STATKRAFT MARKETS GMBH
ANNUAL REPORT 2017

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KEY INDICATORS AND CORPORATE STRUCTURE

Key indicators of Statkraft Markets GmbH

Values in EUR million	**2017**	**2016**	**2015**	**2014**
Sales revenue	17,385.9	13,196.0	16,705.8	16,429.6
EBIT	118.0	–139.8	–24.4	163.5
Profit before taxes	191.7	–177.6	–37.7	87.0
Profit after taxes	191.5	–177.8	–37.7	85.2
Cash flow from continuous operations	0.1	–327.9	108.2	39.3
Cash and cash equivalents	29.9	18.0	34.8	73.5
Net working capital	194.2	410.2	210.5	156.4
Balance sheet total	1,298.8	1,466.5	1,381.8	1,482.9
Equity	410.8	410.8	410.8	410.8
Equity ratio (%)	31.6	28.0	29.7	27.7
Number of employees 31.12.	143	167	170	174

Corporate structure

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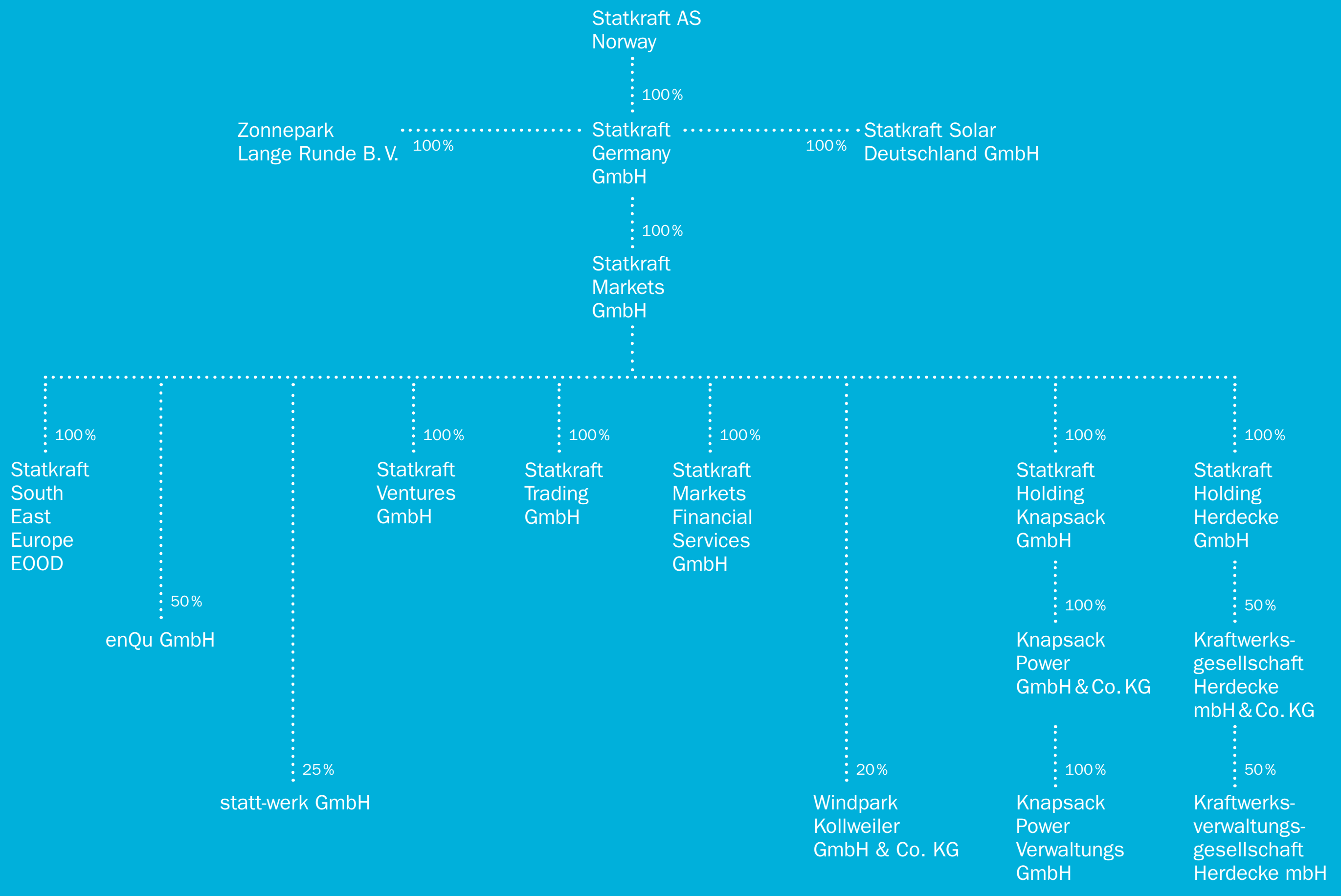

Management report for financial year 2017

COMPANY PROFILE

Business model

Statkraft Markets GmbH is a company of the Statkraft Group (Statkraft AS, Oslo, Norway), the largest European producer of renewable energy. The Group develops and operates hydropower, wind power, gas power and district heating power plants, and is a significant player on the European energy trading exchanges with particular expertise in the area of physical and financial energy trading as well as in the bilateral electricity market. The Statkraft Group is also strongly committed to innovation.

Statkraft Markets GmbH is engaged in trading power and fuels in continental Europe as well as emission certificates worldwide. In Germany, Statkraft Markets GmbH generates electricity from its own power plants. Power is generated in environmentally friendly run-of-river, pumped storage, biomass and gas power plants. The most important operating subsidiaries and associated companies are Knapsack Power GmbH & Co. KG, Düsseldorf, and Kraftwerksgesellschaft Herdecke mbH & Co. KG, Hagen.

Furthermore, Statkraft Markets GmbH participates in the formation and further development of start-ups through its subsidiary Statkraft Ventures GmbH, Düsseldorf, in the form of minority shares. Since 2016, Statkraft Markets GmbH has also participated in the development of photovoltaic projects.

Statkraft Markets GmbH, its subsidiaries and associated companies have a total electricity generation capacity of 2,390 MW from gas-fired power plants, 261 MW from hydroelectric power plants and 41 MW from biomass plants, as well as a battery storage capacity of 3 MW.

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Market Development

During most of the reporting year, electricity prices in Germany were higher than in the previous year due to increased demand. At 34.2 EUR / MWh, the average price for spot deliveries (baseload electricity) on the European Energy Exchange (EEX) was 5.2 EUR / MWh higher than the average price for the year 2016 (29.0 EUR / MWh). Whilst compared to the average prices for the years 2010 to 2016, the average price in Germany in 2017 was about 4.4 EUR / MWh lower. The EEX price for peak hours (peak load from 8 am to 8 pm on weekdays) averaged 42.8 EUR / MWh and was thus 7.5 EUR / MWh higher than 2016 (annual average of 35.3 EUR / MWh).

Gas prices rose in 2017 and were on average 3.4 EUR / MWh above the previous year's prices. At the virtual trading point NCG (NetConnect Germany) prices averaged 17.6 EUR / MWh in 2017.

The prices on the emissions market improved slightly. While the average spot prices in 2016 were EUR 5.4 per tonne, the average price in 2017 rose to EUR 5.8 per tonne.

The situation for gas-fired power plants has improved noticeably. The beginning of the year in particular was marked by very high electricity prices and comparatively moderate gas prices during a “dark-calm” phase in Germany lasting several weeks, i.e. a phase with extremely low wind and solar power feed-in. Demand for electricity also increased due to a prolonged cold spell in southern and eastern Europe combined with extremely low availability of the French nuclear power plants. In the autumn, electricity exports to France increased again, driven by prolonged standstills for safety checks on the French nuclear power fleet. Furthermore, the entire year was characterised by relatively strong world market prices for coal, which means that gas-fired power plants regained some of their competitiveness compared to coal-fired power plants.

The prospect for gas-fired power plants has also improved significantly on the futures markets. The ultimately failed exploratory talks between CDU / CSU, FDP and Bündnis 90 / Die Grünen regarding a possible "Jamaican coalition" have signalled a relatively clear commitment to Germany's emission reduction targets for 2020 and 2030. As a result, market participants' expectations of further shutdowns of coal-fired power plants and measures to support the CO_2 price (e.g. EEA minimum price or CO_2 tax) have been reinforced.

This led to a positive Spark Spread, i.e. the margin between electricity prices and gas and CO_2 costs, in the futures markets in particular for the years 2020 and beyond. This development indicates that flexible gas-fired power plants with comparatively low CO_2 emissions will provide the necessary bridging technology to ensure the success of the “Energiewende”. This means that the initial assumptions made by Statkraft Markets GmbH, which formed the basis for investments in efficient gas-fired power plants, are slowly beginning to materialize – albeit with some delay and after significant impairments in recent years.

Nevertheless, the current market continues to be marked by overcapacities in conventional generation, so that the Spark Spread for 2018 and 2019 will remain low. At the same time, the continued expansion of wind and solar power generation is driving electricity prices down, even into negative electricity prices and an ever-increasing correlation in particularly between wind power generation and electricity prices.

Prices for flexibility, expressed in terms of capacity prices on the balancing energy markets, continued to fall during the course of the year. However, there was a trend in the second half of the year towards extreme prices for the supply of reserve energy. This led to the highest prices ever recorded for cost of balancing in October (over 20,000 EUR / MWh in two quarters of an hour). These prices resulted from particular bidding behaviour of some suppliers and not from a real scarcity of flexibility. The Federal Network Agency shares this assessment and has announced measures should this extreme price setting continue.

