VERBUND Trading GmbH
Annual Report 2018

Contents

Note on rounding: The addition of rounded amounts and the calculation of percentages may lead to rounding differences due to the use of computing software.

Three-year comparison

€k

	2016	2017	2018
Revenue	1,740,558.7	2,026,958.5	2,057,379.0
Earnings before interest and taxes (EBIT)	79,790.1	101,260.5	77,542.6
Earnings before taxes	61,746.2	84,026.1	60,859.8
Net income for the year	46,410.6	63,214.7	45,828.2
Net profit	0.0	0.0	0.0
Total assets	446,750.8	502,104.2	576,814.9
Fixed assets	9,256.9	9,629.4	10,668.5
Capital expenditure on property, plant and equipment	168.0	139.7	321.9
Depreciation of property, plant and equipment	206.4	157.4	177.3
Equity	146,410.9	209,625.6	255,453.9
Return on sales (ROS)	4.6%	5.0%	3.8%
Return on equity (ROE)	61.7%	57.4%	29.0%
Return on investment (ROI)	33.1%	22.7%	15.4%
Equity ratio	32.8%	41.7%	44.3%
Debt repayment period	5.3	4.3	6.3
Cash flow from operating activities	182,233.1	–15,242.3	79,570.7
Working capital	311,041.5	371,007.2	412,736.5
Net debt	8,813.0	11,622.8	–78,673.0
Current liabilities	114,493.6	114,467.3	150,104.1
Current assets	425,535.2	485,474.5	562,840.6
Average number of employees	120	125	132

Board members

Management

Mag. Robert Slovacek	Managing Director
Mag. Dr. Stephan Sharma	Managing Director

Supervisory Board

Dr. Johann Sereinig Chairman (until 31/12/2018)	Deputy CEO
Mag. Dr. Michael Strugl Chairman (from 1/1/2019)	Deputy CEO
Dr. Peter F. Kollmann Vice-Chairman	Member of the Executive Board
Dr. Andreas Bräuer	Authorised signatory VERBUND AG
Mag. Andreas Wollein	Authorised signatory VERBUND AG

Employee representatives

Ulrike Mayrhofer (until 20/4/2018)	Chairman of the Works Council
Veronika Neugeboren	Member of the Works Council
David Amon (from 21/4/2018)	Works Council

Management report

Report on business performance and economic position

Business model and business activities

VERBUND Trading GmbH (VTR) is a wholly owned subsidiary of VERBUND AG, in which capacity it is responsible for central marketing, optimisation and management of the Group's entire generation capacity. VTR acts as the central energy hub for VERBUND in its function as an interface between generation, sales and the wholesale market.

The Company has conducted all transactions on its own behalf and for its own account since 1 September 2014. This change of business model also involved changing the legal form of VTR from an AG (joint stock corporation) to a GmbH (limited liability company) (effective 1 May 2014).

Together with VERBUND AG as the parent company, a single entity exists for corporate income tax and value added tax purposes. In accordance with the profit and loss transfer agreement in place, all profit or loss of VTR is transferred to or absorbed by VERBUND AG unless an allocation is made to other revenue reserves.

VTR's trading activities comprise physical and financial trading of energy products and energy derivatives on European OTC (over-the-counter) markets, trading platforms and energy exchanges. VTR provides central market access for all commodities and is responsible for commodity hedging at VERBUND.

The Company's business activities comprise direct supply to wholesalers, resellers and municipal utilities in Austria and abroad. Its core electricity business is supplemented by trading in gas and hedging gas transactions and by trading in environmental products (CO_2 and green electricity certificates and guarantees of origin) of various standards of quality and bearing various labels.

In the area of energy services, VTR offers a number of customer-specific products and services (market access, plant use optimisation, price hedging, regulatory services, etc.) and is especially active in the fields of renewable energy marketing, flexibility marketing and short-term trading.

VTR's activities in its primary markets of Austria and Germany are supplemented by business in neighbouring countries. The Company also conducts cross-border transactions with Serbia and Hungary based on its marketing of the Group's wind generation in Romania.

With regard to electricity sales outside of Austria, VTR is additionally responsible for managing the business activities of the subsidiaries in Germany, Romania, the Czech Republic and Serbia. The rules and guidelines promulgated by the energy market regulatory authorities form the basis of the subsidiaries' business relationships. VTR is registered as an electricity trading company under the relevant national laws.

Whereas VTR's German subsidiary – VERBUND Trading & Sales Deutschland GmbH (VTR-DE) – operates as a broker for VTR and VERBUND Sales GmbH (VSA), the following VTR subsidiaries operate on their own behalf and for their own account:

- VERBUND Trading Romania S.R.L. (VTR-RO, Romania)
- VERBUND Trading Serbia d.o.o. (VTR-RS, Serbia)
- VERBUND Trading Czech Republic s.r.o. (VTR-CZ, Czech Republic) – however, the Czech market has not been serviced since the end of Q2/2013.

VTR-RO is entrusted with marketing the wind power generated by VERBUND AG's Romanian subsidiary VERBUND Wind Power Romania S.R.L. on OPCOM, the Romanian electricity exchange and with marketing the associated wind power certificates.

Market performance

Prices for front-year base load averaged €32.4/MWh in 2017, while front-year peak load was traded at an average of €40.5/MWh in 2017. The forward market prices applicable to financial year 2018 were therefore up from the previous year's levels by 21.9% and 20.9%, respectively.

Price levels on the electricity futures market largely mirrored the trend in prices for gas, coal and emission rights. In 2018, commodity prices for oil, gas and coal increased compared with 2017 until Q3/2018, from which point they began to decline again. The price of emission rights increased from €8/t at the beginning of the year to over €26/t by Q3/2018. At the end of December the price stood at €22.5/t. The forward market price for base load electricity in Germany in 2019 rose accordingly from around €38/MWh at the beginning of the year to over €57/MWh in Q3/2018, after which it moved sideways at this level. Year base load contracts traded at an average of €43.8/MWh. At the beginning of the year, prices for the Austrian market were €2/MWh higher than the prices for the German market. A price difference in excess of €4/MWh was traded at the end of 2018.

In the German spot market, wholesale trading prices for electricity in 2018 were well above the prior-year level. Prices for base load electricity increased by an average of 30.0% to €44.5/MWh, while prices for peak load rose by 22.0% to €52.1/MWh.

Beginning in October, separate, higher prices arose in Austria due to the split of the joint price zone for Germany and Austria. Overall, base-load prices to Austria amounted to €46.3/MWh and peak-load prices were €54.7/MWh. In the last quarter, the average spot market price in Austria was €7.3/MWh higher than the price on the German market.

The spot market prices thus also tracked the trend in commodity prices, mainly the trend in emission rights prices.

Business performance

By far the largest portion of the Group's generation is marketed by VTR, with the exception of generation for eligible purchasers of energy from Group power plants and energy fed in directly from subsidised generation facilities. This generation is marketed using hedging transactions on the forward and futures markets and through optimisation on the short-term day-ahead, intraday and control power markets.

Electricity purchases

GWh		2017	**2018**
Purchased generation		27,777	26,212
of which hydropower		25,343	24,342
of which wind power		208	258
of which thermal power		2,227	1,611
Other Group purchases		1,276	1,155
Electricity purchased from third parties		24,011	25,844
Total amount purchased by VTR		53,064	**53,211**
Trading contracts		81,515	**70,282**
		134,579	**123,492**

At 26,212 GWh in 2018, the marketing of this generation was 5.6% lower than in 2017.

Generation from hydropower decreased by around 1,000 GWh compared with the previous year. At 0.94, the hydro coefficient for the run-of-river power plants was 5 percentage points below the prior-year figure and 6% below the long-term average. Generation from annual storage power plants increased by 5.5% despite the lower generation from turbining and lower water flows due to less water impoundment compared with the previous year.

The generation from wind power that VTR markets to Germany and Austria increased by 24.0% despite less windy conditions due to the additional direct marketing of Austrian generation after the expiration of feed-in tariffs.

Generation from thermal power plants decreased by 615 GWh in quarters 1–4/2018. The Mellach combined cycle gas turbine power plant produced 550 GWh less electricity in 2018 due to the significantly lower use of congestion management compared with the prior year. Generation at the Mellach hard coal power plant decreased by 65 GWh.

Electricity purchased from third parties for trading and sales increased by 7.6%. The necessary reinsurance also had to be adjusted due to significantly higher sales despite only slightly higher generation.

