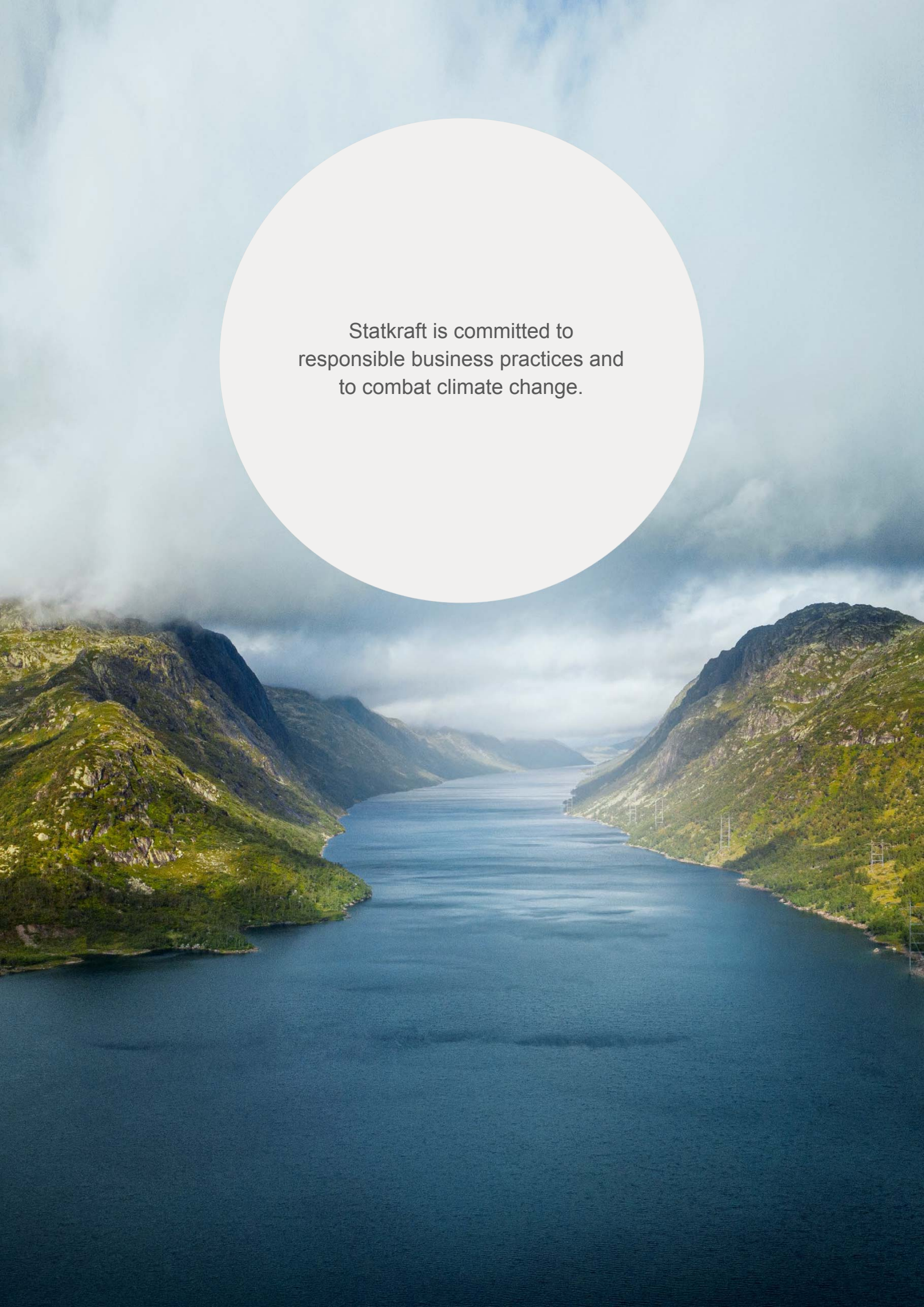




Statkraft is committed to  
responsible business practices and  
to combat climate change.



Sustainability

**2019**

# Sustainability

## SUSTAINABILITY MANAGEMENT

### Our approach to sustainability

Statkraft is committed to responsible business practices and to combat climate change. We do business globally, and our vision is to provide pure energy. The majority of the power we produce is through hydro, wind and solar. Statkraft's business strategy is based on the premise of safe, ethical and responsible operations.

Our approach to sustainability is continuously evolving, along with our business strategy and international developments. Statkraft is guided by international frameworks, such as the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. For new business activities, the IFC Performance Standards on Environmental and Social Sustainability are taken into consideration.

Statkraft is a member of the UN Global Compact and is committed to its ten principles on human rights, labour rights, environment and anti-corruption. This chapter constitutes Statkraft's progress report for 2019.

Recognising the important role that business can play in realising the UN Sustainable Development Goals (SDGs), Statkraft has a particular focus on Goal 7: Affordable and Clean Energy and Goal 13: Climate Action. We are currently reassessing all the goals, aiming to further strengthen our ambitions in 2020.

Overall our business activities have a positive impact, but may also at times have a negative impact on people, communities and nature. Renewable energy is critical for reducing global CO<sub>2</sub> emissions. At the same time, our operations can impact e.g. on biodiversity, use of land and interests related to outdoor activities. We seek to understand and manage such dilemmas by taking a risk-based approach, carefully weighing different concerns, and implementing mitigating activities.

### Governance

Statkraft's fundamental principles for responsible behaviour are described in our Code of Conduct which is approved by the Board of Directors. The Code applies to all companies in the Statkraft Group and all individuals who work for them. Our business partners are expected to adhere to standards consistent with Statkraft's Supplier Code of Conduct.

Statkraft's management system sets ambitions, direction and more detailed requirements. The system is regularly reviewed to tailor it to new expectations and challenges. Sustainability requirements and guidance are included in key activities, including acquisition and construction projects.

There is also a system for registration and follow-up of non-compliance with external and internal requirements. The system facilitates handling of cases, analysis of incidents, identification of improvements, and subsequent learning across the group.

Statkraft's Key Performance Indicators (KPIs) include sustainability aspects, such as health and safety, environment and business ethics. Group KPIs are regularly reviewed by Corporate Management and the Board of Directors. Sustainability topics are also included in Corporate Audit's annual plan and work.

### Sustainability reporting

Statkraft's sustainability reporting is based on the Global Reporting Initiative Standards (GRI-core option). Our materiality analysis identifies the sustainability topics that are most material and these are covered in this report:

- Safety and safeguarding of people
- Human rights
- Water management
- Biodiversity
- Climate change mitigation, adaptation and preparedness
- Business ethics and anti-corruption

Sustainability figures are collected from companies where Statkraft is the majority owner and are included in the Sustainability Statement.

Statkraft has engaged Deloitte AS to provide a limited level of assurance of this report.

### Stakeholder dialogue

Statkraft aims to have an open dialogue on sustainability issues with stakeholders impacted by our activities. Important stakeholders in these conversations include government officials, local and regional authorities, local communities, employees, customers, suppliers, research institutions, non-governmental organisations, voluntary organisations and the media.

Stakeholder dialogue forms part of daily operations, ranging from regular stakeholder interaction at our project sites, through to participation in sustainability forums like the UN Global Compact local networks.

### Responsible supply chain management

The basis for Statkraft's responsible supply chain approach is our Supplier Code of Conduct, which covers health and safety,

environment and climate, human rights, labour rights, and business ethics. Suppliers are expected to meet these requirements throughout their relationship with Statkraft. Suppliers are informed about the Supplier Code of Conduct during the procurement process, and it forms part of all contracts.

