VERBUND Trading GmbH
Annual Report 2016

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	2014	2015	2016
Revenue[1]	1,964,554.7	2,065,494.5	1,740,558.7
Earnings before interest and taxes (EBIT)	85,816.1	76,197.7	79,790.1
Earnings before taxes	84,317.1	75,411.9	61,746.2
Net income for the year[1]	102,884.5	59,047.2	46,410.6
Net profit	0.0	0.0	0.0
Total assets[1]	302,397.4	241,168.7	446,750.8
Fixed assets	12,999.2	9,341.9	9,256.9
Capital expenditure on property, plant and equipment	83.8	149.4	168.0
Depreciation of property, plant and equipment	139.9	237.0	206.4
Equity[1]	100,000.3	100,000.3	146,410.9
Return on sales (ROS)[2]	4.4%	3.7%	4.6%
Return on equity (ROE)[3]	n/a	75.4%	61.7%
Return on investment (ROI)[2, 3]	n/a	25.2%	33.1%
Equity ratio[2]	33.1%	41.5%	32.8%
Debt repayment period	2.4	2.1	5.3
Cash flow from operating activities	–23,910.8	74,773.0	182,233.1
Working capital	79,115.5	86,154.9	311,041.5
Net debt	104,327.9	52,564.1	8,813.0
Current liabilities	189,364.5	129,770.1	114,493.6
Current assets	251,812.1	215,925.0	425,535.2
Operational headcount	120	122	120

[1] If necessary, prior-year KPIs were adjusted in accordance with the changes in presentation from the Austrian Accounting Amendment Act 2014 (Rechnungslegungs-Änderungsgesetz, RÄG 2014). // [2] Due to the insignificance of adjusted prior-year amounts, there were no changes to the KPIs. // [3] These KPIs could not be determined in a meaningful way as a result of reorganisation measures carried out in financial year 2014.

Board members

Management

Mag. Robert Slovacek	Managing Director
Mag. Werner Fleischer (until 31/12/2016)	Managing Director
Mag. Dr. Stephan Sharma (since 1/1/2017)	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
Mag. Dr. Stephan Sharma (until 5/9/2016)	VERBUND AG

Employee representatives

Dipl.-Ing. Hans Pfau (until 22/9/2016)	Chairman of the Works Council
Ulrike Mayrhofer	Deputy Chairwoman 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 and merging VERBUND International Frankreich GmbH, an affiliated company, into VTR (with retroactive effect for accounting purposes as of the reorganisation date of 31 December 2013).

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 environmental products (CO_2 and green electricity certificates/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 areas 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 2016, 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. on OPCOM, the Romanian electricity exchange.

Market performance

At an average of €31.0/MWh, prices for electricity futures contracts applicable to financial year 2016 (front-year base 2016, traded in 2015) were down by 11.8% from the prior-year level. As a result of its hedging strategy, VERBUND had already hedged the majority of its own generation in 2015 via the futures market. Spot market prices (base price) fell by 8.4% to €29.0/MWh. Spot price performance was driven above all by low demand resulting from economic factors as well as low fuel prices.

At an average of €26.6/MWh, prices for electricity futures contracts applicable to financial year 2017 (front-year base 2017) were down by 14.2% from the 2016 level.

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 balancing energy markets.

Electricity purchases

GWh

		2015	**2016**
Purchased generation		26,728	27,102
of which hydropower		24,266	25,579
of which wind power		203	172
of which thermal power		2,259	1,351
Other Group purchases		1,048	1,115
Electricity purchased from third parties		18,030	20,552
Total amount purchased by VTR		45,805	**48,769**
Trading contracts		60,107	**54,999**
		105,912	**103,768**

At 27,102 GWh, the marketing of this generation was 1.4% higher in 2016 than in 2015. The increase is mainly attributable to hydraulic generation, as the hydro coefficient for the run-of-river power plants of 1.0 was equal to the long-term average and 7 percentage points above the prior-year comparative. Generation from annual storage power plants fell 5.0% below the prior-year level due to decreased utilisation of reverse operation and despite the greater water inflows and increased lowering of water levels.

Generation from thermal power plants was reduced by 908 GWh in the reporting period. The Mellach combined cycle gas turbine power plant produced 127 GWh less electricity in 2016, as usage for congestion management was lower. Generation from VERBUND's other thermal power plants in Austria decreased by 781 GWh, primarily due to the closure of the Dürnrohr power plant effective 30 April 2015.

