





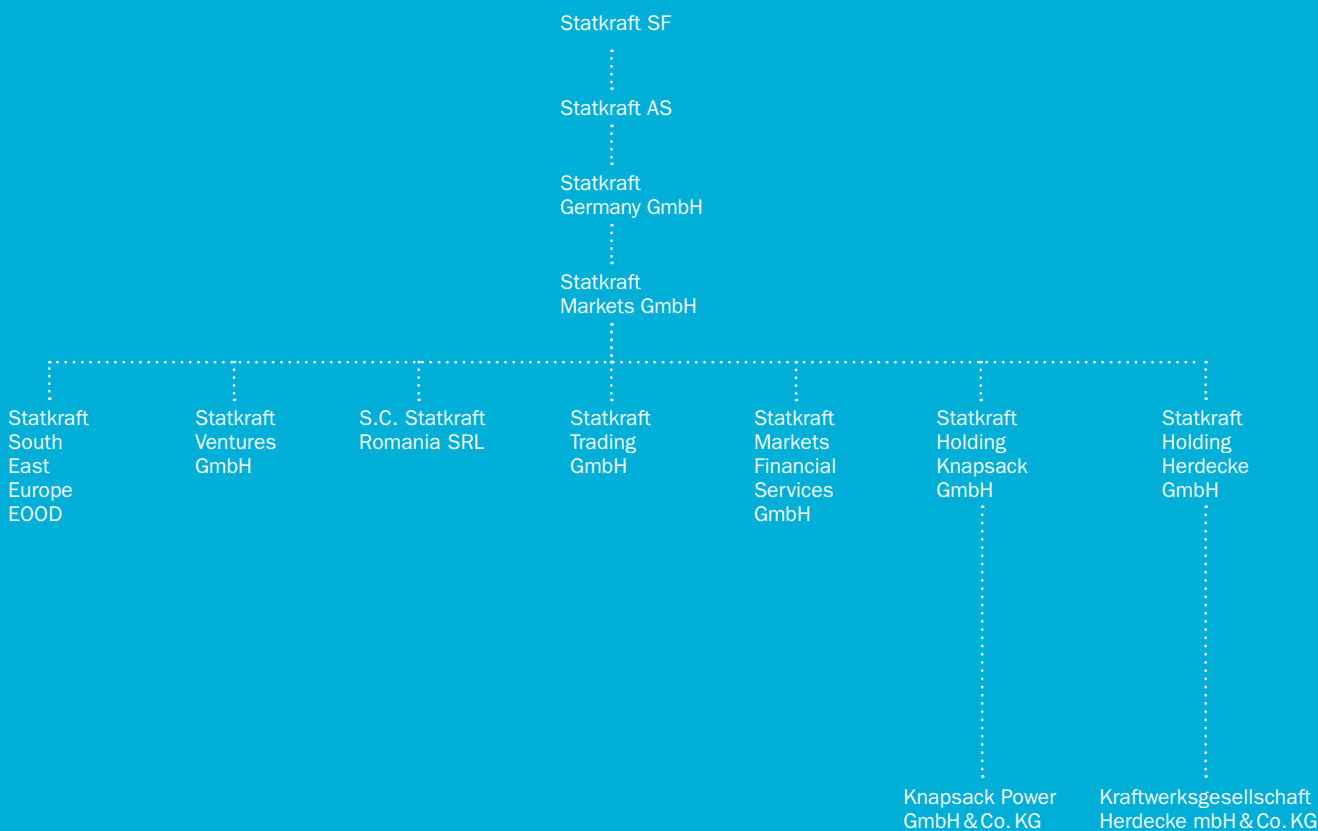
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KEY INDICATORS AND CORPORATE STRUCTURE

Key indicators of Statkraft Markets GmbH

Values in EUR million	2016	2015	2014	2013
Sales revenue	13,196.0	16,705.8	16,429.6	19,095.7
EBIT	-139.8	-24.4	163.5	28.1
Profit before taxes	-177.6	-37.7	87.0	16.3
Profit after taxes	-177.8	-37.7	85.2	16.1
Cash flow from continuous operations	-327.9	108.2	39.3	94.0
Cash and cash equivalents	18.0	34.8	73.5	68.1
Net working capital	410.2	210.5	156.4	83.4
Balance sheet total	1,466.5	1,381.8	1,482.9	1,415.6
Equity	410.8	410.8	410.8	410.8
Equity ratio (%)	28.0	29.7	27.7	29.0
Number of employees 31.12.	167	170	174	179

Corporate structure



MANAGEMENT REPORT FOR FINANCIAL YEAR 2016

COMPANY PROFILE

Business model

Statkraft Markets GmbH, hereinafter referred to as “Statkraft”, 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 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 is engaged in trading power and fuels in continental Europe as well as emission certificates worldwide. In Germany, Statkraft Markets GmbH generates power from its own power plants. Power is generated in environmentally friendly run-of-river, pumped storage, biomass and gas power plants. The main operative subsidiary companies or holding companies are Knapsack Power GmbH & Co. KG, Düsseldorf, and Kraftwerks-gesellschaft Herdecke mbH & Co. KG, Hagen.

Furthermore, Statkraft participates in the foundation 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, along with its subsidiaries and associates, has a generation capacity of 2,390 MW from gas power plants, 261 MW from hydro-power plants and 41 MW from biomass plants.

MARKET DEVELOPMENT

In comparison to the previous year, power prices in Germany were lower for most parts of the year, mainly due to increased power supply from renewable energies. The average price for spot deliveries (baseload electricity) on the European Energy Exchange (EEX) was EUR 29.0/MWh, EUR 2.8/MWh below the average for 2015 (EUR 31.8/MWh). In comparison with the average prices for 2010 to 2015, the average price in 2016 in Germany was approximately EUR 11.1/MWh lower. The EEX price for peak hours (peak load from 8 am to 8 pm on workdays) was EUR 35.3/MWh on average, and therefore EUR 3.8/MWh lower than 2015 (annual average of EUR 39.1/MWh).

Gas prices showed a significant decrease in 2016 and were on average EUR 6.0/MWh lower than 2015. On the virtual trading point NCG (NetConnect Germany) prices in 2016 were on average EUR 14.2/MWh. This was due in particular to lower demand.

The prices on the emissions market also decreased due to lower demand. While the average spot prices listed at EUR 7.7/t in 2015, the average price in 2016 was EUR 5.4/t.

The market for gas power plants remained difficult. It did however develop positively in the second half of the year. Power generation from hydropower in Scandinavia, and especially in the Alpine region, was comparatively low. Additionally, France experienced a historic low in the availability of its nuclear power stations which continue to date and has led to large export volumes of power from Germany to France. Furthermore, gas continued to drop significantly in price on the spot markets in comparison to coal. This resulted in a significant increase in the utilisation of gas power plants, which should not be seen as an indication of capacity shortage. Overcapacities continue to exist. It is thus difficult to estimate how long the improved situation of the gas power plants, driven by the development of world market prices, will prevail.