Statkraft has a wide variety of suppliers ranging from large international companies to smaller, local suppliers in different industry categories. In order to manage the most important risks in the supply chain, Statkraft has adopted a risk-based approach to pre-qualification and contracting with suppliers. Thresholds are set both globally and locally in order to concentrate the effort where the risks in the supply chain are the highest. The main objective is to ensure that only companies which meet Statkraft's standards become suppliers. During 2019, approximately 500 potential suppliers were risk assessed, and approximately 330 of them had individual follow up.

In cooperation with industry peers, Statkraft performs audits of 60-70 suppliers per year in order to verify supplier information and collaboratively drive improvement in supplier compliance. In 2019, 30 of these audits were performed on Statkraft's direct suppliers. In addition, project specific audits and integrity due diligence reviews are carried out.

In 2019, Statkraft executed a project to improve the way Statkraft works with sustainability in the supply chain. The project evaluated Statkraft's overall approach to ensure consistency in the way Statkraft works across geographies and functions, as well as to

ensure continuous improvement. Further updates to our approach will be implemented in 2020.

## Reporting of concerns

Reports can be made through various channels such as email, phone, or via a dedicated whistleblowing channel which has a built-in function safeguarding the anonymity of the reporter. The whistleblowing channel is also available to external users via Statkraft's website. In 2019, a total number of 60 concerns were reported, of which 26 were reported through the whistleblowing channel. The concerns mainly related to human resources, conflict of interest, corruption and other business ethics areas.

The reported concerns are assessed based on the evaluation of the nature and severity of the case and followed up according to established procedures. Some reported concerns are closed after an initial evaluation by Corporate Audit, and some are followed up further by line management and/or Corporate Audit. In some cases, an internal investigation is deemed necessary to clarify the facts and initiate possible actions. Corporate Audit is responsible for executing these investigations efficiently, objectively and in accordance with internal procedures. In 2019, Corporate Audit initiated three investigations. The investigations concluded in 2019 did not identify material violations.

Statkraft acquired controlling interest in the Brazilian company Desenvix Energias Renováveis S.A. in 2015, and carried out an internal investigation related to this subsidiary. Based on the investigation, Statkraft contacted Brazilian authorities. It is at this stage not possible to predict the final outcome of this process.



## STATKRAFT'S CONTRIBUTION

The majority of climate gas emissions in the world are energy related. Hence, increasing the production of energy from renewable sources is critical in order to reach global emissions targets. Further, electrification based on renewable energy is a key element to combat climate change. Statkraft is part of the solution for a clean energy world. Statkraft is committed growing solely within renewable energy technologies.

Statkraft's activities contribute in different ways to global, national and local economies through dividends to our shareholder, taxes paid to governments, direct employment, our global and local procurement activities, R&D and social investments. Our approach to responsible business conduct contributes to the promotion of good business practices. We also seek to share knowledge about renewable energy, energy systems, climate change and environmental issues.

### Statkraft's business

The majority of Statkraft's power generation is from renewable sources: hydro, wind and solar. Statkraft also generates heat and power from biomass and natural gas.

Hydropower has many advantages, including high efficiency, low operating costs, longevity, high flexibility and low carbon intensity. The large Norwegian water reservoirs enable storage and electricity production even in periods of reduced or low inflow. This gives flexibility in energy production. This is particularly important when there is a need to balance the increasing amounts of periodic electricity production from wind and solar power.

The development and operation of hydropower plants facilitate multiple uses of watercourses and infrastructure for example irrigation, drinking water supply, transportation and recreation. In addition, the use of reservoirs for flood control becomes even more important as the climate changes.

Wind and solar power investments are important parts of Statkraft's business strategy. Both are becoming viable without subsidies in an increasing number of markets. Statkraft continues to develop and operate onshore wind farms in the Nordics as well as in the UK and Ireland, Chile and Brazil. A continuing sharp reduction in the cost of solar panels makes solar power the

fastest-growing energy source in the world, and Statkraft is increasing activities across our portfolio. In countries where Statkraft is present, the company also contributes to more optimal utilisation of energy resources through market access services, remote control of renewable assets and virtual power plants.

Statkraft's CO<sub>2</sub> emissions are amongst the lowest in the global energy sector. In 2019, 92.6% of Statkraft's power generation was based on renewable energy sources, and 87.3% or 53.4 TWh, came from hydropower. The average carbon intensity of Statkraft's power generation increased to 26 kg CO<sub>2</sub>/MWh in 2019 due to more gas power generation.

Statkraft's non-renewable energy generation includes gas-fired power plants and fossil-based peak and reserve capacity in district heating plants. Through 2019, the utilisation of coal-fired plants has been reduced in the European power markets, while gas-fired generation has increased. Statkraft's increased carbon intensity reflects this. The shift from coal to gas has led to a significant drop in the total emissions from the power sector, as gas-fired generation has lower CO<sub>2</sub> intensity.

## Statkraft and the UN Sustainable Development Goals

Statkraft aims to contribute to the UN Sustainable Development Goals (SDGs) in ways most relevant to our business activities. Our primary business is to provide energy, making Affordable and Clean Energy (SDG 7) and Climate Action (SDG 13) key focus areas. The 17 SDGs are inextricably connected and Statkraft's activities impact many of the other SDGs. Statkraft aims to harness the positive synergies whilst minimizing the negative trade-offs.

One of the key transformations needed to meet the goals by 2030 is a global shift to a more sustainable energy system. We want to play a significant role in this transformation by generating energy through our existing portfolio, with our deep knowledge and experience in hydropower, as well as integrate new renewable capacity from wind and solar. In addition, through our knowledge of energy markets, we can act as an integrator of renewable energy in the marketplace.

## POSITIVE IMPACT

### Affordable and Clean Energy (SDG 7)

Statkraft contributes to raising the share of renewable energy in the energy mix (SDG target 7.2) in 16 countries. In 2019, 92.6% of Statkraft's power generation was based on renewable energy sources. 87.3% or 53.4 TWh of our total production came from hydropower. The rest came from solar, wind, gas, district heating and biomass.



**Synergies:** By developing renewable energy solutions, Statkraft also creates opportunities for jobs in the sector (SDG targets 8.5, 9.2, 9.4). When replacing generation of fossil fuel plants with high emissions of air pollutants, renewable energy can also contribute to improved air quality and a reduction in diseases associated with this (SDG target 3.9). Also, through our low-cost new capacity, extensive experience and competence, and role as market integrator we can contribute to more affordable energy.



**Trade-offs:** Clean energy can have negative consequences for terrestrial and aquatic life. For instance, wind turbines can be damaging for avian populations (SDG target 15.5) and hydropower can have effects on river ecosystems (SDG target 15.1). Read more about how Statkraft minimises these risks in the Biodiversity subsection.

### Climate Action (SDG 13)

Statkraft operates hydro, wind, solar power plants, as well as district heating plants with a high share of renewable fuels. Statkraft also has strong growth ambitions within solar, wind, hydro. At and the new capacity will replace fossil fuel-based energy supply contributing to reduced greenhouse gas emissions. Hydropower reservoirs can also contribute to reducing floods and droughts in regulated river basins (SDG target 11.5 and 13.1). Read more about this in the Water Management subsection. Hydropower reservoirs also enable irrigation and can reduce floods/drought damage in agriculture (SDG target 2.4), increase the amount of available freshwater (SDG target 6.1 and 6.4). Statkraft is committed to climate neutrality through Climate Neutral Now. Emissions from our gas fired plants are compensated through ETS. See Climate subsection for more information about Statkraft's emissions.



**Synergies:** Mitigating climate change is expected to have positive benefits for the remaining 16 goals. If the world does not reach SDG 13, there will be impacts on the other goals making them hard to reach. In addition to contributing through our core activities, and working to reduce our own emissions, Statkraft also contributes to climate action through R&D.



