Statkraft

Statkraft Markets Continental (SMC)
Annual Report 2005

Growth and Investments

Key Indicators of the SMC Group

Amounts in million €	2005	2004	2003	2002
Sales	1,264.9	901.1	1,193.7	1,002.8
EBIT	3.7	7.8	16.8	11.8
Profit before taxes	4.3	8.9	17.6	12.0
Profit after taxes	2.5	5.4	10.7	7.6
Cash flow	4.2	1.4	16.3	4.4
Cash and cash equivalents	21.5	60.0	58.2	37.6
Net working capital	80.4	60.0	70.6	53.0
Balance sheet total	365.5	123.1	128.5	111.5
Equity	165.0	65.5	70.1	59.4
Equity ratio (%)	45.1	53.2	54.5	53.3
Number of employees	62	59	56	51

2005 – a Short Look Back

Jan.
- Federal Financial Supervisory Authority license for Statkraft Financial Services GmbH obtained.
- The start of CO_2 trading.

Apr.
- The takeover of Knapsack Power GmbH & Co. KG.
- The signing of the first CDM (clean development mechanism) deal in South Africa.

Jun.
- Partnership with Mark-E in respect of the combined cycle gas turbine power plant (CCGT) power station in Herdecke agreed.
- PPA with Essent in respect of 33 % of Knapsack's production.

Sep.
- Foundation stone in Knapsack laid.
- Ground-breaking ceremony in Herdecke.
- The opening of the Smøla wind park.

Nov.
- The first CO_2 options traded.
- The first CO_2 leases concluded.

Jan. Feb. Mar. Apr. May Jun. Jul. Aug. Sep. Oct. Nov. Dec.

The People Behind the Figures

Annual reports are concerned mainly with figures: “How high? How big? How many?” What can get lost from sight are the people behind the figures – the people at Statkraft and our business partners. They alone made the figures in this report possible.

So we’ve symbolically included a few people as silhouettes in the company report to represent the complete team. This is our way of saying “Thank you” to them all – for the personal commitment, positive cooperation and the pursuit of a common goal.

Contents

Statkraft

Foreword

“Statkraft being a leading power producer in the Nordic market is about to develop into a major European energy company.”

Jørgen Kildahl

Foreword from the Management Team

2005 was an outstanding year for Statkraft Markets Continental (SMC) for two reasons. First, it was the first year in which all areas of the business yielded positive results. This achievement underlines the robustness of SMC's diversified portfolio, and its ability to deliver a stable cash flow. Second, Statkraft started construction of two gas-fired power plants in Germany: one in Knapsack (near Cologne), and the other in Herdecke (near Dortmund). Years of project development efforts have come to fruition in these two projects, which will give the company physical positions in Europe's largest electricity generation market.

January 1, 2005, marked the beginning of the first trading period under the European Emissions Trading Scheme (ETS). Trading carbon emission allowances and associated deal structures was profitable for Statkraft from the very outset, and represents a further expansion of activities. This business promises growth in the future.

The year saw close cooperation with customers and partners. Of particular note are

- Mark-E, our partner in the Herdecke power plant project,
- Essent, which entered a long-term power purchase agreement with the Knapsack power plant,
- Wingas, which will supply fuel to both power plants, and
- Siemens, which will build the plants under turnkey contracts.

Thanks are due to all our partners and counterparties.

Finally, Statkraft employees in Amsterdam, Düsseldorf, and Oslo have worked hard and shown tremendous dedication to develop Statkraft's position in Continental Europe. Operating in the Continental markets without a major asset base and with a comparatively small staff has been a challenge, and Statkraft's success underlines the motivation, skills, and commercial drive of its people.

Stef Peters

Torsten Amelung

Stefan-Jörg Göbel

Helge-Jürgen Beil

Virpi Lehikoinen

Frederic Beucher






Keynote Address from Jørgen Kildahl, CEO of Statkraft Energi AS

"The year 2005 was a remarkable milestone in Statkraft's long history and a premiere in two ways.

First, Statkraft's Supervisory Board committed more than €700 million to build three combined cycle gas turbine (CCGT) power plants in Norway and Germany. Bearing in mind our 100-year tradition of hydropower generation, this in itself is a major step.

Second, we are expanding generation activities into Continental Europe: our plants in Herdecke and Knapsack are to go into operation in autumn 2007. Statkraft will then have power generation at both ends of the Baltic Cable, our cable connecting the Nordic and Continental markets.

Moreover, during 2005 Statkraft took over hydroelectric power stations producing 1.6 TWh per year in Sweden and Finland. These investments mark a significant step in a long process to expand Statkraft's asset base on the Continent and in the Nordic region. In the course of the last two years, Statkraft Markets Continental (SMC) evaluated some 20 environmentally friendly power generation proposals. Seeing the gas-fired projects through from inception to the official start of construction in September 2005 has required both patience and courage.

Despite this focus on asset development, SMC was able to strengthen its role in Continental European wholesale markets. Term trading picked up momentum; and renewable energy trading, spot electricity trading, cross-border power trading, and structured energy products continued to provide the core of our business.

Statkraft's focus is clear: to become the leader in environmentally friendly power generation, and to strengthen our position as a leading player in all related wholesale markets. We currently do business in 15 European countries and aim to expand into new territories.

Statkraft being a leading power producer in the Nordic market is about to develop into a major European energy company. In 2005 we set very important milestones in that direction, but there is still a lot of work ahead of us. In the near future, our geographical scope will widen further, as we pursue opportunities created by increasing liberalization in markets across the Continent."

"Statkraft's focus is clear: to become the leader in environmentally friendly power generation, and to strengthen our position as a leading player in all related wholesale markets."

Jørgen Kildahl

Corporate Structure

The core of Statkraft Markets Continental (SMC) consists of two companies:

- Statkraft Markets B.V. in Amsterdam (established in 1998), and
- Statkraft Markets GmbH in Düsseldorf (founded in 1999).

Statkraft Markets GmbH now serves as a holding company for Statkraft's operations in Continental Europe.

SMC's immediate parent company is Statkraft Energy Europe AS (SEU). SEU is a wholly owned subsidiary of Statkraft AS, the holding company for the entire Statkraft Group. The Norwegian state, via Statkraft SF, holds all the shares of Statkraft AS. In the Nordic region, Statkraft AS owns through its daughter company Statkraft Energy AS power plants in the Nordic region and manages the Nordic trading operations and associated market risk.

SEU is to be merged with Statkraft AS by April 1, 2006, and will cease to exist. Statkraft AS will then be SMC's immediate parent company.

Statkraft AS has a solid investment grade credit rating (Standard & Poor's BBB+, Moody's Baa1) with a stable outlook. Besides its ownership of Statkraft Energi AS, Statkraft AS has shareholdings in a number of large regional utilities in Norway and Sweden. No further changes in the shareholder structure are planned.

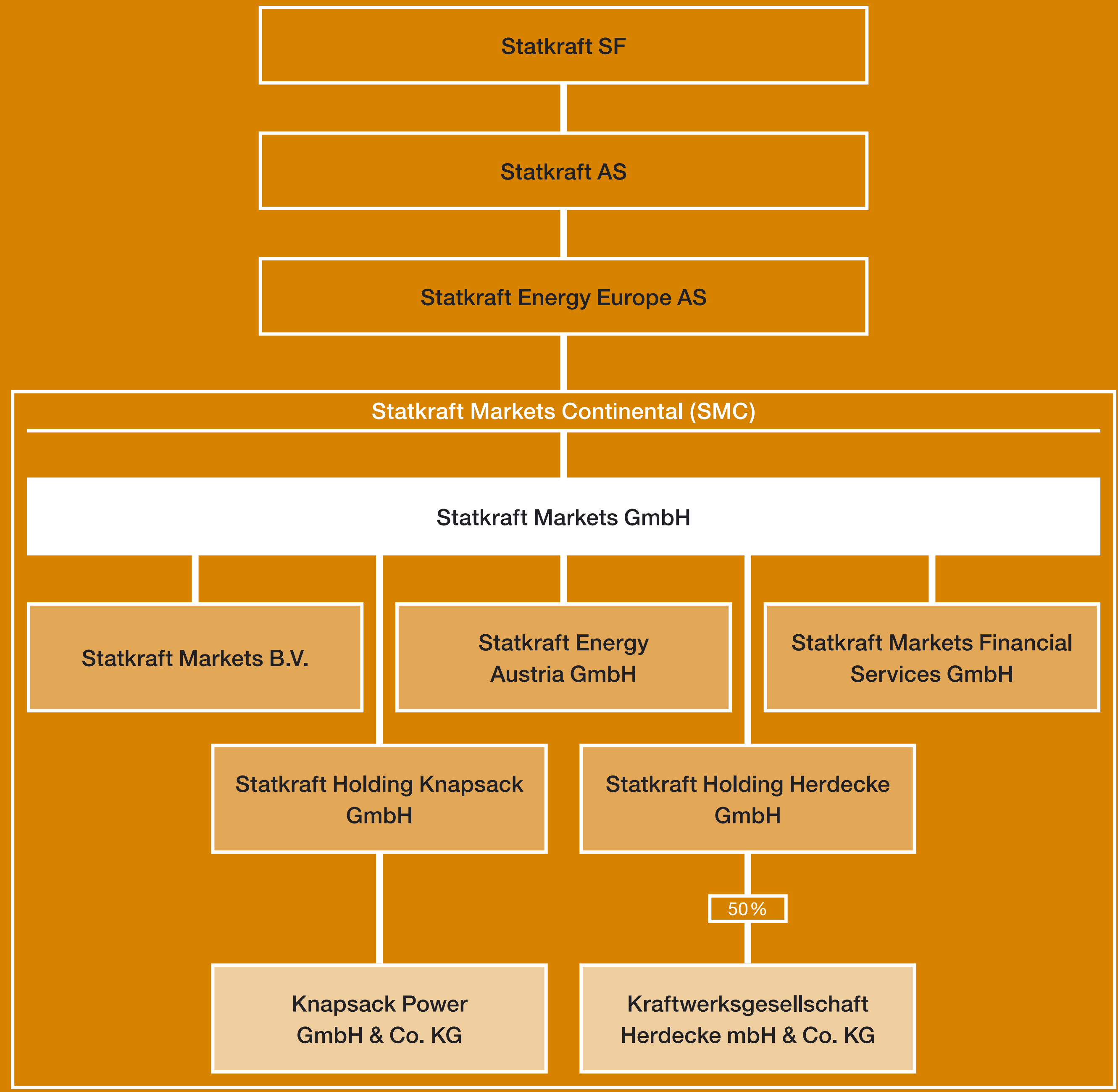
Statkraft Markets GmbH serves as a holding company for the power plants in Continental Europe. For this reason four new subsidiaries were established in 2005:

- Statkraft Holding Knapsack GmbH owns 100 % of Knapsack Power GmbH & Co. KG. This company owns the 800 MW power plant under construction in Knapsack, and holds all major contracts relating to the construction and operation of the power plant (including gas supply, power purchase agreements, site agreements, and turnkey construction contract).

- Statkraft Holding Herdecke GmbH owns 50 % of Kraftwerksgesellschaft Herdecke mbH & Co. KG. This company owns the 400 MW power plant under construction in Herdecke, and holds all major contracts relating to the construction and operation of the power plant.

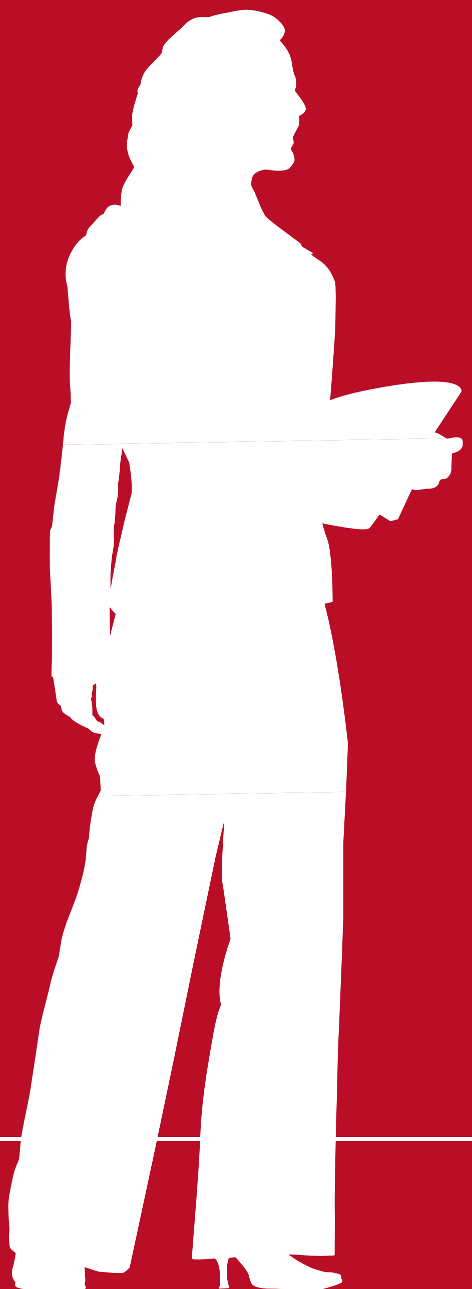
Statkraft Markets Financial Services GmbH was established in 2004 to offer financial and portfolio management services in Germany under the supervision of the Federal Financial Supervisory Authority (BaFin). The license for these activities was granted in January 2005. Since then SMC has concluded energy deals that qualify as financial transactions.

Moreover, Statkraft Markets GmbH has a subsidiary in Austria and a branch office in the Czech Republic. These companies hold the licenses necessary for operating in these countries.



per December 31, 2005

Management Report



“Statkraft helps society achieve a sustainable future by making environmentally friendly energy.”

Willemien van den Hoogen-Bakker

Development of Continental European Energy Markets

2005 saw electricity and fuel prices increase substantially around the world. One of the reasons for this was the tense situation in the oil market, caused by a number of factors: growing demand in China and India, increased production taxes in some producing countries, uncertainty over the situation in Iraq, and the impact of hurricanes on production capacity in the USA. As a result, the price of the OPEC reference basket of crude oils increased substantially. On September 1 this price reached its all-time high of $61.37 per barrel.

Increasing oil prices and declining production in some European countries impacted gas prices across Europe. Prices in the gas market soared to new all-time highs during November. Day-ahead prices at the NBP and Zeebrugge reached 170 pence per therm as cold weather and supply glitches stretched the system – a more than fivefold increase on prices a year earlier. Gas flows through the UK interconnector and imports of LNG could do little to ease prices.

The increase in fuel prices strained the market for carbon emission allowances (EUAs). Since January 1, 2005, qualifying companies have to submit allowances for all carbon emissions. In the course of 2005, each EU member state was obliged to implement a registry to administer this system (with the exception of the new EU countries). Both the European Energy Exchange (EEX) and NordPool launched exchange-cleared auctions for carbon emission allowances early in 2005.

Increased oil and gas prices, and the dry summer in southern Europe, caused higher than expected use of coal and lignite for electricity production. As a result, the price of carbon emission allowances increased dramatically. The price of EUAs for delivery in December 2006 went up from €8.45 on January 3 to close at €21.65 at the end of the year.

The rising prices of fuels and carbon emission allowances put the power markets in Europe under strain. During November, German spot electricity prices spiked and reached their highest level for the year. The highest price – recorded on November 29, when base load cleared at nearly €146 per MWh and peak load at over €226 per MWh – was caused by a tight supply situation in the region (several unexpected power station outages), as well as lower than normal temperatures. Moreover, the forward curve also adjusted strongly upwards: the price for base load for the year 2006 crossed €48 per MWh, an all-time high, pushed by both the high spot price and buying interest from smaller utilities needing to cover their physical demand for 2006.

Once again, the volume of power traded increased substantially. At the EEX, Europe's largest power exchange, traded volumes increased by over 50 %. 17 % of the electricity consumed in Germany was traded on the exchange.

Winds of change
May 18, 2005: The new wind turbines in Smøla, Norway, at the inauguration by Gro Harlem Brundtland, the Director General of the World Health Organization.

Regulatory Framework

In general the energy markets in Continental Europe lag behind the Nordic market with respect to transparency and the degree of market liberalization.

The European Commission investigated the extent to which member states have implemented the Gas and Electricity Directives in national laws. This resulted in infringement procedures against ten member states for non-implementation of the Directives. In addition, in June 2005 the European Commission launched a EU-wide inquiry into companies operating in the energy sector.

One of the countries facing action from the European Commission is Germany. Germany passed a new Energy Act ("Energiewirtschaftsgesetz") in June 2005. The Federal Network Agency ("Bundesnetzagentur") was mandated to assume the role of regulator, responsible for regulating transmission tariffs and grid fees for electricity and gas. This legislation aims to foster liberalization in the largest national energy market in Continental Europe and to improve access to interconnectors to facilitate a common European market.

Directive 2003/54/EC came into force in 2004 and is gradually being implemented across the EU. This directive requires electricity retail companies to declare the origin of electricity delivered on customer invoices. This should increase retail competition, especially in the green energy segment. The sourcing of green power should gain importance across Europe as this segment grows.

Planning and construction began for the € 600 million NorNed cable; a new subsea cable that will connect Norway and the Netherlands. The project is being undertaken by the transmission system operators of the two countries, and will be completed in 2007. The NorNed cable will boost trading between the Nordic and Continental markets and bring more renewable energy into Continental Europe.

A clean slate
August 4, 2005: The old power station in Herdecke has been completely torn down and the land has been cleared. Everything is ready for a state-of-the-art combined cycle gas turbine power plant (CCGT).

Pole position for everyone
September 16, 2005: With the symbolic ground-breaking ceremony Statkraft and Mark-E celebrate the beginning of the long-planned project.

Business partner
September 22, 2005: All the companies involved are present at the laying of the foundation stone in Knapsack.

Assets

In June 2005, Statkraft committed themselves to invest in two combined cycle gas turbine power plants (CCGTs) in Continental Europe, to be built in Knapsack (near Cologne) and in Herdecke (near Dortmund). These decisions mark the culmination of two years of origination efforts.

The 400 MW Herdecke plant is a joint venture with Mark-E, the local regional utility headquartered in Hagen. Each of the partners owns 50 % of the project.

The 800 MW Knapsack plant is currently fully owned by Statkraft. Essent Energy Trading B.V., a subsidiary of the Dutch utility Essent, became an important stakeholder when it signed a long-term power purchase agreement (PPA) with the project. Negotiations are underway with potential partners interested in acquiring an equity share in the Knapsack plant. Statkraft is, however, to keep at least 51 % and thus management control.

