	-
Recognition of derivatives: interest hedge	*B*	*-1 388*	*-1 617*
Recognition of other derivatives (not hedge accounting)	*C*	*318*	*4 017*
Dividend	*D*	*177*	-
Transaction costs from business combination	*E*	*-33*	*-38*
Early adoption of IFRS 16 Lease	*F*	*-7*	-
Total adjustments		**-837**	**2 362**
Tax effects from adjustments	*G*	*-202*	*576*
Total adjustments to equity		**-635**	**1 786**
Equity in accordance with IFRS		**164 372**	**158 853**

Non - current assets		1 January 2018			31 December 2018		
Amounts in EUR thousand	*Notes*	**NGAAP**	**IFRS adjustment**	**IFRS**	**NGAAP**	**IFRS adjustment**	**IFRS**
Goodwill		4 977	-	4 977	6 035	95	6 130
Intangible Assets		29 719	-	29 719	41 370	-	41 370
Property, plants and equipment	F	330 040	455	330 495	347 295	300	347 594
Deferred tax assets		5 697	-	5 697	5 365	-	5 365
Investments in companies recognised under the equity method		298	-	298	295	-	295
Long-term receivables		5 792	-	5 792	6 750	-	6 750
Derivatives		-	-	-	-	-	-
Investment in marked based securities	E	135	-38	97	128	-33	96
Total non-current assets		**376 658**	**416**	**377 074**	**407 237**	**363**	**407 600**
Current assets							
Inventory		51	-	51	88	-	88
Inventory EL certificates		1 269	-	1 269	5 512	-	5 512
Trade receivables		3 626	-	3 626	1 612	801	2 413
Other receivables		3 119	-	3 119	5 270	-2 552	2 718
Derivatives	C	-	3 635	3 635	-	2 310	2 310
Other current assets		96	-	96	97	-	97
Cash and Cash equivalents		18 743	-	18 743	70 615	-	70 615
Total current assets		**26 904**	**3 635**	**30 539**	**83 195**	**559**	**83 753**
Total assets		**403 562**	**4 052**	**407 614**	**490 432**	**921**	**491 353**
Shareholders equity							
Share capital		14 186	-	14 186	14 539	-	14 539
Other equity		-	-	-	22 313	-	22 313
Share-premium reserve		131 361	-	131 361	121 629	-	121 629
Retained earnings	B,C,E	9 216	1 786	11 002	1 151	-812	339
Total shareholders equity		**154 762**	**1 786**	**156 548**	**159 632**	**-812**	**158 820**
Minority interests		2 305	-	2 305	5 375	177	5 552
Total equity		**157 067**	**1 786**	**158 853**	**165 007**	**-635**	**164 372**
Non-current liabilities							
Deferred tax liability	B,C	301	576	877	1 578	-202	1 376
Borrowings		227 157	-	227 157	268 749	-1 751	266 997
Lease liability	F	-	310	310	-	157	157
Derivatives		-	1 469	1 469	-	896	896
Total non-current liabilities		**227 458**	**2 355**	**229 813**	**270 327**	**-901**	**269 426**
Current liabilities							
Accounts payable		2 138	-	2 138	1 580	-	1 580
Taxes payable		475	-	475	1 251	-	1 251
Public duties payable		1 777	-	1 777	2 172	-	2 172
Lease liability	F	-	144	144	-	150	150
Dividends		-	-	-	20 227	-177	20 050
Derivatives	B,C,H	-	3 056	3 056	-	17 858	17 858
Borrowings		7 860	-	7 860	8 035	-	8 035
Other current liabilities	H	6 787	-3 290	3 497	21 832	-15 373	6 458
Total current liabilities		**19 037**	**-90**	**18 948**	**55 098**	**2 457**	**57 555**
Total liabilities		**246 496**	**2 265**	**248 761**	**325 425**	**1 556**	**326 981**
Total equity and liabilities		**403 562**	**4 052**	**407 614**	**490 432**	**921**	**491 353**