**Trade-offs:** It is expected that renewable energy will become the cheapest source of energy. At the same time mitigating climate change may place a burden on some countries that may lack the resources, technology, and/or expertise to make the shift. Statkraft is enhancing international cooperation to facilitate access to clean energy research and technology (SDG target 7.A). As we are expanding infrastructure and upgrading technology in several developing countries, this may contribute to more sustainable energy services for all (SDG target 7.A).

## RISK & CHALLENGES

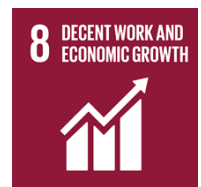
While the majority of our activities contribute positively towards the SDGs, there are risks and challenges too. Some examples include:

### Decent Work and Economic Growth (SDG 8)

One of Statkraft's main risks is related to health and safety, such as injuries to employees, contractors or third parties (SDG target 8.8). There were no fatal accidents in 2019, however 7 contractor's employees suffered serious injuries. Read more in the Health and Safety subsection.

### Life on Land (SDG 15)

While clean energy generation is a key part of a sustainable future, all forms of production have a footprint. Statkraft's wind and hydro operations in particular can impact life on land (SDG targets 15.1 and 15.5) but key measures have been put in place to actively reduce the negative impacts. Read more in the Biodiversity subsection.



## SOCIAL DISCLOSURES

### Health and Safety

| AMBITION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | TARGET                | STATUS |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|--------|
| Prevent incidents and be committed to a workplace without injury or harm                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Zero serious injuries | 7 ●    |
| Protect health and well-being of staff                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Sick leave < 3.5%     | 2.7% ● |
| <b>Comments on performance</b> <ul style="list-style-type: none"> <li>There were no fatal accidents in 2019, however Statkraft did not reach the target of zero serious injuries and the status is therefore yellow. Seven contractors (employees) suffered serious injuries in work-related accidents, and the serious injury rate was 0.33.</li> <li>The Powered by Care programme and the efforts to continually improve health and safety performance and culture will continue to have a high focus going forward. Key elements include HSSE (Health, Safety, Security and Environment) leadership, Life-Saving Rules for high risk activities, an improved framework for HSSE management, enhanced HSSE in Projects, and clear effective HSSE requirements.</li> </ul> |                       |        |
| <b>Key initiatives</b> <ul style="list-style-type: none"> <li>Provide leadership and drive cultural change at all levels.</li> <li>Encourage and measure management and employee engagement.</li> <li>Strengthen the focus on high risk activities and preventative measures.</li> <li>Provide training to build the required competence.</li> <li>Ensure learning and sharing from high risk potential incidents.</li> </ul>                                                                                                                                                                                                                                                                                                                                                |                       |        |

### Our approach

Caring for people is at the core of Statkraft's culture and we work continuously towards our goal of zero injuries. Statkraft has a programme to implement improvements within health and safety across the organisation, called "Powered by Care". Statkraft's Corporate Management clearly demonstrates their commitment to a workplace without injury and harm as communicated through their "Powered by Care" commitment statement.

### Key risks

Health and safety risks arise from Statkraft's activities in construction projects, operations and maintenance of power plants and other facilities, from our presence in various geographical locations, and from travel and other business activities. The predominant high-risk areas are related to personnel injuries from workplace accidents. Activities related to driving, working at heights, lifting operations, energised systems, heavy mobile equipment, ground works and working in confined spaces are considered to have highest risk.

### Status 2019

#### Accidents

A contractor employee on the Tidong hydropower project in India died 6<sup>th</sup> of January 2020 following a fall incident on site. The accident is being investigated. There were no fatal accidents in 2019, however 7 contractor's employees suffered serious injuries. A total of 53 accidents and observations were classified as having high risk potential. Most of these accidents and near-accidents were associated with driving, energized systems, ground works, forest work, heavy mobile equipment and working at heights. The accidents were investigated, and mitigating actions were

implemented at project level and across the Group to ensure learning and preventing recurrence.

The Lost Time Injury rate (LTI rate) was 2.1 among Statkraft's Group employees while the LTI rate among Statkraft's Group contractors was 3.1. Correspondingly the Total Recordable Injury Rate (TRI rate) among Statkraft's Group employees was 3.8 and 5.9 among Statkraft's Group contractors. In total, 101 injuries were recorded for Statkraft's Group employees and contractors, of which 54 were lost-time injuries.

#### Sick leave

Sick leave in Statkraft is at a stable low level, at 2.7% in 2019, which is below the target of 3.5%.

#### Health and Safety Improvement Programme

In 2019, the 'Powered by Care' programme focused on:

##### Leadership and commitment

During 2019, management throughout Statkraft was actively engaged and participated in local activities in the Powered by Care programme. Workshops were held to address health and safety leadership and culture, and a new framework for effective HSSE management was developed. The framework defines expectations related to the following areas:

- Leadership
- Roles and competences
- Risk management
- Integration in processes
- Contractor management
- Continuous improvement

### Serious injury mitigation

Serious incidents - those with serious consequences or high potential of serious injury – are analysed to identify causes and identify measures to prevent recurrence. The lessons learned are shared across the organisation. Lifesaving rules aimed at preventing serious and fatal injuries have been rolled out and implemented.

### Engagement KPIs

Indicators are in place to encourage and measure employee and management engagement through e.g. risk observations, improvement proposals, positive observations and safe job dialogues. These KPIs have had positive development since their introduction in 2016.

### CEO's HSSE Award

An HSSE award scheme is in place to encourage activities that contribute to improved HSSE awareness, results and engagement across the organisation. The award for 2019 was given to District Heating for their targeted efforts resulting in greatly improved results over the last year.

### Sharing and learning

Collaboration takes place within and across business areas to share and learn from incidents, health and safety programmes and best practices. Regular network meetings, and an annual conference is arranged to help facilitate this process. A dedicated intranet portal provides easy access to HSSE documents, materials and tools.

### Health and safety training

Appropriate competence is a prerequisite for a strong health and safety culture. Statkraft employees are provided with training according to their individual needs and work situation. Modular e-learning is made available to effectively reach out and provide fit for purpose training to various target groups. This includes a "Powered by Care" module providing basic training for all and modules to support the Life Saving Rules.

### Third party safety

Statkraft's activities have significant interfaces with third parties and we are focused on ensuring their safety. Dam safety is one key focus area. Measures are carried out according to legal and regulatory requirements. Statkraft performs maintenance on dams and associated structures within a strict and controlled system. The company has developed detailed procedures and plans and thereby ensures that these structures do not pose a threat to life, property or the environment.

## Security

| AMBITION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | TARGET                                              | STATUS                                                                                |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|---------------------------------------------------------------------------------------|
| Actively prevent harm to people and assets through a systematic approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Implementation of identified supporting initiatives |  |
| <b>Comments on performance</b> <ul style="list-style-type: none"> <li>Statkraft has established a more strategic approach to security as a business enabler, proactive handling of security incidents and improved information security awareness. Statkraft is on track with the implementation of new security regulations.</li> <li>Key achievements in 2019 include improved operational capabilities towards preventing IT security incidents, positive trends in information security awareness, and improved emergency response capabilities.</li> </ul> |                                                     |                                                                                       |
| <b>Key initiatives</b> <ul style="list-style-type: none"> <li>Improve processes and capabilities for security management.</li> <li>Key measures planned for 2020 are continued implementation of new national security regulations, implementation of a new global requirement for pre-employment background checks and further strengthening of the Group's IT/cyber security capabilities.</li> </ul>                                                                                                                                                         |                                                     |                                                                                       |

## Our approach

Statkraft has a comprehensive approach and follows international good practice for security management. Security refers to the ability to keep people, operations, information and systems secure from intentional harm or damage. Security matters are addressed through a risk-based approach. Statkraft has well established relationships with both local and global security companies, and participates in national and international networks to ensure an up-to-date understanding of security risks.