Compared to the previous years, derivatives markets are also showing a significantly better outlook, but such trends can also reverse quickly. Price peaks triggered by supply shortages are only expected to occur from 2020 onwards. However, we are seeing the first signs of acceleration in the shift away from coal-fired generation based on the lower projected contribution margins for the current and future years as well as detailed plans for decommissioning of older plants. STEAG GmbH, for example, registered approximately 2,500MW of hard coal capacities for decommissioning with the Federal Network Agency in November 2016 (https://www.steag-fernwaerme.de/fw_presse_detail+M516b2ee639c.html).

The German market at present continues to be characterised by overcapacity. This is also shown by the continuing drop in prices for regulated energy and thus also for flexibility in general. Furthermore, the flexibility of existing thermal power plants is being increased whilst at the same time new technologies (e.g. batteries or power-to-heat) are entering the market. This puts further pressure on the revenues from our pumped storage plant in Erzhausen.

BUSINESS DEVELOPMENT

The margins for gas power plants have recovered slightly compared to the previous year due to the special market conditions in the second half of 2016. They remain at low level and do not cover the investment costs of the gas power plants. The management is of the opinion that the market environment will continue to get worse for gas power stations in 2017. A sustained improvement is also not foreseeable for the pumped storage plant. The management has therefore carried out an internal valuation of the gas power and pumped storage plants with the result that an impairment of EUR 109.0 million has been identified. Impairments of gas power plants have also been identified in affiliated companies. This has led to a devaluation of shares in affiliated companies of EUR 24.0 million recorded in Statkraft Holding Knapsack GmbH, a subsidiary. Based on the existing transfer agreement, the resulting loss will be charged to Statkraft Markets GmbH. In total, this leads to additional expenses of EUR 133.0 million in 2016.

In contrast to this, the areas of hydropower, energy trading and the service section of energy management made positive contributions. However, the results of energy trading were significantly lower than the previous year. Margins in the sale of renewable energies in Great Britain and Germany fell due to greater competitive pressure, lower remuneration rates and higher production volatility. Nevertheless, Statkraft continues to be one of the leading portfolio management companies and service providers in this sector.

Trading & Origination

The Trading & Origination division achieved lower profits in 2016 compared to the previous year. The profits of the different business areas varied significantly from one another.

The European energy markets recovered after the lows at the end of January and start of February and recorded a significant increase in volatility. Initially this was caused by rising crude oil prices. Later in the year this was mainly driven by rising and in part heavily fluctuating coal prices.

The development in the primary energy prices in the power markets was initially reflecting the production costs. Later it became clear that the availability of nuclear power in France in the winter of 2016/17 would be reduced at multiple production sites due to ongoing inspections. This led to very high price expectations for this period in the French market, which also affected to lower extent the German and other power markets. Relatively cool weather during parts of the fourth quarter further underlined this development. The very high coal prices in the interim also meant that production from gas power plants become profitable.

The price differences in the power markets, in particular with regards to France, enabled Statkraft to successfully manage long-term capacities in structured trading in 2016. The volatility in derivative prices also led to higher profitability in options trading, which encompasses European options in coal, natural gas and electricity. Overall, the trade in power and primary energy products generated very good results in 2016.

The trade in renewable energies and certificates made a positive contribution to the results. Increasing environmental awareness among consumers and companies leads to growth in demand for sustainably generated energy. Statkraft remained the market leader in Europe in 2016 and is working together with the International Renewable Certificate Standard (I-REC) and other players in order to establish renewable energy standards in various markets around the globe. This enabled Statkraft to conclude the first I-REC deal in India.

Statkraft further expanded its international trade in emissions certificates in 2016. In EU-ETS products (European Emissions Trading System), Statkraft continued to be one of the market players with the highest turnover at the leading exchanges for emissions certificates. At the same time, Statkraft expanded its activities in California, Quebec and the RGGI-CO₂ (Regional Greenhouse Gas Initiative) markets in North America. The quicker than expected enforcement of the Paris Agreement in November 2016, one year after the UNFCCC (United Nations Framework Convention On Climate Change) was agreed in December 2015, sends a strong signal that international efforts have increased to reduce greenhouse gas emissions and to drive forward corresponding improvement measures.

Statkraft remains a European market leader in providing market access and long-term supply agreements for renewable energies.

In 2016, the direct marketing portfolio for Germany amounted to approximately 10,000 MW. This was managed by Statkraft's dispatch centre in Düsseldorf. Contract extensions were negotiated with the existing direct marketing customers in October and November 2016, whereby most contracts were successfully extended. Prices and profit margins stayed under pressure, but appear to have reached certain lower limits. Some competitors seem to remain strategic and less commercially motivated.

Furthermore, Statkraft is one of the innovation leaders in this market segment. Thus in 2015 we became the first company in Germany to prequalify a wind power plant for minute reserve supply according to the new rules set out by the transmission system operators. We expect market consolidation to continue in 2017.

In Great Britain we are continuing to conclude long-term power supply agreements with a lifetime of up to 20 years and a price guarantee. The share of short-term power supply agreements has grown and now represents the major part in our portfolio. These agreements mostly consist of plants under the CfD (Contracts for Difference) support scheme and thus do not include price guarantees. Statkraft considers itself to be very well-positioned in this segment. We expect to continue expanding the number of contracts.

In addition to the classic wholesale activities and direct marketing, the company is pursuing further initiatives in order to respond to the major transformation in the energy industry. The investments in Statkraft Ventures GmbH should be highlighted here in particular.

The subsidiary Statkraft Ventures GmbH, founded in 2015, made two investments in 2016: The company Greenbird Integration Technology AS supplies its customers with software to integrate smart meter data into the existing processes and IT infrastructure. The company is based in Norway. The company DEPsys SA from Switzerland retrofits electrical grids for operators so that, among other things, power flows can be monitored in real-time and connected plants can be controlled.

In 2015, Statkraft Ventures GmbH invested in Tado GmbH from Munich. Tado enables customers to control their heating automatically by smartphone and thus to optimise comfort and energy costs.

As a corporate venture capital unit, this puts Statkraft Ventures GmbH in a good position to invest in start-up and growth companies and to cover subject areas which have the potential to generate significant profit but cannot be adequately pursued by the existing core business.

At the end of 2016, a project enterprise run by Statkraft in the Netherlands was successful in an auction for feed-in remuneration. The remuneration amount is attractive and we anticipate that an investment decision will be made in the first half of 2017.

