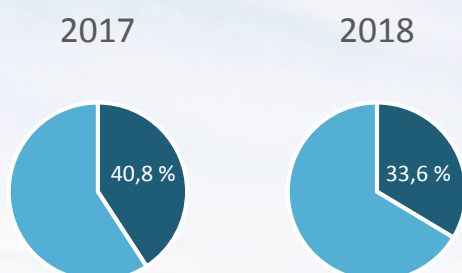


SMÅKRAFT AS
INTERIM REPORT

01.07.2018 – 31.12.2018

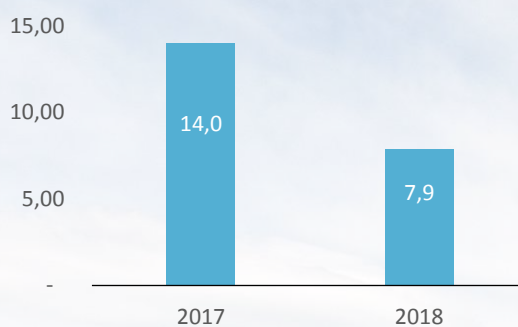
SMÅKRAFT AT A GLANCE

Equity- ratio affected by bond, but still strong



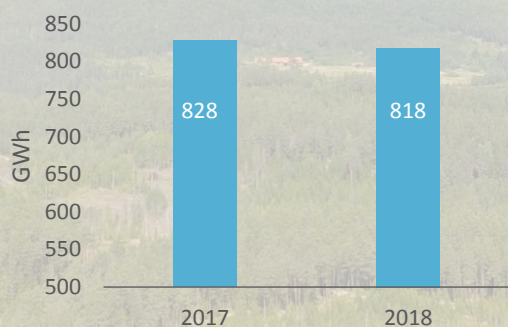
2018- ratio is affected by the bond- settlement early 2019. This is reducing the equity- ratio by approximately 3,8%- points per 31th of December 2018.

Strong NIBD / «cash EBITDA»



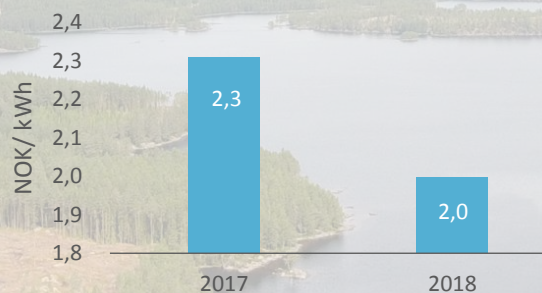
NIBD: Interest bearing debt net cash
“Cash EBITDA”: Operating profit + depreciations + impairments – realized losses on energy hedges

Lower production as precipitation was low



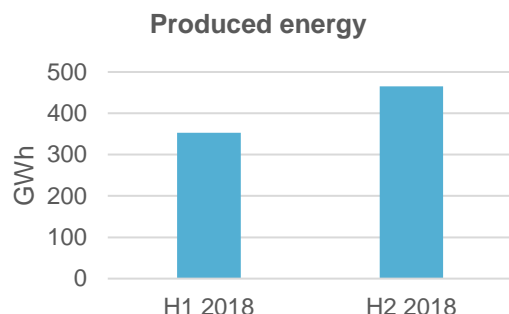
Net production delivered on the grid, excluding grid losses, consumption and bilateral agreements.

Stronger NIBD / Production capacity



Production capacity: Calculated annual mean production per year end on consolidated basis.

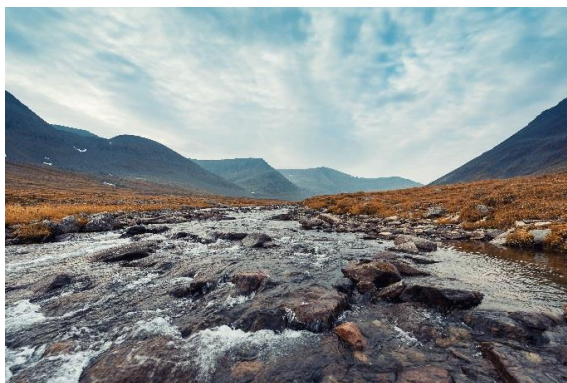
HIGHLIGHTS 2ND HALF OF 2018



Production

The late summer and early fall of 2018 were dry in most of Norway and production was lower than normal. During the fall, the precipitation picked up significantly.