Information security is a high priority and Statkraft follows international good practice for information security management.

The aim is to build and continually improve a strong information security culture that ensures the confidentiality, integrity and availability of Statkraft's information. During 2019, Statkraft experienced a positive trend in information security awareness.

## Key risks

Statkraft assesses security risks by analysing threats, vulnerabilities and consequences in accordance with Norwegian Standard NS-5832. Conducting security risk assessments is a line responsibility, supported by the Corporate Security & Emergency Response unit and the Corporate Information Security unit.



Statkraft uses a wide range of measures to reduce security risks. Sudden changes in a security situation will trigger immediate measures.

Statkraft mostly use unarmed security guards to enforce local security, but in some countries where national regulations or the security situation dictates this, armed security is used.

Statkraft's security work is being impacted by changes in national regulations in several countries and Statkraft is currently working with the different national energy authorities on this matter.

### Emergency preparedness

Statkraft's capability to handle serious and unwanted emergency events is a constant priority. A group requirement on Emergency Response Management was introduced in 2017, to ensure a common approach to emergency response across the company. Statkraft's emergency response is based on the use of dedicated and temporary teams. This approach aims to enable Statkraft to simultaneously handle emergencies at local, regional/national and strategic levels.

Statkraft is also working with other companies, non-governmental organisations, local law enforcement and fire departments to ensure the best possible preparedness for handling emergencies.

## Status 2019

Statkraft is currently working on enhancing security risk assessment across the Group. In 2019, Statkraft has implemented or is in the process of implementing new regulations in Norway, Sweden and Germany.

Continuous training efforts were also made to enhance capabilities in emergency preparedness. More complex exercises were introduced focusing on cross- business area cooperation and complex cyber related incidents.

To ensure high awareness and to mitigate behavioural risk, Statkraft regularly conduct awareness workshops and dilemma training relating to information security for all business areas.

In 2019, we revised our IT/Cybersecurity operations and strengthened our capabilities.

In 2019, 191 security incidents were reported, and 5 of these were assessed to be serious. The cyber security team handled 155 of these incidents, including 36 high potential incidents that were detected and blocked at an early stage. The majority of the serious IT security incidents were related to targeted phishing emails.

## Human rights

| AMBITION                                                                                                                                                                                                                                                                                                                                                                                          | TARGET                                       | STATUS                                                                                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|---------------------------------------------------------------------------------------|
| Act according to the United Nations Guiding Principles on Business and Human Rights                                                                                                                                                                                                                                                                                                               | Implementation of identified key initiatives |  |
| <b>Comments on performance</b> <ul style="list-style-type: none"> <li>Key achievements in 2019 include strengthened focus on human rights in key processes, e.g. new capital investments and acquisitions.</li> <li>Awareness training on salient human rights for selected teams across the organization was performed.</li> </ul>                                                               |                                              |                                                                                       |
| <b>Key Initiatives</b> <ul style="list-style-type: none"> <li>Update and continuously improve human rights requirements, aligning with international developments and integrate in key processes.</li> <li>Update of the corporate level human rights due diligence.</li> <li>Key measures planned for 2020 include rolling out Human Rights Due Diligence processes in key locations.</li> </ul> |                                              |                                                                                       |

## Our approach

Statkraft's work on human rights is based on the UN Guiding Principles on Business and Human Rights. Statkraft's policy commitment on human rights is reflected in Statkraft's Code of Conduct. This commitment is publicly available and communicated internally and externally to personnel, business partners and other relevant parties. Our approach is to continuously improve and to strengthen the integration of human rights into key processes; such as acquisitions and new capital investments.

## Key risks

Our corporate human rights due diligence identified local community acceptance (including by indigenous peoples), labour rights, health and safety, and security arrangements as salient human rights issues for the Group. Given the developments internationally, and Statkraft's business strategy from 2018 we are currently taking a renewed look at our human rights impacts. Based on the outcomes, we will recalibrate our approach to key risks where needed. Key human rights risks in the supply chain will also be assessed.

## Status 2019

### Human rights initiatives

In 2019, we continued to embed our commitment to respect human rights in key processes and have prioritised efforts related to salient human rights issues. One focus area has been including human rights considerations in project management and acquisition processes.

Statkraft's human rights awareness initiatives continued to be rolled out for critical functions and geographies. Training sessions typically include an overview of external and internal expectations, and an introduction to Statkraft's salient human rights issues and lessons learned. In 2019 several awareness raising sessions were conducted, including with key staff at selected locations. For example, an induction session was conducted for the Los Lagos in Chile project team.

Further, human rights considerations were included in the work related to responsible supply chain (see the sustainability management subsection).

### Networks

Statkraft is a member of the Nordic Business Network for Human Rights and engages in other relevant forums at corporate level. Country organisations also participate in local networks. For example, in Peru Statkraft is an active member of the Human Rights Committee of the National Mining, Oil and Energy Society.

### Consultations

In 2019, consultations and engagement with a wide range of local stakeholders, including indigenous peoples, continued.

For the Fosen wind farm projects in Norway, agreements on mitigating measures and compensation for extra costs during the construction phase had been entered into with reindeer herding groups. Unfortunately, it was not possible to reach agreements with the groups regarding measures and compensation for the operational phase. Hearings by the High court in Trondheim (Frostating lagmannsrett) were held in December 2019 to

determine compensation to the herding groups related to the operational phase of the wind farms, including a preliminary hearing on the issue of the validity of the license for the Storheia and Roan wind farms. The court has not yet made its decision.

In Chile, within the Information, Consultation and Participation process of the Los Lagos project, representatives from the Pochoco and Maihue Pilmaiquen indigenous communities visited our Rucatayo hydropower plant in February. It was an opportunity to observe in "real-time" the operation of a hydropower plant quite similar to the one being planned and raise questions and concerns about the construction and operation phases. We have experienced demonstrations from indigenous groups opposing the development of our greenfield projects in the Pilmaiquen river, in particular to the Osorno HPP – which is currently on hold while we continue the dialogue with local communities and authorities.

Statkraft has multiple refurbishment projects for hydropower plants close to Sami communities. These projects are located in Helgeland, Ofoten, Øst-Finmark, and Neadalen in Norway, and Jamtland in Sweden. The company maintains a regular dialogue with community representatives for these projects along with annual contact meetings.

Statkraft has wind farms in Sweden close to the Sami communities of Ohredahke and Jijnjevaerie, and the company maintains a regular dialogue with community representatives.

A Public Information Center for the Tidong 1 project in India was established to address grievances and deal with issues raised by local communities.

### Sharing knowledge

Statkraft continues to provide expertise to the International Centre for Hydropower (ICH) which holds courses for government representatives, investors, energy companies and other stakeholders from emerging markets. In 2019, Statkraft provided lecturers for courses and workshops held in Trondheim and Oslo. Statkraft also shared our experiences at the University of Bergen Executive Master course on business and human rights.

## Labour practices

| AMBITION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | TARGET                                                    | STATUS                                                                                    |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|-------------------------------------------------------------------------------------------|
| Improve diversity in background, competence and gender across the company                                                                                                                                                                                                                                                                                                                                                                                                                     | Long-term target of 40% women in top management positions | 27.5%  |
| <b>Comments on performance</b> <ul style="list-style-type: none"> <li>In 2019, efforts taken continued to improve the company's gender balance. We increased the percentage of women in management positions from 21% to 23%. At the end of 2019, 26% of the Group's employees were women.</li> <li>30% of employees attending leadership development programs in 2019 were women.</li> </ul>                                                                                                 |                                                           |                                                                                           |
| <b>Key initiatives</b> <ul style="list-style-type: none"> <li>Continued implementation of people development including targeted leadership development activities.</li> <li>Unconscious bias training for all leaders in Statkraft and strengthened mechanisms to avoid bias in Statkraft's people processes.</li> <li>Increased mobility and rotation.</li> <li>Key activities planned for 2020 include working actively to increase the number of women in management positions.</li> </ul> |                                                           |                                                                                           |

## Our approach

Statkraft supports and respects internationally recognised labour rights including freedom of association and the effective recognition of the right to collective bargaining, the elimination of all forms of forced and compulsory labour, the effective abolition of child labour, and the elimination of discrimination with respect to employment and occupation. Statkraft also works towards the realisation of these rights as part of our supply chain management.

