VERBUND Trading GmbH
Annual Report 2019

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

	2017	2018	2019
Revenue	2,026,958.5	2,057,379.0	2,607,477.0
Earnings before interest and taxes (EBIT)	101,260.5	77,542.6	48,393.0
Earnings before taxes	84,026.1	60,859.8	32,219.9
Net income for the year	63,214.7	45,828.2	24,225.4
Net profit	0.0	0.0	0.0
Total assets	502,104.2	576,814.9	573,127.0
Fixed assets	9,629.4	10,668.5	10,501.6
Capital expenditure on property, plant and equipment	139.7	321.9	342.5
Depreciation of property, plant and equipment	157.4	177.3	228.9
Equity	209,625.6	255,453.9	263,128.3
Return on sales (ROS)	5.0%	3.8%	1.9%
Return on equity (ROE)	57.4%	29.0%	12.6%
Return on investment (ROI)	22.7%	15.4%	8.4%
Equity ratio	41.7%	44.3%	45.9%
Debt repayment period	4.3	6.3	11.4
Cash flow from operating activities	–15,242.3	79,570.7	127,674.9
Working capital	371,007.2	412,736.5	414,397.6
Net debt	11,622.8	–78,673.0	–218,619.3
Current liabilities	114,467.3	150,104.1	144,745.8
Current assets	485,474.5	562,840.6	559,143.4
Average number of employees	125	132	133

Board members

Management

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

Supervisory Board

Mag. Dr. Michael Strugl Chairman	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

Veronika Neugeboren	Member of the Works Council
David Amon	Member of the 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.

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. Cross-border transactions with Serbia and Hungary also take place on the basis of 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.
- VERBUND Energy4Flex GmbH (VEF) – established in December 2019, VEF will take over the optimisation, support and management of VERBUND's flexible power plants in connection with the Austrian control power markets on behalf of VTR starting in 2020.

VTR-RO is entrusted with marketing the wind power (and the associated wind power certificates) generated by VERBUND AG's Romanian subsidiary – VERBUND Wind Power Romania S.R.L. – on the Romanian electricity exchange OPCOM, among other markets, and through a sales cooperation with Axpo Energy Romania SA.

Market performance

VERBUND contracted for most of its own generation for 2019 on the futures market back in 2017 and 2018. Ever since the split of the joint German-Austrian price zone in October 2018, separate, higher prices have prevailed in Austria. Prices for front-year base load AT 2019 contracts (traded in 2018) averaged €46.6/MWh, and prices for front-year base load DE contracts averaged €43.8/MWh. This represents an increase of 44.0% (AT) and 35.4% (DE) compared with the previous year, in which a joint price was calculated in futures trading (€32.4/MWh).

Front-year peak load AT contracts averaged €56.8/MWh in 2018 and front-year peak load DE contracts traded at an average of €54.0/MWh. Prices on the futures market were therefore up by 40.3% and 33.2%, respectively, on the prior year (€40.5/MWh).

On both the Austrian and the German spot market, wholesale trading prices for electricity fell below the prior-year levels in quarters 1–4/2019. Prices for base load electricity decreased by an average of 15.2% to €40.06/MWh in Austria and by 15.3% to €37.67/MWh in Germany. Prices for peak load fell by 11.1% to €46.38/MWh in Austria and by 14.7% to €44.46/MWh in Germany.

Prices for front-year base load AT 2020 contracts (traded in 2019) averaged €51.2/MWh, and prices for front-year base load DE contracts averaged €46.6/MWh. This represents a year-on-year increase of 9.9% (AT) and 9.0% (DE).

Front-year peak load AT 2020 contracts averaged €56.8/MWh in 2019 and front-year peak load DE contracts traded at an average of €54.0/MWh. Prices on the futures market were therefore up by 40.3% and 33.2%, respectively, on the prior year (€40.5/MWh).

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

		2018	**2019**
Purchased generation		26,212	27,989
of which hydropower		24,342	26,132
of which wind power		258	287
of which thermal power		1,611	1,570
Other Group purchases		1,155	1,689
Electricity purchased from third parties		25,844	26,441
Total amount purchased by VTR		53,211	**56,119**
Trading contracts		70,282	**74,424**
		123,492	**130,544**

At 27,989 GWh in 2019, the marketing of this generation was 6.8% higher than in 2018.

Generation from hydropower increased by 1,790 GWh compared with the previous year. At 1.01, the hydro coefficient for the run-of-river power plants was 7 percentage points above the prior-year figure and 1% above the long-term average. Generation from annual storage power plants decreased by 2.2% in quarters 1–4/2019 mainly due to lower generation from turbining and less water impoundment.

The generation from wind power that VTR markets to Germany and Austria increased by 11.2% as a result of more windy conditions.