As far as fuel supply is concerned, both plants will receive gas from Wingas GmbH under long-term agreements. Given the current state of development of the gas markets in Europe, long-term gas supply agreements are still regarded as a prerequisite for any CCGT investment. With ongoing liberalization of the gas sector, ownership of the power stations will yield new opportunities. Statkraft's gas portfolio is ideally structured to take advantage of such opportunities as they emerge.

The two power plants are to be operational in September 2007, this date being relevant for both exemption from the German gas tax and allocation of carbon emission rights. The turnkey contracts for both projects have been awarded to Siemens. Both power plants are being built on "brown field" sites, replacing a coal-fired and a lignite-fired power plant, saving an estimated three million tonnes per year of CO_2 emissions.

Power

In 2005, Statkraft Markets Continental (SMC) traded some 30 TWh of electricity. This is an increase of 10 % on 2004. Trading activity centered on cross-border (optimizing cross-border electricity transfers), asset management (hedging SMC's physical positions and trading in structured deals), and speculative spot and term trading in the energy markets.

SMC currently trades electricity across 15 national borders in Europe. In 2005 the company added the borders between Spain and France and between Poland and the Czech Republic to its portfolio. A significant part of the cross-border business was made possible by Statkraft's part-ownership of the Baltic Cable, a 600 MW cable connecting southern Sweden and northern Germany. SMC manages capacity in this cable on behalf of Statkraft Energi AS, performing all commercial operations. During 2005 the transmission system operators at either end of the cable frequently curtailed the capacity available. On several occasions power flow had to be reduced intra-day to help secure grid stability on the German side (E.on grid). Bottlenecks in the Swedish grid also caused frequent disruptions. Upcoming changes in the regulatory framework are likely to have a positive impact on cross-border electricity flows.

In the German-speaking markets the energy retail and distribution companies have been diversifying their energy sourcing. SMC saw a substantial increase in non-standard transactions. Moreover, SMC traded and managed complex structured deals, thereby leveraging its competencies in analysis, forecasting, dynamic hedging, and trading.

SMC continued its close cooperation with ewz in Switzerland, Braunschweiger Versorgungs-AG & Co. KG (BVAG) in Germany, and Salzburg AG in Austria. SMC has been supporting these regional utilities with market analysis as well as portfolio and risk management.

Gas

SMC's gas trading volume amounted to 5 TWh in 2005. As in 2004 the activity centered on Britain's National Balancing Point (NBP), the Dutch Title Transfer Facility (TTF), and the Zeebrugge hub. SMC also concluded wholesale gas deals. In addition to these trading activities, SMC offers fixed-for-floating oil price swaps to utility companies wanting to hedge price risk. With Statkraft's gas-fired power plant projects, gas trading is set to increase in importance.

Photo: Mark-E

A brilliant start
September 16, 2005: Statkraft and Mark-E prepare the ground for the power station in Herdecke.

Renewables and Emissions

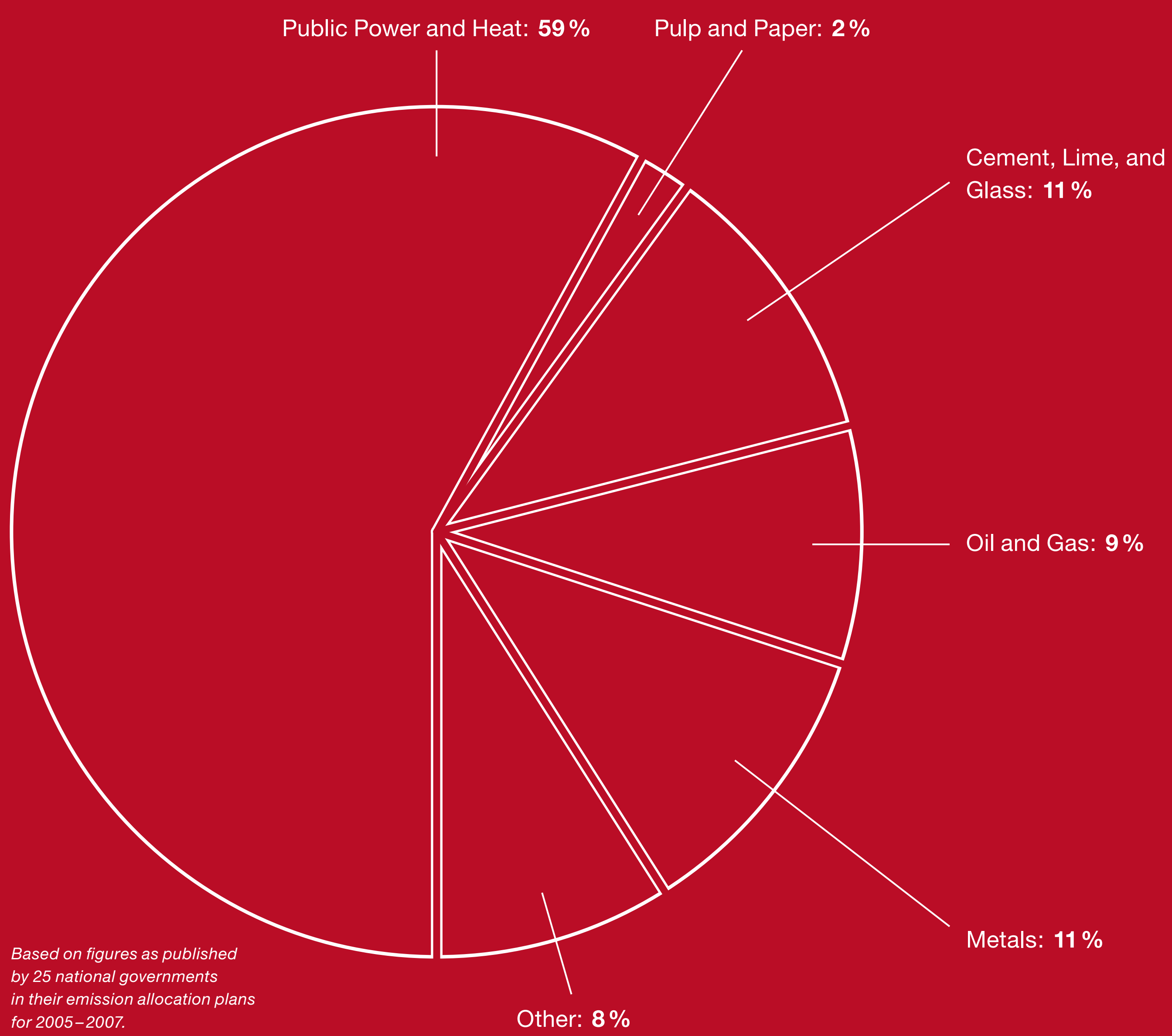
The European Union is currently on course to achieve an 18 % share of renewables in electricity production in 2010. This falls short of the initial target set in Directive 2001/77/EC, which aimed at 22.1% in 2010. Mechanisms for supporting renewable energy production vary widely across Europe.

Statkraft Markets Continental (SMC) has concentrated on those markets in which distribution companies are encouraged or obliged to deliver a certain percentage of green electricity. In 2005 the bulk of the green electricity delivery was for the UK market.

The growth in the voluntary market for green electricity was quite modest in 2005. This market is driven by retail customers that prefer energy from renewable sources. SMC concluded a number of deals in the Netherlands and in Germany, delivering green energy from the Nordic region to electricity retail and distribution companies.

Since January 1, 2005, carbon emission allowances have been a tradable commodity. SMC has seized opportunities in this field, engaging in Clean Development Mechanism (CDM) projects – buying Certified Emissions Reduction (CER) certificates – and trading European carbon emission allowances (EUAs). SMC has developed innovative products such as EUA leases and EUA option deals.

Allocation of EU allowances per sector (2005 – 2007):



Based on figures as published by 25 national governments in their emission allocation plans for 2005 – 2007.

Risk Management

Statkraft Markets Continental (SMC) engages in trading activities involving various risks with respect to commodity prices and IT systems. Risk management is given a high priority at SMC.

SMC has set up an efficient risk management system that identifies, evaluates, monitors, and mitigates risks inherent in its operations. The risk policy appropriate to any given situation is defined by the SMC's Risk Management Committee, which includes the Heads of Trading, Origination, Finance, Middle Office, Back Office, Legal, and the Managing Director.

