Statkraft

STATKRAFT MARKETS GMBH

ANNUAL REPORT 2018

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KEY INDICATORS AND CORPORATE STRUCTURE

Key indicators of Statkraft Markets GmbH

Values in EUR million	2018	2017	2016	2015
Sales revenue	25,567.2	17,385.9	13,196.0	16,705.8
EBIT	0.3	118.0	–139.8	–24.4
Profit before taxes	–5.6	191.7	–177.6	–37.7
Profit after taxes	–5.8	191.5	–177.8	–37.7
Cash flow from continuous operations	22.0	0.1	–327.9	108.2
Cash and cash equivalents	16.9	29.9	18.0	34.8
Net working capital	381.1	194.2	410.2	210.5
Balance sheet total	1,597.2	1,298.8	1,466.5	1,381.8
Equity	670.8	410.8	410.8	410.8
Equity ratio (%)	42.0	31.6	28.0	29.7
Number of employees 31.12.	140	143	167	170

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Corporate structure

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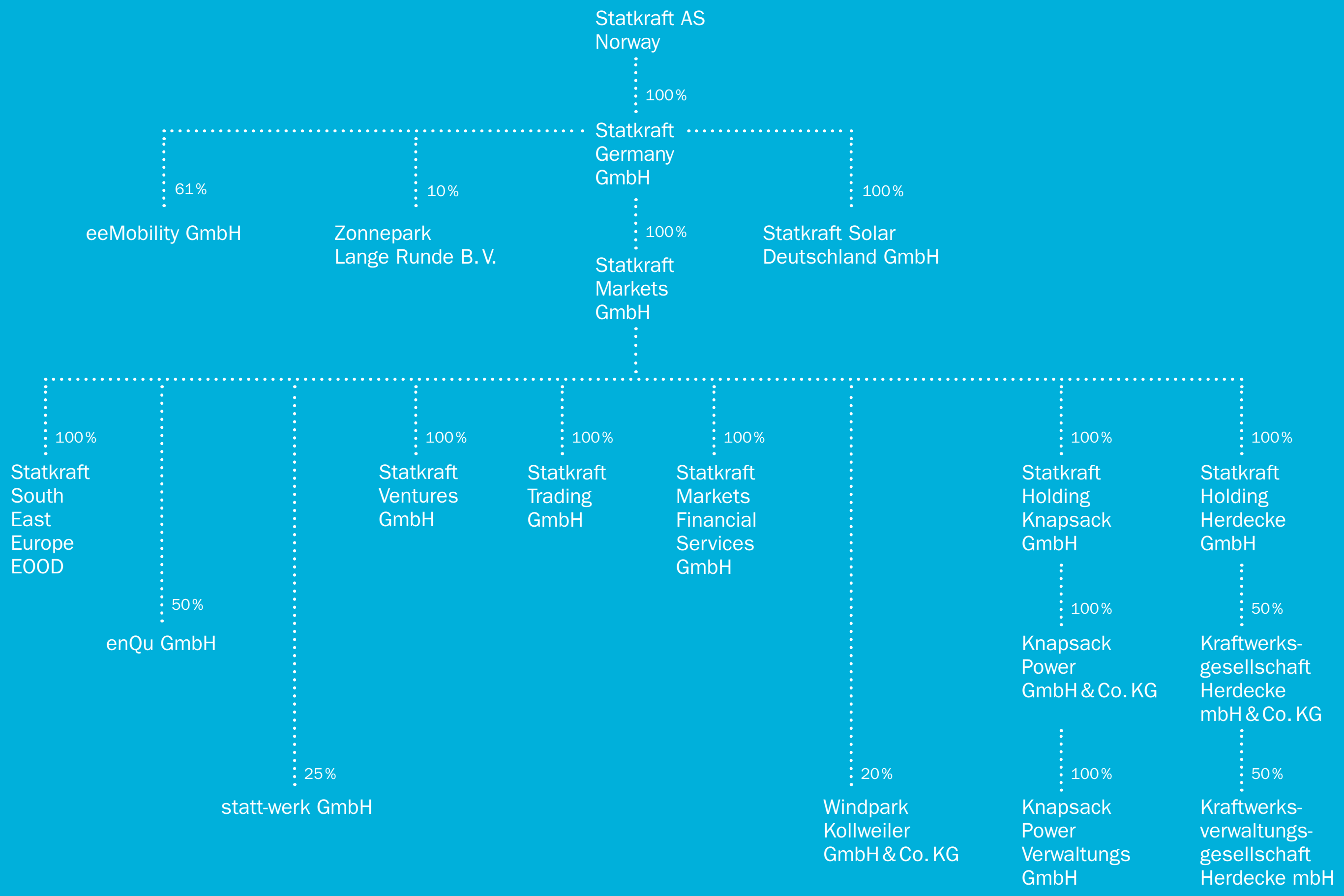

Management report for financial year 2018

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, builds and operates hydropower, wind power, gas-fired power and district heating power plants, and is a significant player on the European energy trading exchanges with particular know-how in physical and financial energy trading as well as in the bilateral electricity market.

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 affiliated companies are Knapsack Power GmbH & Co. KG, Düsseldorf, Statkraft Holding Knapsack GmbH, 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.

Statkraft Markets GmbH, its subsidiaries and affiliated 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 44.5 EUR / MWh, the average price for spot deliveries (baseload electricity) on the European Energy Exchange (EEX) was 10.3 EUR / MWh higher than the average price for the year 2017 (34.2 EUR / MWh). Compared to the average prices for the years 2010 to 2017, the average price in Germany in 2018 was about 6.5 EUR / MWh higher. The EEX price for peak hours (peak load from 8 am to 8 pm on weekdays) averaged 51.5 EUR / MWh and was thus 8.7 EUR / MWh higher than 2017 (annual average of 42.8 EUR / MWh).

Gas prices also rose in 2018 and were on average 5.3 EUR / MWh above the previous year's prices. At the virtual trading point NCG (NetConnect Germany) prices averaged 22.9 EUR / MWh in 2018.

The prices on the emissions market improved significantly. While the average spot prices in 2017 were EUR 5.8 per tonne, the average price in 2018 rose to EUR 15.9 per tonne.

The income from gas-fired power plants remained below expectations. Following a mild winter with correspondingly low electricity prices, spring was extremely cold but the cold spell resulted in high gas prices due to lower storage capacities. This meant that gas-fired power plants were not competitive compared to coal-fired power plants. Even the much higher emission certificate price, which increased by almost five times throughout the course of the year, was not able to reverse the trend. Price expectations on the futures markets have since been driven up, particularly in the fourth quarter, due to low availability of the French and Belgian nuclear power plants. However, a comparatively mild autumn and start to the winter with correspondingly low gas prices lead to relatively low electricity prices and therefore short operating times for the gas-fired power plants.

In principle, the volatility on both the spot and futures markets increased. While wind generation in particular and solar generation were the main drivers on the spot markets, the potential plans of the coal commission (Kohlekommission) and the discussions regarding the market stability reserve for emission certificates played a key role on the futures market.

The prices on the balancing energy markets for the provision of reserve energy recovered in the autumn. This is because the Federal Network Agency responded to the price peaks in 2017 by amending the tendering rules for reserve energy. In general, thermal power plants and pumped storage power plants will tend to benefit from the amendment, which will then be able to provide balancing services close to spot price. Another effect of this regulatory measure is the reduction in power balancing costs and the resulting lower costs for management of imbalances.