Electricity purchased from third parties for trading and sales increased by 14%. The necessary reinsurance also had to be adjusted due to significantly higher deliveries to France.

The standardised trading contracts had a volume of 54,999 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 with standardised trading contracts amounted to 48,769 GWh (including generation for own use and Austrian Power Grid AG (APG)). Approximately 57% of that amount was marketed domestically. VTR has three customer segments: traders in Austria and abroad, resellers (energy supply companies) and consumers.

Electricity sales

GWh		2015	2016
Traders		17,315	**17,186**
Resellers		15,828	**17,756**
Consumers		88	**243**
Group		12,575	**13,584**
of which retail customers		1,342	**1,357**
of which industrial customers		6,900	**8,525**
of which APG		2,203	**2,033**
of which own use of generation companies		2,129	**1,670**
		45,805	**48,769**
Trading contracts		60,107	**54,999**
		105,912	**103,768**

VTR's electricity sales volume increased by 2,963 GWh in 2016. Deliveries were made to trading firms above all in the context of hedging the generation volumes and marketing the additional generation on exchanges. Sales to traders fell slightly in the reporting period.

We were able to significantly increase sales to resellers (1,928 GWh), due mainly to new contracts with delivery to Austria and France.

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 (–170 GWh) comprises deliveries to compensate for grid loss or deliveries as part of congestion management.

Supplies to cover generation for own use fell by 460 GWh. This can be attributed above all to significantly lower generation from pumping.

Accounting for around 82% of the volume sold internationally, 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	2015	2016
Revenue[1]	€k	2,065,494.5	1,740,558.7
Earnings before interest and taxes (EBIT)	€k	76,197.7	79,790.1
Earnings before taxes	€k	75,411.9	61,746.2
Net income for the year	€k	59,047.2	46,410.6
Net profit	€k	0.0	0.0
Return on sales (ROS)[2]	%	3.7	4.6
Return on equity (ROE)[2]	%	75.4	61.7
Return on investment (ROI)[2]	%	25.2	33.1

[1] If necessary, prior-year figures were adjusted in accordance with the changes in presentation from the Austrian Accounting Amendment Act 2014 (RÄG 2014). // [2] Due to the insignificance of adjusted prior-year amounts, there were no changes to the KPIs.

VTR's revenue decreased to €1,740,558.7k in financial year 2016 as a result of the decline in electricity prices by 15.7%.

As a result of the reversal of the lease provision for the gas storage agreement with Rohöl-Aufsuchungs Aktiengesellschaft (RAG) in financial year 2015, other operating income fell by 58.4% to €77.0k.

In parallel with the trend in revenue, expenses for material and other purchased services decreased by 16.1% to €1,644,785.1k due to lower reinsurance as a result of the lower electricity prices.

Personnel expenses increased by 8.9% to €16,108.0k mainly as a result of adjustments to provisions for termination benefits and pensions.

Other operating expenses decreased slightly by 2.2% to €12,533.5k. This was primarily attributable to lower IT costs and other third-party services.

VTR had an average of 120 employees in 2016 (previous year: 122 employees). Expenses for training and continuing education amounted to €88.2k in financial year 2016 (previous year: €103.0k).

VTR has a profit and loss transfer agreement with VERBUND AG. The net income for 2016 will be allocated in full to revenue reserves for economic reasons (negative internal financing account).

Net assets

	Unit	2015	**2016**
Fixed assets	€k	9,341.9	9,256.9
Current assets	€k	193,441.4	412,010.7
Working capital	€k	86,154.9	311,041.5
Equity[1]	€k	100,000.3	146,410.9
Current liabilities	€k	129,770.1	114,493.6
Current assets	€k	215,925.0	425,535.2
Equity ratio[2]	%	41.5	32.8

[1] Prior-year figures were adjusted in accordance with the changes in presentation from the Austrian Accounting Amendment Act 2014 (RÄG 2014). // [2] Due to the insignificance of adjusted prior-year amounts, there was no change to the KPI.

Fixed assets fell only slightly by 0.9%.

The increase in working capital is primarily attributable to higher Group clearing balances – see note below – with VERBUND Finanzierungsservice GmbH; current assets also increased accordingly by 113.0% to €412,010.7k.

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

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 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 fictional operating agreement as contractually stipulated and receives compensation from VERBUND AG for handling this service. However, VERBUND AG retained the earnings and is therefore charged back by VTR. This applies to 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.