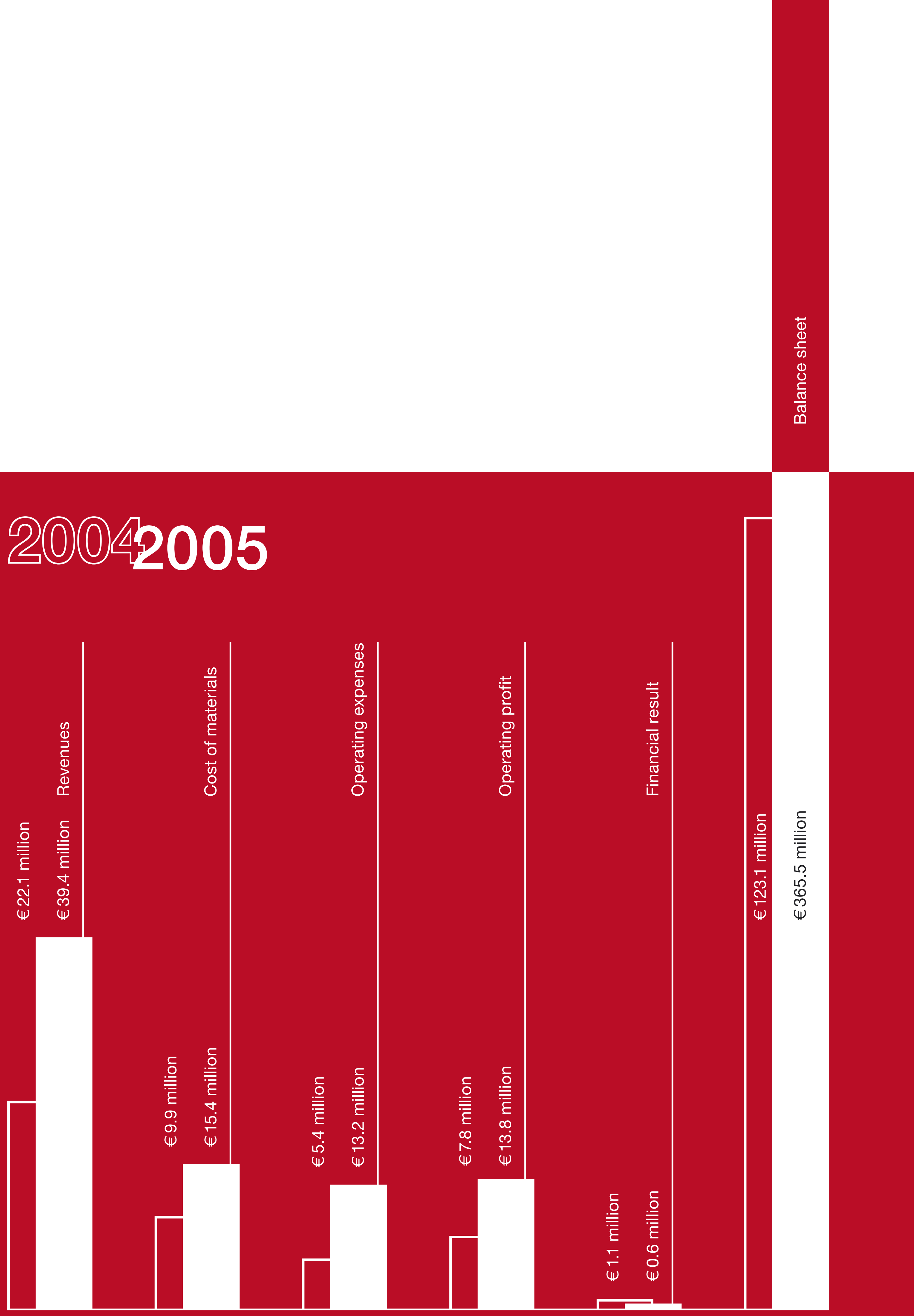
Middle Office has a pivotal role in risk management, performing the day-to-day running of SMC's risk management system and providing independent professional advice. Middle Office managers analyze all new deal opportunities and prepare risk assessments to support SMC's management team in making decisions. This increases risk awareness and ensures efficient risk mitigation. Moreover, Middle Office prepares daily and weekly risk reports on SMC's market positions. These reports are discussed and evaluated by SMC's management team. The reports use the Value at Risk and Profit at Risk methodologies.

In autumn 2005, SMC started to migrate to the MX trading platform. This new trading and risk management system, developed by Murex for energy companies, benefits from Murex's expertise in the financial markets. The system enables even more timely and transparent risk assessment of all portfolios. Live testing at Statkraft's headquarters in Oslo has been completed. At SMC, live testing for a number of key trading books was performed in November and December 2005. The migration is to be completed by July 1, 2006.

Counterparty risk is managed through an internal rating process. The credit limit for each counterparty is monitored and periodically reviewed, while current exposures are reported regularly.

SMC's systems have a high degree of redundancy for all core operations. Extending this philosophy, multiple staff are trained in all key processes, to ensure essential skills are always available. The risk management system is monitored by internal audit and verified by external auditors at the year-end audit.

Vision becomes reality
September 22, 2005: The laying of the foundation stone in Knapsack represents a turning point. The project phase is coming to an end and a new phase is beginning: Statkraft becomes a power producer in Continental Europe.



Results

Despite substantial expenditure on asset development projects, 2005 was again a profitable year for Statkraft Markets Continental (SMC). This can be attributed to the positive performance of all trading books.

The revenues increased from €22.1 million (2004) to €39.4 million (2005). Cost of materials was €15.4 million (previous year €9.9 million). Cost of materials show the expenses for cross border capacities and transmission costs. Revenues and cost of materials have both been reported on a net basis since 2004. Gross turnover in 2005 was €1.3 billion.

Total operating expenses reached €13.2 million (2004: €5.4 million). The increase of expenses is driven by SMC's efforts associated with power plant development in 2005. 46 % of the expenses can be attributed to asset development. The average headcount increased from 59 to 62 in 2005. 18 employees were based in Amsterdam and 44 in Düsseldorf. However, the personnel expenses decreased from €7.6 million to €6.9 million. The result from associated companies was a loss of €1.1 million (previous year €0).

SMC's operating profit resulting from the trading activities amounted to €13.8 million, compared to €7.8 million in 2004. Due to the total investments in the asset projects the total operating profit (EBIT) in 2005 reached €3.7 million.

The reduction of the financial result from €1.1 million to €0.6 million is due to the financing and guarantee costs for the asset projects. All external financing during the year was provided by Statkraft AS.

Profit after tax decreased about €2.9 million to €2.5 million.

The balance sheet increased by €242.4 million to €365.5 million. The changes to the previous year are related to the power plant investments and to the increased gross market values of derivatives reported in the balance sheet as a result of higher market prices. An equity injection of €100 million, booked as additional paid-in capital, strengthened the balance sheet for the asset investments. Due to the investments into the power plant developments, SMC's cash position decreased from €60 million to €21.5 million. The reduction of the cash position reflects the more efficient usage of SMC's capital for both trading and asset development purposes. No dividend payout is planned from the 2005 exercise.

Preparing for commissioning
September 11, 2005: A lot of reasons for happy faces at the start of construction in Herdecke.

Outlook

SMC's (Statkraft Markets Continental) efforts and activities in 2006 will focus on preparing the company for the commercial management of the new power plants.

Business development will focus on the new EU member states and accession countries. Satellite offices will be set up in Budapest, Sofia, and Warsaw in the first half of 2006. Cross-border-trading will expand to cover a number of new borders (Poland – Slovakia, Czech Republic – Slovakia, Hungary – Austria, Hungary – Slovakia).

SMC will set up a multi-commodity desk in early 2006, reflecting the correlations and causality relationships between the prices of different fuels, carbon emission allowances, and electricity. This trading segment will gain in importance in the next few years, and SMC is ready to invest further in both the human and IT resources required to live up to the increasingly sophisticated nature of our business.

Finally, SMC will continue marketing renewable energy. In September 2005 construction was completed at Statkraft's Smøla wind park in Norway. With a capacity of 150 MW this wind park is currently the largest in Europe. Increasingly strict transparency requirements in the markets for renewable energy – both in the Nordic region and in Continental Europe – will lead to further growth in renewable electricity sales.

Consolidated Financial Statements of Statkraft Markets GmbH

"Growth is more than our strategy – it is culture, our mentality, and our dedication to the business."

Torsten Amelung

Balance Sheet as at December 31, 2005

Assets in € 1,000s	Dec. 31, 2005	Dec. 31, 2004	Note
Noncurrent assets:			
Intangible assets	303	257	[01]
Property, plant, and equipment	83,544	805	[02]
Financial assets	3,019	1,006	[03]
Deferred tax assets	493	–	[04]
	87,359	**2,068**	
Current assets:			
Financial receivables	60,000	–	[05]
Trade accounts receivable	52,363	23,773	[05]
Other receivables and other assets	144,253	37,265	[05]
Cash and cash equivalents	21,503	59,962	[06]
	278,119	**121,000**	
	365,478	**123,068**	

Equity and liabilities in € 1,000s	Dec. 31, 2005	Dec. 31, 2004	Note
Net equity:			[07]
Subscribed capital	4,000	4,000	
Capital reserves	152,105	52,105	
Revenue reserves	8,904	9,419	
	165,009	**65,524**	
Noncurrent liabilities:			
Deferred tax liabilities	2,720	2,089	[04]
	2,720	**2,089**	
Current liabilities:			
Provisions	2,603	3,695	[08]
Trade accounts payable	64,001	26,959	[09]
Other liabilities	131,145	24,801	[09]
	197,749	**55,455**	
	365,478	**123,068**	

Statement of Income
for the Period from January 1 to December 31, 2005

in € 1,000s	2005	2004	Note
Revenues	39,384	22,145	[13]
Cost of materials	- 15,398	- 9,886	[14]
Personnel expenses	- 6,881	- 7,590	[15]
Depreciation and amortization	- 318	- 474	
Other operating expenses	- 13,155	- 5,372	[16]
Other operating income	1,188	8,994	[17]
Income from investments accounted for using the equity method	- 1,098	–	
Operating result (EBIT)	**3,722**	**7,817**	
Financial result	585	1,112	[18]
Profit before tax	**4,307**	**8,929**	
Income tax	- 1,819	- 3,527	[19]
Profit after tax	**2,488**	**5,402**	

