

Performance and Internal Governance Report

Devoll Hydropower Sh.A. (DHP)



2022



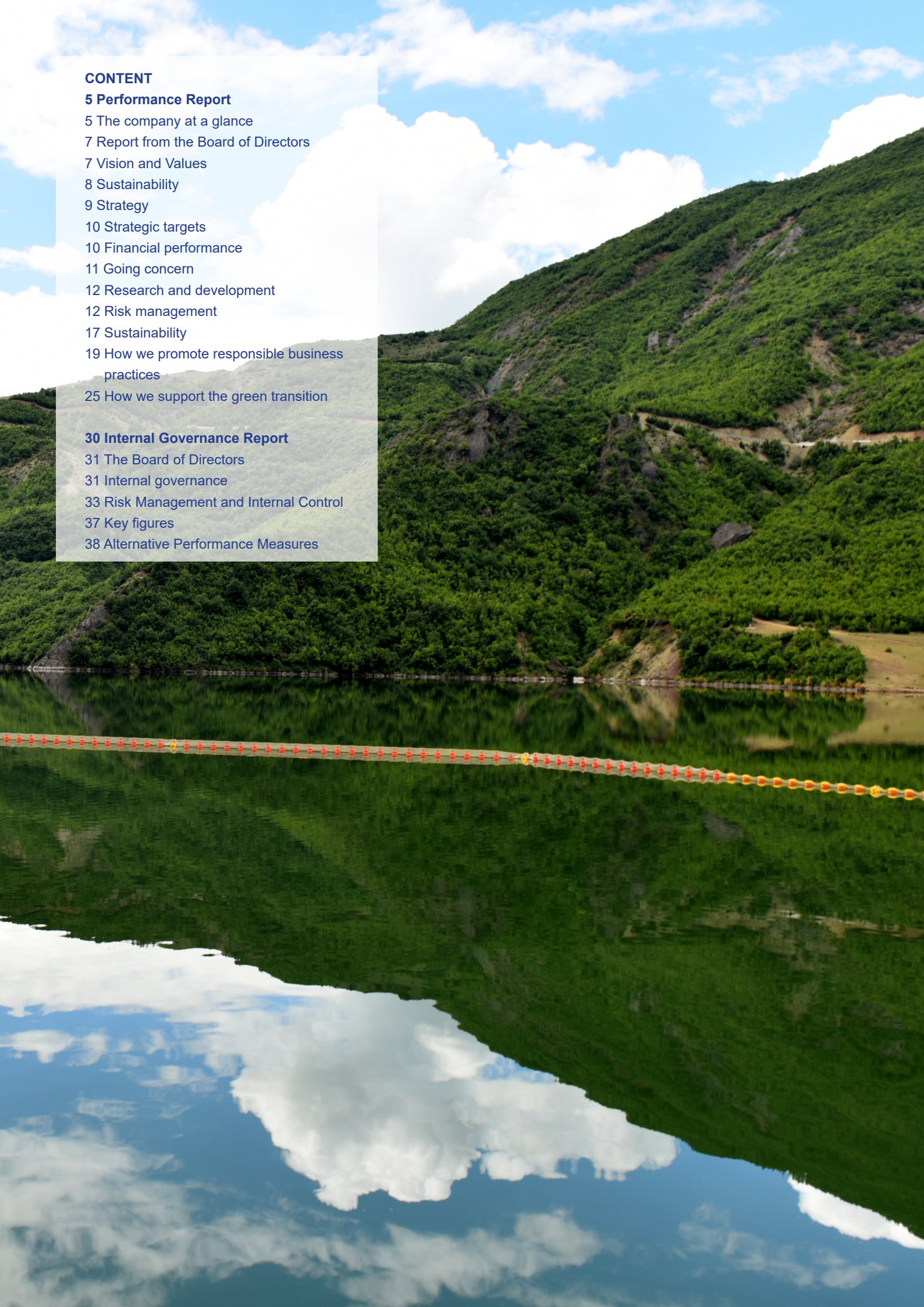
CONTENT

5 Performance Report

- 5 The company at a glance
- 7 Report from the Board of Directors
- 7 Vision and Values
- 8 Sustainability
- 9 Strategy
- 10 Strategic targets
- 10 Financial performance
- 11 Going concern
- 12 Research and development
- 12 Risk management
- 17 Sustainability
- 19 How we promote responsible business practices
- 25 How we support the green transition

30 Internal Governance Report

- 31 The Board of Directors
- 31 Internal governance
- 33 Risk Management and Internal Control
- 37 Key figures
- 38 Alternative Performance Measures



STATKRAFT'S VISION:

Renew the way the world is powered

We have always believed in a better kind of power. Power that renews itself, and in turn, renews the world. Power that creates a positive and sustainable future for people, communities, industries, and our environment. It's the clean, renewable energy we've been pioneering for over a century, and the energy our world needs more than ever before. Through our expertise, we've seen the value it delivers and the good it can do. Now it's our job to make sure it powers the world.

That is why we have launched a new vision – renew the way the world is powered. It is a vision that unites more than 5000 employees around the globe and the reason why we come to work every day.

As we look towards 2030, we raise our ambitions higher than ever, as a leading international renewable energy company. Read on for an overview of our main goals for the future and how we will renew the way the world is powered.





Performance Report

The company at a glance

Devoll Hydropower Sh.A. (DHP) is an Albanian registered company, owned by Statkraft Markets B.V., a company registered in the Netherlands, part of the Norwegian Statkraft Group. In line with a Concession Agreement, DHP is responsible for the implementation and operation of the Devoll Hydropower Project along the Devoll River, in southeast Albania. The Concession Agreement is based on a BOOT model and was signed with the Government of Albania on 19.12.2008, approved by the Albanian Parliament through the Law no. 10083, dated 23.02.2009, amended.

DHP operates two large scale hydropower plants (Banja and Moglice) with a combined capacity of approximately 269 MW and an average production of approx. 700 GWh/yearly of renewable, environmentally friendly energy. DHP is also an energy trader in the local and regional energy market.

Banja HPP started commercial operation in 2016, while Moglice HPP started commercial operations in 2020. DHP is assessing how to further optimise the current assets and the hydrological potential of the Devoll river within the rights of the Concession Agreement after compliance with the minimum technical requirement of the concession.

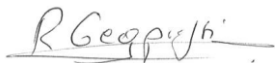
DHP has its offices in Tirana, with site offices at both hydropower plants, Banjë and Moglicë. Devoll Hydropower Project is the largest private investment in renewable energy in Albania in the last 30 years.

Annual Report 2022

Starting from the year 2020, DHP publishes its annual financial statement and PERFORMANCE AND INTERNAL GOVERNANCE REPORT on the DHP website. Each year, DHP submits these documents to the Albanian National Business Center.

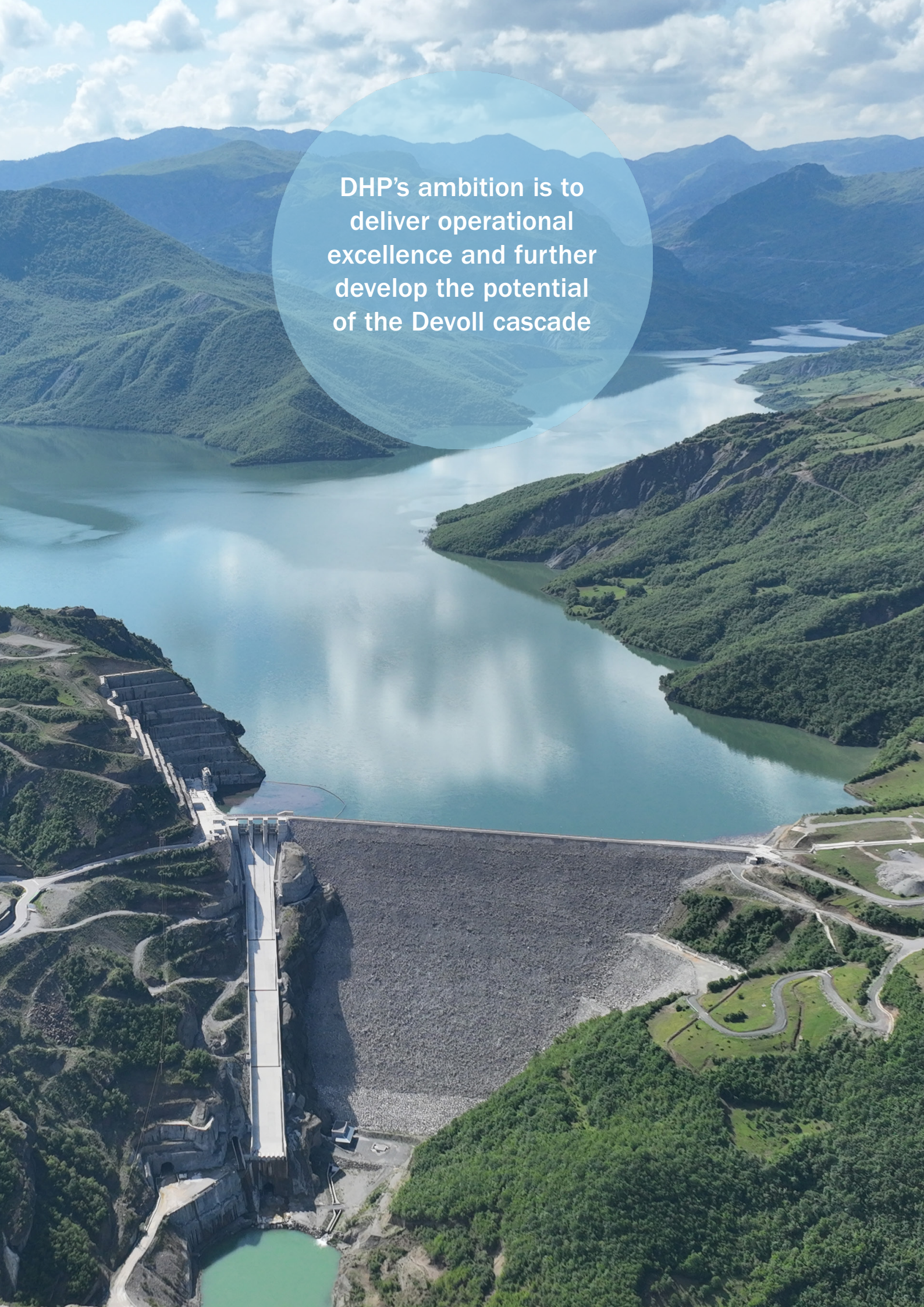
DHP emphasizes transparent communication with all stakeholders. The information the company provides to its owner and other stakeholders shall provide enough details to permit an evaluation of the company's underlying values and risk exposure.