In total for all Småkraft powerplants (including the ones partly owned), production ended at 466 GWh in H2 2018, compared to 352 GWh in H1 2018. In total, production was 818 GWh in 2018 (828 GWh in 2017)



Market update

The spot prices remained high during the period for both power and electricity certificates in all price areas. The water levels in the reservoirs were lower than normal and the CO₂- prices were high during the period. The long- term power prices were at a high level. E1-cert prices have been very volatile during the period. In December 2018, the Norwegian and Swedish Energy Authorities proposed a stop-mechanism as late as in 2030, pushing the low forward prices further down post 2021.



ESG

During 2nd half of 2018, Småkraft has worked on Environmental, Social and Governance policies and procedures . More information will follow in Småkraft's first Yearly Sustainability Report in March 2019.

During the reporting period, Småkraft experienced a Health, Safety and Environmental- (HSE) incident on one of its powerplant, as a supplier had an accident with an excavator doing maintenance work.



M&A activities

During the period, Småkraft acquired 5 new powerplants with an annual production capacity of 80 GWh. In total during 2018, Småkraft closed 6 powerplants with annual production capacity of 90 GWh. Additionally, Småkraft signed two powerplants with capacity 50 GWh with Nordkraft. As per year end 2018, Småkraft has signed contracts to acquire in total 13 new powerplants with total annual capacity of 188 GWh over the next two years.

FINANCIAL CALENDAR AND WAY AHEAD

March 2019

Småkraft releases its full 2019 Financial Statements and its first yearly Sustainability Report

7th May 2019

Capital Markets Day, Bergen Norway. Please see separate invitation.

H1 2019

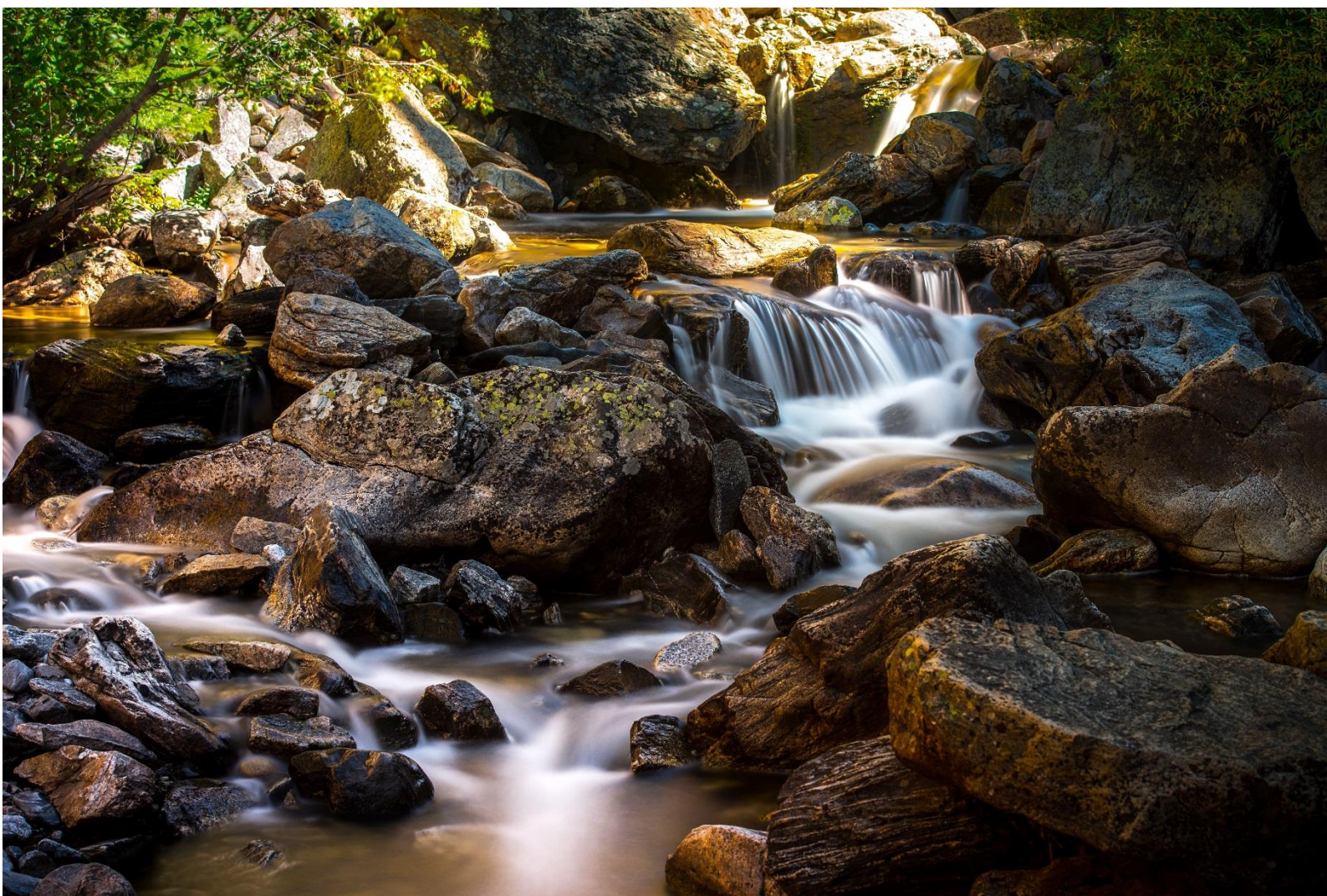
Småkraft files for listing of bond debt on Oslo Stock Exchange

