VERBUND Trading GmbH
Annual Report 2017

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

	2015	2016	2017
Revenue	2,065,494.5	1,740,558.7	2,026,958.5
Earnings before interest and taxes (EBIT)	76,197.7	79,790.1	101,260.5
Earnings before taxes	75,411.9	61,746.2	84,026.1
Net income for the year	59,047.2	46,410.6	63,214.7
Net profit	0.0	0.0	0.0
Total assets	241,168.7	446,750.8	502,104.2
Fixed assets	9,341.9	9,256.9	9,629.4
Capital expenditure on property, plant and equipment	149.4	168.0	139.7
Depreciation of property, plant and equipment	237.0	206.4	157.4
Equity	100,000.3	146,410.9	209,625.6
Return on sales (ROS)	3.7%	4.6%	5.0%
Return on equity (ROE)	75.4%	61.7%	57.4%
Return on investment (ROI)	25.2%	33.1%	22.7%
Equity ratio	41.5%	32.8%	41.7%
Debt repayment period	2.1	5.3	4.3
Cash flow from operating activities	74,773.0	182,233.1	–15,242.3
Working capital	86,154.9	311,041.5	371,007.2
Net debt	52,564.1	8,813.0	11,622.8
Current liabilities	129,770.1	114,493.6	114,467.3
Current assets	215,925.0	425,535.2	485,474.5
Operational headcount	122	120	125

Board members

Management

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

Supervisory Board

Dr. Johann Sereinig 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

Ulrike Mayrhofer	Chairman of the Works Council
Veronika Neugeboren	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.

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 tax regulations require an allocation 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. It 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.

In 2017, VTR-RO was entrusted with marketing the wind power generated by VERBUND AG's Romanian subsidiaries Alpha Wind S.R.L., CAS Regenerabile S.R.L. and Ventus Renew Romania S.R.L. (merged into VERBUND Wind Power Romania S.R.L. in Q4/2017) on OPCOM, the Romanian electricity exchange.

Market performance

At an average of €26.6/MWh, prices for electricity futures contracts applicable to financial year 2017 (front-year base 2017, traded in 2016) were down by 14.2% from the average level of the prior year. These reflect the expectations that further additional renewable energy capacities will be constructed and that the price level on the primary energy and carbon markets will remain low. As a result of its hedging strategy, VERBUND had already hedged the majority of its own generation in 2016 via the futures market.

In the 2017 trading year, the price trend for 2018 shows an average price of €32.38/MWh for the DE/AT market.

In the reporting period, spot market prices (base price) increased by 18.0% to €34.2/MWh. The sharp rise is mainly attributable to the cold snap occurring at the start of 2017, during which low wind yields in Germany and low temperatures across Europe drove up spot market prices in the German-Austrian electricity market to a high level. The day-ahead price in euros reached the triple digits in the second half of January 2017. Low wind supply and cold temperatures at the start of February 2017 also led to sustained firm prices. In quarters 2–3, the price on the spot market likewise remained above the prior-year level, while the price was below that of the prior year in quarter 4.

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		2016	**2017**
Purchased generation		27,102	27,777
of which hydropower		25,579	25,343
of which wind power		172	208
of which thermal power		1,351	2,227
Other Group purchases		1,115	1,276
Electricity purchased from third parties		20,552	24,011
Total amount purchased by VTR		48,769	**53,064**
Trading contracts		54,999	**81,515**
		103,768	**134,579**

At 27,777 GWh, the marketing of this generation was 2.5% higher in 2017 than in 2016. The rise is mainly attributable to thermal generation, which increased by 876 GWh. The Mellach combined cycle gas turbine power plant produced 825 GWh more electricity in quarters 1–4/2017 due to greater use of congestion management than in the previous year. Generation at the Mellach coal-fired power plant increased by 51 GWh.

Generation from hydropower decreased by 128 GWh compared with the prior-year period. At 0.99, the hydro coefficient for the run-of-river power plants was 1 percentage point below the prior-year figure and 1% below the long-term average. Generation from annual storage power plants increased by 1%, primarily because of the significant increase in generation from turbining, despite lower water inflows and water impoundment.

The generation from wind power marketed to Germany and Austria increased by 21% as a result of better wind conditions.

