New opportunity – fresh perspective

VERBUND AG Annual Report 2013

Power for the Future

VERBUND AG
Annual Report 2013

Contents

Note to 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, %

	2011	2012	**2013**
Revenue	3,422.2	2,667.4	2,726.7
Earnings before interest and taxes (EBIT)	462.3	556.9	–259.7
Profit or loss on ordinary activities before taxation	282.9	415.6	–672.6
Net income/net loss for the year	274.3	393.1	–546.9
Net profit	191.1	208.4	347.4
Balance sheet total	5,596.3	5,604.3	5,582.6
Fixed assets	4,652.6	4,385.1	4,753.8
Capital expenditure for property, plant and equipment	6.2	8.5	2.8
Depreciation of property, plant and equipment	1.4	1.8	1.8
Equity	2,889.9	3,092.1	2,336.8
Return on sales (ROS)	13.5%	20.9%	–9.5%
Return on equity (ROE)	10.1%	14.4%	–21.7%
Return on investment (ROI)	7.8%	10.0%	–4.6%
Return on capital employed (ROCE)	6.2%	7.8%	–3.6%
Equity ratio	51.7%	55.2%	41.9%
Debt repayment period	9.7	6.1	-
Cash flow from operating activities	288.2	377.0	–285.3
Gearing	71.4%	48.0%	128.8%
Share price high	32.5	23.0	19.9
Share price low	17.9	14.5	14.3
Closing price	20.7	18.8	15.5
(Proposed) dividend per share	0.55	0.60	1.00
Dividend yield	2.65%	3.20%	6.44%
Operational headcount	163	168	172.8
Group electricity sales volume (GWh)[1]	55,729	64,397	**53,589**

[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	31/12/2018
Dr. Johann Sereinig Deputy CEO and Vice-Chairman of the Executive Board	1952	1/1/1994	31/12/2018
Dipl.-Ing. Dr. Günther Rabensteiner Member of the Executive Board	1953	1/4/2011	31/12/2018
Dr. Ulrike Baumgartner-Gabitzer Member of the Executive Board (until 30/6/2013)	1957	1/1/2007	30/6/2013
Dr. Peter F. Kollmann CFO and Member of the Executive Board	1962	1/1/2014	31/12/2018

Supervisory Board

Name	Year of birth	Date of initial appointment	End of current term of office
Dr. Gilbert Frizberg Chairman CEO of FI Beteiligungs- und Finanzierungs GmbH, CEO of Transfer Industries GmbH, managing shareholder of Franz Heresch & Co GmbH	1956	16/3/2000	AGM 2015
Dkfm. Peter Püspök 1st Vice-Chairman Member of the supervisory boards of Semper Constantia Privatbank (vice-chairman), Mareto Kunststoffverarbeitung GmbH and TUPACK Verpackungen GmbH	1946	16/3/2000	AGM 2015
Mag. Dr. Reinhold Süßenbacher 2nd Vice-Chairman Member of the supervisory boards of KSV 1870 Holding AG (vice-chairman), Richter Pharma AG, Bene AG (vice-chairman), Voglauer Möbelwerk Gschwandtner & Zwilling GesmbH, UMDASCH AG, LISEC Holding GesmbH and LISEC Austria GmbH	1949	7/4/2010	AGM 2015
Dipl.-Betriebswirt Alfred H. Heinzel Managing partner in several companies of the Heinzel group, member of the supervisory boards of Miba AG (vice-chairman), Allianz Elementar Versicherungs AG, Zellstoff Pöls AG (chairman), Wilfried Heinzel AG (chairman), Europapier AG (chairman), Europapier International AG (chairman), Laakirchen Papier AG (chairman), Mitterbauer Beteiligungs-AG (vice-chairman) 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., Ksc Holding A.S. and Flughafen Friedrichshafen GmbH, 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 Netz Niederösterreich GmbH, 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 (until 31/12/2013), chairwoman of the supervisory boards of WIEN ENERGIE GmbH (until 20/9/2013), WIEN ENERGIE Gasnetz GmbH (until 27/7/2013), WIENER NETZE GmbH (until 20/9/2013), Aktiengesellschaft der Wiener Lokalbahnen, B&F WIEN – Bestattung und Friedhöfe GmbH, Gemeinnützige Wohnungs- und Siedlungsgesellschaft der Wiener Stadtwerke Gesellschaft m.b.H., 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 shareholder in several companies of JOSKO group	1960	7/4/2010	AGM 2015
Ing. Siegfried Wolf Chairman of the board of Russian Machines LLC, chairman of the supervisory boards of GAZ Group, Glavstroy Corporation LCC, SBERBANK Europe AG (former Volksbank Int. AG), member of the supervisory boards of Österreichische Industrieholding AG (vice-chairman), Siemens Aktiengesellschaft Österreich, STRABAG SE, 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 boards of Stadtwerke Voitsberg GmbH (vice-chairman) and of Sparkasse Voitsberg/Köflach Bankaktiengesellschaft	1964	since 8/3/2004	appointed by the employee representatives
Ing. Wolfgang Liebscher Chairman of the Central Works Council	1966	since 1/11/2013	appointed by the employee representatives
Harald Novak Chairman of the Central Works Council	1952	27/9/1991 to 9/5/1993, 15/12/2000 to 31/10/2013	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