Generation from thermal power plants decreased by 42 GWh in quarters 1–4/2019. The Mellach combined cycle gas turbine power plant produced 27 GWh less electricity in 2019. Generation at the Mellach hard coal power plant decreased by 15 GWh.

Electricity purchased from third parties for trading and sales increased by 2.3%.

The standardised forward contracts had a volume of 74,424 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 56,119 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

		2018	**2019**
			GWh
Traders		17,578	19,483
Resellers		20,239	19,474
Consumers		455	1,212
Group		14,938	15,950
of which retail customers		1,559	1,626
of which industrial customers		9,429	10,627
of which APG		1,995	1,836
of which own use of generation companies		1,955	1,861
		53,211	**56,119**
Trading contracts		70,282	**74,424**
		123,492	**130,544**

Compared with 2018, VTR's electricity sales volume increased by 2,909 GWh to 56,119 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 rose by 10.8% in the reporting period as a result of significantly higher spot trading volumes.

Volumes with resellers fell by 3.8%, while sales to consumers rose. This is due to the fact that the Romanian sales business was still presented under resellers at the end of 2018 and most of that business is presented under sales to consumers in 2019. 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 VERBUND AG's retail customers and supplies APG and VERBUND's generation companies.

The lower quantity supplied to APG (–160 GWh) comprises deliveries to compensate for grid loss or deliveries as part of congestion management. Supplies to cover generation for own use fell by 94 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

Results of operations

	Unit	2018	2019
Revenue	€k	2,057,379.0	2,607,477.0
Earnings before interest and taxes (EBIT)	€k	77,542.6	48,393.0
Earnings before taxes	€k	60,859.8	32,219.9
Net income for the year	€k	45,828.2	24,225.4
Net profit	€k	0.0	0.0
Return on sales (ROS)	%	3.8	1.9
Return on equity (ROE)	%	29.0	12.6
Return on investment (ROI)	%	15.4	8.4

VTR's revenue rose by 26.7% to €2,607,477.0k in financial year 2019 due to increased trading activities.

At €82.9k, other operating income is at a similar level to the previous year (€103.3k).

Expenses for material and other purchased services are significantly (+29.3%) higher than in 2018 – a surge in electricity purchase costs (+32.8%) and in certificate trading (+44.7%) coincided with lower gas purchasing expenses – and amount to €2,534,600.7k.

The increase in personnel expenses (+10.8% to €22,343.4k) is attributable to an additional budgeted position, the increase stipulated in the collective agreement for energy supply companies and, in particular, higher expenses for termination benefits and for pension provisions and similar obligations due to interest rate changes.

Other operating expenses increased by 12.1% to €17,604.3k. This increase is mainly the result of higher consulting and marketing costs, additional agency staff and an increase in third-party services in IT (licenses, user fees) and telecommunications and generally more cost-intensive project activities.

VTR had an average of 135 employees (including employees in the active phase of partial retirement; previous year: 134 employees including employees in the active phase of partial retirement). Expenses for training and continuing education amounted to €135.5k in the financial year (previous year: €96.2k).

VTR has a profit and loss transfer agreement with VERBUND AG. Due to tax rules, a portion of the net income for 2019 (€24,225.4k) amounting to €7,674.4k was allocated to other revenue reserves; the remainder was distributed to VERBUND AG.

Net assets

	Unit	2018	2019
Fixed assets	€k	10,668.5	10,501.6
Current assets	€k	559,811.8	553,907.4
Working capital	€k	412,736.5	414,397.6
Equity	€k	255,453.9	263,128.3
Current liabilities	€k	150,104.1	144,745.8
Current assets	€k	562,840.6	559,143.4
Equity ratio	%	44.3	45.9

Fixed assets decreased slightly in 2019 (–1.6%) to €10,501.6k. At €553,907.4k, current assets remained at around the same level as in 2018.

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

Financial position

	Unit	2018	2019
Cash flow from operating activities	€k	63,266.4	127,674.9
Cash flow from investing activities	€k	15,309.2	15,007.1
Cash flow from financing activities	€k	–78,572.0	–141,901.9
Financial result	€k	222.9	3.0
Debt repayment period	years	6.3	11.4

The financial result changed due to the interest expense, which fell further compared with 2018. As a result of lower earnings compared with the previous year, the debt repayment period increased to 11.4 years.

Cash flow statement

The cash flow statement is calculated using the indirect method and in financial year 2019 was prepared in accordance with the expert opinion KFS/BW 2 issued by the Austrian Chamber of Public Accountants and Tax Advisors.

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 in 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

Cash flow increased despite a drop in net income. This results, on one hand, from the positive change in trade receivables and payables as well as in guarantees and, on the other hand, from payment flows arising from variation margins and cascading on the EEX electricity exchange. The payment flows from cascading were accrued in net income since they will be realised in future years.

