

The background of the cover is a photograph of a mountain valley. In the foreground, a paved road with white dashed lines leads from the bottom center towards a small village. The village consists of several buildings, including a prominent white house with a dark roof and a red barn. The middle ground is a lush green valley floor. The background is dominated by steep, rocky mountains with patches of green vegetation. The sky is filled with grey, overcast clouds.

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**SMÅKRAFT AS**  
**CORPORATE GOVERNANCE**  
**REPORT**

2019

**The corporate governance statement clarifies the distribution of roles between the owners, the board and the management in the company.**

Efficient and transparent management and control of the business forms the basis for creating long-term value for the owners, employees, other stakeholders and society in general, and as a result, contributes to sustainable and lasting value creation. The distribution of roles inspires confidence among stakeholders through predictability and credibility. Open and accessible communication from the company ensures that the Group maintains a good relationship with society in general and, in particular, with all stakeholders affected by the company's activities.

**CORPORATE GOVERNANCE STATEMENT**

Småkraft AS is the parent company for an underlying Group structure, the Småkraft Group. Småkraft adheres to the Norwegian Code of Practice for Corporate Governance (NUES) within the framework established by the company's organisation and ownership. Småkraft is subject to reporting requirements relating to corporate governance according to Section 3-3b of the Accounting Act.

The company's annual report includes a statement on corporate responsibility.

**ACTIVITIES**

The objective of Småkraft AS, alone, or through participation in, or cooperation with other companies, is to plan, engineer, construct and operate energy facilities, conduct physical and financial energy trading, and perform naturally related operations. Småkraft AS is registered in Norway and its management structure is based on Norwegian company legislation. Småkraft is also subject to the Norwegian Securities Trading Act and stock exchange regulations associated with the company's debt obligations.

**EQUITY AND DIVIDENDS**

Småkraft AS' share capital totals MEUR 16,221, divided among 3 300 000 shares of NOK 50 each.

Capital increases are processed through the General meeting of shareholders in Småkraft AS. The Limited Liability Companies Act states that the the general meeting cannot adopt a higher dividend than that proposed or accepted by the Board of Directors.

The Board of Directors maintains a continuous focus on adapting the company's objectives, strategy and risk profile to the company's capital situation. Småkraft's investments are financed through a combination of retained capital, borrowings and any new equity contributed by the owner.

**EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH RELATED PARTIES**

Småkraft engages in some transactions with companies that are closely related to Småkraft's shareholder. All transactions are based on regular commercial terms and principles.

The instructions to the Board of Directors state that neither board members nor the President and CEO may participate in the processing or resolution of issues that are of substantial personal or financial interest to them or closely related parties. Any persons in such a situation must, on their own initiative, disclose any interest they or their closely related parties may have in the resolution of an issue.

**GENERAL MEETINGS**

The owners exercise their authorities in the General Meeting of Småkraft.

Before the general meetings the Board of Directors makes a decision in matters assumed to be of significant importance for the purpose of the enterprise/company, or which will significantly change the character of the activities.

**NOMINATION COMMITTEE**

Småkraft AS has no nomination committee. The election of the board members appointed by the owners in Småkraft AS will take place in the enterprise meeting.

**BOARD OF DIRECTORS: COMPOSITION AND INDEPENDENCE**

Småkraft AS has five board members. One of the Board members is independent.

The goal is for the board of each company, to collectively represent the desired expertise based on the company's objective, business area, challenges and the owners goals.

**THE WORK OF THE BOARD OF DIRECTORS**

The Board of Directors usually meets eight to ten times a year. The Chair of the Board of Directors will hold board meetings as often as is required. The Board of Directors has stipulated board instructions with guidelines for the work and case processing of the board. The instructions also cover the President and CEO. The instructions define the work scope, duties and authorities of the President and CEO in more detail than follows from the legislation.

The Board of Directors prepares an annual agenda for its work, with a special emphasis on goals, strategies and implementation.

The Board of Directors informs the boards of subsidiaries of matters of potential significance for the subsidiary in question. The Board of Directors evaluates its own performance and expertise annually.

The board's Audit Committee comprises three of the Board of Director's members. The committee functions as a preparatory body for the board's management and supervision work, and at least one member of the Audit Committee shall have experience in accounts management, financial management or auditing.

## **RISK MANAGEMENT AND INTERNAL CONTROL**

The internal control concept includes compliance with the company's value base and guidelines for ethics and corporate responsibility. Risk management is an integral part of all activities across the organisation and of the decision-making process. It supports the decision makers to prioritise their actions. Managers at all levels of the organisation are responsible for appropriate risk management. Risk management is regulated by mandates, requirements and guidelines. Follow-up of risk and risk management are incorporated in the daily business operations.

Risk management and internal control are integral parts of the Board of Directors work. To ensure that Småkraft has suitable and efficient systems in place for risk management and internal control, the Board of Directors shall:

- Review the Group's most important risk areas
- Ensure that the systems are adequately established, implemented and followed up, e.g. through processing of reports submitted to the board by the President and CEO and the internal audit function
- Ensure that risk management and internal control are integrated in the Group's strategy and business plans

Furthermore, the Board of Directors shall ensure that the CEO has:

- Stipulated instructions and guidelines for how the Group's risk management and internal control will be carried out in practice
- Established adequate control processes and functions
- Ensured that Småkraft's risk management and internal control are carried out, documented, monitored and followed up in a prudent manner

The Group's CFO is responsible for the process for Internal Control in the Financial Reporting (ICFR) in Småkraft.

## **REMUNERATION OF THE BOARD OF DIRECTORS**

The Board of Directors do not get remunerated for their work as Directors. One of the board- members has a consulting agreement with Småkraft AS, upon which the remuneration is based. Such work is clarified with the other board members in advance.

## **INFORMATION AND COMMUNICATION**

The Board of Directors has stipulated guidelines for financial reporting and other information. Småkraft SF publishes its annual financial statement. Each year, Småkraft AS releases two interim reports and one annual financial statement.

The financial calendar, press releases and stock exchange notices, interim reports and annual reports and other relevant information are published on Småkraft's website.

Småkraft emphasises transparent communication with all stakeholders. The information the company provides to its owner, lenders and the financial markets in general shall provide sufficient details to permit an evaluation of the company's underlying values and risk exposure. The owner and the financial markets shall be treated equally, and information shall be communicated in a timely manner.

## **AUDITOR**

The General meeting appoints the auditor based on the Board of Directors proposal, and stipulates the auditor's fee. The auditor serves until a new auditor is appointed.

The Board of Directors and the auditor hold at least one meeting annually where the CEO and other Group executives are not present. The Audit Committee evaluates the external auditor's independence and has established guidelines for use of the external auditor for consultancy purposes.

As part of the ordinary audit, the auditor presents an audit plan to the Audit Committee including a summary of the audit from last year. The auditor reports in writing to Småkraft's Audit Committee concerning the company's internal control, applied accounting principles, significant estimates in the accounts and any disagreements between the auditor and the administration. The Board of Directors is briefed on the highlights of the auditor's reporting. At the end of the audit the auditor performs a summary meeting with the Audit Committee.