Financial year 2013 was another year in which VERBUND – Austria's leading utility – was faced with a difficult environment. However, thanks to comprehensive restructuring and cost reduction measures, as well as an above-average water supply, VERBUND was able to systematically pursue its strategy of profitable and sustainable growth despite unfavourable conditions in the market and the sector, and to again generate satisfactory earnings. The Supervisory Board actively monitored and supported these positive developments.

Discharging responsibilities The Supervisory Board discharged the responsibilities and exercised the powers incumbent upon it by virtue of the law and the Articles of Association in 5 plenary meetings. The overall attendance rate of all the members of the Supervisory Board was 87%. In addition, the Chairman maintained regular contact with the members of the Supervisory Board concerning important matters, so that all members were always involved in every matter of significance. The Executive Board informed the Supervisory Board regularly and comprehensively, on a real-time basis, both verbally and in writing, of all relevant questions relating to the Group's performance and its position and strategy, including the position and strategy of important Group companies, and the Group's risk position and risk management activities. The Supervisory Board advised the Executive Board on key questions concerning the future, particularly as regards structure and strategy, and monitored the Executive Board's management activities continuously based on its extensive reporting. Supervision, which took place in open and constructive discussions between the Executive Board and the Supervisory Board, did not reveal any grounds for criticism. In addition, the Chairman of the Supervisory Board held discussions with the members of the Executive Board, particularly the Chairman of the Executive Board, on a regular basis.

Significant Supervisory Board resolutions In addition to approving the annual financial statements and the Group budget, one of the Supervisory Board's most important functions is to appoint or reappoint Executive Board members. The Supervisory Board extended the Executive Board appointments of Dipl.Ing. Wolfgang Anzengruber, Dr. Johann Sereinig and Dipl.-Ing. Dr. Günther Rabensteiner for another 5 years. The Supervisory Board also appointed Dr. Peter Kollmann as a member of the Executive Board and Chief Financial Officer effective 1 January 2014. Dr. Ulrike Baumgartner-Gabitzer left the Executive Board on 30 June 2013 to take up another management function in the Group from 1 January 2014. The Supervisory Board would like to thank Dr. Ulrike Baumgartner-Gabitzer for her successful work on the Executive Board.

Code of Corporate Governance, Supervisory Board Committees As a leading listed Group, VERBUND made an early commitment to comply with the Austrian Code of Corporate Governance. VERBUND'S Supervisory Board also views compliance with the Code as obligatory and endeavours to consistently comply with the provisions relating to the Supervisory Board. In this spirit, all rules relating to the Supervisory Board's collaboration with the Executive Board, and to the Supervisory Board itself, are complied with in full, with the exception of one minor, explained deviation. Pursuant to the requirement of the Code (Rule 36), the Supervisory Board again conducted a self-evaluation during the reporting year. This consisted primarily of an extensive, open discussion of the procedures and organisation of the Supervisory Board and its committees. The implementation of improvements decided upon in the previous year was also approved and additional suggestions were made. Moreover, the Supervisory Board again discussed possible conflicts of interest, including those arising from the approval of contracts with companies where individual Supervisory Board members are related parties, and did not identify any conflicts of interest. As provided for in the Code of Corporate Governance, meetings were held as needed, without the participation of the Executive Board. The Supervisory Board's Working Committee met 4 times during the year under review, above all to plan plenary meetings, though also to discuss restructuring (particularly in the thermal area). The Audit Committee – which is an offshoot from the Working Committee and was set up as an independent committee – also met 3 times. It dealt 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 concentrated on the control, audit and risk management system and on 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 the past financial year. These committees performed the duties assigned to them by the rules of procedure. The Remuneration Committee held 3 meetings. The Nomination Committee met 3 times in order to prepare the appointments to the Executive Board. There were no changes to the composition of the Supervisory Board apart from a change in one employee representative. 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.