(2) Cash flow from investing activities

Cash flow from investing activities results mainly from recharging interest within the VERBUND Group.

(3) Cash flow from financing activities

The change in cash flow from financing activities is the result of money market transactions and financial market liabilities, the Group clearing balance – caused by the effects described under receivables and liabilities – and the resumption of profit transfers.

Cash flow statement

€k

	Notes	2018	2019
Earnings before taxes		60,859.8	32,219.9
Amortisation of intangible assets and depreciation of property, plant and equipment		1,043.7	794.7
Amortisation of financial assets		0.0	15.9
Result from the disposal of assets		–5.2	23.2
Income from investments, other interest and similar income and interest and similar expenses		–358.3	–185.2
Change in inventories		–4,003.3	1,351.6
Change in trade receivables and other receivables[1]		15,114.9	117,033.7
Change in non-current provisions		381.2	1,962.9
Change in current provisions		1,398.8	–810.7
Change in trade payables and other liabilities[2]		262.4	–16,513.1
Payments for income taxes		–11,427.5	–8,218.0
Cash flow from operating activities	(1)	63,266.4	**127,674.9**
Capital expenditure on intangible assets and property, plant and equipment		–1,474.5	–985.1
Disposals of intangible assets and property, plant and equipment		6.8	1.4
Capital expenditure on investments		–147.4	–35.0
Disposals of investments		18.6	0.0
Disposals of other securities		0.0	–171.4
Cash inflow from investment and security income		599.8	562.4
Cash inflow from interest		16,305.9	15,634.7
Cash flow from investing activities	(2)	15,309.2	**15,007.1**
Cash inflow (outflow) from money market transactions		0.0	–10,751.3
Cash inflow from the assumption of financial liabilities (excluding money market transactions)		10,413.1	0.0
Profit transferred		0.0	–16,556.0
Changes in Group clearing balances		–88,383.6	–113,860.8
Cash outflow from interest and similar expenses		–601.4	–733.8
Cash flow from financing activities	(3)	–78,572.0	**–141,901.9**
Change in cash and cash equivalents		3.6	780.1
Cash and cash equivalents as at 1/1		353.1	356.7
Cash and cash equivalents as at 31/12		356.7	**1,136.8**

[1] incl. prepayments and accrued income // [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 135 employees in 2019 (including employees in the active phase of partial retirement; previous year: 134 employees including employees in the active phase of partial retirement). Expenses for training and continuing education amounted to €135.5k in financial year 2019 (previous year: €96.2k).

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. 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. Current 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 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, the main activities continue to comprise the expansion of the position as one of the leading providers of innovative green electricity and flexibility products and energy services, direct marketing of renewable energy (particularly wind, photovoltaics and small-scale hydropower) and taking advantage of short-term market opportunities, especially in relation to balancing services products.

VTR is concentrating on two core tasks within these activities: firstly, asset marketing and sales optimisation augmented by the trading business and, secondly, sales activities. In light of the situation in the energy markets and on the energy exchanges relating to short-term transactions, 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 has maintained a 24/7 presence in the trading markets since 2015. 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 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 are among the central tasks of VTR's electricity trading.

To successfully meet the variety of challenges arising from current developments in the market and shifts in market design – which can be summarised by the keywords of decarbonisation, decentralisation and digitalisation – implementation of the realignment of VERBUND's sales activities, as developed within a 2019 strategic project, will be a focus in 2020.

The project aims to hone VERBUND's positioning within the modern energy market pyramid, and it was brought about in response to growing margin pressure among B2C and B2B customers. The realignment will be conducted using an approach aimed at guaranteeing that the Company presents one face to the customer, ensuring customers have a single central point of contact. In light of this, the reorganisation of the sales area aims to strengthen sales-related skills and to pool projects related to the topic areas of decentralised generation and storage. Doing so will make it possible to more effectively realise the benefits of an integrated value chain, position the Company as a holistic and competent energy manager from the customer's perspective and secure added contributions to earnings for VERBUND in the long term.

Under the organisational concept developed in 2019, VTR, as the absorbing company, will merge with sister companies VSA (after spinning off the consumer business) and VERBUND Solutions GmbH (VSO), bundling the industrial or B2B customer business with projects and new business models from the Solutions area into one single company.

As the second key task, VTR is reorganising its sales activities in order to meet the previously described challenges. The existing product portfolio and market segments where it operates will be expanded to include supplying industrial customers (previously by VSA). Here, the focus is on new business models for establishing, operating and marketing PV plants for and with business customers; an ambitious growth course will be pursued in this segment through to 2023. The expanded range of products and services will be broadened to include innovative projects and cooperation models in the area of industrial-scale batteries/battery storage systems and hydrogen.