The standardised forward contracts had a volume of 70,282 GWh. VTR recognises the results from the measurement and realisation of energy trading contracts for electricity entered into for trading purposes under revenue; the underlying electricity purchases and sales are presented after offsetting (in the net amount) under electricity revenue. VTR's electricity purchases after offsetting the transactions against standardised forward contracts amounted to 53,211 GWh (including generation for own use and Austrian Power Grid AG (APG)). VTR has three customer segments: traders in Austria and abroad, resellers (energy supply companies) and consumers.

Electricity sales GWh

		2017	2018
Traders		18,455	17,578
Resellers		19,353	20,239
Consumers		223	455
Group		15,033	14,938
of which retail customers		1,431	1,559
of which industrial customers		9,192	9,429
of which APG		2,065	1,995
of which own use of generation companies		2,346	1,955
		53,064	**53,211**
Trading contracts		81,515	**70,282**
		134,579	**123,492**

Compared with 2017, VTR's electricity sales volume increased by 146 GWh to 53,211 GWh. Deliveries were made to trading firms above all in the context of hedging the generation volumes and marketing the additional generation on exchanges. Sales to traders fell by 4.7% in the reporting period.

In contrast, we were able to increase sales to resellers by 4.6%, due mainly to new contracts with delivery to Germany. Only full-supply deliveries are presented as consumer transactions. Transactions with industry-related procurement companies are reported under trading. VTR also provides the quantities for VSA's consumers and VH's retail customers and supplies APG and VERBUND's generation companies.

The somewhat lower quantity supplied to APG (–70 GWh) comprises deliveries to compensate for grid loss or deliveries as part of congestion management. Supplies to cover generation for own use fell by 391 GWh. This can be attributed in particular to significantly lower generation from turbining.

The German market represents the focus of VTR's international engagement. Most revenue was generated from traders and exchanges. The Company's extensive business with guarantees of origin is reflected in the net presentation.

Net assets, financial position and results of operations

Result of operations

	Unit	2017	2018
Revenue	€k	2,026,958.5	2,057,379.0
Earnings before interest and taxes (EBIT)	€k	101,260.5	77,542.6
Earnings before taxes	€k	84,026.1	60,859.8
Net income for the year	€k	63,214.7	45,828.2
Net profit	€k	0.0	0.0
Return on sales (ROS)	%	5.0	3.8
Return on equity (ROE)	%	57.4	29.0
Return on investment (ROI)	%	22.7	15.4

VTR's revenue of €2,057,379.0k in financial year 2018 is around the same level as in 2017 (+1.5%).

Other operating income decreased from €363.4k in the prior year to €103.3k, mainly due to the partial reversal of a provision for the tax proceedings of the former VTR joint venture in Greece and to higher subsidy income in 2017.

At €1,959,929.5k, expenses for material and other purchased services are marginally (+2.6%) higher than in 2017 due to slightly higher electricity purchases and certificate trading and in spite of a decrease in gas purchasing expenses.

The increase in personnel expenses (+15.5% to €20,164.0k) is attributable to the transfer of ten employees of VERBUND Services GmbH to VTR in the second half of 2018, the 3.0% increase in the collective wage agreement for energy supply companies as well as an increase in provisions for pensions and similar obligations.

Other operating expenses increased by 5.0% to €15,708.2k. This is primarily the result of higher other third-party services and IT costs arising in connection with special projects (e.g. in the field of process control technology), bad debts or project activities that are generally more cost intensive.

VTR had an average of 132 employees in 2018 (previous year: 125 employees). Expenses for training and continuing education amounted to €96.2k in financial year 2018 (previous year: €115.3k).

VTR has a profit and loss transfer agreement with VERBUND AG. The net income for 2018 was allocated in full (€45,828.2k) to other revenue reserves due to tax rules.

Net assets

	Unit	2017	2018
Fixed assets	€k	9,629.4	10,668.5
Current assets	€k	484,132.4	559,811.8
Working capital	€k	371,007.2	412,736.5
Equity	€k	209,625.6	255,453.9
Current liabilities	€k	114,467.3	150,104.1
Current assets	€k	485,474.5	562,840.6
Equity ratio	%	41.7	44.3

Fixed assets increased by 10.8% in 2018 to €10,668.5k (mainly as a result of acquiring the customer base of the German affiliate AQUANTO GmbH in Liqu.).

Current assets rose by 15.6% to €559,811.8k, primarily as a result of an increase in the Group clearing balances.

Equity increased by the amount of net income retained for the year.

Financial position

	Unit	2017	2018
Cash flow from operating activities	€k	–15,242.3	79,570.7
Cash flow from investing activities	€k	–1,168.7	–1,596.5
Cash flow from financing activities	€k	16,487.2	–77,970.6
Financial result	€k	29.7	222.9
Debt repayment period	years	4.3	6.3

The financial result changed due to the significantly lower interest expense compared with 2017.

The debt repayment period increased to 6.3 years as a result of lower earnings compared with the previous year and a simultaneous increase in trade payables and liabilities to banks.

Cash flow statement

VERBUND AG has an electricity supply commitment to Uniper Kraftwerke GmbH (previously E.ON Wasserkraft GmbH and E.ON Kraftwerke GmbH) arising from a transaction with an equity interest (acquisition of power plant shares in Germany). The electricity supply commitment is linked to the fictitious operations of the Zemm-Ziller power plant group. This commitment was transferred to VTR as of 1 January 2016. In return, VTR received an intra-Group credit (Group clearing balance) for the amount recognised by VERBUND AG of around €180.6m, which is now recognised as a receivable from affiliated companies and bears the corresponding interest rate.

VTR manages the fictitious operating agreement as contractually stipulated and receives compensation from VERBUND AG for handling this service. However, VERBUND AG retained the earnings, which are therefore charged back by VTR. This concerns the net result from the termination of the electricity supply commitment, the interest added to the external liability, income from management (supply, reinsurance, guarantees of origin, various reimbursements) and the interest income on the receivable from VERBUND Finanzierungsservice GmbH.

(1) Cash flow from operating activities

The changes in cash flow from operating activities are primarily attributable to the change in receivables and liabilities, resulting mainly from variation margin payments on the European Energy Exchange (EEX), Germany's energy exchange, and from amounts realised on the EEX for subsequent years that are accrued in the income statement.

(2) Cash flow from investing activities

The change in the cash flow from investing activities is the result of process control technology updates.

(3) Cash flow from financing activities

The change in cash flow from financing activities is the result of the Group clearing balance caused by the effects described under receivables and liabilities.

Cash flow statement

€k

	Notes	2017	2018
Net income for the year		63,214.7	45,828.2
Amortisation of intangible assets and depreciation of property, plant and equipment		820.1	1,043.7
Result from the disposal of assets		–0.9	–5.2
Change in inventories		543.6	–4,003.3
Change in trade receivables and other receivables[1]		–71,598.9	18,719.0
Change in non-current provisions		–941.4	381.2
Change in current provisions		–6,027.2	1,398.8
Change in trade payables and other liabilities[2]		–1,252.3	16,208.4
Cash flow from operating activities	(1)	–15,242.3	**79,570.7**
Capital expenditure on intangible assets and property, plant and equipment		–1,050.1	–1,474.5
Disposals of intangible assets and property, plant and equipment		1.0	6.8
Capital expenditure on investments		–130.8	–147.4
Disposals of investments		11.3	18.6
Cash flow from investing activities	(2)	–1,168.7	**–1,596.5**
Cash inflow from the assumption of financial liabilities (excluding money market transactions)		336.6	10,413.1
Changes in Group clearing balances		16,150.6	–88,383.6
Cash flow from financing activities	(3)	16,487.2	**–77,970.6**
Change in cash and cash equivalents		76.2	3.6
Cash and cash equivalents as at 1/1		276.9	353.1
Cash and cash equivalents as at 31/12		353.1	**356.7**

[1] incl. prepayments and accrued income and deferred tax assets // [2] incl. accruals and deferred income

Report on research, development and the environment

Employees

With their broad range of expertise, particularly in the fields of energy management, risk management, meteorology and IT, our employees guarantee the successful performance of our Company.

VTR had an average of 132 employees in 2018 (previous year: 125 employees). Expenses for training and continuing education amounted to €96.2k in financial year 2018 (previous year: €115.3k).

Sustainability

VERBUND is guided by the principle of sustainability in all of its fields of activity. Information relevant to sustainability is published in the integrated annual report in accordance with Global Reporting Initiative guidelines, the internationally recognised standard for sustainability reporting. These reports are regularly assessed by several specialised sustainability agencies. VERBUND is also represented in a number of indices (such as VÖNIX, FTSE4Good Europe Index and Global Index).