Adherence to the financial and energy market regulations introduced by the EU (REMIT, EMIR, MiFID, MAR) is monitored by a specialist compliance department. In order to meet the conduct requirements of the EU regulation on integrity and transparency in the energy wholesale market (REMIT), employees were given training, additional guidelines for conduct were issued and monitoring measures were introduced in the calendar year 2016. Furthermore, the second phase of the REMIT reporting obligations was successfully implemented so that Statkraft now fulfils all REMIT reporting obligations for itself and its approximately 300 customers.

All reporting obligations according to the EU regulation on OTC derivatives, central counterparties and transaction registers (EMIR) are fulfilled. Processes to reconcile portfolios and clarify identified differences have been agreed and implemented with trading partners. The annual audit of systems and processes did not give rise to any audit findings by the auditor.

A trading surveillance system will be introduced in order to comply with the requirements of the EU market abuse regulation (MAR) brought into force in July 2016 for the creation and maintenance of effective regulations, systems and processes for the disclosure and reporting of suspicious contracts and transactions. Additionally, relevant employees will be trained on compliance with the code of conduct set out by MAR.

Energy Management

The first half of the financial year resembled the previous year with a tough market environment for power plant dispatch and generation sales which was characterised by minimal margins and low power prices with low volatility. This changed significantly in the second half of the year. The price of gas declined significantly, in particular in relation to coal prices. At the same time, the power exports to France increased due to the historic low availability of nuclear power plants which also resulted in a noticeable increase in the German power prices. The so-called Spark Spread relevant for gas power plants – that is the margin arising between the power price and the gas/CO₂ prices – turned positive. This development meant that Statkraft's own gas power plants Knapsack I and II were at least able to recover their annual fix operating costs in the past financial year. Both plants showed excellent availability and reliability during this time.

Whilst during most of 2015 the gas power plant in the affiliated company Kraftwerksgesellschaft Herdecke mbH & Co. KG was tied to a special reserve power supply contract with ENERVIE AssetNetWork GmbH, Lüdenscheid, the plant could be optimised once more in the market in 2016. Similarly to Statkraft's own gas power plants, the plant benefitted from the significantly improved market environment, even though the annual fixed costs could not be recovered. Nevertheless, a substantial reduction of the annual fix operating costs could be achieved through a cost reduction programme.

Returns on our biomass power plants have improved significantly owing to three factors. The maximum production capacity of both plants was increased and an optimisation of the maintenance intervals led to a noticeable reduction of the operation and maintenance costs. The primary factor, however, was that fuel prices fell significantly over the course of the year.

In spite of modest water resources hydroelectric power stations achieved an average power production due to high technical availability in 2016. Furthermore, various measures were also successfully extended in the field of fish conservation.

The upper and lower basins in the pumped storage power plant were extended, which further increased flexibility in the dispatch. Otherwise, the power plant demonstrated good overall availability without major technical issues.

The total generation for 2016 of approximately 2.7 TWh was significantly higher than the previous year's value. These production volumes include figures from the indirect holding company Kraftwerksgesellschaft Herdecke mbH & Co. KG according to the percent ownership in the subsidiaries, fully owned subsidiaries are included with 100% share.

In the second quarter of 2016, the book values of the gas power plants as well as the shares in affiliated companies were reviewed based on the current market situation and internal cost structures with the result that impairments of EUR 109.0 million were identified. Impairments in Knapsack GmbH & Co KG led to a devaluation of the financial assets in Knapsack Holding GmbH, a subsidiary of Statkraft. These are recharged to Statkraft based on the existing transfer agreement and lead to additional expenses of EUR 24.0 million in 2016.

The services in Energy Management were also further expanded to other countries in the current year. Belgium and especially Albania have been added. The Statkraft Group put the first hydroelectric power plant into operation here in the second half of the year. In Turkey, commercial activities were extended to include the direct marketing of power plants to third parties. The existing portfolios in Germany and Great Britain were further expanded, while the comparatively restricted activities in Romania were terminated on 31 December 2016. Services in the area of power plant dispatch developed very positively throughout 2016, achieving once again a satisfying gross margin.

OPERATING RESULT

Turnover this year accumulated to EUR 13.2 billion and is therefore significantly lower than the previous year's figure of EUR 16.7 billion. This is mainly due to a lower trading volume. The power trading business amounted to EUR 6.6 billion (previous year: EUR 9.9 billion). The traded volumes fell from 280TWh in 2015 to 204TWh in 2016, while the average prices retracted slightly. Gas trading had a turnover of EUR 2.3 billion (previous year: EUR 3.4 billion) and also recorded a mainly volume driven decline compared to the previous year. Sales of emission and green certificates on the other hand increased in turnover from EUR 3.2 billion in 2015 to EUR 4.2 billion in 2016 mainly due to volume. From a regional perspective, the largest turnover fluctuations occurred in Germany and Great Britain with EUR 6.0 billion (previous year: EUR 9.3 billion) and EUR 4.7 billion (previous year: EUR 4.4 billion) respectively.

The gross margin (defined as operating revenues less material expenditure) fell from EUR 163.2 million in 2015 to EUR 100.9 million in 2016. Due to the changes in disclosure introduced by BilRUG expenses for group services provided by affiliated companies amounting to EUR 63.3 million were reclassified to cost of purchased services and therefore included in the gross margin calculation. In the previous year, EUR 61.3 million relating to the same type of expenses were included in other operation expenses.

For comparison purposes, if the current disclosure had been applied in 2015 gross margin would have been reported at EUR 101.9 million.

We would like to note that these values include gains from currency transactions, all of which arise from the Trading & Origination area. Adjusted by this effect of EUR 43.7 million (previous year: EUR 47.9 million), the gross margin amounts to EUR 57.2 million in the 2016 financial year and is higher than the comparable previous year value of EUR 54.0 million.

Personnel costs decreased from a total of EUR 18.3 million in 2015 to EUR 13.8 million in 2016. The reduction is largely caused by lower expenditure for pensions and retirement benefits of EUR 2.2 million in 2016 (previous year: EUR 7.7 million).

The depreciation and amortisation of intangible fixed assets and tangible assets comprises normal depreciation (EUR 20.2 million) as well as unscheduled write-downs (EUR 109.0 million) resulting from the impairments of the power plant assets due to lower permanent fair value assessment. The lower fair value for the power plants was identified by comparing book values of the power plants against the current market situation and internal cost structures.

Other operational expenses comprise the following:

	2016 EUR million	2015 EUR million
Currency exchange losses	65.8	54.1
IT related expenses	1.3	1.3
Legal and consultancy fees	3.2	3.3
Rent, repair and similar costs	18.2	17.4
Group services	0.0	61.3
Other	9.1	8.8
Total other operating expenses	97.6	146.2

Group services were reallocated to the cost of purchased services due to the implementation of BilRUG. The remaining other operational expenses increased from a total of EUR 84.8 million in 2015 to EUR 97.7 million in 2016. This is the result of higher foreign currency losses totalling EUR 65.8 million. Further to this, the expenses for rent, repair and similar expenses increased relative to the previous year (EUR 17.4 million) to EUR 18.2 million.