This will make it possible to expand the Company's positions in the core markets of Austria and Germany. Furthermore, the negotiations on contract extensions with state energy companies and other resellers in Austria and direct marketing of wind and small-scale hydropower will be continued.

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.

Germany remains one of VTR's most important foreign markets. The subsidiary VTR-DE generates stable earnings contributions there; in 2020, it will be merged with the German VSA subsidiary (VERBUND Sales Deutschland GmbH) during the reorganisation. As in previous years, a crucial factor in good performance will be green electricity certificate marketing, particularly via the "H2Ö" brand. Key areas of focus in Germany in 2020 will be optimising wind power marketing from both VERBUND and third-party facilities as well as selling innovative, flexible products to customers in the industrial sector, municipal utilities and resellers.

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

With regard to its servicing of international markets in the Central, Eastern and Southeast European regions, VTR will concentrate in 2020, as in previous years, on marketing available generation from Group power plants in Romania and on 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 Energy Romania SA 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 was completed in 2019, and the successful cooperation will be continued.

Gas business activities in 2020 will continue to 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 takes place for VERBUND's gas consumer business.

The split of the joint German-Austrian price zone continues to influence price trends and trading activities (for instance trade interruptions at the border). 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 with regard to climate protection and CO_2 reduction and the regulatory requirements of the European Union in the energy trading sector.

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 international business and the successful implementation of the reorganisation of the sales area. 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.

Currently, VTR is also focusing intently on the topics of digitalisation and automation, which are growing in importance due to technological advances and the advancing fragmentation of the business. For example, a customer and acquisition platform was developed to provide numerous functions and services in the fields of new customer acquisition, 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 failure to pay on the part of the counterparty and the associated 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 2019 despite the difficult economic conditions. Customer payment discipline remained unchanged compared with the prior year. Adherence to credit limits is checked by means of ongoing reporting.

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. A new crisis centre was established in 2019; the lease for the old site expired as scheduled at the end of the year. The mobilisation and functionality of the crisis centre is tested several times each year. 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. Regular reports are made on potential and actual loss events.

As at 10 February 2020, no risks were foreseeable for 2020, the effects of which – either individually or in interaction with other risks – could pose a threat to the continued existence of VTR.

Vienna, 10 February 2020
The Management

Mag. Dr. Stephan Sharma

Mag. Robert Slovacek

Annual financial statements

Balance sheet

ASSETS

€k

	Notes	2018	2019
A. Fixed assets			
I. Intangible assets		2,319.2	1,858.6
II. Property, plant and equipment		520.1	642.6
III. Investments	(1)	7,829.2	8,000.3
		10,668.5	**10,501.6**
B. Current assets			
I. Inventories	(2)	6,074.4	4,722.8
II. Receivables and other assets	(3)	553,380.6	548,047.7
of which due in more than one year		0.0	0.0
III. Cash at banks		356.7	1,136.8
		559,811.8	**553,907.4**
C. Prepayments and accrued income	(4)	3,028.8	**5,236.0**
D. Deferred tax assets	(5)	3,305.8	**3,482.1**
		576,814.9	**573,127.0**

EQUITY AND LIABILITIES

€k

	Notes	2018	2019
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)	157,550.9	165,225.3
IV. Net profit	(9)	0.0	0.0
		255,453.9	**263,128.3**
B. Provisions	(10)	24,906.4	**25,554.8**
C. Liabilities	(11)	295,063.0	**280,566.8**
of which due within one year		136,797.5	130,248.9
of which due in more than one year		158,265.4	150,317.9
D. Accruals and deferred income	(12)	1,391.6	**3,877.1**
		576,814.9	**573,127.0**

Income statement

€k

	Notes	2018	2019
1. Revenue	(13)	2,057,379.0	2,607,477.0
2. Other operating income	(14)	103.3	82.9
3. Operating income (subtotal of lines 1 and 2)		2,057,482.3	**2,607,560.0**
4. Expenses for electricity, gas purchases and purchases of emission rights and other purchased production services and other services		−1,959,929.5	−2,534,600.7
5. Personnel expenses	(15)	−20,164.0	−22,343.4
6. Depreciation and amortisation	(16)	−1,043.7	−794.7
7. Other operating expenses	(17)	−15,708.2	−17,604.3
8. Operating result (subtotal of lines 3 to 7)		60,636.9	**32,216.8**
9. Income from equity interests		599.8	484.7
10. Income from other securities in financial assets		134.4	215.9
11. Other interest and similar income		16,171.5	15,496.6
12. Expenses from investments		0.0	−20.9
13. Interest and similar expenses		−16,682.8	−16,173.2
14. Financial result (subtotal of lines 9 to 13)	(18)	222.9	**3.0**
15. Earnings before taxes (subtotal of lines 8 and 14)		60,859.8	**32,219.9**
16. Taxes on income	(19)	−15,031.6	−7,994.4
17. Net income for the year		45,828.2	**24,225.4**
18. Allocation to revenue reserves		−45,828.2	−7,674.4
19. Profit transferred due to a profit and loss transfer agreement		0.0	−16,551.0
20. Net profit		0.0	**0.0**