In Statkraft, we aim to create an environment where current and future employees can learn and grow. We recognise that a career path can take many different directions. To utilise our shared competence and learn from each other, mobility between geographical and organisational boundaries is encouraged.

A safe work environment and support from the people around us is also an important enabler for development.

## Key risks

It is of key importance for Statkraft to attract, develop, and retain people and competence to meet our target and strategy. There are challenges related to achieving this in a timely and adequate manner. Statkraft is competing in a global workforce market and we need to ensure attractiveness as an employer in all our locations and towards all relevant expert groups. It is also crucial to develop our employees and leaders to meet future competence needs and to retain our talents. Initiatives to further strengthen our employer brand and develop new skills and competencies will be prioritised in 2020.

## Status 2019

Statkraft's employee engagement survey was conducted in September 2019 with a response rate of 92%. The survey showed high and stable motivation and satisfaction. The result on total score for employee engagement was 84%, up from 78% in 2018.

## People Development

In 2019, we have continued to implement measures to maintain a high level of employee engagement and further strengthen people development. Examples of this include continued efforts to strengthen the competence of leaders to motivate, develop and increase the performance of their teams. Different leadership development initiatives were implemented during 2019, targeted to different groups and learning objectives. Further efforts to build and expand on leadership development will be introduced in 2020.

In addition to initiatives aimed at leaders, Statkraft also has a continuous focus on learning activities that are tailored to the development needs of employees across the Group. Statkraft offers many internal courses, webinars and seminars. In 2019, we continued to learn from pilots on agile project methods and develop training as an offering to all employees.

## Workforce diversity and inclusion

Statkraft seeks to increase diversity and foster inclusion. We believe this provides new perspectives and ideas that foster innovation that meet the needs of our customers and society. The commitment to diversity and inclusion relates to all aspect of diversity i.e. gender, nationality, educational background, age and mind set. We have a clear commitment to equal treatment and zero tolerance for discrimination, bullying and harassment are core tenets of Statkraft's people policies.

At the end of 2019, Statkraft had approximately 4000 employees, 45% outside Norway. Statkraft had employees in 16 countries, representing 61 nationalities. 26% of the Group's employees were women, and the percentage of women in management positions was 23%. The percentage of women in Statkraft's Board of Directors was 44%. Average service time in Statkraft was 10.5 years, while turnover in 2019 was 4.3%.

During 2019, we continued to focus on strengthening the diversity measures in Statkraft, including specific measures to increase the gender balance. Amongst others, we have increased the target of

female participation in leadership development programs from 30% to 40%. We also introduced unconscious bias training for leaders, including for corporate management and their leadership teams. We will continue the work in 2020 to embed diversity into people development process.

**Employee relations**

Statkraft has a structured and close collaboration with local employee representatives and trade unions. In addition to cooperation at the national level, Statkraft has established the Statkraft European Works Council (SEWC), with employee representatives from Norway, Sweden, Germany and the UK.

Wherever it operates, Statkraft supports and respects internationally recognised labour rights. Relevant ILO conventions and EU directives have been included in the SEWC agreement with EPSU (European Federation of Public Service Unions), the federation for European unions within the energy sector. In countries not covered by SEWC, Statkraft respects the employees' freedom of association and collaborates with union representatives in accordance with collective bargaining agreements, legal requirements, international standards and prevailing industry best-practice for each location.

## ENVIRONMENTAL DISCLOSURES

### Biodiversity

| AMBITION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | TARGET                                               | STATUS |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------|--------|
| Deliver climate-friendly, renewable power and taking responsible environmental measures                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Zero serious environmental incidents on biodiversity | ●      |
| <b>Comments on performance</b> <ul style="list-style-type: none"> <li>Statkraft had no serious environmental incidents in 2019. The Group undertook a broad range of initiatives, either required by the energy or environmental authorities or voluntarily, aimed at preserving biodiversity.</li> <li>Key achievements for 2019 comprised mapping and improvement of habitats for species of particular concern which are affected by Statkraft's activities. In project areas overview of red-list fauna and flora species are maintained. Initiatives to increase awareness about biodiversity among employees are carried out. During the revision of terms processes in Norway, several studies have been completed to evaluate environmental enhancement measures, and several initiatives have already been implemented.</li> </ul> |                                                      |        |
| <b>Key initiatives</b> <ul style="list-style-type: none"> <li>Enhanced tracking and communication of performance of the systematic handling of biodiversity, e.g. red-list species, critical habitats and presence in protected areas.</li> <li>Increased understanding of our impacts on biodiversity, and adequate handling in project development and operation.</li> <li>Key measures planned for 2020 are the monitoring of biodiversity and species of particular interest in project areas hereunder identify whether mitigation measures are adequate and monitoring levels are sufficient.</li> </ul>                                                                                                                                                                                                                              |                                                      |        |

### Our approach

Statkraft is committed to managing the impacts on biodiversity caused by the Group's activities in a responsible manner and pays special attention to red-listed, highly valued or vulnerable species, such as eel, wild salmon, sea trout, eagles and wild reindeer.

### Key risks

Globally the biggest risk to biodiversity is the fragmentation and degradation of species' habitats. In a global assessment report published in 2019, the UN 'Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services' stated that this is a bigger threat to biodiversity than climate change.

All power generation affects biodiversity and the environment. Statkraft's impact on biodiversity comes from our main power generation activities: hydro and wind. Wind power development utilizes large natural areas and can interfere with vulnerable nature and species. Hydropower modifies the living condition of aquatic species, which poses a challenge to migrating fish. Reservoirs, high voltage lines and roads impact the habitat quality for both wild and domestic reindeer. To assess environmental risks related to biodiversity is part of Statkraft's risk management procedures and practices.

### Status 2019

#### Improving conditions for aquatic species

Statkraft continuously seeks to enhance living conditions for fish in regulated waterbodies. To achieve good ecological results in fish management, it is important that a holistic approach is applied by all stakeholders for the whole catchment area. This includes environmental enhancement measures as well as the appropriate

management of parasites, predators, overfishing, genetic interference with species from aquaculture and water quality.

Historically, stocking of fish has been an essential measure to maintain healthy fish populations in Norway, until it was discovered that survival rates are higher when fish mature in rivers rather than in hatcheries. Consequently, Statkraft is stocking more roe and juvenile fish as well as improving fish habitat and spawning areas. In Norway, the long-term goal is to achieve self-sustaining fish populations, wherever feasible. Monitoring studies are performed annually and conducted in cooperation with regional authorities. Where natural recruitment of fish is not possible, Statkraft is stocking fish from our six hatcheries. Together with the Norwegian Environmental Agency, Statkraft also manages a gene bank at Bjerka (Northern Norway) to preserve the unique genetic material of five different wild salmon families. This enabled Statkraft to reintroduce the original wild salmon population in the Vefsna River (Northern Norway), after a parasite infection (*Gyrodactylus salaris*) had extinguished it. In addition, Statkraft contributed to the building of a new fish ladder to increase the living area for anadromous fish.

In Brazil, releasing fish into the reservoir of Santa Rosa, is part of the fish management and monitoring programme and is carried out quarterly to comply with the operational license.