The risk of high balancing costs has a significant impact on the direct marketing business, which has suffered from falling margins in the past. Since direct marketers bear this risk, rising or at least stable premiums can be expected in the future.

BUSINESS DEVELOPMENT

For Statkraft Markets GmbH, 2017 is the most successful year since its inception in which a net profit of EUR 191 million before profit transfer was generated.

This was mainly due to significantly improved results in the Continental Assets & Market Access division, as well as the good results from new business activities (New Business) and traditional energy trading (Trading & Origination).

Due to the unexpectedly high utilisation of gas-fired power plants in 2017 and the anticipated positive spark spreads from 2020 onwards, management has initiated a new internal valuation of the gas-fired power plants. These revealed an increase in the recoverable value of the gas-fired power plants, which means that write-downs from previous years are partially reversed. This has a positive effect on the result of approximately EUR 21.3 million.

At the same time, due to lower sales caused by increasing competition from alternative technologies, a further impairment loss of approximately EUR 19.6 million was recorded for the hydropower plants.

During the year, the business area of the Market Operations & IT segment was reorganized. Traditional energy trading and customer business (Trading & Origination) are organised on a pan-European level in order to achieve further efficiency gains, while certificates trading, customer solutions, venture capital investments and other new business models have been merged into a separate area of responsibility (New Business) in order to drive forward new business models in a more targeted manner. The Continental Assets & Market Access division remains, but obtains extended responsibilities and integrate itself vertically in order to realize savings in this area.

Trading & Origination

In 2017, the Trading & Origination division achieved a slightly better result than in the previous year. Profits in the various business areas differ considerably from one another.

In the energy markets, the recovery continued driven by good macro data. Coal prices reached new highs of 90 USD / t for the 2018 contract and both crude oil and natural gas prices were much higher. The ongoing debate on the safety of French nuclear power plants led to lower availability in 2017, albeit to a lesser extent than in the previous year. This, coupled with higher primary energy prices, led to higher market expectations in the electricity market. For example, the average price of baseload electricity for 2018 partially traded above 38 EUR / MWh.

The development of the German power plant fleet plays an important role in this context. In addition to the phasing out of nuclear energy after 2020, it is very likely that compliance with the national climate targets will require the shutdown of further coal-fired power plants. In the market, this led to a marked increase of "Clean Spark Spread", the difference between the electricity price minus the cost of production for gas-fired power plants, and higher long-term prices for electricity of close to 40 EUR / MWh.

Price differences in the electricity markets, particularly with regard to France, once again allowed long-term structured trading capacities to be successfully managed in 2017. However, the volatility in forward prices, particularly for coal, remained well below the previous year's level. This led to a significant decline in profitability in option trading, which deals with European options in coal, natural gas and electricity. Overall, trading in this area achieved a moderate result in 2017.

The introduction or tightening of market regulations such as MAR, MiFiD II led to further increases in transaction costs. In particular, the introduction of an internal trade surveillance system increased operating expenses.

Compliance with the financial and energy market rules introduced by the EU (REMIT, EMIR, MiFID, MAR) is monitored by a specialized compliance department. In 2017, the implementation of the obligations of the new Financial Market Directive II (MiFID II) was a focal point in the implementation of new regulatory requirements. A specific project was set up to ensure compliance with the MiFID II requirements. This requires the successful execution of a calculation of the non-core activity exemptions according to the so-called RTS 20, including the notification of the corresponding exemption approval to the Federal Financial Supervisory Authority (BaFIN). At the same time, the requirements for position limit monitoring were implemented in accordance with the so-called RTS 21 and a process for the continuous review of the position limits defined by the national regulatory authorities was implemented. A hedge-operating model was defined and implemented in the mandate structure in order to meet the obligations with regard to the classification of risk-reducing transactions.

In order to meet the behavioural requirements of the EU Regulation on the Integrity and Transparency of the Energy Wholesale Market (REMIT) and the Market Abuse Ordinance (MAR), employees were comprehensively trained in the calendar year 2017, further instructions and guidelines were issued and additional monitoring measures introduced. In particular, an automated trade monitoring system has been introduced to ensure compliance with the obligations arising from the Market Abuse Ordinance, which greatly improves the possibilities for monitoring trading activities.

Furthermore, all reporting obligations under the EU Regulation on OTC derivatives, central counterparties and trade repositories (EMIR) are complied with. Processes for coordinating portfolios and clarifying differences are agreed and implemented with trading partners. The annual audit of the systems and processes by the auditors once again raised no observations.

New Business

Trading in renewable energies and their certificates made a positive contribution to earnings in 2017 and exceeded the result of 2016. In the United Kingdom in particular, revenues from certificates increased considerably compared with the previous year. In Europe, the demand for green certificates grew in response to the increasing number of consumers and companies wanting to make their electricity consumption climate-neutral. In 2017 Statkraft Markets GmbH was again the market leader in Europe.

Statkraft has also maintained its leading position in international emissions trading. In the EU ETS (European Emissions Trading System) products, Statkraft Markets GmbH continued to be one of the top-selling market participants in the leading emissions certificates exchanges. In North America, Statkraft achieved good results through its activities in the California, Quebec and RGGI-CO_2 (Regional Greenhouse Gas Initiative) markets.

The Corporate Venture Capital division, which operates through the subsidiary Statkraft Ventures GmbH, made three investments in 2017. It acquired a stake in Limejump in London, which has a leading position in virtual power plants. With the investment in Zolar, Statkraft Ventures is committed to providing solar energy to residential customers, with a fully digitalized process of marketing, customer acquisition and deal closing. With its participation in the Dutch company Parkbee, which markets private downtown car parks in various European countries to car park space seekers, Statkraft Ventures has also succeeded in entering e-mobility.

Statkraft Markets GmbH is also active in the development of PV systems through various project companies. Construction of the first large project with a capacity of 14 MW was started in the autumn of 2017 in the municipality of Emmen in the Netherlands. The plant was officially commissioned on 7 February 2018. In addition, Statkraft has secured land in the Netherlands through contractual agreements on which further PV systems of this size can be developed.

Continental Assets & Market Access

Market Access

Statkraft Markets GmbH continues to be one of the most important suppliers of long-term purchase contracts for wind and solar power in Europe.

In Germany, the portfolio had a size of around 9,800 MW. Approximately 7,500 MW of this was actively optimized by the Düsseldorf 24 / 7 trading team. In autumn, around 700 contracts with a volume of more than 5,000 MW were renegotiated. The focus was on further optimizing the portfolio. The portfolio volume was successfully defended in the market as a whole and will remain above 9,600 MW as of 1 January 2018.

At the beginning of the year, a model similar to the direct marketing was launched in France. Here, Statkraft has the first contracts in place and aims to contract several hundred MW next year.

In Belgium, we have further optimized our portfolio. To this end, some small-scale onshore wind contracts with low margins were terminated, while a long-term marketing contract for an offshore wind farm will come into execution next year. Statkraft Markets GmbH also plans to further expand its portfolio in Belgium.

In the United Kingdom, Statkraft was able to further expand its strong position. A number of new contracts with a term of up to 20 years have been concluded. At the same time, renegotiations have reduced long-term price guarantees for some existing contracts, which has led to a significant reduction in long-term risk. Furthermore, contracts with fixed remunerations were concluded (in contrast to the usual percentage remunerations), which also contributes to an improved risk structure.

The 24 / 7 balancing management for France, Belgium and Great Britain also takes place in Düsseldorf. This generates considerable synergies, which will be further enhanced by investments in process optimization and IT infrastructure.

Statkraft Markets GmbH has been optimising a hydroelectric power plant of the Statkraft Group in Albania as a service since mid-2016. 2017 was the first full year of optimization. Until mid-November the year was characterized by extreme drought, which was then abruptly replaced by unusually heavy rainfall. This challenging year was excellently managed by an optimal reservoir management.

In addition, Statkraft's hydropower plants in Turkey and its direct marketing portfolio are marketed from Düsseldorf. Due to a long-term repair-related shutdown of the larger power plant and a slow growth in the direct marketing portfolio, the Turkish business is currently not being actively developed.

Continental Assets
As a result of the improved market situation, operating times and electricity generation at the gas-fired power plants in Hürth-Knapsack continued to develop positively. The running hours are still well below the level that would be necessary to recover the full investment costs. Nevertheless, the gas-fired power plants were able to generate profits in 2017 after depreciation and amortization.

Since positive spark spreads are expected to continue to exist in the future, especially from 2020 onwards, the recoverable value of the gas-fired power plants was reassessed. As a result, write-ups of EUR 21.3 million were identified.

Due to the longer operating times of the gas-fired power plants, optimum dispatch planning has again been given greater attention in day-to-day work. The long-term gas supply contracts expired on 1 October, so since then daily gas procurement has received greater attention and offers additional optimisation potential. Short-term gas exit capacity bookings will no longer be penalized for the coming year. This will enable the gas-fired power plants to react even more strongly to intraday price signals.

The revenue situation of biomass power plants continues to show a positive trend. This derives from further optimizations of the maintenance concept but most significantly from lower fuel prices. Furthermore we would like to highlight the unusually high annual electricity production at the Emden power plant due to excellent availability.

In 2017, the hydroelectric power plants operated without technical problems. Particularly noteworthy are the successful overhaul work on one of the main units in Erzhausen as well as the continuous improvement of fish protection in the run-of-river power plants along the Weser, Werra, Fulda and Eder.

The revenues of the pumped storage power plant stabilized at a low level. The management expects a similar result in the coming year. Although the tendering rules for secondary regulation (daily auction) will change in the middle of next year, we assume that it will be possible to improve the optimization of the pumped storage power plant in various markets and that at the same time the price level will fall due to additional competition.