The Performance and Internal Governance Report has been prepared also in accordance with articles no. 17 and no. 19 of Law on Accounting and financial statements no. 25/2018, dated 10.05.2018. The Report has been approved by the company's Board of Directors.



Rigela Gegprifti

Chief Executive Officer

An aerial photograph of a large dam and reservoir. The dam is a long, grey concrete structure with a spillway on the left. The reservoir is a large body of blue water that fills a valley. The surrounding landscape is mountainous and green. A semi-transparent blue circle is overlaid on the image, containing white text.

DHP's ambition is to
deliver operational
excellence and further
develop the potential
of the Devoll cascade

Report from the Board of Directors

2022 was an extraordinary year. The regional and European energy markets were very volatile and in periods the power prices were extreme. This has been challenging for many households and businesses. As one of the largest private producers of renewable energy in Albania, DHP puts emphasis on handling the situation through responsible energy management.

DHP has a strong commitment to sustainability and continuously works to improve the sustainability performance to adhere to new laws and increasing stakeholder expectations. Caring for people is at the core of the company culture. Everyone should return home safely from work. In 2022 no serious injuries were recorded in our activities in Albania. Strengthening the safety culture and the safety performance – within DHP and among subcontractors – continues to be top priority of the company.

Hydrology in the Devoll river catchment has been very challenging throughout 2022, with a notable reduction of water inflow in our reservoirs compared to the historical recorded inflows. This has resulted in a considerable reduction of the generated volumes of electricity. Notwithstanding, active energy management and the increase of electricity prices has resulted in strong financial performance of our assets.

In 2022, Statkraft updated the growth strategy within renewable energy with more ambitious targets towards 2030. This resulted in some changes also for DHP. To support the updated strategy, Statkraft implemented structural adjustments with changes to the business areas and reportable segments. These adjustments and the strong financial results on group level give Statkraft a solid foundation to deliver on the growth strategy.

VISION

Renew the way the world is powered

We have always believed in a better kind of power. Power that renews itself, and in turn, renews the world. Power that creates a positive and sustainable future for people, communities, industries, and our environment.

It is the clean, renewable energy we have been pioneering for over a century, and the energy the world needs more than ever before.

Through our expertise we see the value this energy delivers and the good it can do. Now it is our job to make sure it powers the world.

VALUES

DHP has integrated Statkraft's values. Our values govern Statkraft's actions and provide guidance for the employees. These values apply to all employees and others who represent Statkraft. These are the values:

We act responsibly by caring and taking ownership. We are considerate, always aware of how our work will impact our colleagues, customers, society and the environment.

We grow together by being team players and learning from success and failure. We are one Statkraft. We bring our expertise, recognise the value of diversity and learn from every situation.

We make an impact by finding better ways and creating progress and value. We take on the challenge, focus on what matters and deliver solutions that drive positive change.

SUSTAINABILITY

Ambitions and targets

Statkraft aims to be one of the world's leading companies within renewables by 2030. Our ambition is to contribute to a more sustainable future by bringing renewable energy to industries, businesses, communities, and homes around the world. We will do this by investing only in renewables. At the same time, our business conduct must be sustainable and responsible – and we will actively contribute to the achievement of the UN Sustainable Development Goals (SDGs).

We mainly contribute to a sustainable future through:

- our core business – by delivering renewable energy
- our business practices – by acting in a sustainable and responsible manner

To maximise our contribution, we seek to understand our impact, implement measures where needed and make follow-up an integrated part of our daily business.

Our impact can be positive or negative. Being honest about both dimensions, and continuously seeking to improve how we do things is central in Statkraft's approach to sustainability.

Statkraft's overall commitment for health and safety is to have a workplace without injury or harm. This commitment is closely followed up through a group-wide improvement programme; 'Powered by Care'.

Statkraft is committed to high standards of business conduct. There is a 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 company's level of compliance prevention is high, with additional resources put in place to respond to growth activities.

Sustainability management

In its work on sustainability, DHP complies with the Albanian laws and regulations and takes guidance from relevant international frameworks and guidelines, including the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. Statkraft is a participant in the UN Global Compact.

Statkraft's Code of Conduct sets out DHP's fundamental principles for responsible behaviour. Suppliers are expected to meet the requirements in Statkraft's Supplier Code of Conduct.

Statkraft aims to create value for society, while minimising the environmental impact. At the same time, Statkraft recognises that this ambition may also give rise to dilemmas. The company seeks to understand and manage such dilemmas through a risk-based approach, carefully balancing various needs, and embedding such considerations into the company's business processes. Statkraft's sustainability ambitions and principles are reflected in 'The Statkraft Way'; the management system which sets the direction for the company's business processes.

Key sustainability performance in 2022 include:

- Operation of Banja hydropower plant - 72 MW installed capacity of renewable energy
- Operation of Moglice HPP plant – 197 MW installed capacity of renewable energy
- Statkraft has continued to identify and assess potential adverse impacts on human and labour rights in Statkraft's supply chains, including continued discussions with strategic suppliers
- Statkraft aims to develop a more diverse and inclusive (D&I) workplace and has established three KPIs (key performance indicators) to promote and ensure long-term value creation. In 2022, key improvement measures have included building D&I competence and awareness in the organisation, integrating D&I in the recruitment process and establishing a governance structure for follow-up and reporting
- Continued high focus towards health, safety, security and environment (HSSE) through implementing the 'Powered by care' program
- Continued focus on anti-corruption and business ethics with quarterly dilemma discussions, trainings and e-learning programme for all employees
- Support to the community of Kodër Zgjuhë village in Banja HPP area with 28 new residences, to mitigate residential risks in this area

STRATEGY

Market approach & development

After the significant increase in power prices in 2021, power prices in Europe continued at record-high and volatile levels in 2022. The Russian invasion of Ukraine has led to a considerable increase in uncertainty regarding the market development and has likely delayed the phase-out of both fossil baseload capacity sources (e.g. coal) and nuclear power for energy security reasons. The market expects high prices to prevail in the short to medium term.

While global energy markets have been heavily impacted by geopolitics and increased economic uncertainty with high inflation levels, the energy transition continues to advance. The energy transition will change the way energy is produced and consumed. The massive growth in intermittent solar- and wind power, the phase-out of coal and increased demand for energy will require more flexible generation. Decarbonisation will further lead to increased demand for new technologies. At the same time, there will be greater market complexity and high market uncertainty both in the short and medium term. Lastly, the green agenda is becoming more complex as the sustainability agenda is strengthened and broadened.

During 2022, Statkraft, at group level, updated the strategy and extended the strategic horizon from 2025 to 2030. The updated strategy is a continuation of the strategic direction, but with significantly strengthened growth ambitions across activities and geographies. Statkraft aims to create value by enabling a net-zero emission future through its four strategic pillars:

- Provide clean flexibility – leveraging hydropower
- Accelerate solar, onshore wind, offshore wind and battery storage
- Deliver green market solutions to customers
- Scale new green energy technologies

In Europe, Statkraft will take a leading role in supporting the energy markets and the transition ahead, based on its position as Europe's largest producer of renewable energy and its significant market operations.

Statkraft's competitive position

Statkraft group has a solid foundation for further growth. Statkraft's key competitive advantages emerge from the company's understanding of the market, its industrial competence in development and ownership of power generating assets and the ability to use these strengths across the value chain.

Responsible renewable energy company

Statkraft has a reputation as a responsible renewable energy company and is seen as a competent partner with high credibility in business ethics. Statkraft is developing and operating renewable projects in a sustainable way for the environment and the societies in which it operates.

Unique and large flexible portfolio

The strong competence in optimising profitability with an integrated energy management, operations and maintenance processes, makes DHP as part of Statkraft group an excellent owner of flexible hydropower.

Financial solidity

Statkraft has a strong financial foundation and has demonstrated the ability to make solid returns in changing markets. DHP as part of Statkraft group will have a high focus on cost optimisation as the company continues to grow.

