

VERBUND AG
Annual Report 2012

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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

	€m, %		
	2012	2011	2010
Revenue	2,667.4	3,422.2	3,041.0
Earnings before interest and taxes (EBIT)	556.9	462.3	540.7
Profit or loss on ordinary activities before taxation	415.6	282.9	376.8
Net income for the year	393.1	274.3	352.6
Net profit	208.4	191.1	191.1
Balance sheet total	5,604.3	5,596.3	5,900.1
Fixed assets	4,385.1	4,652.6	4,175.5
Capital expenditure for property, plant and equipment	8.5	6.2	3.5
Depreciation of property, plant and equipment	1.8	1.4	2.2
Equity	3,092.1	2,889.9	2,806.4
Return on sales (ROS)	20.9%	13.5%	17.8%
Return on equity (ROE)	14.4%	10.1%	20.5%
Return on investment (ROI)	10.0%	7.8%	10.7%
Return on capital employed (ROCE)	7.8%	6.2%	7.8%
Equity ratio	55.2%	51.7%	47.6%
Debt repayment period	6.1	9.7	8.1
Cash flow from operating activities	377.0	288.2	363.8
Gearing	48.0%	71.4%	56.0%
Share price high	23.0	32.5	32.1
Share price low	14.5	17.9	24.2
Closing price	18.8	20.7	27.9
(Proposed) dividend per share	0.60	0.55	0.55
Dividend yield	3.20%	2.65%	1.97%
Operational headcount	168	163	178
Group electricity sales volume (GWh) ¹	50,398	64,397	55,729

¹ Including system requirements

Board members

Executive Board

Name	Year of birth	Date of initial appointment	End of current term of office
Dipl.-Ing. Wolfgang Anzengruber CEO and Chairman of the Executive Board	1956	1/1/2009	31/12/2013
Dr. Johann Sereinig Deputy CEO and Vice-Chairman of the Executive Board	1952	1/1/1994	31/12/2013
Dr. Ulrike Baumgartner-Gabitzer Member of the Executive Board	1957	1/1/2007	31/12/2013
Dipl.-Ing. Dr. Günther Rabensteiner Member of the Executive Board	1953	1/4/2011	31/12/2013

Supervisory Board

Name	Year of birth	Date of initial appointment	End of current term of office
Dr. Gilbert Frizberg Chairman Sole member of the managing board of FI Beteiligungs- und Finanzierungs AG, CEO of Transfer Industries GmbH, managing partner of Franz Heresch & Co GmbH	1956	16/3/2000	AGM 2015
Dkfm. Peter Püspök 1 st Vice-Chairman Member of the supervisory board of Semper Constantia Privatbank (vice-chairman)	1946	16/3/2000	AGM 2015
Mag. Dr. Reinhold Süßenbacher 2 nd Vice-Chairman Member of the supervisory boards of KSV 1870 Holding AG (vice-chairman), Richter Pharma AG (vice-chairman), Bene AG (vice-chairman), Voglauer Möbelwerk Gschwandtner & Zwilling GesmbH, UMDASCH AG, LISEC Holding GesmbH (former LICON Treuhand- und Verwaltungs- GmbH) and LISEC Maschinenbau GesmbH	1949	7/4/2010	AGM 2015
Dipl.-Betriebswirt Alfred H. Heinzl Managing partner of Heinzl Holding GmbH, member of the supervisory boards of Miba AG, Allianz Elementar Versicherungs AG, Zellstoff Pöls AG (chairman), Wilfried Heinzl AG (chairman), Europapier AG (chairman), Biocel Paskov A.S. (chairman) in the Czech Republic, and Estonian Cell A.S. in Kunda/Estonia	1947	16/3/2000	AGM 2015
Mag. Harald Kaszanits Secretary-General and Head of Cabinet of the Federal Ministry of Economy, Family and Youth	1963	7/4/2010	AGM 2015

Name	Year of birth	Date of initial appointment	End of current term of office
Mag. Herbert Kaufmann Member of the supervisory board of Letisco Kosice-Airport Kosice a.s., Flughafen Friedrichshafen GmbH and Austro Control Österreichische Gesellschaft für Zivilluftfahrt mbH (until September 2012), Board of VIE (Malta) Limited and MMLC-Malta Mediterranean Link Consortium Limited	1949	26/3/2008	AGM 2015
Dipl.-Ing. Dr. Peter Layr Speaker of the managing board of EVN AG, vice-chairman of the supervisory board of Burgenland Holding AG, chairman of the supervisory boards of Rohöl-Aufsuchungs AG and RAG Beteiligungs- AG	1953	13/4/2011	AGM 2015
Dr. Gabriele Payr Chairwoman of the managing board of WIENER STADTWERKE Holding AG, Chairwoman of the supervisory boards of WIEN ENERGIE GmbH, WIEN ENERGIE Gasnetz GmbH, WIEN ENERGIE Stromnetz GmbH, Aktiengesellschaft der Wiener Lokalbahnen, B&F WIEN – Bestattung und Friedhöfe GmbH, Gemeinnützige Wohnungs- und Siedlungsgesellschaft der Wiener Stadtwerke Gesellschaft m.b.H. and, member of the supervisory board of WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group, member of the General Council of Oesterreichische Nationalbank	1959	13/4/2011	AGM 2015
Christa Wagner Managing partner of JOSKO Fenster und Türen GmbH	1960	7/4/2010	AGM 2015
Ing. Siegfried Wolf Chairman of the board of GAZ Group, Russian Machines OJSC, Glavstroy Corporation LCC, SBERBANK Europe AG (former Volksbank Int. AG), member of the supervisory boards of Österreichische Industrieholding AG, Siemens Aktiengesellschaft Österreich, STRABAG SE, GAZ Group, Banque Baring Brothers Sturdza S.A. and Continental AG	1957	16/3/2000	AGM 2015

Employee representatives

Name	Year of birth		
Anton Aichinger Chairman of the Group's employee representatives	1955	since 25/10/2006	appointed by the employee representatives
Kurt Christof Chairman of the Central Works Council, Member of the supervisory board of Sparkasse Voitsberg/Köflach Bankaktiengesellschaft	1964	since 8/3/2004	appointed by the employee representatives
Harald Novak Chairman of the Central Works Council	1952	27/9/1991 to 9/5/1993, since 15/12/2000	appointed by the employee representatives
Dipl.-Ing. Ingeborg Oberreiner Chairwoman of the Works Council, member of the supervisory board of BAV Pensionskassen AG	1951	since 29/8/2006	appointed by the employee representatives
Ing. Joachim Salamon Member of the Central Works Council	1956	since 25/10/2006	appointed by the employee representatives

Report of the Supervisory Board

VERBUND – Austria’s leading utility – was faced with difficult conditions during financial year 2012 due to the tense state of the market. However, thanks to additional restructuring and cost reduction measures and an above-average water supply, VERBUND was again able to generate satisfactory earnings while continuing to pursue its strategy of profitable and sustainable growth, despite the unfavourable market and sector climate. The Supervisory Board actively monitored and supported these positive developments. During the year under review, it did, during six plenary meetings, perform the tasks and exercise the powers that are incumbent upon it by virtue of the law and the Articles of Association. The overall attendance rate of all the members of the Supervisory Board exceeded 91%. In addition, the Chairman of the Supervisory Board maintained regular contact with the members of the Supervisory Board in regard to important matters and obtained the opinion of individual members if they were absent. As a result, every member of the Supervisory Board was always involved in material matters. The Supervisory Board was kept regularly and comprehensively informed by the Executive Board on a real-time basis, both verbally and in writing, about all relevant questions relating to the Group’s business performance as well as about the position and strategy of the Group and those of the important Group companies, as well as about the Group’s risk position and risk management activities. The Supervisory Board continuously monitored the Executive Board’s management activities based on its extensive reporting. Supervision, which took place within the scope of open and constructive discussion between the Executive Board and the Supervisory Board, did not reveal any grounds for criticism.

Significant resolutions of the Supervisory Board In addition to approving the annual financial statements and the Group budget, one of the Supervisory Board’s most important decisions involved the asset swap with E.ON, which consists of the acquisition of Bavarian hydropower plants in return for relinquishment of the Group’s equity interest in Enerjisa, the Turkish joint venture, and represents a crucial strategic course of action. Other important topics comprised the acquisition of wind power projects in Germany and adjustment of the investment portfolio through the sale of shares in STEWEAG-STEAG GmbH and Energie Klagenfurt GmbH as well as the shares in Gletscherbahnen Kaprun AG and Kärntner Restmüllverwertungs GmbH. Finally, the Supervisory Board approved capital borrowing on a number of occasions, and the furnishing of guarantees and letters of comfort.

Code of Corporate Governance, Supervisory Board Committees As a leading listed company, VERBUND committed early to complying with the Austrian Code of Corporate Governance. The Supervisory Board too sees itself as committed to the Code and in 2012 reaffirmed its commitment with respect to the current version of the Code. The Supervisory Board endeavours to consistently comply with the provisions of the Code that relate to the Supervisory Board. In this spirit, all rules relating to the Supervisory Board’s collaboration with the Executive Board and the Supervisory Board itself are complied with in full with the exception of one minor, explained deviation. Pursuant to the requirement of the Austrian Code of Corporate Governance (Rule 36), the Supervisory Board again conducted a self-evaluation during the past financial year. This took place in the context of an extensive, open discussion at a Supervisory Board meeting, which dealt above all with the efficiency of the Supervisory Board’s work and its organisation as well as the reports from the committees. Suggestions for improvements will be taken up and implemented in the current year. In addition, the Supervisory Board discussed possible conflicts of interest, including those arising from the approval of contracts with companies with respect to which individual Supervisory Board members are related parties; no conflicts of interest were determined. The Supervisory Board’s Working Committee met six times during the year under review

(above all to plan plenary meetings and to approve important projects at subsidiaries). The Audit Committee also met 6 times, dealing, above all, with the semi-annual financial statements and preparation of the approval of the annual financial statements, the appointment of the auditor and approval of the auditor's work. In addition, it occupied itself in detail with the control, audit and risk management system and with the audits performed by internal audit. In accordance with the Code of Corporate Governance and the rules of procedure, two other Supervisory Board committees – a Nomination Committee and a Remuneration Committee – were again formed in 2012. These committees executed the tasks assigned to them by way of the rules of procedure. The Remuneration Committee held one meeting to discuss target agreements and the variable remuneration for the Executive Board. The Nomination Committee met in December 2012 to prepare a public invitation to apply for the seats on the Executive Board that will become vacant at the end of the current year. Further information about the composition, the operation and the meetings of the Supervisory Board and its committees and about the remuneration of its members is contained in the corporate governance report. There were no changes to the composition of the Supervisory Board or its committees.

Annual financial statements, consolidated financial statements The annual financial statements, together with the management report, the consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRSs) and the consolidated management report for financial year 2012, were audited by Deloitte Audit Wirtschaftsprüfungs GmbH and given an unqualified auditors' report. The auditor reported on the results in writing and found that the Executive Board had provided the explanations and evidence that had been requested, that the accounts, annual financial statements and consolidated financial statements were in accordance with the legal requirements and, in conformity with the principles of proper accounting, presented fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the Company and the Group and that the management report and consolidated management report were consistent with the annual financial statements and the consolidated financial statements. Following their in-depth examination and discussion by the Audit Committee and the Supervisory Board, the Supervisory Board approved the annual financial statements for financial year 2012 presented by the Executive Board. As a result, they are final for the purposes of Section 96(4) of the Austrian Stock Corporation Act (Aktengesetz, AktG). The management report by the Executive Board was approved, as was the profit appropriation proposal. The consolidated financial statements and the consolidated management report were also acknowledged and approved by the Supervisory Board, as was the corporate governance report submitted by the Executive Board, which was audited by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.

Finally, the Supervisory Board would like to thank the Executive Board and all the employees for their high level of dedication and their successful work during financial year 2012. The Supervisory Board would also like to thank the Group's shareholders, customers and business associates for their trust.

Vienna, March 2013

Dr. Gilbert Frizberg
Chairman of the Supervisory Board

Management report

Report on business performance and economic position

General position

The European electricity sector is facing major challenges. Germany's plan to abandon nuclear power by 2022 and policies of massive subsidies for new renewable energy – above all photovoltaics and wind power – are bringing fundamental changes to Central European electricity markets and leading to considerable market distortion. Experts agree that security of supply cannot be achieved in the long term without changing the current design of the market. Even today, the decline in operating hours means that building as well as operating flexible, conventional power plants is no longer economical. However, new, flexible power plants will be needed once the last nuclear power plants are decommissioned in Germany starting in 2022. The debate on energy policy must therefore deal with the question of how the market of the future should be designed in order to ensure the profitability of new power plants as well as those already in operation.

General economic conditions

Significant slowdown in economic output

Global economic output weakened notably in 2012. The following factors are having a severe impact on the economy: the deepening of the sovereign debt crisis in the eurozone, high government debt in the USA (“fiscal cliff” averted for the time being) and slower growth in the emerging economies. In addition, decreased confidence in the financial system and uncertainty on the part of private households has put the brakes on demand.

According to the International Monetary Fund (IMF), real economic growth slowed to 1.3% in the industrial countries in 2012 after having been 1.6% just a year earlier. In the eurozone, the ongoing debt crisis led to a decline in real economic output to -0.4% after 1.4% in 2011. However, economies in the individual eurozone countries diverged increasingly in 2012. Whereas the gross domestic product in Germany and Austria expanded in real terms by 0.9% and 0.6% respectively, economic output in the heavily indebted southern European countries declined sharply.

Outlook overshadowed by uncertainty

Prospects for 2013 are uncertain, mainly due to the sovereign debt crises in Europe and the US and the ensuing public reaction. According to the IMF, real gross domestic product will increase by only 1.4% in industrial countries in 2013. The eurozone economy will shrink for the second year in a row in 2013 (-0.2% in real terms). The Austrian economy is nonetheless expected to see real growth of 1.0% in 2013 according to the Austrian Institute of Economic Research¹.

¹ Österreichisches Institut für Wirtschaftsforschung, WIFO

Energy market environment

Demand for energy softens

Energy consumption depends largely on the economic climate and weather conditions. In 2012, two opposing trends collided in Austria: on the one hand, consumption rose due to colder temperatures and the extra day in February and on the other hand, demand fell due to the declining economy.

Natural gas consumption decreased by 5.9% in 2012 (January to November). The electricity industry was the primary reason for the decrease in the use of gas. Gas power plants are under extreme economic pressure due to low wholesale prices for electricity and expensive gas supply agreements that are linked to the price of oil. Industrial gas demand was also impacted by the significant decline in industrial production. The sole factor leading to an increase in gas demand was the climate-related rise in demand for heat. Total heating degree days increased by 4.6% in 2012. This indicator is generally used as a temperature-independent indication for the use of heating energy.

Hard coal consumption decreased dramatically. Its use in electricity generation declined by 21.8% in 2012 (January to November), and the Austrian steel industry lowered crude steel production by 2%.

Consumption of mineral oil products changed only minimally compared with the previous year. The colder weather and the weak economy shaped demand for liquid and other fuels.

The use of renewable energy increased considerably in 2012, mainly due to the substantial increase in the water supply. However, new renewable energy sources such as wind, solar, biomass and geothermal power also continued their upward trend.

Electricity demand rises slightly, dependency on imports declines

According to preliminary figures from E-Control¹, electricity consumption in Austria increased by 1.0% year-on-year in 2012 (January to November). The cold periods in February and April 2012 as well as the warm summer increased electricity consumption, while the significant slowdown in the economy had the opposite effect.

Due to the good water supply, electricity generation from hydropower was up by 26.3% in Austria in 2012 (January to November). However, utilisation of thermal power plants decreased by 17.5% in this period due to market conditions. "Other generation" recorded a 14.5% rise between January and November. This figure includes electricity production from other renewable energy sources (excluding biomass, which falls into the category of thermal generation) and from plants that cannot yet be allocated for statistical purposes.