Electricity purchased from third parties for trading and sales increased by 17%. 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 81,515 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 53,064 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

		2016	2017
Traders		17,186	18,455
Resellers		17,756	19,353
Consumers		243	223
Group		13,584	15,033
of which retail customers		1,357	1,431
of which industrial customers		8,525	9,192
of which APG		2,033	2,065
of which own use of generation companies		1,670	2,346
		48,769	**53,064**
Trading contracts		54,999	**81,515**
		103,768	**134,579**

VTR's electricity sales volume increased by 4,296 GWh in 2017. 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 7.4% in the reporting period.

We were also able to increase sales to resellers (1,597 GWh), 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 higher quantity supplied to APG (+32 GWh) comprises deliveries to compensate for grid loss or deliveries as part of congestion management.

Supplies to cover generation for own use rose by 676 GWh. This can be attributed above all to significantly higher 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	2016	2017
Revenue	€k	1,740,558.7	2,026,958.5
Earnings before interest and taxes (EBIT)	€k	79,790.1	101,260.5
Earnings before taxes	€k	61,746.2	84,026.1
Net income for the year	€k	46,410.6	63,214.7
Net profit	€k	0.0	0.0
Return on sales (ROS)	%	4.6	5.0
Return on equity (ROE)	%	61.7	57.4
Return on investment (ROI)	%	33.1	22.7

VTR's revenue increased to €2,026,958.5k (+16.5%) in financial year 2017 as a result of the increase in short-term electricity prices, higher revenue from balancing services and higher sales.

Other operating income increased from €77.0k in the prior year to €363.4k, mainly due to the partial reversal of a provision for the tax proceedings of the former VTR joint venture in Greece and to a subsidy payment by the EU for the H2FUTURE project.

In parallel with the trend in revenue, expenses for material and other purchased services increased by 16.1% to €1,910,091.4k, primarily due to higher reinsurance as a result of the increased electricity prices.

The increase in personnel expenses (+8.4% to €17,454.6k) is mainly attributable to the transfer of VERBUND AG employees to VTR.

Other operating expenses increased by 19.4% to €14,959.4k. This is primarily the result of higher other third-party services, IT costs and legal consulting fees arising from the assumption of Group projects or from project activities that are generally more cost intensive.

VTR had an average of 125 employees in 2017 (previous year: 120 employees). Expenses for training and continuing education amounted to €115.3k in financial year 2017 (previous year: €88.2k).

VTR has a profit and loss transfer agreement with VERBUND AG. The net income for 2017 was allocated in full to other revenue reserves due to tax rules.

Net assets

	Unit	2016	2017
Fixed assets	€k	9,256.9	9,629.4
Current assets	€k	412,010.7	484,132.4
Working capital	€k	311,041.5	371,007.2
Equity	€k	146,411.0	209,625.6
Current liabilities	€k	114,493.6	114,467.3
Current assets	€k	425,535.2	485,474.5
Equity ratio	%	32.8	41.7

Fixed assets increased by 4.0% in 2017 to €9,629.4k.

Current assets rose by 17.5% to €484,132.4k, primarily as a result of an increase in other receivables from electricity trading transactions.

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

Financial position

	Unit	2016	2017
Cash flow from operating activities	€k	182,233.1	–15,242.3
Cash flow from investing activities	€k	–607.6	–1,168.7
Cash flow from financing activities	€k	–182,277.6	16,487.2
Financial result	€k	–4,203.7	29.7
Debt repayment period	years	5.3	4.3

The change in the financial result is primarily attributable to additions to the provision for court costs associated with legal and tax proceedings for the former VTR subsidiary in Greece in 2016.

The debt repayment period fell to 4.3 years.

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 change in cash flow from operating activities is mainly the result of the assumption of the electricity supply commitment described above, or from the increase in liabilities in 2016 arising in connection with it.

(2) Cash flow from investing activities

The change in cash flow from investing activities is the result of an advance payment made by VTR to purchase a customer base from the German affiliate Aquanto GmbH in Liqu., Unterföhring.

(3) Cash flow from financing activities

The change in cash flow from financing activities is the result of the Group clearing balance and the increase related to the Zemm-Ziller electricity supply agreement described above.