Amounts in EUR thousand	*Notes*	2018 NGAAP	IFRS adjustment	IFRS
Revenue		60 645	-12 915	47 730
Other operating income	H	-10 807	-12 351	-23 158
Total operating income		**49 838**	**-25 266**	**24 572**
Capitalized personnel expenses		-	-	-
Water rights payments		3 253	-	3 253
Transmission costs		2 761	-	2 761
Payroll and related costs		2 386	-	2 386
Depreciation of fixed assets and immaterial	F	10 897	56	10 953
Impairment of fixed assets and immaterial		695	-	695
Property tax and licence fees		2 135	-	2 135
Other operating expenses	F	3 808	-172	3 636
Total operating expenses		**25 934**	**-115**	**25 819**
Operating profit/(loss)		**23 903**	**-25 151**	**-1 248**
Income from investments recognised under the equity method				-
Financial income		2 374	-	2 374
Financial expenses	B,H,F	-31 314	22 352	-8 962
Net financial items		**-28 940**	**22 352**	**-6 588**
Profit/(loss) before tax		**-5 036**	**-2 799**	**-7 835**
Tax expense		-138	645	507
Profit/loss		**-5 174**	**-2 154**	**-7 328**

Amounts in EUR thousand	2018 NGAAP	IFRS adjustment	IFRS
Cash Flow from operations			
Profit (-loss) before taxation	-5 036	-2 799	-7 835
Taxes paid for the period	-487		-487
Depreciation, amortization, impairment	11 592	56	11 649
Unrealized currency gains/losses	3 225		3225
Change in inventory	-37		-37
Change in working capital	6 999	2 909	9 908
Net cash flow from operations	**16 256**	**166**	**16 422**
Cash flow from investment activities			
Net inflows from sale of shares and market based securities	-6		-6
Cash in acquired companies	1 875		1 875
Outflows due to purchases of fixed assets	-11 241		-11 241
Outflows due to purchases of intangible assets	-643		-643
Outflows due to investments in subsidiaries	-25 646		-25 646
Outflows from loans to others	-1 058		-1 058
Net cash flow from investment activities	**-36 719**	**-**	**-36 719**
Cash flow from financing activities			
Capital increases	23 124		23 124
Change in current liabilities (derivatives)	-		0
Dividend payments	-2 604		-2 604
Repayment of lease liability	-	-166	-166
Net loan payment/raising	51 816		51 816
Net Cash Flow from financing activities	**72 336**	**-166**	**72 170**
Net change in bank deposits and cash			**51 872**
Bank deposits and cash at beginning of period			18 743
Bank deposits and cash at end of period			**70 615**

Explanation of differences between NGAAP and IFRS follow:

A) Amortisation of Goodwill

The group has elected not to apply IFRS 3 Business Combinations (IFRS 3) retrospectively to business combinations that occurred before the date of transition in accordance with the transition rules in IFRS The goodwill has been tested for impairment. As of 1 January 2018, the group is no longer allowed to amortise goodwill. Goodwill is instead tested annually for impairment. This is a difference compared to NGAAP where goodwill is assessed as an asset with a finite useful life and amortised over its estimated useful life.

The transition effects in the consolidated statement of equity per 01.01.2018 was zero.

B) Recognition of derivatives: interest hedge

In compliance with NGAAP hedge accounting, Småkraft chose not to recognise derivatives at fair value on the balance sheet. In accordance with IFRS 9, all derivatives are recognised on the balance sheet and measured at fair value. Derivatives that qualifies for hedge accounting as a cash flow hedge are recognised in the balance sheet at fair value, with fair value changes in Other Comprehensive Income until the hedged risk influences the Profit or Loss.

The transition effects in the equity per 01.01.2018 was negative EUR 1 617 thousand.

C) Recognition of other derivatives: power and currency contracts

According to NGAAP, financial derivatives outside hedge accounting were to be valued at the lower of historical cost and fair value. Commodity derivatives for electric power and el-certificates, as well as currency forward contracts have been accounted for using the lower of historical cost and fair value as disclosed in the notes to the financial statements. In accordance with IFRS 9, financial derivatives are to be recognised in the balance sheet at fair value, with fair value changes recognised in the statement of profit or loss since no hedge accounting has been applied. The changes in fair value are presented as part of other operating income. Under NGAAP this was presented as part of financial items.

The transition effects in the equity per 01.01.2018 was positive EUR 4 017 thousand.

D) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

E) Transaction costs from business combination

According to IFRS 3.53 acquisition-related costs should be expensed as incurred. These expenses have according to NGAAP been capitalised.

The transition effects in the equity per 01.01.2018 was EUR 38 thousand.