Strategic priorities for DHP

Optimise and expand hydropower

There is an increasing need for flexibility in the energy market and this provides a unique starting point for a flexible hydropower generator with market expertise. Statkraft will therefore continue to optimise and expand its strong hydropower portfolio. DHP is engaged with stakeholders to find solutions which balance environmental and societal needs with profitability.

DHP ambition for 2030

DHP aspires to be a strong renewables company, with sustainable, ethical and safe operations. The aim shall be to:

- Be a reliable renewable power producer with an operational excellence of both Banja and Moglicë HPPs, compliant with local and international standards
- Be a proactive participant in trading activities, sale of electricity in SEE and other relevant markets. Continue with bilateral agreements in Albania and seek to secure additional long-term bilateral agreements
- Further develop the hydropower potential of the Devoll cascade
- Contribute to energy diversification in Albania by exploring investment opportunities in renewable energy sources

Investments

DHP is focused on value creation initiatives in Albania, aligned with Statkraft group strategy. The pace and total amount of investments in the strategic period will be dependent on market opportunities and market development and will be adapted to Statkraft's financial capacity and rating target.

STRATEGIC TARGETS

The Board of Directors has set financial and non-financial targets for DHP. The main targets are listed in the table below. The performance related to several of the targets will be assessed over a longer time horizon.

Caring for people is at the core of DHP’s activities and DHP works continuously towards the goal of zero injuries. There were no fatal accidents in 2022, nor serious injuries.

DHP has zero tolerance for corruption and unethical practices in all activities, and there were zero serious compliance incidents in 2022.

Assessing environmental risks is part of DHP’s daily risk management procedures and practices and there were no serious environmental incidents in 2022.

AMBITION	TARGET	STATUS 2022
HSE and sustainability		
Prevent incidents and be committed to a workplace without injury or harm	Zero serious injuries	0
Prevent corruption and unethical practices in all activities	Zero serious compliance incidents	0
Deliver climate-friendly, renewable power and taking responsible environmental measures	Zero serious environmental incidents	0

FINANCIAL PERFORMANCE

In 2022, DHP gross revenue increased due to increased energy prices.

The total electricity production in 2022 was 490 343 MWh, a reduction of approx. 28% compared to 2021 due to unfavourable hydrology.

The Company’s equity at the end of 2022 was ALL 84 593 283 thousand, corresponding to 90 % of total assets.

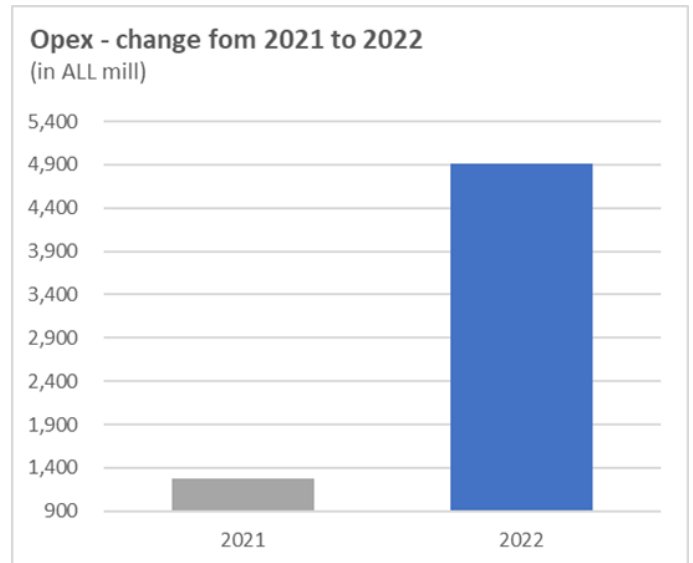
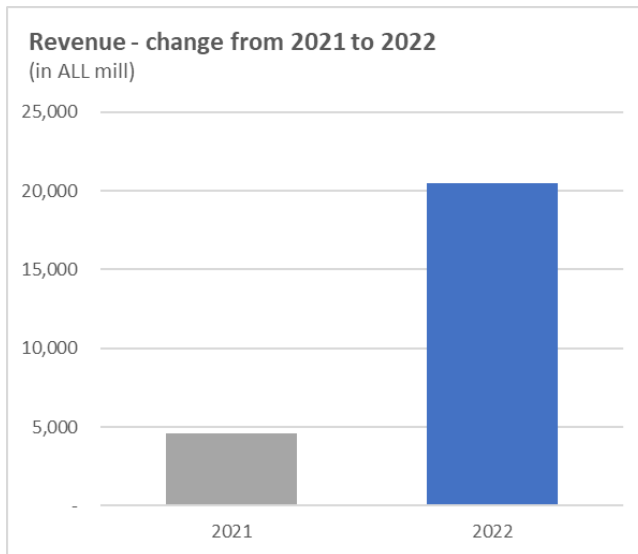
All underlying items are alternative performance measures, see the chapter “Alternative Performance Measures” for purpose, definition and statement of all items. Elements from the statement of comprehensive income after the operating profit are analysed in accordance with the financial statements.

Net operating revenues

DHP revenues are generated through spot sales and market activities. The fundamental basis for DHP revenues comprises of power prices, energy optimization and generation. The generation revenues are optimized through financial power trading and DHP engages in energy related trading activities. Net operating revenue is a combination between domestic sales and export.

Operating expenses

In 2022, the Company’s operating expenses increased year-on-year. The operating expenses have increased mainly due to the new Law on solidarity contribution in Albania.



Financial items

Financial items comprise mainly net foreign exchange losses. The net negative effect was mainly a result of a strengthening of ALL against EUR.

Tax expense

During 2022 DHP's assets have been in full operations, with Moglicë HPP starting operations in 2020, whereas Banja HPP has started operation on 2016.

DHP has recorded net profit for the year 2022 of ALL 18 588 112 thousand (which includes the reversal of impairment) and payable Corporate Income Tax was ALL 1 120 853 thousand.

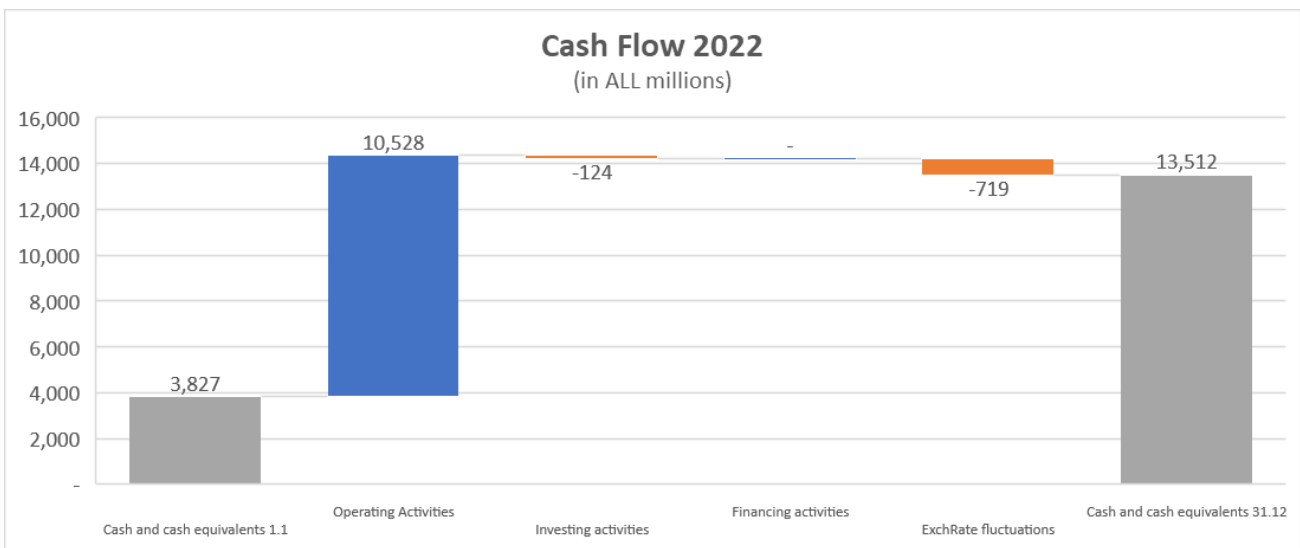
Cash flow

Cash flow from operating activities was ALL 10 528 246 thousand. The increase was primarily due to higher depreciation for the year as per the write up of impairment, offset by net increase in receivables and payables of the Company.

Cash flow from investing activities of ALL (124 016) thousand was related to investments in property, plant and equipment and decrease in prepayments.

Cash flow from financing activities was zero and there were no loans or shareholder contributions.

At the end of the year, cash and cash equivalents amounted to ALL 13 512 413 thousand.



Important events in 2022

- Unfavourable hydrological conditions in the Devoll river valley with considerable reduction of water inflow in Banja and Moglice reservoirs, resulting in reduced volume of electricity generated by the hydropower plants
- High energy prices experienced in the markets where DHP operates
- Introduction of special Solidarity Contribution law
- Full year of operations for both Banja and Moglice HPPs.
- Completed implementation of Banja Floating Solar Plant by Statkraft Renewables Albania Shpk at Banja HPP reservoir.