On 26 January 2019, the "Commission on Growth, Structural Change and Employment" (Kohlekommission) submitted its final report. The committee recommends the end of 2038 as the final phase-out and shutdown date. However, an amendment clause was agreed: If the electricity market, the employment market and the economic situation allow, the shutdown date can be brought forward to 2035 in consultation with the operators. This is to be reviewed in 2032. The shutdown plan is also to be assessed in 2023, 2026 and 2029 in terms of security of supply, electricity prices, employment positions and climate targets.

At the end of 2017, coal-fired power plants were on the market with a net output of 42.6 GW. By 2030, that output should drop to a maximum of 17 GW, with the remaining coal-fired power plants to be shut down by 2038. By 2022, 12.5 GW should already have left the grid.

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BUSINESS DEVELOPMENT

The business divisions of Statkraft Markets GmbH are mainly divided into Trading & Origination and Continental Assets & Market Access.

Trading & Origination includes both proprietary trading and customer trading. Standard products are traded bilaterally or on the different European exchanges. In addition, different structured products are offered that are adapted directly to the customer's requirements.

Continental Assets & Market Access is responsible for the production and marketing of electricity, which is generated in the company's generation plants, and provides industrial customers with access to the energy exchanges.

Trading & Origination had an excellent year in 2018 with much higher turnover than in the previous year. Customer contracts were successfully concluded in new business areas, as for example the first long-term electricity supply contract in Germany with a major industrial customer to be supplied from wind turbines that come out of the EEG subsidy scheme in 2020. Many of these contracts have a term lasting several years, which means their contribution will only be reflected in the results in the next few years. Furthermore, price hedges for these sales related activities were entered which due to the negative future expected price development resulted in increased loss provision that do not form part of the valuation units. The compensatory positive earnings from the underlying electricity supply, on the other hand, remain unrecognized.

Sales in the Market Access division increased slightly in the financial year 2018. In addition, long-term contracts were concluded with new customers and these are set to have a positive impact on the results in the years to come. Provisions for impending losses were created for the relevant price-hedging transactions due to a rise in energy prices. These provisions had a negative impact on the results in 2018 and the positive earnings contributions from the underlying transactions will be recognised in the future.

The utilisation of the power plants was below the previous year, so that no positive contribution was generated by this business area.

Overall, there was a slight net loss of EUR 5.8 million for Statkraft Markets GmbH prior to compensation of losses by Statkraft Germany GmbH through the existing profit and loss transfer agreement.

In the previous year, the company recorded a profit of over EUR 191.5 million. This was due to the impairment reversals of power plants and financial assets, with investment in power plant, of EUR 107.3 million, a better utilisation of power plants and, to a lesser extent, lower increase in loss provisions.

The Statkraft Group devised a new strategy in the financial year 2018. This involved focussing more on the development of new business initiatives. It also resulted in all Statkraft Group business development activities being combined into the *European Wind and Solar* business division. This includes both the relevant activities in Germany and the Statkraft Ventures GmbH activities.

The new strategy sets ambitious plans for growth. This can already be seen in the rapid rise in the number of new business initiatives in recent months. We can also see a geographic expansion in the business activities of Statkraft Markets GmbH across the various neighbouring European countries. Statkraft Markets GmbH branches have been registered in the United Kingdom (London), France (Lyon) and Spain (Madrid) to provide support for this over the long term. The registration process in the United Kingdom was completed before the end of the financial year 2018, but it is still ongoing in France and Spain. In 2018 the company also acquired an electricity supply licence for Ireland so that it can expand its business activities to in this market.

Trading & Origination

The electricity markets in Europe were mostly affected by the significant rise in prices on the emissions market in 2018. Certificates are now listed at over EUR 25 per tonne. The forward contract for calendar year 2019 thereby reached a level of more than EUR 50/MWh on the electricity market. Because of the ongoing debate on the future of coal power in Germany, market participants currently expect prices to stay high in the long term.

The dry weather throughout Scandinavia, which lasted until the third quarter, has also contributed to the significantly higher prices in the markets there. On the leading Nordic futures market, Nasdaq Commodities, the loss of a market participant has resulted in considerable volatility. Coal prices remained at a high level at USD 90 per tonne in the front year. After having traded at over USD 80 per barrel at the end of the third quarter, crude oil prices fell again below those at the end of the previous year.

The price developments mentioned were analysed in proprietary trading and translated into excellent results in trade with emission certificates and electricity. In customer trading, we were able to conclude the first long-term electricity purchase contract for wind farms, which will no longer be eligible for EEG subsidies from the end of 2020. In this case, it was possible to structure the product in such a way that Mercedes-Benz Cars could be won as a customer.

Transactions with globally traded emissions permits recorded strong growth compared to the previous year. Both the activities in Trading and in Origination considerably exceeded expectations in many of these global markets. Revenues from the British Renewables Obligation (RO) credit in particular. In continental Europe, demand for green certificates rose as end consumers and companies want to make their power consumption ever more carbon neutral. The Group invested time and resources in the promotion of growth in similar certification systems (e.g. IRECs) outside of its EU core markets, to better support multinational customers as well as its own systems, and to be able to provide more added value.

Due to new regulatory reforms, market prices tripled in the European Emissions Trading System compared with the previous year. Statkraft Markets GmbH continues to be a strong market participant in terms of revenue in the leading exchanges of emission certificates and was able to considerably increase sales and profits compared with the previous year.

Continental Assets & Market Access

Continental Assets
The operating hours and power generated by the gas-fired power plants in Hürth-Knapsack were slightly lower than in the previous year. Due to the lower spark spreads contribution margin remained subdued.

In February, there was an earthing fault at one of the three generators at the Knapsack I gas-fired power plant. Inspections of the other two generators revealed a similar fault, which meant that the rotors on all three generators needed to be repaired or improved. This necessary work was finished at the end of the third quarter, meaning that the power plant was back in operation for the commercially important autumn and winter months.

Due to the longer operating times of the gas-fired power plants over the last few years, new operating personnel were taken on in 2018. The optimal dispatch planning for plants again focused more intensively on daily operation. The long-term gas supply contracts expired at the end of 2017, and 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. 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. The maintenance strategy optimised over the previous year's ensures availability is constantly high, thereby guaranteeing high annual electricity volumes. Fuel prices remained low.

In 2018, the hydroelectric power plants operated without technical problems. However, ongoing drought in summer and autumn resulted in low water levels and therefore in considerably reduced production of electricity. Also, this period just ended our focus lies in the continuous improvement of fish protection in the run-of-river power plants along the Weser, Werra, Fulda and Eder.

Maintenance projects of various sizes were carried out at the pumped storage power plant in Erzhausen, including the pressure pipeline storehouses and the generators. This improved the technical substance of the power plant. Naturally, these works resulted in considerable downtimes and therefore poor commercial results. The tendering rules for secondary regulation (daily auction) changed recently and this had a positive impact on the revenues in this market. We continue to assume that it will be possible to improve the optimization of the pumped storage power plant in various markets but expect price level will fall due to increased competition.

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Total production in 2018 was below the level of the previous year, at around 2.0 TWh. 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.

Market Access

Statkraft Markets GmbH continues to expand the portfolio of long-term purchase contracts for wind and solar power. From its Düsseldorf office, Statkraft Markets GmbH operates a 24/7 balancing management for Germany, Belgium, France, the United Kingdom, Turkey and, as of October 2018, Ireland.