F) Early adoption of IFRS 16 Leases

The group has early adopted IFRS 16 from 1 January 2018. On adoption of IFRS 16, the group recognised lease liabilities. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2018. Right-of use assets were measured at the amount equal to the lease liability.

The Group has made the following accounting policy choices:

- Leases with a lease term of 12 months or shorter are not capitalized (short-term leases). •
- Low-value leases, meaning mainly leased office equipment, are not capitalized. •
- Fixed non-lease components embedded in the lease contract are separated and hence not recognised as lease liabilities and right-of-use assets.
- Right-of-use assets are presented as part of property, plant and equipment in the balance sheet and lease liabilities are presented separately in the statement of financial position.

Tables in this note show the effect in the statement of profit or loss and balance sheet from the early adoption of IFRS 16 which has been adopted with effect from the transition date 1 January 2018.

The transition effects in the consolidated financial statement per 01.01.2018 were EUR 455 thousand in increased right of use assets (presented as part of fixed assets) and lease liability. Further the effects in 2018 were reduced operating expenses with EUR 166 thousand, increased depreciations with EUR 155 thousand and increased finance expenses with EUR 18 thousand.

G) Tax effects

Only amounts related to recognition of derivatives (adjustment A, B and C), as well as the effects of early adoption of IFRS 16 Leases have been adjusted for tax using the group's applicable tax rate.

The transition effects in equity per 01.01.2018 were negative EUR 567 thousand.

H) Reclassifications

For the purpose of implementing IFRS, the classification in the statements has been evaluated and som reclassifications are performed.

7. Revenues and other income

Sale of electric energy

The revenues originate from the generation of hydropower. Revenue is recognised at the time energy is sold to its spot price.

Electricity-certificates (EL-certificates)

The EL certificate scheme is a market-based support scheme. In this system, producers of renewable electricity receive one certificate per MWh of electricity they produce for a period of up to 15 years.

EL certificates are under IAS 20 Government Grants. EL certificates earned are recognised as revenue at fair value on the generation date. Unrealised changes in fair value are recognised as an adjustment of other operating income and against inventory.

Amounts in EUR thousand	6 months ended 2019	6 months ended 2018	12 months ended 2018
Power revenue	14 604	12 997	34 251
El-certificates	4 263	4 523	12 915
Guarantees of origin	130	248	565
Revenues	**18 997**	**17 767**	**47 730**
Other operating revenue	454	42	99
Unrealized value change on energy derivatives	11 064	-12 898	-17 949
Realized loss on energy derivatives	-2 633	-848	-5 309
Other operating income	**8 886**	**-13 704**	**-23 158**
Total operating income	**27 883**	**4 063**	**24 572**

Power and currency derivatives

Småkraft uses financial hedging contracts and currency futures to hedge future revenue. The Group does not apply hedge accounting for the hedging of power revenues. Realised and unrealised changes in value related to these derivatives are recognised as Other operating income. See also Note 7 Financial instruments.

8. El certificates inventory

The holding of received electricity certificates in the power generation business is presented as inventory in the statement of financial position and is measured at fair value at the end of the reporting period.

Amounts in EUR thousand	30.06.2019	31.12.2018	01.01.2018
EL-certficates at fair value	**1 608**	**5 512**	**1 269**

9. Goodwill

On acquisition of a subsidiary or associate, the fair value of the consideration is allocated between the identifiable net tangible and intangible assets and liabilities on a fair value basis, with any excess consideration representing goodwill. At the acquisition date, goodwill is allocated to each group of Cash Generating Units ('CGUs') expected to benefit from the combination and held in the currency of the operations to which the goodwill relates.

Goodwill is not amortised, but is reviewed annually for impairment, or more frequently where there is an indication that goodwill may be impaired. Impairment is assessed by measuring the future cash flows of the group of CGUs to which the goodwill relates, at the level at which this is monitored by management. Where the future discounted cash flows are less than the carrying value of goodwill, an impairment charge is recognised in the income statement.

On disposal of subsidiary undertakings and businesses, the relevant goodwill is included in the calculation of the profit or loss on disposal.

Changes in goodwill during the year:

Amounts in EUR thousand	30.06.2019	31.12.2018	01.01.2018
Accounts receivables at amortized cost	334	2 069	3 297
Loss allowance	-233	-227	-
Earned revenue, not invoiced	1 997	570	330
Total	**2 098**	**2 413**	**3 626**

The Groups goodwill comes from historical acquisitions of new power plant companies and mainly arises because deferred tax is valued at nominal amounts whereas discounted amounts are reflected in the purchase amount. The difference between deferred tax valued at nominal and discounted amounts is recognised as goodwill.