VTR is involved in VERBUND's extensive initiatives and supports all activities, especially those relating to the marketing of renewable energy. The efficient and flexible use of pumped storage power plants also supports the advancing integration of "new renewables" into the energy market, above all wind power and solar energy. Flexible, needs-based electricity products and energy services support our customers in meeting their requirements efficiently and provide innovative solutions for optimising procurement. Furthermore, VTR is one of the leading suppliers of green electricity products and guarantees of origin, and its hydropower generation has been certified in accordance with numerous European standards (e.g. TÜV). In the area of wind power and photovoltaic energy marketing for the third-party customer segment, VTR is actively expanding its renewable portfolio and using high-quality forecasting and portfolio management with the objective of generating sustainable contribution margins for the Group. Its business activities in the field of sustainable electricity generation and marketing are supplemented by a small-scale hydropower initiative.

Innovation, research and development

The persistently volatile prices on the electricity market call for ongoing innovation and adjustments to trading and marketing strategies.

Energy market environment requires flexibility

VTR's research and development activities focus on improving the optimisation and forecasting instruments as well as tools for modelling of electricity pricing curves.

In past years, the main innovative focus in the field of electricity trading was on the further development of inflow forecasting and optimisation of storage management in hydropower, which currently includes the measurement of snow cover, for example. High spatial resolution in the forecast values used for meteorological forecasting provides potential for improving the quality of generation forecasts. Numerous forecasts generated previously and updated using appropriate statistical methods provide a better basis for estimating forecasting uncertainties. Moreover, VERBUND is now better equipped to cope with more severe flooding in terms of the forecast. State-of-the-art stochastic optimisation methods increasingly allow for optimised, forward-looking management of the reservoirs.

Ongoing innovation in price forecasting based on fundamental inputs facilitates better optimisation of power plant utilisation and the corresponding trading strategies.

In addition, VTR is continually working to develop innovative new products and services particularly for new renewables, certificates, the marketing of virtual pumped storage power plants and flexibility options in electricity generation. The latest project activities involve managing and optimising local (small) generation plants and integrating them into the electricity market ("swarm control").

Recent activities have focused on the development of a comprehensive strategy for further digitalisation in electricity trading. Here, particular emphasis is placed on customised solutions mapping the entire life cycle of a supply of electricity from the enquiry to pricing and purchase on the stock market to reporting and billing online in a highly automated manner. These extensive requirements have been realised in an online customer platform which VTR developed in house in 2017 and already successfully operates on the market. The range of services offered to customers through this platform is continually being expanded.

Our employees: motivated suppliers of ideas

In order to better leverage our employees' knowledge and ideas, we have implemented an innovation process for launching new products and services and making process improvements. Proving very effective, this process has already resulted in the successful implementation of numerous product ideas. Along the same lines as this innovation network, VTR has also established in-house project groups specifically aimed at further developing optimisation and modelling tools, particularly in the field of quantitative analysis.

In addition, our employees contribute their extensive knowledge to Group research projects and to joint research projects conducted with other companies, currently focusing on green electricity from hydropower and on battery and alternative storage technologies.

Report on branch offices

There were no branch offices in the financial year under review.

Report on the Company's expected performance and risks

Expected performance of the Company

VTR's most important task continues to be to successfully market the total volume of generated electricity available to VERBUND. The Company's participation in international trading serves both to hedge revenue over the long term through the sale of structured products and to increase earnings by optimising the power plants over the short term. In addition to the focus on optimal marketing of own generation, asset marketing in 2019 will concentrate in particular on the continued expansion of the position as one of the leading providers of innovative green electricity and flexibility products as well as energy services, direct marketing of renewable energy (particularly wind and small-scale hydropower) and taking advantage of short-term market opportunities, especially in relation to balancing services products. In light of the prevailing market conditions, these activities are subject to the effects of the split of the joint German–Austrian price zone, the continuing volatile price trend and decentralisation tendencies, but also regulation (market coupling, policies of subsidisation, minimum prices). The performance of the European energy markets is also affected by the ongoing expansion of renewable energy, the difficult economic situation for thermal power plants, political objectives in regard to climate protection and CO_2 reduction and the regulatory intervention by the European Union in the energy trading sector, particularly in the area of financial markets. Of particular significance here are REMIT and MAR (prohibition of insider trading and market manipulation, disclosure and reporting obligations), EMIR (reporting, clearing and risk minimisation obligations, especially for OTC derivatives) and MiFID II (licensing requirements for banks and financial service providers for trading in financial products). VTR has implemented all regulations that have already taken effect and participated in consultation processes by providing its own comments on draft legislation and cooperating with associations and interest groups.

In addition to expanding its position in its core markets of Austria and Germany and maintaining a market presence in the other markets in which VTR and its subsidiaries operate, the Company will also push the marketing of flexible products (particularly in the area of market access, flexibility marketing, marketing and services for renewable energy and short-term products). The core tasks of asset marketing and sales optimisation continue to be the central focus of VTR's position as a leading provider of flexibility and green electricity. In light of the trend in the energy markets and on the energy exchanges relating to short-term transactions and the volatility of prices, trading activities remain focused on the spot market and particularly on short-term intraday trading as well as on the balancing services and congestion management market. VTR had already increased its intraday trading staff at the beginning of 2012; since 2015, a 24/7 presence in the trading markets is now a reality with two intraday trading teams. By successfully implementing measures to increase efficiency and automation, the same market presence can be maintained with lower staff levels from 2019 onwards. Marketing of flexibility options in generation management (e.g. virtual power plant, demand side management incl. storage management), balancing energy optimisation, intraday trading, marketing of balancing services and congestion management marketing represent both a challenge and the central task of VTR's electricity trading.

The goal is to achieve a stable sales trend in Austria and to conduct negotiations with state energy companies and other resellers on contract extensions. Direct marketing of small-scale hydropower and wind power will continue to be prioritised in 2019.

The tenders for balancing services products and grid services put out by APG in which VTR participates on an ongoing basis continue to be relevant, supplemented by the provision of congestion management measures for grid operators.

VTR plans to maintain its market presence in its existing Western European markets. The Company's main activities in these countries are trading in cross-border capacities, marketing guarantees of origin and offering market access.

Germany remains one of VTR's most important foreign markets. The subsidiary VTR-DE generates stable earnings contributions there. As in previous years, a crucial factor in good performance will be green electricity certificate marketing, particularly via the "$H_2Ö$" brand. Key areas of focus in Germany in 2019 will be optimising wind power marketing from both VERBUND and third-party facilities as well as selling innovative, flexible products to municipal utilities and resellers.

With regard to its servicing of international markets in the Central, Eastern and Southeast European regions, VTR will concentrate in 2019, as in previous years, on marketing available generation from Group power plants in Romania and short-term cross-border optimisation transactions and will accordingly maintain its market presence at the levels required for this. In Romania, the cooperation entered into with Axpo Romania at the end of 2016 allows for the direct marketing of green electricity certificates at prices prevailing in the market – mainly hindered by massive oversupply due to regulations. Evaluation of the established business model should be completed in 2019.

Gas business activities in 2019 will focus on managing the Mellach CCGT plants (gas purchasing, price hedging, marketing, operational processing), which are used exclusively for flexible utilisation under the grid reserve agreements entered into for German grid operators and Austrian grid operator APG. Furthermore, procurement and price hedging for VERBUND's gas consumer business takes place.

Thus, in addition to maintaining and/or expanding its market share in key markets, the main challenges presented by the Company's trading activities will involve reinforcing its position as a marketer of renewable energy and a provider of flexible services and innovative products, striving for stable margins in trading and in the international business and continuing the gas business for the purpose of optimising power plant utilisation. Volatile electricity prices also make it necessary to regularly evaluate and adapt actions taken for the purpose of hedging long-term generation capacities to meet changing market conditions, particularly in relation to the split of the joint German–Austrian price zone.

VTR is currently focusing intently on digitalisation, a topic of growing importance due to technological advances. For example, a customer platform was developed to provide numerous functions and services in the fields of market access and order management as well as to supply market data, reports and billing-related documents for the customer.

All trading activities are conducted in compliance with strict monitoring and risk management guidelines, supplemented by compliance and integrity requirements. These guidelines are of fundamental significance in light of the challenging market environment.