Statement of changes in fixed assets

	As at 1/1/2019	Additions	Disposals	Reclassifications	**As at 31/12/2019**
I. Intangible assets					
1. Concessions, industrial property rights, electricity purchase rights, usage fees and similar rights and benefits as well as licences derived therefrom	11,617.0	27.6	191.4	– 18.3	11,434.9
2. Prepayments	467.9	111.1	0.0	0.0	579.0
	12,084.9	138.7	191.4	– 18.3	**12,013.9**
II. Property, plant and equipment					
1. Land, land rights and buildings, including buildings on third-party land					
a. with plants and other plant facilities	0.0	42.9	0.0	0.0	42.9
2. Electrical installations	3,443.6	75.9	10.9	18.3	3,526.9
3. Other equipment, office and plant equipment	1,256.9	223.7	72.1	12.6	1,421.1
4. Effected advance payments, assets under construction and projects	12.6	0.0	0.0	– 12.6	0.0
	4,713.1	342.5	83.0	18.3	**4,990.9**
Property, plant and equipment and intangible assets	16,798.0	481.3	274.4	0.0	**17,004.9**
III. Investments					
1. Shares in affiliated companies	1,532.0	35.0	0.0	0.0	1,567.0
2. Securities (loan stock rights) classified as fixed assets	1,256.4	13.3	0.0	0.0	1,269.7
3. Other loans	5,040.8	158.1	0.0	0.0	5,198.8
	7,829.2	206.4	0.0	0.0	**8,035.5**
Fixed assets	24,627.2	687.6	274.4	0.0	**25,040.4**

€k

Accumulated depreciation, amortisation and write-downs as at 1/1/2019	Additions from depreciation and amortisation	Additions from write-downs	Disposals	Reclassifications	**Accumulated depreciation, amortisation and write-downs as at 31/12/2019**	**Net carrying amount as at 31/12/2019**
9,765.7	565.8	0.0	167.1	–9.2	10,155.3	1,279.6
0.0	0.0	0.0	0.0	0.0	0.0	579.0
9,765.7	565.8	0.0	167.1	–9.2	**10,155.3**	**1,858.6**
0.0	2.1	0.0	0.0	0.0	2.1	40.8
3,265.7	66.9	0.0	10.6	9.2	3,331.1	195.8
927.3	159.9	0.0	72.0	0.0	1,015.1	406.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0
4,193.0	228.9	0.0	82.7	9.2	**4,348.3**	**642.6**
13,958.7	794.7	0.0	249.8	0.0	**14,503.6**	**2,501.2**
0.0	0.0	0.0	0.0	0.0	0.0	1,567.0
0.0	0.0	35.2	0.0	0.0	35.2	1,234.4
0.0	0.0	0.0	0.0	0.0	0.0	5,198.8
0.0	0.0	35.2	0.0	0.0	**35.2**	**8,000.3**
13,958.7	794.7	35.2	249.8	0.0	**14,538.8**	**10,501.6**

Maturity schedule 2019

€k

	≤ 1 year	> 1 year	> 5 years	Residual term to maturity as at 31/12/2019 Total
Loans				
1. Other loans	0.0	0.0	5,198.8	5,198.8
	0.0	0.0	5,198.8	5,198.8
Receivables and other assets				
1. Trade receivables	161,250.7	0.0	0.0	161,250.7
2. Receivables from affiliated companies	354,601.3	0.0	0.0	354,601.3
3. Other receivables and assets	32,195.8	0.0	0.0	32,195.8
	548,047.7	0.0	0.0	548,047.7
Liabilities				
1. Liabilities to banks	5.3	0.0	0.0	5.3
2. Trade payables	101,474.0	0.0	0.0	101,474.0
3. Liabilities to affiliated companies	1,225.5	0.0	2,579.4	3,804.9
4. Other liabilities	27,544.2	49,834.2	97,904.2	175,282.6
	130,248.9	49,834.2	100,483.6	280,566.8

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

Notes to the annual financial statements

Notes

I. General notes

VERBUND Trading GmbH (VTR), with its registered offices in Vienna, is entered in the commercial register at the Commercial Court of Vienna under number FN 173735 v.