10. Impairment testing

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Småkraft typically tests for impairment at least in Q3 each year.

Other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Cash generating unit

Power plants that are located in the same watercourse and jointly managed are regarded as a single cash-generating unit. Impairment tests are carried out by calculating the present value of future cash flows from the cash-generating unit, which are then tested against associated carrying amounts. Goodwill and intangible assets that are subject for testing is related to the following cash generating units:

Amounts in EUR thousand	30.06.2019	31.12.2018	01.01.2018
Småkraft AS*	2 819	2 746	2 777
Holmen Kraft AS	1 946	1 896	1 917
Spilling Kraft AS	109	-	-
Grytendal Kraftverk AS	343	334	-
Sandneselva Kraftverk AS	58	57	-
Fiskløysa Kraftverk AS	285	277	-
Sigdestad Kraftverk AS	554	539	-
Other entitites	287	280	283
At the end of the period	**6 401**	**6 130**	**4 977**

*' Several smaller entities merged with Småkraft AS during 2018.

Budget

The impairment tests carried out for 2018 are based on the budget for 2019 and up to a 100 year period prior to setting the terminal value. If the power plant has a terminal clause in the land lease agreement, the period of time up until the date of the clause is used. The power prices used in the forecast are a mix between the actual power prices traded in the Nordic power market and power curves from three independent power consultancies.

Discount rate

The applied discount rate is based on the company's cost of capital, which in turn is based on a weighted average return requirement for equity and loan capital. The return on equity requirement is estimated using the capital asset pricing model (CAPM). The return on loan capital requirement is estimated based on the long-term risk-free interest rate plus a credit margin derived from Småkraft's marginal long-term interest rate. The discount rate is adjusted for the expected debt-to-assets ratio and business risk for the individual cash-generating unit. A discount rate around 6 per cent has been applied for the various cash-generating units.

Sensitivity

The Group has carried out sensitivity analyses examining the consequences of changes in various assumptions for the recoverable amount on some of the power plants where the difference between the carrying amount and the recoverable amount is small.

The recoverable amount is particularly sensitive to changes in long- term power prices and changes in the discount rate. The sensitivities vary among the CGUs. For the CGU with lowest difference between recoverable amount, the following sensitivities apply. If the long-term power price curve increases with 10%, the fair value increases with 6%, while it decreases with 6% with 10% price reduction. If the discount rate increases with 1%- point, the fair value increases with 15%, while it decreases with 12% with similar discount rate reduction.

11. Financial instruments

This note provides information about the group's financial instruments, including: an overview of all financial instruments held by the group specific information about each type of financial instrument accounting policies information about and determining the fair value of the instruments, including judgements and estimation uncertainty involved.

The group holds the following financial instruments

Amounts in EUR thousand		30.06.2019	31.12.2018
Financial assets			
Financial assets at amortized costs			
	Long term loans	825	813
	Other long term receivables	6 674	5 937
	Trade receivables	2 098	2 413
	Other short term receivables	3 381	1 751
Assets and liabilities held to fair value through profit and loss			
	Short term investment in marked based securitites	98	96
Derivative financial instruments			
	Used for hedging with hedge accounting	-	-
	Used for hedging without hedge accounting	5 548	2 310

Amounts in EUR thousand		30.06.2019	31.12.2018
Financial liabilities			
Financial liabilities at amortized costs			
	Debt to financial institutions	203 464	226 784
	Bond debt	50 000	50 000
	Trade and other payables*	7 858	10 211
Derivative financial instruments			
	Used for hedging with hedge accounting	901	919
	Used for hedging without hedge accounting	8 583	18 326

* excluding non-financial liabilitites

Financial instruments are recognised in the financial statements when the Group becomes party to contractual conditions relating to the financial instrument. Financial assets and financial liabilities are classified based on the type and purpose for holding the instruments at fair value, amortised cost or as a designated hedge accounting instrument (e.g. derivatives used for hedging financial risks).

