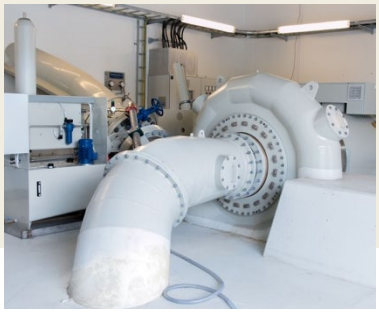
ESG- POLICY

SMÅKRAFT AS, 2021

SUSTAINABILITY IN SMÅKRAFT



Småkraft is a producer of renewable energy. Our fleet of 161 hydropower plants is scattered all across Norway and Sweden, and delivers a mean annual production capacity of 1,7 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.

VISION AND MISSION

Småkraft owns and operates 161 hydro power plants with an annual average production of around 1,7TWh. Småkraft is thus triggering new renewable production in the Nordic and European Power-market.

Vision: *«Create sustainable values for the next generation*

Rivers trawl through the Norwegian landscape as nerves creating the local habitat for plants, birds, fish and animals. The water flowing wild in the rivers subsists high biological values. Historically, the rivers in Norway have also been the starting point for many private-driven initiatives. Mills, timber flooding and water supply have created values for local communities adjacent to the rivers.

Our business proudly enters the line of those who have borrowed from the wealth of the rivers and used it in a sustainable way to create value for themselves and their environment. Our power plants use natural topography to lend the water and create real renewable power as sustainable as possible. We share the values we create between our owners, local landowners, local communities and the society.

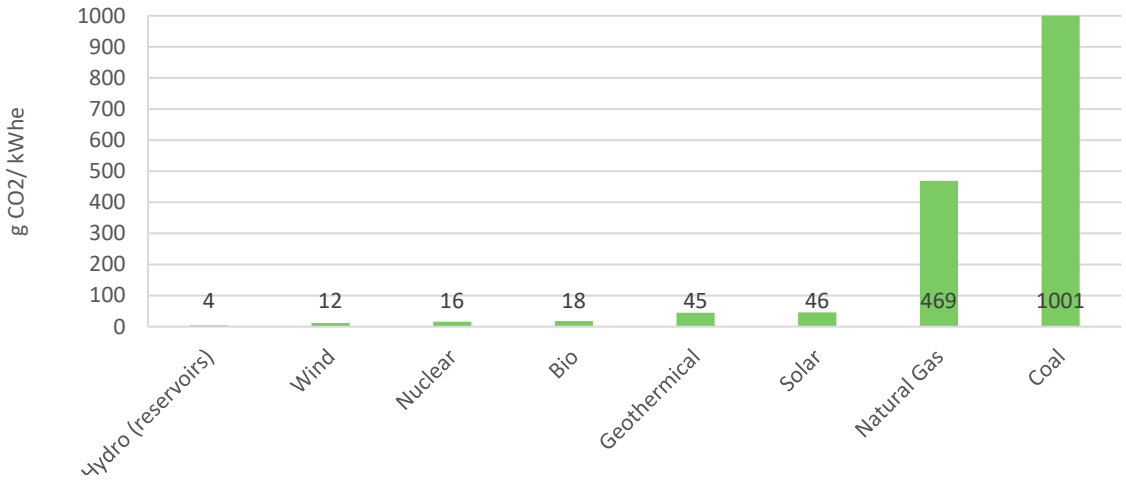
Småkrafts long-term goal is to generate as much renewable energy as possible over time in cooperation with nature itself. Our power plants will pruduce clean energy for generations, and we invest with a generation perspective. During production we aim to meet the needs of the present animals, plants and humans, without compromising the ability of future generations to meet their own needs. Only after a generation will small hydro power plants generate revenue.

RENEWABLE ENERGY

100% of Småkrafts production is based upon hydro power, which is a renewable energy source. Hydro power is a technology with several advantages, such as high efficiency, long lifetime and flexibility. Most of Småkrafts production is moreover based upon small hydro power plants in run- off rivers. Small hydro power plants make use of the water flowing natural in the river to produce power, which makes it possible to produce energy without constructing large reservoirs.