Significant risks and uncertainties

At VERBUND, risk is regarded as the chance of an either positive or negative deviation from corporate targets and KPIs.

The objective of corporate activities is to generate appropriate returns while increasing enterprise value in a controlled manner. To do so, opportunities are taken advantage of and risks entered into.

Early identification and due consideration of such opportunities and risks are therefore an integral part of our planning, corporate management and all corporate decision-making processes.

Risk limitation and monitoring is undertaken by the risk management functions of VTR and the Group as well as by the risk management committees defined in the Group.

In general, the risk management process involves the individual steps of risk identification, analysis, measurement, control and reporting.

VTR has drafted its own internal guidelines for the Company's individual areas of business on the basis of the guidelines applicable to the entire Group. In combination with a comprehensive rulebook, these guidelines specify all transactions, procedures, business processes and responsibilities within VTR to ensure that risks are clearly allocated and delineated.

This set of regulations is continuously updated and expanded to reflect market developments and changing conditions. As part of this, the daily risk reports have been updated to enable them to meet current requirements even more promptly. Special rules apply to dealing with market risk, credit risk and operating risk. VTR's risk control process is applied to all significant business processes every day.

Market risk

Due to the high trading volumes and volatile commodities prices in the markets, increasingly complex products and advancing diversification of trading activities, risk management is especially important with regard to monitoring exposures. Market risk is limited using a system made up of exposure limits, drawdown limits and VaR limits, and it is monitored daily.

Credit risk

Credit risk lies primarily in the danger of complete or partial default of the counterparty and the associated payment default. In order to minimise this risk, our customers are carefully selected and monitored using an internal scoring system of credit rating points. Changes in customer credit rating are monitored continuously. Where a customer has an insufficient credit rating, transactions are entered into only if sufficient collateral is provided (e.g. bank guarantee, guarantee issued by the parent company, etc.). Whenever framework agreements are concluded, attention is paid to the wording of netting arrangement clauses and to the provision of guarantees in order to minimise deterioration in the customer's credit rating.

Only one instance of customer insolvency occurred in 2018 despite the difficult economic conditions. Customer payment discipline remained unchanged compared to the prior year. Adherence to credit limits is checked by means of ongoing reporting.

VTR is part of the VERBUND cash pool. In this context, VTR monitors the liquidity risk of VERBUND.

Prior to every assessment of credit standing, VTR also subjects its customers to an appropriate review of the integrity of the business partners, as required by law, which is intended to prevent its involvement in criminal proceedings (corruption, money laundering, tax fraud) and protect VERBUND's reputation. The internal guidelines for this are being continually improved and adapted to current requirements.

Operational risk

VTR maintains a crisis centre that can be activated at short notice if the main site can no longer be utilised. Crisis scenarios are tested several times per year in order to review the effectiveness of the crisis centre. Business processes have been defined and documented in respect of the procedures along the value chain. In combination with the applicable guidelines, this is aimed at preventing any ambiguities with regard to powers and areas of responsibility. Monthly reports are made on potential and actual loss events.

As at 11 February 2019, no risks were foreseeable for 2019, the effects of which – either individually or in interaction with other risks – could pose a threat to the continued existence of VTR.

Vienna, 11 February 2019
The Management

Mag. Dr. Stephan Sharma

Mag. Robert Slovacek

Annual financial statements

Balance sheet

ASSETS

€k	Notes	2017	2018
A. Fixed assets			
I. Intangible assets		1,552.0	2,319.2
II. Property, plant and equipment		377.1	520.1
III. Investments	(1)	7,700.4	7,829.2
		9,629.4	**10,668.5**
B. Current assets			
I. Inventories	(2)	2,071.1	6,074.4
II. Receivables and other assets	(3)	481,708.2	553,380.6
of which due in more than one year		0.0	0.0
III. Cash at banks		353.1	356.7
		484,132.4	**559,811.8**
C. Prepayments and accrued income	(4)	1,323.4	**3,028.8**
D. Deferred tax assets	(5)	7,018.9	**3,305.8**
		502,104.2	**576,814.9**

EQUITY AND LIABILITIES

€k	Notes	2017	2018
A. Equity			
I. Called and paid-in share capital	(6)	250.0	250.0
II. Capital reserves	(7)	97,653.0	97,653.0
III. Revenue reserves	(8)	111,722.6	157,550.9
IV. Net profit	(9)	0.0	0.0
		209,625.6	**255,453.9**
B. Provisions	(10)	22,645.5	**24,906.4**
C. Liabilities	(11)	268,958.1	**295,063.0**
of which due within one year		103,557.1	136,797.5
of which due in more than one year		165,401.1	158,265.4
D. Accruals and deferred income	(12)	874.9	**1,391.6**
		502,104.2	**576,814.9**

Income statement

€k

	Notes	2017	2018
1. Revenue	(13)	2,026,958.5	2,057,379.0
2. Other operating income	(14)	363.4	103.3
3. Operating income (subtotal of lines 1 and 2)		2,027,321.9	**2,057,482.3**
4. Expenses for electricity, gas purchases and purchases of emission rights and other purchased production services and other services		–1,910,091.4	–1,959,929.5
5. Personnel expenses	(15)	–17,454.6	–20,164.0
6. Depreciation and amortisation	(16)	–820.1	–1,043.7
7. Other operating expenses	(17)	–14,959.4	–15,708.2
8. Operating result (subtotal of lines 3 to 7)		83,996.4	**60,636.9**
9. Income from equity interests		485.3	599.8
10. Income from other securities in financial assets		130.8	134.4
11. Other interest and similar income		16,647.9	16,171.5
12. Interest and similar expenses		–17,234.3	–16,682.8
13. Financial result (subtotal of lines 9 to 12)	(18)	29.7	**222.9**
14. Earnings before taxes (subtotal of lines 8 and 13)		84,026.1	**60,859.8**
15. Taxes on income	(19)	–20,811.4	–15,031.6
16. Net income for the year		63,214.7	**45,828.2**
17. Allocation to revenue reserves		–63,214.7	–45,828.2
18. Net profit		0.0	**0.0**

Statement of changes in fixed assets

	As at 1/1/2018	Additions	Disposals	Reclassifications	**As at 31/12/2018**
I. Intangible assets					
1. Concessions, industrial property rights, electricity purchase rights, usage fees and similar rights and benefits as well as licences derived therefrom	10,214.3	1,165.8	363.1	600.0	11,617.0
2. Prepayments	600.0	467.9	0.0	–600.0	467.9
	10,814.3	1,633.7	363.1	0.0	**12,084.9**
II. Property, plant and equipment					
1. Electrical installations	3,352.7	99.8	8.9	0.0	3,443.6
2. Other equipment, office and plant equipment	1,128.5	209.5	81.0	0.0	1,256.9
3. Effected advance payments	0.0	12.6	0.0	0.0	12.6
	4,481.1	321.9	89.9	0.0	**4,713.1**
Property, plant and equipment and intangible assets	15,295.4	1,955.5	453.0	0.0	**16,798.0**
III. Investments					
1. Shares in affiliated companies	1,532.0	0.0	0.0	0.0	1,532.0
2. Securities (loan stock rights) classified as fixed assets	1,243.3	13.1	0.0	0.0	1,256.4
3. Other loans	4,925.0	134.4	18.6	0.0	5,040.8
	7,700.4	147.4	18.6	0.0	**7,829.2**
Fixed assets	22,995.8	2,103.0	471.6	0.0	**24,627.2**

€k

	Accumulated depreciation, amortisation and write-downs as at 1/1/2018	Additions from depreciation and amortisation	Disposals	Reclassifications	**Accumulated depreciation, amortisation and write-downs as at 31/12/2018**	**Net carrying amount as at 31/12/2018**
	9,262.4	866.4	363.1	0.0	9,765.7	1,851.3
	0.0	0.0	0.0	0.0	0.0	467.9
	9,262.4	866.4	363.1	0.0	**9,765.7**	**2,319.2**
	3,229.5	45.1	8.9	0.0	3,265.7	177.9
	874.5	132.2	79.4	0.0	927.3	329.6
	0.0	0.0	0.0	0.0	0.0	12.6
	4,104.0	177.3	88.3	0.0	**4,193.0**	**520.1**
	13,366.4	1,043.7	451.4	0.0	**13,958.7**	**2,839.3**
	0.0	0.0	0.0	0.0	0.0	1,532.0
	0.0	0.0	0.0	0.0	0.0	1,256.4
	0.0	0.0	0.0	0.0	0.0	5,040.8
	0.0	0.0	0.0	0.0	**0.0**	**7,829.2**
	13,366.4	1,043.7	451.4	0.0	**13,958.7**	**10,668.5**