The financial results of Statkraft Markets GmbH are EUR 37.9 million in the negative for 2016, compared with a negative result of EUR 13.4 million in the previous year. This increase in 2016 is essentially due to the higher expenses from loss absorption of EUR 24.7 million. These arose in connection with the impairment of the shares in Knapsack Power GmbH & Co. KG at the entity level of Statkraft Holding Knapsack GmbH.

Interest expenditure amounting to EUR 15.5 million mostly pertains to a matured group loan amounting to EUR 255.0 million with EUR 2.7 million in interest as well as fees for guarantees amounting to EUR 8.7 million.

The negative result of EUR 177.8 million after tax will be transferred to the sole shareholder Statkraft Germany GmbH, under the profit and loss transfer agreement which has been in place since 1 January 2009. As a result, there will be no changes to the equity or capital reserves of Statkraft Markets GmbH.

NET ASSET AND FINANCIAL POSITION

Cash flow for 2016 and 2015 was as follows:

	2016 EUR million	2015 EUR million
Cash flow from operating activities	-327.9	108.2
Cash flow from investment activities	27.9	70.5
Cash flow from financing activities	37.7	-85.2
Net increase / (decrease) in cash	-262.2	93.5
Cash and cash equivalents as of 1.1.	468.6	375.1
Cash and cash equivalents as of 31.12.	206.4	468.6

Cash flow from operating activities amounts to EUR -327.9 million in the financial year 2016 (previous year: EUR 108.2 million). The strong cash decrease from operating activities is mostly a result of the increase in other assets from EUR 33.5 million in 2015 to EUR 307.9 million in 2016. These mainly consist of green certificates and securities paid to clearing banks and exchanges to cover margin calls.

Cash flow from investment activities amounts to EUR 27.9 million (previous year: EUR 70.5 million) and comprises repayments of capital by Statkraft Holding Knapsack GmbH amounting to EUR 37.0 million and outflowing investments in intangible assets, tangible assets and financial assets totalling EUR 9.1 million (previous year: EUR 14.6 million).

Cash flow from financing activities includes the 2015 profit and loss compensation by Statkraft Germany GmbH for the 2015 financial year amounting to EUR 37.7 million.

Overall, this led to a negative change in cash and cash equivalents of EUR 262.2 million. Taking into consideration the positive balance of cash and cash equivalents of EUR 468.6 million at the beginning of 2016, this resulted in a positive closing year-end balance of EUR 206.4 million as at 31 December 2016. On 31 December 2016, cash and cash equivalents consisted of liquid funds amounting to EUR 18.0 million as well as a positive cash pool position against Statkraft AS, Oslo, Norway, amounting to EUR 188.4 million.

For fixed assets, the amortisation of intangible assets and tangible assets amounted to EUR 129.2 million in 2016 (of which EUR 109.0 million were impairments). Investments in fixed assets and affiliated companies amounted to EUR 7.1 million and EUR 2.0 million respectively.

In comparison to the previous year, equity remained unchanged at EUR 410.8 million owing to the existing profit and loss transfer agreement with Statkraft Germany GmbH.

The balance sheet total increased from EUR 1,382 million in 2015 to EUR 1,467 million in 2016. On the assets side this is attributable in particular to the increase in other assets. On the liabilities side, liabilities from deliveries and services and against affiliated companies in particular as well as deferred income were reduced.

Overall, the equity ratio (equity capital plus long-term group loans divided by total assets) is 45.4% in the current year. Excluding long-term group loans, the equity ratio would stand at 28.0%. Both values highlight the good credit worthiness of Statkraft Markets GmbH.

Apart from the liquid cash funds at year end of EUR 206.4 million, the company has a credit line of EUR 300.0 million on the parent group's cash pool. The company therefore has sufficient liquid funds to independently fund its operative business activities in 2017 and in the following years.

Financial and non-financial performance indicators

Management constantly assesses segment results in order to make decisions regarding the allocation of resources and to measure the degree to which goals are achieved. The results of Statkraft Markets GmbH and its subsidiaries are summarised in two segments, Market Operations and European Flex.

Financial performance indicators

The performance indicators which management applies for internal reporting purposes are based on consolidated figures prepared according to the International Financial Reporting Standards (IFRS) but exclude certain fair value adjustment of unrealized transactions which are recognized in the IFRS results.

The financial performance indicators, listed below, essentially reflect the results of Statkraft Markets GmbH, Knapsack Power GmbH & Co.KG as well as the proportional share of Kraftwerksgesellschaft Herdecke mbH & Co.KG.

Performance indicators	2016	2015
Net operating revenue in million EUR	109.9	164.9
EBITDA in million EUR	-34.3	50.9
Production volumes in GWh	2,748.5	1,000.4

Gross profit or loss (defined by the IFRS as net operating revenue) and EBITDA have declined significantly compared to the previous year due to the market valuation of open positions.

The total production increases in 2016 compared to 2015. The gas power plants were increasingly utilised due to the improved

market environment in the second half of the year and recorded a higher number of operating hours in 2016 than 2015; we hereby refer to the business development section in this report.

Non-financial performance indicators

Health & Safety

The Statkraft Group and Statkraft Markets GmbH are highly committed to providing a safe and healthy working environment and have the clear objective of zero serious work accidents and zero breaches against safety regulations at work. Setting clear requirements and tight controls in all operational processes and project phases are decisive in guaranteeing safe workplaces and achieving good results in the area of occupational health and safety. The continuous pursuit of these factors has resulted in a positive trend in the health and safety statistics. It is of great importance to the Statkraft Group that lessons are learned from injuries, near-miss incidents and unsafe conditions.

In the course of 2016, there were five lost time incidents, though none of these resulted in serious consequential damages. The incidents were investigated and appropriate measures were taken to avoid reoccurrence.

The company also endeavours to focus on continually improving and implementing new Health & Safety guidelines. The Health & Safety Management System of the Statkraft group is based on the provisions of the OHSAS 18001 standard and international best practice approaches.

The programme on behaviour-based occupational health and safety protection started in the previous year was continued successfully.

Employees

There were 167 employees on 31 December 2016. On average 172 employees were employed at Statkraft Markets GmbH during the year.

The Statkraft Group and Statkraft Markets GmbH strive to attain a diverse working environment and promote equal opportunities in recruitment and the HR policy. Statkraft Markets GmbH operates with its subsidiaries throughout the whole of Europe and employs personnel from many different nations. This international environment is very attractive for new employees, also from outside Norway and Germany, and this has a positive impact on the company's development potential in new European markets.

The management would also like to take this opportunity to thank all employees for their excellent performances in 2016.