Eels are a seriously threatened species in Europe and Statkraft has a special management programme to enable eels to pass through our hydropower plants. In Western Sweden, along the Lagan River, Statkraft is operating a special "taxi service" for eels, transporting very young eels, called glass eels, upstream and adult eels downstream.



In Germany, an R&D project has been initiated to ensure eel migration. A warning system signalling the start of eel migration and monitoring studies are also part of the programme.

#### **Other examples of biodiversity initiatives**

To ensure a reliable connection of the Rheidol hydropower plant to the grid in Wales, Statkraft had to replace a transmission line in 2019. To safeguard protected ancient woodland and a site of particular geological scientific interest, a 320 meter long tunnel was drilled through the Rheidol valley to install underground cables.

As part of the environmental requirements for the Cheves hydropower plant in Peru, biological monitoring of flora, fauna and aquatic species in the project area is carried out twice a year during wet and dry seasons. This monitoring documents the impacts of the project, if any, on the environment and assesses the need to initiate any mitigation activities during operations.

In Chile, in the Los Lagos project influence area one of the initiatives launched in 2019 is the 'Intercultural education support programme for environmental and natural sciences', promoting learning and awareness on the protection of the environment, natural sciences and energy issues in local schools.

In the Devoll and Moglice hydropower plant in Albania, there is ongoing monitoring of water quality and aquatic biodiversity with samples sent for external analysis (see subsection on Water Management for more information).

Paper, plastic and other forms of waste threatening to enter the water intake from a hydropower plant's reservoir is a constant challenge and a constraint on plant operations. In Turkey, several tonnes of waste have been collected with the help of local schools

to everyone's benefit. It started out as an effort from personnel at Statkraft's Kargi power plant on the Kizilirmak River in northern Turkey to tackle the large amount of waste accumulating in the plant's reservoir. It has turned into a win-win situation, between the power plant, the neighbouring community and the local environment.

#### **Wind power and biodiversity**

When establishing new wind farms, noise, landscape aesthetics and possible impact on outdoor recreation are receiving a lot of attention. Wind farms and the associated infrastructure can also impact the living conditions of rare plants, animals and may change the conditions for grazing animals. Even if the actual land used for construction, roads, crane pads and wind turbines only amounts to 2-3 percent of the total wind farm area, increased human activity and the disturbance caused by the operation of the wind turbines, may affect the biological conditions in the whole wind farm area. To design solutions that consider all these aspects, Statkraft cooperates closely with external expertise, national and local authorities, land owners and other stakeholders. Some negative impacts can be avoided or minimised by good planning, others can be mitigated or compensated ecologically through offsets.

Statkraft strives to reduce negative environmental impacts during all phases of a project. This includes e.g. mapping of biodiversity values and protected and sensitive areas early in the planning phase, implementing mitigation measures during construction, and selecting environmentally friendly methods during operation. Mitigating actions related to water management and pollution prevention are also always of great importance. In some construction projects, no-work zones close to "active territories" for focus bird species have been established during the breeding season.

## Climate change

| AMBITION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | TARGET                                                                                                           | STATUS |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|--------|
| Contribute to the transition to a more sustainable energy system, where greenhouse gas emissions are reduced to a level consistent with the targets set out in the Paris agreement.                                                                                                                                                                                                                                                                                                                                                | Growth 100% in renewables                                                                                        | ●      |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Emissions from consumption of electricity 100% neutralised with guarantees of origin from renewables             | ●      |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 100% of remaining unavoidable greenhouse gas emissions are compensated with Certified Emission Reductions (CERs) | ●      |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Reduction of non-ETS greenhouse gas emissions according to set ambitions                                         | ●      |
| <b>Comments on performance</b> <ul style="list-style-type: none"> <li>The installed power generation capacity based on renewables was increased by 613 MW, to a total of 16 055 MW, in line with the growth strategy.</li> <li>Reinvestments in existing hydropower and growth within solar, wind and hydro was a key focus area in 2019.</li> </ul>                                                                                                                                                                               |                                                                                                                  |        |
| <b>Key initiatives</b> <ul style="list-style-type: none"> <li>Follow climate politics at national and international level closely.</li> <li>Continuously develop Statkraft's market and strategic analysis in order to make robust commercial decisions and assess how climate change and climate politics impact Statkraft's portfolio and strategy.</li> <li>Promote ambitious emission reduction targets and perspectives on how the energy sector can be decarbonized in an effective way to relevant stakeholders.</li> </ul> |                                                                                                                  |        |

## Our approach

Through our core business activities Statkraft contributes to increasing the generation of power and heat from renewable energy sources. This is essential for achieving the targets in the Paris Agreement. Statkraft is committed to climate neutrality and has signed up to the UN Climate Neutral Now initiative. Statkraft's primary contributions to a more sustainable energy system are our current operations and new investments in renewable energy and associated market activities.

The Group actively promotes more ambitious political targets for emission cuts and policies supporting decarbonisation. Statkraft's own emissions are at a very low level compared with other major European utilities.

## Key risks

Statkraft is well positioned in a market with stronger restrictions on carbon emissions. However, the profitability of the company is highly exposed to climate politics.

Changes in weather patterns will also impact the value of Statkraft's assets directly, as it will impact the annual generation of the power plants and the value of the flexibility the plants can provide. Hydropower plants are particularly exposed to climate change. More extreme weather can also challenge the physical integrity of our infrastructure. As the lifetime of important components like dams, waterways and turbines is long, changing weather patterns must be considered both in greenfield investments and in upgrades and refurbishments. Commercially, changes in precipitation levels will impact the output of the plant,

and more extreme weather patterns can increase the value of flexibility and storage capacity.

## Status 2019

### Statkraft's emissions

Statkraft owns and operates gas-fired power plants in Germany. These plants are a dominant source of Statkraft's own emissions, accounting for 96.7% of CO<sub>2</sub> emissions in 2019. The emissions from these plants are regulated under the European Emissions Trading System (ETS), which is a cap and trade system covering the energy sector and several other major industrial sectors within the EU/EEA. Reforms in the ETS the last years have led to a tighter market for emission allowances, and the cost of emitting CO<sub>2</sub> has increased significantly. This led to lower utilization of European coal-fired power plant, whilst the use of gas in the power sectors increased. In 2019, Statkraft's CO<sub>2</sub> emissions increased significantly, as the generation by our gas-fired plants increased. However, this should be seen in a broader context, as a reflection of a more ambitious European climate policy, where more polluting fossil fuels such as coal are gradually pushed out of the electricity sector and total emissions are reduced.

Statkraft expects European climate policy to be further tightened. This will increase attractiveness of investing in renewable energy. In the short term, this may also lead to further improvements in gas-fired capacity's ability to compete against coal-fired generation and hence to significant emissions from these gas-fired plants. A gradual tightening of European climate policy and continued growth within renewable energy will over the long

horizon also reduce the utilization of gas-fired plants, and Statkraft's emissions are then expected to reduce.

Fossil fuels are to some extent used to cover peak load in Statkraft's district heating plants in Norway, accounting for 1.9% of emissions. The use of fossil fuels is at a low level and has been reduced systematically over time. Statkraft will continue to reduce the use of fossil fuels in district heating plants. The primary fuel for the district heating plants is biomass and waste with a high share of biomass.

Anaerobic degradation of organic material in hydropower reservoir may lead to climate gas emission. Statkraft has been actively involved in developing a method for estimating such emissions through collaboration with the International Hydropower Association (IHA). This method has shown that for some of the reservoirs, primarily located in warmer climatic zones, climate gas emissions can be substantial, while for others they may be negative, if carbon is stored in the sediments or methane emitting natural peat lands are replaced by fresh water reservoirs.