Financial position

	Unit	2015	2016
Cash flow from operating activities	€k	74,773.0	182,233.1
Cash flow from investing activities	€k	1,984.1	–607.6
Cash flow from financing activities	€k	–76,810.4	–182,277.6
Financial result	€k	–1,677.7	–4,203.7
Debt repayment period	years	2.1	5.3

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

The debt repayment period increased as a result of the assumption of the external liability to Uniper Kraftwerke GmbH.

Cash flow statement

(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 liability arising in connection with it.

(2) Cash flow from investing activities

The change in cash flow from investing activities is mainly the result of the termination of the gas storage agreement with RAG in 2015.

(3) Cash flow from financing activities

The change in cash flow from financing activities is the result of the Group clearing balance and retained earnings.

Cash flow statement

€k

	Notes	2015	2016
Net income for the year		59,047.2	46,410.6
Amortisation of intangible assets and depreciation of property, plant and equipment		1,537.6	1,259.3
Result from the disposal of assets		144.6	–12.9
Change in inventories		11,518.9	2,534.4
Change in trade receivables and other receivables[1]		45,999.1	–58,875.0
Change in non-current provisions		–1,701.3	3,922.8
Change in current provisions		–29,591.8	–163.6
Change in trade payables and other liabilities[2]		–12,181.2	187,157.6
Cash flow from operating activities	(1)	74,773.0	**182,233.1**
Capital expenditure on intangible assets and property, plant and equipment		–480.5	–520.9
Disposals of intangible assets and property, plant and equipment		7,009.8	39.8
Capital expenditure on investments		–4,645.0	–135.8
Disposals of investments		99.9	9.3
Cash flow from investing activities	(2)	1,984.1	**–607.6**
Cash inflow from the assumption of financial liabilities (excluding money market transactions)		19.1	2.7
Cash outflow from the repayment of financial liabilities (excluding money market transactions)		–23.3	0.0
Profit transferred		–59,047.2	0.0
Changes in Group clearing balances		–17,759.0	–182,280.2
Cash flow from financing activities	(3)	–76,810.4	**–182,277.6**
Change in cash and cash equivalents		–53.2	–652.0
Cash and cash equivalents as at 1/1		982.2	928.9
Cash and cash equivalents as at 31/12		928.9	**276.9**

[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 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 120 employees in 2016 (previous year: 122 employees). Expenses for training and continuing education amounted to €88.2k in the financial year (previous year: €103.0k).

Market situation necessitates personnel measures

In the area of personnel as well, VTR responded to developments in the energy market at a very early stage due to its proximity to the market. Moreover, our Company is involved in VERBUND's reorganisation programme.

We succeeded in compensating for all personnel losses from previous years through existing staff both thanks to our employees' flexibility and adaptations to our organisational structure and by streamlining our business activities and thus simplifying processes.

Sustainability

VERBUND is guided by the principle of sustainability in all of its fields of activity. Information relevant to sustainability is published in VERBUND's 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 forms of renewable energy on 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 offer 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.

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 allows 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 in the area of new forms of renewable energy, 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.

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.

Our employees also contribute their extensive knowledge to Group research projects and to joint research projects conducted with other companies.

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 as well as 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 2017 will concentrate in particular on the continued expansion of the portfolio of innovative green electricity and flexible products as well as energy services, marketing renewable energy (particularly wind and small-scale hydropower) and taking advantage of short-term market opportunities.

In light of the difficult market conditions currently prevailing, such activities are subject to the continued low level of electricity prices, increasingly volatile fluctuations in price and differing trends in liberalisation and also regulation (market coupling, 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 the 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 for OTC derivatives) and MiFID II (licensing requirements for banks and financial service providers for trading in financial products). VTR has implemented those regulations that have already taken effect and participates in ongoing legislative 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 towards increasingly short-term transactions and the increasing volatility of prices, trading activities are focusing even more on the spot market and particularly on short-term intraday trading as well as on the balancing reserve and congestion management market. In light of this, VTR had already increased its intraday trading staff at the beginning of 2012 and, 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), balancing energy optimisation, intraday trading and balancing reserve 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. In 2017, the focus will continue to be placed on the area of small-scale hydropower and wind power marketing. The tenders for balancing reserve products and grid services put out by APG, in which VTR participates on an ongoing basis, continue to be relevant.

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. Other key areas of focus in Germany in 2017 will be marketing wind power from both VERBUND and third-party facilities as well as selling innovative, flexible products to municipal utilities.