The direct marketing portfolio in Germany exceeded the threshold of 10 GW throughout the course of the year. During the annual renegotiation phase, around 700 contracts with a volume of more than 5,000 MW were renegotiated and additional customers were added, which will allow the portfolio to grow to over 11 GW in 2019. This means that Statkraft Markets GmbH is still the market leader in the direct marketing of renewable energies in Germany.

A large offshore wind farm was put into operation in Belgium, for which Statkraft Markets GmbH had acquired the long-term power sales contract. The strained grid situation in Belgium with unusually low availability of the Belgian nuclear power plants meant that balancing management was exposed to considerable risks, particularly in autumn. The situation had noticeably improved towards the end of the year.

The expansion of the portfolio in France developed positively. Throughout the course of the year, contracts were concluded with solar and wind farm operators for several hundred megawatts. This included contracts for new power plants, which will mainly be connected to the grid next year.

In the United Kingdom, the size of the portfolio (wind and solar) remained relatively stable at around 3,200 MW. However, risks were reduced further, and contract durations extended through renegotiations. The focus was on the integration of flexible plants (gas engines, batteries), which achieved a combined capacity of over 100 MW towards the end of the year. Statkraft Markets GmbH will grow further in this segment next year.
The optimisation and activation of third-party plants will mostly be fully automated. The tools and systems needed for this will undergo ongoing further development by Statkraft Markets GmbH.

Regulatory changes came into effect in Ireland in October 2018 which resemble those introduced by the direct marketing model in Germany. Statkraft Markets GmbH was active from day one with a wind portfolio of several hundred megawatts. By adapting existing processes and systems to the new market, operators could be offered competitive products within a short timeframe.

The Turkish portfolio grew in difficult circumstances. Most of the contracts are currently being renegotiated to accommodate the new customer requirements brought about by high interest rates and exchange rate fluctuations. Statkraft Markets GmbH has been optimising two hydropower plants in Turkey as a service within the Statkraft Group. Low system availability and harsh drought did not leave much scope for plant optimisation. Prices for the plants are secured by feed-in tariffs.

Statkraft Markets GmbH has also been optimising the use of a hydropower plant of the Statkraft Group in Albania from its Düsseldorf location. The first half of the year was characterised by unusually heavy rainfall, and then summer and autumn were much dryer than the long-term average value. Looking at the year, the water levels were above average, which meant that high revenues were generated in combination with the relatively high market prices in Southeast Europe. In 2019, Statkraft Markets GmbH will commission another hydropower plant in Albania with an installed capacity of 180 MW.

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OPERATING RESULT

This year's turnover amounted to EUR 25.6 billion, which is considerably higher than the previous year's figure of EUR 17.4 billion, due to higher prices and trading volumes. Trading in electricity accounted for EUR 10.2 billion of this figure (previous year: EUR 8.2 billion). The volume traded increased from 218 TWh in 2017 to 252 TWh in 2018, as did average prices. Gas trading contributed EUR 3.4 billion (previous year: EUR 3.1 billion) to sales and recorded a slight increase compared with the previous year. Emissions trading and green certificates recorded a sales growth from EUR 6.0 billion in 2017 to EUR 12.0 billion in 2018, mainly due to price-related factors, with the largest regional sales of EUR 11.1 billion (previous year: EUR 8.1 billion) and EUR 10.1 billion (previous year: EUR 6.0 billion) in Germany and the United Kingdom respectively.

Gross margin (defined as operating performance less cost of materials and services purchased from affiliated companies) decreased from EUR 259.7 million in 2017 to EUR 93.2 million in 2018.

	2018 EUR million	2017 EUR million
Revenues	**25,567.2**	17,385.8
Other own work capitalised	**0.2**	0.3
Other operating income	**28.5**	87.6
Cost of raw materials, consumables and supplies	**78.6**	86.4
Cost of purchased services	**25,424.1**	17,127.6
Gross margin	**93.2**	**259.7**

It should be noted that this amount also includes income from exchange rate gains. Adjusted for this effect of EUR 27.9 million (previous year: EUR 63.4 million), the gross margin amounted to EUR 65.3 million in the financial year 2018 and is below the comparable figure for the previous year of EUR 196.3 million.

This drop is mainly due to higher provisions for losses in valuation units from the Trading & Origination division. In addition, higher provisions for impending losses were raised for hedges of undelivered transactions which do not form part of a valuation unit. The rise in price resulted in a negative evaluation of the hedges, while positive effects of future supply contracts with end customers at low prices were not included in the valuation. In addition, lower proceeds from power plants and the Trading & Origination division led to a drop in gross margin.

Personnel expenses rose from a total of EUR 15.5 million in 2017 to EUR 17.5 million in 2018, largely due to higher expenditure on pensions and social security contributions of EUR 6.7 million in 2018 (previous year: EUR 4.5 million). These result from the first-time application of the biometric accounting basis in accordance with Klaus Heubeck's 2018 G Standard Tables.

Amortisation of intangible assets and depreciation of property, plant and equipment includes scheduled depreciation of EUR 11.4 million.

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Other operating expenses can be broken down as follows:

	2018 EUR million	2017 EUR million
Currency exchange losses	**30.8**	50.9
IT related expenses	**1.2**	1.2
Legal and consultancy fees	**3.9**	2.4
Rent, repair and similar costs	**19.5**	22.2
Other	**8.7**	17.1
Total other operating expenses	**64.0**	**93.8**

Other operating expenses fell from EUR 93.8 million in 2017 to EUR 64.0 million in 2018. This is largely due to lower exchange rate losses totalling EUR –20.1 million and lower expenses for restoration provisions totalling EUR –7.0 million, included under "Other".

In 2018, the financial result of Statkraft Markets GmbH was negative at EUR –6.0 million, compared with a positive result of EUR 73.7 million in the previous year. In the previous year, the financial result included increased income of EUR 87.1 million from profit transfer, while in 2018 the profit transfer and income from investments only amounted to EUR 1.5 million. The high profit transfer in the previous year was mainly due to the impairment reversal in value of the gas-fired power plants in the respective subsidiaries.

Interest expenses of EUR 7.2 million mainly relate to fees for guarantees EUR 5.7 million (previous year: EUR 9.2 million). In the previous year, EUR 2.1 million of this amount also related to a Group loan of EUR 255.0 million, which was repaid at the end of 2017.

The negative result after tax of EUR –5.8 million will be offset by the sole shareholder Statkraft Germany GmbH based on a profit and loss transfer agreement concluded on 1 January 2009.

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NET ASSET AND FINANCIAL POSITION

Cash flow for 2018 and 2017 was as follows:

	2018 EUR million	2017 EUR million
Cash flow from operating activities	**22.0**	0.1
Cash flow from investment activities	**–82.3**	26.7
Cash flow from financing activities	**154.8**	–100.9
Net increase / (decrease) in cash	**94.5**	**–74.1**
Cash and cash equivalents as of 1.1.	**132.3**	206.4
Cash and cash equivalents as of 31.12.	**226.8**	132.3

Cash flow from operating activities amounted to EUR 22.0 million in the financial year 2018 (previous year: EUR 0.1 million). Cash flow from operating activities is mainly due to prepayments received for certificates and option premiums received.

Cash flow from investment activities amounted to EUR –82.3 million (previous year: EUR 26.7 million) and was mainly due to capital increases in Statkraft Holding Knapsack GmbH of EUR 76.0 million and in Statkraft Ventures GmbH of EUR 4.0 million.