There are also CO<sub>2</sub> emissions related to travel and constructions activities. These are small compared to Statkraft's total emissions. Both travel and construction are sectors with significant potential for emission reduction, and Statkraft will actively seek such possibilities going forward.

#### **Climate neutrality**

In 2019, Statkraft's total emissions were 1 493 100 million tonnes of CO<sub>2</sub>, and most of the emissions come from gas-fired generation in Germany. The emission intensity in our total electricity generation was 26 kg CO<sub>2</sub>/MWh.

Statkraft's primary contribution to reducing global climate gas emissions is to direct our full investment capacity to renewable energy.

Most of Statkraft's emissions are regulated under the European Trading system. Increases in Statkraft's emissions will thus be compensated by reductions elsewhere, and the gradual reduction of available emission allowances will reduce the total European emissions in line with targets set by the EU. Small district heating plants are exposed to a carbon tax that incentivises emission reductions. Statkraft has systematically reduced emissions from the use of fossil fuels in district heating plants.

Statkraft has signed the Climate Neutral Now pledge, an initiative launched by UN Climate Change. Unavoided emissions outside the ETS are compensated with UN verified emissions reduction credits (CERs). Statkraft's emission reduction ambitions will systematically be updated as new possibilities emerge.

Statkraft used Guarantees of Origin to document that our use of electricity is based on renewable energy.

Statkraft actively supports and promotes policies for emission reductions in all markets where we operate. This includes both general energy market regulations that will increase the effectiveness of the energy markets and thus make it easier to integrate large shares of renewable energy, as well as promoting politically increased targets for emission reduction. Statkraft supports a more powerful ETS which is and should be the main tool for regulating power sector emissions in Europe.

#### **Climate change and market operations**

A significant part of Statkraft's hydropower portfolio has large reservoirs which can store water across seasons and years. A key element of the daily energy management process is forecasts for future inflow and any uncertainty related to this. Such estimates are based on historical observations over several decades. Time series will however have to be adjusted for climate change to provide a good basis for estimating future inflow. For Statkraft, understanding how the climate is changing is therefore important in our daily operations.

Statkraft participates in several international and national projects to improve the understanding of climate change effects on the hydrological resources.

#### **Regulatory framework and emission reduction potential**

Climate policies have a large impact on Statkraft. Climate and energy policies are increasingly interlinked. Statkraft follows national, European and global climate policy development closely to assess the impact of such policies. Understanding the development of renewable energy and related technologies is also critical, as this will impact the pace of energy transition and Statkraft's commercial position. Statkraft thus invests significant resources in market analysis, to have a robust basis for investment and operation decisions. Parts of this insight is shared publicly through an annual publication of a Low Emissions Scenario. The report demonstrates how renewable energy growth can play a key role to reduce climate gas emissions in line with the Paris agreement.

## ECONOMIC DISCLOSURES

### Water management

| AMBITION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | TARGET                                              | STATUS |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|--------|
| Statkraft is recognised as a company with a responsible water management practice                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Implementation of identified supporting initiatives | ●      |
| <b>Comments on performance</b> <ul style="list-style-type: none"> <li>A century of energy and water management experience enables Statkraft to optimize water use while continually improving its environmental and economic performance. In the context of climate change, adapting the water storage capacity of hydropower reservoirs contributes to reducing floods and droughts in regulated river basins. Reservoirs can also facilitate other water usage such as increasing the availability of water for irrigation or transportation.</li> <li>Key achievements in 2019 include responsible operations everyday and particularly in extreme situations, resulting in the impacts of major flood events in Norway being more than halved. Knowledge and efficiency in integrated water resource management has been strengthened.</li> </ul>                                                                                          |                                                     |        |
| <b>Key initiatives</b> <ul style="list-style-type: none"> <li>Ensure proactive, adequate handling and systematic follow-up of water levels, flow limits and hydropeaking requirements in concessions.</li> <li>Demonstrate responsible water management based on improved understanding of the effects of climate change on water availability (e.g. water scarcity, drought and flood management) in all areas of operations.</li> <li>Key measures planned for 2020 are to preserve the capacity of Norway's hydropower generating system to respond to changing needs, whilst safeguarding its value creation for society. Improved modelling and R&amp;D play a key role in achieving more accurate forecasts of weather trends and extreme climate events. For example, historic weather years from 1931-2018 will be replaced with synthetically generated weather scenarios derived from European weather forecasting model.</li> </ul> |                                                     |        |

### Our approach

By using water for renewable power generation, Statkraft is playing an important role in managing this common resource. Statkraft is developing and operating hydropower in a variety of climate zones and in different national framework conditions. Water management is governed through laws and concessions taking into account social, economic and environmental needs.

Statkraft makes additional efforts to improve our performance through R&D and voluntary initiatives. Hydropower reservoirs can provide unique services to the power system such as flexibility in supply as well as balancing services to the electric transmission grid. These man-made lakes also offer water management options which reduce vulnerability to extreme weather conditions such as floods and droughts.

Statkraft is working to improve to optimize the use of water resources. A wide spectrum of experts ranging from hydrologist to infrastructure technicians are working to maximize the value of water stored in our reservoirs. Simulation models and infrastructure make it possible to release stored water when it has the highest value for society, typically when demand is high and other technologies are less capable.

### Key risks

Losing flexible renewable hydropower generation is a key risk following planned revision of terms in several watercourses. In 2019, Statkraft conducted a simulation of the cumulative effects of possible operating restrictions in each river basin for the whole

power system in Norway. The results showed that the robustness of the power system will be reduced. Another risk is the loss of options for flood mitigation by imposing reservoir operating restrictions which reduce the ability to absorb heavy rain falls combined with snow melting.

### Status 2019

#### Optimised water use

By modernising our facilities, Statkraft is generating more power from the same amount of water. This can in certain cases increase the plant generation capacity with 1% to 5% without additional environmental impacts.

#### Operation in Norway

Statkraft is managing 261 dams and 161 reservoirs in Norway, equal to half of Norway's and close to a quarter of Europe's reservoir capacity. In 2019, Norway experienced a period of heavy rainfall. The precipitations were particularly intense in the Western part of Norway. Thanks to our reservoirs and expertise related to managing complex water systems, Statkraft was able to contribute to the reduction of this major flood event by more than half. Safeguarding flexibility in managing the amount of water stored in the reservoirs is essential for Statkraft's ability to meet the changing needs of both the power system and public security.

#### Concession process

Norway has long-term hydropower concessions with terms that are reviewed and updated by the authorities every 30 years with

the main goal of improving environmental performance. In coming years about 70% of Norway's hydropower assets and about 80% of Statkraft's Norwegian hydropower assets will be granted new operating conditions under this process. Currently, Statkraft is active in 13 revision of terms processes in Norway. Statkraft supports environmental enhancement measures which are based on a cost-benefit evaluation and which assess appropriately the potential loss of:

- renewable and climate-friendly power generation
- flexibility required to balance power demand
- flood management possibilities.

Statkraft believes that local environmental conditions can be enhanced without compromising the robustness of the Norwegian power supply system or the capacity to mitigate floods. Statkraft is committed to participating in the revision process utilising our expertise and experience. Our objective is to provide this information to the energy and environmental authorities when determining the updated operating terms.

In 2019, a plan to update the concessions of Swedish hydropower has also been elaborated.

### Improved knowledge

Statkraft aims to be a driving force in hydropower R&D. Better planning and optimization tools developed through R&D projects increasingly enable Statkraft to better handle long-term changes in weather patterns and extreme weather conditions.

Statkraft cooperates with national research institutes like HydroCen in Norway to find innovative ways of generating more electricity from the same amount of water and improve the environmental performance within these regulated catchment areas.