With regard to its servicing of international markets in the Central, Eastern and Southeast European regions, VTR will concentrate in 2017, 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 România S.A. at the end of 2016 allows for the direct marketing of green electricity certificates – mainly hindered by massive oversupply due to regulations – at prices prevailing in the market.

Gas business activities in 2017 will focus on managing the Mellach CCGT plants (gas purchasing, price hedging, marketing, operational processing), in particular for flexible utilisation under existing grid reserve agreements for German grid operators and for short-term congestion management use by Austrian grid operator APG as well as on purchasing for VERBUND's gas consumer business.

Thus, in addition to maintaining 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. All trading activities are conducted in compliance with strict monitoring and risk management guidelines. These guidelines continue to be of fundamental significance in light of the difficult 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

VTR follows the basic principle of “no customer without a credit limit”. The credit standing of all customers is reviewed using an internal scoring matrix. If a customer has an insufficient credit rating, transactions are only entered into if sufficient collateral is provided (e.g. prepayments, bank guarantees, etc.). Whenever framework agreements are concluded, particular attention is given to the wording of netting arrangement clauses as well as the procedure to be followed in the event of 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 2016 despite the difficult economic conditions. In general, no notable deterioration in payment discipline has been observed, although some differences between the individual customer groups have become apparent. Adherence to credit limits is monitored on a daily basis.

Since the start of 2014, the assessment of the credit standing of VTR’s business partners has also included an appropriate review of the integrity of the business partners which is intended to prevent 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 intended to prevent any ambiguities with regard to powers and areas of responsibility. Monthly reports are made on potential and actual damaging events.

As at 6 February 2017, no risks were foreseeable for 2017, the effects of which – either individually or in interaction with other risks – could pose a threat to the continued existence of VTR.

Vienna, 6 February 2017
The Management

Mag. Dr. Stephan Sharma | Mag. Robert Slovacek

Annual financial statements

Balance sheet

ASSETS

€k

	Notes	2015	2016
A. Fixed assets			
I. Intangible assets		1,999.1	1,281.1
II. Property, plant and equipment		433.3	394.9
III. Investments	(1)	6,909.5	7,580.8
		9,341.9	**9,256.9**
B. Current assets			
I. Inventories	(2)	5,149.0	2,614.7
II. Receivables and other assets	(3)	187,363.5	409,119.1
of which due in more than one year		0.0	0.0
III. Cash at banks		928.9	276.9
		193,441.4	**412,010.7**
C. Prepayments and accrued income	(4)	22,473.9	**13,494.1**
D. Deferred tax assets	(5)	15,911.4	**11,989.1**
		241,168.7	**446,750.8**

EQUITY AND LIABILITIES

€k

	Notes	2015	2016
A. Equity			
I. Subscribed and paid-up share capital	(6)	250.0	250.0
II. Capital reserves	(7)	97,653.0	97,653.0
III. Revenue reserves	(8)	2,097.3	48,507.9
IV. Net profit	(9)	0.0	0.0
		100,000.3	**146,410.9**
C. Provisions	(10)	25,823.0	**29,591.1**
C. Liabilities	(11)	112,365.9	**263,024.0**
of which due within one year		110,051.7	90,729.4
of which due in more than one year		2,314.2	172,294.5
D. Accruals and deferred income	(12)	2,979.5	**7,724.8**
		241,168.7	**446,750.8**

Income statement

€k

	Notes	2015	2016
1. Revenue	(13)	2,065,494.5	1,740,558.7
2. Other operating income	(14)	185.3	77.0
3. Operating income (subtotal of lines 1 and 2)		2,065,679.8	**1,740,635.7**
4. Expenses for electricity, gas purchases and purchases of emission rights and other purchased production services and other services		– 1,959,447.6	– 1,644,785.1
5. Personnel expenses	(15)	– 14,786.4	– 16,108.0
6. Depreciation and amortisation	(16)	– 1,537.6	– 1,259.3
7. Other operating expenses	(17)	– 12,818.7	– 12,533.5
8. Operating result (subtotal of lines 3 to 7)		77,089.6	**65,949.9**
9. Income from equity interests		245.8	203.7
10. Income from other securities in financial assets		93.6	127.3
11. Other interest and similar income		149.2	17,478.3
12. Income from the disposal of investments		60.8	0.0
13. Expenses from investments		– 1,441.2	– 3,969.1
14. Interest and similar expenses		– 785.8	– 18,043.9
15. Financial result (subtotal of lines 9 to 14)	(18)	– 1,677.7	**– 4,203.7**
16. Earnings before taxes (subtotal of lines 8 and 15)		75,411.9	**61,746.2**
17. Taxes on income	(19)	– 16,364.7	– 15,335.6
19. Net income for the year		59,047.2	**46,410.6**
19. Allocation to revenue reserves		0.0	– 46,410.6
20. Profit transferred due to a profit transfer agreement		– 59,047.2	0.0
21. Net profit		0.0	**0.0**