Maturity schedule 2018

€k

				Residual term to maturity as at 31/12/2018
	≤ 1 year	> 1 year	> 5 years	Total
Loans				
1. Other loans	0.0	0.0	5,040.8	5,040.8
	0.0	0.0	5,040.8	5,040.8
Receivables and other assets				
1. Trade receivables	186,536.9	0.0	0.0	186,536.9
2. Receivables from affiliated companies	253,342.4	0.0	0.0	253,342.4
3. Other receivables and assets	113,501.3	0.0	0.0	113,501.3
	553,380.6	0.0	0.0	553,380.6
Liabilities				
1. Liabilities to banks	10,756.5	0.0	0.0	10,756.5
2. Trade payables	103,783.8	0.0	0.0	103,783.8
3. Liabilities to affiliated companies	2,679.5	0.0	2,510.4	5,189.9
4. Other liabilities	19,577.7	42,401.4	113,353.6	175,332.7
	136,797.5	42,401.4	115,864.0	295,063.0

Maturity schedule 2017

€k

	≤ 1 year	> 1 year	> 5 years	Residual term to maturity as at 31/12/2017 Total
Loans				
1. Other loans	18.6	0.0	4,906.4	4,925.0
	18.6	0.0	4,906.4	4,925.0
Receivables and other assets				
1. Trade receivables	171,099.4	0.0	0.0	171,099.4
2. Receivables from affiliated companies	152,728.2	0.0	0.0	152,728.2
3. Other receivables and assets	157,880.5	0.0	0.0	157,880.5
	481,708.2	0.0	0.0	481,708.2
Liabilities				
1. Liabilities to banks	343.5	0.0	0.0	343.5
2. Trade payables	92,349.9	0.0	0.0	92,349.9
3. Liabilities to affiliated companies	175.2	0.0	2,443.2	2,618.4
4. Other liabilities	10,688.6	36,501.7	126,456.2	173,646.4
	103,557.1	36,501.7	128,899.4	268,958.1

Notes to the annual financial statements

Notes

I. General notes

These annual financial statements have been prepared in accordance with the provisions of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB) as amended.

In the interest of clear presentation, individual line items in the balance sheet and the income statement have been aggregated. These line items are explained separately in the notes to the annual financial statements. The individual line items of the balance sheet and income statement are presented in accordance with VERBUND's Group-wide requirements with respect to form and substance.

In accordance with Section 223(7) of the Austrian Commercial Code (UGB), balance sheet and income statement line items with a carrying amount of zero in both the financial year and the previous year are not reported. The designations of the items have been shortened or expanded to reflect their actual content in accordance with Section 223(4) of the Austrian Commercial Code (UGB) to the extent that this appeared expedient in order to present annual financial statements that are clear and easy to understand.

If the presentation has changed year-on-year or if the prior-year amounts are not comparable, the prior-year amounts are always adjusted in accordance with Section 223(2) of the Austrian Commercial Code (UGB) and explained in the corresponding item.

The addition of rounded amounts and the calculation of percentages may lead to rounding differences due to the use of computing software.

II. Accounting policies

The annual financial statements have been prepared in accordance with Austrian Generally Accepted Accounting Principles and the general requirement to present a true and fair view of the Company's net assets, financial position and results of operations.

In preparing these annual financial statements, the principle of completeness was adhered to and the principle of prudence was observed. Measurement was based on the assumption that the Company is a going concern.

Fixed assets

As a rule, depreciable fixed assets are measured at cost less depreciation and amortisation.

Property, plant and equipment and intangible assets used for longer than six months of the financial year are depreciated or amortised at the full annual rate, whereas those that are used for less than six months are depreciated or amortised at half the annual rate.

Purchased intangible assets are recognised at cost and – to the extent that they are amortisable – amortised over their standard useful life.

Low-value assets are fully written off in the year of acquisition and reported as an asset disposal in the subsequent year.

Shares in affiliated companies and equity interests are recognised at cost or at the lower fair value. Securities and loan stock rights under fixed assets are measured at cost or at the lower fair value.

Interest-bearing loans are recognised at their nominal amounts. Impairment losses are recognised if the impairment is expected to be permanent. Receivables with a maturity of more than one year are reported under financial assets as loans.

VERBUND's schedule of uniform depreciation and amortisation rates specifies the following depreciation and amortisation rates for VERBUND Trading GmbH (VTR):

	Rate of depreciation/ amortisation in %	Useful life in years
Intangible assets		
Rights to telecommunications installations	10	10
Rights to software products	25	4
Other rights	5	20
Buildings		
Office buildings	2	50
Plant(s)	3	33.3
Technical installations and machinery		
Machinery	4 or 5	20 or 25
Electrical installations	5	20
Telecommunications installations	10	10
Office and plant equipment	10–25	4–10

Current assets

Inventories recognised using the moving average price method are measured at cost in accordance with the strict lower of cost or market value principle.

Receivables and other assets are measured at their principal amount, unless a lower fair value is required to be recognised in the case of specific identifiable risks. Receivables in foreign currencies are measured at the mean rate of exchange prevailing at the recognition date or the lower foreign exchange reference rate of the European Central Bank (ECB) prevailing at the reporting date (unless the exchange rate is otherwise hedged).

Cash at banks in foreign currency is also measured using the ECB foreign exchange reference rate in accordance with the strict lower of cost or market value principle.

Deferred tax assets

Since the 2004 financial year, if tax relief is expected in subsequent years, deferred tax assets are recognised in accordance with Section 198(9) of the Austrian Commercial Code (UGB) whereby the deferred taxes attributable to Group members based on tax allocation are presented under the current result in their balance sheets.

This prepayment results from differences between the financial and tax accounts with respect to line items that can only be deducted as expenses for tax purposes in income statements of future periods.

Provisions

Provisions take into account all identifiable risks that can be allocated to a financial year that has already ended and include those amounts that it was necessary to recognise based on the best estimate of the settlement amount. Provisions with a remaining maturity of more than one year are discounted using a market interest rate.

Provisions for termination benefits are allocated at the full actuarial amount based on the projected unit credit method typically used in international financial reporting. The accumulation period for provisions for termination benefits is 25 years. Employees whose service began after 31 December 2002 are no longer entitled to a direct claim against their employer for statutory termination benefits. For those employment contracts, the employer pays 1.53% of salary monthly into an employee pension fund in which the contributions are deposited in an account of the employee. Collective bargaining agreement requirements for energy supply companies which exceed statutory claims are recognised in provisions for termination benefits.

Due to labour-management agreements and contracts, VERBUND is obligated under certain conditions to make pension payments to employees after they retire. These defined benefit obligations are partially covered by pension plan assets earmarked for this purpose by APK Pensionskasse AG. The provision determined in accordance with the projected unit credit method typically used in international financial reporting is presented after offset with pension plan assets. The employer is obligated to provide additional funding to the extent that these defined benefit obligations are required to be fulfilled by APK Pensionskasse AG.

Provisions for current pensions, vested pension benefits and similar obligations are determined using the PUC method. The interest expense is shown in the financial result, in line with international practice.

Similar obligations relate to employer contributions for supplementary health insurance premiums to be paid after retirement. The provisions are determined in the same manner as provisions for pension obligations. As a result of a reorganisation of the supplementary health insurance system in previous years, new contracts are currently only concluded with insurance excesses. Employees with old contracts excluding an insurance excess have the opportunity to transfer to the new system at any time.

The calculations are based on the updated "AVÖ 2018-P – Actuarial Assumptions for Pension Insurance".

The calculations as at 31 December 2018 and 2017 are based on the following assumptions:

		%
	2017	2018
Interest rate		
Pensions and similar obligations	1.5 or 1.75	1.75 or 2.00
Termination benefits	1.50	1.75
Trend		
Pension increases	1.75	1.75
Salary increases	1.75	1.75
Contributions to obligations similar to pensions – old contracts	6.50	6.00
Contributions to obligations similar to pensions – new contracts	4.00	3.75
Employee turnover	0.00 – 3.30	0.00 – 3.30
Retirement age – women	56.5 – 65 y.	56.5 – 65 y.
Retirement age – men	61.5 – 65 y.	61.5 – 65 y.
Expected long-term return on plan assets	1.50	1.75

The same interest rate is applied to the expected return on plan assets as is used to determine the corresponding provision. The discount rates differ according to the residual term of the commitments and in line with the total contained therein (employees and pensioners). Effects from the parameter changes are shown in personnel expenses.