Cash flow from financing activities includes the allocation to capital reserves of EUR 260 million by Statkraft Germany GmbH and cash inflows and outflows from profit and loss transfer agreements totalling EUR –105.2 million.

As a result, this led to a positive change in cash and cash equivalents to the amount of EUR 94.5 million. Considering the positive cash and cash equivalents of EUR 132.3 million at the beginning of 2018, this resulted in positive cash and cash equivalents of EUR 226.8 million as of 31 December 2018. Cash and cash equivalents as of 31 December 2018 consist of cash and cash equivalents of EUR 16.9 million and the net positive cash pool balance with Statkraft AS, Oslo / Norway, of EUR 209.9 million.

Amortisation of intangible assets and depreciation of property, plant and equipment amounted to EUR 11.4 million in 2018. Investments in tangible fixed assets and financial assets amount to EUR 1.9 million and EUR 80.3 million respectively.

Due to the capital increase of EUR 80.0 million concluded on 12 March 2018 and the capital increase of EUR 180.0 million concluded on 14 December 2018, equity increased by a total of EUR 260.0 million to EUR 670.8 million. The capital increase was paid through the cash pool. There were no other changes because of the existing profit and loss transfer agreement with Statkraft Germany GmbH.

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Total assets rose from EUR 1,299 million as of 31 December 2017 to EUR 1,597 million as of 31 December 2018. This is due to the increase in receivables from affiliated companies, other intangible assets and the rise in the book value of Statkraft Holding Knapsack GmbH. This increase is partly offset by the decrease in trade receivables. The increase in other intangible assets is mainly due to the rise in the trading portfolio of CO_2 certificates of EUR 199.6 million. The rise in receivables from affiliated companies of EUR 53.1 million was mainly due to the rise in cash pool receivables of EUR 116.1 million from Statkraft AS, Oslo / Norway, and the offsetting development of receivables from profit and loss transfer agreements of EUR –79.9 million. The drop in trade receivables results from higher settlements from receivables and liabilities with customers who hold netting agreements. On the liabilities side of the balance sheet, capital reserve, other provisions and other liabilities have increased. The rise in other provisions mainly results from the provision for valuation units and the increase in provisions for impending losses. The increase in other liabilities is due to the receipt of option premiums.

In total, the equity ratio (equity divided by balance sheet total) in the year under review was 42.0 %.

In addition to liquid funds of EUR 226.8 million at the end of the year, the company has a credit line of EUR 220.0 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 2019 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.

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	2018	2017
Net operating revenue in million EUR	**171.0**	213.7
EBITDA in million EUR	**44.0**	99.4
Production volume in GWh	**1,994.6**	2,736.8

Gross profit (defined in accordance with IFRS as net operating revenue) and EBITDA decreased compared with the previous year due to the market valuation of pending transactions. This effect will be reversed in the following years.

Net operating revenue and EBITDA for the Trading & Origination division were positively influenced by the high prices for European and international emission certificates as well as the high prices on the Nordic market.

Total production in 2018 in Continental Assets has fallen in comparison with 2017. Accordingly, net operating revenue and EBITDA also decreased in 2018. This is due to the downtimes of a gas-fired power plant because of a defective generator and the dry summer.

In Market Access, net operating revenue and EBITDA also decreased because the market valuation of unrealized transactions fell. This trend will be reversed in the following years. We also refer to the explanations on business development.

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. Clear requirements and tight controls in all operational processes and project stages are crucial to guarantee safe workplaces and achieve good results in 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.

During 2018, four incidents occurred with downtimes, but without serious consequential damage. The incidents were investigated, and appropriate measures were taken to avoid repetition.

The company persists in focusing 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 2018, there were 140 employees. Statkraft Markets GmbH employed an average of 140 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 different countries. This international environment is very attractive for new employees 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 2018.

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

In 2018, no serious environmental incidents were recorded at Statkraft Markets GmbH.

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OUTLOOK

The forecasts are based on the consolidated figures under International Financial Reporting Standards (IFRS) used for internal reporting.

In the previous year, we forcasted net operating revenue of EUR 171 million for 2018. We achieved the forecast amount with a net operating revenue of EUR 171 million for 2018.

EBITDA amounted to EUR 44 million in 2018 and was therefore EUR 11 million lower than the forecast amount of EUR 55 million. This was mainly due to the higher recharges from Group companies for increased sales costs in the Netherlands and the UK.

Due to the repair work at the Knapsack I gas-fired power plant and the dry summer, the actual generation volume in 2018 was 2.0 TWh and therefore clearly below the expected amount of 3.7 TWh.

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 the consolidated figures under International Financial Reporting Standards, Statkraft Markets GmbH forecasts a higher year-on-year net operating revenue of approximately EUR 230 million for 2019. The EBITDA figure is expected to be EUR 89 million for 2019.

The forecasts are based on the following assumptions. In Continental Assets, the predicted longer operating times of the power plants due to expected higher prices will lead to an increased net operating revenue and EBITDA. Further growth potential is forecast for the Market Access division, particularly in the UK. Positive contributions are also expected from the business with long-term electricity supply and purchase contracts.

The Trading & Origination division will continue to benefit from the high prices in the markets for emission certificates and make a positive contribution to the net operating revenue and EBITDA. The forecast generation volume is set at 5 TWh due to the rise in prices and associated increase in length of operating times.

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

For the Trading & Origination division, 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.

The risks in the sale of certificates of renewable energy and proof of origin, which are included in other assets on the balance sheet date, are regarded as being low since, as 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 Markets GmbH's leadership in innovation.

The current outlook for gas-fired power plants has not changed in comparison to the previous year. It is crucial to continue to be competitive against coal-fired power plants in the future. The considerable rise in prices for emission certificates has brought relative improvement to the situation, but coal has become significantly cheaper compared with the previous year.

On 26 January 2019, the "Commission on Growth, Structural Change and Employment" (Kohlekommission) submitted its final report. The committee recommends the end of 2038 as the final phase-out and shutdown date. At the end of 2017, coal-fired power plants were on the market in Germany with a net output of 42.6 GW. By 2030, that output should drop to a maximum of 17 GW, with the remaining coal-fired power plants to be shut down by 2038. By 2022, 12.5 GW should already have left the grid. The commission only makes recommendations in its report. The actual structure depends on the how the German government implements them. The company will continue to monitor further developments, and this will be considered when assessing the gas-fired power plants.

The successful incorporation into the balancing management business in Ireland shows that Statkraft Markets GmbH's strategy of standardised processes and automation is paying off. We see further good opportunities to cover other markets and products there and thereby steadily increase our competitiveness without the need for a high level of additional resources.

The major risk with the marketing of renewable energy is the balancing costs. In small markets, such as Belgium, the company sees some particularly high risks from the addition of other greater offshore facilities at the same time as non-availability of thermal generation. In Germany, the risk of extreme balancing costs is lower due to the adjustment of the auction procedure for the procurement of reserve energy. Legal proceedings are pending against this change, and if they are successful, it could result in an increase in the balancing costs. In the UK, we are observing a trend towards the installation of more flexibility from gas engines or batteries. This reduces the risk of high balancing costs. At the same time, Statkraft Markets GmbH is involved with this trend as a service provider.

Furthermore, the UK business carries risks that may result from the Brexit negotiations or from the possibility of a no-deal Brexit. Even though the withdrawal date has been moved to 31 October 2019, there is still the possibility of a hard Brexit, and the company is preparing itself for that.