Annual financial statements and 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 Group management report for financial year 2013 were audited by Deloitte Audit Wirtschaftsprüfungs GmbH and given an unqualified auditor's 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, gave a true and fair view of the assets and liabilities, financial position and profit or loss of the Company and the Group and that the management report and the Group 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 2013 as presented by the Executive Board. As a result, they are final for the purposes of Section 96(4) of the Austrian Stock Corporation Act (Aktiengesetz, AktG). The management report by the Executive Board was approved, as was the profit appropriation proposal. The consolidated financial statements and the Group 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. In conclusion, the Supervisory Board would like to thank the Executive Board and all employees for their high level of dedication and their successful work during financial year 2013. The Supervisory Board would also like to thank the Group's shareholders, customers and business associates for their trust.

Vienna, March 2014

Dr. Gilbert Frizberg
Chairman of the Supervisory Board

Management report

Report on business performance and economic position

General conditions

The general conditions for electricity suppliers in Europe continued to deteriorate in 2013. Electricity prices continued their dive due to the weak economy, excess capacities in the European electricity market, massive subsidisation of new renewables and the freefall in prices for coal and CO_2 emission rights. Efforts to date to intervene in the oversaturated CO_2 market have not succeeded in propping up prices for emission rights. At the same time, gas prices have persisted at a high level based on long-term purchase agreements that stipulate quantities and are linked to the price of oil. As a consequence of the price trends in electricity, gas and CO_2 emission rights, gas power plants can now no longer be operated profitably. The decrease in electricity prices is also directly impacting the profitability of hydropower plants and wind farms.

Future performance of the energy markets is heavily dependent on the evolution of the regulatory framework. Following the elections that took place in the autumn of 2013, policymakers in Austria as well as in Germany expressed their commitment to overcoming the main challenges posed by the transition to a new energy age. These include developing an effective emission trading system at European level, evaluating and adapting the regime for green energy subsidisation and integrating new renewables into the European energy market. These cornerstones are a first step in enlarging the market and increasing competition.

General economic conditions

Global economic output continued to weaken in 2013. The following factors are having a severe impact on the economy: budget consolidation in the eurozone, sustained uncertainty regarding the development of the US government budget and the increasingly slow growth of emerging economies. Major emerging economies such as China, Brazil and India – which boosted the world economy for many years with their strong performance – are growing at an ever slower pace. According to forecasts of the International Monetary Fund (IMF), from January 2014, real economic growth will only amount to 1.3% in industrial countries in 2013 after 1.4% a year earlier. In the eurozone, the debt crisis led to another decline in real economic output of 0.4% following a drop of 0.7% in the previous year. However, the economic decline was no longer restricted to the EU periphery but was also seen in the core eurozone countries such as France and the Netherlands. Germany and Austria, by contrast, registered comparatively positive economic trends in 2013 with growth in real GDP of 0.5% and 0.3%, respectively.

Energy market environment

Economic trend depresses demand for energy

Energy consumption in Austria is likely to lie somewhat over the prior-year level in 2013, due primarily to the cold weather conditions that existed during several months of the first half of the year. Viewed over the year as a whole, total heating degree days increased by 1.1%. This indicator is generally used as a temperature-independent indication for the use of heating energy. The economic trend, however, had hardly any effect on energy consumption.

Natural gas consumption decreased by 3.6% in 2013 (January to November). A colder January and March, as well as the cooler spring months, led to higher natural gas consumption for heating. The use of natural gas for energy generation in power plants saw a significant price-related drop below the previous year's level (January to November: –31.3%). The reason for this was the inability to operate gas power plants profitably due to low wholesale prices for electricity and expensive gas supply agreements that are linked to the price of oil. Industrial gas demand was in turn characterised by weak production.

Consumption of hard coal rose, most likely due to high capacity utilisation in the steel industry. By contrast, electricity generation decreased by 2.0% (January to November).

Mineral oil consumption likewise registered an increase in 2013. Demand for fuels was stable on the whole, with higher sales of gas oil for heating purposes (extra light heating oil) contributing in particular to the overall trend.

Renewables maintained their share in the total. Although hydropower saw a decline of 3.9% (January to November), the new renewable energy sources – especially wind power and solar power – were able to sustain their upward trend.

Electricity demand rises slightly, dependency on imports increases significantly

The slow economy made its mark in weak growth of electricity consumption. According to preliminary figures from E-Control, electricity consumption in Austria increased by a mere 0.7% year-on-year in 2013 (January to November).

Due to the poor water supply compared with the previous year, hydropower plants supplied 3.9% less electricity between January and November. Utilisation of thermal power plants decreased by 15.5% in this period, with gas power plants in particular being increasingly forced off the market. These plants generated 31.3% less electricity between January and November.

“Other generation” recorded a 10.0% rise in this period. 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. All in all, electricity generation decreased by 5.2% in Austria in 2013 (January to November). The decline in generation was compensated by a significant increase in net imports.