Liabilities

Liabilities are recognised at their settlement amount based on the principle of prudence. Trade payables denominated in foreign currency are measured at the ECB foreign exchange reference rate prevailing at the reporting date, provided that this rate is higher than the rate prevailing at the time of origination.

Accruals and deferred income

From 2016, a reversal provision for tax purposes in accordance with Section 124b(270)(a) of the Austrian Income Tax Act (Einkommenssteuergesetz, EStG) is recognised in accruals and deferred income and presented in accruals and deferred income in accordance with Section 906(32) of the Austrian Commercial Code (UGB).

Derivative financial instruments

Wholesale area

Marketing own generation VTR hedges planned generation on behalf of generation subsidiaries and for the purchase rights of VERBUND AG. VTR purchases electricity forwards from the respective VERBUND AG generation company and from VERBUND AG itself (purchase rights) at market prices in accordance with the corresponding electricity supply agreement and enters into an inverse transaction on the market by selling electricity forwards or electricity futures. VTR retains any margin between the purchase and sales price.

In addition to hedging via electricity forwards and electricity futures, put options are purchased that will be passed on to the producer or to VERBUND AG once exercised at the strike price less the option premiums incurred.

The transactions between VTR and VERBUND's generation companies or VERBUND AG are classified either as derivatives (if improvements are made) or as own-use relationships (if the delivery is exclusively from the producer and from VERBUND AG to VTR). The transactions from VTR to the external partner represent derivatives.

Hedging relationships exist between the transactions with VERBUND's generation companies or VERBUND AG (hedged item) and the transactions with external partners (derivative). Hedge accounting is applied to these hedging relationships. These hedging relationships serve to hedge against market price risk.

Other wholesale transactions In addition, in the sales area VTR enters into OTC transactions with external counterparties. VTR retains the margin generated from these transactions. If it is likely that an OTC transaction will generate a loss, i.e. the fixed sales price is lower than the cost of reinsurance, a provision for onerous contracts is recognised.

The purchase and sale transactions between VTR and the external counterparty (forwards and futures) represent derivatives. The purchase and sale transactions are always closed in terms of volume and are assigned to a hedged item and hedging instrument on the date the contract is entered into. Hedge accounting is applied in each case.

Measurement of effectiveness No material ineffectiveness occurs in the sales area because fluctuations in the market value of the derivatives are routinely offset in purchase and sale transactions that are nearly closed in terms of volume. The amounts realised from the derivative hedging transactions are recognised in profit or loss.

Trading area

Portfolio valuation is conducted annually in the trading area. Changes in the value of the transactions offset each other within the annual portfolio. In accordance with the Austrian Commercial Code (UGB), only those annual portfolios with a negative balance are accounted for by recognising a provision for onerous contracts. In accordance with the Austrian Commercial Code (UGB), annual portfolios with a positive balance may not be recognised. The result from trading is presented after offsetting under electricity revenue.

Taxes on income

Due to its inclusion as a member of the group of companies of VERBUND AG, the parent of the tax group, VTR is not an independently taxable entity for corporate income tax.

The tax group parent charges (tax allocation rate of 25%) or, in the event of a loss, credits the group members with the corporate income tax amounts attributable to them by means of a tax allocation. The recharging of the tax allocations results in an adjustment decreasing or increasing the tax expense in the parent's income statement. The tax recharges to Group members are only adjusted for subsequent deviations if these are material.

III. Notes to the balance sheet and to the income statement

Notes on assets

A. Fixed assets

For details see separate "Statement of changes in fixed assets".

(1) III. Investments

The disclosures in accordance with Section 238(1)(4) of the Austrian Commercial Code (UGB) are presented separately in "Disclosures of equity interests in accordance with Section 238(1)(4) of the Austrian Commercial Code (UGB)".

Securities (loan stock rights) under fixed assets These consist of Austrian investment fund units and loan stock rights on electricity trading exchanges.

Loans For details see separate "Maturity schedule".

B. Current assets

(2) I. Inventories

€k

	2017	2018
Trading goods	2,071.1	6,074.4

(3) II. Receivables and other assets

For details see separate "Maturity schedule".

Of the receivables from affiliated companies, €31,130.8k (previous year: €17,935.2k) related to trade receivables and €222,211.6k (previous year: €134,793.1k) to other receivables.

€k

Other receivables and assets	2017	2018
Electricity trading activities	124,392.3	68,712.4
Security deposits electricity business	32,871.8	37,835.8
Emission rights trading	0.0	6,218.6
Tax authorities	571.7	680.0
Related to social security	11.9	17.0
Payroll	17.6	14.3
Other	15.2	23.2
	157,880.5	**113,501.3**

Other receivables from electricity trading relate primarily to accruals required by the Austrian Commercial Code (UGB) for differences in amounts realised on the exchange and by VTR.

(4) C. Prepayments and accrued income

€k

	2017	2018
Prepayments for electricity purchases	863.1	1,438.3
Auctions of cross-border capacities	113.7	1,122.2
Other	346.6	468.3
	1,323.4	**3,028.8**

From 2017, the amounts to be accrued for option premiums in the future will be presented under other receivables from electricity trading activities.

(5) D. Deferred tax assets

€k	2017	2018
Social capital	2,193.3	2,289.9
Special tax deductions	–0.1	0.0
Other	4,825.7	1,015.8
Deferred tax receivables (+) respectively liabilities (–) netted	7,018.9	**3,305.8**

Deferred tax assets are the result of differences between the financial and taxable result in respect of line items that can only be deducted as expenses for tax purposes in income statements of future periods. The calculation was based on a tax rate of 25%.

Other deferred taxes are related to differences between the financial and tax treatment of non-current provisions and impairment losses recognised on equity interests.

Notes on equity and liabilities

A. Equity

(6) I. Called and paid-in share capital

The share capital of VTR amounts to €250.0k (previous year: €250.0k) and was fully paid in as at the reporting date. There are no reciprocal equity interests in accordance with Section 241(6) of the Austrian Commercial Code (UGB).

(7) II. Capital reserves

€k	2017	2018
Unallocated capital reserves	97,653.0	97,653.0

(8) III. Revenue reserves

€k	2017	2018
Statutory reserves	25.0	25.0
Distributable reserves	111,697.6	157,525.9
	111,722.6	**157,550.9**

(9) IV. Net profit

	€k
As at 31/12/2017	0.0
Net income for the year	45,828.2
Changes in revenue reserves	–45,828.2
Profit transfer to VERBUND AG	0.0
As at 31/12/2018	0.0

VTR has a profit and loss transfer agreement with VERBUND AG. The net income for 2018 was allocated in full to other revenue reserves on the basis of tax regulations (internal financing account).

(10) B. Provisions

1. Provisions for termination benefits

€k	2017	2018
Premium reserve based on actuarial calculations	4,827.8	4,966.8
Taxed portion of provisions	4,827.8	4,966.8

In 2002, the provision permitted under Section 14 of the Austrian Income Tax Act (EStG) was transferred tax-free to a reserve qualifying as taxed (Section 124b(68) of the Austrian Income Tax Act (EStG)).

2. Provisions for pensions

€k

	2017	2018
Provisions for pension obligations	3,367.2	3,777.6
of which obligations similar to pensions	2,503.8	2,390.6

3. Other provisions

€k

	2017	2018
Expected losses	7,205.2	7,311.5
Outstanding capital expenditure invoices	63.9	544.9
Other services	234.8	532.0
Electricity/grid purchases	200.0	200.0
Consulting services	38.8	137.6
Other	1,715.6	1,858.6
	9,458.3	**10,584.7**

€k

Other personnel-related provisions	2017	2018
Bonuses	1,864.3	2,108.3
Unused holidays	1,160.9	1,234.5
Holiday allowance	583.3	761.5
Anniversary bonuses	449.6	606.9
Early retirement benefits	669.0	569.5
Compensatory time credit	222.8	254.6
Death grant	42.3	42.0
	4,992.2	**5,577.3**

(11) C. Liabilities

For details see separate “Maturity schedule”.

Of the liabilities to affiliated companies, €2,664.5k (previous year: €0.0k) related to other liabilities and €2,525.4k (previous year: €2,618.4k) to trade payables.