Management has taken this opportunity to revise the recoverability of the pumped storage plant and has recognized a further impairment charge.

Total production in 2017 was at the same level as in the previous year, at around 2.7 TWh. These production volumes include figures from the indirect holding company Kraftwerks-gesellschaft Herdecke mbH & Co. KG according to the percent ownership in the subsidiaries; fully owned subsidiaries are included with 100 % share.

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OPERATING RESULT

This year's turnover amounted to EUR 17.4 billion, which is considerably higher than the previous year's figure of EUR 13.2 billion, due to higher prices and trading volumes. The electricity trading business accounted for EUR 8.2 billion of this figure (previous year: EUR 6.6 billion). The volume traded increased from 204 TWh in 2016 to 218 TWh in 2017, as did average prices. Gas trading contributed EUR 3.1 billion (previous year: EUR 2.3 billion) to sales and also recorded an increase compared with the previous year. Emissions trading and green certificates recorded a sales growth of EUR 4.2 billion in 2016 to EUR 6.0 billion in 2017, mainly due to volume-related factors, with the largest regional sales of EUR 8.1 billion (prior year: EUR 6.0 billion) and EUR 6.0 billion (prior year: EUR 4.7 billion) in Germany and the United Kingdom respectively.

Gross margin (defined as operating performance less cost of materials and services purchased from affiliated companies) increased from EUR 100.9 million in 2016 to EUR 259.7 million in 2017.

It should be noted that this amount also includes income from exchange rate gains. Adjusted for this effect of EUR 63.4 million (previous year: EUR 43.7 million), the gross margin amounted to EUR 196.3 million in the financial year 2017 and is far above the comparable figure for the previous year of EUR 57.2 million.

Personnel expenses rose from a total of EUR 13.8 million in 2016 to EUR 15.5 million in 2017, largely due to higher expenditure on bonuses, pensions and social security contributions of EUR 4.5 million in 2017 (previous year: EUR 2.2 million).

Amortization of intangible assets and depreciation of property, plant and equipment includes scheduled depreciation of EUR 12.9 million and unscheduled depreciation of EUR 19.6 million on the lower attributable value due to expected permanent impairment.

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Other operating expenses break down as follows:

	2017 EUR million	2016 EUR million
Currency exchange losses	**50.9**	65.8
IT related expenses	**1.2**	1.3
Legal and consultancy fees	**2.4**	3.2
Rent, repair and similar costs	**22.2**	18.2
Other	**17.1**	9.1
Total other operating expenses	**93.8**	**97.6**

Other operating expenses fell from EUR 97.6 million in 2016 to EUR 93.8 million in 2017. This is largely due to lower exchange rate losses totaling EUR –14.9 million.

On the other side, restoration provisions, included in “Other”, increased from EUR 1.5 million in 2016 to EUR 8.2 million.
In 2017, the financial result of Statkraft Markets GmbH was positive at EUR 73.7 million, compared with a negative result of EUR –37.9 million in the previous year. In the previous year, the financial result included increased expenses of EUR 24.7 million from loss absorption in the amount of EUR 24.7 million, while in 2017 the profit transfer from subsidiaries of EUR 87.1 million was positive, mainly due to a write-up of a financial asset (Statkraft Holding Knapsack GmbH).

Interest expenses of EUR 12.8 million mainly relate to EUR 2.1 million in the form of a Group loan of EUR 255.0 million, which was repaid at the end of the year, and fees for guarantees in the amount of EUR 9.2 million.

The positive profit after tax of EUR 191.5 million will be transferred to the sole shareholder Statkraft Germany GmbH on the basis of a profit and loss transfer agreement concluded on 1 January 2009. As a result, there are no changes in the equity or capital reserves of Statkraft Markets GmbH.

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NET ASSET AND FINANCIAL POSITION

Cash flow for 2017 and 2016 was as follows:

	2017 EUR million	2016 EUR million
Cash flow from operating activities	**0.1**	–327.9
Cash flow from investment activities	**26.7**	27.9
Cash flow from financing activities	**–100.9**	37.7
Net increase / (decrease) in cash	**–74.1**	**–262.2**
Cash and cash equivalents as of 1.1.	**206.4**	468.6
Cash and cash equivalents as of 31.12.	**132.3**	206.4

Cash flow from operating activities amounted to EUR 0.1 million in the financial year 2017 (previous year: EUR –327.9 million). The balanced cash flow from operating activities is due to the positive business result on the one hand and a reduction in trade payables and other liabilities on the other. Trade payables amounted to EUR 477.0 million in 2016, while trade payables fell to EUR 386.2 million in 2017.

The cash flow from investing activities amounts to EUR 26.7 million (previous year: EUR 27.9 million) and includes capital repayments by Statkraft Holding Knapsack GmbH of EUR 38.0 million and offsetting investments in intangible, tangible and financial assets totalling EUR 11.3 million (previous year: EUR 9.1 million).

The cash flow from financing activities includes the compensation of losses incurred by Statkraft Germany GmbH for the financial year 2016 totalling EUR 177.8 million, as well as the repayment of long-term loans of EUR 255.0 million and the loss compensation of subsidiaries.

Taking into account the positive cash and cash equivalents of EUR 206.4 million at the beginning of 2017, this resulted in positive cash and cash equivalents of EUR 132.3 million. Cash and cash equivalents as of 31 December 2017 consist of cash and cash equivalents of EUR 29.9 million and the net positive cash pool balance with Statkraft AS, Oslo / Norway of EUR 102.4 million.

Amortization of intangible assets and depreciation of property, plant and equipment amounted to EUR 32.5 million in 2017 (EUR 19.6 million of which was unscheduled). Investments in fixed assets and affiliated companies amount to EUR 2.2 million and EUR 9.2 million respectively.

Due to the existing profit and loss transfer agreement with Statkraft Germany GmbH, shareholders' equity remained unchanged compared with the previous year at EUR 410.8 million.

Total assets fell from EUR 1,467 million in 2016 to EUR 1,299 million in 2017, mainly due to the reduction in receivables from affiliated companies. On the liabilities side of the balance sheet, trade payables and liabilities to affiliated companies as well as prepaid expenses decreased. The reduction in deferred income results from the change in the presentation of the option premium, which will be reported under other liabilities for the first time as of 2017.

In total, the equity ratio (equity divided by balance sheet total) in the year under review was 31.6 %. This underscores the good creditworthiness of Statkraft Markets GmbH.

In addition to liquid funds of EUR 132.3 million at the end of the year, the company has a credit line of EUR 100.0 million to the parent company's cash pool. The Company therefore has sufficient cash and cash equivalents to secure the independent financing of its operating activities in 2018 and the following years.

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Financial and non-financial performance indicators

Management systematically reviews segment results in order to make decisions on resource allocations and measure target achievement. The results of Statkraft Markets GmbH and its subsidiaries are combined in two segments: Market Operations and European Flex.

Financial performance indicators

The performance indicators used by management for internal reporting purposes are based on consolidated figures under International Financial Reporting Standards (IFRS).

The financial performance indicators listed below primarily reflect the results of Statkraft Markets GmbH, Knapsack Power GmbH & Co. KG and a share in Kraftwerksgesellschaft Herdecke mbH & Co. KG.

Performance indicators	**2017**	2016
Net operating revenue in million EUR	**213.7**	109.9
EBITDA in million EUR	**99.4**	–34.3
Production volumes in GWh	**2,736.8**	2,748.5

Gross profit (defined in accordance with IFRS as net operating income) and EBITDA increased sharply compared with the previous year due to the market valuation of pending transactions.

Total production in 2017 has remained the same as in 2016. In the previous year, the market environment for the use of gas-fired power plants was particularly attractive due to failures of the French nuclear fleet. Nevertheless, gas-fired power plants were also increasingly used in 2017; reference is made to the comments on the business development.

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Non-financial performance indicators

Health & Safety
The Statkraft Group and Statkraft Markets GmbH place great emphasis on occupational safety and have set themselves the clear goal of preventing serious industrial accidents and violations of occupational safety requirements from the start. Clear requirements and tight controls in all operational processes and project stages are crucial to guarantee safe workplaces and achieve good results in the area of occupational safety. The continuous implementation of these principles has led to a constant improvement in occupational safety statistics. The Statkraft Group attaches great importance to learning lessons from injuries, near-accidents and unsafe conditions.

In the course of 2017, two incidents occurred with downtimes, but without serious consequential damage. The incidents were investigated and appropriate measures were taken to avoid repetition. At the Knapsack and Landesbergen sites, an "accident-free" year was again achieved.

The Company continues to focus on the continuous improvement and implementation of new health & safety guidelines. The Statkraft Group's health and safety management system complies with the OHSAS 18001 standard and international best practice.

Personnel
As of 31 December 2017, Statkraft Markets GmbH employed an average of 143 people, while Statkraft Markets GmbH employed an average of 162 people during the year.

The Statkraft Group and Statkraft Markets GmbH strive for a diverse working environment and promote equal treatment in the recruitment of new employees and in personnel policy. Statkraft Markets GmbH, together with its subsidiaries, operates throughout Europe and employs personnel from various countries. This international environment is very attractive for new employees, also outside Norway and Germany, and has a positive effect on the development potential of new European markets.

The management would like to take this opportunity to thank all employees for their excellent performance in 2017.

Climate and environmental impacts
Statkraft applies internationally proven environmental practices and the Group's environmental management system is based on ISO 14001.

In 2017, no serious environmental incidents were recorded at Statkraft Markets GmbH.