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 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 2019 and 2018 are based on the following assumptions:

%	2018	**2019**
Interest rate		
Pensions and similar obligations	1.75 or 2.00	0.75 or 1.00
Termination benefits	1.75	0.75
Trend		
Pension increases	1.75	2.00
Salary increases	1.75	2.75
Contributions to obligations similar to pensions – old contracts	6.00	6.00
Contributions to obligations similar to pensions – new contracts	3.75	3.75
Employee turnover	0.00 – 3.30	0.00 – 4.10
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	1.75	0.75

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 revaluation reserve for tax purposes in accordance with Section 124b(270)(a) of the Austrian Income Tax Act (Einkommensteuergesetz, 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 the generation subsidiaries of VERBUND AG and for the purchase rights of VERBUND AG. VTR purchases electricity forwards from the respective VERBUND 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 the past, in addition to hedging via electricity forwards and electricity futures, put options were purchased that are 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 "Disclosure 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 schedules".

B. Current assets

(2) I. Inventories

€k

	2018	2019
Trading goods	6,074.4	4,722.8

(3) II. Receivables and other assets

For details see separate "Maturity schedules".

Of the receivables from affiliated companies, €18,528.9k (previous year: €31,130.8k) related to trade receivables and €336,072.4k (previous year: €222,211.6k) to other receivables.

€k

Other receivables and assets	2018	2019
Security deposits electricity business	37,835.8	30,907.8
Tax authorities	680.0	728.8
Gas trading business	0.0	523.4
Related to social security	17.0	17.6
Payroll	14.3	14.5
Electricity trading activities	68,712.4	0.0
Emission rights trading	6,218.6	0.0
Other	23.2	3.7
	113,501.3	**32,195.8**

Other receivables from electricity trading in 2018 relate primarily to accruals required by the Austrian Commercial Code (UGB) for differences in amounts realised on the exchange and by VTR.

In 2018, the amounts to be accrued for option premiums in the future were presented under other receivables from electricity trading activities.

(4) C. Prepayments and accrued income

€k	2018	2019
Auctions of cross-border capacities	1,122.2	2,532.0
Prepayments for electricity purchases	1,438.3	2,092.5
Other	468.3	611.5
	3,028.8	**5,236.0**

(5) D. Deferred tax assets

€k	2018	2019
Social capital	2,289.9	2,767.3
Special tax deductions	0.0	0.0
Other	1,015.8	714.8
Deferred tax receivables (+) respectively liabilities (–) netted	3,305.8	**3,482.1**

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 mainly 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	2018	2019
Unallocated capital reserves	97,653.0	97,653.0

(8) III. Revenue reserves

€k	2018	2019
Statutory reserves	25.0	25.0
Distributable reserves	157,525.9	165,200.3
	157,550.9	**165,225.3**

(9) IV. Net profit

	€k
As at 31/12/2018	0.0
Net income for the year	24,225.4
Changes in revenue reserves	–7,674.4
Profit transfer to VERBUND AG	–16,551.0
As at 31/12/2019	0.0

VTR has a profit and loss transfer agreement with VERBUND AG. A portion of net income for 2019 was allocated to other revenue reserves on the basis of tax regulations (internal financing account).

In financial year 2019, the settlement of transfer prices between VERBUND Hydro Power GmbH and VERBUND AG with retroactive effect amounting to €10,070.2k had a negative impact on results.

(10) B. Provisions

1. Provisions for termination benefits

€k	2018	2019
Premium reserve based on actuarial calculations	4,966.8	**6,200.6**
Taxed portion of provisions	4,966.8	**6,200.6**

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	2018	2019
Provisions for pension obligations	3,777.6	**4,330.7**
of which obligations similar to pensions	2,390.6	**3,010.1**

3. Other provisions

€k	2018	2019
Expected losses	7,311.5	**6,196.7**
Other services	532.0	**495.6**
Electricity/grid purchases	200.0	**200.0**
Consulting services	137.6	**161.1**
Outstanding capital expenditure invoices	544.9	**41.0**
Other	1,858.6	**2,007.9**
	10,584.7	**9,102.3**

Other personnel-related provisions (€k)	2018	2019
Bonuses	2,108.3	**2,139.3**
Unused holidays	1,234.5	**1,307.0**
Anniversary bonuses	606.9	**988.8**
Holiday allowance	761.5	**816.4**
Early retirement benefits	569.5	**333.0**
Compensatory time credit	254.6	**285.5**
Death grant	42.0	**51.1**
	5,577.3	**5,921.2**

(11) C. Liabilities

For details see separate “Maturity schedules”.

Of the liabilities to affiliated companies, €1,174.3k (previous year: €2,664.5k) related to other liabilities and €2,630.6k (previous year: €2,525.4k) to trade payables.