Cash Flow Statement
for the Period from January 1 to December 31, 2005

in € 1,000s	2005	2004	Note
Net profit	2,488	5,402	
Depreciation and amortization	318	474	
Other non-cash expenses and income	1,283	- 4,543	
Profits (net) on the disposal of assets	67	28	
Cash flow	**4,156**	**1,361**	
Change in receivables and other assets	- 135,586	12,045	
Change in provisions	- 1,092	2,223	
Change in trade accounts payable and other liabilities	143,370	- 3,659	
Change in working capital	**6,692**	**10,609**	
Net cash flows from operating activities	**10,848**	**11,970**	[20]
Purchase of intangible assets	- 80	- 13	
Purchase of property, plant and equipment	- 75,979	- 224	
Purchase of financial assets	- 4,117	–	
Acquisitions	- 7,133	–	
Proceeds from the disposal of financial assets	1,002	–	
Net cash flows from investing activities	**- 86,307**	**- 237**	[21]
Capital increase	100,000	–	
Change of financial receivables	- 60,000	–	
Distribution of profit	- 3,000	- 10,000	
Net cash flows from financing activities	**37,000**	**- 10,000**	
Change in cash and cash equivalents	**- 38,459**	**1,733**	
Cash and cash equivalents at beginning of fiscal year	59,962	58,229	
Cash and cash equivalents at end of fiscal year	**21,503**	**59,962**	[22]

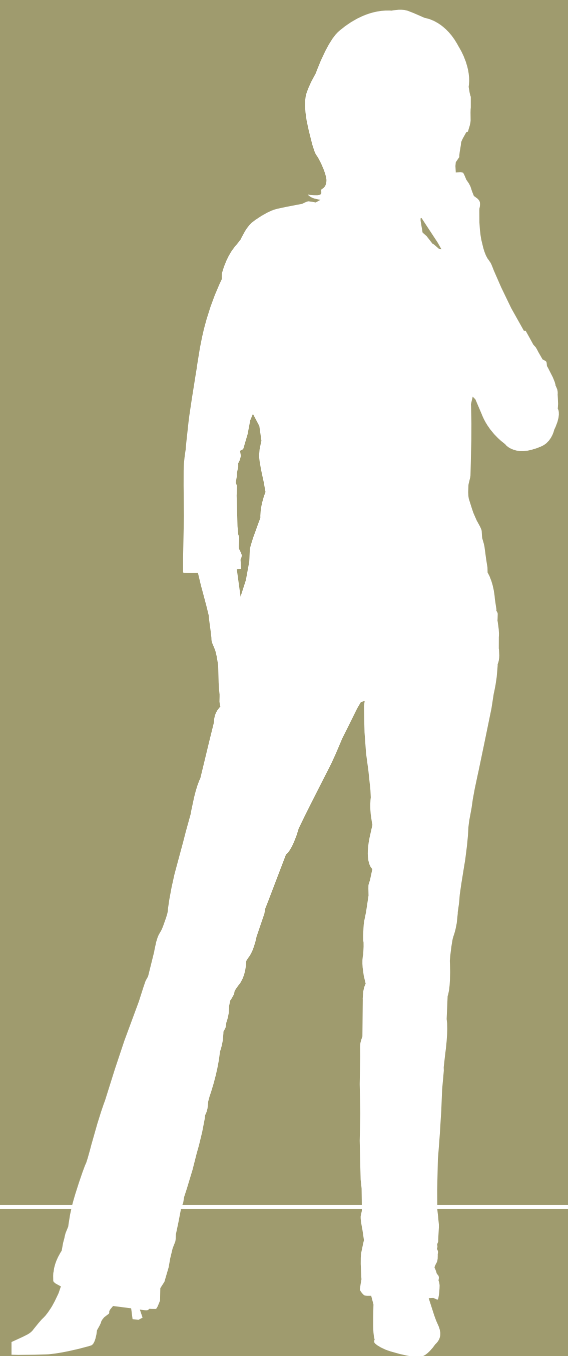
Statement of Changes in Equity
for the Period from January 1 to December 31, 2005

in € 1,000s	Total	Subscribed capital	Capital reserves	Retained earnings	Accumulated other comprehensive income*
Balance as at December 31, 2003	**70,119**	**4,000**	**52,105**	**14,014**	**–**
Distribution of profit	- 10,000	–	–	- 10,000	–
Net income/loss for the year	5,402	–	–	5,402	–
Other comprehensive income	3	–	–	–	3
Balance as at December 31, 2004	**65,524**	**4,000**	**52,105**	**9,416**	**3**
Capital increase	100,000	–	100,000	–	–
Distribution of profit	- 3,000	–	–	- 3,000	–
Net income/loss for the year	2,488	–	–	2,488	–
Other comprehensive income	- 3	–	–	–	- 3
Balance as at December 31, 2005	**165,009**	**4,000**	**152,105**	**8,904**	**–**

* Fair value of financial assets

In total
Despite substantial expenditure on asset development projects, 2005 was a profitable year for Statkraft Markets Continental.

Notes



“Our investment was an important signal for the Continental European market. Statkraft is here, intends to stay, and will continue to grow.”

Virpi Lehikoinen

General Information

Application of International Financial Reporting Standards (IFRS)

The consolidated financial statements of Statkraft Markets GmbH were prepared for the first time as at December 31, 2001. These consolidated financial statements were issued voluntarily in accordance with the rules of the International Accounting Standards Board (IASB).

The financial year is the period from January 1 to December 31. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) applicable to the relevant financial year taking account of the interpretations of the International Financial Reporting Interpretations Committee (IFRIC). There has been a deviation from these standards only in the case of IAS 24 (Disclosure of remuneration and the resulting obligations towards company management).

To promote clarity of presentation of the consolidated financial statements, some items were amalgamated in the balance sheet and the Statement of Income but then shown and explained separately in the Notes.

The consolidated financial statements have been prepared in euros. All sums shown in the balance sheet, Statement of Income, Cash Flow Statement, Statement of Changes in Equity, and Notes are expressed in thousands of euros (€1,000s).

Currency translation

Monetary items (cash and cash equivalents, receivables, and liabilities) in foreign currency in the individual financial statements are valued at the closing rate on the balance sheet date in accordance with IAS 21. Non-monetary items in foreign currency are disclosed at their historical rates. Currency differences resulting from the translation of monetary items are recognized in income. Exchange rate profits of €41 thousand (previous year: €83 thousand) and exchange rate losses of €57 thousand (previous year: €112 thousand) from foreign currency transactions are shown in the Statement of Income under “Other operating income” or “Other operating expenses”.

No translation of individual annual accounts of foreign companies was necessary as all annual financial statements were prepared in euros.

Group of consolidated companies

Beside the parent company Statkraft Markets GmbH, the consolidated financial statements include the following foreign subsidiaries in which Statkraft Markets GmbH directly holds all voting rights:

Company, Registered office	Share of capital
Statkraft Holding Knapsack GmbH, Düsseldorf, Germany	100 %
Knapsack Power GmbH & Co. KG, Düsseldorf, Germany	100 %
Knapsack Power Verwaltungs GmbH, Düsseldorf, Germany	100 %
Statkraft Holding Herdecke GmbH, Düsseldorf, Germany	100 %
Statkraft Markets Financial Services GmbH, Düsseldorf, Germany	100 %
Statkraft Markets B.V., Amsterdam, The Netherlands	100 %
Statkraft Energy Austria GmbH, Vienna, Austria	100 %

In April 2005, Statkraft Markets GmbH purchased a participation of 100 % in Knapsack Power GmbH & Co. KG and all the shares in Knapsack Power Verwaltungs GmbH at €7,158 thousand. Assets purchased are mainly plants under construction. During financial year 2005 Statkraft Holding Knapsack GmbH and Statkraft Holding Herdecke GmbH were acquired as shell companies without essential assets. The contribution of the newly consolidated companies to the consolidated financial income of Statkraft Markets GmbH amounts to €-7,628 thousand.

The same closing date (December 31) has been used for the consolidated financial statements of Statkraft Markets GmbH and for the individual financial statements of all consolidated companies.

In May 2005, Statkraft Markets GmbH purchased a 40 % and in September 2005 a further 10 % participation in the newly established Kraftwerksgesellschaft Herdecke mbH & Co. KG, Hagen. The joint venture is accounted for using the equity method.

Methods of consolidation

The individual financial statements of the companies, included in the consolidated financial statements of Statkraft Markets GmbH, are prepared using uniform accounting policies and represent the basis for the consolidated accounts, and have been certified by independent auditors.

Capital was consolidated using the purchase method in accordance with IFRS 3. The costs of participations are netted against the revalued pro rata equity book value at the time of acquisition. Any differences have been taken to assets and liabilities to the extent that fair value differs from the values actually carried in the financial statements of the subsidiary. Any remaining difference is taken to goodwill. There are no differences in value to be shown under liabilities.

Goodwill capitalized is no longer amortized. It is tested for impairment once a year or more frequently if there are indications of impairment.

Write-downs and write-ups of shares in subsidiaries from individual financial statements have been reversed in the consolidated financial statements. Inter-group profits, sales, expenses, and income as well as receivables and payables between the consolidated companies were eliminated.

Income tax and deferred taxation effects of temporary differences arising from consolidation measures were taken into account.

Estimates and assumptions by management

Preparation of the consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, and revenue and expenses, as well as the related disclosure of contingent assets and liabilities of the reporting period. Such estimates and assumptions relate primarily to the assessment of the recoverability of intangible assets, the standard definitions throughout the group of useful lives of items of property, plant, and equipment, the collectibility of receivables, and the recognition and measurement of provisions.