Cash flow statement

€k

	Notes	2016	**2017**
Net income for the year		46,410.6	63,214.7
Amortisation of intangible assets and depreciation of property, plant and equipment		1,259.3	820.1
Result from the disposal of assets		–12.9	–0.9
Change in inventories		2,534.4	543.6
Change in trade receivables and other receivables[1]		–58,875.0	–71,598.9
Change in non-current provisions		3,922.8	–941.4
Change in current provisions		–163.6	–6,027.2
Change in trade payables and other liabilities[2]		187,157.6	–1,252.3
Cash flow from operating activities	(1)	182,233.1	**–15,242.3**
Capital expenditure on intangible assets and property, plant and equipment		–520.9	–1,050.1
Disposals of intangible assets and property, plant and equipment		39.8	1.0
Capital expenditure on investments		–135.8	–130.8
Disposals of investments		9.3	11.3
Cash flow from investing activities	(2)	–607.6	**–1,168.7**
Cash inflow from the assumption of financial liabilities (excluding money market transactions)		2.7	336.6
Changes in Group clearing balances		–182,280.2	16,150.6
Cash flow from financing activities	(3)	–182,277.6	**16,487.2**
Change in cash and cash equivalents		–652.0	76.2
Cash and cash equivalents as at 1/1		928.9	276.9
Cash and cash equivalents as at 31/12		276.9	**353.1**

[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 125 employees in 2017 (previous year: 120 employees). Expenses for training and continuing education amounted to €115.3k in the financial year (previous year: €88.2k).

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. 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 to generate 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 processes.

In past years, the main innovative focus in the field of electricity trading was on the further development of the inflow forecasting and optimisation of storage management in hydropower. 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.

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 developed in house by VTR in 2017 and already introduced on the market. The range of services offered to customers through this platform will be expanded.

Our employees: motivated suppliers of ideas

In order to better leverage our employees' knowledge and ideas, we have implemented an innovative 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 also established an in-house project group specifically for the further development of optimisation and modelling tools.

Our employees also contribute their extensive knowledge to Group research projects and to joint research projects conducted with other companies, currently focusing on battery storage 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 2018 will concentrate in particular on the continued expansion of the position as one of the leading providers of innovative green electricity and flexible 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.

In light of the prevailing market conditions, such activities are subject to the still relatively low level of electricity prices, the continuing volatile price trend and mixed trends in liberalisation and also regulation (market coupling, price zones, price caps). 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, the current developments related to splitting up the joint Austria–Germany price zone and increasing 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 participates 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). VTR will continue to position itself such that it can focus on its core tasks of asset marketing and sales optimisation.

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. 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 thus 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 2018. 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 2018 will be expanding wind power marketing from both VERBUND and third-party facilities as well as selling innovative, flexible products to municipal utilities and resellers, particularly in the area of demand side management, where the goal is to create the Company's own demand response pool for providing balancing services in Germany.

With regard to its servicing of international markets in the Central, Eastern and Southeast European regions, VTR will concentrate in 2018, 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. The established business model will be evaluated in 2018.

Gas business activities in 2018 will focus on managing the Mellach CCGT plants (gas purchasing, price hedging, marketing, operational processing), which are used almost exclusively for flexible utilisation under the grid reserve agreements entered into for German grid operators and for short-term congestion management use by 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. Stagnating 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 splitting-up of the joint Germany–Austria price zone currently being discussed.

VTR is also currently focusing intently on digitalisation, a topic of growing importance due to technological advances. For example, a customer platform is being developed which will provide numerous functions and services in the fields of market access and order management as well as supplying 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 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.

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

No payment defaults were registered in 2017 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.

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 damaging events.

As at 12 February 2018, no risks were foreseeable for 2018, the effects of which – either individually or in interaction with other risks – could pose a threat to the continued existence of VTR.

Vienna, 12 February 2018
The Management

Mag. Dr. Stephan Sharma   Mag. Robert Slovacek

Annual financial statements

Balance sheet

ASSETS

€k

	Notes	2016	2017
A. Fixed assets			
I. Intangible assets		1,281.1	1,552.0
II. Property, plant and equipment		394.9	377.1
III. Investments	(1)	7,580.8	7,700.4
		9,256.9	**9,629.4**
B. Current assets			
I. Inventories	(2)	2,614.7	2,071.1
II. Receivables and other assets	(3)	409,119.1	481,708.2
of which due in more than one year		0.0	0.0
III. Cash at banks		276.9	353.1
		412,010.7	**484,132.4**
C. Prepayments and accrued income	(4)	13,494.1	**1,323.4**
D. Deferred tax assets	(5)	11,989.1	**7,018.9**
		446,750.8	**502,104.2**