Oil prices fall back slightly

The average price for one barrel of Brent crude oil (front month) was $108.7/bbl in 2013 compared with $111.7/bbl a year earlier. This represents a decrease of 2.7%. In Euro terms, Brent crude was 5.7% cheaper due to the appreciation of the euro against the US dollar. The oil price trend showed a high level of fluctuations in 2013. At the start of the year, signs of global economic recovery and expectations of rising demand for oil triggered price hikes up to approximately $119/bbl. The geopolitical situation in the Near East (Syria, Egypt, Iran, Gaza) also contributed to uncertainty. The situation in the oil market then relaxed somewhat, only to return to a more tense state in the summer. Especially from mid-August onward, strike-related drilling disruptions in Libya as well as production disruptions in Southern Sudan and the North Sea led to a rise in front month prices to more than $110/bbl. The threat of military intervention by the USA following the chemical weapons attack in Syria resulted in a price rise to nearly $117/bbl by the end of August. Not until the end of quarter 3/2013 did crude oil become cheaper due to the improved supply situation – some Libyan facilities were able to start producing again – as well as signs of relaxation in Syria and Iran.

Gas prices at a high level, sustained price erosion in the hard coal market

The majority of natural gas imports in the European Union is based on long-term contracts linked to oil prices and quantities. For this reason, trends in the oil market also impact gas prices after a lag of several months. However, wholesale markets such as the Title Transfer Facility (TTF) hub in the Netherlands and the Net Connect Germany (NCG) hub – where oil prices do not directly impact pricing – are becoming increasingly important. Recent 2013 prices in the gas trading markets were well below those for long-term contracts linked to the price of oil. Long-term purchase obligations and the practice of linking contracts to oil prices are no longer compatible with a liberalised, competitive energy market. For some time now, gas importers and large-scale gas consumers – including VERBUND – have therefore been attempting to effect an adaptation of the market.

Prices for gas imports to Austria increased by an average of 3.2% in the first 9 months of 2013, whereby the gas import prices recorded by Statistik Austria largely reflect the price situation in long-term contracts linked to the price of oil. The spot price in the European NCG trading point increased by €2.0/MWh in 2013 to €27.1/MWh. The main reasons for this were the cold first half of the year and low gas reserves. The price increase did not affect the futures market. Supply contracts for 2014 (NCG front year) decreased by just under 1% to €26.7/MWh.

Coal deliveries in the ARA area (Amsterdam, Rotterdam, Antwerp) recently became much less expensive. Coal prices were down 14.6% in the spot market in 2013 and 16.4% in the futures market year-on-year (ARA front year; both on a euro basis). The reason is the persistently weak economy plus a surplus arising from the defection of US coal manufacturers to the export market due to heightened competition from lower-priced shale gas in the domestic market.

Political and regulatory framework conditions at an European level

Electricity market out of balance

The current mismanagement of energy markets is negatively impacting conventional power plant portfolios all over continental Europe. In addition to the non-functioning state of the CO_2 market, the problems arise from the fact that new renewable energy sources are being developed without heed to the market. Wind power and photovoltaics development in particular is being massively subsidised by governments, with the power generated being given priority when it is fed into the grid. This puts conventional power plants in a difficult market position given the competition they face from the subsidised technologies. The situation is even worse for gas power plants as gas purchase prices are far too high due to non-market-compliant purchase agreements. As a result, state-of-the-art power plants are being forced to shut down across Europe because they cannot be operated profitably. However, a balanced mix of power plants is urgently needed to ensure the future security of supply, for example when the wind is not blowing or the sun is not shining. Integration of new renewable energy therefore calls for mechanisms to ensure that a competitive market design is compatible with security of supply.

The guidelines presented by the European Commission for state intervention in the electricity market are a first step towards making the market more competitive. Additional steps are indispensable, however, such as those presented in VERBUND's 6-point programme to improve the market system. Some of the main points of the programme are an ambitious environmental target for 2030, the reform of emissions trading as a key instrument in long-term European energy and environmental policies and market integration of renewables.

The EU plans to limit state intervention in order to build an integrated market

In November 2013 the European Commission published a Communication giving guidance for state intervention. The Communication notes with criticism that uncoordinated public interventions are not compatible with realising an integrated European energy market. The guidelines presented by the European Commission relate to support schemes for renewable technologies and to the introduction of capacity mechanisms. For instance, the Commission calls for replacing feed-in tariffs for renewable energy with market-oriented mechanisms. Capacity mechanisms should only be implemented when absolutely necessary to secure the energy supply. These principles are to be put into effect by mid-2014 by means of binding state aid provisions. In addition, the European Commission intends to reinforce demand response in the integrated energy market and has announced the corresponding measures in the guidelines. VERBUND supports the Commission in its efforts to achieve a truly integrated European energy market.