Group financial strength and rating

Statkraft is rated by Standard & Poor's and Fitch. Both agencies upgraded their rating in 2022, and Statkraft AS current credit rating is A (stable outlook) from Standard & Poor's and A- (stable outlook) from Fitch Ratings. The rating upgrades are a consequence of the high power prices and higher profit forecast. Statkraft appreciate the positive rating actions but stay committed to the rating target of A- from Standard & Poor's and BBB+ from Fitch.

GOING CONCERN

In accordance with the International Financial Reporting Standards (IFRS), the Board of Directors confirms that the annual financial statements have been prepared on the assumption that the company is a going concern, and that it is appropriate to assume this.

RESEARCH AND DEVELOPMENT (R&D)

The R&D activities will provide knowledge and solutions for ongoing operations.

Concerning hydropower, the R&D activities will support optimised operation and maintenance and increased flexibility. R&D will play a vital role in understanding the future energy landscape, including how climate effects will impact operations and markets across all technologies. In this landscape, social science research is becoming more important. Hence, we seek new knowledge on customer and society's behaviour to improve our understanding on challenges in the interface between the society and Statkraft group.

In this regard, an innovative R&D project was implemented in Albania at Banja HPP reservoir by Statkraft Renewables Albania Shpk. The Banja Floating Solar Plant consists of 4 floating units with solar panels installed on a floating membrane with a combined installed capacity of 2 MWp. This project was completed in 2022 and is currently generating renewable energy in Albania.

RISK MANAGEMENT

DHP is exposed to risks throughout the value chain. The most important risks are related to market prices, financial risk, HSSE and operating activities.

Risk management is an integrated part of DHP's governance model. The Company has a risk-based approach to target setting, prioritisations and follow-up of the business and staff areas. The day to day risk management is a line responsibility. The Company's overall risks are reviewed and followed up by the Company Management and are reported to the Board of Directors. DHP performs a detailed quality assessment prior to investments, sales and acquisitions.

The Company's board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

Operational risk

All processes throughout the value chain are exposed to operational risk. The operational risk is highest within implementation of our investment projects, operation and maintenance activities and market operations. This may result in:

- Injury to employees, contractors or third parties
- Social and environmental impact
- Compliance breaches
- Damage and losses related to own and third-party production plants and other assets
- Weakened reputation
- Financial loss

DHP's commitment to safety, sustainability and responsible business practices is the foundation for all activities. DHP has high attention on executing development activities and operations in a responsible manner and to prevent financial loss. A solid business culture is the foundation of continuously improving a robust system of prevention and control. Ensuring that business development activities are in accordance with international standards has high priority.

Operational risk is managed through procedures and controls of activities and processes, by design of technical solutions, competence development and in various types of contingency plans. Furthermore, DHP has a comprehensive system for registering and reporting risks, hazardous conditions, undesirable incidents, damages and injuries. Such cases are continuously analysed to prevent and limit any negative consequences, and to ensure that causes are followed up and necessary measures are implemented.

DHP's infrastructure and applications are exposed to cybercrime and other external threats and the company's procedures, competencies and systems are continuously improved to strengthen the resilience against such incidents.

DHP carries out systematic risk assessments. Implementing risk management in the early stages of business and project development is an important success factor.

The possible financial consequences of the total operational risk, as well as significant individual risks, are key drivers to the Company's overall risk profile. DHP has insurance coverage for all significant cases of operational damages or injuries.

Energy market risk

Statkraft is exposed to significant market risk from its power generation and market operations activities:

- Both power prices and generation volumes are impacted by weather conditions, consumption and transmission conditions in the energy markets.
- Power prices are also affected by fuel prices such as gas, coal and oil, in addition to the price of carbon emission quotas, support schemes, demand growth and the introduction and development of new technologies.

The uncertainty and outlook in energy markets and power price volatility is continuously monitored and analysed to ensure optimal energy management, market operations and profitable investments.

Statkraft manages market risk in the energy markets by entering into positions in the markets for power and related products, either financially or through bilateral contracts. The increased integration of the energy markets is having a significant impact on business models and risk management. Consequently, Statkraft places significant emphasis on identifying the relationships between the various markets. The Group's hedging strategies are regulated by defined limits on the positions' volume and value, and by criteria for evaluating new contracts against expected revenues and downside risk. The portfolio is constantly adjusted in relation to updated expectations of future prices and the company's own generation capacity.

Statkraft's activities in energy trading and services consist of both trading with standard products on energy exchanges and sale of services or products adapted to the individual customer. Risk is handled through mandates covering energy products, geographical areas and duration. A risk management function ensures objectivity in the assessment and handling of risk.

Financial risk

Financial risk associated with foreign currencies, interest rates, liquidity and funding are coordinated and managed centrally at group level.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's trade receivables.

Trade receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate.

The limits for energy contracts entered into, are stipulated for the individual counterparty using an internal credit rating. The counter-parties are allocated to different categories. The internal credit rating is based on financial key figures (in-house score model / expert opinion), external ratings and default probabilities bought from external providers.

Bilateral contracts are subject to limits for each counterparty with regards to volume, amount and duration. The counterparty risk for these contracts is considered to be very low.

The individual counterparty exposure limits are monitored continuously and reported regularly to the management. The Company limits its exposure to credit risk from trade receivables by establishing a maximum payment period of one and three months for related party and other party customers respectively. The credit limits may also be alleviated by accepting credit support in form of a Parent Company Guarantee, and/or Bank Guarantee.

The Company limits its exposure to credit risk from trade receivables by establishing a maximum payment period of six months for public customers and one month for corporate customers.

Almost all of the Company's customers have been transacting with the Company for six years, since the start of its activity and none of these customers' balances have been written off or are credit-impaired at the reporting date. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are a related party or third-party customer, their geographic location, trading history with the Company and existence of previous financial difficulties.

Regulatory and country risk

DHP's activities in Albania are influenced by framework conditions such as fees, terms for concession, grid regulations and requirements stipulated by Ministry of Infrastructure and Energy (MIE). Risk of regulatory changes may lead to penalties, restrictions and/or loss of opportunities affecting project implementation and DHP's generation, costs and revenues. DHP puts substantial efforts in analysing what could be the potential effect in the areas that it is operating and is continually taking mitigation actions.

DHP's is also directly exposed to framework conditions such as tax levels, license terms and public regulation. Risk of possible changes in the political landscape may lead to a more challenging business environment which would be translated in not reaching deadlines accompanied with financial costs. Therefore, DHP emphasizes the importance of following the development of these factors and it is taking measures in close coordination with stakeholder management.

A common risk assessment process has been implemented to ensure a comprehensive and proactive management of business risk. The risk assessment covers political and regulatory aspects, social development, security, compliance, tax regime and corporate legislation. DHP strictly follows Statkraft standards and has implemented a system to ensure compliance in all activities and has zero tolerance for corruption. DHP is an active energy trader in the region, thus directly exposed to changes in the regional energy trade framework, especially changes on energy import / export duties.

DHP continuously monitors the development of the energy market in the region as to adapt to the respective developments, in line with Statkraft requirements and practices. The company regularly carries out risk assessments for the regional developments.



Statkraft aims to be one of the world's leading companies within renewables by 2030. Our ambition is to contribute to a more sustainable future by bringing renewable energy to industries, businesses, communities, and homes around the world.



Sustainability

2022

Sustainability

HOW WE MANAGE SUSTAINABILITY

Renew the way the world is powered

Statkraft's 2030 aspiration is to be a leading international energy company – creating value by enabling a net-zero future. This underlines Statkraft's strong commitment to sustainability. Through our activities, Statkraft aims to create value for society, the environment, and the business. Our newly updated vision is to 'renew the way the world is powered'.

The way we do business is important to achieve this ambitious growth strategy. Statkraft embeds sustainability in everything we do. Our sustainability strategy encompasses our overall approach to the Sustainable Development Goals, and the material topics climate change, biodiversity and human rights.

DHP as part of Statkraft group is committed to combatting climate change through its core business, providing renewable energy from hydropower and exploring new energy solutions. DHP's business strategy is based on the premise of safe, ethical and responsible operations.

Statkraft is equally committed to ensuring a just transition. That means that we, in the transition towards a green society, take into account the impact on the planet and the people who live there. The way we do business is essential in this regard, including a strong health and safety culture, a focus on diversity and inclusion, high ethical standards, fair labour conditions and zero tolerance for corruption. Statkraft also works to continuously increase the understanding of our impacts, both positive and negative, on people, the environment, and the societies where we operate.

As Statkraft has developed renewable energy for more than a century, our commitment to sustainability is at the core of our business. We draw on our long experience as we continue to develop our sustainability management and strategy to enable a net-zero future, whilst adhering to new laws and take into account increasing stakeholder expectations.

Governance

To act responsibly is one of our core values. The fundamental principles for responsible behaviour are described in our Code of Conduct of Statkraft group 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.

The principles are further described in the governing documents in our management system, "The Statkraft Way". This system sets the direction for our work and is regularly reviewed and updated as regulations and expectations evolve. Through this system we embed our sustainability approach into our activities.

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 Company.

Stakeholder dialogue

DHP 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 organizations, voluntary organizations and the media.