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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 2018 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.

Compliance with the financial and energy market rules introduced by the EU (REMIT, EMIR, MiFID, MAR) is monitored by a specialised compliance department. After the obligations of the new Financial Market Directive II (MiFID II) were successfully implemented in 2017, trade was smoothly carried out under these new regulatory requirements in 2018. A corresponding non-core activity exemption according to RTS 20 was reported to the German Federal Financial Supervisory Authority (BaFIN). Position limits were also continuously reviewed in line with RTS 21.

In order to meet the behavioural requirements of the EU Regulation on Wholesale Energy Market Integrity and Transparency (REMIT) and the Market Abuse Regulation (MAR), employees were comprehensively trained in the calendar year 2018, further instructions and guidelines were issued, and additional monitoring measures introduced.

All reporting obligations under the EU Regulation on OTC derivatives, central counterparties and trade repositories (EMIR) have been complied with. Processes for coordinating portfolios and clarifying differences, as well as processes for confirming trade exchanges, are agreed and implemented with trading partners. The annual audit of the systems and processes by the auditors once again raised no objections. The reporting obligations under REMIT are properly fulfilled by a specialised department for both the Statkraft Group and a large number of counterparties.

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 affiliated companies – included in the cashpooling of the Statkraft Group.

Statkraft Markets GmbH is also 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.

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.

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Düsseldorf, 12 April 2019

Dr Carsten Poppinga Robert Teschke

Roland Harting Pieter Schipper

BALANCE SHEET AS OF 31 DECEMBER 2018

Assets	31 December 2018 EUR	31 December 2017 EUR '000
A. Fixed assets		
I. Intangible fixed assets		
1. Purchased Software	1,595,562.98	2,101
II. Tangible fixed assets		
1. Ground, buildings	10,923,251.46	11,537
2. Technical equipment and machines	127,069,848.33	136,296
3. Other assets, operating and office equipment	2,704,464.46	2,598
4. Assets under construction	3,679,042.56	2,769
	144,376,606.81	153,200
III. Long-term financial assets		
1. Shares in affiliated companies	141,222,220.46	61,222
2. Shares in associated companies	2,437,833.61	2,404
3. Loans to affiliated and associated companies	300,000.00	0
	143,960,054.07	63,626
	289,932,223.86	218,927
B. Current assets		
I. Inventories		
1. Raw materials and supplies	205,206,488.80	211,402
II. Receivables and other assets		
1. Trade receivables	339,935,135.65	382,306
2. Receivables from affiliated companies	256,094,748.39	203,007
3. Other assets	479,466,927.74	248,744
	1,075,496,811.78	834,057
III. Cash-in-hand, bank, balances and cheques	16,919,433.23	29,891
	1,297,622,733.81	1,075,350
C. Prepaid expenses	9,625,234.00	4,506
	1,597,180,191.67	1,298,783

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Equity and liabilities	31 December 2018 EUR	31 December 2017 EUR '000
A. Equity		
I. Subscribed capital	4,000,000.00	4,000
II. Capital reserves	658,104,558.71	398,104
III. Profit and loss reserve	45,978.68	46
IV. Profits carried forward	8,663,853.54	8,664
	670,814,390.93	410,814
B. Provisions		
1. Provisions for pensions and similar liabilities	9,824,237.00	6,685
2. Tax provisions	0.00	219
3. Other provisions	275,720,009.90	142,670
	285,544,246.90	149,574
C. Liabilities		
1. Liabilities to banks	0.00	0
2. Received prepayments	12,866,187.80	0
3. Trade payables	367,245,625.80	386,208
4. Liabilities to affiliated companies	51,323,691.22	223,484
5. Other liabilities of which for taxes: EUR 258,113.64 (previous year: TEUR 313)	209,358,938.07	128,597
	640,794,442.89	738,289
D. Deferred income	27,110.95	106
	1,597,180,191.67	1,298,783

INCOME STATEMENT

For the period from 1 January to 31 December 2018

	2018 EUR	2017 EUR '000
1. Sales revenue	25,567,190,413.83	17,385,856
2. Other capitalized own costs	198,341.61	309
3. Other operating income	28,452,313.93	87,582
4. Cost of materials		
a) Cost of raw materials and supplies	78,599,562.72	86,418
b) Cost of purchased services	25,424,076,229.02	17,127,584
5. Personnel expenses		
a) Salaries	10,879,807.68	11,033
b) Social security, pensions and other employee benfit costs of which for pensions: EUR 4,818,461.25 (Prior year: TEUR 2,612)	6,663,565.90	4,512
6. Depreciation of tangible fixed assets and intangible fixed assets	11,406,331.54	32,456
7. Other operating expenses	63,994,739.83	93,789
8. Income from long-term equity investments^	112,244.00	0
9. Income from profit transfer agreement	1,368,500.00	87,106
10. Other interest and similar income thereof due to affiliated companies: EUR 418,954.52 (Prior year: TEUR 177)	560,050.89	259
11. Expenses from loss absorption	870,680.94	787
12. Interest and similar expenses thereof due to affiliated companies EUR 5,767,039.75 (Prior year: TEUR 11,452)	7,207,332.16	12,854
13. Taxes on income and earnings	−173,641.57	5
14. Result after tax	−5,642,743.96	191,674
15. Other taxes	169,918.21	149
16. Loss transfers (Prior year: Profit transfers)	5,812,662.17	−191,525
17. Net income for the financial year	0.00	0

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Notes for financial year 2018

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
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 2018, **low-value assets** with a net value of up to EUR 250.00 have been directly expensed in the income statement. In previous years, since 2008, low-value assets with a net value of up to EUR 150.00 were directly expensed in the income statement. A collective item for low-value assets with a net value of more than EUR 250.00 (previous year: 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.

Other assets in **foreign currency** are translated at the average spot exchange rate according to Section 256 a 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.

Pension provisions were measured according to the projected unit credit method, applying actuarial principles, and are based on Prof Klaus Heubeck's 2018 G mortality tables published in 2018. 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). 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 7,487 thousand in the current financial (previous year: EUR 6,377 thousand) year (Section 253 (6) HGB). The valuation of pension provisions is based on the following parameters:

	2018 %	2017 %
Discount rate	**3.21* / 2.32****	3.68* / 2.80**
Salary increases	**3.00 p.a.**	3.00 p.a.
Pension increases	**1.00 p.a.**	1.00 p.a.
Fluctuation	**0.00– 6.00 p.a.**	0.00–6.00 p.a.

* 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.

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.

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. As of 31 December 2018, opposite cash flows streams exist for the period up to 2029. 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.

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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
Assets	210,823
Liabilities	185,831
Pending purchase transactions	10,004,329
Pending sales transactions	10,932,662

The value of the risks hedged through valuation units is EUR 834,437 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 valuation 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. Received Prepayments are recognised at the amounts at which they will be settled.

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 credits or liabilities denominated in **foreign currencies** are posted at the rates in effect at the date of initial posting and are remeasured 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 SF, Oslo, Norway, and those in which Statkraft SF, 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 2018 of EUR 4,000 thousand.