Total electricity generation increased by 9.4% in Austria in 2012 (January to November). Increasing electricity exports and declining imports reduced the dependency of the power supply on foreign imports. Austria had to import some 3% of its net demand in 2012 (January to November) after 10% in the previous year.

Trend in crude oil prices: geopolitics versus the economy

The oil market continued to be characterised by geopolitical risk in 2012, with the conflict surrounding Iran's atomic energy programme and political unrest in the Middle East in the foreground. Fears of tensions escalating and affecting the supply of oil drove up oil prices in the first and third quarters in particular. Intensification of the conflict between Syria and Turkey added to the uncertainty in the second half of the year.

In quarter 2/2012, prices softened temporarily when the situation in Iran relaxed somewhat and OPEC increased its supply. At the same time, the economic downturn acted to decrease demand for oil. These factors counteracted each other, resulting in an average price for Brent crude oil (front month) of \$111.7/bbl in 2012 compared with \$110.9/bbl a year earlier, a rise of 0.7%. In euro terms, however, the price of Brent crude oil rose by 9.0% due to the appreciation of the US dollar against the euro.

¹ Österreichische Gesellschaft für die Regulierung in der Elektrizitäts- und Erdgaswirtschaft mit beschränkter Haftung (Energie-Control GmbH)

Rise in gas prices, oversupply of power plant coal

The majority of natural gas imports in the European Union is based on long-term contracts linked to oil prices. For this reason, the trend on the oil market also impacts gas prices after a lag of several months. Moreover, short-term trading transactions are increasingly affecting the position on the gas markets. Oil has no direct effect on the pricing of such transactions. The gas trading markets with the highest liquidity in continental Europe are the Title Transfer Facility (TTF) hub in the Netherlands and the Net Connect Germany (NCG) hub. In 2012, prices on these trading markets were again significantly below those for oil price-linked contracts. This led to numerous gas buyers – including VERBUND – renegotiating their contracts with suppliers.

Prices for gas imports to Austria increased by an average of 10.9% in the first nine months of 2012. Gas prices also rose at the European NCG trading point. The NCG spot market price for natural gas was 10.5% higher in 2012 than in the previous year. In futures trading, invoiced amounts for supplier contracts for the coming year (NCG front year) were on average 2.4% higher.

Coal deliveries in the ARA area (Amsterdam, Rotterdam, Antwerp) became less expensive in 2012. Coal prices were up 17.5% on the spot market and down 10.6% on the futures market year-on-year (ARA front year; both on a euro basis). The reason is that US coal manufacturers are defecting to the export market due to heightened competition from lower-priced shale gas, which has led to an oversupply.

Political and regulatory framework conditions at a European level

Redefining energy markets

Growing challenges in Europe's energy markets led VERBUND to give careful consideration to how the energy market of the future should be designed. Market distortions and efficiency losses in the general economy have been caused by the lack of integration of new renewable energy in the market and the failure of the CO₂ market. As a result, there is no incentive for the necessary new investments in low-emission, flexible technologies.

Internal analysis and discussions have resulted in a 6-point initiative to boost the electricity market ("Energy Only Market +"). This initiative comprises the following points: reform of the CO₂ market, economic integration of renewable energy, further liberalisation of energy markets, increase in demand pricing elasticity, cross-border opening of balancing energy markets and expansion of the transmission grid.

EU internal energy market not yet finalised

In an announcement made in the autumn of 2012, the European Commission stated that substantial efforts would still be required to finalise the internal energy market by 2014, and that this would involve the Member States meeting implementation requirements on schedule. It also announced its intention to abolish price regulations, achieve more convergence in the funding of renewable energy and accelerate expansion of the grid. The Commission made it clear that independent action on the part of EU Member States – for instance in creating national capacity mechanisms – would be viewed critically and reviewed for compatibility with EU law.

Reform needed in EU emissions trading

The current system of EU emissions trading is not fulfilling its purpose. At present, the cheapest electricity is generated from carbon-intensive brown coal. Low-emission technologies are not subsidised due to sustained low prices for emission rights. For this reason, the European Commission proposed “backloading” in the summer of 2012. This involves temporarily reducing the number of rights being auctioned at the start of the third trading phase (2013-2020) by 900 million. On 14 November 2012, the Commission brought another initiative into the debate that additionally provides for long-term reforms. The initiative specifies 6 options for transforming the EU’s emissions trading system:

- increasing the EU’s CO₂ reduction target from 20% to 30% by 2020
- retiring some emission rights
- early revision of the annual linear reduction factor
- extending the scope of the EU Emission Trading Scheme (EU ETS) to other sectors
- limiting access to international credits
- discretionary price regulation mechanism

The European Commission is pushing for fundamental reform of the EU emissions trading system prior to the end of the third trading phase. Certain countries, and particularly Poland, are currently blocking the initiative. VERBUND is in favour of reinforcing the system in a manner similar to that proposed by the Commission.

Protection of European water resources

The European Commission has presented its strategy for protecting water resources (“Blueprint Water”). The strategy calls above all for better implementation of existing water protection legislation and increased integration of water policy with other relevant legal areas such as energy policy.

Energy policy in Austria

Electricity producers burdened by 2013 system usage fees

Each year, E-Control sets the amount of fees to be paid for usage of the grid system. VERBUND has submitted opinions on the directives for gas and electricity criticising the amounts charged to electricity producers. In relation to electricity, this particularly concerned the double charging of pumped storage power plants as both buyers and producers, which distorts competition compared to the rest of Europe. Criticism with regard to gas was directed at the extremely high consumption fees in Styria.

Tougher competition law

The law passed in December 2012 amending competition and cartel legislation tightens supervision of dominant companies and brings treatment of “hardcore cartels” into line with EU law. A special provision for energy supply companies is intended to prevent market abuse and encourage competition in the electricity and gas market. Pricing and other business conditions may not be unjustifiably less favourable than those of other comparable companies. Furthermore, fees are not permitted that would exceed costs “inappropriately”.

Examination of the Federal Energy Efficiency Act (Bundes-Energieeffizienz-Gesetz)

The resolution on the EU Energy Efficiency Directive in September 2012 acted to speed up work on an Austrian Federal Energy Efficiency Act. In December 2012, the Energy Efficiency Act went to committee as a part of the energy efficiency package. The draft bill calls for energy suppliers to create measures to increase energy efficiency for consumers in the future. The goal is to achieve annual savings of 0.6% of energy sales. VERBUND is in favour of the efforts to increase energy efficiency, but has spoken out against an obligation for suppliers for macroeconomic reasons. From our perspective, it would be more transparent and advantageous to set up an energy efficiency fund financed via statutory price or grid premiums. This would allow central, coordinated and cost-efficient measures to be implemented Austria-wide and would bring the greatest value from a macroeconomic perspective: customers would incur lower costs while saving energy.

Amendment to the Environmental Impact Assessment Act (Umweltverträglichkeitsprüfungsgesetz, UVP-G)

In May 2012, the National Council amended the Environmental Impact Assessment Act (UVP-G). Firstly, two new UVP-G offences for hydropower plants were added and secondly, the co-determination rights of NGOs in declaratory proceedings were strengthened. Increases in maximum water levels as efficiency-increasing measures for existing plants were excepted from the UVP-G requirement.

Third Smart Meter Regulation

The Third Smart Meter Regulation from E-Control was adopted last summer. The regulation specifies requirements for data formats and the presentation of consumption information. For supranational electricity suppliers such as VERBUND, even with the consent of the consumer it is still difficult to obtain current consumption data in suitable formats. This is necessary, however, to be able to offer customers customised products and energy services.

Federal government energy summit

The third federal government energy summit took place in April 2012. The summit resulted in the proposal of 3 measures to make Austria technically free of nuclear power. In addition to electricity suppliers voluntarily waiving their nuclear power allowances, legislation is planned which will regulate full certification of the origin of the electricity supplied to consumers in Austria. In addition, a nuclear power-free seal of approval is also planned. VERBUND has voiced criticism that these measures alone will not lead to any nuclear power plants being shut down. A total of 27 reactors are still producing atomic energy within 200 kilometres of Austria's borders. The public should not be given the impression that the planned measures will eliminate the risk at Austria's borders. Quite the contrary – nuclear power plants are still under construction or in the planning stages in the direct vicinity of Austria.

For these reasons, VERBUND is calling for effective measures for steady withdrawal from nuclear energy in Europe:

- Europe-wide plan for withdrawal from nuclear energy
- increased monitoring and control of existing nuclear power plants
- disclosing the true costs of operating nuclear power plants (including all risks and final storage costs)
- no subsidies or state guarantees for the development of nuclear energy
- disclosure of all electricity imports to Austria
- Europe-wide documentation of electricity by source

Factors affecting the result

Wholesale prices for electricity

VERBUND already contracted for the majority of its own generation for 2012 on the futures market in 2011. At an average of €56.0/MWh for base load and €69.0/MWh for peak load, electricity wholesale prices were up on the previous year's level by 12.3% and 6.9% respectively. This positive trend can still be attributed to the price-increasing impact of the decision by Germany to withdraw from atomic energy generation by 2022. By contrast, the average spot market prices for 2012 declined, primarily due to increased feed-in of new renewable energy, the decrease in electricity demand due to economic factors and lower prices for emission rights. The base load price decreased by 16.7% to €42.6/MWh and the peak load price by 12.6% to €53.4/MWh.

Water supply performance

Water supply is of particular significance to VERBUND since more than four-fifths of electricity is produced using hydropower. The water supply is measured by means of a hydro coefficient. The value of 1.00 stands for the long-term average. 2012 was a particularly good year for water. At 1.11, the hydro coefficient for run-of-river and pondage power plants was 11% above the long-term average and 22 percentage points above the previous year's level. The hydro coefficients for the individual quarters were as follows: quarter 1/2012: 1.19; quarter 2: 1.03; quarter 3: 1.04; quarter 4: 1.26.

Electricity generation

Group electricity supply

	GWh		
	2012	2011	Change
Hydropower ¹	30,485	24,216	25.9%
Wind power and solar power	242	127	90.9%
Thermal power ¹	4,500	5,410	-16.8%
Own generation	35,228	29,753	18.4%
Electricity purchased from third parties ²	12,029	16,586	-27.5%
Electricity purchased for grid loss and control energy volumes ²	3,142	2,883	9.0%
Group electricity supply	50,398	49,222	2.4%

¹incl. purchase rights // ² Previous year's figures adjusted due to net presentation.

VERBUND's own generation increased from 5,475 GWh to 35,228 GWh in 2012. Generation from hydropower rose by 6,269 GWh. The hydro coefficient of the run-of-river power plants was 22 percentage points above the previous year's level. Generation from annual storage power plants also increased significantly (+34.2%). This can be attributed to the high storage levels at the beginning of the year and significantly higher water inflows. However, generation from thermal power plants decreased by 909 GWh. The CCGT in Mellach in Styria that went into full operation in 2012 generated 1,048 GWh in 2012 (+617 GWh). In contrast, generation from other VERBUND thermal power plants in Austria decreased (-666 GWh). The Pont-sur-Sambre and Toul CCGTs in France also generated less electricity (-860 GWh). The purchase of electricity from third parties for the trading and sales business decreased by 27.5%. The main reason for the sharp decline was increased own generation. Electricity purchased from third parties for grid losses and control energy increased by 259 GWh to 3,142 GWh.

Group electricity sales volume and own requirements

	GWh		
	2012	2011	Change
Consumers	9,568	8,421	13.6%
Resellers	20,506	20,702	-0.9%
Retailers	17,409	17,764	-2.0%
Electricity sales	47,483	46,887	1.3%
Own requirements	2,457	2,044	20.2%
Control energy volumes	459	292	57.1%
Electricity sales and own requirements	50,398	49,223	2.4%

Electricity sales volume increased by 596 GWh to 47,483 GWh in 2012. Electricity deliveries to trading firms declined by 355 GWh. Although more electricity was sold through power exchanges in 2012, hedging of own generation on the off-exchange OTC trading market was significantly reduced. Sales to consumers increased significantly (+1,147 GWh). The decrease in sales volume to domestic consumers (-402 GWh) was more than compensated by higher volumes sold to international consumers (+1,549 GWh), particularly in Germany. Sales to resellers remained nearly the same year-on-year. The increase in own use (+413 GWh) is on the one hand due to higher utilisation of the pumped storage power plants and on the other hand due to higher losses in the transmission grid.

In 2012, more than 50% of the electricity sold by VERBUND went to the Austrian market. The focus of VERBUND's international trading and distribution activities is the German market, which accounts for 87.2% of all volumes sold abroad.

Financial performance

Revenue and result

	Unit	2012	2011
Revenue	€k	2,667,377.0	3,422,183.8
Earnings before interest and taxes (EBIT)	€k	556,875.9	462,349.5
Profit or loss on ordinary activities before taxation	€k	415,593.5	282,890.9
Net income for the year	€k	393,084.7	274,326.9
Net profit	€k	208,449.4	191,078.6
Return on equity (ROE)	%	14.4	10.1
Return on investment (ROI)	%	10.0	7.8
Return on capital employed (ROCE)	%	7.8	6.2
Return on sales (ROS)	%	20.9	13.5

Revenue increased

In order to improve the presentation of financial performance, the accounting policy for energy trading contracts in the wholesale portfolio was amended in quarter 1/2012 so that these transactions are now also presented net in the income statement under revenue. The change in accounting policy was carried out retrospectively effective 1 January 2011 by adjusting the comparative figures presented here.

Adjusting the previous year for the netting amount in electricity trading carried out in 2012 of €837,652.3k results in an increase of 3.2%.

Electricity revenue with energy supply companies fell by 0.7% to €1,397,990.1k. Despite lower sales volumes, electricity revenue with traders increased overall by 14.5% to €1,087,313.2k due to higher closing prices.

Electricity revenue generated in foreign countries, primarily Germany and France, came to 45.0% (previous year: 45.1%).

Electricity sales volume rose within the Group by 1,176 GWh or 2.4% compared to the previous year. The forward contracts that are not recognised in sales went up by 10.9% to 162,819 GWh.

Other operating income increased

Other operating income rose by 3.9% to €38,050.6k. For the most part, this is the result of higher income from billing of services to Group companies.

Expenses for the purchase of electricity increased

In order to improve the presentation of financial performance, the accounting policy for energy trading contracts in the wholesale portfolio was amended in quarter 1/2012 so that these transactions are now also presented net in the income statement under revenue. The change in accounting policy was carried out retrospectively effective 1 January 2011 by adjusting the comparative figures presented here.

Expenses for the purchase of electricity increased by 2.1% to €2,265,097.1k. Expenses for electricity and grid purchases as well as the purchase of emission rights (trading) increased by 1.0% to €2,258,591.5k, the main influencing factor being higher volumes in comparison to the previous year at market prices which remained almost the same.

Personnel expenses

Current personnel expenses increased by €1,654.7k to €25,283.0k. The 4.0% increase in salaries and ancillary expenses under the collective agreement and the biennial pay rises under to the collective agreement contributed to the increase in personnel expenses, as did the higher number of employees. Expenses for employee benefits relating to pension and severance payments increased by €4,308.8k. This increase resulted on the one hand from non-recurring effects in 2012 such as the abolishment of the corridor method, the interest rate reduction from 4.75% to 4% for pensions and severance payments, as well as the increase in pension benefits and the higher basis of calculation for severance payments. Reclassification of interest on provisions for employee benefits relating to pension and severance payments to the financial result helped lower expenses. Overall, the operational headcount increased by 5 to 168.

Other operating expenses

Other operating expenses rose by €19,876.0k to €84,997.8k. This increase is mainly attributable to higher costs of strategic further development of the investment portfolio.