€k

Other liabilities	2018	**2019**
From long-term electricity supply commitments	155,755.0	147,738.4
Electricity trading activities	10,192.3	18,685.6
From short-term electricity supply commitments	7,202.8	8,018.7
From taxes	451.1	450.4
Related to social security	308.9	325.3
Emission rights trading	0.0	64.1
Gas trading business	1,420.2	0.0
Other	2.3	0.0
	175,332.7	**175,282.6**

Other liabilities from electricity trading in 2019 relate primarily to accruals required by the Austrian Commercial Code (UGB) for differences in amounts realised on the exchange and by VTR.

In 2018, the amounts to be accrued for option premiums in the future were presented under other liabilities from electricity trading activities.

(12) D. Accruals and deferred income

€k

	2018	**2019**
From electricity business	846.8	3,351.6
Revaluation reserve	544.8	525.5
	1,391.6	**3,877.1**

Impairment reversals not carried out in previous years were transferred to a revaluation reserve 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).

Notes on the income statement

(13) 1. Revenue

€k

		2018	**2019**
Revenue from electricity deliveries			
Domestic	Traders	178,511.7	342,453.6
	Resellers	1,110,590.5	1,152,518.7
		1,289,102.2	**1,494,972.3**
EU	Traders	−2,123.0	229,833.1
	Resellers	596,402.6	744,998.0
	Consumers	26,640.3	17,189.7
		620,919.9	**992,020.8**
Third countries	Traders	0.0	57.1
		0.0	**57.1**
		1,910,022.1	**2,487,050.2**
Other revenue (including emission rights and gas trading)		147,357.0	120,426.8
		2,057,379.0	**2,607,477.0**

From 2019, the accrued effects of cascading will no longer be netted under electricity revenue but shown separately in income and expenses. This change resulted in a reduction in revenue and expenses in the amount of €200,655k in the reporting period. In the previous year, this change would have resulted in an increase in revenue and expenses in the amount of €58,348k.

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	2018	2019
a) Income from the disposal of fixed assets with the exception of investments	5.2	1.1
b) Income from the reversal of provisions	3.0	23.4
c) Other	95.1	58.4
	103.3	**82.9**

(15) 5. Personnel expenses

€k	2018	2019
a) Salaries	15,294.6	15,983.5
b) Expenses for termination benefits and payments to employee pension funds		
Termination benefits	183.8	221.4
Contributions to employee pension funds	154.4	160.8
Change in the provision for termination benefits	67.2	1,150.1
Income from transfer within Group	–71.4	0.0
	334.0	**1,532.3**
c) Expenses for pensions and similar obligations		
Provisions, pension payments and similar obligations	442.7	236.5
Change in the provisions for pensions and similar obligations	355.4	483.1
Income from transfer within Group	–28.9	0.0
Change in the provisions for early retirement benefits	–100.6	–237.6
Pension fund contributions	521.9	938.3
	1,190.3	**1,420.3**
d) Expenses for social security contributions as required by law as well as income-based charges and compulsory contributions	3,176.0	3,235.4
e) Other social security expenses	169.0	172.0
	20,164.0	**22,343.4**

Interest rate fluctuations resulted in a negative effect of €2,270.4k in the financial year and in a positive effect of €513.k in 2018. The effect of the change in the adjusted mortality tables gave rise to an expense of €426.7k in the previous year. The result of the parameter changes was recognised in full in the financial year.

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

€k

	2018	2019
a) Amortisation of intangible fixed assets and depreciation of property, plant and equipment		
Depreciation and amortisation	1,016.3	776.0
Immediate write-off of low-value assets in accordance with Section 13 of the Austrian Income Tax Act (EStG)	27.3	18.7
	1,043.7	**794.7**

(17) 7. Other operating expenses

€k

	2018	2019
a) Taxes other than taxes on income	18.2	14.2
b) Other		
Expenses for information processing	4,751.2	5,073.5
Other administrative expenses	1,624.5	1,707.4
Usage fees	1,454.9	1,598.7
Legal, audit and consulting expenses	919.3	1,349.4
Operating costs for buildings, rents and leasing	1,204.6	1,308.6
Data services, telecommunications services	904.9	1,096.7
Advertising costs	376.9	976.2
Training and further education	96.2	135.5
Other	4,357.5	4,344.2
	15,690.1	**17,590.1**
	15,708.2	**17,604.3**

(18) 14. Financial result

€k

	2018	2019
Income from equity interests		
from affiliated companies	520.9	409.4
Other interest and similar income		
from affiliated companies	16,111.9	15,460.7
Expenses relating to investments		
from affiliated companies	0.0	5.0
Interest and similar expenses		
of which interest for long-term personnel provisions	135.4	166.3
from affiliated companies	493.7	593.1

(19) 16. Taxes on income

€k

	2018	2019
From the Group parent		
Taxes on income[1]	11,318.4	8,170.8
Deferred taxes	3,713.2	– 176.3
	15,031.6	**7,994.4**

[1] tax allocation rate of 25%

IV. Other disclosures

1. Total amount of other financial obligations

€k

Material items	Total commitment	2020	2020–2024
Rent, lease and insurance agreements	[1]	912.8	4,563.9
Purchase commitments	4,465.9	3,634.1	4,365.1
of which to affiliated companies	[1]	841.8	4,209.0

[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 €0.0k (previous year: €271.1k) to cover defined benefit obligations.