List of shareholdings

This information relates to 31 December 2018, 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	116,472
Knapsack Power GmbH & Co. KG, Düsseldorf [2]	100	2,635	25	66,485
Knapsack Power Verwaltungs GmbH, Düsseldorf [2]	100	2	25	66
Kraftwerksgesellschaft Herdecke mbH & Co. KG, Hagen [2] [3]	50	2,187	10,000	28,502
Kraftwerksverwaltungsgesellschaft Herdecke mbH, Hagen [2] [3]	50	1	25	41
Statkraft South East Europe EOOD, Sofia / Bulgaria, in liquidation [3]	100	3	3	130
Statkraft Trading GmbH, Düsseldorf	100	0 [1]	25	25
Statkraft Ventures GmbH, Düsseldorf	100	0 [1]	25	17,640
Windpark Kollweiler GmbH & Co. KG, Billerbeck [3]	20	–65	1,462	1,007
enQu GmbH, Kiel [3]	50	11	50	696
statt-werk GmbH, Berlin [3]	25	898	50	2,188

[1] Result after transfer of profit / loss
[2] Indirectly held investments
[3] Last annual financial statements 31.12.2017

Receivables and other assets

As in the previous year, all receivables and other assets have a residual term of up to one year. In 2018, a lump sum valuation allowance for receivables of EUR 3,747 thousand (previous year: EUR 3,862 thousand) was posted.

Receivables from affiliated companies are comprised as follows:

	2018 EUR '000	2017 EUR '000
Receivables from cash pool against Statkraft AS, Oslo / Norway	**218,474**	102,423
Trade accounts receivable	**4,682**	5,695
Receivables from profit transfer agreements	**7,181**	87,106
Receivables from shareholder Statkraft Germany GmbH, Düsseldorf	**19,944**	7,783
Receivables from loss transfers by the shareholder Statkraft Germany GmbH, Düsseldorf	**5,813**	0
Total receivables against affiliated companies	**256,094**	**203,007**

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Receivables due from the shareholder (EUR 19,944 thousand) Statkraft Germany GmbH, Düsseldorf, are mainly input tax refund claims.

Other assets mainly include CO_2 certificates of EUR 212,176 thousand (previous year: EUR 12,528 thousand), paid securities of EUR 170,308 thousand (previous year: EUR 129,143 thousand), including securities from the exchange-side settlement of open positions and options premiums paid of EUR 95,161 thousand (previous year: EUR 106,341 thousand).

Prepaid expenses

The prepaid expenses of EUR 9,625 thousand (previous year: EUR 4,506 thousand) mainly concern grid charges amounting to EUR 3,422 thousand (previous year: EUR 1,922 thousand).

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).

Equity

In the commercial year there was a capital injection of EUR 260,000 thousand. 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 increased solely by this amount to EUR 670,814 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	27,953	30,905

For the financial reporting period, a deficit of EUR 9,824 thousand (previous year: EUR 6,685 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 17,311 thousand (previous year: EUR 13,062 thousand). The difference according to Section 253 (6) HGB thus amounts to EUR 7,487 thousand (previous year: EUR 6,377 thousand). Prior to offsetting the plan assets of EUR 30,905 thousand (previous year: EUR 28,538 thousand), pension obligations in the financial year 2018 amounted to EUR 40,729 thousand (previous year: EUR 35,223 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 2,952 thousand (previous year: EUR 2,282 thousand).

Net interest results include gains of EUR 595 thousand (previous year: EUR 609 thousand) resulting from plan assets. This also includes expenses due to discounting of pension obligations of EUR 1,282 thousand (previous year: EUR 1,270 thousand). Expenses of EUR 46 thousand (previous year: EUR 46 thousand) were netted against the interest from plan assets.

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Other provisions

Other provisions amount to EUR 275,720 thousand (previous year: EUR 142,670 thousand). Other provisions mainly consist of the following:

	2018 EUR '000	2017 EUR '000
Provision for valuation units	**132,806**	87,457
Provision for onerous contracts	**106,240**	25,099
Decommissioning provisions	**20,823**	19,336
Accruals	**4,217**	7,007
Provisions for jubilee and death payment benefits	**726**	722
Employee bonuses	**703**	690
Employees liability insurance association costs	**282**	271
Other	**9,923**	2,088
Total other provisions	**275,720**	**142,670**

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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 106,240 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 received prepayments contain prepayments for green certificates of EUR 12,866 thousand (previous year: EUR 0).

Liabilities towards affiliated companies are as follows:

	2018 EUR '000	2017 EUR '000
Liabilities from Cash-Pool	**8,553**	0
Trade accounts payable	**20,092**	28,806
Liabilities from the transfer of losses	**871**	787
Liabilities from profit and loss transfer agreement to shareholder Statkraft Germany GmbH	**1,369**	192,312
Liabilities from deliveries and services to shareholder Statkraft Germany GmbH	**20,439**	1,579
Total liabilities to affiliated companies	**51,324**	**223,484**

Other liabilities

In financial year 2013, the company agreed to acquire the contractual rights and obligations of a power purchase agreement with Kraftwerksgesellschaft Herdecke mbH & Co. KG, Hagen, an affiliated company. The power purchase agreement runs until the end of 2037. Statkraft Markets GmbH received EUR 94,364 thousand for the acquisition of the power purchase agreement. The value reflected the expected future loss from this agreement as of the time of the transfer.

As in the preceding years, in 2018 these obligations diminished by the delivered volume without affecting profit and loss.

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

	2018 EUR '000	2017 EUR '000
Liabilities from option premium	**181,566**	90,128
Securities received from counterparties	**9,773**	14,355
Liabilities from environmental certificate purchase agreements	**3,946**	5,477
Liabilities from power purchase agreement	**2,365**	16,410
Tax liabilities	**258**	313
Miscellaneous	**11,451**	1,914
Total other liabilities	**209,359**	**128,597**

As in the previous year, the securities received represent receipts from bilateral margin agreements.

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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 0 as of 31 December 2018 (previous year: EUR 1 thousand).

Statkraft South East Europe EOOD went into liquidation at the end of November 2018; the liquidation process is supposed to be finished by the end of June 2019. The guarantee was recalled.

Other financial obligations

Future obligations of EUR 177,775 thousand arise from the tolling agreement with Knapsack Power GmbH & Co. KG, which runs until 2032.

As of 31 December 2018, obligations relating to the long-term power purchase agreement amount to EUR 167,894 thousand, obligations from a long-term service agreement amount to a total of EUR 24,523 thousand.

Obligations from tenancy leases and leasing agreements as of 31 December 2018 amount to EUR 13,471 thousand (previous year: EUR 16,115 thousand). Of this amount, EUR 1,624 thousand (previous year: EUR 1,765 thousand) is due within one year and EUR 7,389 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 25,567,190 thousand (previous year: EUR 17,385,856 thousand) and were distributed across the segments as follows:

	2018 EUR '000	2017 EUR '000
Power trading	**10,202,716**	8,218,408
Gas trading	**3,359,711**	3,144,762
Emissions and green certificates trading	**11,981,986**	6,003,544
Other services to clients	**22,777**	19,142
Total sales	**25,567,190**	**17,385,856**

Classified by regional markets, sales are distributed as follows:

	2018 EUR '000	2017 EUR '000
Germany	**11,142,280**	8,087,850
Great Britain	**10,123,006**	5,980,680
Netherlands	**2,753,637**	2,062,391
France	**354,247**	413,181
Austria	**31,861**	737
Italy	**24,912**	12,286
Switzerland	**56,504**	54,514
Belgium	**105,079**	14,776
Slovenia	**5,615**	21,864
Poland	**13,610**	0
Hungary	**179,819**	122,827
Luxembourg	**36,754**	225,762
Czech Republic	**220,708**	86,907
Greece	**7,563**	5,766
Denmark	**13,616**	322
Turkey	**1,160**	882
Romania	**1,645**	3,358
Spain	**81**	164
USA	**30,873**	1,968
Bulgaria	**161,494**	11,625
Australia	**270,084**	226,346
Norway	**13,954**	21,301
Other	**18,688**	30,349
Total sales	**25,567,190**	**17,385,856**

Other operating income

Other operating income amounted to EUR 28,452 thousand (previous year: EUR 87,582 thousand) and consists of the following:

	2018 EUR '000	2017 EUR '000
Currency exchange gains [1]	**27,906**	65,629
Gains from the release of provisions / other liabilities [2]	**339**	600
Impairment reversals of fixed assets	**159**	21,288
Other	**48**	65
Total other operating income	**28,452**	**87,582**

[1] Thereof EUR 87 thousand (previous year: EUR 2,401 thousand) unrealised currency exchange gains
[2] Thereof EUR 339 thousand (previous year: EUR 600 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 solely normal depreciation.