EQUITY AND LIABILITIES

€k

	Notes	2016	2017
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)	48,507.9	111,722.6
IV. Net profit	(9)	0.0	0.0
		146,410.9	**209,625.6**
B. Provisions	(10)	29,591.1	**22,645.5**
C. Liabilities	(11)	263,024.0	**268,958.1**
of which due within one year		90,729.4	103,557.1
of which due in more than one year		172,294.5	165,401.0
D. Accruals and deferred income	(12)	7,724.8	**874.9**
		446,750.8	**502,104.2**

Income statement

€k

	Notes	2016	2017
1. Revenue	(13)	1,740,558.7	2,026,958.5
2. Other operating income	(14)	77.0	363.4
3. Operating income (subtotal of lines 1 and 2)		1,740,635.7	**2,027,321.9**
4. Expenses for electricity, gas purchases and purchases of emission rights and other purchased production services and other services		–1,644,785.1	–1,910,091.4
5. Personnel expenses	(15)	–16,108.0	–17,454.6
6. Depreciation and amortisation	(16)	–1,259.3	–820.1
7. Other operating expenses	(17)	–12,533.5	–14,959.4
8. Operating result (subtotal of lines 3 to 7)		65,949.9	**83,996.4**
9. Income from equity interests		203.7	485.3
10. Income from other securities in financial assets		127.3	130.8
11. Other interest and similar income		17,478.3	16,647.9
12. Expenses from investments		–3,969.1	0.0
13. Interest and similar expenses		–18,043.9	–17,234.3
14. Financial result (subtotal of lines 9 to 13)	(18)	–4,203.7	**29.7**
15. Earnings before taxes (subtotal of lines 8 and 14)		61,746.2	**84,026.1**
16. Taxes on income	(19)	–15,335.6	–20,811.4
17. Net income for the year		46,410.6	**63,214.7**
18. Allocation to revenue reserves		–46,410.6	–63,214.7
19. Net profit		0.0	**0.0**

Statement of changes in fixed assets

	As at 1/1/2017	Additions	Disposals	**As at 31/12/2017**
I. Intangible assets				
1. Concessions, industrial property rights, electricity purchase rights, usage fees and similar rights and benefits as well as licences derived therefrom	10,323.1	333.5	442.3	10,214.3
2. Prepayments	0.0	600.0	0.0	600.0
	10,323.1	933.5	442.3	**10,814.3**
II. Property, plant and equipment				
1. Electrical installations	3,350.6	10.5	8.4	3,352.7
2. Other equipment, office and plant equipment	1,080.8	129.1	81.5	1,128.5
	4,431.4	139.7	89.9	**4,481.1**
Property, plant and equipment and intangible assets	14,754.5	1,073.1	532.2	**15,295.4**
III. Investments				
1. Shares in affiliated companies	1,532.0	0.0	0.0	1,532.0
2. Securities (loan stock rights) classified as fixed assets	1,235.4	7.9	0.0	1,243.3
3. Other loans	4,813.4	130.8	19.2	4,925.0
	7,580.8	138.7	19.2	**7,700.4**
Fixed assets	22,335.3	1,211.8	551.3	**22,995.8**

€k

Accumulated depreciation, amortisation and write-downs as at 1/1/2017	Additions from depreciation and amortisation	Disposals	**Accumulated depreciation, amortisation and write-downs as at 31/12/2017**	**Net carrying amount as at 31/12/2017**
9,042.0	662.6	442.3	9,262.4	952.0
0.0	0.0	0.0	0.0	600.0
9,042.0	662.6	442.3	**9,262.4**	**1,552.0**
3,198.5	39.4	8.4	3,229.5	123.2
837.9	118.0	81.4	874.5	254.0
4,036.4	157.4	89.9	**4,104.0**	**377.1**
13,078.4	820.1	532.2	**13,366.4**	**1,929.1**
0.0	0.0	0.0	0.0	1,532.0
0.0	0.0	0.0	0.0	1,243.3
0.0	0.0	0.0	0.0	4,925.0
0.0	0.0	0.0	**0.0**	**7,700.4**
13,078.4	820.1	532.2	**13,366.4**	**9,629.4**

Maturity schedule 2017

€k

				Residual term to maturity as at 31/12/2017
	≤ 1 year	> 1 year	> 5 years	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