Stakeholder dialogue forms part of daily operations, ranging from regular stakeholder interaction at our project sites, to memberships in sustainability forums and platforms, alliances, and partnerships such as:

- Conducting consultations with stakeholders affected directly or indirectly by our project activities
- Organising open public consultation meetings
- Establishing an efficient and transparent grievance mechanism for projects under construction and in operation
- Promoting sustainable improvements through active participation in industry associations and initiatives

Examples of stakeholder dialogue related to material issues are included in the relevant sections of this report.

Responsible supply chain management

Statkraft has a strong commitment to responsible business practices and this commitment extends to our supply chain. Our Supplier Code of Conduct is a part of all contracts. It is based on internationally recognised standards, including requirements to respect human rights, health and safety, labour rights, working conditions, environment, privacy and freedom of expression, and prohibited business practices. Suppliers are expected to meet these requirements throughout their relationship with DHP. Suppliers are informed about the Supplier Code of Conduct during the procurement process, and it forms part of all contracts.

DHP has a wide variety of suppliers ranging from large international companies to smaller, local suppliers in different industry categories. To manage the most important risks in the supply chain, DHP has adopted a risk-based approach to pre-qualification and contracting with suppliers. Thresholds are set both globally and locally 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 DHP's standards become suppliers. All suppliers are integrity checked in Dow Jones Risk Center.

When we discover an adverse impact linked to our purchases, we engage in dialogue with the supplier to stop, mitigate and/or rectify the situation. When impacts cannot be rectified, we cooperate with the supplier to enable remediation that is proportionate to the significance and scale of the adverse impact.

DHP's contribution

Most global greenhouse gas emissions are energy-related. This means that it is critical to increase the production of energy from climate-friendly renewable sources to reach global emissions targets. Furthermore, electrification based on renewable energy is a key element to combat climate change. DHP is part of the solution for a clean energy world.

DHP's activities contribute in different ways to global, national and local economies. Through taxes and tariffs, we generate revenue for the governments where we operate. We also create value for our shareholder through the generation and distribution of dividends. Contribution from our activities comes also as 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.

DHP's power generation is from renewable sources (hydro). Hydropower has many advantages, including high efficiency, low operating costs, longevity, high flexibility and low carbon intensity. The large water reservoirs enable storage and electricity production even in periods of reduced or low inflow. This gives flexibility in energy production.

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.

Statkraft's tax policy

The Statkraft Group pursues a tax strategy that is principled, transparent and sustainable. It is approved by the Board of Directors and published on our external website. The tax strategy is regularly evaluated by Statkraft's Group Tax Department, and any amendments to the tax strategy are presented to the BoD for review and approval.

Our tax strategy is based on the fundamental principles that taxes should be paid where economic value is generated, that company tax arrangements are a board responsibility and that public country-by-country reporting is a core element of transparent corporate tax disclosure. Statkraft believes that appropriate, prudent and transparent tax behaviour is a key component of responsible business practices. Therefore, we expect our business partners to implement similar standards around tax and transparency within their organisations whilst recognising that Statkraft engages with different business partners.

Statkraft approaches tax in a way that is aligned with our business strategy and aims to reduce business complexity and cost. We do not engage in artificial tax arrangements and actively consider all implications of tax planning. Furthermore, all tax planning must comply with the Group's Tax Optimisation and Structuring framework, which governs our approach to tax planning and is subject to robust review and approval processes. We do not use low tax jurisdictions to avoid tax and only establish an entity in a nil or low-rate jurisdiction for substantive and commercial reasons. This means that we pay tax according to where value is created within the normal course of our commercial activities.

Statkraft is committed to ensure full compliance with all statutory obligations and full disclosure to tax authorities. We engage with tax authorities with honesty and integrity and seek to establish a relationship based on mutual respect, transparency and trust. We work collaboratively with tax authorities wherever possible to resolve disputes and achieve clarity, but we are prepared to litigate where we disagree with a ruling or decision. Statkraft engages constructively and with integrity with governments on the development of tax systems, legislation and administration, either directly or through industry associations as appropriate. We believe that more informed and sustainable outcomes are achieved where governments openly consult with industry and other affected stakeholders.

HOW WE PROMOTE RESPONSIBLE BUSINESS PRACTICES

Health and Safety

AMBITION	TARGET	STATUS
Prevent incidents and be committed to a workplace without injury or harm	Zero serious injuries	0 ●
Comments on performance <ul style="list-style-type: none"> There were no fatal accidents in 2022 and DHP reached the target of zero serious injuries. 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, improved HSE requirements for procurement, introduction and implementation of Authority to stop unsafe work card from CEO, enhanced HSSE in Projects, and clear effective HSSE requirements. 		
Key initiatives <ul style="list-style-type: none"> Provide leadership and drive cultural change at all levels. Encourage and measure management and employee engagement. Strengthen the focus on high-risk activities and preventative measures. Provide training to build the required competence. Ensure learning and sharing from high-risk potential incidents. 		

Our approach

Caring for people is at the core of DHP's culture and we work continuously towards our goal of zero injuries. DHP 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 DHP's activities in construction projects, operations and maintenance of power plants and other facilities, from our presence in various geographical locations, 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 2022

There were no fatal accidents in 2022.

In 2022, the Lost Time Injury rate (LTI rate) was 0 among DHP employees and DHP's contractors.

The Total Recordable Injury Rate (TRI rate) among DHP employees and DHP contractors was 5.96.

Sick leave

Sick leave in DHP is at a stable low level in 2022, which is below the target of 3.5%.

Health and Safety Improvement Programme

In 2022, the 'Powered by Care' programme focused on:

Leadership and commitment

In 2022, management throughout Statkraft was actively engaged and participated in local activities in the Powered by Care programme. Workshops have been held to address health and safety leadership and culture at various levels of the organisation. A dedicated "stop unsafe work" card signed by the CEO has been rolled out, giving everyone working for Statkraft the authority to stop work activities they deem unsafe.

Serious injury mitigation

Serious incidents (those with, or with potential for, serious consequences) are analysed to identify measures to prevent recurrence, and lessons learned are shared across the organisation. Use of the Life-Saving Rules aimed at preventing serious and fatal injuries remains a focus area, in addition to further improving the quality of investigations and lessons learned.

Training

Modular e-learning and training is 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.

Engagement Key Performance Indicators (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 seen a 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.

Continuous improvement

An annual management review of Statkraft's performance and activities related to HSSE has been performed and the recommendations have been integrated in HSSE plans. Collaboration takes place within and across business areas to share and learn from incidents, health and safety programmes and best practices.

Health

We have dedicated initiatives that focus on health and well-being, which address the challenges arising from the Covid-19 pandemic. These include flexible work arrangements, pulse surveys to check status, promoting resources and tools related to mental health, a mental health awareness week and various webinars focusing on mental and physical health.

Public safety

Statkraft's activities involve significant interaction with the public and the environment, and our focus is on ensuring the safety of both. Measures are carried out in accordance with legal and regulatory requirements, as well as Statkraft's detailed procedures and plans to protect life, the environment and property. This applies to the entire life cycle of our assets during design, construction works, operation, and demolition.

To ensure our assets do not pose a threat to the public, risk assessments are used with appropriate mitigating protection measures, verification of effectiveness of such measures, reassessment of risk and follow up. Dam and watercourse safety together with our electrical assets are key focus areas.

Security

AMBITION	TARGET	STATUS
Actively prevent harm to people and assets through a systematic approach	Implementation of identified supporting initiatives	●
Comments on performance		
<ul style="list-style-type: none"> DHP is on track with the implementation of security regulations and improved information security awareness. Increased focus on security, in line with national statutory requirements The response to Covid-19 has continued in 2022, in accordance with local health authorities' guidelines. 		
Key initiatives		
<ul style="list-style-type: none"> Key measures planned for 2022 are continued implementation of national security regulations, and further strengthening of the Company's IT/cyber security capabilities. Operationalising lessons learned from managing both Covid-19 and subsequent emergencies into the Emergency Response concept A comprehensive effort launched to develop and harmonise a corporate framework for personnel security 		

Our approach

DHP 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. DHP 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 DHP 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 DHP's information. During 2022, DHP experienced a positive trend in information security awareness.

Key risks

DHP assesses security risks by analysing threats, vulnerabilities and consequences. Conducting security risk assessments is a line responsibility, supported by the Corporate Security & Emergency Response unit and the Corporate Information Security unit. DHP uses a wide range of measures to reduce security risks. Sudden changes in a security situation will trigger immediate measures.

Emergency preparedness

DHP 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. DHP emergency response is based on the use of dedicated and temporary teams. This approach aims to enable DHP to handle emergencies at local and strategic levels.

DHP 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 2022

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

Human rights

AMBITION	TARGET	STATUS
Act according to the United Nations Guiding Principles on Business and Human Rights	Implementation of identified key initiatives	●
Comments on performance <ul style="list-style-type: none"> Key achievements in 2022 include strengthened focus on human rights in key processes. 		
Key Initiatives <ul style="list-style-type: none"> Update and continuously improve human rights requirements, aligning with international developments and integrate in key processes. Awareness training on salient human rights for selected DHP teams 		

Our approach

DHP, as part of Statkraft group, is committed to respect human rights in all aspects of our operations and in relationships with our business partners. This is clearly expressed in Statkraft's Code of Conduct, approved by Statkraft's Board of Directors, and through our Human Rights commitment statement endorsed by our Corporate Management. Human rights are also one of three key focus areas in the sustainability strategy, alongside climate and biodiversity.