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OUTLOOK

In the previous year, we forecast a break-even result before profit transfer for 2017. Overall, the profit for 2017 of EUR 191.5 million was much higher than expected, mainly due to the write-ups of the gas-fired power plants and the good results of various divisions. In the financial year 2016, the company recorded a loss of EUR 177.8 million due to the high unscheduled depreciation of power plants.

The profit of Statkraft Markets GmbH will be transferred to the parent company Statkraft Germany GmbH, Düsseldorf, under the profit and loss transfer agreement that has been in place since the beginning of 2009.

At the end of the year, the company had a high level of cash and cash equivalents, so that sufficient cash and cash equivalents are available for the future.

For internal reporting purposes and based on International Financial Reporting Standards, Statkraft Markets GmbH forecasts a slightly lower gross profit of EUR 171.0 million for 2018 compared to 2017, with EBITDA forecast at EUR 55.4 million for 2018 and forecasted generation volume at 3.7 TWh.

In 2017, Statkraft Markets GmbH achieved a gross profit of EUR 213.7 million according to IFRS; EUR 132.0 million were forecast; realized EBITDA amounted to EUR 99.4 million; the forecast figure was EUR 28.0 million.

Significant differences between HGB and IFRS result from the accounting treatment of pending transactions (market valuation), valuation of property, plant and equipment, valuation of pension provisions.

As far as non-financial performance indicators are concerned, Statkraft takes every effort to prevent accidents at work and environmental incidents of any kind.

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OPPORTUNITIES AND RISKS

The earnings situation of the gas-fired power plants continued to improve in 2017 whilst the current competitive especially against coal fired power plants continues to be difficult. Depending on market development Statkraft Markets GmbH continues to reassess its long-term strategy for the gas power plants.

The balance sheet values of our plants reflect the current market situation. New decisions by the German federal government or changes in the market environment can influence the value of our power plants.

In the commercialization of power from renewable production in Germany and Great Britain there are risks especially in development of the imbalance costs, in their absolute value as well as their relative price to the market. At the same time increasing competitive pressures is currently preventing margins from increasing to compensate these risks.

The UK business carries risk that may result from the Brexit negotiations. So far none have become apparent that would affect the existing business.

The risks in the sale of certificates of renewable energy, which are included in other assets on the balance sheet date, are regarded as being low since, in the experience of the management, these certificates are requested by power suppliers in the summer of the following year in order to fulfil their regulatory obligations.

Opportunities exist in the expected market consolidation and Statkraft's leadership in innovation.

For the division Trading & Origination, risks and opportunities exist in the development of the market. False estimates of future price developments can have negative effects on the individual portfolios. At the same time, new and innovative products offer the opportunity to create added value.

RISK MANAGEMENT

Statkraft Markets GmbH is engaged in trading activities which are exposed to a number of risks. This includes in particular market price risks, counterparty credit risks, operative risks and risks connected with IT systems. Risk management therefore has the greatest priority at Statkraft Markets GmbH.

Business activities include trading and selling standardised term products, power profiles and other structured products. A large part of the profiles and structured products are hedged with corresponding futures contracts. Other parts of the derivative position will be closed out, usually through short-term deals to offset open positions. In total, the sum of the transactions should produce a positive arbitrage. Statkraft Markets GmbH is subject to financial risks, which can lead to fluctuations in profits and cash flow. In order to identify these risks on a timely basis and to address them, the company has drawn up appropriate risk management guidelines, which form an active part of the management of the company.

The management determines the risk policy with regard to the individual areas of business. The middle office plays a decisive role in risk management. It supervises daily business within the risk management system and delivers independent, professional assessments. The middle office managers systematically analyse all new business opportunities and prepare risk assessments to support the company management in making decisions. This increases risk awareness and ensures risks are effectively limited. Furthermore, the middle office draws up daily and weekly risk reports regarding Statkraft Markets GmbH’s market positions. These are analysed and discussed weekly by management.

Risk is managed by means of a limit system. Trades can only be concluded if they are within the trading limits. The limit system is divided according to limits for the price change risk and the (credit) default risk. The market price risks that appear in the volatile power and gas market will be measured using the Value at Risk method (VaR) and Profit at Risk analyses (PaR). The middle office monitors the open positions on the portfolios and the company’s total risk position. If the risk positions are exceeded, the middle office ensures that open positions are closed and risks from unsecured positions are minimised.

Credit and default risk is managed by means of an internal rating process. The credit limit of every counterpart is monitored and periodically checked, whilst the credit position is reported and discussed with individual counterparties on a regular basis. The rating and limit system allows the company to focus on counterparties with very good credit-worthiness. Default risks exist in the derivative financial instruments amounting to the positive market values. Statkraft Markets GmbH only suffered low losses in 2017 relating to insolvency of counterparts.

Besides evaluating potential counterparty risks, all products, business opportunities and counterparties are assessed with regard to the principles of corporate responsibility (CR), and all Middle Office risk assessments related to change of mandates or products must take this into account.

Risks arising from the fluctuation of liquidity resulting from the use of financial instruments such as forward contracts are managed by Statkraft Markets GmbH through regular monitoring of medium and long-term cash flow and daily cash management.

Statkraft Markets GmbH does not face significant financing or default risks due to the long-term, secured financing by an affiliated company and the outstanding receivables and liabilities owed from and to affiliated companies. The company is – like all of its associated companies – included in the cash-pooling of the Statkraft Group.

Statkraft Markets GmbH is exposed to a number of different operational risks, including the technical risks inherent in the operation and dispatch of power plants and process risks involved in the handling of trading business, including IT risks in particular. These risks are actively managed. In this respect, the Statkraft Markets GmbH energy management function is in close contact with power plant personnel and takes potential technical failures into account in its marketing strategy. The company strives to have a high degree of redundancy for all core operations. Following this philosophy, multiple staff members are trained in key processes and backup routines are aligned in order to ensure that essential skills are always available. The risk management system is monitored by internal auditing.

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The management does not view the development of the company as being endangered by the aforementioned risks, but rather – also based on the explanations in the opportunities section – projects a positive development for the company.

Düsseldorf, 29 March 2018

Dr Torsten Amelung
Managing Director

Dr Gundolf Dany
Managing Director

Stefan-Jörg Göbel
Managing Director

Robert Teschke
Managing Director

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BALANCE SHEET AS OF 31 DECEMBER 2017

Assets	31 December 2017 EUR	31 December 2016 EUR '000
A. Fixed assets		
I. Intangible fixed assets		
1. Software	2,100,723.72	2,022
II. Tangible fixed assets		
1. Ground, buildings	11,537,340.29	8,305
2. Technical equipment and machines	136,296,078.10	147,666
3. Other assets, operating – and office equipment	2,597,974.87	3,067
4. Asset under construction	2,768,459.30	3,227
	153,199,852.56	162,265
III. Long-term financial assets		
1. Shares in affiliated companies	61,222,220.46	91,756
2. Shares in associated companies	2,404,333.61	751
	63,626,554.07	92,507
	218,927,130.35	256,794
B. Current assets		
I. Inventories		
1. Raw materials and supplies	211,402,289.93	4,580
II. Receivables and other assets		
1. Trade receivables	382,305,397.13	366,159
2. Receivables from affiliated companies	203,007,454.36	377,444
3. Other assets	248,743,931.87	307,852
	834,056,783.36	1,051,455
III. Cash-in-hand, bank, balances and cheques	29,890,740.41	18,011
	1,075,349,813.70	1,074,046
C. Prepaid expenses	4,506,452.96	135,439
D. Excess of plan assets over pension liabilities	0.00	238
	1,298,783,397.01	1,466,517

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Equity and liabilities	31 December 2017 EUR	31 December 2016 EUR '000
A. Equity		
I. Subscribed capital	4,000,000.00	4,000
II. Capital reserves	398,104,558.71	398,105
III. Profit and loss reserve	45,978.68	46
IV. Profits carried forward	8,663,853.54	8,664
	410,814,390.93	410,814
B. Provisions		
1. Provisions for Pensions and similar liabilities	6,684,599.48	5,771
2. Tax provisions	219,000.00	219
3. Other provisions	142,670,492.04	83,107
	149,574,091.52	89,096
C. Liabilities		
1. Liabilities to banks	138.89	0
2. Trade payable	386,208,198.33	477,003
3. Liabilities to affiliated companies	223,484,061.90	311,446
4. Other liabilities of which for taxes: EUR 312,642.27 (previous year: TEUR 200)	128,597,100.87	47,027
	738,289,499.99	835,476
D. Deferred income	105,414.57	131,130
	1,298,783,397.01	1,466,517

INCOME STATEMENT

For the period from 1 January to 31 December 2017

	2017 EUR	2016 EUR '000
1. Sales revenue	17,385,856,289.56	13,196,003
2. Other capitalised own costs	309,226.51	270
3. Other operating income	87,582,079.75	58,264
4. Cost of materials		
a) Cost of raw materials and supplies	86,417,507.90	73,335
b) Cost of purchased services	17,127,584,295.04	13,080,318
5. Personnel expenses		
a) Salaries	11,033,316.65	11,632
b) Social security, pension and other employee benefit costs of which for pensions: EUR 2,611,793.59 (Prior year: TEUR 146)	4,511,513.67	2,153
6. Depreciation of tangible fixed assets and intangible fixed assets	32,455,587.84	129,226
7. Other operating expenses	93,788,907.02	97,623
8. Income from profit transfer agreements	87,105,627.32	984
9. Other interest and similar income thereof due to affiliated companies: EUR 176,629.90 (Prior year: TEUR 485)	258,525.80	1,356
10. Expenses from loss absorption	787,196.57	24,724
11. Interest and similar expenses thereof due to affiliated companies EUR 11,542,247.99 (Prior year: TEUR 11,441)	12,854,174.73	15,512
12. Taxes on income and earnings	4,651.24	8
13. Result after tax	191,674,598.28	–177,654
14. Other taxes	149,370.94	146
15. Profit transfers	–191,525,227.34	177,800
16. Net income for the financial year	0.00	0

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Notes for financial year 2017

GENERAL REMARKS

Statkraft Markets GmbH is based in Düsseldorf. The company is listed in the register of the Local Court Düsseldorf under no. HRB 37885.