Statement of changes in fixed assets

	As at 1/1/2016	Additions	Disposals	As at 31/12/2016
I. Intangible assets				
1. Concessions, industrial property rights, electricity purchase rights, usage fees and similar rights and benefits as well as licences derived therefrom	10,005.0	361.7	43.6	10,323.1
	10,005.0	361.7	43.6	10,323.1
II. Property, plant and equipment				
1. Electrical installations	3,350.5	8.4	8.3	3,350.6
2. Other equipment, office and plant equipment	1,014.4	159.6	93.2	1,080.8
	4,364.9	168.0	101.5	4,431.4
Property, plant and equipment and intangible assets	14,369.8	529.8	145.1	14,754.5
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	1,226.9	8.5	0.0	1,235.4
3. Other loans	4,695.4	127.3	9.3	4,813.4
	7,454.4	135.8	9.3	7,580.8
Fixed assets	21,824.2	665.5	154.4	22,335.3

€k

Accumulated depreciation, amortisation and write-downs as at 1/1/2016	Additions from depreciation and amortisation	Disposals	Reversals of impairment	Accumulated depreciation, amortisation and write-downs as at 31/12/2016	**Net carrying amount as at 31/12/2016**
8,005.9	1,052.8	16.7	0.0	9,042.0	1,281.1
8,005.9	1,052.8	16.7	0.0	9,042.0	**1,281.1**
3,166.3	40.6	8.3	0.0	3,198.5	152.1
765.3	165.8	93.2	0.0	837.9	242.8
3,931.6	206.4	101.5	0.0	4,036.4	**394.9**
11,937.4	1,259.3	118.2	0.0	13,078.4	**1,676.1**
0.0	0.0	0.0	0.0	0.0	1,532.0
544.8	0.0	0.0	544.8	0.0	1,235.4
0.0	0.0	0.0	0.0	0.0	4,813.4
544.8	0.0	0.0	544.8	0.0	**7,580.8**
12,482.3	1,259.3	118.2	544.8	13,078.4	**9,256.9**

Maturity schedule 2016

€k

	≤ 1 year	> 1 year	> 5 years	Residual term to maturity as at 31/12/2016 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

Maturity schedule 2015

€k

			Residual term to maturity as at 31/12/2015	
	≤ 1 year	> 1 year	> 5 years	Total
Loans				
1. Other loans	9.7	37.4	4,648.3	4,695.4
	9.7	37.4	4,648.3	4,695.4
Receivables and other assets				
1. Trade receivables	100,655.1	0.0	0.0	100,655.1
2. Receivables from affiliated companies	28,717.1	0.0	0.0	28,717.1
3. Other receivables and assets	57,991.3	0.0	0.0	57,991.3
	187,363.5	0.0	0.0	187,363.5
Liabilities				
1. Liabilities to banks	4.2	0.0	0.0	4.2
2. Trade payables	76,582.8	0.0	0.0	76,582.8
3. Liabilities to affiliated companies	32,347.4	0.0	2,314.2	34,661.5
4. Other liabilities	1,117.3	0.0	0.0	1,117.3
	110,051.7	0.0	2,314.2	112,365.9

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 content.

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 to year or if the prior-year amounts are not comparable, the prior-year amounts are 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. In 2016, a reversal provision for tax purposes in accordance with Section 124b(270)(a) of the Austrian Income Tax Act (Einkommensteuergesetz, EStG) was recognised for the impairment reversals not carried out in past years and included in accruals and deferred income in accordance with Section 906(32) of the Austrian Commercial Code (UGB).

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 plant and 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 nominal value, 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 financial year 2004, 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 at an interest rate customary for the market.