Key risks

Statkraft's updated human rights impact assessment has identified four key priority areas with the highest risks. This is where we should focus our human rights efforts:

- Community relations and social licence
- Health, safety and security, including privacy
- Labour conditions in the workplace (Statkraft internal)
- Decent work in our supply chain

Status 2022

Human rights initiatives

In 2022, we continued to embed our commitment to respect human rights in key processes and have prioritised efforts related to salient human rights issues.

Consultations

In 2022, consultations and engagement with a wide range of central and local stakeholders, continued.

For the Banja and Moglicë hydropower plant, agreements on mitigating measures and compensation for extra activities continue to be implemented even after the completion of the construction phase.

The company maintains a regular dialogue with community representatives for its projects and operates a Grievance Redress Mechanism to address grievances / complaints.

Sharing knowledge

Awareness campaigns on projects activities have been carried out as per the respective project's development phase (for example Moglice & Banja HPPs operation).

Labour practices

Key initiatives

- Continued implementation of people development including targeted leadership development activities.
- Unconscious bias training for all leaders in Statkraft and strengthened mechanisms to avoid bias in Statkraft's people processes.
- Key activities planned for 2022 include working actively to increase the number of women in management positions.
- Safe working from home practices, including hybrid work model
- Implementation of diversity and inclusion (D&I) awareness and competence building initiatives
- Tracking of inclusion index that measures employees' experience of inclusion at work

Our approach

Statkraft is committed to a great and inclusive employee experience, where people can grow and are empowered to make a difference. We believe everyone working at Statkraft plays a key role in delivering our vision to "Renew the way the world is powered".

In Statkraft, all employees have an important role to play in achieving our ambition to lead the transition to renewable energy. Statkraft is committed to a working environment characterised by equality, diversity and mutual respect.

DHP supports and respects internationally recognized 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. DHP also works towards the realization of these rights as part of our supply chain management.

Key risks

It is of key importance for DHP to attract, develop, and retain people and competence to meet our target and strategy.

Both in 2022 and moving forward it is critical for Statkraft to attract, develop and retain the workforce needed to deliver on our strategy and to lead the transition to renewable energy.

Status 2022

Through Pulse surveys DHP's employees provide feedback regularly and influence how DHP can deliver on the commitment to have a great and inclusive employee experience. Pulse surveys were conducted in Q2 and Q4 2022, with a response rate of 100%. The Q4 survey showed an overall engagement score of 8.2 which was the same with the sector benchmark.

People development

In 2022, 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 2022, targeted to different groups and learning objectives. Further efforts to build and expand on leadership development will be continued in 2023.

In addition to initiatives aimed at leaders, DHP also has a continuous focus on learning activities that are tailored to the development needs of employees across the Company. Statkraft offers many internal courses, webinars and seminars. In 2022, Statkraft continued to learn from pilots on agile project methods and develop training as an offering to all employees.

Initiatives to further develop new skills and competencies will be prioritised in 2023.

Workforce diversity and inclusion

DHP 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 group people policies.

Moving forward, we will continue to develop these diversity and inclusion (D&I) measures, and the attraction and development of a diverse and highly competent workforce will continue to be a key priority in 2023.

At the end of 2022, DHP had approximately 41 employees. DHP had employees representing 4 different nationalities. The percentage of women in DHP was 36%.

Business ethics

AMBITION	TARGET	STATUS
To prevent corruption and unethical practices in all activities	Zero serious compliance incidents	●
	On schedule implementation of the compliance measures	●
Comments on performance <ul style="list-style-type: none"> 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. Key achievements in 2022 include an in-depth group-wide Business Ethics and Compliance risk assessment conducted across all locations, rolling out a new round of mandatory e-learning, a fraud awareness campaign in light of increased risks arising in the context of Covid-19 		
Key initiatives <ul style="list-style-type: none"> Regular communication and culture building activities, and training rolled out to all employees on business ethics, through interactive e-Learning modules and class-room training. Regular review of internal controls in key business processes to ensure adequate handling of business ethics risks. Compliance programme rolled out. Strengthening compliance resources in the line. 		

Our approach

DHP, as part of the Statkraft Group, is committed to high standards of business conduct. The Code of Conduct of Statkraft group 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 program covers all aspects of a compliance program, including the tone setting from the top, policy commitment and governance including due diligence, how the requirements are implemented in procedures and controls, such as disclosure of conflict of interests, and enforced through continuous training, communication, reporting and monitoring. The adequacy and quality of the activities are under constant review and updated at least yearly by the corporate compliance unit, which supports and advises Statkraft's management on the compliance programme .

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.

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 technology and type of business activity in question. These nuances are reflected in the risk maps of the different business units.

Status 2022

Training and communication

DHP ensures that all employees are familiar with the principles set out in the Code of Conduct and internal business ethics rules. Classroom & online training sessions were conducted during 2022, and e-learning was completed by all new employees. Business ethics topics have been included in leadership and Group events through the year.

Statkraft's internal Business Ethics Portal is a key hub for knowledge sharing, engagement and culture-building. The Portal, which contains materials and guidance on all relevant topics, was upgraded in 2021 for a better user experience. We also set targets for the frequency of dilemma discussions run by managers at different levels, as well as other similar initiatives. The performance against these targets is monitored.

Due diligence of business partners

DHP as part of Statkraft group has clear, detailed procedures for handling 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 reviewed by the Compliance Unit. The integrity reviews include assessments of the ownership structure (incl. beneficial owners), connections to politically exposed persons and reputational risks associated with the counterparty. Work has been carried out to further combine integrity review requirements into the procurement process, system, and training.

Fraud prevention and internal controls

Statkraft has specific focus on fraud prevention in the procurement, accounting, tax and treasury processes. In 2022, Statkraft started work to assess the fraud risks and to establish mitigating measures in additional processes, as the revenue process and within IT. Several processes and areas are in scope going forward, selected through a risk-based approach for the group.

Several initiatives were taken in 2022 to further strengthen internal procedures and controls related to compliance. There were also further developments in the Fraud Prevention System, including adjustments to existing controls in financial processes. Corporate-wide projects on fraud prevention were executed and reinforced controls will be implemented in 2022 as a part of continued development of the Finance and Fraud Analytics tool.

Personal data protection

In 2022, Statkraft has performed various new initiatives to further strengthen our privacy and personal data protection program:

- continued our close collaboration with IT Security to ensure that all new initiatives in Statkraft that process personal data are assessed from a privacy perspective in a timely manner
- we have taken part in several collaborative activities with other Corporate Staffs to raise awareness about personal data protection and privacy
- improved the availability of guidelines and templates for Corporate Privacy to meet their obligations where assessing lawful basis and engaging with third party processors, e.g., ensuring a consistent approach to how we interact with our stakeholders

Handling of reported concerns

DHP has in place practices and procedures related to whistleblowing. Whistleblowing can be made, in written or verbally, through any communication means. These procedures are based on the Statkraft Way and are aligned with the Law no. 60/2016 on “*Whistle-blowers protection*”.

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 (www.statkraft.com / www.statkraft.al).

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.

Reported concerns sent to Corporate Audit are acknowledged within 72 hours. The unit starts by conducting a quality assurance and initial review of the information received. Then, they assess the nature of the concerns and determine the steps required to establish relevant facts. They are responsible for performing all internal investigations.

All reported concerns are taken seriously, and their handling is based on the principles of fair and objective treatment, protection of the reporter, protection of the individuals who are the subject of the report, confidentiality in the administrative process, protection of personal data and data security, and proportionality in the administrative process.

DHP has in operation Public Information Offices to provide information related to its activities and is operating also a Grievance Redress Mechanism to address complaints from the local communities / individuals.

HOW WE SUPPORT THE GREEN TRANSITION

Environmental and Social Management

The DHP Environment and Social Management (ESM) program comprises all social and environmental mitigation measures for the Devoll Hydropower Project. These measures for Banja and Moglice HPPs are implemented in the frame of the Environmental and Social Management Plan for Operations (ESMP-O) and other Special projects integrated in the frame of the ESM activities. The measures are implemented within key interfaces and closely aligned with the operation of the plants. The ESM follows an Environmental and Social Impact Assessment (ESIA) conducted for the Devoll Hydropower Project and the Environmental and Social Management Plan (2013) in place during the project's implementation phase.

ESM is composed of three key components, Environment, Resettlement & Social Development and Community Liaison. The program is implemented through the ESMP-O, which is a follow up of the ESMP. The plans outline DHP's commitments to the environment and Project Affected Households/Persons in relation to mitigating project impacts and promoting project development opportunities in the Devoll Valley. The ESMP is publicly disclosed since October 2013 and is accessible through the DHP website and a DHP Public Information Office at the Banja hydropower plant.

The DHP ESM program aims to comply with International Finance Corporation (IFC) Performance Standards on Environmental and Social Sustainability. The aim is toward ensuring that the ESM programs are implemented in a way that all Project Affected Households and Communities have restored or preferably improved living standards as a result of the project and as a consequence become project beneficiaries.