Financial assets

The group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For financial assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). Currently the Group does not have any financial assets designated at FVOCI. Financial assets recognised at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Gains or losses arising from changes in the fair value of the financial instruments at fair value through

profit or loss, including interest and dividends, are recognised in the income statement as other gain/losses. Derivatives are always measured at fair value through profit or loss, unless designated as a hedging instrument. When designated as a cash flow hedging instrument measurement is change in fair value are recognised in FVOCI.

Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Cash and cash equivalents
For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. There are currently no cash equivalents.

Accounts receivables and accrued revenue
Accounts receivable are measured at initial recognition at fair value. Accounts receivable are held with the objective to collect the contractual cash flows and therefore are subsequently measured at amortised cost using the effective interest method. For the purposes of impairment, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from the date of initial recognition of the receivables.

Amounts in EUR thousand	**30.06.2019**	**31.12.2018**	**01.01.2018**
Accounts receivables at amortized cost	334	2 069	3 297
Loss allowance	-233	-227	-
Earned revenue, not invoiced	1 997	570	330
Total	**2 098**	**2 413**	**3 626**

Accrued revenue are accruals for power delivered yet not invoiced.

Financial liabilities
The Group classifies all financial liabilities at amortised cost, except for derivatives which are at fair value and financial guarantees (see below). Currently the fair value option to designate a financial liability at FVTPL has not been utilised.

Accounts payables and other financial payables
These amounts represent liabilities for goods and services provided to the Group prior to the end of period which are unpaid. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

Financial guarantee contracts
Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under IFRS 9 Financial Instruments and
- the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 *Revenue from Contracts with Customers*.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

Borrowings
Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any noncash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Amounts in EUR thousand

Lenders	Maturity	Currency	30.06.2019	31.12.2018
Sparebank1 MidtNorge	2025	NOK	516	503
DNB/SEB/Nordea (3 years maturity)	2020	EUR	169 318	178 063
Sparebanken Vest	2021	EUR	20 825	21 193
Sparebanken 1 Telemark	2020	NOK	4 061	3 996
Sparebanken Vest	2023	NOK	5 011	4 978
Sparebanken Sogn og Fjordane	Settled	NOK	-	-
Sparebanken Vest	Settled	NOK	-	4 239
Sparebank 1 Gudbrandsdal	2043	NOK	1 876	1 866
Sparebanken Vest	Settled	NOK	-	10 138
SEB Revolving facility	28.12.2019	NOK	1 857	1 809
Long term debt			**203 464**	**226 784**
Bond debt		EUR	50 000	50 000
Agent commission SEB/Nordea		NOK	-1 774	-1 751
Total long term debt			**251 690**	**275 033**

Total borrowings of kEUR 251.690 consists out of kEUR 244.943 borrowings included in total non-current liabilities and kEUR 6.747 included in total current liabilities, please see maturity profiles on page 30.

Loan Sparebank1 MidtNorge

There is a conditional waiver of debt from the bank amounting to MNOK 5, related to whether Knutfoss power plant makes a profit over the next 7 years. Based on current projections, it is considered likely that the debt will be settled within 2025, and the loan is therefore included in the long- term interest-bearing debt.

SEB/Nordea/ DnB EUR- loan

The long- term debt is a EUR- loan, and interests are determined every 6 months, as EURIBOR plus a margin, with a repayment period of 40 years. There has been two instalments in 2018, and one in 2019 The loans are due or should be refinanced in 2020.It is a requirement that the loans are hedged against interest rate changes and changes in the power- and el-cert prices. The loan has first lien security in most of the power plants in Småkraft AS.

Sparebanken Vest EUR loan:

The long- term debt is a EUR- loand, and interests are determined every 6 months, as LIBOR + interest charge + margin. The repayment profile is over 40 years. There has been four instalments in 2018 and two in 2019. The loan is

Loans in subsidiaries

The loans to Sparebanken Vest Telemark, Sparebank 1 Gudbrandsdalen and Sparebanken Vest are NOK- based loans in subsidiaries. These loans have repayment profiles over 30 years. Interests are determined every three monthts, as NIBOR + margin. All these loans have security in the power plants in the respective subsidiary.

Revolving facility

There was in 2017 established a revolving facility in NOK with an available amount of MNOK 50 with a balance of MNOK 18 as of 31.12.2018. The loan is in NOK, and interests are determined every 6 months, as NIBOR plus a margin of 1,6 percent.