As at the reporting date, two (previous year: three) 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 2019:

€k

Trading	Fair values – positive	Fair values – negative	Fair values – net
Futures	25,781.1	26,595.2	–814.1
Forwards	489,181.4	488,587.3	594.1
Total before netting	**514,962.5**	**515,182.5**	**–220.0**
of which non-current	25,168.3	24,959.7	208.6

€k

Wholesale	Fair values – positive	Fair values – negative	Fair values – net
Futures	136,790.7	117,727.6	19,063.1
Forwards[1]	217,170.5	148,658.9	68,511.6
Options	0.0	0.0	0.0
Total before netting	**353,961.2**	**266,386.5**	**87,574.7**
of which non-current	48,424.1	37,921.3	10,502.8

€k

Total	Fair values – positive	Fair values – negative	Fair values – net
Futures	162,571.8	144,322.8	18,249.0
Forwards	706,351.9	637,246.2	69,105.7
Options	0.0	0.0	0.0
Total before netting	**868,923.7**	**781,569.0**	**87,354.7**
of which non-current	73,592.4	62,881.0	10,711.4
Taking netting agreements into consideration[2]	–663,825.5	–663,825.5	0.0
	205,098.2	117,743.5	87,354.7

[1] In the fair values of the positive forwards, €9,495.0k and, in the fair values of the negative forwards, €–8,948.7k 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 €614.4k for the annual trading portfolios from 2020 to 2025 are not recognised in the balance sheet. Set against the positive fair value for wholesale electricity, gas and CO_2 of €87,574.7k are hedged items (own use) not presented in the table with a negative 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. If the previously fixed sales price is lower than the reinsurance in individual electricity, gas or CO_2 transactions, a provision for onerous contracts is recognised in all areas.

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	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 €2,446.9k for the annual trading portfolios from 2019 to 2024 are not recognised in the balance sheet. Set against the negative fair value for wholesale electricity, gas and CO_2 of €–202,949.0k are 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. If the previously fixed sales price is lower than the reinsurance in individual electricity, gas or CO_2 transactions, a provision for onerous contracts is recognised in all areas.

3. Number of employees

Average	2018	2019
Salaried employees	132	133

4. Expenses for termination benefits and pensions

€k

	2018	2019
Members of the Management and other employees	1,524.3	2,952.6

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 2018 and 2019, 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 €27.3k (previous year: €25.7k). No loans or advances were paid out to members of the Company's Boards.

6. Intra-Group relationships

In accordance with Section 245 of the Austrian Commercial Code (UGB), VERBUND Trading GmbH is exempt from preparing consolidated financial statements. The parent company required to prepare consolidated financial statements is VERBUND AG, Am Hof 6a, 1010 Vienna. VERBUND AG prepares the exempting consolidated financial statements and submits them to the commercial register of the Commercial Court of Vienna under number FN 76023 z. In accordance with Section 238(1)(18) of the Austrian Commercial Code (UGB), VERBUND Trading GmbH elects not to disclose the expenses for the auditor.

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.

A profit and loss transfer agreement is in place with the subsidiary VERBUND Energy4Flex GmbH.

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, 10 February 2020
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

	Head-quarters	Capital share in % as at 31/12/2019	Most recent annual financial statements	(+) (–)	Net income/loss for the year	Equity[1]
Affiliated companies						
VERBUND Energy4Flex GmbH	Vienna	100.00	2019	–	5.0	35.0
VERBUND Trading Czech Republic s.r.o.[2]	Prague	100.00	2018	+	13.1	270.4
VERBUND Trading & Sales Deutschland GmbH	Munich	100.00	2018	+	138.8	246.8
VERBUND Trading Serbia d.o.o.[2]	Belgrade	100.00	2018	+	2.0	110.1
VERBUND Trading Romania S.R.L.[2, 3]	Bucharest	99.00	2019	+	411.6	987.1

[1] Equity as defined by Section 224(3)(a) of the Austrian Commercial Code (UGB), IFRSs or local law. // [2] Amounts were translated at the closing rate. // [3] Annual financial statements according to IFRSs

Independent auditor's report
(Translation)

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 2019, 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 2019, 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 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, 10 February 2020
Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Gerhard Marterbauer
Certified Public Accountant

Mag. Christof Wolf
Certified Public Accountant

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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.

Current assets

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

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.

EDITORIAL DETAILS

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