The annual financial statements have been prepared in compliance with Sections 242 et seq. and Sections 264 et seq. of the German Commercial Code (HGB) as well as with the relevant provisions of the German Limited Liability Company Act (GmbHG). The regulations for large companies apply.

The income statement was prepared according to the total expenditure format.

ACCOUNTING AND VALUATION RULES

The following accounting and valuation rules were applied when preparing these annual financial statements.

Intangible assets are recognised at acquisition cost and the **tangible assets** are recognised at acquisition or production cost. Production costs include both direct attributable costs (primarily personnel costs) as well as a proportionate share of overheads.

Borrowing costs, which are incurred on the financing of the production of an asset, are capitalised as long as these arise during the construction period. Assets that are subject to wear and tear are depreciated in accordance with their useful life. Impairments are recognised when a decrease in value is probably permanent. Impairment reversals are recognized when the cause for initial impairment is no longer apparent. For **intangible** and tangible **assets** the following useful economic lives are applied:

Balance sheet items	Useful life in years	Depreciation method
Intangible assets	3–25	straight-line
Land, leasehold rights and buildings	6–33	straight-line
Technical equipment, plant and machinery	1–40	straight-line and diminishing balance
Other equipment, fixtures, fittings and equipment	3–13	straight-line and diminishing balance

Since financial year 2008, **low-value assets** with a net value of up to EUR 150.00 have been directly expensed in the income statement. A collective item for low-value assets with a net value of more than EUR 150.00 and up to EUR 1,000.00 is recognised in tangible fixed assets and depreciated over a five-year period using the straight-line method. The item is, in its totality, of only minor importance.

The **financial assets** are recognised at the lower of cost of acquisition or fair values, if fair values are likely to be permanently lower.

Inventories are recognised at lower of cost of acquisition. Write-downs to net realisable value are recognized when necessary.

Receivables and other assets are capitalised at nominal value. Provisions are raised to cover any positions at risk. Since 2017 paid option premiums are shown under other assets. In previous years, these were disclosed under prepaid expenses. This reclassification has no material impact on net assets, the financial position or profit and loss.

Other assets in **foreign currency** are translated at the average spot exchange rate according to Section 256a HGB. For positions in foreign currency with a maturity of one year or less cost of acquisition principles according to Section 253 (1) sentence 1 HGB and the imparity principles of Section 252 (1) no. 4 half-sentence 2 HGB are not applied. Positions with a maturity of over one year did not exist at the balance sheet date.

Liquid assets are recognised at nominal value.

Expenses incurred before the balance sheet date are disclosed as **prepaid expenses** on the assets side to the extent that these constitute expenditures for a certain time after this date.

The **surplus of plan assets over post-employment benefit liability** results from the difference between early retirement obligations and the fair value of contracted reinsurance policies and is disclosed in the balance sheet as an asset. As this item is not accessible to creditors, this fulfils the offsetting requirements of Section 246 (2) second sentence HGB. The asset value has been calculated according to actuarial methods.

Pension provisions were measured according to the projected unit credit method, applying actuarial principles, and are based on Prof Klaus Heubeck's 2005 G mortality tables published in 2006. These provisions were discounted at the average market interest rate of the past ten years as published by the Deutsche Bundesbank, and which apply to remaining term of 15 years (Section 253 (2) second sentence HGB, Art. 75 (6) of the Introductory Act to the German Commercial Code (EGHGB)). The difference between the calculation of the provisions taking the corresponding market interest rate from the previous ten years compared to the calculation of the provisions with the corresponding market interest rate from the previous seven years amounts to EUR 6,377 thousand in the current financial (previous year: EUR 5,102 thousand) year (Section 253 (6) HGB). The valuation of pension provisions is based on the following parameters:

	2017 **%**	2016 %
Discount rate	**3.68* / 2.80****	4.01
Salary increases	**3.00**	3.00
Pension increases	**1.00**	1.00
Fluctuation	**0.00 – 6.00**	0.00 – 6.00

* ten-year average
** seven-year average

Reinsurance policies have been concluded to secure pension obligations. According to Section 246 (2) second sentence HGB, the **fair values of reinsurance policies** and pension obligations are offset for balance sheet presentation. To fulfil employee pension obligations, capital is deposited in special funds. These are not accessible to creditors. From 2010 onwards, reinsurance policies are measured at fair value and offset against pension obligations. Fair value is determined based on the policy reserves projected by the insurance company. The discount rate changes are included in interest costs. The effect from the offset of plan assets is recognized in the interest expenses.

Other provisions cover all contingent liabilities as well as impending losses from pending transactions. They are calculated based on the expected settlement amount including future price increases common to normal business undertakings. Other provisions with a residual term of more than one year are discounted according to the average market interest rate of the past seven years as announced by Deutsche Bundesbank. Reinsurance policies have been concluded to secure retirement benefit obligations. These reinsurance policies are not accessible to creditors. Reinsurance policies are measured at fair value and offset against pension obligations. Fair value is determined based on the policy reserves projected by the insurance company.

Valuation units in accordance with Section 254 HGB. Statkraft Markets GmbH's commercial activities include physical and financial trading and optimisation activities in electricity, gas, emission rights and other commodities relating to the energy industry. Amongst other things, futures contracts are concluded for this purpose. Foreign currency transactions are concluded in this context to hedge against exchange risks.

Statkraft Markets GmbH distinguishes between the Trading and the Origination divisions. While standard products are used in the Trading division to achieve margins with a short-term horizon, the Origination division also involves long-term optimisation activities with structured products and inventories. Both operating divisions are divided into different mandates in order to ensure adequate risk monitoring and management of trading/optimisation activities. The definition of the individual mandates is generally based on the region traded, traded products and commodities, the time horizon or the trading strategies.

Risk limits for the trading mandates are determined by the Value-at-Risk (VaR) calculations, which are performed for each trading date by the risk management team. Defined procedures for reducing risk are initiated if specified limits are breached.

Risk limits for the origination mandates are based on Profit-at-Risk (PaR) calculations, which are also carried out on a daily trading date basis by the risk management. If limits are breached in Origination mandates, risk reduction measures are taken.

In principle, transactions concluded in the Trading and Origination Divisions are combined in macro valuation units in which the risk-compensating effect of comparable risks is taken into consideration. A macro valuation unit exists if the risk-compensating effect of whole groups of underlying transactions is evaluated at an aggregated level and these groups are jointly hedged against the (net remaining) risk and this is in accordance with the risk management practice.

In each of the macro valuation units financial and economic risks, in the form of price and foreign exchange risks, are hedged through traded commodities within their mandate frame. The balance sheet presentation of the effective parts of the valuation units is done in accordance with the freezing method, according to which the changes in value in basic and hedging transactions which balance against one another and which can be traced back to the particular risk hedged, are not reported in the balance sheet.

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The hedging intention of the macro valuation units exists continuously for the periods that are in accordance with the risk guidelines for trading transactions. As of 31 December 2017, opposite cash flows streams exist for the period up to 2027. A documented, appropriate, working risk management system exists to determine the expected effectiveness. The scope of actions, responsibilities and controls according to internal guidelines are determined and binding. Trading in commodity derivatives is permitted within predefined limits. The limits are defined by independent organisational units and monitored during daily trading.

The assets, liabilities and contingent transactions are included in the valuation units with the following nominal values (book values):

Transaction type	Nominal value in EUR '000	Book value in EUR '000
Assets	**18,585**	18,585
Liabilities	**102,811**	102,811
Pending purchase transactions	**13,863,549**	13,863,549
Pending sales transactions	**13,673,958**	13,673,958

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The value of the risks hedged through valuation units is EUR 327,792 thousand.

The macro valuation units are tested for ineffectiveness on the balance sheet values at the end of the year by looking at the current market values of the particular valuation unit to which it relates. If the market value of all relevant commercial transactions is negative, considering all assets and liabilities included in the valuations units, a provision for the valuation unit is recognized. If the overall value is positive then no asset is recognized.

Liabilities are recognised at the amounts at which they will be settled. Present values of long-term obligations are calculated by applying comparable market interest rates. Option premiums received have been reported under other liabilities since 2017; in previous years, the disclosure was made under deferred income. This reclassification has no material impact on net assets, the financial position or profit and loss.

Income received before the balance sheet date is disclosed as deferred income on the liabilities side to the extent that this constitutes income for a certain time after this date.

Receivables and liabilities denominated in **foreign currencies** are posted at the rates in effect at the date of initial posting and are re-measured at the balance sheet date applying the average spot exchange rate. The losses from exchange rate changes on the balance sheet date are recognised as losses. In contrast, unrealised profits from exchange rate changes are recognized if they relate to receivables and liabilities with a remaining term of up to one year.

Affiliated companies are all those companies which are included in the consolidated financial statements of Statkraft AS, Oslo, Norway, and those in which Statkraft AS, Oslo, Norway, either directly or indirectly holds the majority interest, but which are not included in the consolidated financial statements according to the choice of accounting policy.

Sales from trading are disclosed as gross figures.

Internal expenditure capitalised comprises mainly personnel costs for own employees.