Bond

The EUR bond loan was established in 2018 and has a five year maturity. The average annualized borrowing rate in 2018 was around 1,5 , the same for first half of 2019.

The bond loan of EUR 50 million is secured by a mortgage on 8 of the Group's hydropower plants and a mortgage on shares in companies that own another three power plants. Mortgages, insurance and bank accounts are linked to the same power plants. Furthermore, the shares in all the subsidiaries of Småkraft Green Bond 1 AS and a bank account in Småkraft AS have been pledged.

There are special conditions attached to the bond loan, where, among other things, (i) Småkraft Green Bond 1 AS or any of its subsidiaries shall not provide or maintain a mortgage or other form of security in assets or assets, and (ii) book equity in the total Småkraft Group must be at least 30% of the total capital.

Maturity profile for financial liabilities

The table shows undiscounted cash flows for each interval and shows only payments of principal.

Amounts in EUR thousand

Lenders	Maturity	30.06.2019	1 year	2 years	3 years	4 years	5 years	After 30.06.2024
Sparebank1 MidtNorge*	2025	516	103	103	103	103	103	-
SEB/Nordea/DNB (3 years maturity)	2020	169 318	4 625	164 693	-	-	-	-
Sparebanken Vest	2021	20 825	737	737	19 351	-	-	-
Sparebanken 1 Telemark	2020	4 061	156	3 905	-	-	-	-
Sparebanken Vest	2023	5 011	196	196	196	4 423	-	-
Sparebank 1 Gudbrandsdal	2043	1 876	77	77	77	77	77	1 489
SEB Revolving facility	28.12.2019	1 857	1 857	-	-	-	-	-
Bond Debt	2023	50 000	-	-	-	-	50 000	-
Agent commission SEB/Nordea/ DnB		-1 774	-1 005	-384	-175	-157	-52	-
Total		**251 690**	**6 747**	**169 327**	**19 553**	**4 446**	**50 128**	**1 489**

* This is a contingent liability and repayments depend on profit on Knutfoss Powerplant in each individual year.

Derivatives and hedge accounting
The Group has derivatives related to the hedging of income from future power production, as well as interest rate swaps in connection with interest bearing debt.

For the period 2018- 2022, Småkraft AS has hedged part of the estimated production against price fluctuations. Fair value calculations are based on available year end market prices, and future price-curve estimates in cases where there are no official closing prices.

The Group has entered into financial currency swaps from EUR to NOK. The Group has entered these contracts to make sure that the future capital increases in EUR will fully cover future acquisitions in NOK

The Group does not apply hedge accounting for contracts for power hedging or for currency swaps, meaning that unrealised changes in value are recognised through the profit or loss and presented on the line 'Other operating revenue'

During the period, the power price might increase or decrease. The effect, the current period's value changes, is recognised in the income statement under other operating income.

The company utilises hedge accounting for the interest rate swap.

The Group's hedging activities are related to cash flow hedges (hedge of a highly probable forecasted transaction). The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in Other Comprehensive Income (OCI). The gain or loss relating to any ineffective portion is recognised immediately in profit or loss, within other gains/losses.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows: the gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecasted transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

The Group's hedging instruments are presented on the accounting line item 'Derivatives', and they are recognised on the balance sheet at the following amounts:

H1 2019	Assets		Liabilities					
	Long term	Short term	Long term	Short term	P&L	Tax effect	OCI	Tax effect OCI
Used for hedging - Interest rates swaps	-	-	901	255	263	58	8	-2
Over FVPL - Currency derivatives	-	1 680	-	-	1 391	306	-	-
Over FVPL - Power derivatives	-	3 868	-	8 328	11 206	2 465	-	-
Sum derivatives	**-**	**5 548**	**901**	**8 583**	**12 861**	**2 829**	**8**	**-2**

31.12.2018	Assets		Liabilities					
	Long term	Short term	Long term	Short term	P&L	Tax effect	OCI	Tax effect OCI
Used for hedging - Interest rates swaps	-	-	896	492	-892	-205	-673	155
		-	-	-	-			
Over FVPL - Currency derivatives	-	1 151	-	857	305	-70	-	-
Over FVPL - Power derivatives	-	1 159	-	16 509	-23 156	-5 326	-	-
Sum derivatives	**-**	**2 310**	**896**	**17 858**	**-23 743**	**-5 601**	**-673**	**155**

Fair value

Fair value is the price that would have been achieved by the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value hierarchy:

Fair value measurements are classified according to the following levels:

- Level 1: Fair value is based on the quoted prices for identical assets or liabilities in active markets.
- Level 2: Fair value is based on data inputs other than quoted prices included in Level 1, which are observable for the asset, either directly or indirectly
- Level 3: The valuation is based on unobservable data inputs for the asset or liability.