Provisions for termination benefits are allocated at the full actuarial amount based on the projected unit credit method typically used in international accounting. 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 these 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 entitlements 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 accounting is presented after offsetting 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 2016 and 2015 have been based on the following assumptions:

		%
	2015	**2016**
Interest rate		
Pensions and similar obligations	2 or 2.5	1.5 or 1.75
Termination benefits	2.00	1.50
Trend		
Pension increases	2.25	1.75
Salary increases	2.25	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 – 4.00	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	2.00	1.50

The same interest rate is applied for 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 (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 also purchased, which 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 for 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. The 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 recognised under accruals and deferred income in accordance with Section 906(32) of the Austrian Commercial Code (UGB) (see also note (12), D. Accruals and deferred income).

Loans For details see separate "Maturity schedule".

B. Current assets

(2) I. Inventories

€k	2015	2016
Trading goods	5,149.0	2,614.7

(3) II. Receivables and other assets

For details see separate "Maturity schedule".

€25,591.4k (previous year: €27,432.7k) of receivables from affiliated companies relate to trade receivables and €151,370.1k (previous year: €1,284.4k) to other receivables.

€k

Other receivables and assets	2015	2016
Electricity trading activities	49,115.8	52,224.8
Security deposits electricity business	8,268.7	8,066.2
Tax authorities	553.8	576.2
Gas trading business	28.1	229.8
Related to social security	6.0	26.8
Payroll	18.5	18.7
Other	0.3	50.8
	57,991.3	**61,193.2**

(4) C. Prepayments and accrued income

€k	2015	2016
Prepayments for electricity purchases	22,315.4	13,139.5
Auctions of cross-border capacities	8.7	107.2
Other	149.8	247.4
	22,473.9	**13,494.1**

In accordance with the provisions of the Austrian Accounting Amendment Act 2014 (Rechnungslegungs-Änderungsgesetz, RÄG 2014) governing changes to presentation, prior-year amounts of deferred tax assets were reclassified into item D. Deferred tax assets (€15,911.4k).

(5) D. Deferred tax assets

€k	2015	2016
Social capital	2,093.4	2,106.1
Special tax deductions	–0.1	–0.1
Other	13,818.0	9,883.1
Deferred tax receivables (+) respectively liabilities (–) netted	15,911.4	**11,989.1**

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%. Deferred tax liabilities from special tax deductions result from the retroactive change to the presentation of untaxed reserves in accordance with the Austrian Accounting Amendment Act 2014 (RÄG 2014).

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-up and paid-up 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	2015	2016
Unallocated capital reserves	97,653.0	97,653.0

(8) III. Revenue reserves

€k	2015	2016
Statutory reserves	25.0	25.0
Distributable reserves	2,072.3	48,482.9
	2,097.3	**48,507.9**

In accordance with the changes in presentation from the Austrian Accounting Amendment Act 2014 (RÄG 2014), untaxed reserves amounting to €0.3k were transferred to Distributable reserves with retroactive effect.

(9) IV. Net profit

	€k
As at 31/12/2015	0.0
Net income for the year	46,410.6
Changes in revenue reserves	–46,410.6
Profit transfer to VERBUND AG	0.0
As at 31/12/2016	0.0

VTR has a profit and loss transfer agreement with VERBUND AG. The net income for 2016 will be allocated in full to revenue reserves for economic reasons (negative internal financing account).

(10) B. Provisions

1. Provisions for termination benefits

€k	2015	2016
Premium reserve based on actuarial calculations	4,610.1	**4,726.1**
Taxed portion of provisions	4,610.1	**4,726.1**

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	2015	2016
Provisions for pension obligations	3,142.6	**3,317.0**
of which obligations similar to pensions	2,150.8	**2,351.8**

3. Other provisions

€k	2015	2016
Anticipated losses	9,182.8	9,288.6
Other services	1,608.2	5,658.7
Electricity/grid purchases	200.0	200.0
Outstanding capital expenditure invoices	32.0	40.9
Consulting services	12.3	27.5
Other	1,590.1	1,629.9
	12,625.3	**16,845.5**

€k

Other personnel-related provisions	2015	2016
Bonuses	1,777.5	1,720.1
Unused holidays	971.8	932.7
Early retirement benefits	1,559.9	907.1
Holiday allowance	534.2	522.4
Anniversary bonuses	336.4	354.6
Compensatory time credit	224.1	223.9
Death grant	41.2	41.8
	5,445.0	**4,702.5**

(11) C. Liabilities

For details see separate “Maturity schedule”.

Of the liabilities to affiliated companies, €0.0k (previous year: €32,301.6k) relates to other liabilities and €2,815.8k (previous year: €2,359.9k) to trade payables.