Maturity schedule 2016

€k

			Residual term to maturity as at 31/12/2016	
	≤ 1 year	> 1 year	> 5 years	Total
Loans				
1. Other loans	30.3	7.4	4,775.6	4,813.4
	30.3	7.4	4,775.6	4,813.4
Receivables and other assets				
1. Trade receivables	170,964.5	0.0	0.0	170,964.5
2. Receivables from affiliated companies	176,961.5	0.0	0.0	176,961.5
3. Other receivables and assets	61,193.2	0.0	0.0	61,193.2
	409,119.1	0.0	0.0	409,119.1
Liabilities				
1. Liabilities to banks	6.9	0.0	0.0	6.9
2. Trade payables	82,478.4	0.0	0.0	82,478.4
3. Liabilities to affiliated companies	438.0	0.0	2,377.8	2,815.8
4. Other liabilities	7,806.1	31,868.0	138,048.7	177,722.8
	90,729.4	31,868.0	140,426.5	263,024.0

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. Valuation 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 rate of interest.

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 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 “AVÖ 2008-P – Actuarial Assumptions for Pension Insurance – Pagler & Pagler”.

The calculations as at 31 December 2017 and 2016 have been based on the following assumptions:

%	2016	**2017**
Interest rate		
Pensions and similar obligations	1.5 or 1.75	1.5 or 1.75
Termination benefits	1.50	1.50
Trend		
Pension increases	1.75	1.75
Salary increases	1.75	1.75
Contributions to obligations similar to pensions – old contracts	6.50	6.50
Contributions to obligations similar to pensions – new contracts	4.00	4.00
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	1.50

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).

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 (underlying transaction) 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, 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 an underlying transaction 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

	2016	2017
Trading goods	2,614.7	2,071.1

(3) II. Receivables and other assets

For details see separate "Maturity schedule".

Of receivables from affiliated companies, €17,935.2k (previous year: €25,591.4k) related to trade receivables and €134,793.1k (previous year: €151,370.1k) to other receivables.

€k

Other receivables and assets	2016	2017
Electricity trading activities	52,224.8	124,392.3
Security deposits electricity business	8,066.2	32,871.8
Tax authorities	576.2	571.7
Payroll	18.7	17.6
Related to social security	26.8	11.9
Gas trading business	229.8	0.0
Other	50.8	15.2
	61,193.2	**157,880.5**

(4) C. Prepayments and accrued income

€k

	2016	2017
Prepayments for electricity purchases	13,139.5	863.1
Auctions of cross-border capacities	107.2	113.7
Other	247.4	346.6
	13,494.1	**1,323.4**

From 2017, the amounts to be accrued for option premiums in the future will be presented under other receivables from electricity trading activities. Prior-year figures have not been adjusted.

(5) D. Deferred tax assets

€k	2016	2017
Social capital	2,106.1	2,193.3
Special tax deductions	–0.1	–0.1
Other	9,883.1	4,825.7
Deferred tax receivables (+) respectively liabilities (–) netted	11,989.1	**7,018.9**

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	2016	2017
Unallocated capital reserves	97,653.0	97,653.0

(8) III. Revenue reserves

€k	2016	2017
Statutory reserves	25.0	25.0
Distributable reserves	48,482.9	111,697.6
	48,507.9	**111,722.6**

(9) IV. Net profit

	€k
As at 31/12/2016	0.0
Net income for the year	63,214.7
Changes in revenue reserves	–63,214.7
Profit transfer to VERBUND AG	0.0
As at 31/12/2017	0.0

VTR has a profit and loss transfer agreement with VERBUND AG. The net income for 2017 will be 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	2016	2017
Premium reserve based on actuarial calculations	4,726.1	4,827.8
Taxed portion of provisions	4,726.1	4,827.8

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

	2016	2017
Provisions for pension obligations	3,317.0	3,367.2
of which obligations similar to pensions	2,351.8	2,503.8

3. Other provisions

€k

	2016	2017
Anticipated losses	9,288.6	7,205.2
Other services	5,658.7	234.8
Electricity/grid purchases	200.0	200.0
Outstanding capital expenditure invoices	40.9	63.9
Consulting services	27.5	38.8
Other	1,629.9	1,715.6
	16,845.5	**9,458.3**

€k

Other personnel-related provisions	2016	2017
Bonuses	1,720.1	1,864.3
Unused holidays	932.7	1,160.9
Early retirement benefits	907.1	669.0
Holiday allowance	522.4	583.3
Anniversary bonuses	354.6	449.6
Compensatory time credit	223.9	222.8
Death grant	41.8	42.3
	4,702.5	**4,992.2**

(11) C. Liabilities

For details see separate “Maturity schedule”.