Climate and environmental impacts

Statkraft applies internationally best practise in its environmental work and the group's environment management system is based on the provisions of the ISO 14001.

No serious environmentally incidents were registered by Statkraft Markets GmbH in 2016.

OUTLOOK

In the previous year, we forecasted a balanced result for 2016. Unfortunately, this projection could not be realised. The losses for 2016 were higher than expected with EUR 177.8 million. This is mostly the result of the unexpected impairment of the power plants as well as the lower margins from the Trading & Origination division. In the previous financial year, the company recorded a loss of EUR 37.7 million.

The losses of Statkraft Markets GmbH will be compensated by the profit and loss transfer agreement with the parent company Statkraft Germany GmbH, which has been in place since the beginning of 2009.

At the end of the year, the company held high levels of cash and cash equivalents so that sufficient liquid funds are available for the future.

For 2017, we expect a lower utilisation of our own gas power plant generation capacity compared to 2016, which should lead to slightly weaker margins for the gas power plants. For the coming financial year, we forecast a result of EUR 0.0 million, an improvement of EUR 177.8 million before transfer of profit and loss. With regard to opportunities and risks that could affect this projection, we refer to the following section.

For the purposes of internal reporting and based on the International Financial Reporting Standards, Statkraft Markets GmbH projects a slightly lower gross profit for 2017 in comparison to 2016, amounting to EUR 132.0 million. The predicted EBITDA is EUR 28.0 million for 2017, while the production volume is forecasted at 1,648 GWh.

With regard to non-financial performance indicators, Statkraft is always striving to avoid occupational accidents and environmental incidents of any kind. Statkraft has advertised a number of open positions, which still need to be filled. Apart from this, no changes in the number of staff are expected in 2017.

OPPORTUNITIES AND RISKS

Although the profitability of the gas power plants has improved in 2016, Statkraft continues to expect significant challenges in connection with the developments of the electricity market in Germany and comparable developments in other European countries. Due to the developments in the market, Statkraft Markets GmbH constantly monitors the long-term strategy of 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 sales / marketing of power from renewable production in Germany, Great Britain and other countries there are risks in the energy price levels, imbalance costs and competitive pressures from other suppliers, as well as in the regulatory framework. Here the future development of Brexit negotiations is of special importance for the British market. So far this has not directly affected the existing business model or relations.

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 2016 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.

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, 30 March 2017



Dr Torsten Amelung
Managing Director



Robert Teschke
Managing Director



Dr Gundolf Dany
Managing Director



Stefan-Jörg Göbel
Managing Director

BALANCE SHEET

AS OF 31 DECEMBER 2016

Assets	31 December 2016 EUR	31 December 2015 EUR '000
A. Fixed assets		
I. Intangible assets		
1. Purchased software	2,022,087.57	5,103
II. Tangible assets		
1. Land, leasehold rights and buildings	8,304,392.93	33,031
2. Technical equipment, plant and machinery	147,666,234.90	238,606
3. Other equipment, fixtures, fittings and equipment	3,067,207.28	3,472
4. Asset under construction	3,227,174.27	6,172
	162,265,009.38	281,281
III. Financial assets		
1. Shares in affiliated companies	91,756,220.46	126,856
2. Investments	751,000.00	685
	92,507,220.46	127,541
	256,794,317.41	413,925
B. Current assets		
I. Inventories		
1. Raw materials and supplies	4,579,431.28	4,160
II. Receivables and other assets		
1. Trade accounts receivable	366,159,429.35	300,557
2. Accounts receivable from affiliated companies	377,443,904.88	484,718
3. Other assets	307,851,806.63	33,459
	1,051,455,140.86	818,734
III. Cash on hand, cash in banks		
	18,011,018.77	34,839
	1,074,045,590.91	857,733
C. Prepaid expenses	135,439,294.03	108,896
D. Excess of plan assets over pension liabilities	237,613.88	1,285
	1,466,516,816.23	1,381,839

Liabilities	31 December 2016 EUR	31 December 2015 EUR '000
A. Equity		
I. Capital subscribed	4,000,000.00	4,000
II. Capital reserves	398,104,558.71	398,104
III. Earnings reserves		
1. Other earnings reserves	45,978.68	46
IV. Retained earnings brought forward	8,663,853.54	8,664
	410,814,390.93	410,814
B. Provisions		
1. Provisions for pensions and similar obligations	5,770,388.24	7,411
2. Tax provisions	219,000.00	219
3. Other provisions	83,106,882.84	119,641
	89,096,271.08	127,271
C. Liabilities		
1. Liabilities due to banks	0.00	1,333
2. Trade accounts payable	477,002,867.48	401,208
3. Accounts payable to affiliated companies	311,446,135.16	282,954
4. Other liabilities	47,026,982.15	96,833
thereof for taxes: EUR 199,542.72 (previous year: TEUR 192)		
	835,475,984.79	782,328
D. Deferred income	131,130,169.43	61,426
	1,466,516,816.23	1,381,839

INCOME STATEMENT

For the period from 1 January to 31 December 2016

	2016 EUR	2015 EUR'000
1. Sales	13,196,003,444.14	16,705,824
2. Other capitalised own costs	269,896.98	702
3. Other operating income	58,264,060.50	60,170
4. Cost of materials		
a) Cost of raw materials and supplies	73,334,960.52	12,751
b) Cost of purchased services	13,080,318,297.42	16,590,767
5. Personnel expenses		
a) Salaries	11,631,853.70	10,578
b) Social security, pension and other benefit costs thereof for pensions: EUR 146,262.90 (previous year: TEUR 5,684)	2,153,518.48	7,739
6. Depreciation of fixed intangible and tangible assets	129,226,194.32	23,025
7. Other operating expenses	97,622,665.01	146,197
8. Income from profit transfer agreements	983,532.53	1,065
9. Other interest and similar income thereof due to affiliated companies: EUR 485,225.60 (previous year: TEUR 878)	1,355,918.67	1,595
10. Expenses from loss absorption	24,723,716.83	222
11. Interest and similar expenses thereof due to affiliated companies EUR 11,441,220.49 (previous year: TEUR 11,804)	15,511,878.89	15,795
12. Taxes on income	7,814.31	-198
13. Result after tax	-177,654,046.66	-37,520
14. Other taxes	145,561.48	145
15. Profits from loss absorption	177,799,608.14	37,665
16. Net income / Net loss	0.00	0

NOTES FOR FINANCIAL YEAR 2016

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. The implementation of the changes from the Accounting Directive Implementation Act (BilRUG) partially influences comparability; the changes are shown below the items affected. The optional right to adjust the amounts from the previous year was not exercised.

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. For intangible assets, a useful life of up to seven years is applied, and for buildings up to 39 years; a useful life of up to 30 years is generally applied for other assets.

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.

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 determined according to actuarial methods.