The estimates and the assumptions are based on underlying assumptions that reflect the current state of available knowledge. Specifically, the expected future development of business was based on the circumstances known at the date of preparation of these consolidated financial statements. Developments in this environment that differ from the assumptions and that cannot be influenced by management could result in amounts that differ from the original estimates. If actual developments differ from the expected developments, the underlying assumptions, and, if necessary, the carrying amounts of the assets and liabilities affected are adjusted.

At the date of preparation of these consolidated financial statements, the underlying assumptions and estimates were not exposed to any material risks. At present, management does not, therefore, believe that there will be a requirement in the following fiscal year for any material adjustment to the carrying amounts of assets and liabilities reported in the consolidated balance sheet.

Notes to the Balance Sheet

01 – Intangible assets

in € 1,000s	Total	Software	Goodwill
Accumulated acquisition cost at January 1, 2005	**983**	**658**	**325**
Additions	80	80	–
Disposals	- 102	–	- 102
Accumulated acquisition cost at December 31, 2005	**961**	**738**	**223**
Accumulated amortization at January 1, 2005	**726**	**624**	**102**
Additions	34	34	–
Disposals	- 102	–	- 102
Accumulated amortization at December 31, 2005	**658**	**658**	**–**
Net book values 2005	**303**	**80**	**223**
Net book values 2004	**257**	**34**	**223**

Intangible assets with the exception of goodwill are valued at their acquisition costs and amortized following the straight-line method over their expected useful life. The useful life of software is three years.

The goodwill value disclosed is derived from capital consolidation. Since January 1, 2005, any goodwill is no longer regularly amortized, but in accordance with IFRS 3 is subject to a special write-down as far as the impairment test according to IAS 36 demands this.

No extraordinary amortization of intangible assets was necessary in the financial year or previous year.

Research costs are always disclosed as current expenses in accordance with IAS 38. Development costs are treated in the same way, since the IAS 38 requirements for capitalization of development costs are not entirely met, in particular because of the profit risk remaining until market launch. No significant research and development costs were incurred in the year under review.

02 – Property, plant, and equipment

in € 1,000s	Total	Plants under construction	Office equipment
Accumulated acquisition cost at January 1, 2005	**1,756**	**–**	**1,756**
Additions	75,979	75,392	587
Changes in consolidation group	7,111	7,111	–
Disposals	- 110	–	- 110
Accumulated acquisition cost at December 31, 2005	**84,736**	**82,503**	**2,233**
Accumulated depreciation at January 1, 2005	**951**	**–**	**951**
Additions	284	–	284
Disposals	- 43	–	- 43
Accumulated depreciation at December 31, 2005	**1,192**	**–**	**1,192**
Net book values 2005	**83,544**	**82,503**	**1,041**
Net book values 2004	**805**	**–**	**805**

Plants under construction concern a combined cycle gas turbine (CCGT) power plant in Knapsack, which it is planned, will go into operation in September 2007.

Property, plant, and equipment has been disclosed at acquisition or production cost and depreciated using the straight-line method based on the anticipated commercial useful life.

The regular depreciation of tangible assets is based mainly on the following anticipated useful lives:

- Hardware — 3 years
- Other office equipment — 3 to 13 years

Special write-downs in accordance with IAS 36 are undertaken as far as necessary and subsequently reversed if the original reasons for the write-downs cease to apply. No special write-downs were undertaken in the year under review or in the previous year.

The requirements of IAS 17 for disclosure of finance leases are not met. No leases have been capitalized as assets and there are no liabilities to be disclosed.

Notes to the Balance Sheet

03 – Financial assets

in € 1,000s	Total	Investments accounted for using the equity method	Securities
Accumulated acquisition cost at January 1, 2005	**1,006**	**–**	**1,006**
Additions	4,177	4,177	–
Disposals	- 2,104	- 1,098	- 1,006
Accumulated acquisition cost at December 31, 2005	**3,019**	**3,019**	**–**
Accumulated depreciation at January 1, 2005	**–**	**–**	**–**
Additions	–	–	–
Disposals	–	–	–
Accumulated depreciation at December 31, 2005	**–**	**–**	**–**
Net book values 2005	**3,019**	**3,019**	**–**
Net book values 2004	**1,006**	**–**	**1,006**

"Investments accounted for using the equity method" contain the joint venture "Kraftwerksgesellschaft Herdecke mbH & Co. KG".

The securities of the financial assets all belong without exception to the category "available for sale". These assets are always carried at fair value in accordance with IAS 39 (see note 11 "Primary financial instruments"). Changes in fair value resulting from temporary fluctuations are taken directly to equity. Permanent decreases in value are subjected to an impairment test in accordance with IAS 39. If fair value cannot be reliably estimated, investments are measured at cost less any necessary write-downs.

04 – Deferred tax

Deferred taxes refer to temporary differences between the tax values in the individual financial statements of the consolidated subsidiaries and the carrying values for the purposes of consolidation.

Deferred tax assets and liabilities were netted, as far as claims and obligations relate to the same tax authority. For further information on deferred taxes, see note 19 "Income tax".

05 – Receivables and other assets

in € 1,000s	Dec. 31, 2005 Noncurrent	Dec. 31, 2005 Current	Dec. 31, 2004 Noncurrent	Dec. 31, 2004 Current
Financial receivables:				
due from shareholder	–	60,000	–	–
Trade account receivables:				
due from shareholder	–	43	–	–
due from affiliated companies	–	–	–	556
due from other companies	–	52,320	–	23,217
	–	**52,363**	**–**	**23,773**
Other receivables and assets:				
Derivative financial instruments	–	133,878	–	29,476
Tax receivables	–	5,000	–	5,247
Other assets	–	4,513	–	1,530
Prepaid expenses	–	862	–	1,012
	–	**144,253**	**–**	**37,265**

Financial assets, receivables, and other assets are carried at their nominal amount. Recognizable risks are adequately taken into account by reasonable write-downs. Financial receivables due from shareholder were repaid in full at the beginning of 2006. In case of netting agreements receivables and liabilities are offset and the net amount is reported in the balance sheet, if the conditions set out in IAS 32.33 are satisfied.

Derivative financial instruments generally are measured at their fair value in accordance with IAS 39. The change to previous year is not the result of an increasing trading volume but of the rise of market prices. Approximately € 37 million of the disclosed derivative financial instruments concern affiliated companies. Further explanations on derivative financial instruments are given in note 12.

06 – Cash and cash equivalents

This balance sheet item only contains cash on hand and bank credit balances due at any time. Cash and cash equivalents also constitute the financial resources in accordance with IAS 7.

Notes to the Balance Sheet

07 – Net equity

Details of developments in equity capital in the last two financial years are disclosed in the Statement of Changes in Equity.

Subscribed capital (€ 4,000 thousand) and **capital reserves** (€ 152,105 thousand) are the amounts as disclosed in the annual financial statements of Statkraft Markets GmbH. The capital increase of € 100,000 thousand in 2005 was effected to finance the erection of two combined cycle gas turbine (CCGT) power plants in Knapsack and Herdecke (joint venture).

Retained earnings comprise the accumulated retained results of the companies included in the consolidated financial statements since first-time consolidation and the effects of consolidation measures. Accumulated other comprehensive income contains effects from the recognition of financial instruments classified as available for sale at fair value and taken directly to equity in accordance with IAS 39.

Because of further planned investments in the two power plants the board of directors of Statkraft Markets GmbH proposes to the shareholder not to distribute a dividend for the financial year 2005.

08 – Provisions

in € 1,000s	Total	Tax obligations	Other provisions
Balance at January 1, 2005	**3,695**	**3,238**	**457**
Utilization	- 1,969	- 1,969	–
Releases	- 457	–	- 457
Additions	1,334	1,334	–
Balance at December 31, 2005	**2,603**	**2,603**	**–**

In accordance with IAS 37, legal or de facto obligation provisions are reported in the balance sheet, if the net cash used for the payment of liabilities can be reliably estimated. The carrying value of provisions is based on the amounts used to cover future payment obligations, recognizable risks and uncertain obligations of the group. Provisions are discounted, when required. The amounts disclosed mature within one year.

09 – Liabilities

in € 1,000s	Dec. 31, 2005 Noncurrent	Dec. 31, 2005 Current	Dec. 31, 2004 Noncurrent	Dec. 31, 2004 Current
Trade accounts payable:				
due to shareholders	–	–	–	1,716
due to affiliated companies	–	7,192	–	–
due to other companies	–	56,809	–	25,243
	–	**64,001**	**–**	**26,959**
Other liabilities:				
Derivative financial instruments	–	128,254	–	23,806
Tax liabilities	–	235	–	663
Payroll liabilities incl. social security liabilities	–	2,206	–	268
Other liabilities	–	450	–	64
	–	**131,145**	**–**	**24,801**

Liabilities are generally valued at the relevant repayment amount. In case of netting agreements receivables and liabilities are offset and the net amount is reported in the balance sheet, if the conditions set out in IAS 32.33 are satisfied. Liabilities in foreign currency are converted at the applicable closing rate. Derivative financial instruments are generally valued at fair value in accordance with IAS 39. Further information on derivative financial instruments can be found in note 12.