With 4 gCO2/ kWhe, 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) Moomaw, W., P. Burgherr, G. Heath, M. Lenzen, J. Nyboer, A. Verbruggen, (2011)

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

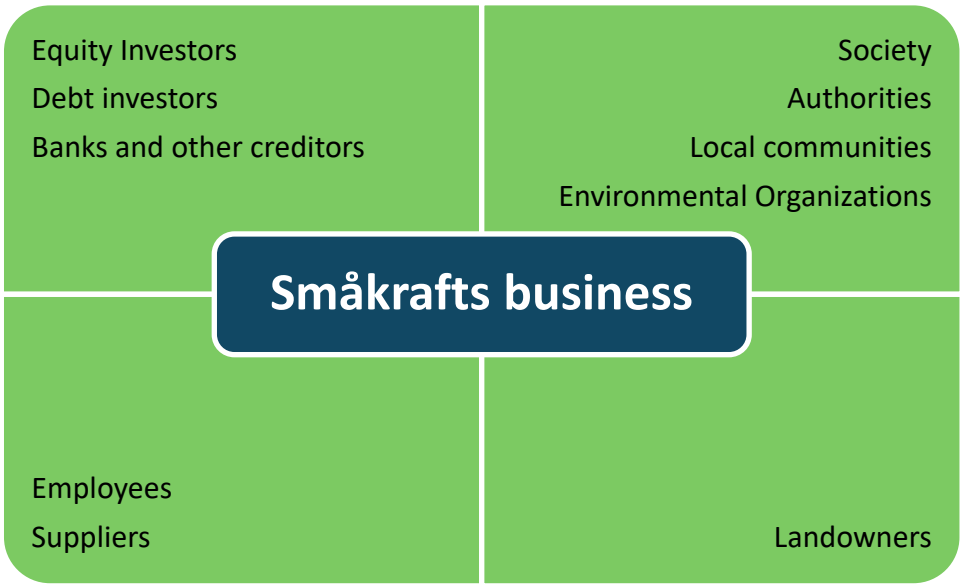
Småkraft is well positioned with as many as 10 of the goals more or less integrated in the way we operate. Still, we recognize that some of the biggest challenges when working on Sustainability and ESG related matters are fragmented areas of responsibility, and lack of priorities & focus.

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:

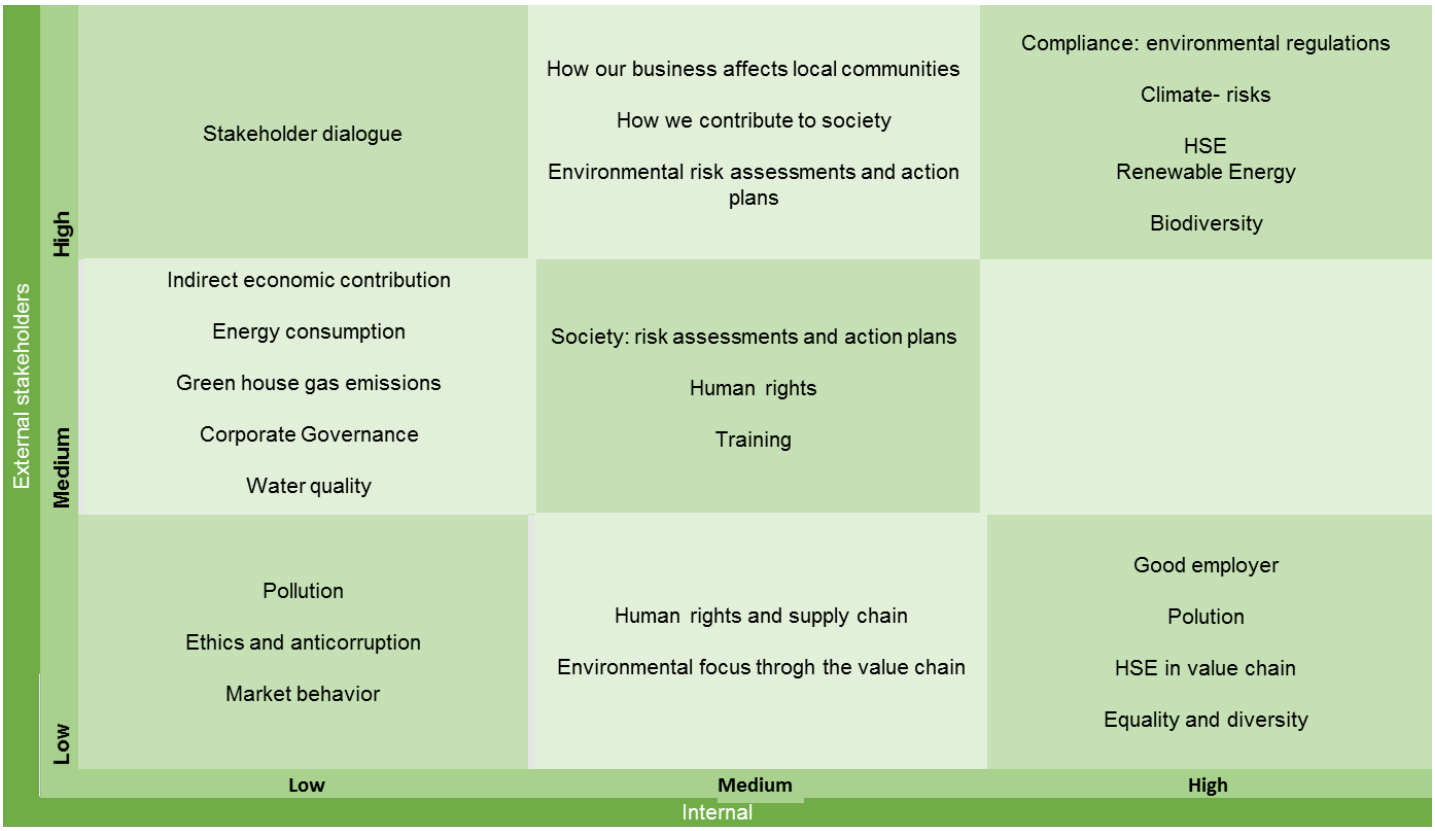


MATERIALITY ASSESSMENT

We have assessed who the stakeholders in our business are above. 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.



ESG- FOCUS 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

SECURITY AND SECURING HUMAN BEINGS

Proper training is fundamental to security.

Småkrafts operates powerplants subject to strong power from both the water and electricity. If we do not operate the plants safely, the powerplants are dangerous to both our employees, operators and third parties.

Risk: Medium. Likelihood is low to medium, but magnitude could be medium to high.
Goal: Zero accidents.
How do we monitor: All accidents are reported from operations to management and to the Board in Monthly reportings.

Safeguard:
- Control system alarms and automatic, mechanical shutdowns
- Physical barriers to dangerous parts of the powerplants
- Certain procedures for operators and operational employees
- Period training sessions
- Mandatory trainings for management, general manager and administrative personnel

NEGATIVE IMPACT ON LOCAL COMMUNITIES

Municipalities are responsible for several social services, such as dental care for three year olds, exemplified by this happy son of Småkrafts CFO. Our property tax is financing such services for the communities our powerplants are located.

To produce power, Småkraft make use of land that to a certain extent could be used for other purpose, such as timber- business, animal grazing, tourism, etc. To get a concession, the socio- economic benefits from the power production need to overcome the socio- economic costs in the first place. This applies to each individual powerplant. However, even if the powerplant has positive socio- economic value, each powerplant will have some negative external effects. We are overcompensating these negative external effects, as we share the monetary values from the powerplants with landowners, operators, local construction companies and the local municipality.

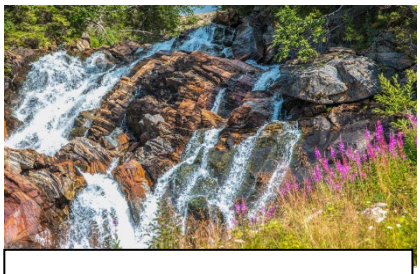
Risk: Medium. Likelihood is medium, magnitude is low to medium.
Goal: Overcompensate the negative impact our powerplants have for others by sharing the values we create with local stakeholders.
How do we monitor: We visualize all payments made to local landowners and municipalities.
Safeguard: N/A.