In 2019, Statkraft initiated several studies related to water management, in close collaboration with the relevant authorities. For example, a special study was launched in the Skjoma river basin in Northern Norway to document how low temperatures and the phenomenon of freezing affects different minimum flow regimes.

At the Rana hydropower station in Northern Norway, Statkraft commissioned another study to examine in more detail the effect of natural inflow, tidal variations and hydropower plant operation pattern on the downstream flow regime and its related biological

effects. The outcome of this study will allow the optimization of the hydropower plant's operating rules in order to improve living conditions for anadromous fish in the river stretch downstream of the plant.

In Sweden, Statkraft initiated an R&D project which assessed different environmental flow scenarios in combination with different climate change scenarios, for the rivers Ljungan, Lagan and Ume. At the same time, hydropower production simulations of the different scenarios will provide a better understanding of how environmental results can be improved as well as how hydropower generation can be optimized. In 2019, field studies were conducted to quantify the environmental benefits of different ecological flow regimes.

### Examples of water management initiatives

The Banja Hydropower Plant is located near Gramsh in Albania. Approximately 14000 people live in the city close to where the Devoll River enters the reservoir. Prior to the construction of the Banja dam, Gramsh had no functional waste and sewage treatment solution. If not mitigated, sewage and waste water would have accumulated in the reservoir instead of being transported by the river to the sea. This would have resulted in a major environmental impact. As part of an extensive environmental and social mitigation programme, a waste water and sewage treatment plant was financed by Statkraft as a public-private partnership, and Statkraft handed over these assets to Gramsh Municipality for maintenance and operation. An environmental monitoring programme is currently on-going in cooperation with the Universities of Tirana and Thessaloniki.

The operation of the 102 MW Kargi hydropower plant in north-central Turkey has resulted in a reduced water flow of Kizilirmak River between the dam and the powerhouse. The water in this river is further used for irrigation facilities that produce rice. For this reason, the flow regime has been increased during the agriculture growth season to ensure enough irrigation water for the paddy fields. In 2017, a study was conducted of how water management of the Kizilirmak River could be improved for the benefit of all water users. The study proposed a solution to overcome poor condition of the existing irrigation infrastructure. The results were presented to the relevant authorities and in October 2019, the government approved new irrigation water release requirements for Kargi that will save up to 6.6 GWh and 0.5 million USD on an annual basis starting in 2020.



## Business ethics

| AMBITION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | TARGET                                                | STATUS |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|--------|
| Prevent corruption and unethical practices in all activities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Zero serious compliance incidents                     | ●      |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | On schedule implementation of the compliance measures | ●      |
| <b>Comments on performance</b> <ul style="list-style-type: none"> <li>Roll out of the compliance programme is on-track, including implementation of planned measures related to training, culture building and risk mitigation in critical business processes.</li> <li>Key achievements in 2019 include the roll out of a new Business Ethics Toolkit for management engagement and culture building, new training on competition law, and the completion of a personal data protection project.</li> </ul>                                                                                                                                 |                                                       |        |
| <b>Key initiatives</b> <ul style="list-style-type: none"> <li>Regular communication and culture building activities, and training rolled out to all employees on business ethics.</li> <li>Regular review of internal controls in key business processes to ensure adequate handling of business ethics risks.</li> <li>Compliance programme rolled out to all entities in the group.</li> <li>Key measures planned for 2020 include further improvements to the risk assessment process, the procedures for integrity due diligence reviews of business partners, and a new training and communication plan for business ethics.</li> </ul> |                                                       |        |

## Our approach

Statkraft is committed to high standards of business conduct. Our Code of Conduct sets out the key expectations to all employees, and our strict requirements are in line with international good practice. Business ethics is a line responsibility, supported by a central compliance function. We have a comprehensive compliance programme in place covering the areas of corruption, fraud, money-laundering, sanctions and export control, as well as personal data protection and competition law. The compliance programme was audited in 2019, and was assessed as adequate and adjusted to the risks of the Group, and up to date with the relevant developments in external legislation and standards.

The Board of Directors is involved in compliance work through regular discussions on the development of the programme. This includes review of audits and follow-up plans presented by the administration to address identified improvement areas.

## Key risks

Statkraft conducts regular risk assessments on anti-corruption for the whole Group and annually for all business areas. The risk management process is more extensive for high risk locations and projects, and always involves a combination of local expertise and central compliance resources. The methodology for risk assessment is regularly reviewed, and further changes to the methodology will be introduced in 2020.

The main corruption risks relate to transaction processes, procurement and payment processes, the use of agents and intermediaries, government permitting processes, and local stakeholder management. The risks typically vary depending on the geographical location, technology and type of business activity in question. These nuances are reflected in the risk maps of the different business units. The corporate compliance programme is regularly updated to reflect risks identified and lessons from concrete cases and investigations.

## Status 2019

### Training and communication

Statkraft ensures that all employees are familiar with the principles set out in the Code of Conduct and internal business ethics rules. Class-room training sessions were conducted in all major locations during 2019, and e-learning was completed by all new employees. In addition, specialised training sessions were organised for the Board of Directors, the Corporate Management, high level managers, and staff members in different functions. Business ethics topics have been included in leadership and Group events through the year.

Statkraft has developed Business Ethics Quick Guides focused on a set of eight core Business Ethics Rules to ensure that the most fundamental internal rules are well known. In 2019, printed versions of the Quick Guides were provided to all employees.

### Due diligence of business partners

Statkraft has clear, detailed procedures for the handling of risks related to third parties. This includes a policy for background checks, contract clauses and monitoring conducted for high risk contracts. All high-risk business partners (including all agents) are checked by the Compliance Unit. The integrity reviews conducted include assessments of the ownership structure (incl. beneficial owners), of connections to politically exposed persons and reputational risks associated with the counterparty.

During the year compliance concerns were identified in some acquisition processes, and where such concerns were not resolved Statkraft decided not to move forward with the acquisitions.

In 2019, an independent review was undertaken of the approach to compliance due diligence in merger and acquisitions. The review confirmed that Statkraft's approach is in line with market practice and relevant standards.

### Internal controls

Several initiatives were taken in 2019 to further strengthen internal procedures and controls related to compliance. These include further developments of the Fraud Prevention System that includes a set of controls in financial processes aimed at preventing and detecting fraud. Several new corporate-wide controls were implemented in 2019.

There were also significant investments in new personal data protection controls, as part of the implementation of the European General Data Protection Regulation (GDPR).

### Business Ethics Toolkit

In 2019, a new Business Ethics Toolkit was launched specifically aimed at strengthening management engagement and culture building. This includes tools such as dilemma discussions, success stories and videos. The toolkit has been made available to all managers and targets are set for the frequency of dilemma discussions and other similar initiatives.

### Competition law training

In 2019 Statkraft developed new guidance and training on competition law and undertook specific assessments of competition law frameworks in jurisdictions outside the EU. A new e-learning training programme, to enhance employees' knowledge on competition law, was developed.

### Tax

In light of an increased focus globally on tax governance and tax transparency, Statkraft decided in 2017 to voluntarily disclose a global tax strategy detailing the internal tax policies, practices and procedures embedded in Statkraft's management system.

Statkraft pursues a tax strategy that is principled, transparent and sustainable and aligned with Statkraft's Code of Conduct. Statkraft is committed to ensuring full compliance with all statutory obligations and full disclosure to tax authorities. Statkraft transacts on an arm's length basis and does not engage in artificial tax arrangements and actively considers all implications of tax planning. Moreover, all tax planning is subject to robust review and approval processes and shall:

- support genuine commercial activity
- rely on full disclosure of the facts and circumstances to the relevant tax authority
- not use tax regimes considered as "harmful" by the OECD or EU

Statkraft has an established procedure for tax risk management that facilitates appropriate identification, measuring, management and reporting of tax risks.