Pension provisions were measured according to the projected unit credit method, applying actuarial principles, and based on Prof Klaus Heubeck's 2005G mortality tables published in 2006. These provisions were discounted at the average market interest rate of the past ten years as announced by Deutsche Bundesbank, based on the assumption of a remaining term of 15 years (Section 253 (2) second sentence HGB, Art. 75 (6) of the Introductory Act to the German Commercial Code (EGHGB)).

In contrast, the average market interest rate of seven years was applied to the calculation of the provisions in the previous year's financial statements. 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 5,102 thousand in the current financial year (Section 253 (6) HGB). The valuation of pension provisions is based on the following parameters:

	2016 %	2015 %
Discount rate	4.01	3.89
Salary increases	3.00	3.00
Pension increases	1.00	1.00
Fluctuation	0.00 – 6.00	0.00 – 6.00

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.

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.

The hedging intention of the macro valuation units exists continuously for the periods that are in accordance with the

risk guidelines for trading transactions. Opposing payment streams changes exist for the period up to 2024 as of 31 December 2016. 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	16,024	16,024
Liabilities	98,604	98,604
Pending purchase transactions	6,988,329	6,988,329
Pending sales transactions	7,483,494	7,483,494

The value of the risks hedged through valuation units is EUR 358,332 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.

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 companies in which Statkraft AS, Oslo, Norway, either directly or indirectly holds the majority interest, but that are not included in the consolidated financial statements pursuant to the exercise of an option.

Sales from trading are disclosed as gross figures.

Internal expenditure capitalised comprises mainly personnel costs for own employees.

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.

Statkraft Markets GmbH purchased shares in Windpark Kollweiler GmbH & Co. KG, Billerbeck, in 2015. The purchase price of EUR 685 thousand was increased by an additional EUR 66 thousand in 2016. The 100% subsidiary Statkraft Ventures GmbH, Düsseldorf, founded in 2015, received a capital increase of EUR 1,900 thousand in 2016.

List of shareholdings

This information relates to 31 December 2016, 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	7,170
Statkraft Holding Knapsack GmbH, Düsseldorf	100	0 ¹⁾	25	76,479
Knapsack Power GmbH & Co. KG, Düsseldorf ²⁾	100	-43,210	25	46,317
Knapsack Power Verwaltungs GmbH, Düsseldorf ²⁾	100	2	25	61
Kraftwerksgesellschaft Herdecke mbH & Co. KG, Hagen ²⁾	50	2,086	10,000	26,916
Kraftwerksverwaltungsgesellschaft Herdecke mbH, Hagen ²⁾	50	1	25	39
Statkraft South East Europe EOOD, Sofia/ Bulgaria	100	4	3	127
S.C. Statkraft Romania SRL, Bucharest/ Romania ³⁾	99	-32	135	227
Statkraft Trading GmbH, Düsseldorf	100	0 ¹⁾	25	25
Statkraft Ventures GmbH, Düsseldorf	100	0 ¹⁾	25	6,925
Windpark Kollweiler GmbH & Co. KG, Billerbeck ³⁾	20	68	1,462	1,171

¹⁾ Result after transfer of profit/loss

²⁾ Indirectly held investments

³⁾ Last annual financial statements 31.12.2015

Receivables and other assets

As in the previous year, all receivables and other assets have a residual term of up to one year. In 2016, a lump sum valuation allowance for receivables of EUR 4,205 thousand (previous year: EUR 3,040 thousand) was posted. Receivables from affiliated companies are comprised as follows:

	2016 EUR '000	2015 EUR '000
Receivables from cash pool against Statkraft AS, Oslo, Norway	188,359	435,108
Receivables from short-term loans given to subsidiaries	225	225
Trade receivables	2,244	1,801
Receivables from profit transfer agreements	984	1,065
Receivables from shareholder Statkraft Germany GmbH	7,832	8,854
Receivables from loss transfers by the shareholder Statkraft Germany GmbH	177,800	37,665
Total receivables against affiliated companies	377,444	484,718

Receivables due from the shareholder (EUR 7,832 thousand) Statkraft Germany GmbH, Düsseldorf, are mainly input tax refund claims.

Other assets mainly include CO₂ certificates of EUR 199,166 thousand (previous year: EUR 14,618 thousand) and paid securities of EUR 108,559 thousand (previous year: EUR 18,652 thousand), including securities from the exchange-side settlement of open positions.

Prepaid expenses

The prepaid expenses of EUR 135,439 thousand (previous year: EUR 108,896 thousand) mainly concern payments for certificates amounting to EUR 4,464 thousand (previous year: EUR 3,180 thousand) as well as paid option premiums amounting to EUR 130,493 thousand (previous year: EUR 105,716 thousand).

Deferred tax reimbursements

An item for deferred tax reimbursements was not created during the current financial year because a possible disclosure must now be made at Statkraft Germany GmbH, Düsseldorf, level in its capacity as the controlling company (since 1 January 2009).

Surplus on pension plan assets versus early retirement obligations

Reinsurance policies have been taken out to cover **early retirement obligations**. According to Section 246 (2) second sentence HGB, the **fair values of reinsurance policies** and early retirement obligations are offset for balance sheet presentations. To fulfil obligations, capital is deposited in special funds, which are not accessible to creditors in case of insolvency.

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

	Acquisition cost EUR '000	Fair value EUR '000
Early retirement reinsurance policies	484	357

For the financial reporting period, a surplus of EUR 238 thousand (previous year: EUR thousand 1,285) was assessed for early retirement obligations. Prior to offsetting the plan assets of EUR 357 thousand (previous year: EUR 1,733 thousand), early retirement obligations amounted to EUR 119 thousand (previous year: EUR 448 thousand) in 2016.

Distribution/ payment 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 is negative, Section 268 (8) HGB is not applicable in the financial year. The difference for the previous year was EUR 0 thousand.

Net interest results include gains of EUR 25 thousand (previous year: EUR 47 thousand) of income from plan assets. This also includes expenses due to discounting of early retirement obligations amounting to EUR 5 thousand (previous year: EUR 22 thousand).

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 disposed 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	24,548	26,190

For the financial reporting period, a deficit of EUR 5,770 thousand (previous year: EUR 7,411 thousand) was assessed and recognised in provisions, based on the 10-year average rate. Applying the 7-year average rate, this would have resulted in pension obligations of EUR 10,872 thousand. The deficit according to Section 253 (6) HGB thus amounts to EUR 5,102 thousand. Prior to offsetting the plan assets of EUR 26,190 thousand (previous year: EUR 23,718 thousand), pension obligations in the financial year 2016 amounted to EUR 31,961 thousand (previous year: EUR 31,129 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 1,642 thousand (previous year: EUR 1,084 thousand).