H1 2019

Småkraft changes accounting policy to IFRS.

August 31st 2019

First interim reporting on IFRS.



SUMMARY – SMÅKRAFT GROUP HIGHLIGHTS

Production and revenue at record- levels

The Småkraft Group produced 466 GWh during the second half of 2018 ("the reporting period"), compared to 352 GWh in the first half of 2018.

After a very dry summer, a wet autumn with higher precipitation and production followed. Additionally, 5 new acquired powerplants contributed to the production parts of the reporting period, as well. Both power prices and electricity prices were at historic high levels during the reporting period. Total revenues were 288,3 MNOK compared to 190,1 MNOK in the previous period.

Driven by higher water right lease and higher transmission costs, which in general depend on total revenue, the total operating expenses increased from 107,6 MNOK to 141,3 MNOK. Impaired assets of in total 6,7 MNOK are accrued project costs on small hydro power projects, which were finally and formally rejected during the reporting period. In the last half of 2018, Småkraft has achieved good performance on both other operating expenses and payroll and related costs.

Operating profit was strong, with 147,0 MNOK for the period. EBITDA (defined as operating profit before depreciations and impairments) was 207,1 MNOK for the period. This represents an all-time record for the company. Småkraft defines its "cash- EBITDA" as EBITDA +/- net effect of realized commodity hedges in the period. Småkraft AS has hedged about 1/3 of its expected annual production volume for the next three years with financial contracts. Realized losses on such contracts arising from higher power prices are booked under Other financial expenses. For the period, Småkraft AS has a cash- EBITDA of 164,3 MNOK.

Full year EBITDA

For the full year 2018, EBITDA was 340,8 MNOK, while cash- EBITDA was 270,6 MNOK. Both represent all-time records for the company.

Net Financial Items and Financial Expenses

Småkraft has several non- cash movements in its net financial expenses.

Other interest expenses of 8,4 MNOK during the period are related to non- cash interest expenses on the goodwill for the company.

Other financial expenses of in total 224,1 MNOK during the period, consist out of both cash and non- cash movements. These are detailed in Note 1 and explained further below.