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EXPLANATORY COMMENTS ON THE BALANCE SHEET

Fixed assets

The movements in fixed assets and their amortisation and depreciation and interest for the financial year are presented in the statement of movements in fixed assets (Appendix to the Notes). Borrowing costs were not capitalised in the financial year.

The 100% subsidiary Statkraft Ventures GmbH, Düsseldorf, which was founded in 2015, received a capital increase in 2017 of EUR 7,500 thousand. In the 2017 financial year, Statkraft Markets GmbH acquired shares of enQu GmbH in Kiel and statt-werk GmbH in Berlin. The S.C. Statkraft Romania SRL in Bucharest / Romania was liquidated in 2017.

List of shareholdings

This information relates to 31 December 2017, to the extent not stated otherwise.

Name and registered office	Investment held 31.12. (%)	Results for financial year (EUR '000)	Share capital / limited liability capital (EUR '000)	Equity (EUR '000)
Statkraft Markets Financial Services GmbH, Düsseldorf	100	0 [1]	25	1,093
Statkraft Holding Herdecke GmbH, Düsseldorf	100	0 [1]	25	5,270
Statkraft Holding Knapsack GmbH, Düsseldorf	100	0 [1]	25	40,479
Knapsack Power GmbH & Co. KG, Düsseldorf [2]	100	44,803	25	79,120
Knapsack Power Verwaltungs GmbH, Düsseldorf [2]	100	2	25	63
Kraftwerksgesellschaft Herdecke mbH & Co. KG, Hagen [2] [3]	50	2,086	10,000	26,916
Kraftwerksverwaltungsgesellschaft Herdecke mbH, Hagen [2] [3]	50	1	25	39
Statkraft South East Europe EOOD, Sofia / Bulgaria [3]	100	4	3	127
Statkraft Trading GmbH, Düsseldorf	100	0 [1]	25	25
Statkraft Ventures GmbH, Düsseldorf	100	0 [1]	25	14,425
Windpark Kollweiler GmbH & Co. KG, Billerbeck [3]	20	–98	1,462	1,073
enQu GmbH, Kiel [2]	50	43	50	685
statt-werk GmbH, Berlin [3]	25	–249	50	1,290

[1] Result after transfer of profit / loss
[2] Indirectly held investments
[3] Last annual financial statements 31.12.2016

Receivables and other assets

As in the previous year, all receivables and other assets have a residual term of up to one year. In 2017, a lump sum valuation allowance for receivables of EUR 3,862 thousand (previous year: EUR 4,205 thousand) was posted.

Receivables from affiliated companies are comprised as follows:

	2017 EUR '000	2016 EUR '000
Receivables from cash pool against Statkraft AS, Oslo / Norway	**102,423**	188,359
Receivables from short-term loans given to subsidiaries	**0**	225
Trade accounts receivable	**5,695**	2,244
Receivables from profit transfer agreements	**87,106**	984
Receivables from shareholder Statkraft Germany GmbH, Düsseldorf	**7,783**	7,832
Receivables from loss transfers by the shareholder Statkraft Germany GmbH, Düsseldorf	**0**	177,800
Total receivables against affiliated companies	**203,007**	**377,444**

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Receivables due from the shareholder (EUR 7,783 thousand) Statkraft Germany GmbH, Düsseldorf, are mainly input tax refund claims.

Other assets mainly include CO_2 certificates of EUR 12,528 thousand (previous year: EUR 199,166 thousand) and paid securities of EUR 129,143 thousand (previous year: EUR 108,559 thousand), including securities from the exchange-side settlement of open positions and options premiums paid of EUR 106,341 thousand (previous year: EUR 130,493 thousand). In the previous year, the option premiums paid were reported under prepaid expenses. This has no material effect on net assets, the financial position or profit and loss.

Prepaid expenses

The prepaid expenses of EUR 4,506 thousand (previous year: EUR 135,439 thousand) mainly concern payments for certificates amounting to EUR 3,845 thousand (previous year: EUR 4,464 thousand). The paid option premiums amounting to EUR 106,341 thousand (previous year: EUR 130,493 thousand) are reported under other assets since 2017.

Deferred tax reimbursements

Deferred tax assets were not recognized during the current financial year because a possible disclosure must now be made at Statkraft Germany GmbH, Düsseldorf, level in its capacity as the tax group holding company (since 1 January 2009).

Surplus on pension plan assets versus early retirement obligations

Reinsurance policies had been in place to cover **early retirement obligations** in previous years. According to Section 246 (2) second sentence HGB, the **fair values of reinsurance policies** and early retirement obligations were offset for balance sheet presentation. To fulfil obligations, capital was deposited in special funds, which were not accessible to creditors in case of insolvency.

In 2017 the obligations were paid out, so that the early retirement obligations amounted to EUR 0 on the balance sheet date. There is still a claim outstanding against the reinsurance provider of EUR 146 thousand, which is shown under other receivables.

In the previous year, a surplus of EUR 238 thousand was assessed for early retirement obligations. Prior to offsetting the plan assets of EUR 357 thousand, early retirement obligations amounted to EUR 119 thousand.

Distribution restrictions apply to the difference between the fair value and cost of the early retirement reinsurance policies in accordance with Section 268 (8) HGB. Since the difference between the fair value and cost of the early retirement reinsurance policies was negative in 2016, Section 268 (8) HGB was not applicable in the previous year.

Interest results included gains of EUR 25 thousand of income from plan assets as well interest expenses due to discounting of early retirement obligations amounting to EUR 5 thousand. The positions were shown net under interests.

Equity

As a consequence of the controlling and profit and loss transfer agreement with Statkraft Germany GmbH, Düsseldorf, in force since 1 January 2009, the company’s equity remained unchanged compared to the previous year and amounts to EUR 410,814 thousand.

Provisions for pensions and similar obligations

Reinsurance policies have been concluded to secure **pension obligations.** According to Section 246 (2) second sentence HGB, **fair values of reinsurance policies** and obligations are offset for balance sheet presentation. To fulfil pension obligations, capital is deposited in special funds, which are not accessible to other creditors in case of insolvency. From 2010 onwards, reinsurance policies regarding pensions have been measured at fair value and offset against pension obligations.

The costs as well as the fair values of the plan assets are shown in the following table:

	Acquisition cost EUR ’000	Fair value EUR ’000
Pension reinsurance policies	26,256	28,538

For the financial reporting period, a deficit of EUR 6,685 thousand (previous year: EUR 5,770 thousand) was assessed and recognised in the pension provisions, based on the 10-year average rate. Applying the 7-year average rate, this would have resulted in pension obligations of EUR 13,062 thousand (previous year: EUR 10,872 thousand). The difference according to Section 253 (6) HGB thus amounts to EUR 6,377 thousand (previous year: 5,102). Prior to offsetting the plan assets of EUR 28,538 thousand (previous year: EUR 26,190 thousand), pension obligations in the financial year 2017 amounted to EUR 35,223 thousand (previous year: EUR 31,961 thousand).

The difference between the fair value and cost of the pension reinsurance policies is subject to a payment and distribution restriction in accordance with Section 268 (8) HGB and amounts to EUR 2,282 thousand (previous year: EUR 1,642 thousand).

Net interest results include gains of EUR 609 thousand (previous year: EUR 631 thousand) resulting from plan assets. This also includes expenses due to discounting of pension obligations of EUR 1,270 thousand (previous year: EUR 1,200 thousand). Expenses of EUR 46 thousand (previous year: EUR 47 thousand) were netted against the interest from plan assets.

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Other provisions

Other provisions amount to EUR 142,670 thousand (previous year: EUR 83,107 thousand). Other provisions mainly consist of the following:

	2017 EUR '000	2016 EUR '000
Accruals	7,007	3,259
Decommissioning provisions	19,336	10,894
Provisions for jubilee and death payment benefits	722	740
Provision for onerous contracts	25,099	1,584
Provision for valuation units	87,457	62,468
Employee bonuses	690	795
Employees liability insurance association costs	271	278
Holiday leave not taken yet / settlement obligations	83	70
Other	2,005	3,019
Total	**142,670**	**83,107**

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The company has concluded long-term power supply contracts that, as in the preceding years, have been examined for possible risks of expected losses from the future power supply obligations. The valuation showed a possible loss of EUR 25,099 thousand over the total lifetime of the contract so that provisions for onerous contracts were recognised.

Liabilities

As in the previous year, liabilities are due within one year. The liabilities from loans from group companies of EUR 255,000 thousand (previous year: EUR 255,000 thousand) were fully repaid in 2017.

Liabilities towards affiliated companies are as follows:

	2017 EUR '000	2016 EUR '000
Trade accounts payables	28,806	30,426
Liabilities from loans from group companies	0	255,000
Liabilities from the transfer of losses	787	24,724
Liabilities from profit and loss transfer agreement to shareholder Statkraft Germany GmbH, Düsseldorf	192,312	0
Liabilities from deliveries and services to shareholder Statkraft Germany GmbH, Düsseldorf	1,579	1,296
Total liabilities to affiliated companies	**223,484**	**311,446**

Other liabilities

In financial year 2013, the company agreed to acquire the contractual rights and obligations of a gas supply agreement with Wingas GmbH, Kassel, and a power purchase agreement with Kraftwerksgesellschaft Herdecke mbH & Co. KG, Hagen, from two affiliated companies. The gas supply agreement runs until September 2017, the power purchase agreement until the end of 2037. For the acquisition of the gas supply agreement, Statkraft Markets GmbH received EUR 66,787 thousand and EUR 94,364 thousand for the acquisition of the power purchase agreement. Both values reflected the expected future losses from these agreements as of the time of the transfer.

