

2020

Clemens Kraftverk Q1 2020

Q1 2020 INTERIM REPORT



CLEMENS KRAFT

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CLEMENS KRAFT GROUP IN BRIEF

The Clemens Kraft Group is a fully integrated specialist in small-scale hydropower production and is one of Norway's leading companies within this business segment. The ultimate parent of the group is Clemens Kraft Holding AS (Clemens Kraft Holding), which holds 100 % of the shares in Clemens Kraftverk AS (Clemens Kraftverk or the Company). Clemens Kraftverk is the asset owning entity controlling all operational activities through single purpose vehicles (SPVs), which together forms the Clemens Kraftverk Group. Management and operational staff are employed in Clemens Kraft AS and Clemens Kraft Drift AS, two other subsidiaries of Clemens Kraft Holding.

The Clemens Kraftverk Group is a one-stop shop with extensive knowledge within hydropower, construction, management, finance and HSE, currently operating 37 plants in addition to 13 plants under construction. These green energy projects are financially sustainable, aim to adapt to the environment and to adjust the production facilities in accordance with local interests.

HISTORY

The Clemens Kraft Group is founded on the deep roots of Norwegian hydropower tradition combined with long-term shareholders and strong ownership. Opplysningsvesenets fond (Ovf) holds 50.1% of the shares in Clemens Kraft Holding. Ovf was founded in 1821 and is subject to the Ministry of Children and Family Affairs in Norway. Ovf is one of Norway's largest landowners in terms of land area.

CPV/CAP Pensionskasse Coop (Pension fund of Coop Group Switzerland) which manages approximately 9.5 billion EURO, owns the remaining 49.9% of Clemens Kraft Holding.

In addition to development and building of the portfolio with origin on Ovf land, Clemens Kraftverk is the result of several acquisitions of small hydropower companies. The Company develops, constructs, and operates hydropower plants all over Norway in cooperation with local landowners. The Company is targeting to reach a production of 700 GWh by 2021.

SUSTAINABILITY

The Clemens Kraft Group focuses on small-scale developments and production of renewable energy to create long-term value for the community, its partners and owners. Hydropower is a renewable and clean source of energy with no direct gas emissions or pollution. The projects are sustainable on all levels: Financially, socially, and environmentally and aim to exploit the maximum of hydro resources to limit the climate changes the world faces today.

RESPONSIBILITY STATEMENT

We confirm that the financial statements for the first quarter of 2020, to the best of our knowledge, have been prepared in accordance with the applicable accounting standards (NGAAP) and that the accounts give a true and fair view of the assets, liabilities, financial position and results of operations, and that the information in the report includes a fair review of the development, performance and position of the Clemens Kraftverk Group.

Oslo, 28 May 2020

Board of Directors

(sign)
Ole-Wilhelm Meyer
Chairman

(sign)
Harald Kurt Siewert
Deputy chairman

(sign)
Knut Conrad Gjermundsen
Director

(sign)
Arild Orgland
Director

(sign)
Hans Erik Horn
Director

(sign)
Ulf Myrbø
Director

(sign)
Børge Edvardsen Klingan
Chief Executive Officer

FIRST QUARTER 2020

OPERATIONAL HIGHLIGHTS

The first quarter of 2020 is, in an overall perspective, affected by two major macroeconomic conditions. The power price was low. The average price achieved for Q1 2020 was half of the price achieved for Q1 2019.

The next condition is low interest rates. The group has entered into interest rates swaps as a part of our hedging strategy. The low interest leads to significant losses and needs for provisions under the swaps.

Total revenues for Q1 2020 was NOK 16.0 million (Q1 2019: 19.2 million). The operating loss for the quarter was NOK 1.2 million (NOK 5.7 million). EBITDA for the quarter was NOK 8.9 million (NOK 2.7 million).

Net financial items and tax made the net loss of NOK 27.1 million (NOK 22.1 million¹).