When expected future power prices increase, Småkraft books the expected future loss on its power price hedges as short- term debt. Such changes may have large effects on the financial expenses from period to period, as the accumulated volume over 3 to 5 years can be significant.

The value of the unhedged power production also increases, when expected future power prices increase. However, these changes are not reflected in Småkraft's Financial Statements. For the period, non- realized value changes in Småkraft's commodity hedges were 44,4 MNOK.

Småkrafts power revenue is noted in EUR. To match the EUR- revenue, Småkraft holds most of its debt in EUR. However, Småkraft presents its Financial Statements in NOK. When the NOK depreciates compared to the EUR, as it did during the reporting period, this leads to a non-realized disagio on the loans. For the period, this disagio amounted to 106,3 MNOK. Småkraft presents agio and disagio net per period. This means that Småkraft presents an agio in the first half of 2018, while it presents a disagio for second half of 2018. For the full year, the net effect is a disagio presented as such. This means that Other Financial Income and Other Financial Expenses must be seen together when comparing to the Full Year.

Total paid and accrued interest expenses for the period amounted to 24,6 MNOK, compared to 22,5 MNOK in the previous period.

Net profit/ (-loss for the period)

Net loss for the period was 57,7 MNOK, compared to a 8,0 MNOK profit in the last period. While having a net loss for the period because of large fluctuations due to higher power prices and the EUR/ NOK currency exchange rate, Småkraft is pleased with the underlying financial performance and cash generation of the company during the reporting period.

Green Bond issue and capital increases

Småkraft issued a Green Bond during the period, which has an affect both on the debt and the cash in the group. 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 significantly per year end 2018.

Småkraft acquired several powerplants during the period, financed by equity contributions. These have large effects on both the balance sheet and on the cash flow statement.

Principle Change

In preparation for full transition to IFRS accounting standards, Småkraft has changed its Accounting Principles with regards to land lease. More information about the new principles is shown in the summary of accounting principles below. The changed principle makes the cash effect of land lease more transparent than before. The principle change, however, has a negative effect on the equity of approximately 123,0 MNOK.

CONDENSED INTERIM FINANCIAL STATEMENTS

Profit and loss

| Småkraft Group | | | Profit and Loss (in MNOK) | Småkraft AS | | |
|----------------|---------------|---------------|--|---------------|--------------|----------------|
| H2 | H1 | Full year | | H2 | H1 | Full year year |
| 288,1 | 189,7 | 477,8 | Energy sale | 202,7 | 145,1 | 347,8 |
| 0,2 | 0,4 | 0,6 | Other operating revenue | 0,2 | 0,4 | 0,6 |
| 288,3 | 190,1 | 478,4 | Total revenue | 202,9 | 145,5 | 348,4 |
| 0,2 | 1,8 | 1,9 | Capitalized personnel expenses | 2,3 | 0 | 2,3 |
| -24,2 | -7,0 | -31,2 | Water right lease | -7,2 | -6,6 | -13,9 |
| -15,8 | -10,7 | -26,5 | Transmission costs | -11,3 | -9,6 | -20,9 |
| -0,1 | -0,5 | -0,6 | Cost of goods sold | 0 | -0,5 | -0,5 |
| -16,1 | -8,7 | -24,8 | Payroll and related costs | -16,1 | -8,7 | -24,8 |
| -53,4 | -51,3 | -104,6 | Depreciation of fixed assets and intangible rights | -40,0 | -38 | -78,0 |
| -6,7 | 0 | -6,7 | Impairment of fixed assets and intangible rights | -6,7 | 0 | -6,7 |
| -11,4 | -9,1 | -20,5 | Property tax and licence fees | -7,9 | -7,8 | -15,7 |
| -13,9 | -22,1 | -36,0 | Other operating expenses | -18,9 | -16,2 | -35,1 |
| -141,3 | -107,6 | -249,0 | Total operating expenses | -105,8 | -87,5 | -193,3 |
| 147,0 | 82,5 | 229,5 | Operating profit | 97,1 | 58,0 | 155,1 |
| 0 | 0 | 0 | Income from subsidiaries | 11,2 | 0,3 | 11,5 |
| -0,6 | 0,6 | 0 | Income from associated companies | 0 | 0 | 0 |
| 0 | 0 | 0 | Interest income from group companies | 3,6 | 3,0 | 6,5 |
| 27,6 | 92,9 | 32,7 | Other financial income | 12,8 | 83,5 | 17,9 |
| 0,2 | 0,2 | 0,4 | Other interest income | 0 | 0 | 0 |
| -8,4 | -7,8 | -16,3 | Other interest expenses | 0 | 0 | 0 |
| -224,1 | -158,3 | -294,6 | Other financial expenses * | -200,0 | -156,1 | -277,7 |
| -58,4 | 10,1 | -48,3 | Profit (loss) before taxation | -75,4 | -11,3 | -86,6 |
| 0,8 | -2,1 | -1,3 | Tax expenses | 12,2 | 2,5 | 14,7 |
| -57,7 | 8,0 | -49,7 | Profit (-loss) for the period | -63,1 | -8,8 | -71,9 |