As in the preceding years, in 2017 these obligations diminished by the delivered volume without affecting profit and loss.

A revaluation of pending transaction as of 31 December 2017 based on current market conditions showed that additional risk provisions needed to be posted. The corresponding amounts for the additional risk for the current year have been recognized under other provisions as provisions for onerous contracts from energy contracts.

The following table shows the details of other liabilities at the balance sheet date:

	2017 EUR '000	2016 EUR '000
Liabilities power purchase agreement	**16,410**	18,504
Liabilities gas purchase agreement	**0**	5,811
Liabilities from environmental certificate purchase agreements	**5,477**	12,802
Securities received from counterparties	**14,355**	7,600
Tax liabilities	**313**	200
Liabilities from the evaluation of financial currency transactions	**0**	1,384
Liabilities from option premium	**90,128**	0
Miscellaneous	**1,914**	726
Total	**128,597**	**47,027**

As in the previous year, the securities received represent receipts from bilateral margin agreements. The liabilities from the option premiums were previously shown under deferred income.

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Deferred income

In the previous year, deferred income included option premiums received of EUR 131,130 thousand; these are shown for the first time in this financial statement under other liabilities.

Contingent liabilities

Statkraft Markets GmbH issued a guarantee of EUR 2,000 thousand to the Bulgarian State Energy and Water Regulatory Commission relating to liabilities of Statkraft South East Europe EOOD, Sofia, Bulgaria, pursuant to power supply contracts within Bulgaria. The liabilities of Statkraft South East Europe EOOD, Sofia, Bulgaria, from power supply contracts within Bulgaria amount to EUR 1 thousand as of 31 December 2017 (previous year: EUR 1 thousand).

The company believes that the liable subsidiary is able to fulfil all of its obligations with the existing assets and funds it has currently available. The risk that the guarantee will be executed is therefore considered unlikely.

Other financial obligations

Obligations relating to the long-term power purchase agreement amount to EUR 144,522 thousand.

As of 31 December 2017, obligations from a long-term service agreement amount to a total of EUR 27,062 thousand.

Obligations from tenancy leases and leasing agreements as of 31 December 2017 amount to EUR 16,115 thousand (previous year: EUR 16,070 thousand). Of this amount, EUR 1.765 thousand (previous year: EUR 1,755 thousand) is due within one year and EUR 8.598 thousand (previous year: EUR 8,598 thousand) after five years. The rental and leasing properties are used according to their normal purpose. No significant opportunities or risks exist from the rental and leasing contracts.

Additional financial obligations amounting to EUR 4,927 thousand relate to legal disputes that have not yet been resolved. As the company does not expect to lose the disputes no provision was recognised.

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EXPLANATORY COMMENTS ON THE INCOME STATEMENT

Sales

Sales revenues in the past financial year amounted to EUR 17,385,856 thousand (previous year: EUR 13,196,003 thousand) and were distributed across the segments as follows:

	2017 EUR '000	2016 EUR '000
Electricity	8,218,408	6,634,421
Gas	3,144,762	2,328,272
Emissions and green energy	6,003,544	4,217,398
Other services to clients	19,142	15,912
Total sales	**17,385,856**	**13,196,003**

Classified by regional markets, sales are distributed as follows:

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	2017 EUR '000	2016 EUR '000
Germany	8,087,850	6,018,916
Great Britain	5,980,680	4,722,112
Netherlands	2,062,391	1,328,192
France	413,181	275,243
Austria	737	2,048
Italy	12,286	37,716
Switzerland	54,514	28,525
Belgium	14,776	12,924
Slovenia	21,864	51,379
Hungary	122,827	15,498
Luxembourg	225,762	570,638
Czech Republic	86,907	44,974
Greece	5,766	7,985
Denmark	322	229
Turkey	882	5,137
Romania	3,358	5,590
Spain	164	102
USA	1,968	2,382
Bulgaria	11,625	19,231
Australia	226,346	0
Norway	21,301	23,146
Other	30,349	24,037
Total sales	**17,385,856**	**13,196,003**

Other operating income

Other operating income amounted to EUR 87,582 thousand (previous year: EUR 58,264 thousand) and consists of the following:

	2017 EUR '000	2016 EUR '000
Currency exchange gains [1]	**65,629**	43,672
Gains from the release of provisions / other liabilities [2]	**600**	13,108
Impairment reversals of fixed assets	**21,288**	0
Other	**65**	1,484
Total other operating income	**87,582**	**58,264**

[1] Thereof EUR 2,401 thousand (previous year: EUR 0 thousand) unrealised currency exchange gains
[2] Thereof EUR 600 thousand (previous year: EUR 13,108 thousand) from other periods

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Depreciation and amortisation of intangible fixed assets and tangible assets

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The depreciation and amortisation of tangible assets comprises normal depreciation (EUR 12.9 million) as well as unplanned write-downs to the lower fair value assessment of the power plant due to a permanent impairment (EUR 19.6 million). The lower fair value was determined by reassessing the book values based on the current market situation, i.e. declining price levels due to increased competition.

Other operating expenses

Other operating expenses comprise the following:

	2017 EUR '000	2018 EUR '000
Legal and consultancy fees	**2,366**	3,238
Rent, repair and similar costs	**22,203**	18,160
Services for power plants	**475**	356
Currency exchange losses [1)]	**50,907**	65,819
IT related expenses	**1,235**	1,344
Marketing and information costs	**341**	387
Travel expenses	**267**	312
Expenses for telephone and data transmission	**759**	815
Membership fees	**611**	383
Guarantee costs	**304**	309
Expenses for external employees	**56**	199
Other	**14,265**	6,301
Total other operating expenses	**93,789**	**97,623**

[1)] Thereof EUR 5,072 thousand (previous year: EUR 11,413 thousand) unrealised currency exchange losses

Interest and similar expenses

Interest expenses for the financial year 2017 of EUR 12,854 thousand (previous year: EUR 15,512 thousand) includes accrued interest on other liabilities related to gas and power purchase agreements as well as environmental certificate obligations amounting to EUR 52 thousand (previous year: EUR 1,686 thousand), interest expense on accrued pension liabilities amounting to EUR 1,270 thousand (previous year: EUR 1,200 thousand) and additional interest on accrued other provisions of EUR 418 thousand (previous year: EUR 938 thousand).

Taxes on income

Taxes on income amount to EUR 5 thousand (previous year: EUR 8 thousand) and mainly comprise non-refundable foreign input taxes.

Issues relating to other periods

The other operating income includes EUR 600 thousand of income from other periods which mainly result from the release of provisions.

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OTHER INFORMATION

Derivative financial instruments

Currency forwards are used to hedge against foreign currency risks. The market values of the currency forwards were calculated from the difference between the hedging transactions at the hedging rate (nominal values) and the hedging transactions at the closing rate (fair values).

At the balance sheet date following forward exchange transactions existed:

	Nominal value EUR '000	Fair value EUR '000
positive market values		
Sale of GBP	**49,364**	49,447
	49,364	49,447
negative market values		
Sale of GBP	**149.365**	147.518
	198,729	**196,965**

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Unrealized losses from these transactions of EUR 1,764 thousand were recognized in other provisions.

Auditor fees

The total fee charged by the auditor for the financial year 2017 amounts to EUR 274 thousand (previous year: EUR 238 thousand). Of this, EUR 256 thousand relates to the audit of the financial statements and EUR 18 thousand to other audit services. For the previous years (audit of financial statements), EUR 27 thousand were charged in 2017. The total fee amounts to EUR 301 thousand.

Management

The managing directors holding sole power of representation are Dr Torsten Amelung (Senior Vice President New Markets), Düsseldorf, and Dr Gundolf Dany (Senior Vice President Continent, UK & South East Europe), Hürth.

Stefan-Jörg Göbel (Vice President Asset Portfolio), Düsseldorf, Robert Teschke (Vice President Accounting, Tax, Internal Control), Düsseldorf are the managing directors with joint powers of representation.

The managing directors perform the duties and responsibilities of the divisions shown above as their full-time occupation within the Statkraft Group.

Total remuneration paid to the management

The company has decided to exercise the option of the protective clause of Section 286 (4) HGB with respect to the remuneration paid to management. Only one managing director, Dr Gundolf Dany, received remuneration from the company in financial year 2017.

Employees

The company had an average of 162 employees in the reporting year (previous year: 172); 147 employees were full-time employees (previous year: 153) and 15 employees were part-time (previous year: 19).

Subsequent Events

There were no events of special significance after the end of the financial year.

Group affiliation

The company's annual financial statements are included in the consolidated financial statements of Statkraft AS, Oslo, Norway, as of 31 December 2017 (smallest group of consolidated entities). The largest group of consolidated entities in which the company is included is the consolidated financial statements of Statkraft SF, Oslo, Norway. The management intends to file the consolidated financial statements and the management report of Statkraft AS, prepared in accordance with the International Financial Reporting Standards (IFRS), in German with the online version of the Bundesanzeiger (German Federal Gazette) according to the relevant provisions for consolidated financial statements and consolidated management reports pursuant to Section 291 HGB under Statkraft Markets GmbH, Düsseldorf / HRB 37885 / Düsseldorf District Court. In this case, Statkraft Markets GmbH will not be obligated to prepare its own consolidated financial statements and a consolidated management report according to Section 290 HGB.

Deviations from German legal requirements with respect to the annual financial statements of Statkraft Markets GmbH can arise in the area of fixed assets due to different definitions of useful life, on different valuations of pension provisions and pending trading transactions as well as the creation of deferred taxes which derive from the different accounting and valuation methods.

The consolidated financial statements for Statkraft AS are available from the registered court (Regnskapsregisteret) in Oslo / Norway, under register number 987 059 69.