Profit or loss on ordinary activities before taxation

As a result of the factors and developments described above, as well as the increase of the financial result (€+100,867.7k), profit or loss on ordinary activities before taxation increased by 46.9% from €282,890.9k to €415,593.5k.

Financial position

Financial position

	Unit	2012	2011
Fixed assets	€k	4,385,119.9	4,652,602.4
Current assets	€k	1,115,648.4	844,042.9
Working capital	€k	900,939.9	1,072,557.5
Net debt	€k	1,484,151.0	2,525,314.4
Equity	€k	3,092,084.2	2,889,867.3
Current liabilities	€k	291,820.7	402,502.4
Current assets	€k	1,192,760.6	1,475,059.9
Equity ratio	%	55.2	51.7

Fixed assets

Intangible assets and property, plant and equipment (€+7,226.0k) increased by €10,935.3k, of which €820.4k was attributable to electricity purchase rights, €1,449.4k to capital expenditure relating to the operation of a gas storage facility, €1,648.8k to software, €2,111.2k to office adaptations and €3,055.6k to office and plant equipment; amortisation and depreciation charges amounted to €2,548.1k and disposals to €711.2k.

Investments relating to investees decreased by €80,165.5k, primarily due to the sale of shares in VERBUND Thermal Power GmbH & Co KG (€-2,980.2k) and the sale of shares in Energie Klagenfurt GmbH (€-80,000.0k); in contrast the equity interest in VERBUND Beteiligungsholding GmbH increased (€+28,867.7k) as a result of capital injections, and amortisation of equity interests amounted to €26,005.8k.

Other investments declined in total by €194,992.2k. Loans were granted in the amount of €423,424.7k, while €618,806.9k of loans were repaid. Securities rose in total by €389.2k.

Current assets

The increase in current assets by €271,605.5k to €1,115,648.4k is primarily the result of an increase in receivables from VERBUND Finanzierungsservice GmbH in the amount of €289,302.0k for cash management. Receivables from VERBUND Hydro Power AG (primarily from group taxation) declined by €113,662.5k. Other receivables increased primarily due to an outstanding instalment from the sale of an equity interest in the amount of €40,000.0k. Other receivables from electricity trading business, energy exchanges, emission rights trading and security deposits for energy exchanges increased by €44,733.2k.

Equity

Due to the results for the year, which have to be seen alongside the capital increase for financial year 2011, equity increased by €202,216.9k to €3,092,084.2k. The equity ratio rose as a result from 51.7% to 55.2%.

Liabilities

Non-current and current liabilities fell by €225,313.8k to €2,394,459.6k. Foreign exchange fluctuations for bonds decreased financial liabilities by €18,117.3k, of which €7,228.9k was attributable to repayments. In 2012, the net movement in borrowing from and repayments to banks was €-246,112.7k. Trade payables rose by €6,706.9k to €125,247.8k. Liabilities to affiliated companies rose slightly by €11,445.7k to €1,440,922.7k.

Cash flows

Financial strategy

In 2012, the international capital markets were shaped by the following developments in Europe: the sovereign debt crisis, debate on the future of the eurozone and the slowdown in the economy. The utilities sector was additionally affected by the rapid expansion of new renewable energy, overcapacities and a lack of profitability of gas power plants. VERBUND has employed a conservative financial strategy in order to meet these challenges. It is aimed at defending the Group's good rating in an ever-deteriorating ratings environment, securing the Group's liquidity and improving the capital structure. The following key points are focused upon:

- **Needs-based, central Group financing of subsidiaries**

Medium- and long-term financing of VERBUND transactions is carried out by VERBUND International Finance GmbH. Central Group financing ensures that Group risk is managed and monitored and reinforces the negotiating position of VERBUND vis-à-vis investors, financial institutions and other business partners. Market and risk impacts are passed on to subsidiaries. As the financing hub of the Group, VERBUND International Finance GmbH – with a guarantee from VERBUND AG, which has been rated – borrows capital externally or internally from companies having surplus liquidity. It finances the subsidiaries on a needs basis using a market-based transfer pricing system. VERBUND Finanzierungsservice GmbH oversees the short-term settlement of funds within the Group. VERBUND AG processes liability clauses centrally and monitors compliance with them.

- **Securing appropriate liquidity reserves**

Ensuring liquidity is of the utmost importance in times of volatile, difficult-to-predict developments on the capital markets. For this purpose, VERBUND maintains sufficient cash and cash equivalents at all times (maturities of < 3 months). In addition, liquidity is secured on a long-term basis via secured and unsecured lines of credit.

- **Ensuring an excellent credit standing**

A key pillar of the VERBUND strategy is maintaining a strong credit rating in the single-A category. To achieve this, strategy and budgeting are discussed and coordinated on an ongoing basis with both the Moody's Investors Services and Standard & Poor's rating agencies. Great importance is placed on strict compliance with the key ratios specified by those agencies, particularly FFO/net debt and RCF/total debt.

- **Ensuring extensive financial flexibility**

Securing a single-A rating enables broad access to sources of financing. VERBUND's objective is to gain a group of investors that is as wide-ranging as possible based on its high internal financing power and supported by its strong rating. The Group's financing portfolio comprises a balanced mix of bonds, loans, private placements, promissory notes, export credit financing and project financing.

- **Optimising the risk structure on the basis of specified limits and ratios**

VERBUND's financial strategy is based on a conservative risk strategy involving defined value-at-risk (VaR) and limit systems, with compliance being reviewed on an ongoing basis by the Group's risk management. Risk management of the borrowing portfolio is based primarily on the following key figures: duration, term to maturity, effective interest rate, currency limits, interest rate variation and VaR.

Lines of credit

Ensuring liquidity has the highest priority. As at 31 December 2012, VERBUND had a syndicated credit line in the amount of €750.0m at its disposal to secure liquidity; this had not been drawn upon. The credit facility was established in quarter 4/2011 with a number of national and international banks. It matures in 2017 (with a renewal option) and can be drawn upon at any time. In addition, VERBUND maintained uncommitted lines of credit amounting to €755.0m as at 31 December 2012, primarily with domestic banks.

Credit rating

The better the credit rating of a company is, the easier it is to access international markets. This opens up more possibilities for obtaining financing, and borrowing is less expensive. Following the crisis on the financial markets and the sovereign debt crisis, corporate risk premiums have been increasingly differentiated according to a company's rating category. Ensuring VERBUND's rating over the long term is thus of great significance. In December 2012, VERBUND announced its withdrawal from Turkey and the simultaneous acquisition of shares in German hydropower plants. The two ratings agencies – Standard & Poor's and Moody's – updated their ratings directly thereafter. Standard & Poor's confirmed its rating of A-/stable outlook for VERBUND AG, as did Moody's with its A2/negative outlook. In a sector

dominated by rating downgrades, the rating is therefore better than the average for European utility shares.

Financial key figures

	Unit	2012	2011
Cash flow from operating activities	€k	377,031.6	288,217.0
Cash flow from investing activities	€k	238,650.4	-47,702.8
Cash flow from financing activities	€k	-612,514.1	-236,421.5
Financial result	€k	231,103.8	130,236.1
Gearing	%	48.0	71.4
Debt repayment period	years	6.1	9.7

The financial result in the previous year increased by €100,867.7k to €231,103.8k mainly as a result of a decline in assumptions of losses of €98,771.7k, while income from equity interests was lower by €27,765.5k. In addition, interest expenses declined by €33,886.7k despite initial recognition of interest from employee benefits relating to pension and severance payments of €1,639.8k, while interest income increased concurrently by €7,698.9k (of which €10,888.3k is attributable to foreign exchange gains from the measurement of liabilities denominated in foreign currencies). Income from loans fell by €4,238.5k due to the reduction in loans. In the investment area, earnings fell €7,571.7k in comparison to the previous year due to sales and impairments.

A decline in interest-bearing net debt by €582,195.9k and the increase in adjusted equity by €202,058.7k resulted in a reduction of gearing by 23.5 percentage points to 48.0%. The debt repayment period decreased from 9.7 to 6.1 years due to an increase of €88,814.6k in the surplus funds from ordinary activities and simultaneous debt reduction of €197,236.5k.

The composition of cash in hand and cash at banks (fund of cash and cash equivalents) is presented under note (5).

Cash flow statement

(1) Cash flow from operating activities

Cash flow from operating activities was determined using the indirect method and amounted to €377,031.6k (previous year: €288,217.0k).

Inventories increased as a result of an increase in the gas supply in the amount of €1,049.7k and the stock of emission rights in the amount of €1,407.0k.

The change in trade receivables and other receivables is primarily attributable to the increase in trade receivables of €6,697.7k, the increase in other receivables from affiliated companies of €7,688.7k, the increase in provisions of collateral for trading of electricity derivatives in the amount of €44,733.2k, as well as the use of €11,887.2k in deferred tax assets and the increase in other accruals and deferrals including electricity payments made in advance in the amount of €15,901.4k.

The change in current provisions and tax liabilities is due to the increase in other current provisions by €3,472.0k, the increase of provisions for taxes by €24,286.0k as well as the increase in provisions for onerous contracts by €842.8k, compared to the reduction of provisions for the electricity business of €1,960.4k.

The change in trade payables and other liabilities is the result of an increase in liabilities from the electricity business in the amount of €14,448.0k and the increase of other liabilities of €11,898.6k.

(2) Cash flow from investing activities

A cash inflow of €238,650.4k (previous year: cash outflow of €47,702.8k) was reported for cash flow from investing activities, resulting primarily from the sale of equity interests in the amount of €83,027.3k with gains on disposals of €37,707.7k (whereby payment €40,000.0k of the purchase price will not be made until 2013), as well as repayments of loans amounting to €618,806.9k. These have to be seen alongside the granting of loans in the amount of €423,424.7k, the granting of shareholders contributions totalling €28,867.7k as well as the acquisition of securities in the amount of €390.0k.

Capital expenditure for intangible assets and property, plant and equipment was primarily capital expenditure relating to the operation of a gas storage facility in the amount of €1,449.4k, relating to software in the amount of €1,648.8k as well as relating to office and plant equipment totalling €3,055.6k and relating to office adaptations in the amount of €2,111.2k.

(3) Cash flow from financing activities

As part of the dividend distribution approved for 2011, €191,078.6k was paid out to shareholders. This was equivalent to a dividend of €0.55 per share.

Group clearing resulted in a cash outflow of €175,302.0k (previous year: cash inflow of €340,413.1k).

There were loan repayments of €246,086.2k and repayments to money market lenders of €26.5k.

Cash flow statement

		2012	2011
	Notes		€k
Net income for the year		393,084.7	274,326.9
Amortisation of intangible assets and depreciation of property, plant and equipment		2,548.1	2,054.4
Amortisation of financial assets		26,006.6	0.0
Result from disposal of non-current assets		-39,132.0	-19,192.8
Change in non-current provisions and deferred tax liabilities		4,604.8	405.9
Income from the reversal of contributions to building costs		-35.1	0.0
Other non-cash expenses and income		3,345.5	-2,519.8
Change in inventories		-2,399.2	-11,770.7
Change in trade receivables and other receivables		-63,388.2	58,596.4
Change in trade payables and other liabilities		26,346.6	40,385.2
Change in current provisions		26,050.0	-54,068.5
Cash flow from operating activities	(1)	377,031.6	288,217.0
Cash outflow from capital expenditure on intangible assets and property, plant and equipment		-10,344.8	-6,612.4
Cash inflow from the disposal of intangible assets and property, plant and equipment		2,135.6	351.3
Cash outflow from capital expenditure on investments		-452,682.3	-460,228.5
Cash inflow from the disposal of investments		699,541.9	418,786.6
Cash flow from investing activities	(2)	238,650.4	-47,702.8
Cash inflow (outflow) from money market transactions		-26.5	-70.4
Cash outflow from the repayment of financial liabilities (excluding money market transactions)		-246,086.2	-386,583.3
Cash inflow from contributions to building costs received and grants		12.0	865.1
Cash inflow (outflow) from increases (decreases) in Group financing		-32.7	32.7
Cash inflow (outflow) from increases (decreases) in Group clearing balances		-175,302.0	340,413.1
Dividends paid		-191,078.6	-191,078.6
Cash flow from financing activities	(3)	-612,514.1	-236,421.5
Change in cash and cash equivalents		3,168.0	4,092.7
Cash and cash equivalents as at 1/1/		4,865.0	772.3
Cash and cash equivalents as at 31/12/¹		8,032.9	4,865.0

¹ Also see note (5)

Report on research, development and the environment

Innovation, research and development

Research and development are the basis for innovation at VERBUND. Identifying the technologies of the future early on and developing them to market maturity are the core tasks of our “Centre of excellence for innovation”, which coordinates and links research throughout the Group. The individual VERBUND companies carry out this research in their areas of focus, for instance in the fields of hydropower, thermal power, new renewable energy and trading and sales.

Smart Energy – the energy system of the future

We researched the role of the customer in future energy systems in our “Energy management: new topics – friendly customer” project. Approximately 200 households took part in the related pilot project, “VERBUND Smarthome”. They experienced the real-life advantages that will result from applications such as Smart Metering. Customers with photovoltaics installations are the pioneers here: they are already taking on an active role since they impact the distribution grid. Switching and control commands as well as a visualisation of electricity production and consumption will enable numerous new services in the future. VERBUND will develop additional services such as electricity storage and load management to make the energy future for consumers more intelligent and financially more attractive.

Priority for electromobility with 100% renewable energy

Electromobility lowers energy consumption and could enable an 80% reduction in the carbon emissions of passenger cars by 2050. In Austria, the electricity used for this is gained primarily from renewable sources. VERBUND coordinates emporA, Austria’s largest research project, as well as the VIBRATE cross-border region and is preparing the “Greening European Transportation Infrastructure for Electric Vehicles” EU project. More than 30 major Austrian companies have already joined the Austrian Mobile Power platform initiated by VERBUND. After years of research and development, electromobility is now ready for implementation: in 2012, together with Siemens, VERBUND established E-Mobility Provider Austria. This company will develop an extensive network of charging stations and offer a new, all-inclusive electromobility package for companies and private consumers in the coming years. Electromobility could contribute to Austria meeting its energy and climate targets by 2020. From our perspective, however, there are clear requirements for Austria to take a pioneering role in Europe: coordinated national planning, a guaranteed ecological benefit from electricity generated exclusively from renewable energy, as well as transparent market rules.

Energy trading: strategies for a volatile climate

The current market conditions of volatile electricity prices in an environment of integrating renewable energy into the market calls for ongoing innovation and adjustments to trading strategies. VERBUND is rising to this challenge by developing the Group’s optimisation and forecasting horizon and improving the modelling of electricity price processes.

Sustainability

Sustainability is a central concern for a group such as VERBUND that obtains the majority of its electricity from hydropower. With respect to the economic, ecological and social dimensions of sustainability, we are working to continue on the road to a sustainable power supply.

Defining sustainable values

It is important to us to act sustainably at all levels of the value added chain – when we generate, transport and trade in electricity and when we sell it to consumers. We use water for electricity generation, and we are gradually expanding our wind power capacities. In our thermal power plants, we are making increasing use of low-carbon fuels. When constructing new plants, we employ state-of-the-art technology and implement environmental measures. Approximately 70% of our power plant locations have a certified environmental management system. We are continuously increasing this percentage and thus improving our environmental performance. In addition, we continue to increase the efficiency of our power plants and the transmission grid. This saves 450 GWh in electricity each year, which is equivalent to the annual requirements of more than 100,000 households. We also support our customers in utilising electricity more efficiently and participate in promising research initiatives.

In a globalised economy, sustainability is also becoming increasingly important for procurement. We underlined our commitment in this regard by implementing a centralised tender tool in 2012. Our suppliers are required to furnish evidence of the sustainability of their companies as well as their products and services, for example by showing environmental certification or proof of compliance and anti-corruption measures.