€k

Other liabilities	2017	2018
From long-term electricity supply commitments	162,957.9	155,755.0
Electricity trading activities	2,895.2	10,192.3
From short-term electricity supply commitments	6,958.9	7,202.8
Gas trading business	35.0	1,420.2
From taxes	380.6	451.1
Related to social security	281.6	308.9
Emission rights trading	135.4	0.0
Other	1.9	2.3
	173,646.4	**175,332.7**

(12) D. Accruals and deferred income

€k	2017	2018
From electricity business	330.1	**846.8**
Revaluation reserve	544.8	**544.8**
	874.9	**1,391.6**

Impairment reversals not carried out in previous years were transferred to a reversal provision for tax purposes in accordance with Section 124b(270)(a) of the Austrian Income Tax Act (EStG) as at 1 January 2016 and are recognised under accruals and deferred income in accordance with Section 906(32) of the Austrian Commercial Code (UGB).

From 2017, the amounts to be deferred for option premiums in the future will be presented under other liabilities from electricity trading activities.

Notes on the income statement

(13) 1. Revenue

€k		2017	2018
Revenue from electricity deliveries			
Domestic	Traders	89,140.5	178,511.7
	Resellers	1,042,447.5	1,110,590.5
	Consumers	36.0	0.0
		1,131,624.0	**1,289,102.2**
EU	Traders	352,531.3	–2,123.0
	Resellers	374,244.9	596,402.6
	Consumers	19,616.5	26,640.3
		746,392.7	**620,919.9**
Third countries	Traders	504.4	0.0
		504.4	**0.0**
		1,878,521.0	**1,910,022.1**
Other revenue (including emission rights and gas trading)		148,437.5	147,357.0
		2,026,958.5	**2,057,379.0**

The negative revenue in financial year 2018 in the “Traders” customer segment in the EU relates to negative amounts realised on the German exchange. This is offset by lower expenses from amounts realised for electricity purchases and a higher number of transactions in the generation of revenue from resellers.

(14) 2. Other operating income

€k	2017	2018
a) Income from the disposal of fixed assets with the exception of investments	0.9	5.2
b) Income from the reversal of provisions	203.2	3.0
c) Other	159.3	95.1
	363.4	**103.3**

(15) 5. Personnel expenses

€k	2017	2018
a) Salaries	13,537.0	**15,294.6**
b) Expenses for termination benefits and payments to employee pension funds		
Termination benefits	641.2	183.8
Contributions to employee pension funds	135.5	154.4
Change in the provision for termination benefits	32.9	67.2
Income from transfers within the Group	–476.1	–71.4
	333.5	**334.0**
c) Expenses for pensions and similar obligations		
Provisions, pension payments and similar obligations	456.4	442.7
Change in the provisions for pensions and similar obligations	–3.7	355.4
Income from transfers within the Group	–97.5	–28.9
Change in the provisions for early retirement benefits	–239.8	–100.6
Pension fund contributions	481.7	521.9
	597.2	**1,190.3**
d) Expenses for social security contributions as required by law as well as income-based charges and compulsory contributions	2,812.7	3,176.0
e) Other social security expenses	174.2	169.0
	17,454.6	**20,164.0**

The effect of the change in the adjusted mortality tables gave rise to an expense of €426.7k in the financial year which was offset by a positive effect from interest rate changes of €513.7k. The result of the parameter changes was recognised in full in the financial year.

(16) 6. Depreciation, amortisation and write-downs

€k	2017	2018
a) Amortisation of intangible fixed assets and depreciation of property, plant and equipment		
Depreciation and amortisation	794.8	1,016.3
Immediate write-off of low-value assets in accordance with Section 13 of the Austrian Income Tax Act (EStG)	25.3	27.3
	820.1	**1,043.7**

(17) 7. Other operating expenses

€k	2017	2018
a) Taxes other than taxes on income	7.5	18.2
b) Other		
IT support, electronic data processing	5,139.5	4,751.2
Other administrative expenses	1,609.0	1,624.5
Usage fees	1,185.7	1,454.9
Operating costs for buildings, rents and leasing	1,204.3	1,204.6
Legal, audit and consulting expenses	601.4	919.3
Data services, telecommunications services	1,004.3	904.9
Advertising costs	439.4	376.9
Training and further education	115.3	96.2
Other	3,653.1	4,357.5
	14,951.9	**15,690.1**
	14,959.4	**15,708.2**

(18) 14. Financial result

€k	2017	2018
Income from equity interests		
from affiliated companies	402.5	520.9
Other interest and similar income		
from affiliated companies	16,618.2	16,111.9
Interest and similar expenses		
of which interest for long-term personnel provisions	130.4	135.4
from affiliated companies	442.3	493.7

(19) 16. Taxes on income

€k	2017	2018
From the Group parent		
Taxes on income[1]	15,841.2	11,318.4
Deferred taxes	4,970.2	3,713.2
	20,811.4	**15,031.6**

[1] tax allocation rate of 25%

IV. Other disclosures

1. Total amount of other financial obligations

€k

Material items	Total commitment	2019	2019–2023
Rent, lease and insurance agreements	[1]	841.8	4,208.8
Purchase commitments	4,602.5	3,198.0	4,400.9
of which to affiliated companies	[1]	796.0	3,979.8

[1] The amount of the total commitment cannot be determined due to unspecified contract periods.

There is an agreement with VERBUND Services GmbH for the invoicing of services in the areas of IT, telecommunications, procurement, financial accounting, payroll and administrative services.

An agreement has been entered into with VERBUND Finanzierungsservice GmbH for the invoicing of payment transactions and cash management services.

An agreement has been entered into with VERBUND AG for the invoicing of general management services.

Due to labour-management agreements and contracts, VERBUND is obligated under certain conditions to make pension payments to employees after they retire. The employer is obligated to provide additional funding to the extent that these pension obligations are required to be fulfilled by APK Pensionskasse AG. Due to the developments on the financial markets, APK Pensionskasse AG reported an obligation for additional funding in the amount of €271.1k (previous year: €0.0k) to cover defined benefit obligations.

As at the reporting date, three (previous year: five) employees had a letter of loyalty granting them a higher degree of employment protection. The prerequisites were at least 20 years of service at VERBUND and a minimum age of 45.

2. Disclosures regarding financial instruments

Derivative financial instruments (electricity/gas/CO_2 futures, forwards and options) comprised the following in 2018:

€k

Trading	Fair values – positive	Fair values – negative	Fair values – net
Futures	11,222.1	16,467.1	–5,245.0
Forwards	753,854.7	753,099.1	755.6
Total before netting	765,076.8	769,566.2	–4,489.4
of which non-current	106,491.0	106,097.0	394.0

€k

Wholesale	Fair values – positive	Fair values – negative	Fair values – net
Futures	268,694.6	248,548.5	20,146.1
Forwards[1]	312,163.5	535,884.3	–223,720.8
Options	957.7	332.0	625.7
Total before netting	581,815.8	784,764.8	–202,949.0
of which non-current	157,356.4	145,445.5	11,910.9

€k

Total	Fair values – positive	Fair values – negative	Fair values – net
Futures	279,916.7	265,015.6	14,901.1
Forwards	1,066,018.2	1,288,983.4	–222,965.2
Options	957.7	332.0	625.7
Total before netting	**1,346,892.6**	**1,554,331.0**	**–207,438.4**
of which non-current	263,847.4	251,542.5	12,304.9
Taking netting agreements into consideration[2]	–1,049,697.1	–1,049,697.1	0.0
	297,195.5	504,633.9	–207,438.4

[1] In the fair values of the positive forwards, €432.4k and, in the fair values of the negative forwards, €–77,431.6k relates to affiliated companies. // [2] If a framework agreement with a netting clause has been entered into with a counterparty, the positive and negative fair values of the transactions for this counterparty are netted for accounting purposes.

The positive fair values amounting to €2,940.2k for the annual trading portfolios from 2019 to 2024 and for the positive measurements in wholesale gas and wholesale CO_2 are not recognised in the balance sheet. The negative fair value for wholesale electricity amounting to €210,248.2k is matched with hedged items (own use) not presented in the table with a positive fair value in the same amount and with which a portfolio hedge has been formed. In the CO_2 area, a portfolio hedge is formed with the store; as a result, there is no need to recognise a provision for onerous contracts in the trading area because the overall measurement is positive.