Emission trading reform needs more than back-loading

The EU emission trading system is only fulfilling its purpose of promoting low-emission technologies to an insufficient extent. The reason is that prices for CO_2 emission rights have persisted at a very low level because too many allowances have been issued. As a short-term measure to rebalance supply and demand, the European Commission, the European Parliament and the EU Member States spoke out in favour of "back-loading" at the end of 2013 after much hesitation. This involves temporarily reducing the number of CO_2 emission rights to be auctioned in the third trading phase (2013–2020) by 900 million. VERBUND does not expect this measure to impact carbon prices. Given the existing surplus of around 2.5bn emission rights, market participants had assumed a greater, longer-lasting shortage of supply. Rather than back-loading, far-reaching reforms are what is needed to establish EU emissions trading as a control mechanism for reducing CO_2 emissions. In addition to permanently retiring CO_2 emission rights, a mechanism should be implemented to adjust the volume of future auctions on an ongoing basis to target levels for emission reductions, in line with the development of renewable energy sources, efficiency increases and the trend in electricity demand.

Coalition agreement in Germany: cornerstone for successful transition to a new energy age

The coalition agreement between the CDU, CSU and SPD for the 18th legislative period is entitled "Shaping the Future of Germany". The section on "growth, innovation and prosperity" discusses the challenges in terms of energy policy brought about by the transition to alternative energies. In this section, the coalition partners state their commitment to giving equal priority to the goals of the energy policy triangle: security of supply, cost-effectiveness and sustainability. Building on these goals, the agreement refers to stronger integration with the European electricity market and aligning subsidy conditions with the rest of Europe.

The agreement also states that the Renewable Energy Sources Act (Erneuerbare-Energien-Gesetz, EEG) will undergo fundamental reform by the summer of 2014, with existing installations being grandfathered ("Bestandschutz"). With regard to the further development of renewables, a corridor will be determined (40–45% by 2025 and 55–60% by 2030) and reviewed annually. Development is to be synchronised with the grid and coordinated between the federal government and the German states to an increased extent. In addition, the agreement reaffirms the commitment to conventional power plants and the necessity of creating reliable framework conditions. According to the agreement, energy efficiency is the second pillar of sustainable energy transition. The objective for environmental protection is to reduce carbon levels by 40% by 2030 at a European level. In terms of electromobility, Germany wants to become a leading market and a top supplier. The agreement reaffirms the goal of 1 million electrically powered vehicles by 2020 with prioritisation for developing the charging infrastructure. In general, the coalition agreement touches on all main topics relating to energy policy. The effect of these measures on the electricity market will depend heavily on the specific manner in which the objectives are put into practice and the time scale for implementation. An "energy transition forum" will be established in which the federal government and the parliament can consult and all key players can engage in dialogue.

Energy policy in Austria

New legal framework for the energy sector

In December 2012, the Federal Energy Efficiency Act went to committee in connection with the energy efficiency package in Austria. The draft bill was subject to intense public debate and was passed by the Council of Ministers on 3 April 2013. However, the negotiations on adopting the bill into law failed at the start of June 2013, with further debate postponed until after the National Council elections. Hence adoption by parliament will not be possible until 2014. The Federal Energy Efficiency Act is high on the agenda of the new government as the EU-level directive prescribes implementation by the summer of 2014. However, amendments to the Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG), the Natural Gas Act (Gaswirtschaftsgesetz, GWG) and the E-Control Act (Energie-Control-Gesetz, E-ControlG), which are also part of the energy efficiency package, were adopted in 2013. Now complete documentation of electricity deliveries with proof of origin is obligatory in energy labelling. Other factors of relevance for VERBUND are the changes in the consumer area (especially those facilitating changes in supplier) and in rates (for new pumped storage power plants).

Government programme in Austria

The coalition talks between the SPÖ and the ÖVP following the National Council elections in September were concluded in December 2013. The ruling parties stated that their joint objective in the area of energy was an efficient, affordable and socially responsible energy system. In addition to security of supply, prosperity, competitiveness and an environment that is worth living in, the government programme explicitly refers to Austria's pioneering role in the anti-nuclear movement. Preparation of an "Energy Strategy 2030" that involves all relevant stakeholders, as well as the ongoing evaluation and monitoring of energy policy, can become key instruments in reaching these goals.