Socially balanced action

We invest in continuing education for our employees and place great value on occupational health and safety. It is important to us to be in contact with all stakeholder groups when implementing projects. We create opportunities for open discussions with neighbours and any other affected parties. Better solutions are arrived at by listening and understanding. In terms of social welfare activities, the VERBUND electricity relief fund in cooperation with the Caritas Catholic charity has already helped more than 1,000 needy households to lastingly reduce their energy costs. The VERBUND climate school of the Hohe Tauern National Park teaches young students about the interrelationship between energy and the climate. The climate school was nominated by UNESCO as the Austrian contribution to the UN's "Education for Sustainable Development" decade.

Awards for our commitment to sustainability

VERBUND's dedication to sustainability is bearing fruit. We received the following awards in the past year for our achievements in this area:

- Trend Award for VERBUND's 2011 Sustainability Report
- 1st place for "Sustainability" and "Environmental Awareness, Environmental Image" in the image rankings of Gewinn business magazine
- 2012 Carbon Disclosure Project: country, industry group and index leader in the "Reporting" category
- 2012 Austrian Supply Excellence Award: award recipient in the "e-Procurement" category
- 2012 Austrian Sustainability Reporting Award: 2nd place in the "Large Company" category

VERBUND receives award for climate protection reporting

In 2012, VERBUND received an award for its Carbon Disclosure Project. The world's largest initiative for climate reporting rated us the best Austrian company by far in the transparent presentation of emissions and climate protection measures. In addition, VERBUND is the best energy group in the D-A-CH region, the only utility among the top 36 companies in the Disclosure Leadership Index, and a leader in an ATX comparison. Once the ultramodern gas power plants have been commissioned, the specific carbon emissions of our thermal power plant portfolio will decrease. This means that our greenhouse gas emissions will stabilise at around 140 t/GWh in the medium term, and we will remain the best in our peer group.

Environmental management system and certification

Since 1995, we have been using the VERBUND environmental management system to improve the environmental performance of our sites on an ongoing basis. Our high quality standard is supported by external certification in accordance with international standards. By 2015, all generation and grid installations will be ISO 14001 certified.

At the end of 2012, approximately 70% of all power plant sites were either EMAS or ISO 14001 certified, including 92 of 125 hydropower plants. The hydropower plants in Zillertal/Tyrol and in Bavaria are currently being integrated into the environmental management system. Of the 6 thermal power plants operated in Austria and France, 3 are EMAS and ISO 14001 certified. The new Mellach/Styria CCGT will be brought into the system in 2013. Additional sites are in preparation, such as the Austrian wind power plants. Since 2008, all the grid locations and lines have complied with the following standards: ISO 9001, ISO 14001, ISO 27001, OHSAS 18001 and EMAS. Two additional administrative sites achieved ISO 14001 certification at the end of 2012/beginning of 2013. Since 1999, TÜV SÜD has been inspecting the origin of our hydropower electricity using strict criteria. The seal of approval confirms that the green electricity ordered by consumers is generated by our hydropower plants in the appropriate quality and quantities prior to being fed into the grid. This makes VERBUND a pioneer among Europe's electricity companies.

Active environmental management

The measures we take with regard to the environment represent a key pillar of our plant projects. Fishways, recultivation of hydropower plant reservoirs and sustainable grid management all act to conserve natural resources. The Reisseck II pumped storage power plant is currently being built in a high alpine region in Carinthia with the greatest possible attention to preserving flora and fauna. VERBUND has developed comprehensive ecological measures in cooperation with independent experts. For example, excavated material was piled up to form a hill and gradually covered with vegetation typical of the altitude. Lichen-covered boulders, stone rubble and deadwood was then brought in from the forest's edge. Other plans involve a fish passage at the Rottau dam, designing the Winitzgraben estuary and creating a replacement ecosystem or rehabilitating the Sachsenweg canal. Environmental awareness and resource conservation are also part of our day-to-day business, from the procurement of environmentally friendly products to green IT, lower paper consumption, recycling, new waste concepts, employee initiatives and the addition of electric vehicles to our vehicle fleet.

Human resources

In 2012, VERBUND employed an average of 3,100 people. With their dedication and knowledge, they make an essential contribution to the targets and the performance of our Group. We place value on employing highly qualified and dedicated employees to ensure our economic success on a lasting basis. Even at the recruitment stage, we use a transparent, multi-step selection process and fill open positions in accordance with the “best fit” strategy. We invest in our employees by rewarding them in line with their performance and market conditions, and we offer consistent, needs-based continuing education.

To safeguard the knowledge of the Group, we rely on knowledge management initiatives and start succession planning at an early stage. Around 85% of all executive positions are filled from within our own ranks, for example. We also rely on first-class, in-house training for the technical workers of the future. In 2012, we trained 172 apprentices, thus guaranteeing professional operation of our power plants in the future.

Well-conceived planning, efficient processes

In order to manage the wealth of tasks in the Group, a cost-conscious, consistent approach to personnel planning has to be taken. As in past years, VERBUND utilises overtime capacities sparingly. When refilling positions, this is done with the greatest possible cost-consciousness. Personnel development is pursued in a targeted manner within the available budget.

Efficient processes help us to better utilise internal human resources. Since 2012, we have been using an even more modern and easy-to-operate planning and reporting tool for personnel data. The advantage of this lies in transparent planning and a much simpler way of evaluating key figures. This allows us to give even more attention to interpreting the data and identifying and, if necessary, counteracting trends and tendencies at an early stage.

Timely succession planning is an important part of VERBUND’s personnel policy. Over the next 5 years, replacements will have to be found for approximately 15% of all positions due to retirement. Ongoing, quality-based planning on the basis of “job families” enables us to analyse our needs in detail. This allows us to approach potential employees early on to ensure that qualified replacements can be found. Our analysis has shown that technical workers will need to be replaced in particular. To make provisions for their replacement in due time, we have doubled the number of apprentices since 2006 and updated our 3 training workshops to state of the art condition. Our executives are another key target group for which we perform our succession planning on the basis of specific positions. We use an analysis of potential to ensure that the most suitable people are selected to replace executives in these key positions.

Transparency for employees and executives alike

For many years, standardisation of processes and systems has been an important factor in our endeavour to increase efficiency. In 2009, we standardised our salary systems, and since 2011 we have focussed on ensuring uniform contracts and regulations. We have set an Austrian standard for clarity and transparency in the redrafting of our executive contracts. Uniform travel regulations for the Group, which were negotiated together with the employee representatives in 2012, have replaced the historical guidelines of our subsidiaries. This represents an additional step towards more efficiency.

Fostering satisfaction in the Group

The level of satisfaction and commitment of our employees has an impact on the productivity of VERBUND. Our goal is to deal with each other in an open, respectful and responsible manner. We support communication, including in the context of the annual employee reviews, and involve our employees in the performance of the Group. In September 2011, we again conducted and evaluated a Group-wide employee survey. The next step in 2012 was to analyse the responses in detail and implement measures to additionally improve the already high work satisfaction level. How satisfied employees are with their work and what level of dedication they show is mainly dependent on how they are managed. VERBUND has been continuously developing its executive culture ever since 1996. In 2012, we revised our executive values, and we plan to use 2013 for transparent implementation and open communications.

Being successful together

The employees of VERBUND make a crucial contribution to our lasting success. To gain their loyalty to the Group so that we can take advantage of their experience over the long term, we invest in their development on an ongoing basis. We take the necessity of combining job and family seriously and have successfully implemented various practical measures in this regard, for instance flexible working hours and the option of a third year of parental leave. The Federal Ministry of Economy, Family and Youth honoured our commitment by awarding us the basic Work and Family Audit certificate in 2009. Since then, we have supplemented our numerous activities with targeted measures, such as the introduction of an Employee Assistance Programme that helps employees with family and career-related problems by offering consulting and coaching. In 2012, the audit was performed again and we were awarded the full Work and Family Audit certificate valid until 2015.

Report on branch offices

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

Report on significant risks and uncertainties

Risk and opportunity management

The general business environment for the entire energy sector is deteriorating at a marked rate. The European energy market is undergoing massive changes as a result of the energy transition. Eco-friendly gas power plants are being hit especially hard by this transition. They are not being used as planned, and must therefore be continuously tested for impairment. VERBUND is responding to this development by concentrating on renewable hydropower and wind power in the Austrian and German markets, as well as reorienting its investment portfolio.

Principles, Structures, and Processes

Risk and opportunity management at VERBUND is based upon guiding principles such as increase in value, security of supply and sustainability. As an established part of the management and control system, risk management is being refined continuously. The measurement of the Company's risk position is incorporated into strategic decisions, analysis of currently implemented projects, and the management of ongoing business.

VERBUND has Risk Management Committees (RMCs), which address topics such as business and energy management, regulatory framework, information security and data protection. Under the leadership of Group Risk Management, they analyse the risk position in the operating units and make decisions on specific risks. Since 2008, a Chief Information Security Officer (CISO) has been coordinating all information security and data protection needs within the Group. VERBUND has established a crisis management system to handle extraordinary events, which is being refined continuously. APG¹ was certified as an independent transmission system operator in 2012 and has had its own independent risk organisation since then.

¹ Austrian Power Grid AG

Opportunity and risk management is a significant part of the business processes at VERBUND. Risk management is based upon requirements for results, inventory and liquidity. In an ongoing monitoring process, VERBUND collects information on possible hazards and opportunities, models cause-effect relationships, determines deviations, and takes the necessary actions based upon this information. All significant processes within the Group are run through this control loop. Time, cost, and quality deviations risks are checked periodically and reported for each project currently in implementation.

Market price risks (wholesale prices for electricity, prices for gas, coal or certificates, interest, exchange rates, etc.) are evaluated using accepted statistical methods of measurement. The measurement of other risks, such as regulatory or operating risks, is based upon expert assessments. Ultimately, the main reference parameter for opportunity and risk management at VERBUND is the Group result. VERBUND measures and records individual risks as deviations in relation to earnings before taxes.

Current risk position of VERBUND

The business activities of VERBUND tie up significant financial resources, involve technically complex systems and operating procedures, and are part of the socio-political discussion. Property, plant and equipment purchases and corporate investments can generally be set up and/or realised only after long approval processes. The operation and maintenance of assets used over many years requires highly qualified employees.

Risks in the Economic Environment and Industry

The current economic crisis is leading to a deterioration of external risk factors, i.e. risk factors that cannot be influenced directly. These factors have their basis in politics, the economy, the energy sector, and the larger society, and reduce planning security for VERBUND. This may have negative consequences on necessary investment decisions and could affect the recoverability of the business assets of VERBUND.

The expansion of the Austrian electricity supply is occurring within the context of pan-European developments. The European growth strategy “Europe 2020” and the growth targets defined in it are providing the guidelines for this expansion. The planned agenda is being increasingly affected, however, by interventions designed to manage the financial crisis, the debt crisis and the energy transition.

In principle, VERBUND's entire value chain is subject to the risk of fluctuating market prices. The expansion of new renewable energy currently being promoted is overriding existing competitive and market mechanisms. The underpinnings established in the liberalisation of the energy market, such as the use of power plants based upon variable production costs (merit order) or the distinction between base and peak loads, have lost a great deal of their validity within a short period of time. The development of a sustainable market design is currently the topic of intensive technical discussions, in which VERBUND is actively participating.

As the leading power generation company with a dominant share of hydropower plants, VERBUND is heavily dependent upon trends in water supply, which cannot be influenced. Output from run-of-river plants can be controlled only to a very minor extent (hydropeaking). By contrast, storage power plants with specific retention periods are used by the day, month or year. The profitability of pumped storage is significantly influenced by the difference between the expense of pumping water up from the lower to the higher reservoir and income from the power generation.

Climate change is another risk. Over the long term, this may influence not only seasonal, but also fundamental water supply.

Risks caused by the legal environment

The European Energy Efficiency Directive came into force in November 2012. Under this directive, utilities are required to save 1.5% energy per year from 2014 to 2020 in sales volume to consumers. The specific measures are defined for each country in the national implementations of the directive. For VERBUND, this could result in losses of tens of millions of euros in annual sales.

The EU Emission Trading Directive was enacted to national law through the Emissions Allowance Trading Act 2011 (Emissionszertifikatengesetz 2011, EZG). Under this law, utilities will no longer receive free certificates for the third commitment period of 2013 to 2020, but must instead acquire these through auctions. Because of excess supply, the price for certificates in 2012 was well below the EU's target for a minimum threshold. Measures for stabilising prices are currently under discussion at EU level.

The EU financial market directive “Markets in Financial Instruments Directive” (MiFID II), which is currently being revised, will classify future hedging relationships for electricity trading as derivative financial instruments. Electricity trading could possibly be associated with significantly higher equity capital requirements, notification duties, and/or rights of inspection by officials of the Financial Market Authority. A task force from VERBUND is evaluating possible consequences and preparing recommendations for action.

Among its other provisions, the new regulation of the European financial market with the “European Market Infrastructure Regulation” (EMIR) stipulates that all over-the-counter standard derivatives transactions be processed through a “central counterparty” and reported in a transaction register. This will make electricity trading even more complex and increase administrative expenses.

The Austrian Electricity Industry and Organisation Act¹ addresses, among other topics, the allocation of the costs of the electricity grids between electricity generators and consumers. This forms the basis for the derivation of grid usage rates. Electricity producers have filed law suits against the allocation of costs undertaken in the past. The ruling, which is expected in 2013, may result in significant liquidity requirements for APG due to the possibility that the previous year's grid revenue will be taken into account.

¹ Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG

In the course of implementing market integration, the European Network of Transmission System Operators for Electricity (ENTSO-E) has submitted a proposal for a European grid code. This code regulates the connection of generation facilities to the distribution and transmission grid, which results in EU-wide minimum technical standards. The final, legally binding grid code will be issued by the European regulatory authority ACER. For VERBUND, this could mean higher investments for replacements or performance enhancement in transmission facilities.

Other risk factors

VERBUND took significant steps in 2012 to optimise its investment portfolio. The asset swap signed with E.ON in December 2012 should be concluded in the first half of 2013. The performance of this transaction, as well as its representation on the balance sheet, is associated with risks. The trend in general economic conditions is necessitating the reorganisation of business activities in France and Italy. The planned measures could lead to a significant burden on the Group result as well as high levels of cash outflows.

To facilitate the conduct of its business, VERBUND has entered into long-term agreements with partners. Changes in economic conditions have influenced the profitability of some of these obligations. Contract amendments reduce the risks.

For VERBUND, the risk of impairment losses for investments is increasing. In addition, previously unplanned contributions to Group companies could be necessary.

The effective monitoring of counterparty risks minimises defaults in performance and/or payment by business partners. Limits are centrally assigned and continuously monitored. Stable cash flows from operating results secure debt servicing. In addition, VERBUND possesses sufficient credit lines for accessing cash and cash equivalents at short notice.

Management of the VERBUND investment programme is also associated with risks. Early inclusion of interest groups, compliance with regulatory conditions and good management of simultaneously managed projects should ensure the success of the implementation. Risk management is incorporated into the entire project cycle.

Natural events such as floods, storms or avalanches could cause an unscheduled outage of electricity generation or transmission facilities as well as consequential damage. Off-balance sheet contingent liabilities could lead to fluctuations in the result if liabilities and guarantees are called upon.

Outlook: Risks and opportunities for 2013

The closing of the asset swap between VERBUND and E.ON announced in December 2012 is planned for the first half of 2013. The transaction has therefore not been taken into account in the following outlook.

The operating result is significantly influenced by the volume and price risk of own electricity generation.

VERBUND AG's financial result is being increasingly influenced by the earnings contributions from its equity interests. The result from equity interests reflects the following factors: the operating business activities of the equity interests, changes in the market environment for the energy sector, restructuring expenses, the possible impairment of the carrying amounts of equity interests and the possible crystallisation of liabilities and guarantees. The financial result also fluctuates due to the measurement of a yen liability of VERBUND AG.