ESM Goals:

- Identify and mitigate environmental and social project impacts and stimulate sustainable development opportunities
- Assist displaced people to improve their livelihoods and standards of living or at least to restore them to pre-project levels
- Conduct environmental mitigation measures to minimize project impacts on the natural environment and develop environmental infrastructure services to avoid negative effects to both the project and its key stakeholders

Biodiversity

AMBITION	TARGET	STATUS
Deliver climate-friendly, renewable power and taking responsible environmental measures	Zero serious environmental incidents on biodiversity	●
<p>Comments on performance</p> <ul style="list-style-type: none"> • DHP had no serious environmental incidents in 2022. The Company undertook a broad range of initiatives, either required by the energy or environmental authorities or voluntarily, aimed at monitoring / preserving biodiversity. • Key achievements for 2022 implementation of environmental mitigation measures in Banja and Moglice HPP areas, such as afforestation of a considerable area. Also, the monitoring of environmental indicators focused on water quality and aquatic biodiversity of the Devoll river and the reservoirs of Banja and Moglice. 		
<p>Key initiatives</p> <ul style="list-style-type: none"> • Enhanced tracking and communication of performance of the systematic handling of biodiversity, e.g. aquatic ecology monitoring and submission of results to respective authorities, upon request. • Increased understanding of our impacts on biodiversity, and adequate handling in project development and operation. • Key measures planned for 2022 are the monitoring of water quality in the Devoll river and Banja / Moglice reservoirs to monitor the development and compare with baseline data. • Continue implementation of the afforestation program, including rehabilitation through afforestation of project affected sites. • Sharing of knowledge related to environmental and social programs with third parties, such as universities and schools. 		

Our approach

DHP is committed to managing the impacts on biodiversity caused by the Company's activities in a responsible manner and pays special attention to monitoring of environmental parameters on water quality and aquatic biodiversity. Also, special focus is dedicated to the implementation of an extensive afforestation program.

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. DHP impact on biodiversity comes from our main hydro power generation activities. Hydropower modifies the living condition of aquatic species. To assess environmental risks related to biodiversity is part of DHP risk management procedures and practices and integrated in the ESMP / ESMP-O.

Status 2022

Afforestation Program

In the project area have been implemented afforestation projects in an area of more than 870 Ha with the planting of mainly forest species and fruit trees during the whole implementation phase of the afforestation projects, extended in several years. In more than 75% of these afforested areas, the Afforestation Project have been successfully implemented and handed over to the respective Municipalities. In the remaining 25% there is ongoing maintenance of afforested works until their handover to the respective authorities.

Water Quality and Aquatic Biodiversity monitoring

No significant negative effects are identified on the environment.

Climate action

Key initiatives

- Follow climate politics at national and international level closely.
- 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.

Our approach

Climate change is one of the greatest challenges the world is currently facing. Through our core business activities DHP contributes to increasing the generation of power from renewable energy sources. DHP is committed to climate neutrality and has signed up to the UN Climate Neutral Now initiative as part of Statkraft group. DHP primary contributions to a more sustainable energy system are our current operations and new investments in renewable energy and associated market activities.

Key risks

Changes in weather patterns will also impact the value of DHP 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 plants, and more extreme weather patterns can increase the value of flexibility and storage capacity.

Status 2022

Renewable energy

In 2025, Statkraft aims to remain Europe's largest renewable power generator, and among the top three most climate-friendly large European based power generators. In addition, Statkraft aims for the following emission targets globally: <50 g CO₂e/kWh by 2025, <35 g CO₂e/kWh by 2030 and climate neutrality by 2040.

Supporting decarbonisation of society

For the seventh year in a row, Statkraft's analysts presented an updated comprehensive analysis in 2022 of the global energy market towards 2050. Statkraft's Low Emissions Scenario is an optimistic yet realistic scenario, concluding that GHG emissions trajectories can limit global warming to 2 degrees. An even faster transition is necessary to reach the 1.5-degree target.

DHP's electricity generation from the hydropower plants of Banja and Moglicë is certified by the Albanian Energy Regulator Entity with Guarantees of Origin as electricity from renewable sources. DHP is preparing to participate in the regional Guarantees of Origin market, as soon as this market comes into operation.

Climate change and market operations

DHP HPPs have 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 DHP, understanding how the climate is changing is therefore important in our daily operations.

Regulatory framework and emission reduction potential

Climate policies have a large impact on DHP. Climate and energy policies are increasingly interlinked. DHP as part of Statkraft group 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 DHP commercial position. Statkraft thus invests significant resources in market analysis, to have a robust basis for investment and operation decisions.

Water management

AMBITION	TARGET	STATUS
Statkraft to be recognised as a company with a responsible water management practice	Implementation of identified supporting initiatives	●
Comments on performance <ul style="list-style-type: none"> DHP optimizes 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. Key achievements in 2022 include responsible operations every day and particularly in extreme situations, where we aim to contribute to reducing the impacts of major flood events in Albania. Knowledge and efficiency in integrated water resource management has evolved. 		
Key initiatives <ul style="list-style-type: none"> Ensure adequate handling and systematic follow-up of water levels, flow limits and specific operating rules put forth in the concession. Demonstrate responsible water management under shifting climate conditions. This implies planning for potential extreme situations in both wet and dry years, and still be able to fulfil our concession requirements. 		

Our approach

Responsible and optimal water resource management requires the capacity to analyse significant volumes of data, and to predict weather conditions as accurately as possible in order to create value for society in a sustainable manner. These complex tasks require close collaboration between different experts in hydrology, meteorology, market analysis and production planning. Our activities cover four areas: increasing resource use efficiency, maintaining flexibility, operational water management and water quality management.

By using water for renewable power generation, DHP is playing an important role in managing this common resource. Water management is governed through laws and concessions taking into account social, economic and environmental needs.

Statkraft's management system shall secure a systematic, risk based and target oriented approach to ensure compliance and continuous improvement.

Key risks

The main water related risks in Statkraft are linked to managing water resources responsibly in our hydropower production. A key success factor for responsible water management is to predict precipitation as accurately as possible in order to reduce flood/drought risk, optimise energy production while ensuring the agreed minimum flow.

Water resource management related to hydropower generation is not only a key impact on the environment, but also a key risk to Statkraft's core business activities, as Statkraft is dependent on sharing water resources with other users, and planning power production based on increasingly unpredictable weather patterns.

Status 2022

Water management and weather patterns


When it comes to responsible water management in the hydropower sector, it is important to predict precipitation as accurately as possible.

Hydrology in the Devoll river catchment has been very challenging throughout the year 2022, with a considerable reduction of water inflow in our reservoirs compared to the historical recorded inflows, resulting in a notable reduction of the generated volumes of electricity in the year.

An environmental monitoring programme with focus on water quality monitoring in the Devoll River and Banja and Moglice reservoirs is currently on-going, in cooperation with the Agriculture University of Tirana.

Improved knowledge

Statkraft group 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.

An aerial photograph of a large dam and reservoir. The water is a vibrant turquoise color, reflecting the sky. The dam is a long, grey concrete structure with several spillways. In the background, there are rolling hills and mountains under a clear blue sky. A semi-transparent blue circle is overlaid on the center of the image, containing white text.

Renewable energy can
power every industry, every
business, every community,
every home.
It can power progress.
It can power possibilities.



Internal
Governance
Report

2022

The Board of Directors

Tima Iyer Utne

Chair of the board, until November 2022.

Wenche Lund Oyno

Board Member, until November 2022.

Olav Holland

Board member, until November 2022.

Simen Braein

Chair of the board, since November 2022.

Michelle Funes

Board Member, member since November 2022.

Qiong Chen

Board Member, member since November 2022.

Internal Governance

Efficient and transparent management and control of the business forms the basis for creating long-term value for the owner, employees, other stakeholders and society in general, and as a result, contributes to sustainable and lasting value creation. Open and accessible communication from the company ensures that the Company maintains a good relationship with society in general and with all stakeholders affected by the company's activities.

ACTIVITIES

The objective of DHP, through cooperation with other group companies, is to plan, engineer, construct and operate energy facilities, conduct physical and financial energy trading, and perform related operations. DHP is registered in Albania and its management structure is based on Albanian company legislation. DHP is also subject to the Energy Regulatory Entity (ERE) associated with the company's license obligations.

EQUITY

DHP share capital totals ALL 86 890 000 thousand divided among 86 890 shares of ALL 1 000 000 each. The company's shares are owned by Statkraft Markets B.V., part of Statkraft Group. DHP share premium totals ALL 9 690 thousand.

Capital increases are processed through the enterprise meeting of Statkraft Markets B.V.

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

EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH RELATED PARTIES

DHP engages in transactions with companies within Statkraft group. All transactions are based on regular commercial terms and principles.

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

BOARD OF DIRECTORS

The Company is governed and supervised by a Board of Directors composed of 3 members, for a term of 3 (three) years, renewable.

The Members of the Board of Directors are appointed by the Sole Shareholder, Statkraft Markets B.V.

The Board of Directors elects from its members one Chairman who shall preside over and steer the debate during the meetings of the Board of Directors. The term of the Chairman of the Board of Directors shall be 3 (three) years. In case of any vacancy of any of the Board of Directors members, the Board of Directors shall replace the vacant member by resolution approved by the Board of Directors, until the next General Meeting of Shareholders.

The Board of Directors has the power to appoint the Chief Executive Officer.