Finance

Factors affecting the result

Wholesale prices for electricity

VERBUND had already entered into contracts for the majority of its own electricity generation for 2013 in the futures market in 2012. At an average of €49.3/MWh for base load and €60.9/MWh for peak load, wholesale prices were below the prices for the 2012 supply year by 12.0% and 11.8% respectively. The futures market was subject to enormous pressure due to scaled-back expectations for the economy, lower prices for coal and CO_2 emission rights, surpluses in the European electricity market and the continued development of subsidised renewable energy. For next day deliveries (spot market), wholesale trading prices for electricity were also well below the prior-year level in 2013. Prices for base load decreased by 11.3% to €37.8/MWh and prices for peak load fell by 8.9% to €48.7/MWh.

Water supply performance

Water supply is of particular significance for VERBUND since more than four-fifths of its 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. 2013 was a good year for water. At 1.07, the hydro coefficient for run-of-river and pondage power plants was 7% above the long-term average, but 4 percentage points below the previous year's level. The hydro coefficients for the individual quarters were as follows: quarter 1: 1.20, quarter 2: 1.05, quarter 3: 0.92 and quarter 4: 1.20.

At 35,539 GWh, VERBUND's own generation was 311 GWh higher in 2013 than in 2012. Generation from hydropower rose by 458 GWh in 2013. Most of the increase was due to newly acquired power plant interests in Germany (+1,563 GWh). At 1.07, the hydro coefficient was 4 percentage points below the previous year's level. The decrease of 210 GWh in generation from annual and pumped storage power plants also had a negative impact. This is attributable to the decline in the water inflow amount despite having emptied reservoirs and stepped up reverse operation. Generation from wind power rose by 323 GWh to 565 GWh due to the commissioning of installations in Romania and Germany. A total of 425 GWh came from wind farms in Germany and Romania. However, generation from thermal power plants decreased by 469 GWh. The Mellach/Styria CCGT generated only 394 GWh in 2013 due to market factors (2012: 1,048 GWh). Generation from other VERBUND thermal power plants in Austria decreased by 211 GWh from the previous year to 2,362 GWh. The 2 French CCGTs produced 396 GWh more electricity than in 2012 after the Toul power plant was commissioned in quarter 4/2012.

The purchase of electricity from third parties for the trading and sales business increased by 2,845 GWh. Electricity purchased from third parties for grid losses and balancing energy was nearly unchanged.

Group electricity supply GWh

	2012	2013	Change
Hydropower[1]	30,485	30,943	1.5%
Wind power and photovoltaics	242	565	133.4%
Thermal power[1]	4,500	4,031	– 10.4%
Own generation	35,228	**35,539**	0.9%
Electricity purchased from third parties (trading)	12,029	14,874	23.6%
Electricity purchased for grid loss and control energy volumes	3,142	3,175	1.1%
Group electricity supply	50,398	**53,589**	6.3%

[1] Incl. purchase rights

Electricity sales volume increased by 2,793 GWh in 2013 compared to the previous year. The increase in sales to resellers (+1,095 GWh) is attributable to higher sales to German municipal utilities. Quantities supplied to Austrian provincial utilities were nearly unchanged. Electricity deliveries to trading firms rose by 1,174 GWh, primarily due to increased sales via power exchanges as a result of German marketing of the newly acquired power plant interests in Germany. VERBUND also succeeded in increasing sales to consumers, both domestically and internationally (+525 GWh). Internationally, the volumes sold to industrial consumers increased significantly due to successful marketing activities in the German market. VERBUND'S own use for electricity also increased (+228 GWh), above all due to greater utilisation of pumped storage power plants.

Group electricity sales volume and own requirements GWh

	2012	2013	Change
Consumers	9,568	10,093	5.5%
Resellers	20,506	21,601	5.3%
Retailers	17,409	18,583	6.7%
Electricity sales	47,483	**50,277**	5.9%
Own requirements	2,457	2,685	9.3%
Control energy volumes	459	627	36.7%
Electricity sales and own requirements	50,398	**53,589**	6.3%

In 2013, approximately 49% of the electricity sold by VERBUND went to the Austrian market. The focus of international trading and distribution activities is the German market, which accounts for 88% of all volumes sold abroad.

Financial performance

Revenue and result

	Unit	2012	2013
Revenue	€k	2,667,377.0	2,726,684.9
Earnings before interest and taxes (EBIT)	€k	556,875.9	–259,714.0
Profit or loss on ordinary activities before taxation	€k	415,593.5	–672,637.2
Net income/net loss for the year	€k	393,084.7	–546,931.0
Net profit	€k	208,449.4	347,415.7
Return on equity (ROE)	%	14.4	–21.7
Return on investment (ROI)	%	10.0	–4.6
Return on capital employed (ROCE)	%	7.8	–3.6
Return on sales (ROS)	%	20.9	–9.5

Revenue increased

Revenue increased mainly due to the expansion of the gas business by €119,467.0k and increased emission rights trading by €27,801.7k.