Financial instruments

The primary financial instruments include, in particular, financial assets such as securities, loans and investments, trade receivables, cash at banks, securitised and non-securitised financial liabilities and trade payables.

Finance area

Derivative financial instruments serve exclusively as hedges against existing currency and interest rate risks. The fluctuations in value of these hedging instruments are balanced out by the fluctuations in value of the hedged items. The change in value of those transactions to which hedge accounting is not applied are always recognised in profit or loss.

Additional information regarding accounting treatment and measurement can be found in Section III (2) of the notes.

Electricity sector

Derivative financial instruments relating to the electricity business comprise electricity futures, electricity forwards and swaps. Purpose of the derivative hedging transactions in the electricity sector is the conclusion of electricity transactions that are not physically reinsured.

Positive and negative fair values are presented separately. If a framework agreement with a netting clause has been concluded with a counterparty, the positive and negative fair values of the transactions are netted for accounting purposes.

The effects of potential market price fluctuations (-10% to +10%) on the overall portfolio or separated according to forwards and futures in the trading portfolio are measured by way of a sensitivity analysis.

Additional information regarding accounting treatment and measurement can be found in Section III (2) of the notes.

As at 1 February 2013, no risks were foreseeable for 2013, the effects of which – either individually or interacting with other risks – could pose a threat to the continued existence of VERBUND AG.

Internal control and risk management system

in accordance with Section 243a(2) of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB)

Organisational framework

Legislation requires a description of the “internal control system” and “risk management system” for the accounting process. The purpose of this process is to depict administrative and sales operations in management accounting, individual company bookkeeping, and Group bookkeeping. The internal control system covers all measures for ensuring reliability, effectiveness, efficiency and compliance with external regulations. The significant features of the internal control system at VERBUND are established by the mission statement, organisational structures, reporting structures and the stipulated supervisory functions.

VERBUND has responsibility towards many interest groups and the environment. Group management acts in accordance with the principles defined in the corporate mission statement. The Executive Board bears responsibility for developing and implementing the internal control and risk management system.

Fundamentals of the internal control system

The accounting process of VERBUND is governed by Group-wide guidelines and requirements. The practical implementation of these rules is based upon a structural segregation of the implementation, monitoring and supervision of business transactions. The review of authorisations is integrated into the technical processing of transactions. Compliance with and effectiveness of these checks is reviewed on a periodic basis. The documentation of the time schedule for the checks, flow charts and the process map together constitute the process manual, which is updated annually. The organisational structure of VERBUND is continually adapted as needed to address changing internal and external conditions. The updated written regulations, with guidelines, requirements, manuals, etc., are available in the VERBUND intranet.

Centralised provision of services

VERBUND Management Service GmbH provides administrative services for the main consolidated companies. The VERBUND subsidiary APG has been certified as an independent transmission system operator since 2012. APG has created its own administrative organisational structure for this purpose. The Group management accounting function of the holding company is responsible for the orderly processing of bookkeeping, management accounting and risk management tasks at VERBUND.

Reporting in compliance with unbundling provisions

At VERBUND, each of the individual companies and/or the Group is responsible for its own internal and external reporting. Financial reports are prepared internally on a monthly basis. In addition to actual and projected annual financial statements, they also include an operational analysis of business trends as well as recommendations for action. The internal quarterly and annual reports consolidate information from management accounting, financial management and risk management. All reports are based upon uniform Group-wide rules for preparation and measurement. While setting up APG as an independent transmission grid operator, information flows with VERBUND companies were restricted. An external equal opportunities officer monitors compliance with the unbundling provisions.

Periodic monitoring

Internal audit reviews the handling of all operating and business processes as well as the internal control and risk management system. Audits are performed according to the audit schedule approved by the VERBUND Executive Board, supplemented by short audits and special audits. The audit reports include recommendations and measures. A periodic follow-up ensures implementation of the proposed improvements. As an independent transmission system operator, APG has had its own audit function since March 2012.

Shareholder structure and capital information

in accordance with Section 243a(1) of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB)

1. At the balance sheet date, the share capital comprises:
170,233,686 no-par shares (bearer shares category A), equivalent to 49% of share capital; 177,182,000 no-par shares (registered shares category B), equivalent to 51% of share capital, authenticated by an interim certificate deposited with the Federal Ministry of Finance and made out in the name of the Republic of Austria. Thus there were 347,415,686 shares in circulation at the balance sheet date. With the exception of the voting restriction described under point 2, all shares have the same rights and obligations.
2. In accordance with constitutional law, which regulates the ownership structure of companies in the Austrian electricity sector (Federal Law Gazette I [BGBl] 1998/143(2)) and also forms the basis for the Company's Articles of Association, the following voting restriction applies: "With the exception of regional authorities and companies in which regional authorities hold an interest of at least 51%, the voting rights of each shareholder in the Annual General Meeting are restricted to 5% of the share capital." We are not aware of any other restrictions that affect voting rights or the transfer of shares.
3. The shareholder structure of VERBUND AG is largely defined by the majority holding of the Republic of Austria. In accordance with constitutional law, 51% of the share capital of VERBUND AG is owned by the Republic of Austria. A syndicate comprising the state energy companies WIENER STADTWERKE Holding AG and EVN AG owns more than 25% of the share capital. More than 5% of the share capital is owned by TIWAG-Tiroler Wasserkraft AG. Less than 20% of the share capital is in free float.
4. There are no shares with special control rights.
5. VERBUND does not have any employee participation programmes.
6. In accordance with the rules of procedure for the Supervisory Board, the last nomination to the Executive Board must be prior to the nominee's 65th birthday. A Nomination Committee has been established within the Supervisory Board pursuant to the Austrian Code of Corporate Governance, which makes arrangements for the appointment of Executive Board members on behalf of the Supervisory Board (see also corporate governance report 2012). Apart from the above, there are no other regulations extending beyond the legal requirements that relate to the members of the Executive Board and the Supervisory Board. Moreover, there are no applicable requirements derived directly from law regarding amendment of the Articles of Association.
7. The authorisation granted to the Executive Board at the 62nd Ordinary General Meeting held on 25 March 2009 in accordance with Section 65(1)(8) of the Stock Corporation Act (Aktengesetz, AktG) relating to the purchase of treasury shares was valid until 25 September 2011. The Executive Board did not issue a decision on a buyback programme. In the Extraordinary General Meeting held on 24 September 2010, new authorised capital was resolved, whereby the Executive Board was authorised under Section 169 of the Stock Corporation Act (AktG) to increase the share capital with the approval of the Supervisory Board by 23 September 2015 by up to €154,100,000.00 by issuing up to

154,100,000.00 new bearer or registered ordinary shares (no-par shares) against a cash contribution – if applicable, made in several instalments. The Executive Board was further authorised to determine the issue amount, the terms of issue and the further details of the implementation of the capital increase with the approval of the Supervisory Board. This with the proviso that the federal government subscribes for new shares within the scope of a capital increase from the authorised capital, thus ensuring that the shareholding of the federal government in the Company does not fall below 51% of the Company's share capital even after completion of a capital increase from authorised capital.

Subsequently, the Executive Board resolved a capital increase with the Supervisory Board's approval on 24 November 2010 by issuing 39,215,686 no-par shares, whereby the share capital rose to €347,415,686.00. After this capital increase, the Executive Board is authorised to increase the share capital with the approval of the Supervisory Board by 23 September 2015 from the current nominal value of €347,415,686.00 by up to €114,884,314.00 by issuing up to 114,884,314.00 new bearer or registered ordinary shares (no-par shares) against a cash contribution – if applicable, made in several instalments. The Executive Board was further authorised to determine the issue amount, the terms of issue, and further details.

The Executive Board has no additional powers within the meaning of Section 243a(7) of the Austrian Commercial Code (UGB).

8. The Company is not involved in any significant agreements that contain provisions referring to the stipulations under Section 243a(8) of the Austrian Commercial Code (UGB). Furthermore, in our opinion, a public takeover bid is not possible at this time under constitutional law.
9. There are no compensation agreements within the meaning of Section 243a(9) of the Austrian Commercial Code (UGB).

Report on the expected performance of the Company

Outlook

The global economy continued to lose steam in 2012. The deepening of the sovereign debt crisis in the eurozone and in the USA, the sustained instability of the financial system and weakened growth in emerging markets placed a strong burden on the economy. For this reason, real term growth in gross domestic product in the developed countries was very moderate (1.3%) and real term economic output shrank in the eurozone (-0.4%). Given the weak economic growth worldwide, the Austrian economy continued to show stable growth in 2012. Like Germany (0.9% real term), Austria (+0.6% real term) was also among the euro countries that remained unaffected by the recession. The outlook is fraught with uncertainty, particularly as it relates to developments associated with the sovereign debt crises in the eurozone and the USA. The real term economic output in the eurozone will decline in 2013 for the second consecutive year (-0.2%). The Austrian economy is expected to experience real growth of 1.0% in 2013.

Electricity market undergoing greatest change since deregulation

The electricity market is undergoing the most far-reaching changes since deregulation in 1999. Because of the massive subsidies for new renewable energy and the weak or even declining demand for electricity due to the economy, the futures market offers low, stagnating electricity prices and no incentives to invest in the next few years. At the same time, however, given further strong expansion of renewable energy, investments in new flexible power plants and efficient grids are necessary in the medium-term in order to avoid endangering the security of supply. In addition, the carbon market is currently ineffective, since low prices prevent it from providing the incentive to support low-carbon generation technologies. This then leads to a paradoxical situation in which gas power plants are unprofitable due to the high fuel costs (mostly long-term contracts tied to the price of oil) and those power plants with the highest specific CO₂ emissions, namely lignite-fired power plants, are profitable. Under these circumstances, revisions to the design of the electricity and carbon market are currently a topic of intense discussion in Europe. The outcome of this discussion will play a key role in the completion of the energy transition.

Investments in renewable energy and transmission grids

An asset swap was agreed upon in December 2012, in which VERBUND will sell its activities in Turkey to the German utility E.ON, and acquire shares in German hydropower plants in return. In this way, we are focusing our future investment programmes almost exclusively on renewable energy and regulated business areas. In 2013, we plan to invest approximately €500m, primarily in new wind power plants as well as transmission grids and hydropower plants, predominantly in Germany and Austria. The focus of the investment programme reflects the current uncertainty in the European electricity market regarding future trends in price and profitability.

Strengthening the capital structure creates financial headroom

VERBUND began implementing a divestment programme in 2012. The purpose of this programme is to help achieve a good rating for the company relative to the industry in a deteriorating rating environment. At the same time, we wish to maintain financial headroom in a volatile environment for the industry and the capital markets. In doing so, we have sold equity interests that are not included in the core business, do not contribute any added value, and in which VERBUND does not hold a majority share. The

planned investments, the repayment of debt and the dividend distribution can be serviced from cash flow and the cash inflow from the divestments.

Dividend policy

Over the medium term, the dividend policy of VERBUND AG will continue to focus on maintaining a payout ratio of approximately 50% of the Group result. In 2012, a dividend of €0.55 per share was paid out to the shareholders for financial year 2011. In 2013, the company plans to increase the dividend for financial year 2012 to €0.60/share, an increase of approximately 9% over the previous year. The payout ratio is therefore 53.5%.

Earnings projection 2013

The growth of the VERBUND result is significantly affected by the following factors: wholesale prices for electricity, own generation, continuing trends in gas power plants and foreign interests, particularly in Italy. The 2013 result will also be significantly influenced by our exit from the Turkish equity interest Enerjisa Enerji A.S. and the acquisition of shares in German hydropower plants.

Wholesale electricity prices for 2013 have fallen considerably due to the weak economy and existing excess capacities, and particularly the heavy promotion of new renewable energy. Prices in both the base load and the peak load range are below the levels of 2012, which was still affected by the German exit from nuclear energy following the reactor disaster at Fukushima. At the end of 2012, VERBUND had sold approximately 60% of the secured electricity generation for 2013.

The growth of own generation is significantly dependent upon water supply. VERBUND plans annual generation based upon a long-term average. Significant deviations from targets could occur within the course of the year.

Because of the strong promotion of new renewable energy, oil price-indexed gas supplier agreements and remaining excess capacities, the profitability of the gas power plants in Europe is deteriorating and the risk of impairment losses is increasing. The Group result is therefore also dependent upon the successful restructuring of the gas supply agreements for the combined cycle gas turbine power plant in Mellach/Styria, VERBUND's equity interest in Italy, and the French gas power plants.

Events after the balance sheet date

VERBUND AG signed a sales agreement for 34.57% of the equity interest in STEWEAG-STEAG GmbH in quarter 4/2012. The closing took place on 18 January 2013 following approval by competition authorities.

Vienna, 1 February 2013

Executive Board

Dipl.-Ing. Wolfgang Anzengruber
Chairman of the Executive Board

Dr. Johann Sereinig
Vice-Chairman of the Executive Board

Dr. Ulrike Baumgartner-Gabitzer
Member of the Executive Board

Dipl.-Ing. Dr. Günther Rabensteiner
Member of the Executive Board

Balance sheet

Assets		€k	
	Notes	2012	2011
A. Fixed assets			
I. Intangible assets	(1)	5,409.3	3,791.3
II. Property, plant and equipment		31,733.5	25,675.5
III. Investments	(2)	4,347,977.1	4,623,135.7
		4,385,119.9	4,652,602.4
B. Current assets			
I. Inventories	(3)	14,241.9	11,842.7
II. Receivables and other assets	(4)	1,093,373.5	827,335.3
III. Cash in hand, cash at banks	(5)	8,032.9	4,865.0
		1,115,648.4	844,042.9
C. Prepayments and accrued income			
	(6)	103,565.8	99,634.5
		5,604,334.0	5,596,279.8
Rights of recourse	(7)	4,154,790.7	4,441,071.9
Less counter-guarantees from cross-border leasing		-456,673.9	-461,034.6
		3,698,116.9	3,980,037.2
Liabilities		€k	
	Notes	2012	2011
A. Equity			
I. Share capital	(8)	347,415.7	347,415.7
II. Capital reserves		971,720.3	971,720.3
III. Revenue reserves	(9)	1,564,498.7	1,379,652.7
IV. Net profit of which profit carried forward €0.0k; previous year: €0.0k	(10)	208,449.4	191,078.6
		3,092,084.2	2,889,867.3
B. Untaxed reserves			
	(11)	3,112.1	3,322.9
C. Provisions			
	(12)	105,347.1	74,101.8
D. Liabilities			
	(13)	2,394,459.6	2,619,773.4
E. Accruals and deferred income			
	(14)	9,331.2	9,214.5
		5,604,334.0	5,596,279.8
Contingent liabilities			
	(15)	4,154,790.7	4,441,071.9
Less counter-guarantees from cross-border leasing		-456,673.9	-461,034.6
		3,698,116.9	3,980,037.2

Income statement

		€k	
	Notes	2012	2011
1. Revenue	(16)	2,667,377.0	3,422,183.8
2. Change in total services not yet billable		-50.0	50.0
3. Other operating income	(17)	38,050.6	36,608.9
4. Operating income (subtotal of lines 1 to 3)		2,705,377.5	3,458,842.7
5. Expenses for electricity, grid/gas purchases and purchases of emission rights and other purchased production services and other services		-2,399,223.3	-3,210,829.7
6. Personnel expenses	(18)	-34,118.6	-28,181.9
7. Depreciation and amortisation	(19)	-2,548.1	-2,054.4
8. Other operating expenses	(20)	-84,997.8	-65,121.8
9. Total earnings (subtotal of lines 4 to 8)		184,489.7	152,654.8
10. Income from equity interests		305,374.2	333,139.7
11. Income from other securities and loans in financial assets		32,156.3	36,360.8
12. Other interest and similar income		36,294.2	28,595.2
12. Income from the disposal and reversal of impairment losses on investments		52,719.8	19,220.8
14. Expenses from investments		-54,158.3	-111,911.3
15. Interest and similar expenses		-141,282.4	-175,169.1
16. Financial result (subtotal of lines 10 to 15)	(21)	231,103.8	130,236.1
17. Profit or loss on ordinary activities before taxation		415,593.5	282,890.9
18. Taxes on income	(22)	-22,508.8	-8,564.0
19. Net income for the year		393,084.7	274,326.9
20. Reversal of untaxed reserves		210.8	252.4
21. Allocation to revenue reserves		-184,846.1	-83,500.7
22. Net profit		208,449.4	191,078.6

Statement of changes in fixed assets

	As at 1/1/2012	Additions	Disposals	Reclassifications
I. Intangible assets				
1. Industrial property rights, electricity purchase rights, usage fees and similar rights and benefits as well as licences derived therefrom	327,794.1	2,469.2	2,377.6	0.0
	327,794.1	2,469.2	2,377.6	0.0
II. Property, plant and equipment				
1. Land, land rights and buildings, including buildings on third-party land				
a. With residential buildings	77.6	0.0	0.0	0.0
b. With plant and other plant facilities	24,418.0	2,526.4	850.4	1,019.9
c. Undeveloped land	5,759.0	1,449.4	0.0	0.0
2. Electrical installations	20,377.7	1,002.7	13,890.4	286.7
3. Office and plant equipment	15,353.5	3,055.6	523.9	143.2
4. Effected advance payments and plants under construction	1,449.8	431.9	0.0	-1,449.8
	67,435.6	8,466.1	15,264.7	0.0
Property, plant and equipment and intangible assets	395,229.7	10,935.3	17,642.3	0.0
III. Investments				
1. Shares in affiliated companies	2,652,735.1	28,867.7	3,027.3	0.0
2. Loans to affiliated companies	1,222,366.7	423,318.5	618,783.3	0.0
3. Equity interests	728,281.8	0.0	130,000.0	0.0
4. Securities (loan stock rights) under fixed assets	73,138.6	390.0	0.0	0.0
5. Other loans	128.5	106.2	23.5	0.0
	4,676,650.8	452,682.3	751,834.2	0.0
Fixed assets	5,071,880.5	463,617.6	769,476.5	0.0

Base value of land as at 31/12/2012: €10,549.1k (previous year: €9,099.7k).