Net interest results include gains of EUR 631 thousand (previous year: EUR 447 thousand) resulting from plan assets. This also includes expenses due to discounting of pension obligations of EUR 1,200 thousand (previous year: EUR 1,121 thousand). Expenses of EUR 47 thousand (previous year: EUR 45 thousand) were netted against the interest from plan assets.

Other provisions

Other provisions amount to EUR 83,107 thousand (previous year: EUR 119,641 thousand). Other provisions mainly consist of the following:

	2016 EUR '000	2015 EUR '000
Accruals	3,259	4,375
Decommissioning provisions	10,894	8,678
Provisions for jubilee and death payment benefits	740	704
Provision for onerous contracts	1,584	20,593
Provision for valuation units	62,468	83,935
Employee bonuses	795	734
Employees liability insurance association costs	278	280
Holiday leave not taken yet / settlement obligations	70	122
Other	3,019	366
Total	83,107	119,641

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 1,584 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, with exception of the liabilities from loans from group companies of EUR 255,000 thousand (previous year: EUR 255,000 thousand), which fall due after more than a year and also over five years.

Liabilities towards affiliated companies are as follows:

	2016 EUR '000	2015 EUR '000
Trade payables	30,426	26,518
Liabilities from loans from group companies	255,000	255,000
Liabilities from the transfer of losses	24,724	222
Liabilities from deliveries and services to shareholder Statkraft Germany GmbH, Düsseldorf	1,296	1,214
Total liabilities to affiliated companies	311,446	282,954

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 reflect the expected future losses from these agreements as of the time of the transfer.

As in the preceding years, in 2016 these obligations diminished by the delivered volume without affecting profit and loss.

A revaluation as of 31 December 2016 based on current market conditions showed that additional risk provisions needed to be posted. These provisions for 2016 have been booked according to the additional risk provisions and are disclosed under other provisions as provisions for onerous contracts.

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

	2016 EUR '000	2015 EUR '000
Liabilities power purchase agreement	18,504	57,858
Liabilities gas purchase agreement	5,811	13,486
Liabilities from environmental certificate purchase agreements	12,802	13,603
Securities received from counterparties	7,600	11,500
Early completion bonus Siemens AG, Energy Sector, Erlangen	330	150
Tax liabilities	200	192
Liabilities from the evaluation of financial currency transactions	1,384	0
Miscellaneous	396	44
Total	47,027	96,833

As in the previous year, the securities received are comprised of bilaterally agreement payments.

Deferred income

The deferred income includes received option premiums amounting to EUR 131,130 thousand (previous year: EUR 61,426 thousand).

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 2016 (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 gas supply agreement have a residual term of one year and amount to TEUR 96,582. Obligations relating to the long-term power purchase agreement amount to EUR 28,180 thousand.

As of 31 December 2016, obligations from a long-term service agreement amount to a total of EUR 31,171 thousand.

Obligations from tenancy leases and leasing agreements as of 31 December 2016 amount to EUR 16,070 thousand (previous year: EUR 17,443 thousand). Of this amount, EUR 1,755 thousand (previous year: EUR 1,767 thousand) is due within one year and EUR 8,598 thousand (previous year: EUR 9,941 thousand) after five years. The rental and leasing properties are used according to their proper function. No significant opportunities or risks exist from the rental and leasing contracts.

EXPLANATORY COMMENTS ON THE INCOME STATEMENT

Sales

Sales revenues in the past financial year amounted to EUR 13,196,003 thousand (previous year: EUR 16,705,824 thousand) and were distributed across the segments as follows:

	2016 EUR '000	2015 EUR '000
Electricity	6,634,421	9,902,890
Gas	2,328,272	3,437,435
Emissions and green energy	4,217,398	3,241,418
Other services to clients	15,912	124,081
Total sales	13,196,003	16,705,824

Classified by regional markets, sales are distributed as follows:

	2016 EUR '000	2015 EUR '000
Germany	6,018,916	9,272,691
Great Britain	4,722,112	4,380,104
The Netherlands	1,328,192	1,525,070
France	275,243	475,817
Austria	2,048	7,441
Italy	37,716	109,541
Switzerland	28,525	42,027
Belgium	12,924	59,765
Slovenia	51,379	41,544
Hungary	15,498	42,632
Luxembourg	570,638	538,427
Czech Republic	44,974	21,222
Greece	7,985	11,325
Denmark	229	1,716
Turkey	5,137	5,541
Romania	5,590	17,147
Spain	102	202
USA	2,382	127,179
Bulgaria	19,231	846
Poland	0	374
Norway	23,146	11,432
Other	24,037	13,781
Total sales	13,196,003	16,705,824

Income amounting to EUR 8,251 thousand was initially recorded as sales revenues due to changes made by BiIRUG, of which EUR 6,161 thousand came from group services to affiliated companies. In the previous year, EUR 9,827 thousand (of which

group services amounted to EUR 5,716 thousand) was included in the other operating income in this context; this should have resulted in sales revenues of EUR 16,715,651 thousand in the previous year if BiIRUG had been applied.

Other operating income

Other operating income amounted to EUR 58,264 thousand (previous year: EUR 60,170 thousand) and consists of the following:

	2016 EUR '000	2015 EUR '000
Recharging of internal costs for projects and services to group companies	0	5,716
Currency exchange gains ¹	43,672	47,883
Gains from the release of provisions/ other liabilities ²	13,108	2,457
Other	1,484	4,114
Total other operating income	58,264	60,170

¹ Thereof EUR 0 thousand (previous year: EUR 3,316 thousand) unrealised currency exchange gains

² Thereof EUR 13,108 thousand (previous year: EUR 2,457 thousand) from other periods

Since 2016, the income from group services is allocated to the sales revenues due to the implementation of changes from BilRUG. This is referenced in the explanations on the sales revenues.

The income from the release of provisions and de-recognition of other liabilities mostly relate to the release of a contingency accrual following the revaluation of a contract.

Cost of materials (purchased services)

Applying the changes from BilRUG, expenses for group services provided by affiliated companies amounting to EUR 63,329 thousand were reclassified as cost of purchased services. In the previous year, EUR 61,334 thousand was included in the other operation expenses in this respect.

Depreciation and amortisation of intangible fixed assets and tangible assets

The depreciation and amortisation of tangible assets comprises normal depreciation (EUR 20.2 million) as well as unscheduled write-downs on the unexpected impairment of the power plants (EUR 109.0 million). The lower fair value for the power plants was determined by reassessing the book values of the power plants based on the current market situation and internal cost structures.