On the other hand, electricity revenue fell by €86,856.9k, whereby electricity revenue with energy supply companies decreased by 2.6% to €1,361,165.4k and electricity revenue with traders by 6.7% to €1,014,601.4k. The main factor of influence for this was that despite higher volumes sold, the electricity prices applicable for the year declined by approximately 12% in comparison to the previous year.

Electricity revenue generated in foreign countries, primarily Germany, was unchanged at 45.0% (previous year: 45.0%).

Electricity sales volume rose within the Group by 3,190.8 GWh or 6.3% compared to the previous year. The forward contracts that are not recognised in sales went down by 16.5% to 135,942 GWh.

Other operating income increased

Other operating income rose by 14.5% to €43,574.5k. For the most part, this is the result of higher income from billing of services to Group companies.

Expenses for the purchase of electricity decreased

Expenses for electricity purchases fell by 2.8% to €2,202,078.7k. The main reason for this was – as with revenue – that despite higher volumes, the electricity prices applicable for the year declined by approximately 12% in comparison to the previous year. Total expenses for electricity, grid and emission rights purchases (trading) increased by 3.8% to €2,449,111.4k.

Personnel expenses

Current personnel expenses increased insignificantly by €319.6k to €25,602.6k. The 3.0% increase in salaries and ancillary expenses under the collective agreement and the biennial pay rises under the collective agreement contributed to the increase in personnel expenses, as did the higher number of employees. This was offset by a decline in premiums, bonuses and remuneration. Expenses for employee benefits relating to pension and severance payments decreased by €3,466.4k. This decline was mainly the result of the fact that no non-recurring effects were recognised in 2012 such as the abolishment of the corridor method. This was offset by the interest rate reduction from 4% to 3.5% for pensions and severance payments, as well as the increase in pension benefits and the higher basis of calculation for severance payments. Overall, the operational headcount increased by 4 to 172.

Other operating expenses

Other operating expenses rose by €25,773.8k to €110,771.6k. This increase is primarily attributable to a provision for operating a fictitious gas storage facility.

Profit or loss on ordinary activities before taxation

Profit or loss on ordinary activities before taxation fell from €415,593.5k by 261.8% to €–672,637.2k as a result of the factors of influence described above and the highly negative financial result of €–802,332.0k (previous year: €+231,103.8k), largely due to transfers of losses in the amount of €694,463.6k, the provision for guarantee bonds of €285,245.0k and impairment of a loan to affiliated companies of €80,680.6k as well as of an equity interest of €45,003.0k.

Financial position

Financial position

	Unit	2012	2013
Fixed assets	€k	4,385,119.9	4,753,833.3
Current assets	€k	1,115,648.4	646,609.9
Working capital	€k	900,939.9	–686,408.5
Net debt	€k	1,484,151.0	3,011,659.5
Equity	€k	3,092,084.2	2,336,843.8
Current liabilities	€k	291,820.7	1,386,607.2
Current assets	€k	1,192,760.6	700,198.7
Equity ratio	%	55.2	41.9

Fixed assets

Intangible assets and property, plant and equipment increased by €1,754.9k, of which €1,223.7k was attributable to electricity purchase rights, €608.5k to software, €1,222.7k to office adaptations and €1,618.9k to office and plant equipment; amortisation and depreciation charges amounted to €2,848.1k and disposals to €70.8k.

Investments relating to investees increased by €+1,122,856.4k, primarily due to the acquisition of Innwerk AG (€+1,385,219.0k), the increase in equity interest in VERBUND Beteiligungsholding GmbH (€+53,399.7k) and the acquisition of shares in Grenzkraftwerke Gesellschaft mit beschränkter Haftung (€+840.0k); in contrast, shares in STEWEAG-STEG GmbH were sold (€–270,900.0k) and amortisation of equity interests amounted to €–45,702.3k.

Other investments declined in total by €755,897.9k. Loans were granted in the amount of €228,498.4k, while €854,450.8k of loans was repaid and an impairment loss of €80,680.6k was recognised. Securities decreased in total by €48,964.7k.

Current assets

The decrease in current assets by €469,038.5k to €646,609.9k is primarily the result of a reduction in receivables from VERBUND Finanzierungsservice GmbH in the amount of €736,998.0k for cash management and has to be seen alongside the short-term financing of Austrian Power Grid in the amount of €250,000.0k. Other receivables decreased primarily due to the receipt of an outstanding instalment from the sale of an equity interest in 2012 in the amount of €40,000.0k which has to be seen alongside the receivable from the tax authorities from excess corporate tax prepayments in the amount of €33,866.5k. Other receivables from the electricity trading business, energy exchanges, emission rights trading and security deposits for energy exchanges increased by €58,280.4k.