€k						
	As at 31/12/2012	Accumulated depreciation, amortisation and write-downs	Net carrying amount as at 31/12/2012	Net carrying amount as at 31/12/2011	Impairment losses 2012	Depreciation and amortisation 2012
	327,885.7	322,476.4	5,409.3	3,791.3	0.0	789.4
	327,885.7	322,476.4	5,409.3	3,791.3	0.0	789.4
	77.6	75.0	2.6	3.2	0.0	0.6
	27,113.9	16,556.8	10,557.2	8,053.1	0.0	536.1
	7,208.4	0.0	7,208.4	5,759.0	0.0	0.0
	7,776.6	6,058.4	1,718.2	724.7	0.0	263.2
	18,028.5	6,213.4	11,815.1	9,685.6	0.0	958.9
	431.9	0.0	431.9	1,449.8	0.0	0.0
	60,637.0	28,903.5	31,733.5	25,675.5	0.0	1,758.7
	388,522.7	351,379.9	37,142.8	29,466.8	0.0	2,548.1
	2,678,575.5	20.0	2,678,555.5	2,652,715.1	0.0	0.0
	1,026,901.8	0.0	1,026,901.8	1,222,366.7	0.0	0.0
	598,281.8	26,005.8	572,276.0	678,281.8	26,005.8	0.0
	73,528.6	3,496.0	70,032.7	69,643.5	0.8	0.0
	211.2	0.0	211.2	128.5	0.0	0.0
	4,377,498.9	29,521.8	4,347,977.1	4,623,135.7	26,006.6	0.0
	4,766,021.6	380,901.7	4,385,119.9	4,652,602.4	26,006.6	2,548.1

Statement of changes in untaxed reserves

	As at 1/1/2012	Additions/ reclassifications	Reversals/ disposals	€k As at 31/12/2012
Valuation reserve due to special tax deductions				
1. Early depreciation in accordance with Section 7a of the Austrian Income Tax Act (EStG) 1988				
1.1. Electrical installations	123.1	0.0	0.3	122.8
1.2. Office and plant equipment	118.3	0.0	9.5	108.9
	241.5	0.0	9.8	231.7
2. Transfer of hidden reserves in accordance with Section 12 of the Austrian Income Tax Act (EStG)				
2.1. Electrical installations	6.0	0.0	3.6	2.4
2.2. Office and plant equipment	1,231.9	0.0	197.4	1,034.5
2.3. Shares in affiliated companies	1,811.1	0.0	0.0	1,811.1
2.4. Securities	32.4	0.0	0.0	32.4
	3,081.4	0.0	201.0	2,880.4
Untaxed reserves	3,322.9	0.0	210.8	3,112.1

Maturity schedule 2012

	€k			
	Residual term to maturity as at			31/12/2012
	< 1 year	> 1 year	> 5 years	Total
Loans				
1. Loans to affiliated companies	70,418.5	546,016.7	410,466.7	1,026,901.8
2. Other loans	22.3	187.4	1.5	211.2
	70,440.8	546,204.0	410,468.1	1,027,113.0
Receivables and other assets				
1. Trade receivables	176,614.2	0.0	0.0	176,614.2
2. Receivables from affiliated companies	792,694.2	0.0	0.0	792,694.2
3. Receivables from investees	17,963.5	0.0	0.0	17,963.5
4. Other receivables and assets	106,101.7	0.0	0.0	106,101.7
	1,093,373.5	0.0	0.0	1,093,373.5
Liabilities				
1. Bonds	1,196.2	48,851.3	127,823.0	177,870.5
2. Liabilities to banks	15,333.3	45,333.3	52,000.0	112,666.7
3. Financial liabilities to others	1,191.5	27,500.0	0.0	28,691.5
4. Trade payables	125,211.2	36.6	0.0	125,247.8
5. Liabilities to affiliated companies	50,922.7	550,000.0	840,000.0	1,440,922.7
6. Other liabilities	28,078.7	53,011.1	427,970.6	509,060.4
	221,933.6	724,732.4	1,447,793.6	2,394,459.6

Maturity schedule 2011

	€k			
	Residual term to maturity as at 31/12/2011			
	< 1 year	> 1 year	> 5 years	Total
Loans				
1. Loans to affiliated companies	625,316.7	182,266.7	414,783.4	1,222,366.7
2. Other loans	8.2	104.2	16.2	128.5
	625,324.9	182,370.8	414,799.5	1,222,495.2
Receivables and other assets				
1. Trade receivables	183,093.5	0.0	0.0	183,093.5
2. Receivables from affiliated companies	605,164.2	0.0	0.0	605,164.2
3. Receivables from investees	18,455.1	0.0	0.0	18,455.1
4. Other receivables and assets	20,622.6	0.0	0.0	20,622.6
	827,335.3	0.0	0.0	827,335.3
Liabilities				
1. Bonds	3,152.4	128,742.5	127,823.0	259,717.9
2. Liabilities to banks	177,109.8	53,333.3	59,333.3	289,776.5
3. Financial liabilities to others	1,188.2	27,500.0	0.0	28,688.2
4. Trade payables	118,539.4	1.5	0.0	118,540.9
5. Liabilities to affiliated companies	39,477.0	550,000.0	840,000.0	1,429,477.0
6. Other liabilities	19,963.7	0.0	473,609.0	493,572.8
	359,430.6	759,577.4	1,500,765.3	2,619,773.4

Notes

I. Accounting policies

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.

Fixed assets

As a rule, depreciable fixed assets are measured at acquisition or production cost less depreciation and amortisation. VERBUND's schedule of uniform depreciation and amortisation rates specifies the following depreciation and amortisation rates:

	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		
Residential and office buildings	2 or 3, respectively	33.3 or 50, respectively
Plant(s)	3	33.3
Technical installations and machinery		
Machinery	4 or 5, respectively	20 or 25, respectively
Electrical installations	5	20
Telecommunications installations	10	10
Office plant and equipment	10–25	4–10

Property, plant and equipment and intangible assets used for longer than 6 months of the financial year are depreciated or amortised at the full annual rate, whereas those that are used for less than 6 months are depreciated or amortised at half the annual rate.

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

In addition to direct material and production costs, the cost of internally generated plant and equipment also includes appropriate indirect material and production costs. The Company has chosen not to apply the measurement option concerning the inclusion of social security expenses, severance payments and pensions and similar obligations within the meaning of Section 203(3) of the Austrian Commercial Code (UGB); it has also opted not to capitalise borrowing costs (Section 203(4) of the Austrian Commercial Code (UGB)). Low-value assets are fully written off in the year of acquisition in accordance with Section 226(3) of the Austrian Commercial Code (UGB).

Shares in affiliated companies and equity interests are recognised at cost or at lower fair value; if the impairment is temporary, securities classified as fixed assets are measured at cost or the most recently recognised carrying amount. Interest-bearing loans are recognised at nominal value. Receivables with a maturity of more than one year are reported under investments as loans.

Services not yet billable are recognised at production cost. Production cost includes direct material and production costs as well as appropriate indirect material and production costs. The Company has chosen not to apply the measurement option concerning the inclusion of social security expenses and borrowing costs (Sections 203(3) and (4) of the Austrian Commercial Code (UGB)).

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

Receivables and other assets are measured at nominal value, unless a lower amount is to be recognised where there are identifiable individual 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 balance sheet 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 to the strict lower-of-cost-or-market principle.

If tax relief is expected in subsequent years, the option to recognise deferred tax assets is applied, 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 take all foreseeable risks into account that can be allocated to an already completed financial year and include those amounts that it was necessary to recognise based on prudent business judgement.

Provisions for severance payments 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 severance payments is 25 years. Employees whose service began after 31 December 2002 are no longer entitled to a direct claim against their employer for a statutory severance payment. For these employment contracts, the employer pays 1.53% of gross salary monthly into an employee pension fund in which the contributions are deposited in an account of the employee. Provisions of the collective bargaining agreement for energy supply companies in excess of the statutory claims are recognised in provisions for severance payments.

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

Provisions for current pensions, vested pension benefits and similar obligations are determined using the PUC method. In accordance with the KFS/RL 2/3b opinion of the Expert Committee for Commercial Law and Auditing of the Austrian Chamber of Public Accountants (Fachsenat für Handelsrecht und Revision der Kammer der Wirtschaftstreuhänder) of 9 July 2012, application of the corridor method for financial years beginning on or after 1 January 2013 is no longer permitted. VERBUND made use of the

Current assets

Prepayments and accrued income

Provisions

option of early application. Cumulative actuarial gains and losses are recognised in full in the income statement at the date of the accounting change.

As part of the accounting change, the presentation of interest expense on personnel-related liabilities was also changed in the income statement. The interest expense is now shown in financial result, in line with international practice, and not under personnel expenses as in the past. Previous year values were not adjusted.

The calculations are based on “AVÖ 2008-P – Actuarial Assumptions for Pension Insurance – Pagler & Pagler”.

The calculations as at 31 December 2012 and 2011 were based on the following assumptions:

	2012	2011
	%	
Interest rate		
Pensions and similar obligations	4.00	4.75
Severance payments	4.00	4.75
Trend		
Pension increases	2.25	2.25
Salary increases	2.75	2.75
Contributions to obligations similar to pensions – old contracts	7.00	7.50
Contributions to obligations similar to pensions – new contracts	4.00	4.50
Fluctuation	0.00–4.00	0.00–4.00
Retirement age – women	56.5-65 y.	56.5-65 y.
Retirement age – men	61.5-65 y.	61.5-65 y.
Expected non-current return on plan assets	4.00	2.00

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 redemption 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 balance sheet date, provided that this rate is higher than the rate prevailing at the time of origination.

Liabilities from bonds and loans denominated in foreign currency are measured at the ECB foreign exchange reference rate prevailing at the balance sheet date, provided that this rate was higher than the rate prevailing at the time of origination. The result of this measurement is presented under the corresponding liabilities. Discounts and the cost of procuring credit were capitalised and repaid systematically until 1983, and in the financial years 1994 to 1997, in accordance with Section 198(7) of the Austrian Commercial Code (UGB).

Sales transactions

Marketing of own generation. VERBUND AG hedges planned generation for generation subsidiaries and for purchase rights. In doing so, VERBUND AG buys electricity forwards from the respective generation subsidiary at market prices or with the purchase rights at cost plus a return on equity in accordance with the corresponding electricity supply agreement, and in turn resells them on the market by means of electricity forwards or electricity futures. VERBUND AG retains any margin between the purchase and sale price.

Transactions between VERBUND AG and the generation subsidiaries/purchase rights are classified either as derivatives (to the extent that optimisations take place) or as an own-use relationship (if delivery takes place only from the electricity provider/purchase right to VERBUND AG). The transactions between VERBUND AG and external partners constitute derivatives.

Hedging relationships exist between the transactions with generation subsidiaries/purchase rights (underlying transaction) and the transactions with external partners (derivative). Together, these are accounted for as hedging relationships.

These hedging relationships hedge against market price risk.

Other sales transactions. VERBUND AG also engages in OTC transactions with external counterparties in the sales area. VERBUND AG retains the margins generated by these transactions. If there is a risk of a loss arising from an OTC transaction, i.e. if the sales price is below the hedging cost, a provision for onerous contracts is recognised.

The purchase and sale transactions between VERBUND AG and external counterparts (forwards and futures) constitute derivatives. The purchase and sale transactions – which are always closed in terms of volume – are declared to be the underlying transaction and hedging instrument as at the date of conclusion, and a hedging relationship is recognised in each case.

Measurement of effectiveness. Since fluctuations in the market value of the derivatives regularly compensate each other for purchase and sale positions which are almost entirely closed in terms of volume, material hedge ineffectiveness does not occur in the sales area. The realisation of derivative hedging relationships is recognised in profit or loss.

Trading area

The portfolio is measured annually in the trading area. Opposite changes in transaction value balance each other out within the annual portfolio. In accordance with the Austrian Commercial Code (UGB), provisions for onerous contracts are recognised only for annual portfolios which are negative overall. Positive annual portfolios may not be recognised in the balance sheet under the Austrian Commercial Code (UGB). Income from trading is presented net in electricity revenue.

VERBUND AG is the parent of the tax group as defined by Section 9(8) of the Austrian Corporate Income Tax Act 1988 (Körperschaftsteuergesetz 1988, KStG 1988).

The parent of the tax group charges 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 balancing of allocated tax amounts results in a corresponding up or down adjustment of the tax expense in the parent's income statement.

The tax amounts are only adjusted for subsequent deviations with respect to the group members if they are material.

Derivative financial instruments

Taxes on income

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

General

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 according to VERBUND's Group-wide requirements with respect to form and content.

In accordance with Section 223(7) of the Austrian Commercial Code (UGB), line items of the balance sheet and income statement with a carrying amount of zero either in the financial year or in the previous year are not presented. 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 this appeared expedient in order to present annual financial statements that are clear and easy to understand.

If the presentation has changed compared to the previous year, the previous year's amounts are adjusted in accordance with Section 223(2) of the Austrian Commercial Code (UGB) or explained separately in the corresponding item.

Notes to assets

A. Fixed assets

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

(1) I. Intangible assets

The net carrying amount of the rights of use of plants acquired by affiliated companies is €2,005.1k (previous year: €2,291.6k).

(2) III. Investments

The disclosures in accordance with Section 238(2) of the Austrian Commercial Code (UGB) are presented separately in "Disclosures of equity interests in accordance with Section 238(2) of the Austrian Commercial Code (UGB)".

Loans to affiliated companies: for details see separate "Maturity schedule". Securities (loan stock rights) under fixed assets: they consist primarily of Austrian investment fund units and bonds. Securities under fixed assets in the amount of €53,231.1k (previous year: €53,281.0k) are pledged as guarantees for energy trading. The impairment reversals not carried out in accordance with Section 208(3) of the Austrian Commercial Code (UGB) amount to €1,625.6k (previous year: €867.5k).