As part of the Statkraft Group, DHP applies the arm's length principle to intragroup transactions, in line with best practice guidelines, unless legally required in order to apply other pricing mechanisms.

THE SCOPE OF THE BOARD OF DIRECTORS

The Board of Directors usually meets as a minimum four times a year. The Chair of the Board of Directors may request holding board meetings as often as is required.

The Board of Directors provides directives to Chief Executive Officer in respect to implementation of business policies of the Company, monitors and supervises the implementation of the business policies by the Chief Executive Officer, adopts strategies, policies, procedures and internal regulations to supervise and control on ongoing basis the activity, recommends decisions to be adopted by the General Meeting and executes the latter's decisions, ensure that the Company observes the applicable law and accounting standards, examine and check the Company's books, documents and assets etc.

CHIEF EXECUTIVE OFFICER

The Chief Executive Officer manages the day-to-day business activity of the Company and represents it towards third parties.

The Chief Executive Officer reports to the Board of Directors with respect to the implementation of business policies and in the event of the conclusion of transactions of particular importance for the Company's performance.

SOLE SHAREHOLDER

The Sole Shareholder represents 100% of the share capital of the Company. The Board of Directors or the Chief Executive Officer cannot take any decisions, without the Sole Shareholder's prior approval on matters pertaining to:

- (a) any issue of shares (or securities convertible into shares) of the Company;
- (b) any alteration to the Articles of Association of the Company;
- (c) any sale of the whole or any substantial part of the business of the Company;
- (d) any major change to the nature or objective of the business of the Company;
- (e) the appointment (or removal) of the auditors of the Company;
- (f) the filing by the Company for liquidation, receivership or reorganization under any insolvency laws or any similar action;
- (g) the approval of the Company's financial statements;
- (h) the allocation of annual profits of the Company; and
- (i) any other matter requiring the Shareholders' prior approval pursuant to mandatory Albanian Law.

RISK MANAGEMENT AND INTERNAL CONTROL

The internal control concept includes compliance with the company's value base and guidelines for ethics and corporate responsibility. Important functions to ensure that risk management and internal control are an integrated part of the activities in DHP include the Group's internal auditing, the Compliance function, the Group risk function, the Group's Investment Review unit and the Group's internal control in connection with financial reporting.

Risk management is an integral part of all activities across the organisation and of the decision-making process. It supports the decision makers to prioritise their actions. Managers at all levels of the organisation are responsible for appropriate risk management. Risk management is regulated by requirements and guidelines.

Follow-up of risk and risk management are incorporated in the daily business operations.

Risk management and internal control are integral parts of the Board of Directors work.

The Board of Directors shall ensure that the CEO has:

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

Statkraft group management system, "The Statkraft Way", defines the Group's principle rules and ensures a sound control environment for fulfilling the management's goals and intentions. The Statkraft Way is based on ISO principles for quality and environmental management systems.

DHP governance model has a risk-based approach to target setting, prioritisations and follow-up of the business and staff areas. The Group's risk function is process owner for the overall risk management framework and monitors overall risks at Group level.

Corporate Audit

The Group's corporate audit function is an independent function which assists the local Board of Directors and local management in assessing whether the most significant risks are sufficiently managed and controlled. The purpose of Corporate Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight related to the organisation's governance, risk management and internal control.

Internal group audits are conducted according to an annual rolling plan. The audit work shall be carried out in accordance with the International Standards for Internal Auditing (IIA).

The DHP Compliance Manager is responsible for the system for independent reporting of concerns related to unethical or illegal matters. In cases where an investigation is required, this is the responsibility of the Head of Group Corporate Audit.

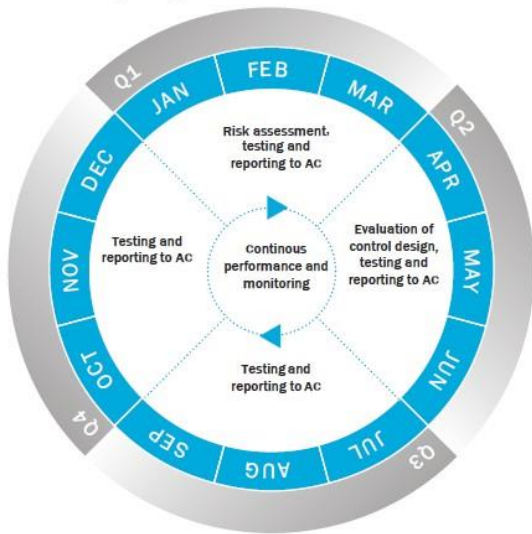
Internal control of financial reporting

The Group's CFO is responsible for the process for Internal Control in the Financial Reporting (ICFR) in DHP. The ICFR work is based on the COSO framework for internal control, published by the Committee of Sponsoring Organizations of the Treadway Commission.

The ICFR ensures reliable and timely financial information in the interim and PERFORMANCE AND INTERNAL GOVERNANCE REPORTS. DHP is required to comply with the ICFR requirements.

The activities related to ICFR are performed in the Group's Governance, Risk and Compliance (GRC) system, BWISE. Through BWISE, the Group can efficiently monitor real time status on control performance throughout the whole organisation.

Annual process for internal control over financial reporting



The main elements of the ICFR system are:

- **Risk assessment**
The Group's ICFR Network performs an annual risk assessment where the financial reporting risks are identified and assessed. The purpose is to verify whether Statkraft has appropriate controls to mitigate the identified risks sufficiently.
- **Evaluation of control design**
Process to ensure that the internal controls are designed efficient and mitigate identified risks to an acceptable level.
- **Test of control performance**
Quarterly, and on a sample basis, quality of control performance and compliance with control descriptions are tested to ensure operational effectiveness and continuous improvement.
- **Reporting of ICFR to the Audit Committee**
As a part of the quarterly reporting, a status on internal control is presented to the Audit Committee. In addition, the result of the yearly assessment of control design and operational effectiveness is reported to the Audit Committee in Q1. The conclusion of the financial reporting risk assessment is presented in Q2. If material breaches are detected in the ICFR system, this will be reported to the Audit Committee.
- **Continuous performance and monitoring**
Managers are responsible for compliance with control descriptions and ICFR requirements. Responsible managers perform an annual assessment of design and operational effectiveness of all controls.

Fraud Prevention System

DHP as part of Statkraft group has a fraud prevention system to prevent and detect fraud in processes related to procurement, accounting, tax and treasury. The fraud prevention system is under continuous development. The system has a risk-based approach and will make use of methodology already in place for the ICFR system.

INFORMATION AND COMMUNICATION

Starting from the year 2020, DHP publishes its annual financial statement and PERFORMANCE AND INTERNAL GOVERNANCE REPORT on DHP website. Each year, DHP submits these documents to the Albanian National Business Center.


DHP emphasizes transparent communication with all stakeholders. The information the company provides to its owner and other stakeholders shall provide enough details to permit an evaluation of the company's underlying values and risk exposure.

The Performance and Internal Governance Report has been prepared also in accordance with articles no. 17 and no. 19 of Law on Accounting and financial statements no. 25/2018, dated 10.05.2018. The Report has been approved by the company's Board of Directors.

AUDITOR

The Shareholder appoints the auditor based on the Board of Directors proposal. The auditor serves until a new auditor is appointed.

The Board of Directors and the auditor hold at least one meeting annually where the CEO and other Company executives are not present. The Board of Directors is briefed on the highlights of the auditor's reporting.



Renewable energy is sustainable
and profitable. DHP activities
prove that a fully clean energy
world can happen today not just
because it's right,
but because it's better business.



Key figures
and Alternative
Performance Measures

2022

Key Figures

FINANCIAL KEY FIGURES

	Unit	2022	2021
Income statement			
Gross operating revenues	ALL thousand	20 498 364	4 574 011
Net operating revenues	ALL thousand	14 514 031	278 439
Reversal of impairment	ALL thousand	14 499 150	0
EBITDA, underlying	ALL thousand	24 095 295	(989 283)
Net financial items	ALL thousand	(712 602)	(91 950)
Balance sheet			
Property, plant & equipment and intangible assets	ALL thousand	76 949 412	63 922 321
Total assets	ALL thousand	93 827 303	74 115 910
Equity	ALL thousand	84 593 283	66 005 171
Cash flow			
Cash flow used in investing activities	ALL thousand	124 016	91 593
Cash and cash equivalents	ALL thousand	13 512 413	3 826 714

Alternative Performance Measures

As defined in ESMA's guideline on alternative performance measures (APM), an APM is understood as a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework.

DHP uses the following APMs:

EBITDA underlying is defined as operating profit/loss (EBIT) underlying before depreciations and amortisations. The APM is used to measure performance from operational activities. EBITDA underlying should not be considered as an alternative to operating profit and profit/loss before tax as an indicator of the company's operations in accordance with generally accepted accounting principles. Nor is EBITDA underlying an alternative to cash flow from operating activities in accordance with generally accepted accounting principles.

Operating profit/loss (EBIT) underlying is an APM used to measure performance from operational activities.

Gross operating revenue is defined as the gross amount of revenue recognized in the annual financial statements.

Net operating revenue is defined as gross revenue after deducting the purchase of electricity and purchase of capacities, as per annual financial statements.

Reversal of impairment is related to property, plant and equipment.

Devoll Hydropower Sh.A.

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