Of the liabilities to affiliated companies, €0.0k (previous year: €0.0k) related to other liabilities and €2,618.4k (previous year: €2,815.8k) to trade payables.

€k

Other liabilities	2016	2017
From long-term electricity supply commitments	169,916.7	162,957.9
From short-term electricity supply commitments	6,208.6	6,958.9
Electricity trading activities	0.0	2,895.2
From taxes	315.7	380.6
Related to social security	104.4	281.6
Emission rights trading	1,173.3	135.4
Gas trading business	0.0	35.0
Other	4.0	1.9
	177,722.8	**173,646.4**

(12) D. Accruals and deferred income

€k	2016	2017
From electricity business	7,180.0	330.1
Revaluation reserve	544.8	544.8
	7,724.8	874.9

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. Prior-year figures have not been adjusted.

Notes on the income statement

(13) 1. Revenue

€k		2016	**2017**
Revenue from electricity deliveries			
Domestic	Traders	46,378.9	89,140.5
	Resellers	818,301.3	1,042,447.5
	Consumers	792.6	36.0
		865,472.8	**1,131,624.0**
EU	Traders	442,545.0	352,531.3
	Resellers	258,282.6	374,244.9
	Consumers	20,541.5	19,616.5
		721,369.2	**746,392.7**
Third countries	Traders	8,769.5	504.4
		8,769.5	**504.4**
		1,595,611.5	**1,878,521.0**
Other revenue (including emission rights and gas trading)		144,947.3	148,437.5
		1,740,558.7	**2,026,958.5**

(14) 2. Other operating income

€k	2016	**2017**
a) Income from the disposal of fixed assets with the exception of investments	12.9	0.9
b) Income from the reversal of provisions	18.9	203.2
c) Other	45.2	159.3
	77.0	**363.4**

(15) 5. Personnel expenses

€k	2016	2017
a) Salaries	12,401.1	**13,537.0**
b) Expenses for termination benefits and payments to employee pension funds		
Termination benefits	303.2	641.2
Contributions to employee pension funds	117.8	135.5
Change in the provision for termination benefits	23.8	32.9
Expenses/income and takeovers/transfers within the Group	8.3	–476.1
	453.1	**333.5**
c) Expenses for pensions and similar obligations		
Provisions, pension payments and similar obligations	553.9	456.4
Change in the provisions for pensions and similar obligations	108.4	–3.7
Expenses/income and takeovers/transfers within the Group	16.2	–97.5
Change in the provisions for early retirement benefits	–677.9	–239.8
Pension fund contributions (including obligation to provide additional funding)	431.0	481.7
	431.6	**597.2**
d) Expenses for social security contributions as required by law as well as income-based charges and compulsory contributions	2,691.9	2,812.7
e) Other social security expenses	130.2	174.2
	16,108.0	**17,454.6**

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

€k	2016	2017
a) Amortisation of intangible fixed assets and depreciation of property, plant and equipment		
Depreciation and amortisation	1,222.1	794.8
Immediate write-off of low-value assets in accordance with Section 13 of the Austrian Income Tax Act (EStG)	37.1	25.3
	1,259.3	**820.1**

(17) 7. Other operating expenses

€k	2016	2017
a) Taxes other than taxes on income	7.3	7.5
b) Other		
IT support, electronic data processing	3,809.0	5,139.5
Other administrative expenses	1,690.0	1,609.0
Operating costs for buildings, rents and leasing	1,178.2	1,204.3
Usage fees	1,055.2	1,185.7
Data services, telecommunications services	994.0	1,004.3
Legal, audit and consulting expenses	275.4	601.4
Advertising costs	157.7	439.4
Training and further education	88.2	115.3
Other	3,278.6	3,653.1
	12,526.3	**14,951.9**
	12,533.5	**14,959.4**

(18) 14. Financial result

€k	2016	2017
Income from equity interests		
from affiliated companies	142.6	402.5
Other interest and similar income		
from affiliated companies	17,423.8	16,618.2
Expenses relating to investments		
from affiliated companies	–3,969.1	0.0
Interest and similar expenses		
of which interest for long-term personnel provisions	190.8	130.4
from affiliated companies	750.6	442.3