Proposal for appropriation of profits / losses

The net loss of the year will be absorbed by the sole shareholder, Statkraft Germany GmbH, Düsseldorf, pursuant to the controlling and profit and loss transfer agreement. The net income that will be disclosed for the year therefore amounts to EUR 0.

Düsseldorf, 29 March 2018

Dr Torsten Amelung
Managing Director

Dr Gundolf Dany
Managing Director

Stefan-Jörg Göbel
Managing Director

Robert Teschke
Managing Director

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FIXED ASSETS MOVEMENT

	Gross book value				
	As at 1.1.2017 EUR	**Additions EUR**	**Transfer EUR**	**Disposals EUR**	**As at 31.12.2017 EUR**
I. Intangible assets					
1. Purchased software	12,634,791.78	4,991.66	212,150.56	0.00	12,851,934.00
2. Goodwill	11,779,877.84	0.00	0.00	0.00	11,779,877.84
	24,414,669.62	**4,991.66**	**212,150.56**	**0.00**	**24,631,811.84**
II. Tangible assets					
1. Land, leasehold rights and buildings	97,910,947.03	54,306.32	734.44	0.00	97,965,987.79
2. Technical equipment, plant and machinery	678,279,410.49	90,228.70	1,815,914.16	0.00	680,185,553.35
3. Other equipment, fixtures, fittings and equipment	17,228,030.89	373,632.79	115,978.45	0.00	17,717,642.13
4. Plant and machinery in process of construction	9,636,232.27	1,658,179.38	–2,144,777.61	0.00	9,149,634.04
	803,054,620.68	**2,176,347.19**	**–212,150.56**	**0.00**	**805,018,817.31**
III. Financial assets					
1. Shares in affiliated companies	91,766,220.46	7,500,000.00	0.00	38,041,500.00	61,224,720.46
2. Investments	751,000.00	1,653,333.61	0.00	0.00	2,404,333.61
	92,517,220.46	**9,153,333.61**	**0.00**	**38,041,500.00**	**63,629,054.07**
	919,986,510.76	11,334,672,46	0.00	38,041,500.00	893,279,683.22

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	Accumulated depreciation					
	As at 1. 1. 2017 EUR	Additions EUR	Transfer EUR	Disposals EUR	Write-up EUR	As at 31. 12. 2017 EUR
I. Intangible assets						
1. Purchased software	10,612,704.21	622,418.98	0.00	0.00	483,912.91	10,751,210.28
2. Goodwill	11,779,877.84	0.00	0.00	0.00	0.00	11,779,877.84
	22,392,582.05	**622,418.98**	**0.00**	**0.00**	**483,912.91**	**22,531,088.12**
II. Tangible assets						
1. Land, leasehold rights and buildings	89,606,554.10	770,197.00	0.00	0.00	3,948,103.60	86,428,647.50
2. Technical equipment, plant and machinery	530,613,175.59	30,087,337.80	44,314.58	0.00	16,855,352.72	543,889,475.25
3. Other equipment, fixtures, fittings and equipment	14,160,823.61	956,711.02	2,491.72	0.00	359.09	15,119,667.26
4. Plant and machinery in process of construction	6,409,058.00	18,923.04	–46,806.30	0.00	0.00	6,381,174.74
	640,789,611.30	**31,833,168.86**	**0.00**	**0.00**	**20,803,815.41**	**651,818,964,75**
III. Financial assets						
1. Shares in affiliated companies	10,000.00	0.00	0.00	7,500.00	0.00	2,500.00
2. Investments	0.00	0.00	0.00	0.00	0.00	0.00
	10,000.00	**0.00**	**0.00**	**7,500.00**	**0.00**	**2,500.00**
	663,192,193.35	32,455,587.84	0.00	7,500.00	21,287,728.32	674,352,552.87

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	Net book values	
	As at 31.12.2017 EUR	As at 31.12.2016 EUR
I. Intangible assets		
1. Purchased software	2,100,723.72	2,022,087.57
2. Goodwill	0.00	0.00
	2,100,723.72	**2,022,087.57**
II. Tangible assets		
1. Land, leasehold rights and buildings	11,537,340.29	8,304,392.93
2. Technical equipment, plant and machinery	136,296,078.10	147,666,234.90
3. Other equipment, fixtures, fittings and equipment	2,597,974.87	3,067,207.28
4. Plant and machinery in process of construction	2,768,459.30	3,227,174.27
	153,199,852.56	**162,265,009.38**
III. Financial assets		
1. Shares in affiliated companies	61,222,220.46	91,756,220.46
2. Investments	2,404,333.61	751,000.00
	63,626,554.07	**92,507,220.46**
	218,927,130.35	**256,794,317.41**

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INDEPENDENT AUDITOR'S REPORT

We have audited the annual financial statements – comprising the balance sheet, the income statement and the notes to the financial statements – together with the bookkeeping system, and the management report of Statkraft Markets GmbH, Düsseldorf, for the business year from 1 January to 31 December 2017. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and on the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with § 317 HGB (“German Commercial Code”) and German generally accepted standards for the audit of financial statements promulgated by the “Institut der Wirtschaftsprüfer”. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures.

The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a sample basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

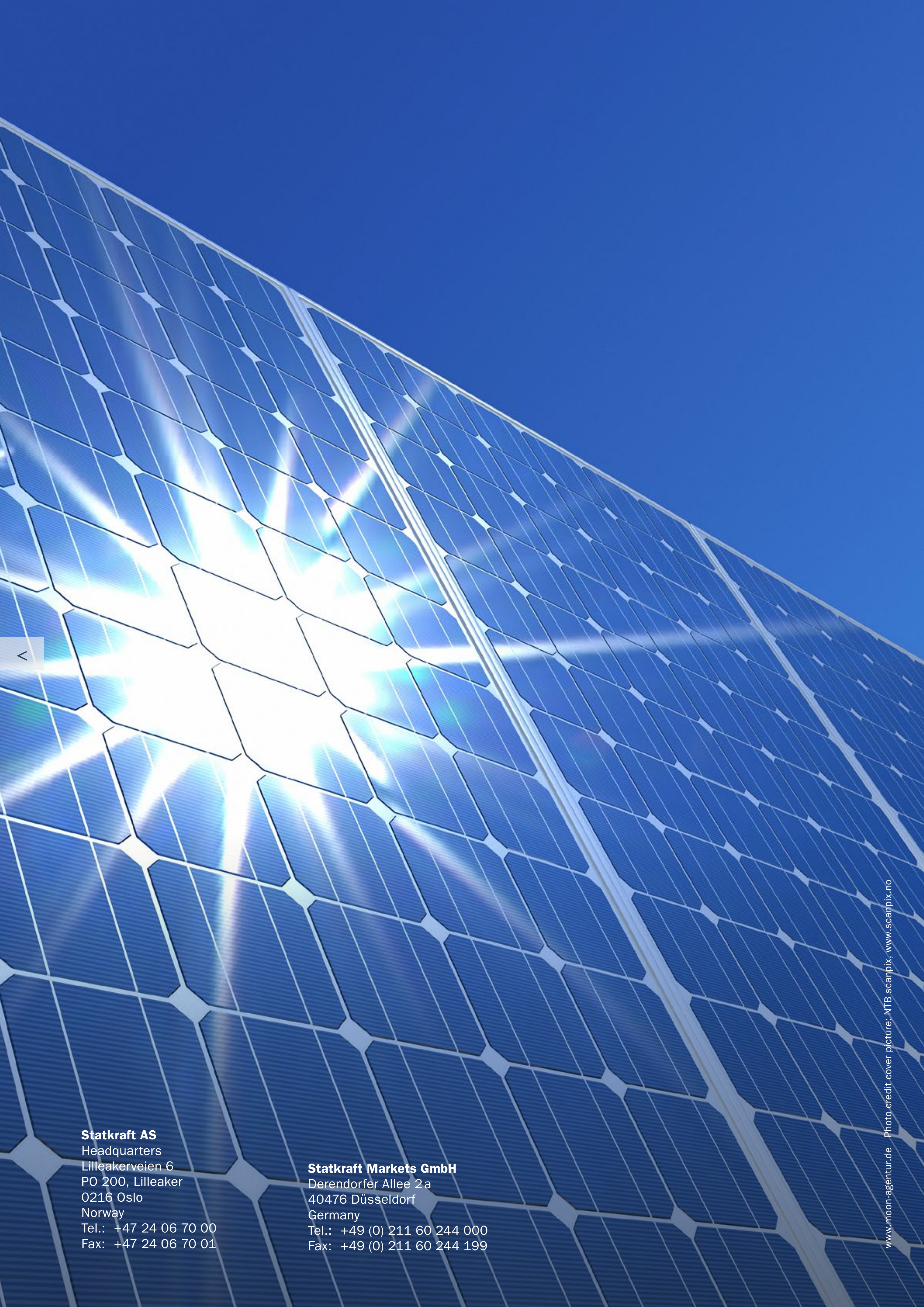
In our opinion, based on the findings of our audit, the annual financial statements of Statkraft Markets GmbH, Düsseldorf, comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Düsseldorf, 29 March 2018

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

(Lammers)
German Public Auditor

(Saliger)
German Public Auditor



Statkraft AS
Headquarters
Lilleakerveien 6
PO 200, Lilleaker
0216 Oslo
Norway
Tel.: +47 24 06 70 00
Fax: +47 24 06 70 01

Statkraft Markets GmbH
Derendorfer Allee 2 a
40476 Düsseldorf
Germany
Tel.: +49 (0) 211 60 244 000
Fax: +49 (0) 211 60 244 199

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