Other operating expenses

Other operating expenses comprise the following:

	2018 EUR ’000	2017 EUR ’000
Legal and consultancy fees	**3,871**	2,366
Rent, repair and similar costs	**19,475**	22,203
Services for power plants	**866**	475
Currency exchange losses [1)]	**30,761**	50,907
IT related expenses	**1,193**	1,235
Marketing and information costs	**389**	341
Travel expenses	**264**	267
Expenses for telephone and data transmission	**690**	759
Membership fees	**266**	611
Guarantee costs	**332**	304
Expenses for external employees	**84**	56
Other	**5,804**	14,265
Total other operating expenses	**63,995**	**93,789**

[1)] Thereof EUR 1,758 thousand (previous year: EUR 5,072 thousand) unrealised currency exchange losses

Interest and similar expenses

Interest expenses for the financial year 2018 of EUR 7,207 thousand (previous year: EUR 12,854 thousand) includes accrued interest on other liabilities related to gas and power purchase agreements as well as environmental certificate obligations amounting to EUR 28 thousand (previous year: EUR 52 thousand), interest expense on accrued pension liabilities amounting to EUR 1,282 thousand (previous year: EUR 1,270 thousand) and additional interest on accrued other provisions of EUR 339 thousand (previous year: EUR 418 thousand).

Taxes on income

Taxes on income amount to EUR –174 thousand (previous year: EUR 5 thousand) and mainly comprise foreign corporation income taxes from prior years.

Issues relating to other periods

The other operating income includes EUR 339 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	**104,649**	105,046
Sale of USD	**10,471**	10,483
	115,120	115,529
negative market values		
Sale of GBP	**149,406**	147,974
	264,526	**263,503**

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Unrealized losses from these transactions of EUR 1,023 thousand were recognized in other provisions.

Auditor fees

The total fee charged by the auditor for the financial year 2018 amounts to EUR 281 thousand (previous year: EUR 274 thousand). Of this, EUR 244 thousand relates to the audit of the financial statements and EUR 37 thousand to other audit services. For previous years, EUR 5 thousand were charged in 2018. The total fee amounts to EUR 286 thousand.

Management

The managing directors holding sole power of representation are Dr Torsten Amelung (Vice President New Business), Düsseldorf (until 12 November 2018), and Dr Gundolf Dany (Vice President Asset Portfolio), Hürth (until 3 April 2019).

Stefan-Jörg Göbel (Senior Vice President Wind and Solar Continental), Düsseldorf, (until 12 November 2018), Robert Teschke (Vice President Accounting, Tax, Internal Control), Düsseldorf, Dr Carsten Poppinga (Senior Vice President Trading & Origination), Düsseldorf (since 11 June 2018), Petrus Schipper (Senior Vice President Energy Management), Düsseldorf (since 13 November 2018), Roland Harting (Senior Vice President acting, Production – Continent, UK, South East Europe), Hürth (since 3 April 2019) 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

Only one managing director received remuneration from the company in financial year 2018. The remuneration of the other managing directors was recharged to the company on basis of the existing service agreements with affiliated companies. The total remuneration of the members of the management for 2018 amounts to EUR 1,580 thousand (previous year: EUR 1,390 thousand).

Employees

The company had an average of 140 employees in the reporting year (previous year: 162); 127 employees were full-time employees (previous year: 147) and 13 employees were part-time (previous year: 15).

Subsequent Events

On 26 January 2019, the “Commission on Growth, Structural Change and Employment” (Kohlekommission) submitted its final report. The committee recommends the end of 2038 as the final phase-out and shutdown date. At the end of 2017, coal-fired power plants were on the market with a net output of 42.6 Gigawatt (GW). By 2030, that output should drop to a maximum of 17 GW, with the remaining coal-fired power plants to be shut down by 2038. By 2022, 12.5 GW should already have left the grid. The Commission only makes recommendations in its report. The actual structure depends on the how the German government implements them. Statkraft will continue to monitor further developments, and this will be considered when assessing the gas-fired power plants.

Group affiliation

The company’s annual financial statements are included in the consolidated financial statements of Statkraft AS, Oslo, Norway, as of 31 December 2018 (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 consolidated financial statements for Statkraft AS are available from the registered court (Regnskapsregisteret) in Oslo, Norway, under register number 987 059 699.

The consolidated financial statements for Statkraft SF are available from the registered court (Regnskapsregisteret) in Oslo, Norway, under register number 962 986 277.

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.

Proposal for distribution 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 result that will be disclosed for the year therefore amounts to EUR 0.

Düsseldorf, 12 April 2019
The Management team

Roland Harting

Robert Teschke

Dr Carsten Poppinga

Pieter Schipper

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FIXED ASSETS MOVEMENT

	Gross book value As at 1. 1. 2018 EUR	Additions EUR	Transfer EUR	Disposals EUR	As at 31. 12. 2018 EUR
I. Intangible assets					
1. Purchased software	12,851,934.00	0.00	39,784.03	30,232.16	12,861,485.87
2. Goodwill	11,779,877.84	0.00	0.00	0.00	11,779,877.84
	24,631,811.84	0.00	39,784.03	30,232.16	24,641,363.71
II. Tangible fixed assets					
1. Land, leasehold rights and buildings	97,965,987.79	0.00	65,936.20	0.00	98,031,923.99
2. Technical equipment, plant and machinery	680,185,553.35	88,654.77	138,067.44	11,916.70	680,400,358.86
3. Other equipment, fixtures and fittings	17,717,642.13	685,261.81	221,653.05	797,086.06	17,827,470.93
4. Assets under construction	9,149,634.04	1,157,023.98	–465,440.72	0.00	9,841,217.30
	805,018,817.31	1,930,940.56	–39,784.03	809,002.76	806,100,971.08
III. Financial assets					
1. Shares in affiliated companies	61,224,720.46	80,000,000.00	0.00	0.00	141,224,720.46
2. Investments	2,404,333.61	33,500.00	0.00	0.00	2,437,833.61
3. Loans to affiliated and associated companies	0.00	300,000.00	0.00	0.00	300,000.00
	63,629,054.07	80,333,500.00	0.00	0.00	143,962,554.07
	893,279,683.22	82,264,440,56	0.00	839,234.92	974,704,888.86