Power production in Q1 (operated by consolidated companies only) was 61 702 MWh (39 861 GWh) and the average power price for the quarter was 18 øre/kWh (39 øre/kWh). However, the production volume in Q1 2020 was above hydrological normalized average figures but does not compensate the fall in power prices. Despite the trends observed in power prices, there is a strong interest for Nordic hydropower assets.

Clemens Kraftverk operated 37 plants in Q1 2020, inclusive of six plants owned by associated companies.

The Company currently has 13 plants under construction, representing an annual production volume of 232,4 GWh.

RISKS AND UNCERTAINTY FACTORS

Clemens Kraftverk is exposed to a number of risk factors, including but not limited to the items listed below.

Hydrological risk

The Clemens Kraft Group is basically producing power made by river run plants with little or no capacity for water storage. The annual production capacity is estimated on the basis of inter alia seasonal pattern and multi-year annual average rainfall modelling. The production estimates are exposed to deviations observed for the actual periods of production.

Financial risk

The NOK 2.4 billion in interest bearing non-current liabilities (of which (NOK 0.8 billion of the liability is debt to the ultimate parent) is exposed to risk of changes in interest rates representing a material risk factor. Clemens Kraftverk performs hedging activities through interest swaps agreements to reduce the financial risk. The majority of the interests are hedged by Clemens Kraftverk. Additional swap agreements are made by Clemens Kraft Holding. For further information please refer to note 2 to the financial statements below.

Market risk

Electricity is traded to market prices as quoted on efficient markets such as Nord Pool. By nature of its business, Clemens Kraftverk basically operates river run plants, production is significantly exposed to spot market prices for power. As the Company receives el-certificates, it is also exposed to fluctuations in el-certificate prices.

Market prices are quoted in EURO on Nord Pool and el-certificates primarily in SEK. Accordingly, the Company is exposed to currency fluctuations between EURO/NOK and SEK/NOK.

¹ Tax not calculated for comparative figures

Operational risk

The terms and conditions for the fall lease agreements with landowners contain individual criteria for each plant. Present terms and conditions agreed with the landowners may decide whether the net present value of the project is positive or not.

A power plant is a technical installation with inherent risk exposure to operational challenges which might arise, for example a turbine breakdown or the need for replacement of equipment. This in turn, might lead to absence of or reduced production.

Political risk

The Company is exposed to austerity measures and amendments in legislation, for example with regards to environment or tax.

CONDENSED INTERIM FINANCIAL STATEMENTS

PROFIT AND LOSS (UNAUDITED)

Amounts in NOK 1 000

| | NOTE | Q1 2020 | Q1 2019 | Q1-Q1 2020 | Q1-Q1 2019 | Full year 2019 |
|--|------|----------------|----------------|----------------|----------------|-------------------|
| OPERATING INCOME AND EXPENSES | | | | | | |
| Revenues | 1 | 15 967 | 19 162 | 15 967 | 19 162 | 116 819 |
| Other operating income | | 16 | 60 | 16 | 60 | 150 |
| Total operating income | | 15 983 | 19 222 | 15 983 | 19 222 | 116 969 |
| Cost of goods sold | 3 | -3 220 | 6 814 | -3 220 | 6 814 | 11 302 |
| Depreciation | | 10 068 | 8 470 | 10 068 | 8 470 | 37 339 |
| Other operating expenses | | 10 323 | 9 673 | 10 323 | 9 673 | 39 322 |
| Capitalized project development | | 0 | 0 | 0 | 0 | 0 |
| Total operating expenses | | 17 171 | 24 957 | 17 171 | 24 957 | 87 963 |
| Operating result | | -1 188 | -5 735 | -1 188 | -5 735 | 29 006 |
| FINANCIAL INCOME AND FINANCIAL EXPENSES | | | | | | |
| Income on subsidiaries, associated companies and joint ventures | | -324 | 0 | -324 | 0 | 3 156 |
| Other financial income | | 0 | 841 | 0 | 841 | 1 792 |
| Total financial income | | -324 | 841 | -324 | 841 | 4 947 |
| Impairment on financial instruments measured at fair value | | 12 511 | 0 | 12 511 | 0 | 3 208 |
| Interest expenses | | 13 816 | 14 669 | 13 816 | 14 669 | 63 816 |
| Other financial expenses | | 6 221 | 2 501 | 6 221 | 2 501 | 5 725 |
| Total financial expenses | | 32 548 | 17 170 | 32 548 | 17 170 | 72 749 |
| Net financial income and financial expenses | | -32 872 | -16 329 | -32 872 | -16 329 | -67 802 |
| Profit (-loss) before tax | | -34 060 | -22 064 | -34 060 | -22 064 | -38 796 |
| Tax expense (-income) | | -6 988 | | -6 988 | | -7 816 |
| Profit (-loss) after tax | | -27 072 | -22 064 | -27 072 | | -30 980 |
| Profit/loss attributable to non-controlling interests | | -611 | -472 | -611 | -472 | 588 |
| Profit/loss attributable to owners of the parent | | -26 461 | -21 592 | -26 461 | -21 592 | -31 568 |