B. Current assets

(3) I. Inventories

	2012	2011
Goods	14,241.9	11,792.7
Services not yet billable	0.0	50.0
	14,241.9	11,842.7

(4) II. Receivables and other assets

For details see separate "Maturity schedule".

€43,765.2k (previous year: €30,588.2k) of receivables from affiliated companies relate to trade receivables. Receivables from investees relate to trade receivables.

	€k	
Other receivables and assets	2012	2011
Electricity trading activities	48,099.1	11,320.7
Security deposits electricity business	13,449.8	7,787.9
Interest accruals and commissions from bonds and loans	1,141.5	1,134.4
Tax authorities	14.1	45.5
Payroll	186.1	11.1
Effectuated advance payments	6.6	2.2
Emission rights trading	2,292.9	0.0
Other	40,911.6	320.7
Total	106,101.7	20,622.6

	€k	
(5) III. Cash in hand, cash at banks	2012	2011
Cash in hand	12.9	4.3
Cash at banks	8,020.0	4,860.7
Total	8,032.9	4,865.0

	€k	
(6) C. Prepayments and accrued income	2012	2011
Prepayments for electricity purchases	42,919.8	25,355.0
Deferred tax assets	7,304.4	19,191.6
Discounts, flotation costs and exchange rate differences relating to bonds and non-current loans	889.0	971.9
Auctions of cross-border capacities	104.8	9.8
Other	52,347.8	54,106.2
Total	103,565.8	99,634.5

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%.

(7) Rights of recourse

Rights of recourse amount to a total of €4,154,790.7k (previous year: €4,441,071.9k). In addition to rights of recourse vis-à-vis Group companies, rights of recourse exist primarily vis-à-vis financial institutions, state energy companies and regional authorities from cross-border leasing transactions carried out at VERBUND Hydro Power AG in the amount of €456,673.9k (previous year: €461,034.6 k). See also note (15) Contingent liabilities.

Notes to liabilities

Equity**(8) I. Share capital**

There were 347,415,686 shares in circulation at the balance sheet date.

Composition	Stock (shares)	Share
Bearer shares category A	170,233,686	49%
Registered shares category B	177,182,000	51%
Authenticated by an interim certificate made out in the name of the Republic of Austria (deposited with the Federal Ministry of Finance)		
	347,415,686	100%

(9) III. Revenue reserves

	€k	
	2012	2011
Statutory reserves	19,884.0	19,884.0
Distributable reserves	1,544,614.8	1,359,768.7
	1,564,498.7	1,379,652.7

The appropriated capital reserves and the statutory reserves amount to a total of €991,604.3k, which is more than 10% of the share capital.

(10) IV. Net profit

	€k
As at 31/12/2011	191,078.6
Distribution of dividends	– 191,078.6
Profit carried forward	0.0
Net income for the year	393,084.7
Changes in reserves	– 184,635.3
As at 31/12/2012	208,449.4

(11) B. Untaxed reserves

For details see separate “Statement of changes in untaxed reserves”.

Changes in untaxed reserves in the group of companies (as defined by Section 9(8) of the Austrian Corporate Income Tax Act (KStG)) resulted in a tax charge in the amount of €18,363.5k (previous year: tax charge in the amount of €1,738.8k).

(12) C. Provisions**1. Provisions for severance payments**

	€k	
	2012	2011
Premium reserve based on actuarial calculations	8,448.3	7,464.3
Taxed proportion of provisions	8,448.3	7,464.3

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	
	2012	2011
Provisions for pension obligations	30,635.4	26,861.0
Of which obligations similar to pensions	4,995.4	5,227.0

The actuarial losses from pensions and similar obligations accumulated through 1 January 2012 were recognised entirely in personnel expenses in the amount of €2,098.3k.

3. Provisions for taxes

	€k	
	2012	2011
Corporate income tax (including prior reporting periods)	24,550.7	264.6

4. Other provisions

	€k	
	2012	2011
Anticipated electricity business losses	24,001.2	23,158.4
Trade receivables not yet billed	7,453.4	5,474.8
Electricity/grid purchases	1,551.6	3,512.1
	33,006.2	32,145.3

Of the provisions, €460.0k (previous year: €0.0k) relate to affiliated companies.

	€k	
Other personnel-related provisions	2012	2011
Premiums	3,637.7	3,212.1
Unused holidays	2,699.4	2,268.7
Early retirement benefits	1,322.2	911.9
Holiday allowance	701.8	664.0
Compensatory time credit	203.6	210.9
Other	141.8	98.9
	8,706.4	7,366.6

(13) D. Liabilities

For details see separate "Maturity schedule".

Of the liabilities to affiliated companies, €1,424,211.5k (previous year: €1,424,150.7k) relate to financial liabilities and €8,434.2k (previous year: €5,326.3k) to trade payables.

	€k	
Other liabilities	2012	2011
Long-term electricity supply commitment	473,609.0	473,609.0
From taxes	17,466.3	14,013.7
Payments received as a result of electricity business valuation	0.0	2,506.4
Payroll	416.1	665.9
Related to social security	304.1	272.2
Other	17,264.9	2,505.6
	509,060.4	493,572.8

(14) E. Accruals and deferred income

	€k	
(14) E. Accruals and deferred income	2012	2011
Guarantee payments from affiliated companies	6,784.9	7,492.6
Contributions to building costs	842.0	865.1
From electricity business	1,175.1	521.3
Other guarantee payments	529.2	335.5
	9,331.2	9,214.5

(15) Contingent liabilities

The contingent liabilities that are recognised below the line are surety bonds for other loans and credit facilities, including the required interest accruals as well as other assumptions of liabilities excluding contingent liabilities associated with cross-border leasing transactions totalling €3,358,737.5k (previous year: €3,620,548.4k), of which €2,413,706.5k (previous year: €2,846,148.3k) relate to affiliated companies and €0.0k (previous year: €3,245.3k) relate to investees. These contingent liabilities entail the corresponding rights of recourse in the same amount.

The subsidiary VERBUND Hydro Power AG entered into several cross-border leasing transactions during financial years 1999 to 2001. The figures reported in the balance sheet of VERBUND Hydro Power AG are all in US dollars. With the exception of one transaction, there was originally full balance sheet cover for all obligations by way of corresponding acquisition of securities or through loans to financial institutions. Cover was initially not provided for one transaction entered into in 2001; for this transaction, an investment as planned into a loan to a financial institution took place in the 2011 reporting period. Now all items are closed.

Beginning in 2009, and continuing during the 2010 reporting period, due also to the financial market crisis, about 85% of the original volume of the transactions were terminated. The last remaining transaction has an off-balance sheet financing structure. Some of the transactions were terminated early in their entirety; that is, all associated liabilities were repaid. However, some of the transactions were only partially terminated, whereby the transactions with the investors and the associated A-loans were repaid, while VERBUND Hydro Power AG continued the existing B-loans and the corresponding investments.

In connection with these cross-border leasing transactions, VERBUND AG issued guarantee bonds for

VERBUND Hydro Power AG, which for the most part still exist for the transactions that have not been terminated as well as for the liabilities transferred to VERBUND Hydro Power AG totalling €796,053.2k (previous year: €820,523.4k). Of the rights of recourse against the primary debtors, €456,673.9k (previous year: €461,034.6k) is secured through counter-guarantees on the part of financial institutions, state energy companies and regional authorities (from guarantors' liabilities). These counter-guarantees are presented under total rights of recourse (see note (7)). Thus, a total of €339,379.3k (previous year: €359,488.8k) remains in contingent liabilities from cross-border leasing transactions after deducting these counter-guarantees.

As part of the restructuring of VERBUND's telecommunications segment, liabilities were assumed vis-à-vis tele.ring Telekom Service GmbH and KELAG-Kärntner Elektrizitäts-Aktiengesellschaft.

(16) 1. Revenue

		€k	
		2012	2011
Revenue from electricity deliveries			
Domestic ¹	Energy supply companies	1,266,993.7	1,245,202.2
	Industrial customers and consumers	164,669.0	209,803.9
	Other customers	21,305.7	19,801.9
		1,452,968.4	1,474,808.0
EU	Energy supply companies	131,016.0	485,056.9
	Industrial customers and consumers	18.8	44,560.5
	Other customers	1,056,974.5	1,372,506.7
		1,188,009.3	1,902,124.1
Third countries	Energy supply companies	- 19.7	25.8
	Other customers	9,033.0	10,337.5
		9,013.4	10,363.3
		2,649,991.1	3,387,295.4
Invoicing of grid tariffs; user and management fees		2,828.2	2,708.3
Other revenue (including emission rights and gas trading)		14,557.6	32,180.1
		2,667,377.0	3,422,183.8

¹ Of which €82,285.4k (previous year: €77,817.3k) from recharged grid fees.

Netting in electricity trading was expanded in 2012. Adjustment of the previous year's figures resulted in a netting amount of €837,652.3k, which can be broken down as follows:

Domestic: €77,339.4k (of which energy supply companies €27,080.7k; industrial customers and consumers €50,258.7k). EU: €755,646.9k (of which energy supply companies €295,044.8k; industrial customers and consumers €12,635.6k). Third countries: Other customers €4,666.0k.

Notes to the income statement

(17) 3. Other operating income		€k
	2012	2011
a) Income from the disposal of fixed assets with the exception of investments	2,056.1	17.1
b) Income from the reversal of provisions	291.5	1,214.8
c) Other	35,702.9	35,377.0
	38,050.6	36,608.9
(18) 6. Personnel expenses		€k
	2012	2011
a) Salaries	21,481.8	19,932.9
b) Expenses for severance payments and payments to employee pension funds		
Severance payments	221.4	298.5
Contributions to employee pension funds	144.1	131.8
Change in the provision for severance payments	652.2	479.0
Expenses/income and takeovers/transfers within the Group	36.1	-271.3
	1,053.8	638.0
c) Expenses for pensions and similar obligations		
Early retirement benefits and pension payments	2,849.5	2,824.3
Change in the provisions for pensions and similar obligations	2,476.0	-690.7
Expenses/income and takeovers/transfers within the Group	14.5	-18.4
Change in the provisions for early retirement benefits	405.4	713.5
Pension fund contributions (including obligation to provide additional funding)	1,808.9	832.7
	7,554.4	3,661.4
d) Expenses for social security contributions as required by law as well as income-based charges and compulsory contributions	3,801.2	3,695.4
e) Other social security expenses	227.4	254.2
	34,118.6	28,181.9

The interest portion of personnel expenses for long-term personnel provisions amounted to €2,235.1k in the previous year. In 2012, interest was recognised in financial result.

(19) 7. Depreciation and amortisation

	€k	
	2012	2011
a) Amortisation of intangible fixed assets and depreciation of property, plant and equipment		
Depreciation and amortisation	2,500.5	1,983.3
Immediate write-off of low-value assets in accordance with Section 13 of the Austrian Income Tax Act (EStG)	47.6	71.2
	2,548.1	2,054.4

(20) 8. Other operating expenses

	€k	
	2012	2011
a) Taxes other than taxes on income	286.2	250.2
b) Other		
Other administrative expenses	18,278.3	15,848.5
Advertising and market development costs	23,895.0	14,822.9
Operating costs for buildings, rent and leasing	8,990.9	6,808.5
Legal, audit and consulting expenses	7,303.1	5,163.3
Reimbursement of costs for services	4,752.9	4,599.4
IT support, electronic data processing	3,510.6	3,575.8
Membership fees	1,272.4	1,201.8
Telecommunications services, data services	1,311.0	1,089.6
Temporary personnel and provision of personnel	533.1	652.3
Training and further education	627.2	640.4
Other	14,237.1	10,469.2
	84,711.6	64,871.6
	84,997.8	65,121.8

(21) 16. Financial result

	€k	
	2012	2011
Income from equity interests		
From affiliated companies	274,191.1	308,211.7
Of which from profit pools	21,756.6	32,881.9
Income from other securities and loans in financial assets		
From affiliated companies	29,949.1	34,187.5
Other interest and similar income		
From affiliated companies	24,682.9	28,494.2
Income from the disposal and reversal of impairment losses on investments		
Disposal of shares in affiliated companies	52,719.8	18,479.4
Expenses from investments		
From affiliated companies	13,151.7	111,911.3
Of which from profit pools	13,139.6	111,911.3
Interest and similar expenses		
Of which interest for long term personnel provisions	1,639.8	0.0
From affiliated companies	69,533.2	71,445.5

(22) 18. Taxes on income

	€k	
	2012	2011
Consolidated taxes on income	175,346.4	104,085.6
Of which debited to members of the Group	-175,708.1	-113,497.5
Additional amounts/credit notes from previous periods	10,983.3	4,279.6
Deferred taxes	11,887.2	13,696.3
	22,508.8	8,564.0

III. Other disclosures**1. Total amount of other financial obligations**

	€k		
Material items:	Total commitment	2013	2013–2017
Rent, lease and insurance agreements	¹	8,842.8	43,068.8
Purchase commitments	7,735.8	7,301.3	7,689.4
Of which to affiliated companies	¹	151.6	757.8

¹ Total commitment cannot be determined due to unspecified contract periods.

There is an electricity supply agreement with Ennskraftwerke AG according to which the energy generated in their power plants, less electricity purchase rights on the part of other participating partners, must be delivered to VERBUND AG in exchange for reimbursement of the recognised expenses plus a reasonable return on equity.

There are electricity supply agreements with Österreichisch-Bayerische Kraftwerke AG and Donaukraftwerk Jochenstein AG according to which half of the energy generated in their power plants must be delivered to VERBUND AG in exchange for reimbursement of recognised expenses plus a reasonable return on equity.

In accordance with an electricity supply agreement, E.ON Wasserkraft GmbH is obliged to deliver half of the energy generated in the Ering and Obernberg power plants to VERBUND AG at total production costs plus an agreed mark-up.

There is an agreement with VERBUND Management Service GmbH for the invoicing of services in the areas of IT, insurance, purchasing, financial accounting, payroll and administrative services.

There is an agreement with VERBUND Finanzierungsservice GmbH for the invoicing of services for carrying out of payment transactions and cash management.

In the area of electricity distribution and trading there are contractor agreements with VERBUND Trading AG and VERBUND Sales GmbH.

Due to labour-management agreements and contracts, VERBUND is obligated under certain conditions to make pension payments to employees after they retire. The employer is obligated to provide additional funding to the extent that these defined benefit obligations are to be fulfilled through BAV Pensionskassen AG. Due to the developments on the financial markets, BAV Pensionskassen AG reported an obligation for additional funding in the amount of €17.7k (previous year: 597.4k) to cover defined retirement benefit obligations.

As at the balance sheet date, six 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.

There are no outstanding contribution commitments to investees (previous year: €0.0k).

Finance area

Several forward exchange transactions in Hungarian forint (HUF) were entered into, totalling HUF63,240.1k (previous year: HUF1,696,608.2k) in order to hedge HUF exchange rate risks related to electricity transit transactions and auctions of cross-border capacities. The reporting date measurement of these transactions resulted in a negative market value totalling €13.1k (previous year: negative market value of €289.1k) as at 31 December 2012. A provision was recognised in the financial year for the measurement (previous year: not recognised in profit or loss in accordance with the realisation principle).