€k

Other liabilities	2015	**2016**
From long-term electricity supply commitments	0.0	169,916.7
From short-term electricity supply commitments	0.0	6,208.6
Emission rights trading	189.8	1,173.3
From taxes	331.9	315.7
Related to social security	243.9	104.4
Payroll	0.0	0.1
Other	351.6	4.0
	1,117.3	**177,722.8**

(12) D. Accruals and deferred income

€k

	2015	2016
From electricity business	2,979.5	7,180.0
Revaluation reserve	0.0	544.8
	2,979.5	7,724.8

The 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).

Notes on the income statement

(13) 1. Revenue

€k

		2015	**2016**
Revenue from electricity deliveries			
Domestic	Traders	25,287.3	46,378.9
	Resellers	1,025,998.6	818,301.3
	Consumers	0.0	792.6
		1,051,285.9	**865,472.8**
EU	Traders	449,553.1	442,545.0
	Resellers	348,878.6	258,282.6
	Consumers	16,128.4	20,541.5
		814,560.0	**721,369.2**
Third countries	Traders	4,022.5	8,769.5
		4,022.5	**8,769.5**
		1,869,868.4	**1,595,611.5**
Other revenue (including emission rights and gas trading)		195,626.2	144,947.3
		2,065,494.5	**1,740,558.7**

In accordance with the changes in presentation from the Austrian Accounting Amendment Act 2014 (RÄG 2014), €418.5k (previous year: €874.4k) was reclassified from other operating income to other revenue.

(14) 2. Other operating income

€k	2015	2016
a) Income from the disposal of fixed assets with the exception of investments	3.0	12.9
b) Income from the reversal of provisions	147.0	18.9
c) Other	35.3	45.2
	185.3	**77.0**

In accordance with the changes in presentation from the Austrian Accounting Amendment Act 2014 (RÄG 2014), €418.5k (previous year: €874.4k) was reclassified from other operating income to other revenue.

(15) 5. Personnel expenses

€k	2015	2016
a) Salaries	12,251.9	12,401.1
b) Expenses for termination benefits and payments to employee pension funds		
Termination benefits	329.1	303.2
Contributions to employee pension funds	113.2	117.8
Change in the provision for termination benefits	–715.4	23.8
Expenses for takeovers/transfers within the Group	374.3	8.3
	101.2	**453.1**
c) Expenses for pensions and similar obligations		
Provisions, pension payments and similar obligations	472.8	553.9
Change in the provisions for pensions and similar obligations	–610.9	108.4
Expenses for takeovers/transfers within the Group	10.7	16.2
Change in the provisions for early retirement benefits	–617.6	–677.9
Pension fund contributions (including obligation to provide additional funding)	426.7	431.0
	–318.4	**431.6**
d) Expenses for social security contributions as required by law as well as income-based charges and compulsory contributions	2,624.2	2,691.9
e) Other social security expenses	127.4	130.2
	14,786.4	**16,108.0**

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

€k	2015	2016
a) Amortisation of intangible fixed assets and depreciation of property, plant and equipment		
Depreciation and amortisation	1,509.8	1,222.1
Immediate write-off of low-value assets in accordance with Section 13 of the Austrian Income Tax Act (EStG)	27.8	37.1
	1,537.6	**1,259.3**

(17) 7. Other operating expenses

€k

	2015	2016
a) Taxes other than taxes on income	6.9	7.3
b) Other		
IT support, electronic data processing	4,042.0	3,809.0
Other administrative expenses	1,573.5	1,690.0
Operating costs for buildings, rents and leasing	1,268.5	1,178.2
Usage fees	946.3	1,055.2
Data services, telecommunications services	1,016.7	994.0
Legal, audit and consulting expenses	202.7	275.4
Advertising costs	121.9	157.7
Training and further education	103.0	88.2
Other	3,537.3	3,278.6
	12,811.8	**12,526.3**
	12,818.7	**12,533.5**

(18) 15. Financial result

€k

	2015	2016
Income from equity interests		
from affiliated companies	182.3	142.6
Other interest and similar income		
from affiliated companies	95.0	17,423.8
Income from disposals of investments		
from affiliated companies	60.8	0.0
Expenses relating to investments		
from affiliated companies	–1,441.2	–3,969.1
Interest and similar expenses		
of which interest for long-term personnel provisions	218.6	190.8
from affiliated companies	552.8	750.6

(19) 17. Taxes on income

€k

	2015	2016
From the Group parent		
Taxes on income[1]	11,327.2	11,413.3
Deferred taxes	5,037.5	3,922.3
	16,364.7	**15,335.6**

[1] tax allocation rate of 25%

IV. Other disclosures

1. Total amount of other financial obligations

€k

Material items	Total commitment	2017	2017–2021
Rent, lease and insurance agreements	[1]	835.9	4,179.5
Purchase commitments	5,342.8	5,341.0	5,342.8
Of which to affiliated companies	[1]	783.6	3,918.0

[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, insurance, procurement, financial accounting, payroll and administrative services.