FINANCIAL POSITION (UNAUDITED)

Amounts in NOK 1 000

| ASSETS | NOTE | Q1 2020 | 2019 |
|---|------|------------------|------------------|
| NON-CURRENT ASSETS | | | |
| Concessions, fall and similar rights | | 327 514 | 329 282 |
| Total intangible assets | | 327 514 | 329 282 |
| Property, plant and equipment | | 2 065 345 | 1 965 175 |
| Machinery, equipment, fixtures and fittings | | 2 782 | 2 889 |
| Total fixed assets | | 2 068 127 | 1 968 064 |
| Shares in associated companies and joint ventures | | 30 534 | 30 575 |
| Other non-current receivables | 3 | 88 623 | 66 836 |
| Total financial non-current assets | | 119 157 | 97 411 |
| Total non-current assets | | 2 514 797 | 2 394 757 |
| CURRENT ASSETS | | | |
| Trade receivables | | 779 | 6 964 |
| Other current receivables | | 36 076 | 43 233 |
| Total current receivables | | 36 855 | 50 197 |
| Cash and cash equivalents | | 143 258 | 84 467 |
| Total current assets | | 180 113 | 134 664 |
| Total assets | | 2 694 911 | 2 529 421 |

Amounts in NOK 1 000

| EQUITY AND LIABILITIES | NOTE | Q1 2020 | 2019 |
|---|------|------------------|------------------|
| EQUITY | | | |
| Share capital | | 70 601 | 70 601 |
| Share premium | | 25 876 | 25 876 |
| Other paid-in capital | | 3 023 | 3 023 |
| Total paid in capital | | 99 500 | 99 500 |
| Retained earnings | | -130 973 | -98 455 |
| Total retained earnings | | -130 973 | -98 455 |
| Non-controlling interests | | 19 433 | 20 024 |
| Total equity | | -12 040 | 21 068 |
| LIABILITIES | | | |
| Deferred tax liability | | 31 214 | 39 910 |
| Other provisions | | 15 719 | 3 208 |
| Total provisions | | 46 933 | 43 118 |
| Non-current interest bearing debt (credit institutions) | 2 | 1 149 690 | 1 036 420 |
| Bonds | 2 | 475 000 | 475 000 |
| Non-current liabilities to group companies | 2 | 978 617 | 872 947 |
| Total non-current liabilities | | 2 603 307 | 2 384 367 |
| Trade payables | | 52 921 | 53 193 |
| Taxes payable | | 290 | 664 |
| Other current liabilities | | 3 500 | 27 010 |
| Total current liabilities | | 56 712 | 80 867 |
| Total liabilities | | 2 706 951 | 2 508 352 |
| Total equity and liabilities | | 2 694 911 | 2 529 421 |

Oslo, 28 May 2020

Board of Directors

(sign)

 Ole-Wilhelm Meyer
 Chairman

(sign)

 Harald Kurt Siewert
 Deputy chairman

(sign)

 Knut Conrad Gjermundsen
 Director

(sign)

 Arild Orgland
 Director

(sign)

 Hans Erik Horn
 Director

(sign)

 Ulf Myrbø
 Director

(sign)

 Børge Edvardsen Klingan
 Chief Executive Officer

NOTES

ACCOUNTING PRINCIPLES

The statements of profit and loss and financial position within the quarterly interim report has been prepared in accordance with accounting principles stated in the Norwegian Accounting Act and with accounting principles generally accepted in Norway.