The interim financial information has not been subject to audit.

*Please see separate note for specification of other financial expenses

BALANCE SHEET

| Småkraft Group | | Assets (in MNOK) | | Småkraft AS | |
|--------------------------------------|----------------|--|--|----------------|----------------|
| 31.12.2018 | 30.06.2018 | | | 31.12.2018 | 30.06.2018 |
| Non- current assets | | | | | |
| Intangible Assets | | | | | |
| 32,1 | 25,9 | Water rights | | 32,1 | 25,9 |
| 53,4 | 56,6 | Deferred tax assets | | 90,7 | 83,5 |
| 379,5 | 264,4 | Other intangible assets | | 98,7 | 100,3 |
| 60,0 | 48,5 | Goodwill | | 26,7 | 27,1 |
| 525,0 | 395,4 | Total intangible assets | | 248,2 | 236,8 |
| Fixed assets | | | | | |
| 3 455,0 | 3211,2 | Property, plants and equipment | | 2 365,7 | 2 380,4 |
| 3 455,0 | 3 211,2 | Total fixed assets | | 2 365,7 | 2 380,4 |
| Financial non- current assets | | | | | |
| | | Investments in subsidiaries | | 769,7 | 338,1 |
| 2,9 | 3,5 | Investments in associates | | 0,5 | 0,5 |
| 8,1 | 8,1 | Loans to associates | | 8,1 | 8,1 |
| 60,0 | 53,8 | Other long- term receivables | | 58,7 | 53,3 |
| 0,3 | 0,4 | Investments in market based securities | | 0,3 | 0 |
| | | Loans to subsidiaries | | 136,8 | 191,5 |
| 71,4 | 65,9 | Total financial non- current assets | | 974,2 | 591,5 |
| 4 051,3 | 3672,4 | Total non- current assets | | 3 588,0 | 3 208,7 |
| Current assets | | | | | |
| Inventory | | | | | |
| 0,9 | 0,6 | Operational materials and supplies | | 0,9 | 0,6 |
| 0,9 | 0,6 | Total inventory | | 0,9 | 0,6 |
| Receivables | | | | | |
| 16,0 | 40,2 | Accounts receivables | | 10,2 | 22,8 |
| | | Group receivables | | 31,6 | 12,6 |
| 107,3 | 76,1 | Other receivables | | 97,7 | 73,1 |
| 123,3 | 116,3 | Total receivables | | 139,4 | 108,6 |
| 1,0 | 1,0 | Investments in market based securities | | 0 | 0 |
| 702,5 | 168,5 | Cash and cash equivalents | | 586,9 | 122,5 |
| 827,6 | 286,3 | Total current assets | | 727,2 | 231,7 |
| 4 879,0 | 3 958,7 | Total Assets | | 4 315,3 | 3 440,4 |