Other operating expenses

Other operating expenses comprise the following:

	2016 EUR '000	2015 EUR '000
Legal and consultancy fees	3,238	3,295
Rent, repair and similar costs	18,160	17,441
Services for power plants	356	476
Expenses from group companies	0	61,419
Currency exchange losses ¹	65,819	54,097
IT related expenses	1,344	1,322
Marketing and information costs	387	317
Travel expenses	312	333
Expenses for telephone and data transmission	815	898
Membership fees	383	301
Guarantee costs	309	310
Expenses for external employees	199	322
Other	6,301	5,666
Total other operating expenses	97,623	146,197

¹ Thereof EUR 11,413 thousand (previous year: EUR 3,828 thousand) unrealised currency exchange losses

Since 2016, the expenses for group services have been reallocated to the item "Purchased services (cost of materials)" due to the implementation of BilRUG. We refer to the explanation in that section.

Interest and similar expenses

Interest expenses for the financial year 2016 of EUR 15,512 thousand (previous year: EUR 15,795 thousand) includes accrued interest on other liabilities related to gas and power purchase agreements as well as environmental certificate obligations amounting to EUR 1,686 thousand (previous year: EUR 2,085 thousand), interest expense on accrued pension liabilities amounting to EUR 1,200 thousand (previous year: EUR 1,121 thousand) and additional interest on accrued other provisions of EUR 938 thousand (previous year: EUR 735 thousand).

Taxes on income

Taxes on income amount to EUR 8 thousand (previous year: EUR –198 thousand) and mainly comprise non-refundable foreign input taxes.

Issues relating to other periods

The other operating income includes EUR 13,108 thousand of income from other periods which mainly result from the release of provisions.

OTHER INFORMATION

Auditor fees

The total fee charged by the auditor for the financial year 2016 amounts to EUR 238 thousand (previous year: EUR 262 thousand). Of this, EUR 220 thousand relates to the audit of the financial statements and EUR 18 thousand relates to other consulting services. A total of EUR 78 thousand was recorded in 2016 for other audit services in previous years. The total fee amounts to EUR 316 thousand.

Management

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

Dr Jürgen Tzschoppe (Executive Vice President), Düsseldorf (until 14 January 2016), Stefan-Jörg Göbel (Vice President Trading & Origination Continental), Düsseldorf, Inger S. Andersen (Senior Vice President Finance), Oslo, Norway (until 14 January 2016) and Robert Teschke (Vice President Accounting, Tax, Internal Control), Düsseldorf (since 15 January 2016) 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 occupations 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 2016.

Employees

The company had an average of 172 employees in the reporting year (previous year: 167); 153 employees were full-time employees and 19 employees were part-time.

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 2016 (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 field of fixed assets due to different definitions of useful life, on account of different valuations of goodwill, pension provisions and pending transactions and the creation of provisions for deferred taxes thereon from the application of varying 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, 30 March 2017


Dr Torsten Amelung
 Managing Director


Dr Gundolf Dany
 Managing Director


Stefan-Jörg Göbel
 Managing Director


Robert Teschke
 Managing Director

FIXED ASSETS MOVEMENT

	Gross book value				As of 31.12.2016 EUR
	As of 1.1.2016 EUR	Additions EUR	Transfer EUR	Disposals EUR	
I. Intangible assets					
1. Software	12,145,194.43	48,579.44	441,017.91	0.00	12,634,791.78
2. Goodwill	11,779,877.84	0.00	0.00	0.00	11,779,877.84
	23,925,072.27	48,579.44	441,017.91	0.00	24,414,669.62
II. Tangible assets					
1. Land, leasehold rights and buildings	97,241,343.97	577,704.62	91,898.44	0.00	97,910,947.03
2. Technical equipment, plant and machinery	671,009,360.00	3,790,489.04	4,216,749.57	737,188.12	678,279,410.49
3. Other equipment, fixtures, fittings and equipment	16,654,581.31	553,371.82	123,595.50	103,517.74	17,228,030.89
4. Plant and machinery in process of construction	12,394,393.79	2,115,099.90	-4,873,261.42	0.00	9,636,232.27
	797,299,679.07	7,036,665.38	-441,017.91	840,705.86	803,054,620.68
III. Financial assets					
1. Shares in affiliated companies	126,866,220.46	1,900,000.00	0.00	37,000,000.00	91,766,220.46
2. Investments	685,000.00	66,000.00	0.00	0.00	751,000.00
	127,551,220.46	1,966,000.00	0.00	37,000,000.00	92,517,220.46
	948,775,971.80	9,051,244.82	0.00	37,840,705.86	919,986,510.76

	Accumulated depreciation					As of 31.12.2016 EUR
	As of 1.1.2016 EUR	Additions EUR	Transfer EUR	Disposals EUR	Appreciations EUR	
I. Intangible assets						
1. Software	7,042,255.76	3,570,448.45	0.00	0.00	0.00	10,612,704.21
2. Goodwill	11,779,877.84	0.00	0.00	0.00	0.00	11,779,877.84
	18,822,133.60	3,570,448.45	0.00	0.00	0.00	22,392,582.05
II. Tangible assets						
1. Land, leasehold rights and buildings	64,210,024.14	25,396,529.96	0.00	0.00	0.00	89,606,554.10
2. Technical equipment, plant and machinery	432,403,581.22	98,946,782.49	0.00	737,188.12	0.00	530,613,175.59
3. Other equipment, fixtures, fittings and equipment	13,182,928.19	1,040,636.41	7,871.89	69,614.54	998.34	14,160,823.61
4. Plant and machinery in process of construction	6,222,448.25	271,797.01	-7,871.89	0.00	77,315.37	6,409,058.00
	516,018,981.80	125,655,745.87	0.00	806,802.66	78,313.71	640,789,611.30
III. Financial assets						
1. Shares in affiliated companies	10,000.00	0.00	0.00	0.00	0.00	10,000.00
2. Investments	0.00	0.00	0.00	0.00	0.00	0.00
	10,000.00	0.00	0.00	0.00	0.00	10,000.00
	534,851,115.40	129,226,194.32	0.00	806,802.66	78,313.71	663,192,193.35

	Net book values	
	As of 31.12.2016 EUR	As of 31.12.2015 EUR
I. Intangible assets		
1. Software	2,022,087.57	5,102,938.67
2. Goodwill	0.00	0.00
	2,022,087.57	5,102,938.67
II. Tangible assets		
1. Land, leasehold rights and buildings	8,304,392.93	33,031,319.83
2. Technical equipment, plant and machinery	147,666,234.90	238,605,778.78
3. Other equipment, fixtures, fittings and equipment	3,067,207.28	3,471,653.12
4. Plant and machinery in process of construction	3,227,174.27	6,171,945.54
	162,265,009.38	281,280,697.27
III. Financial assets		
1. Shares in affiliated companies	91,756,220.46	126,856,220.46
2. Investments	751,000.00	685,000.00
	92,507,220.46	127,541,220.46
	256,794,317.41	413,924,856.40

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 2016. 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, 30 March 2017

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

(Lammers)
German Public Auditor

(Saliger)
German Public Auditor



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