The interim report does not include all information required in the annual financial statements. Therefore, the report should be read in conjunction with the Annual report for 2019.

Revenues

Income from sale of goods and services are recognized at fair value of the consideration, net after deduction of VAT, returns, discounts and reductions. Sales are recognized upon delivery.

Simultaneously with the production of electricity, the producer is granted the right to sell electricity certificates. This entitlement is recognized as income when the certificates are realized. (in line with the corresponding sale of electricity). The balance of granted rights to sell electricity certificates is measured at zero (please refer to separate section regarding electricity certificates and changes in accounting principles below).

Classification of balance sheet items

Assets intended for long-term ownership or use have been classified as fixed assets. Assets relating to the trading cycle have been classified as current assets. Other receivables are classified as current assets if they are to be repaid within one year after the transaction date. Similar criteria apply to liabilities. First year's instalment on long term liabilities and long-term receivables are, however, not classified as short-term liabilities and current assets.

Impairment of assets

Impairment tests are carried out if there is indication that the carrying amount of an asset exceeds the estimated recoverable amount. The test is performed on the lowest level of fixed assets at which independent cashflows can be identified. If the carrying amount is higher than both the fair value less cost to sell and recoverable amount (net present value of future use/ownership), the asset is written down to the highest of fair value less cost to sell and the recoverable amount.

Previous impairment charges, except write down of goodwill, are reversed in later periods if the conditions causing the write-down are no longer present.

Taxes

Due to tax loss carry forward, all income taxes are classified as changes in deferred taxes. Taxes are not calculated for comparative figures.

Changes in accounting principles – Electricity certificates

Both considered as inventories or intangibles, Norwegian accounting standards allows recognition of electricity certificates. In both scenarios, it should be recognized at production cost, however the uncertainty in measuring production cost reliable would be significant. Therefore, certificate balances not recognized as of period end.

This is a change in accounting principles from Q4 2019, where certificates were recognized at NOK 7.8 million (pre-tax). The effect is booked in the equity opening balance, however comparative figures are not restated.

NOTE 1 – REVENUES

Clemens Kraftverk revenues consist mainly of sale of electrical power and el-certificates. The Clemens Kraftverk Group receives a right issue and sell a given number of el certificates per sold kWh of electricity.

| Revenues | Q1 2020 | Q1 2019 | Q1 -Q1 2020 | Q1-Q1 2019 | Full year 2019 |
|------------------|---------------|---------------|---------------|---------------|----------------|
| Power revenues | 11 765 | 15 570 | 11 765 | 15 570 | 100 442 |
| El-cert revenues | 4 144 | 3 592 | 4 144 | 3 592 | 16 377 |
| Other revenues | 58 | 0 | 58 | 0 | 0 |
| TOTAL | 15 967 | 19 162 | 15 967 | 19 162 | 116 819 |

As of Q1 2020 the accounting principle for recognizing electricity certificates is changed from recognition at the time the right to sell was earned, to recognition at the time the certificate is realized. Revenues of NOK 4.1 million is realized certificates in the first quarter 2020. However, an opening balance effect due to change in accounting principles of NOK 6.1 million (net of tax) is booked within equity.

The market value of electricity certificates balances as of 31 March 2020 not recognized is NOK 1.8 million (compared with NOK 7.8 million recognized as of year-end 2019).

NOTE 2 – NON-CURRENT LIABILITIES

Non-current liabilities consist of interest-bearing debt provided by financial institutions, issued obligations and intra group loans based on paid in capital in the parent company Clemens Kraft Holding. Loans from financial institutions are mostly provided as construction loans, converted into term loans upon completion of the asset.

The two bond loans issued by the Company are due in 2023 (NOK 150 million) and 2025 (NOK 325 million). Term loans from financial institutions are in all material respect amortized in 30 years.