	Accumulated depreciation					
	As at 1.1.2018 EUR	Additions EUR	Transfer EUR	Disposals EUR	Write-ups EUR	As at 31.12.2018 EUR
I. Intangible assets						
1. Purchased software	10,751,210.28	544,366.34	0.00	29,653.73	0.00	11,265,922.89
2. Goodwill	11,779,877.84	0.00	0.00	0.00	0.00	11,779,877.84
	22,531,088.12	544,366.34	0.00	29,653.73	0.00	23,045,800.73
II. Tangible fixed assets						
1. Land, leasehold rights and buildings	86,428,647.50	620,493.03	59,532.00	0.00	0.00	87,108,672.53
2. Technical equipment, plant and machinery	543,889,475.25	9,452,951.98	0.00	11,916.70	0.00	553,330,510.53
3. Other equipment, fixtures and fittings	15,119,667.26	788,520.19	0.00	785,180.98	0.00	15,123,006.47
4. Assets under construction	6,381,174.74	0.00	−59,532.00	0.00	159,468.00	6,162,174.74
	651,818,964.75	10,861,965.20	0.00	797,097.68	159,468.00	661,724,364.27
III. Financial assets						
1. Shares in affiliated companies	2,500.00	0.00	0.00	0.00	0.00	2,500.00
2. Investments	0.00	0.00	0.00	0.00	0.00	0.00
3. Loans to affiliated and associated companies	0.00	0.00	0.00	0.00	0.00	0.00
	2,500.00	0.00	0.00	0.00	0.00	2,500.00
	674,352,552.87	**11,406,331.54**	**0.00**	**826,751.41**	**159,468.00**	**684,772,665.00**

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	Net book values As at 31.12.2018 EUR	As at 31.12.2017 EUR
I. Intangible assets		
1. Purchased software	1,595,562.98	2,100,723.72
2. Goodwill	0.00	0.00
	1,595,562.98	2,100,723.72
II. Tangible fixed assets		
1. Land, leasehold rights and buildings	10,923,251.46	11,537,340.29
2. Technical equipment, plant and machinery	127,069,848.33	136,296,078.10
3. Other equipment, fixtures and fittings	2,704,464.46	2,597,974.87
4. Assets under construction	3,679,042.56	2,768,459.30
	144,376,606.81	153,199,852.56
III. Financial assets		
1. Shares in affiliated companies	141,222,220.46	61,222,220.46
2. Investments	2,437,833.61	2,404,333.61
3. Loans to affiliated and associated companies	300,000.00	0.00
	143,960,054.07	63,626,554.07
	289,932,223.86	**218,927,130.35**

INDEPENDENT AUDITOR'S REPORT
TO STATKRAFT MARKETS GMBH, DÜSSELDORF

Audit opinions

We have audited the annual financial statements of Statkraft Markets GmbH, Düsseldorf, comprising the balance sheet as at 31 December 2018, the income statement for the period ended 31 December 2018 and the notes to the financial statements, together with the recognition and measurement policies presented therein. We also audited the management report of Statkraft Markets GmbH, Düsseldorf, for the period ended 31 December 2018.

In our opinion, based on the findings of our audit,

- the attached annual financial statements have in all material respects been prepared in accordance with the requirements of German commercial law applicable to corporations and give a true and fair view of the net assets and financial position of the company as at 31 December 2018 and its results of operations for the period ended 31 December 2018 in accordance with the German principles of proper accounting and
- the attached management report provides a suitable view of the company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

In accordance with Sec. 322 (3) Sentence 1 German Commercial Code (HGB), we declare that our audit did not lead to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the audit opinions

We conducted our audit of the annual financial statements and the management report in accordance with Sec. 317 German Commercial Code (HGB) and the German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). Our responsibilities under these provisions and standards are defined in more detail in the “Auditor's responsibilities for the audit of the annual financial statements and of the management report” section of our Auditor's Report. We are independent of the company in accordance with the requirements of German commercial and professional law, and we have conducted our other professional obligations in Germany in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and suitable to provide a basis for our audit opinions on the annual financial statements and the management report.

Legal representatives' responsibility for the annual financial statements and the management report

The legal representatives are responsible for ensuring that the annual financial statements are prepared in all material respects in accordance with the requirements of German commercial law relating to corporations, and that the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the company in accordance with the German principles of proper accounting. In addition, the legal representatives are responsible for the internal controls that they have determined necessary in compliance with the German principles of proper accounting to allow the preparation of annual financial statements that are free from material misstatements, intentional or otherwise.

In preparing the annual financial statements, the legal representatives are responsible for assessing the company's ability to continue as a going concern. They are also responsible for disclosing, if applicable, matters related to going concern. In addition, they are responsible for accounting on the basis of the going-concern principle, unless otherwise prevented from doing so by any actual or legal circumstances.

The legal representatives are also responsible for preparing the management report so that it provides as a whole a true and fair view of the company's position and is in all material respects consistent with the annual financial statements, complies with the German legal requirements, and accurately presents the opportunities and risks of future development. In addition, the legal representatives are responsible for taking precautions and introducing measures (systems) which they have deemed necessary to ensure the preparation of the management report is in accordance with the applicable German legal requirements and that sufficient appropriate evidence can be provided for the statements made in the management report.

Auditor’s responsibilities for the audit of the annual financial statements and the management report

Our objective is to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatements, intentional or otherwise; and whether the management report as a whole provides an appropriate view of the company’s position and, in all material respects, is consistent with the annual financial statements and the results of our audit, complies with the German legal requirements, and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report containing our audit opinions on the annual financial statements and the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 German Commercial Code (HGB) and the German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW) will always detect a material misstatement. Misstatements can result from legal violations or inaccuracies and are considered to be material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of readers of the annual financial statements and management report made on the basis of said annual financial statements and management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. In addition:

- We identify and assess the risks of material misstatements, intentional or otherwise, in the annual financial statements and the management report, plan and conduct audit activities as a response to these risks and obtain audit evidence that is sufficient and suitable to provide a basis for our audit opinions. The risk of material misstatements not being detected is higher in the case of legal violations than in the case of inaccuracies, as legal violations can include fraudulent conduct, forgery, intentionally incomplete disclosures, misleading statements, and the circumvention of internal controls.
- We gain an understanding of the internal control system relevant to the audit of the annual financial statements and the precautions and measures relevant to the audit of the management report in order to plan audit activities that are appropriate under the given circumstances but are not aimed at issuing an audit opinion on the effectiveness of these systems at the company.
- We evaluate the appropriateness of accounting policies used by the legal representatives and the reasonableness of estimates and related disclosures made by the legal representatives.
- We draw conclusions on the appropriateness of the legal representatives’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we undertake to draw attention in the auditor’s report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective audit opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. Future events or circumstances can, however, lead to the company being unable to operate as a going concern.
- We evaluate the overall presentation, structure, and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that gives a true and fair view of the net assets, financial position, and results of operations of the company in compliance with the German principles of proper accounting.
- We assess the consistency of the management report with the annual financial statements, its compliance with legal requirements, and the view it gives of the company’s position.
- We conduct audit activities on the forward-looking statements made by the legal representatives in the management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the legal representatives as a basis for the forward-looking statements, and evaluate the proper derivation of the forward-looking statements from these assumptions. We do not issue a separate audit opinion on the forward-looking statements or the underlying assumptions. There is a substantial unavoidable risk that future events will deviate materially from the forward-looking statements.

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We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Düsseldorf, 12 April 2019

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

(Marion Lammers)	**(Dr Benedikt Brüggemann)**
German Public Auditor	German Public Auditor

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