The Group tries to maximise the use of observable data insofar as possible.

Interest-bearing liabilities

Fair values of interest-bearing liabilities are based on quoted prices where available. Fair value is determined by discounting future cash flows when there is no quoted market price on an active market. The market interest curve is used for discounting future cash flows. The market interest curve is calculated on the basis of available swap rates.

Trade receivables and other current and non-current financial assets

For trade receivables and other current receivables, the carrying amount is assessed to be a reasonable approximation of fair value. The effect of not discounting is considered to be immaterial for this class of financial instruments.

Trade payables and other non-interest-bearing financial liabilities

For trade payables and other non-interest-bearing financial liabilities, the carrying amount is assessed to be a reasonable approximation of fair value. The effect of not discounting is considered to be insignificant for this class of financial instruments.

Equity investments

Fair values for listed shares are based on quoted prices at the end of the reporting period. Fair value of unlisted shares is estimated by using commonly used valuation techniques or measured at cost if the investment does not have a quoted market price in an active market and the fair value cannot be reliably measured.

Cash and cash equivalents

The fair value for this class of financial instruments is assessed to be equal to the nominal amount.

Derivatives

For currency futures, interest and currency swap agreements, and interest rate swaps, the estimated present value is compared with valuations from the other party to the contract to determine how reasonable it is.

H1 2019 *Amounts in EUR thousand* **Financial assets measured at tair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Carrying amount**
Currency derivatives		1 680		1 680	1 680
Power derivatives		3 868		3 868	3 868
Total financial assets measured at fair value	**-**	**5 548**	**-**	**5 548**	**5 548**
Financial liabilities measured at fair value					
Interest rate derivatives		1 155		1 155	1 155
Currency derivatives		-		-	-
Power derivatives		8 328		8 328	8 328
Total financial liabilities measured at fair value	**-**	**9 484**	**-**	**9 484**	**9 484**

31.12.2018 *Amounts in EUR thousand* **Financial assets measured at tair value**	**Level 1**	**Level 2**	**Level 3**	**Total fair value**	**Carrying amount**
Currency derivatives		1 151		1 151	1 151
Power derivatives		1 159		1 159	1 159
Total financial assets measured at fair value	**-**	**2 310**	**-**	**2 310**	**2 310**
Financial liabilities measured at fair value					
Interest rate derivatives		1 388		1 388	1 388
Currency derivatives		857		857	857
Power derivatives		16 509		16 509	16 509
Total financial liabilities measured at fair value	**-**	**18 753**	**-**	**18 753**	**18 753**

12. Financial result

Financial income

Amounts in EUR thousand	**6 months ended 2019**	**6 months ended 2018**	**12 months ended 2018**
Unrealized non-cash effect on EUR loans	5 336	7 018	-
Unrealized non-cash effect on foreign exchange forwards	1 373	-	305
Other financial income	1	620	2 069
Total	**6 710**	**7 638**	**2 374**

Financial expenes

Amounts in EUR thousand	**6 months ended 2019**	**6 months ended 2018**	**12 months ended 2018**
Interest expenses	2 321	1 898	5 705
Unrealized non-cash effect on EUR loans*	-	-	2 144
Other financial expenses and amortizations	546	379	1 112
Total	**2 867**	**2 277**	**8 962**

RESPONSIBILITY STATEMENT

Statement

We confirm, to the best of our knowledge that the financial statements for the period 1 January to 30 June 2019 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the entity and the group taken as a whole. We also confirm that the Board of Directors' Report includes a true and fair view of the development and performance of the business and the position of the entity and the group, together with a description of the principal risks and uncertainties facing the entity and the group.

Chairman of the Board
Tor Søve Syverud

Member of the Board
Annette Beate Wacknitz Malm- Justad

Member of the Board
Jan Erik Schulien

Member of the Board
Oldrik Nicolaas Frits Verloop

Member of the Board
Christian Heidfeld

Managing Director
Halle Aslaksen

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