ENVIRONMENT AND CLIMATE

Småkrafts ambiton is to support the global transition from a fosil- based economy towards a low- carbon economy. Småkraft contributes to this goal, as it produces *renewable electricity and invests in new renewable energy. Småkraft only invests in renewable energy.*

BIODIVERSITY

Småkraft produces hydro power. This technology does not generate significant emisions, but to a certain extent it does lead us to intervene in the local ecosystems. Småkraft works to avoid, reduce or compensate for the negative environmental impacts our activities have.



The rivers are important for the local habitat, both for plants, flowers, animals and fishes.

Småkrafts most important activity is to release a minimum of water through the river, to maintain the fish-, wild- and plant life in and around the river. This minimum water flow is set in the concession phase, based upon the certain specifics in the habitat in and around the river.

We systematically monitor, trace and document our minimum water flow-activity. At each powerplant, it is possible for everybody to see what the accepted minimum is.

Risk: Medium. Likelihood is low to medium, but magnitude could be medium to high.
Goal: At any given time release the minimum water flow into the river.
How do we monitor: Built in mechanical and electrical mechanisms in control system. Manual checks and documentation at least weekly in protocols. Yearly audits. We offer environmental courses to all powerplant operators, on which operators need to participate.
Safeguard: Alarms, controls and audits.

WATER RESOURCE MANAGEMENT

Småkraft is among the 15 biggest suppliers of energy in Norway, and it is by far the biggest small hydro power producer. This means that Småkraft has an important role to look after and maintain the resource the running rivers represent.

The Water Framework Directive from the European Union and the concession- audits from the Norwegian Authorities are the fundament for how we approach this work. The main purpose with these rules and audits is to maintain good conditions for the water. Småkraft supports this ambition, and it will always weigh the positive effects from environmental measures against reduced renewable energy production.

Risk: Medium. Likelihood is low, but magnitude could be medium to high.
Goal: Maintain good conditions for the water throughout lifetime.
How do we monitor: Periodic audits.
Safeguard: Alarms in control systems.

POLLUTION, WASTE AND EMISIONS

POLLUTION

Småkraft has few challenges with regards to local pollution. The largest environmental risk is mailfunctions in the machinery spilling out oil. We monitor mailfunctions, and if such mailfunctions occur, we have procedures to minimize and remedy the negative impact.

Risk: Low. Likelihood is low, and magnitude is low to medium.
Goal: Detect all mailfunctions before the event has impact.
How do we monitor: Automatic and constant monitoring in our control systems. *Manual visit at least every 14 days.* Periodic audit
Safeguard: Alarms in control systems.

WASTE MANAGEMENT

Småkraft recycles its waste. Our main waste is operational equipment, that no longer works properly. Out of cost- benefit considerations, Småkraft does not monitor or track its waste.

Risk: Low. Our business produces very little waste.
Goal: To reduce our paper generation by digitalizing all systems.
How do we monitor: N/A
Safeguard: N/A

EMISIONS

As we are a large energy producer, Småkrafts business is carbon negative.

Risk: Low. Our business is carbon negative
Goal: Reduce travelling by automating operations futher.
How do we monitor: N/A
Safeguard: N/A

GOVERNANCE

BUSINESS ETHICS AND ANTICORRUPTION

Our business is long term and we have long term relationships with our business partners. Ethical and transparent behavior from all our employees is simply good for business .

Our business offers large monetary values for individuals. It could be a local landowner, who will earn significant amounts on land lease, or a supplier with large incentives to get good deals. The responsibility for handling such relationships professionally, lies with each individual employee.

Our three agreed values “Honest, efficient and innovative” represent the fundament each individual employee is supposed to act upon. Additionally, we have built robust internal control mechanisms to prevent faud, corruption and bad business ethics.

Risk: Likelihood is low. Magnitude is low to medium.
Goal: Prevent all immoral or corrupt behavior on behalf of the company.
How do we monitor: Hard to monitor. Whistle blow mechanisms.
Safeguard: Internal control mechanisms, such as:
- Segregation of Duties
- Four eyes approvals on all invoices
- External accountants handling all payments
- Four eyes on all payments
- Formalized Authorization Matrix for all orders of certain size.