(19) 16. Taxes on income

€k	2016	2017
From the Group parent		
Taxes on income[1]	11,413.3	15,841.2
Deferred taxes	3,922.3	4,970.2
	15,335.6	**20,811.4**

[1] tax allocation rate of 25%

IV. Other disclosures

1. Total amount of other financial obligations

€k

Material items	Total commitment	2018	2018–2022
Rent, lease and insurance agreements	[1]	841.8	4,209.0
Purchase commitments	2,780.5	2,297.1	2,780.5
of which to affiliated companies	[1]	787.0	3,934.9

[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, insurance, 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 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: €0.0k) to cover defined benefit obligations.

As at the reporting date, 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 2017:

€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

€k

Total	Fair values – positive	Fair values – negative	Fair values[2] – 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[3]	–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] The positive fair value amounting to €2,138.5k for the 2018 to 2023 annual portfolios is not recognised in the balance sheet. Hedge accounting is applied to the negative fair value in wholesale electricity amounting to €172,620.6k alongside underlying transactions with a positive fair value of the same amount. // [3] If a framework agreement with a netting clause has been entered into with a counterparty, the positive and negative fair values of the transaction for this counterparty are netted for accounting purposes.

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	12,594.8	12,022.7	572.1
Forwards	584,728.2	582,169.8	2,558.4
Total before netting	**597,323.0**	**594,192.5**	**3,130.5**
of which non-current	64,542.2	64,512.7	29.5

€k

Wholesale	Fair values – positive	Fair values – negative	Fair values – net
Futures	113,334.3	218,583.5	–105,249.2
Forwards[1]	81,364.0	216,113.4	–134,749.4
Options	2,507.1	2,998.8	–491.7
Total before netting	**197,205.4**	**437,695.7**	**–240,490.3**
of which non-current	14,543.0	46,451.1	–31,908.1

€k

Total	Fair values – positive	Fair values – negative	Fair values[2] – net
Futures	125,929.1	230,606.2	–104,677.1
Forwards	666,092.2	798,283.2	–132,191.0
Options	2,507.1	2,998.8	–491.7
Total before netting	**794,528.4**	**1,031,888.2**	**–237,359.8**
of which non-current	79,085.2	110,963.8	–31,878.6
Taking netting agreements into consideration[3]	–671,468.2	–671,468.2	0.0
	123,060.2	360,420.0	–237,359.8

[1] In the fair values of the positive forwards, €12,588.0k and, in the fair values of the negative forwards, €–31,425.8k relates to affiliated companies. // [2] The positive fair value amounting to €3,957.8k for the 2017 to 2022 annual portfolios is not recognised in the balance sheet. Hedge accounting is applied to the negative fair value in wholesale electricity amounting to €240,868.2k alongside underlying transactions with a positive fair value of the same amount. // [3] If a framework agreement with a netting clause has been entered into with a counterparty, the positive and negative fair values of the transaction for this counterparty are netted for accounting purposes.

3. Number of employees

Average	2016	2017
Salaried employees	120	125

4. Expenses for termination benefits and pensions

€k

	2016	2017
Members of the Management and other employees	884.7	930.7

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 Management were employed during financial years 2016 and 2017, 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 €24.9k (previous year: €29.3k). 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 in Liqu., 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, 12 February 2018
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 31/12/2017	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	2016	–	134.0	6,775.0
VERBUND Trading & Sales Deutschland GmbH	€	Munich	100.00	2016	+	137.8	245.8
VERBUND Trading Serbia d.o.o.	RSD	Belgrade	100.00	2016	+	295.0	12,473.0
VERBUND Trading Romania S.R.L.	RON	Bucharest	99.00	2017	+	1,921.6	5,005.0

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

Independent auditor’s report

(complimentary translation, German original prevails)

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 2017, 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 2017, 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 assets and liabilities, financial position and profit or loss of the Company in accordance with Austrian Generally Accepted Accounting Principles and the special legislation of the 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 the application of the 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.

The scope of the audit does not include assurance on the future viability of the Company or on the efficiency or effectiveness with which the management has conducted or will conduct the affairs of the Company.

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 annual 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, 12 February 2018
Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Gerhard Marterbauer	Mag. Christof Wolf
Certified Public Accountant	**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) 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 before taxes.

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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