Notes to the Balance Sheet

10 – Contingent liabilities and other financial commitments

There are no contingent liabilities to be reported at balance sheet date. Other financial commitments have the following structure:

in € 1,000s	Dec. 31, 2005 total	Remaining term to maturity up to 1 year	1 to 5 years	over 5 years	Dec. 31, 2004 total
Capital expenditure commitments	322,198	284,257	37,941	–	–
Future payments from operating leasing and rent	2,556	1,271	1,285	–	1,147
	324,754	285,528	39,226	–	1,147

The other financial commitments are carried at nominal value.

Capital expenditure commitments concern the construction of a combined cycle gas turbine (CCGT) power plant in Knapsack. The financing of the investment is provided by Statkraft group.

The operating company Knapsack Power GmbH & Co. KG has contracted long-term purchase agreements for gas and delivery agreements for electricity.

11 – Primary financial instruments

Financial instruments involve contractual claims on financial assets. Under IAS 32, these include not only derivative financial instruments (see note 12 but also primary financial instruments such as receivables and payables from supplies and services or financial assets and liabilities. The stock of primary financial instruments is shown in the balance sheet. Financial instruments in the assets are classified to the categories “loans and receivables”, “held to maturity”, “financial assets at fair value through profit or loss” and “available for sale” in accordance with IAS 39 and are carried in the balance sheet at amortized cost of acquisition or fair value depending on the categorization. Changes in the fair value of financial instruments in the category “available for sale” are taken directly to equity. Any impairment losses are recognized in income. Financial instruments constituting liabilities are carried at their amortized cost.

Fair value

The fair value of a primary financial instrument is its freely negotiable market price in a transaction at arm’s length. The fair values of securities held as investments are taken from their market prices and are reflected in the financial statement. The other receivables and liabilities as well as cash and cash equivalents have short terms and, accordingly, no major differences between carrying amounts and fair values.

Credit risk

Credit risk reflects the potential loss which would emerge if a counterparty in a transaction relating to a financial instrument becomes unable to fullfil its obligations. Consequently, the total amount disclosed as assets represents the maximum default risk. Specific default risks for financial instruments disclosed in the balance sheet are considered by making specific provisions. There were no provisions necessary at balance sheet date.

Currency and interest rate risk

Transactions in foreign currencies are generally secured by corresponding hedging transactions. Interest rate risks caused by the capital expenditures in power plants are managed by Statkraft group.

12 – Derivative financial instruments

The main business area of the companies included in the consolidated financial statements of Statkraft Markets GmbH is trading and origination in electricity, emissions, and gas. For this purpose, they enter into forward and option transactions that are fulfilled by hedged transactions (at the latest) on maturity of the transaction. The aim is to exploit price differences on different markets or at different times and realize profits. The individual trading and origination contracts are amalgamated in corresponding portfolios. These transactions are valued at market prices, through forward prices and models common in the market or exceptionally – if fair values cannot be reliably determined – at cost.

Foreign exchange forwards were used to hedge currency risk in the trading portfolios. At year-end there were no relevant foreign exchange derivatives contracts open.

Risk management

The group’s trading portfolio is subject to financial risks that could lead to fluctuations in income, equity and cash flow. In order to identify and control these risks SMC has set up a risk management system, which is a central part of the company control process.

Statkraft Markets uses a special limit system to control risks: Energy trading contracts can only be concluded within certain limits specified and monitored by independent organizations. Limits are set after a risk assessment, which is always prepared before introducing new products. The limit system implemented by SMC separates risks according to limits for price risk and credit risk. Compliance with these limits is ensured by applying group-wide measurement procedures.

Price risk limits are determined in particular using value-at-risk parameters, scenario analyses, stress tests and profit-at-risk analyses. The credit risk limits for counterparties are based on a credit analysis carried out before entering into the transaction. Each trading partner is then classified on the basis of these analyses into one of four credit classes; these in turn decide the credit limits for that partner. Statkraft Markets gives credit limits specific to individual trading partners and calculates the credit risk on an individual basis. In particular cases credit collaterals are requested from some counterparties to limit the credit risk.

Derivatives are exposed to default risks equivalent to their positive fair values.

Notes to the Balance Sheet

12 (continued) – Valuation

The fair value of derivative financial instruments was calculated using standard market valuation methods based on the market data available on the valuation date. The methods and assumptions underlying the measurement of the financial instruments implemented are as follows:

- **Energy forward transactions** are measured individually with the forward rate or price at the balance sheet date.
- For evaluation of **non-standard contracts** Statkraft uses market models, which estimate the future cash flows of the single contracts. The model valuation is adopted only for those contracts which value can be sufficiently determined based on the available market data and models. Valuation models are regularly verified by back-testing methods.
- For some non-standardized contracts the fair value could not be reliably measured. These contracts were measured by the principle of lower costs.

Derivative financial instruments are recognized at fair value in the balance sheet under "other receivables and other assets" (positive fair value) or "other liabilities" (negative fair value). Results from the market valuation are stated in net amounts and shown in the Statement of Income under "other operating income" or "other operating expenses".

The nominal volumes of the derivates outlined below are reported gross, i.e. without being offset. It represents the total of all purchases and sales amounts on which the derivates are based. The level of the nominal volume allows estimates regarding the scope of the use of derivates, but does not reflect the risk the group is exposed to from the use of derivates. The derivative financial transactions can be classified as follows:

	Nominal volume		thereof due after more than 1 year		Fair value	
in € 1,000s	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005	Dec. 31, 2004
Commodity derivatives	1,202,663	1,488,621	432,438	525,715	5,624	5,670

Notes to the Statement of Income

13 – Revenues

Sales are recorded after the risks of the transactions have passed or the rendering of the services have been effected less any sales deductions. To improve the presentation of the business revenues reported constitute sales net of underlying energy trading costs. Accordingly, the revenues thus represent the realized gross margin.

According to the gross method the revenues amount to € 1,264,865 thousand in 2005 compared to € 901,086 thousand in 2004.

14 – Cost of materials

Cost of materials are reflecting expenses for cross-border capacities and transmission costs. To improve the presentation of the business costs from energy trading contracts are reported net under Revenues (see note 13). According to the gross method the gross cost of materials were € 1,240,879 thousand compared to € 888,827 thousand in the previous year.

15 – Personnel expenses and staff

Personnel expenses in € 1,000s	2005	2004
Wages and salaries	6,176	6,852
Social security contributions	561	603
Pension expenses	144	135
	6,881	**7,590**

Number of staff employed	Average for the year 2005	on Dec. 31, 2005	Average for the year 2004	on Dec. 31, 2004
Germany	44	46	44	46
Other countries	18	18	15	15
	62	**64**	**59**	**61**

16 – Other operating expenses

This item contains data processing costs, rent for buildings, vehicle expenses, traveling expenses, costs of telephone and data transmission, advertising and representation expenses, legal and consulting fees, as well as expenses for the power plant projects.

17 – Other operating income

This item mainly contains income from the market valuation of derivate financial instruments (see note 12) and income from release of provisions.

Notes to the Statement of Income

18 – Financial result

in € 1,000s	2005	2004
Other interest and similar income	964	1,229
Interest and similar expenses	- 379	- 117
	585	**1,112**

19 – Income tax

Taxes on income reflect taxes on income paid or accrued in the different countries and deferred taxes:

in € 1,000s	2005	2004
Current tax expenses:		
Germany	1,484	1,057
Other countries	195	184
	1,679	**1,241**
Deferred taxes:		
Assets	- 493	–
Liabilities	633	2,286
	140	**2,286**
Total	**1,819**	**3,527**

Taxes on income include German and foreign corporation taxes and German municipal trade tax on income. Other taxes are disclosed under "Other operating expenses".

Deferred taxes result from temporary differences between the carrying values in the consolidated balance sheet and tax balance sheet. When calculating deferred taxes, all temporary differences are considered, regardless of the date of their realization, using the tax rates in application or scheduled for implementation on the balance sheet date (liability method).

The deferred taxes in the balance sheet and the deferred taxes in the Statement of Income can be reconciled as follows:

in € 1,000s	2005	2004
Change in deferred tax assets according to the balance sheet	- 493	199
Change in deferred tax liabilities according to the balance sheet	631	2,089
Deferred taxes charged to equity	2	- 2
Deferred taxes according to the Statement of Income	**140**	**2,286**

Deferred tax liabilities charged to equity in the financial year 2005 relate to IAS 39 with respect to financial instruments (see note 03).

The following is a breakdown of deferred tax assets and liabilities by item:

	Dec. 31, 2005		**Dec. 31, 2004**	
in € 1,000s	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Noncurrent assets	–	229	–	–
Current assets	–	2,467	–	2,271
Current liabilities	–	24	182	–
Tax loss carryforwards	493	–	–	–
Gross total	**493**	**2,720**	**182**	**2,271**
Netting	–	–	- 182	- 182
Net total	**493**	**2,720**	**–**	**2,089**

Deferred tax assets and deferred tax liabilities were offset against each other per each company and/or per tax group.

Deferred tax assets are recognized for the carryforwards of unused tax losses only if there is any likelihood of being able to realize the related tax benefit in the future. The capitalized tax reduction claims result from unused tax loss carryforwards exclusively for trade tax on income purposes.