Derivative financial instruments (electricity/gas/CO_2 futures, forwards and options) comprised the following in the previous year:

€k

Trading	Fair values – positive	Fair values – negative	Fair values – net
Futures	13,951.2	14,272.9	–321.7
Forwards	365,059.2	364,352.5	706.7
Total before netting	**379,010.4**	**378,625.4**	**385.0**
of which non-current	62,429.0	61,911.4	517.6

€k

Wholesale	Fair values – positive	Fair values – negative	Fair values – net
Futures	208,405.9	4,620.2	203,785.7
Forwards[1]	79,647.8	181,552.0	–101,904.2
Options	1,259.3	287.3	972.0
Total before netting	**289,313.0**	**186,459.5**	**102,853.5**
of which non-current	76,896.5	78,173.5	–1,277.0

Total	Fair values – positive	Fair values – negative	€k Fair values – net
Futures	222,357.1	18,893.1	203,464.0
Forwards	444,707.0	545,904.5	–101,197.5
Options	1,259.3	287.3	972.0
Total before netting	**668,323.4**	**565,084.9**	**103,238.5**
of which non-current	139,325.5	140,084.9	–759.4
Taking netting agreements into consideration[2]	–604,955.0	–604,955.0	0.0
	63,368.4	**–39,870.1**	**103,238.5**

[1] In the fair values of the positive forwards, €1,573.7k and, in the fair values of the negative forwards, €–38,062.6k relates to affiliated companies. // [2] If a framework agreement with a netting clause has been entered into with a counterparty, the positive and negative fair values of the transactions for this counterparty are netted for accounting purposes.

The positive fair values amounting to €2,138.5k for the annual trading portfolios from 2019 to 2024 and for the positive measurements in wholesale gas and wholesale CO_2 are not recognised in the balance sheet. The negative fair value for wholesale electricity amounting to €172,620.6k is matched with hedged items (own use) not presented in the table with a positive fair value in the same amount and with which a portfolio hedge has been formed. In the CO_2 area, a portfolio hedge is formed with the store; as a result, there is no need to recognise a provision for onerous contracts in the trading area because the overall measurement is positive.

3. Number of employees

Average	2017	**2018**
Salaried employees	125	132

4. Expenses for termination benefits and pensions

	2017	€k **2018**
Members of the Management and other employees	930.7	1,524.3

No disclosures on the Management pursuant to Section 239(1)(3) of the Austrian Commercial Code (UGB) are necessary pursuant to Section 242(4) of the Austrian Commercial Code (UGB).

5. Board members

Disclosures regarding the Boards of the Company (members of Management and the Supervisory Board) are presented before the management report.

Two members of the Management were employed during financial years 2017 and 2018, for which reason no additional disclosures are necessary pursuant to Section 242(4) of the Austrian Commercial Code (UGB).

Remuneration paid to members of the Supervisory Board amounted to a total of €25.7k (previous year: €24.9k). No loans or advances were paid out to members of the Company's Boards.

6. Intra-Group relationships

The parent company required to prepare consolidated financial statements is VERBUND AG, Am Hof 6a, 1010 Vienna.

VERBUND Trading GmbH is a member of the group of companies of the parent company (within the meaning of Section 9(8) of the Austrian Corporate Income Tax Act (Körperschaftsteuergesetz, KStG)).

Irrespective of the group and tax allocation agreement concluded with the tax group parent, the profit and loss transfer agreement concluded with VERBUND AG on 5 May 2014 remains in force. In addition, VTR is a member of a value added tax fiscal unit with VERBUND AG.

The consolidated financial statements are submitted to the commercial register of the Commercial Court of Vienna.

7. Disclosures in accordance with Section 8 of the Austrian Electricity Industry and Organisation Act (ElWOG)

Business transactions as defined by Section 8(3) of the Austrian Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG) were entered into specifically with the following companies:

Electricity deliveries VERBUND Hydro Power GmbH, VERBUND Thermal Power GmbH & Co KG, VERBUND Innkraftwerke GmbH, Innwerk AG, Austrian Power Grid AG, Infrastruktur Oberheimbach I GmbH & Co KG, Infrastrukturgesellschaft Bischheim GmbH & Co KG, VERBUND Wind Power Austria GmbH, VERBUND Sales GmbH, VERBUND AG
Electricity trading and sales VERBUND Sales GmbH, VERBUND Trading & Sales Deutschland GmbH, VERBUND Trading Serbia d.o.o., VERBUND Trading Romania S.R.L., VERBUND AG
Grid services Austrian Power Grid AG
Telecommunications VERBUND Services GmbH
Services VERBUND Services GmbH
Financing VERBUND Finanzierungsservice GmbH
Provision of personnel VERBUND AG

8. Events after the reporting date

No events occurred that would require separate reporting.

Vienna, 11 February 2019
The Management

Mag. Dr. Stephan Sharma

Mag. Robert Slovacek

Disclosure of equity interests

in accordance with Section 238(1)(4) of the Austrian Commercial Code (UGB)

€k, CZK, RSD, RON

		Head-quarters	Capital share in % as at 31/12/2018	Most recent annual financial statements	(+) (–)	Net income/loss for the year	Equity[1]
Affiliated companies							
VERBUND Trading Czech Republic s.r.o.	CZK	Prague	100.00	2017	–	155.0	6,620.0
VERBUND Trading & Sales Deutschland GmbH	€	Munich	100.00	2017	+	135.8	243.8
VERBUND Trading Serbia d.o.o.	RSD	Belgrade	100.00	2017	+	258.0	12,731.0
VERBUND Trading Romania S.R.L.	RON	Bucharest	99.00	2018	+	963.8	4,047.1

[1] Equity as defined by Section 224(3)(a) of the Austrian Commercial Code (UGB) or local law.

Independent auditor's report

Report on the Audit of the Annual Financial Statements

Opinion

We have audited the annual financial statements of VERBUND Trading GmbH, Vienna, which comprise the balance sheet as at 31 December 2018, the income statement for the financial year then ended, and notes to the annual financial statements.

In our opinion, the accompanying annual financial statements comply with legal requirements and give a true and fair view of the Company's financial position as at 31 December 2018, and its financial performance for the year then ended in accordance with the Austrian Generally Accepted Accounting Principles and the special legislation of the Electricity Industry and Organisation Act (ElWOG).

Basis for Opinion

We conducted our audit in accordance with the Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Annual Financial Statements section of our report. We are independent of the Company in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Supervisory Board for the Annual Financial Statements

Management is responsible for preparing the annual financial statements as well as for ensuring that the financial statements give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with Austrian Generally Accepted Accounting Principles and the special legislation of the Electricity Industry and Organisation Act (ElWOG). Furthermore, the Company's management is also responsible for the internal controls that it deems necessary to facilitate the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibility for the Audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Austrian generally accepted auditing standards, which require application of the International Standards on Auditing (ISAs), will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

As part of an audit in accordance with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors' 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 are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with the Supervisory Board 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.

Report on the Audit of the Management Report

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the annual financial statements and whether it has been prepared in accordance with the applicable legal requirements.

Management is responsible for the preparation of the annual management report in accordance with the Austrian Commercial Code.

We conducted our audit in accordance with laws and regulations applicable with respect to the management report.

Opinion

In our opinion, the management report is prepared in accordance with the applicable legal requirements and is consistent with the annual financial statements.

Statement

In the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit of the annual financial statements, we have not identified material misstatements in the management report.

Vienna, 11 February 2019
Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Gerhard Marterbauer
Certified Public Accountant

Mag. Christof Wolf
Certified Public Accountant

The annual financial statements may only be published or reproduced together with our auditor's report in the version audited by us. This auditor's report only relates to the complete annual financial statements in German, including the management report. Section 281(2) of the Austrian Commercial Code (UGB) applies to versions differing from the version audited by us.

Glossary

Glossary

Cash flow

Balance of the inflow and outflow of cash and cash equivalents, usually broken down into cash flow from operating activities, investing activities and financing activities.

EBIT

Earnings before interest (including personnel-related interest) and taxes.

Equity ratio

Ratio of equity to total capital.

Net debt

Interest-bearing debt less cash and cash equivalents (including securities and shares held as current assets), adjusted for the asset and liability portions of closed items (e.g. in the case of cross-border leasing transactions).

Notional debt repayment period

Ratio of debt to surplus funds from earnings after tax.

ROE (return on equity)

Ratio of earnings before taxes to equity at the beginning of the financial year.

ROI (return on investment)

Ratio of earnings before interest (including personnel-related interest) and taxes to total capital at the beginning of the financial year.

ROS (return on sales)

Ratio of earnings before interest (including personnel-related interest) and taxes to revenue.

Working capital

Current assets (including current loans and current prepayments and accrued income) less current liabilities (including current accruals and deferred income).

EDITORIAL DETAILS

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