An agreement has been entered into with VERBUND Finanzierungsservice GmbH for the invoicing of the provision 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. As a result of the trend on the financial markets, APK Pensionskasse AG reported an obligation for additional funding in the amount of €0.0k (previous year: €80.7k) 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 2016:

€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. The negative fair value in wholesale electricity amounting to €–240,868.2k has to be seen alongside underlying transactions with a positive fair value of the same amount, which constitute a single accounting unit. // [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	4,568.7	4,109.2	459.5
Forwards	315,771.9	315,725.4	46.5
Total before netting	**320,340.6**	**319,834.6**	**505.9**
of which non-current	104,754.1	104,209.7	544.4

€k

Wholesale	Fair values – positive	Fair values – negative	Fair values – net
Futures	72,494.0	97,384.0	–24,890.0
Forwards[1]	169,962.1	99,771.1	70,191.0
Options	20,045.6	0.0	20,045.6
Total before netting	**262,501.7**	**197,155.1**	**65,346.5**
of which non-current	57,287.8	18,791.4	38,496.4

€k

Total	Fair values – positive	Fair values – negative	Fair values[2] – net
Futures	77,062.6	101,493.2	–24,430.6
Forwards	485,734.0	415,496.5	70,237.5
Options	20,045.6	0.0	20,045.6
Total before netting	**582,842.2**	**516,989.8**	**65,852.5**
of which non-current	162,041.9	123,001.1	39,040.8
Taking netting agreements into consideration[3]	–401,775.7	–401,775.7	0.0
	181,066.5	115,214.0	65,852.5

[1] In the fair values of the positive forwards, €38,615.7k and, in the fair values of the negative forwards, €–13,616.5k relates to affiliated companies. // [2] The positive fair value amounting to €363.9k for the 2016 to 2021 annual portfolios is not recognised in the balance sheet. The positive fair value in wholesale electricity amounting to €67,248.4k has to be seen alongside underlying transactions with a negative fair value of the same amount, which constitute a single accounting unit. // [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	2015	2016
Salaried employees	122	120

4. Expenses for termination benefits and pensions

€k

	2015	2016
Members of the Management and other employees	–217.2	884.7

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 2015 and 2016, 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 €29.3k (previous year: €31.5k). 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 under 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, 6 February 2017
The Management

Mag. Dr. Stephan Sharma

Mag. Robert Slovacek

Disclosures of equity interests

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

€k, CZK, RSD, RON

		Headquarters	Capital share in % as at 31/12/2016	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	2015	+	27.0	6,909.0
VERBUND Trading & Sales Deutschland GmbH	€	Munich	100.00	2015	+	142.6	250.6
VERBUND Trading Serbia d.o.o.	RSD	Belgrade	100.00	2015	+	406.0	12,178.0
VERBUND Trading Romania S.R.L.	RON	Bucharest	99.00	2016	+	1,251.5	4,300.7

[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 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 2016, 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 2016, 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.

Other Information

Management is responsible for the other information. The other information contains all information in the annual report but does not include the annual financial statements, the management report and our auditor's report thereon. The annual report is expected to be made available to us after the date of the auditor's report.

Our opinion on the annual financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Management is responsible for the preparation of the annual financial statements that give a true and fair view in accordance with Austrian Generally Accepted Accounting Principles and the special legislation of the Electricity Industry and Organisation Act (ElWOG) and for such internal control as management determines is necessary to enable 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 Responsibilities 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 give 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, 6 February 2017
Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Gerhard Marterbauer	Mag. Christof Wolf
Certified Public Accountant	**Certified Public Accountant**

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

Glossary

Glossary

Cash flow

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

EBIT

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

Equity ratio

Ratio of equity to total capital.

Net debt

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

Notional debt repayment period

Ratio of debt to surplus funds from ordinary activities.

ROE (Return on equity)

Earnings before taxes in relation to equity at the beginning of the financial year.

ROI (Return on investment)

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

ROS (Return on sales)

Earnings before interest (including personnel-related interest) and taxes in relation 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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