Notes to the Statement of Income

19 (continued) – Income tax

The actual tax expense differs from the anticipated tax expense resulting from application of an effective rate of taxation of around 40 % for Statkraft Markets GmbH:

in € 1,000s	2005	2004
Profit before tax	**4,307**	**8,929**
Theoretical tax expense at a tax rate of 40 %	1,723	3,572
Lower foreign tax rates	- 53	- 52
Accounting for associates using the equity method	149	–
Non-periodical taxes	–	- 16
Tax effect on non-deductible amortization of goodwill	–	13
Tax effect of non-deductible expenses	–	10
Actual tax expense	**1,819**	**3,527**

Notes to the Cash Flow Statement

20 – Net cash flows from operating activities

Funds provided by operating activities are primarily due to cash flow. It reflects cash generated from the sales activities. As in the previous year the change of working capital also caused cash inflows from operating activities in 2005.

Net cash flow from operating activities contains interest paid of € 349 thousand (previous year: € 125 thousand), interest received of € 990 thousand (previous year: € 1,067 thousand) and tax payments of € 4,058 thousand (previous year € 589 thousand).

The other non-cash income and expense items constitute the difference between income earned and distributed by the associated companies, the results from the portfolio valuation and the changes in deferred taxes with respect to non-cash components.

21 – Net cash flow from investing activities

The substantial cash outflows are primarily caused by the capital expenditure for the combined cycle gas turbine (CCGT) power plant.

22 – Cash and cash equivalents as at December 31, 2005

This item exclusively contains cash on hand and bank credit balances payable at any time. There are no restrictions on the disposal of cash and cash equivalents.

Other Notes

23 – Related party disclosures

The consolidated financial statements of Statkraft AS, Oslo, Norway include the annual financial statements of Statkraft Markets GmbH and the other consolidated companies. Sole shareholder of Statkraft AS is Statkraft SF and of Statkraft SF it is the Norwegian State.

"Related parties" for the purpose of IAS 24 are the sole shareholder of Statkraft Markets GmbH, Statkraft Energy Europe AS, Oslo, Norway, and all other companies included in the consolidated financial statement of Statkraft AS. The companies incorporated in the consolidated financial statement of Statkraft Markets GmbH currently maintain normal trade relations to these companies. The supplies and services are provided at usual market rates. Interest-bearing liabilities are charged at usual market interest rates. The following relations existed in the 2005 financial year:

in €1,000s	Receivables Dec. 31, 2005	Derivative financial instruments Dec. 31, 2005	Liabilities Dec. 31, 2005	Revenues (gross) 2005
towards/with:				
Statkraft AS, Oslo, Norway	–	–	445	–
Statkraft Development AS, Oslo, Norway	–	–	445	–
Statkraft Energi AS, Oslo, Norway	–	36,640	6,302	985
Statkraft Energy Europe AS, Oslo, Norway	60,043	–	–	2,336
Baltic Cable AB, Stockholm, Sweden	–	–	–	189
	60,043	**36,640**	**7,192**	**3,510**

in €1,000s	Cost of materials (gross) 2005	Other operating expenses 2005	Interest income 2005	Interest expenses 2005
towards/with:				
Statkraft AS, Oslo, Norway	–	1,003	–	363
Statkraft Development AS, Oslo, Norway	–	1,949	–	–
Statkraft Energi AS, Oslo, Norway	15,967	–	–	–
Statkraft Energy Europe AS, Oslo, Norway	65,251	–	42	–
Baltic Cable AB, Stockholm, Sweden	–	–	–	–
	81,218	**2,952**	**42**	**363**

24 – Information on company management

Members of the Board of Directors:

Torsten Amelung, Düsseldorf

At balance sheet date salary payables to members of the Board of Directors existed.

25 – Events after the balance sheet date

In line with the further business development of Statkraft in Eastern Europe a Satellite office in Sofia, Bulgaria, and a subsidiary in Budapest, Hungary (Statkraft Markets Hungaria LLC), were established by Statkraft Markets GmbH in January 2006.

Düsseldorf, March 17, 2006

Torsten Amelung

Attestation Report

We render the following attestation regarding the Consolidated Financial Statements of Statkraft Markets GmbH consisting of the balance sheet, Statement of Income, Cash Flow Statement, Statement of Changes in Equity and Notes for the financial year ended December 31, 2005:

"We prepared in accordance with International Financial Reporting Standards (IFRS) the Consolidated Financial Statements for the financial year ended December 31, 2005, of Statkraft Markets GmbH on the basis of the individual financial statements of the consolidated companies audited by independent auditors and the information provided by Statkraft Markets GmbH."

Düsseldorf, March 17, 2006

Karl Berg GmbH
Wirtschaftsprüfungsgesellschaft

Dr. Paul J. Heuser
Wirtschaftsprüfer
(German Public Auditor)

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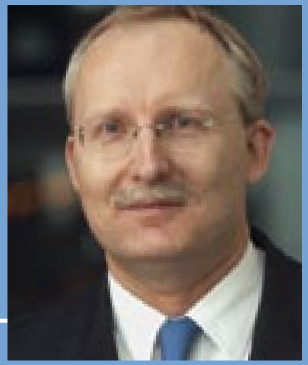

Torsten Amelung

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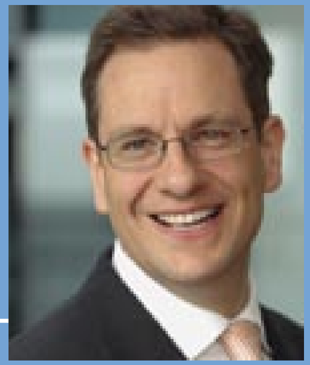

Helge-Jürgen Beil

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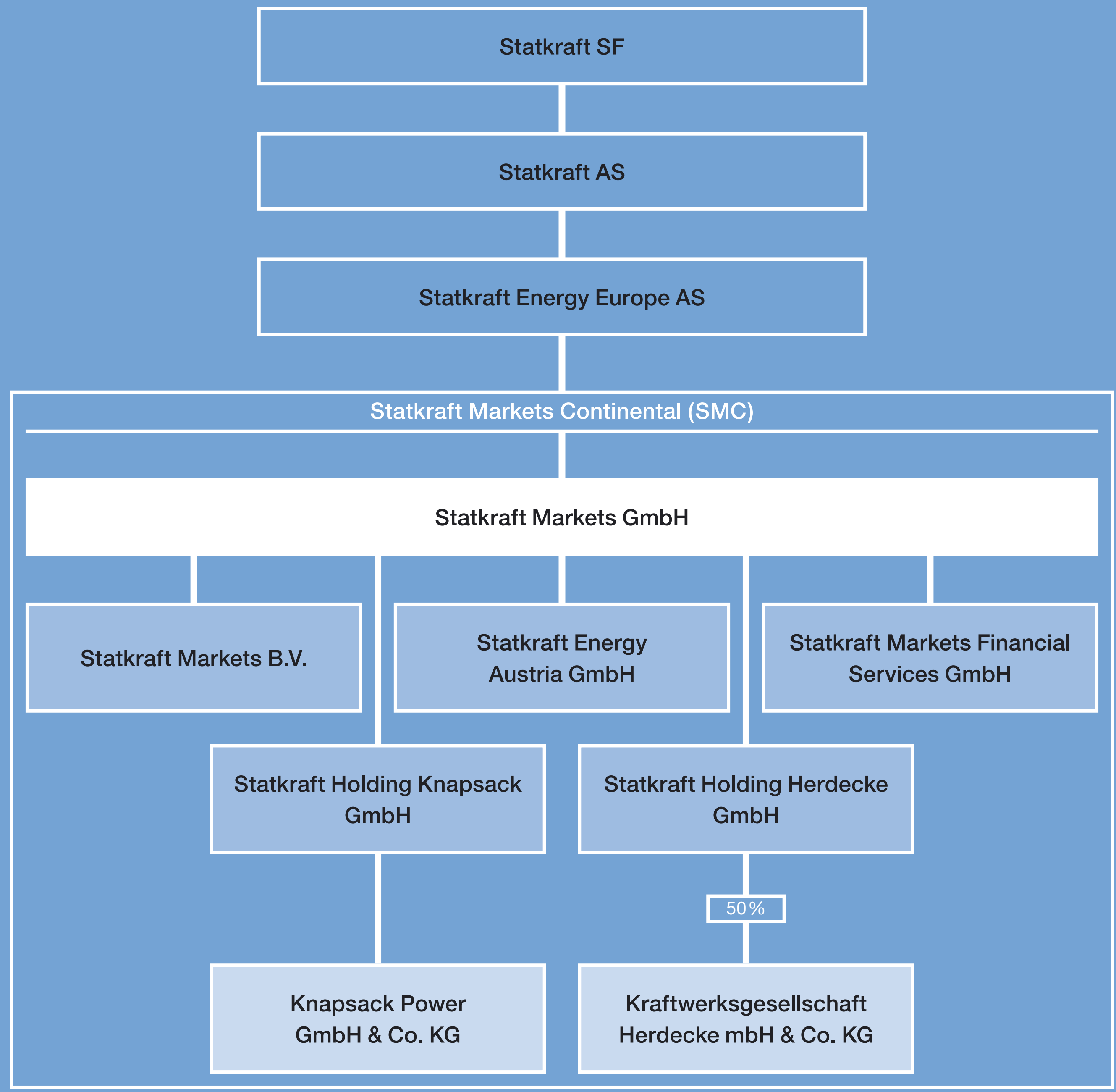
Corporate Structure



As at December 31, 2005

Concept & Design:
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Düsseldorf, Germany
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www.statkraft.com

- Individual solutions
- Structured products
- Commercial power plant dispatch
- Environmentally friendly energy

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