2. Disclosures regarding financial instruments

Electricity business

Derivative financial instruments (electricity/gas/CO₂ futures and forwards) relating to the electricity business can be broken down as follows:

€k			
Trading	Total – positive	Total – negative	Total – net
Futures	249.6	423.8	– 174.1
Forwards	834,502.9	831,979.7	2,523.2
Total before netting	834,752.5	832,403.4	2,349.1
Of which non-current	175,107.0	174,740.8	366.2

€k			
Sales	Fair values – positive	Fair values – negative	Fair values – net
Futures	108,614.8	138,979.6	– 30,364.8
Forwards ¹	152,864.9	116,804.9	36,059.9
Total before netting	261,479.6	255,784.5	5,695.1
Of which non-current	42,097.3	53,877.0	– 11,779.7

€k			
Total	Fair values – positive	Fair values – negative	Fair values² – net
Futures	108,664.4	139,403.3	– 30,538.9
Forwards	987,367.7	948,784.6	38,583.1
Total before netting	1,096,232.1	1,088,188.0	8,044.2
Of which non-current	217,204.4	228,617.8	– 11,413.5

Taking netting agreements into consideration ³	– 892,860.8	– 892,860.8	0.0
	203,371.3	195,327.1	8,044.2

¹ Positive fair values for forwards include €19,892.4k and negative fair values for forwards include €15,094.4k in respect of affiliated companies. // ² The positive fair value amounting to €2,283.1k for the 2013 to 2015 annual portfolios is not recognised in the balance sheet. The positive fair value amounting to €5,761.1k has to be seen alongside underlying transactions with a negative fair value of the same amount, all of which constitute a single accounting unit. // ³ If a framework agreement with a netting clause has been concluded 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/CO₂ futures and forwards) relating to the electricity business comprised the following in the previous year:

€k			
Trading	Fair values – positive	Fair values – negative	Fair values – net
Futures	71,546.4	76,581.0	– 5,034.5
Forwards	259,108.8	208,436.8	50,672.0
Total before netting	330,655.2	285,017.8	45,637.5
Of which non-current	100,873.4	97,680.1	3,193.3

€k			
Sales	Fair values – positive	Fair values – negative	Fair values – net
Futures	2,591.3	684.8	1,906.5
Forwards ¹	625,705.6	621,809.5	3,896.2
Total before netting	628,297.0	622,494.3	5,802.7
Of which non-current	14,173.9	14,418.6	–244.7

€k			
Total	Fair values – positive	Fair values – negative	Fair values ² – net
Futures	74,137.8	77,265.8	–3,128.1
Forwards	884,814.4	830,246.3	54,568.2
Total before netting	958,952.2	907,512.1	51,440.1
Of which non-current	115,047.2	112,098.6	2,948.6

Taking netting agreements into consideration ³	–795,220.8	–795,220.8	0.0
	163,731.4	112,291.3	51,440.1

¹ Positive fair values for forwards include €6,494.3k and negative fair values for forwards include €718.4k in respect of affiliated companies. // ² The positive fair value amounting to €6,238.6k for the 2011 to 2013 annual portfolios is not recognised in the balance sheet. The positive fair value amounting to €45,423.3k has to be seen alongside underlying transactions with a negative fair value of the same amount, all of which constitute a single accounting unit. // ³ If a framework agreement with a netting clause has been concluded with the counterparty, the positive and negative fair values of the transaction for this counterparty are netted for accounting purposes.

Average	2012	2011
Salaried employees	168	163

3. Number of employees

€k		
	2012	2011
Members of the Executive Board, former members of the Executive Board and their surviving dependants	889.8	733.1
Other employees	7,718.4	3,566.4
	8,608.2	4,299.4

4. Expenses for severance payments and pensions

A company pension plan has been set up for members of the Executive Board in the form of a defined contribution pension fund agreement. In financial year 2012, contributions to the pension fund were paid for the Executive Board in the amount of €148,552 (previous year: €132,621).

Statutory regulations apply with respect to the claims of members of the Executive Board upon termination of their position. In 2012, €507,589 (previous year: €491,166) was paid out for severance payments and pensions in support of beneficiaries.

Expenses for severance payments and pensions and similar obligations (post-employment benefits) amounted to €254,615 (previous year: income due to a non-recurring item of €135,697). Expenses for pensions and similar obligations for former members of the Executive Board and their surviving dependants amounted to a total of €1,144,454 (previous year: €597,362).

5. Board members

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

Remuneration of the members of the Executive Board			€
Name	Fixed remuneration	Variable remuneration	Total
Dipl.-Ing. Wolfgang Anzengruber	647,528	428,625	1,076,153
Dr. Johann Sereinig	616,793	353,216	970,009
Dr. Ulrike Baumgartner-Gabitzer	434,474	205,000	639,474
Dipl.-Ing. Dr. Günther Rabensteiner	435,610	153,299	588,909

Variable remuneration is always paid at the beginning of the following year, because whether or not goals have been achieved can only be determined at the end of the year. Consequently, the variable remuneration components paid to the members of the Executive Board in 2012 were paid in respect of financial year 2011. Because Dr. Rabensteiner was only appointed to the Executive Board on 1/4/2011, variable remuneration awarded was proportional and paid out in 2012.

Remuneration of the four members of the Executive Board totalled €3,274,545 in 2012 (previous year: €2,607,219).

Variable remuneration is performance-based and is limited to a certain percentage of the respective fixed remuneration. In respect of financial year 2011, this percentage was 50% and 70% maximum. The amount of the performance-based remuneration components is based on the extent to which the targets agreed for the financial year are reached. 50% of the target agreement for 2011 was based upon the attainment of the planned Group result, and 50% was based upon the attainment of qualitative (in part medium-term) targets in areas such as research and development or in the strategic further development of the investment portfolio. The principles underlying the Executive Board's share of profit were unchanged from the previous year.

No loans or advances were paid out to members of the Group's Boards. Neither the members of the Executive Board nor senior management staff have stock options.

Remuneration paid to members of the Supervisory Board amounted to a total of €203,679 (previous year €200,133).

Remuneration scheme for the members of the Supervisory Board (in accordance with Rule 51 of the Austrian Code of Corporate Governance):

	2012	2011
Chairman	15,000	15,000
Vice-chairman (two)	11,250	11,250
Members	7,500	7,500
Attendance fee	400	400

These arrangements also apply mutatis mutandis for the Supervisory Board's Working Committee.

6. Transactions with related parties

Agreements with members of the Supervisory Board, or with businesses that are closely associated with individual members of the Supervisory Board, which require consent under Rule 49 of the Austrian Code of Corporate Governance:

During financial year 2012, no agreements which were not at arm's length were entered into with members of the Supervisory Board or with enterprises with which a member of the Supervisory Board is

associated. Services were rendered for various companies in the VERBUND Group; these contracts were approved by the Supervisory Board.

VERBUND AG is the parent company within the VERBUND Group and therefore required to prepare consolidated financial statements.

There are profit and loss transfer agreements with Austrian Power Grid AG, VERBUND Beteiligungsholding GmbH, VERBUND Finanzierungsservice GmbH, VERBUND International Finance GmbH, VERBUND Management Service GmbH, VERBUND Sales GmbH, VERBUND Telekom Service GmbH and VERBUND Trading AG.

In addition to the already existing division into business areas (formal unbundling), in financial year 1999, VERBUND implemented legal unbundling as well by establishing independent enterprises under corporate law with separate managing entities and accounting departments.

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

Electricity deliveries VERBUND Hydro Power AG, VERBUND Thermal Power GmbH & Co KG, VERBUND Innkraftwerke GmbH, VERBUND International GmbH, VERBUND International Frankreich GmbH, Ennskraftwerke Aktiengesellschaft, Österreichisch-Bayerische Kraftwerke Aktiengesellschaft, Donaukraftwerk Jochenstein Aktiengesellschaft, KELAG-Kärntner Elektrizitäts-Aktiengesellschaft, STEWEAG-STEAG GmbH, Austrian Power Grid AG, Energie Klagenfurt GmbH, POWEO Pont-sur-Sambre Production S.A.S., POWEO Toul Production S.A.S.

Electricity trading and sales VERBUND Trading AG, VERBUND Sales GmbH, VERBUND Trading & Sales Deutschland GmbH, VERBUND Trading Hungária Kft, VERBUND Trading Czech Republic s.r.o., VERBUND Trading Slovakia s.r.o., VERBUND Trading Romania S.R.L., VERBUND International GmbH

Grid services Austrian Power Grid AG

Telecommunications VERBUND Telekom Service GmbH

Services VERBUND Management Service GmbH

Financing VERBUND Finanzierungsservice GmbH, VERBUND International Finance GmbH

Provision of personnel VERBUND Trading AG, VERBUND International GmbH

7. Intra-Group relationships

8. Unbundling

9. Disclosures in accordance with Section 78 of the Austrian Electricity Industry and Organisation Act (EIWOG)

Result of the documentation of electricity by source	Share	2012 kWh
Hydropower	100.0%	1,127,458,000
Total volume of electricity supplied in Austria to consumers for their own use	100.0%	1,127,458,000

100% of the proofs of origin used for the documentation come from Austria

Impact of electricity generation on the environment	2012
Radioactive waste (mg/kWh)	0.0
CO ₂ emissions (g/kWh)	0.0

Vienna, 1 February 2013
Executive Board

Dipl.-Ing. Wolfgang Anzengruber
Chairman of the Executive Board

Dr. Johann Sereinig
Vice-Chairman of the Executive Board

Dr. Ulrike Baumgartner-Gabitzer
Member of the Executive Board

Dipl.-Ing. Dr. Günther Rabensteiner
Member of the Executive Board

Disclosures of equity interests

in accordance with section 238(2) of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB)

	Head- quarters	Capital share in % as at 31/12/2012	Most recent annual financial state- ments	(+) (-)	Net income/loss for the year	€k Equity ¹
Consolidated affiliated companies²						
Austrian Power Grid AG	Vienna	100.00	2012	+	15,570.5	274,284.7
VERBUND Beteiligungsholding GmbH	Vienna	100.00	2012	-	-9,295.7	1,233,381.9
VERBUND						
Finanzierungsservice GmbH	Vienna	100.00	2012	+	2,061.3	218.1
VERBUND International Finance GmbH	Vienna	100.00	2012	-	2,648.0	2,035.0
VERBUND Management Service GmbH	Vienna	100.00	2012	+	5,078.2	3,120.7
VERBUND Sales GmbH	Vienna	100.00	2012	+	6,430.2	7,351.9
VERBUND Telekom Service GmbH	Vienna	100.00	2012	+	6,267.4	2,286.0
VERBUND Trading AG	Vienna	100.00	2012	+	474.1	1,859.0
VERBUND Tourismus GmbH	Vienna	99.90	2012	-	4,759.4	17,657.9
VERBUND Hydro Power AG	Vienna	80.33	2012	+	441,123.7	1,371,949.8
VERBUND Innkraftwerke GmbH	Töging	70.27	2012	+	44,441.3	426,168.3
Non-consolidated affiliated companies						
VERBUND Mobile Power Region GmbH	Vienna	75.10	2011	-	10.8	40.7
Associates						
Österreichisch-Bayerische Kraftwerke Aktiengesellschaft ³	Simbach	50.00	2011	+	3,272.0	51,361.0
Ennskraftwerke Aktiengesellschaft ³	Steyr	50.00	2011	+	335.9	13,429.0
Donaukraftwerk Jochenstein Aktiengesellschaft ³	Passau	50.00	2011	+	818.0	14,386.0
Gemeinschaftskraftwerk Inn GmbH	Landeck	50.00	2011	+	4.6	226.4
KELAG-Kärntner Elektrizitäts-Aktiengesellschaft ³	Klagenfurt	35.17	2011	+	79,445.0	558,169.2
STEWAG-STEG GmbH ³	Graz	34.57	2011	+	35,191.2	356,691.5
PÖYRY Energy GmbH	Vienna	25.10	2011	+	2,487.7	14,772.6

¹ Equity as defined by Section 224(3)A of the Austrian Commercial Code (UGB) or local law. // ² Full consolidation in accordance with Sections 253-261 of the Austrian Commercial Code (UGB). // ³ Consolidated using the equity method in accordance with Sections 263-264 of the Austrian Commercial Code (UGB).

Auditors' report

Report on the annual financial statements

We have audited the accompanying annual financial statements of VERBUND AG, Vienna, for the financial year from 1 January 2012 to 31 December 2012, including the accounting system. These annual financial statements comprise the balance sheet as at 31 December 2012, the income statement for the financial year ended 31 December 2012 and the notes to the annual financial statements.

Management's responsibility for the annual financial statements and for the accounting system

The Company's management is responsible for the accounting system and for the preparation, contents and fair presentation of the annual financial statements in accordance with Austrian corporate law. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility and description of type and scope of the statutory audit

Our responsibility is to express an opinion on these annual financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and the principles of proper performance of audits of financial statements. These standards require that we comply with professional guidelines and that we plan and perform the audit so as to obtain reasonable assurance whether the annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the annual financial statements and presentation of a true and fair view of the net assets, financial position and results of operations 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the annual financial statements comply with legal requirements and give a true and fair view of the financial position of VERBUND AG as at 31 December 2012 and its cash flows and profit or loss for the financial year from 1 January 2012 to 31 December 2012 in accordance with Austrian Generally Accepted Accounting Principles.

Comments on the management report

Pursuant to statutory provisions, the management report is to be examined as to whether it is consistent with the annual financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditors' report also has to contain a statement as to whether the management report is consistent with the annual financial statements and whether the disclosures pursuant to Section 243a of the Austrian Commercial Code (UGB) are appropriate.

In our opinion, the management report is consistent with the annual financial statements. The disclosures pursuant to Section 243a of the Austrian Commercial Code (UGB) are appropriate.

Vienna, 1 February 2013

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Maximilian Schreyvogel
Certified Public Accountant

MMag. Dr. Klaus-Bernhard Gröhs
Certified Public Accountant

I The annual financial statements may only be published or reproduced together with our auditors' report in the version audited by us. This auditors' 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.

Proposed appropriation of profits

The Executive Board proposes (in accordance with section 96(1) of the Austrian Stock Corporation Act (AktG)) to distribute a dividend of €0.60 per share to 347,415,686 non-par shares from the distributable profit of financial year 2012, i.e. a total of €208,449,411.60.

Documentation of electricity by source

Documentation in accordance with Section 78 of the Austrian Electricity Industry and Organisation Act (EIWOG)

Result of the documentation of electricity by source	Share	2012 kWh
Hydropower	100.0%	1,127,458,000
Total volume of electricity supplied in Austria to consumers for their own use	100.0%	1,127,458,000

100% of the proofs of origin used for the documentation come from Austria

Impact of electricity generation on the environment	2012
Radioactive waste (mg/kWh)	0.0
CO ₂ emissions (g/kWh)	0.0

Audit opinion

We have fulfilled our audit obligations in accordance with Section 79(6) of the Austrian Electricity Industry and Organisation Act (EIWOG) and have audited the documentation prepared by VERBUND AG, Vienna, in accordance with Section 78 of the Austrian Electricity Industry and Organisation Act (EIWOG) for 2012 financial year.

The statutory proof used for the documentation of electricity by source was provided by VERBUND AG. Within the scope of the performed audit procedures we have not found any facts that would lead us to assume that the submitted documentation as required under the law does not correspond to the actual circumstances.

Vienna, 1 February 2013

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Maximilian Schreyvogel
Certified Public Accountant

MMag. Dr. Klaus-Bernhard Gröhs
Certified Public Accountant

Glossary

Cash flow

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

EBIT

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

Equity ratio

Equity plus untaxed reserves and investment grants adjusted for deferred taxes in relation to total capital.

Gearing

Net debt in relation to equity plus untaxed reserves and investment grants adjusted for deferred taxes.

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 cross-border leasing transactions).¹

Notional debt repayment period

Ratio of debt to surplus funds from ordinary activities.

Return on capital employed (ROCE)

Earnings before interest (including personnel-related interest) less applicable taxes in relation to average capital employed.

Return on equity (ROE)

Profit or loss on ordinary activities before taxation in relation to equity including untaxed reserves and investment grants adjusted for deferred taxes at the beginning of the financial year.

Return on investment (ROI)

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

Return on sales (ROS)

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).

¹ Key figures were revised, previous year's values adjusted.

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