Interest rate swaps are made on a nominal amount of NOK 911 million on the non-current liabilities. However, only swaps related to NOK 156 million of the liabilities are made by Clemens Kraftverk. The other agreements are made by Clemens Kraft Holding (parent).

During Q1 2020 a change in creditor is made on the loan to Hynna Kraft AS originally provided by Ovf. Clemens Kraft Holding (parent) has repaid the loan balance of NOK 54.6 million including interest to Ovf.

| Company | Sub-group | Withdraw (mNOK) | Loan |
|-------------------------------|----------------------------|--------------------|--------------|
| Clemens Kraftverk AS | Clemens Kraftverk | 366,7 | Term |
| Clemens Kraftverk AS | Clemens Kraftverk | 325,0 | Bond |
| Clemens Kraftverk AS | Clemens Kraftverk | 150,0 | Bond |
| CK Kraftholding Vest AS | CK Kraftholding Vest | 124,1 | Term |
| Tokagjelet AS | CK Kraftholding Sør Vest | 111,4 | Construction |
| CK Kraftholding Midt-Norge AS | CK Kraftholding Midt-Norge | 68,7 | Term |
| Sleveåne Kraft AS | CK Kraftholding Sør Vest | 61,1 | Term |
| Søråni Kraft AS | CK Kraftholding Sør Vest | 60,8 | Term |
| Hynna Kraft AS | CK Kraftholding Midt-Norge | 54,6 | Term |
| Meraker Kraft AS (Reinåa) | CK Kraftholding Midt-Norge | 44,2 | Construction |
| CK Kraftholding Vest AS | CK Kraftholding Vest | 36,5 | Term |
| Kjeldalselva Kraft AS | CK Kraftholding Midt-Norge | 34,9 | Construction |
| Meraker Kraft AS (Gudåa) | CK Kraftholding Midt-Norge | 34,9 | Construction |
| Brekkefossen Kraftverk AS | CK Kraftholding Midt-Norge | 32,7 | Term |
| CK Kraftholding Vest AS | CK Kraftholding Vest | 24,8 | Construction |
| Bele Kraft AS | Clemens Kraftverk | 24,7 | Term |
| Sædalen Kraft AS | CK Kraftholding Vest | 21,6 | Construction |
| Trollekraft AS | CK Kraftholding Vest | 20,7 | Construction |
| Trollvikelva Kraft AS | CK Kraftholding Midt-Norge | 18,3 | Construction |
| Skjerva Kraft AS | CK Kraftholding Midt-Norge | 16,3 | Construction |
| Kvernfossen Kraft AS | CK Kraftholding Vest | 14,5 | Construction |
| Heina Kraft AS | CK Kraftholding Midt-Norge | 12,2 | Term |
| Hellifossen Kraft AS | CK Kraftholding Midt-Norge | 10,4 | Construction |
| Gyl Kraft AS | CK Kraftholding Midt-Norge | 6,5 | Term |
| CK Kraftholding Vest AS | CK Kraftholding Vest | 3,7 | Term |
| Graffer Kraft AS | CK Kraftholding Midt-Norge | 0,0 | Construction |
| Kupekraft AS | CK Kraftholding Vest | 0,0 | Construction |
| Salhuselva Kraft AS | CK Kraftholding Midt-Norge | 0,0 | Construction |
| Øvrebø Kraft AS | CK Kraftholding Vest | 0,0 | Construction |
| Clemens Kraftverk AS | Ultimate parent | 924,0 | |
| TOTAL LOAN PORTFOLIO | | 2 603 | |

NOTE 3 – COST OF GOODS SOLD AND NON-CURRENT RECEIVABLES

One of the fall lease agreements says that the basis for fall lease can be negative. Negative fall lease will not be refunded from the landowners but carried forward and settled with future fall lease. In Q1 2020 the negative fall lease recognized is NOK 7.1 million and is included in cost of goods sold. The receivable is included in the other non-current receivable. Total negative fall lease recognized in the balance sheet is NOK 22.8 million.