BALANCE SHEET

| Småkraft Group | | Equity and Liabilities (in MNOK) | | Småkraft AS | |
|----------------------------|----------------|--|--|----------------|----------------|
| 31.12.2018 | 30.06.2018 | | | 31.12.2018 | 30.06.2018 |
| Shareholders Equity | | | | | |
| Paid- in capital | | | | | |
| 144,6 | 139,6 | Share capital | | 144,6 | 139,6 |
| 222,0 | | Not registered capital increase | | 222,0 | |
| 1 210,0 | 1 292,6 | Share Premium Reserve | | 1210,0 | 1292,6 |
| 1 576,6 | 1 432,2 | Total paid- in capital | | 1 576,6 | 1432,2 |
| Retained earnings | | | | | |
| 53,5 | 25,6 | Minority interests | | | |
| 11,5 | 70,7 | Retained earnings | | 13,5 | 77,0 |
| 64,9 | 96,4 | Total retained earnings | | 13,5 | 77,0 |
| 1 641,5 | 1 528,6 | Total shareholders equity | | 1 590,1 | 1 509,2 |
| Liabilities | | | | | |
| 2 256,1 | 2 217,4 | Debt to financial institutions | | 1 794,4 | 1 738,6 |
| 497,4 | 0 | Bond debt | | 497,4 | |
| 2 753,5 | 2 217,4 | Total non- current liabilities | | 2 291,8 | 1 738,6 |
| Current liabilities | | | | | |
| 15,7 | 2,9 | Deferred tax | | 0 | 1,8 |
| | | Accounts payable to group companies | | 0 | 0,8 |
| 15,7 | 58,0 | Accounts payable | | 9,5 | 55,9 |
| 12,4 | 3,0 | Taxes payable | | 0 | -0,1 |
| 21,6 | 9,9 | Public duties payable | | 14,2 | 4,4 |
| 201,2 | 0 | Dividend | | 200,0 | 0 |
| 217,2 | 139,0 | Other current liabilities | | 191,4 | 129,6 |
| | | Other financial intercompany | | 18,2 | 0 |
| | | Total current liabilities | | 433,3 | |
| 3 237,4 | 2 430,1 | Total liabilities | | 2 725,1 | 1 931,2 |
| 4 879,0 | 3 958,7 | Total shareholders equity and liabilities | | 4 315,3 | 3 440,4 |

The interim financial information has not been subject to audit.

CASH FLOW

| Småkraft Group | | Cash Flow (in MNOK) | Småkraft AS | |
|---|--------------|---|---------------|--------------|
| H2 | H1 | | H2 | H1 |
| | | | | |
| Cash Flow from operations | | | | |
| -58,4 | 10,1 | Profit (-loss) before taxation | -75,4 | -11,3 |
| -4,7 | 0 | Taxes paid for the period | | |
| 60,0 | 51,3 | Depreciation, amortization, impairment | 46,7 | 38,0 |
| 87,5 | -67,3 | Unrealized currency gain- loss | 78,3 | -60,2 |
| -0,3 | -0,3 | Change in inventory | -0,3 | -0,1 |
| 43,4 | 59,2 | Change in other assets and liabilities | 17,8 | 66,0 |
| 127,9 | 53,2 | Net cash flow from operations | 67,1 | 32,5 |
| | | | | |
| Cash flow from investment activities | | | | |
| 18 | 0 | Cash in acquired companies | | |
| -98,5 | -9,4 | Outflows due to purchases of fixed assets | -30,1 | -9,4 |
| | -6,2 | Outflows due to purchases of intangible assets | | -6,2 |
| -246,2 | | Outflows due to investments in subsidiaries | -433,9 | |
| -10,2 | | Outflows from loan to subsidiaries | 49,5 | -1,8 |
| -0,1 | | Outflows due to investments in financial non-current assets | -7,5 | |
| -336,9 | -15,6 | Net cash flow from investment activities | -422,0 | -17,4 |
| | | | | |
| Cash flow from financing activities | | | | |
| 344,4 | | Capital increases | 344,4 | |
| -98,8 | -27,9 | Change in current liabilities | -22,5 | -6,9 |
| 0 | -25,5 | Dividend payments | 0 | -25,0 |
| 497,4 | 0 | Net loan raising | 497,4 | |
| | | Change in non- current liabilities | | |
| 743,0 | -53,5 | Net Cash Flow from financing activities | 819,3 | -31,9 |
| | | | | |
| 534,0 | -15,9 | Net change in bank deposits and cash | 466,1 | -16,8 |
| | | Bank deposits in merged companies | | 28 |
| 168,5 | 184,4 | Bank deposits and cash at beginning of period | 122,5 | 111,3 |
| 702,5 | 168,5 | Bank deposits and cash at end of period | 586,9 | 122,5 |

The interim financial information has not been subject to audit.

ACCOUNTING PRINCIPLES

These interim condensed consolidated financial statements have been prepared in accordance with NGAAP.

The interim condensed consolidated financial statements do not include all the information and disclosures required for full annual financial statements and should be read in conjunction with the Annual Report 2017. These condensed consolidated interim financial statements have not been audited or subject to a review by the auditors. Accounting principles applied in the preparation of these condensed consolidated interim financial statements for the period ended December 31, 2018, are consistent with those applied in the annual consolidated financial statements for 2017, except for changes in accounting policies disclosed below. Comparative prior period information has been prepared on the same basis as current period information. All figures refer to millions of Norwegian kroner (NOK'000,000) unless otherwise specified.

New Accounting Policy with regards to Land Lease:

The Group will implement IFRS during H1 2019. As part of the IFRS- transition, Småkraft AS has changed its accounting policy with regards to land lease. The changed principles makes the cash effect of land lease more transparent. The principle change has a negative effect on the equity of approximately 123,0 MNOK.

Småkraft enters water right lease agreements with landowners, which entitles the company to utilize 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.

Småkraft mainly has three types of water land lease agreements:

- 1) Gross agreement/ revenue-based agreements: Småkraft pays landowner based upon the yearly powerplant- revenue. Upon the 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.
- 2) Fixed amount- agreement: Småkraft pays landowner yearly based upon a fixed amount. Upon the expiration of the agreement the landowner have the right to purchase the powerplant with all rights and technical installations based on certain specific conditions.
- 3) Profit share agreements: Småkraft shares the yearly powerplant- profit with the land owner. Upon the 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.

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

- 1) Småkraft has a gross land lease agreement, giving the land owners the immediate right to a % of the revenue.
- 2) Småkraft has a fixed amount agreement, giving the land owners the immediate right to a certain payment.
- 3) Småkraft has a profit share agreement, giving the land owners the immediate right to a % of the profit, and the landowner agreement has an accumulated profit over the lifetime of the powerplant.

In the case that Småkraft has a profit share 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 recognize as an asset. This asset will be off- balance. Any positive or negative changes in these off- balance items, will not be recognized 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 recognized as normal loans in Småkrafts Financial Statements.

NOTE 1 – FINANCIAL EXPENSES

| Småkraft Group | | | Financial Expenses (in MNOK) | Småkraft AS | | |
|----------------|--------------|--------------|---|--------------|--------------|-------------------|
| H2 | H1 | Full year | | H2 | H1 | Full year year |
| 106,3 | | 20,6 | Non- cash disagio on EUR- loans | 96,9 | | 18,5 |
| 44,4 | 91,5 | 135,9 | Non- cash MtM- adjustments on commodity hedges | 44,4 | 91,5 | 135,9 |
| 24,6 | 22,5 | 47,0 | Interest expenses | 16,9 | 14,3 | 31,2 |
| 6,0 | 16,9 | 20,8 | Other financial expenses and amortizations | -1,1 | 22,8 | 21,8 |
| 42,8 | 27,4 | 70,2 | Realized loss on commodity hedges | 42,8 | 27,4 | 70,2 |
| 224,1 | 158,3 | 294,6 | Total Financial Expenses | 200,0 | 156,1 | 277,7 |



smaakraft®

Postboks 7050, 5020 Bergen

post@smaakraft.no

smaakraft.no