Equity
Due to the results for the year and the distribution for financial year 2012, equity decreased by €755,240.4k to €2,336,843.8k. The equity ratio fell as a result from 55.2% to 41.9%.

Liabilities
Non-current and current liabilities increased by €444,626.3k to €2,839,085.9k. In 2013, the net movement in borrowing from and repayments to banks was €184,666.7k. Trade payables remained nearly unchanged. Liabilities to affiliated companies rose by €562,555.4k to €2,003,478.2k. This increase resulted on the one hand from cash management in the amount of €277,826.8k and on the other hand from the sale of 60% of a non-current liability from an electricity supply agreement from E.ON Wasserkraft GmbH to VERBUND International GmbH as part of the acquisition of Innwerk AG (outstanding amount of €280,859.2k as at 31 December 2013). In addition to scheduled repayments, the other liabilities decreased accordingly for the reason presented above.

Cash flows

Financing strategy
In today's volatile energy market environment in which planning is difficult, VERBUND bases its financing strategy on 3 pillars: securing liquidity and ensuring suitable liquidity reserves, securing a solid credit rating over the long term and optimising the capital structure.

Securing liquidity and ensuring suitable liquidity reserves
For VERBUND, ensuring that liquidity is secure at all times has the highest priority.

As at 31 December 2013, VERBUND had a syndicated credit line in the amount of €750.0m at its disposal that had not been drawn upon. This facility runs until 2018. It was taken out on 17 October 2011 with 25 domestic and international banks. VERBUND also had uncommitted lines of credit amounting to €591.5m, primarily with Austrian banks. In addition, we hold cash equivalents with maturities of 3 to 6 months.

As at 31 December 2013, VERBUND had invested a total of €705.0m in money market time deposits with a variety of banks. These investments serve to cover the high level of funds needed in 2014, primarily for the repayment of a bond in the amount of €500.0m in June 2014.

Securing a solid credit rating over the long term
The better the company's credit rating, the easier and more inexpensive it is to access international markets. A solid credit rating gives VERBUND access to various financing instruments, including those in the capital market. VERBUND has been awarded a long-term rating of A– from Standard & Poor's (S&P) and Baa1 from Moody's, both with a stable outlook. S&P's rating remained stable throughout 2013. Moody's, however, reduced its rating by a total of 2 steps: in April from A2 to A3 and in August from A3 to Baa1. The rating reductions followed the negative performance of the utilities sector. The difficult sector environment resulted in a deterioration in the capital structure and the cash flow of many European utility companies.

For the long term, VERBUND is aiming for a solid “A” category rating. For that reason, our Group management is focusing among other things on 2 key rating ratios: FFO/net debt and RCF/net debt. For an “A” level rating, both S&P and Moody’s expect FFO/net debt of at least 20% and RCF/net debt of 10–15%.

Optimising the capital structure

VERBUND manages its capital structure using a gearing ratio that corresponds to net debt divided by equity. Net debt is calculated from gross debt less cash and cash equivalents, short-term investments and securities held in current and non-current assets. The goal is to keep the gearing ratio below 80%. To this end, VERBUND implemented numerous measures in 2013. We divested ourselves of non-strategic activities as well as non-controlling interests.

Moreover, it is necessary to maintain a long-term, balanced dividend policy towards our shareholders and lenders.

Financial key figures

	Unit	2012	**2013**
Cash flow from operating activities	€k	377,031.6	–285,342.8
Cash flow from investing activities	€k	238,650.4	–458,334.4
Cash flow from financing activities	€k	–612,514.1	741,042.1
Financial result	€k	231,103.8	–802,332.0
Gearing	%	48.0	128.8
Debt repayment period	years	6.1	-

The financial result decreased by €1,033,435.8k in comparison to the previous year to €–802,332.0k mainly as a result of higher transfers of losses by €681,324.0k, while results from equity interests were higher by €84,930.2k. In addition, a provision of €286,809.5k was recognised for expected losses from investees. In the area of financial investments, income from disposals was also lower by €52,676.7k and impairment losses were higher by €100,376.2k.

An increase in interest-bearing net debt by €1,527,508.5k and the simultaneous reduction in adjusted equity by €755,345.4k resulted in an increase in gearing of 80.8 percentage points to 128.8%. The debt repayment period is negative due to a decrease in the surplus funds from ordinary activities and simultaneous rise in debt of €735,714.7k.

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 resulted in a cash outflow of €285,342.8k (previous year: cash inflow of €377,031.6k).

Inventories increased primarily as a result of an increase in the stock of emission rights in the amount of €2,605.3k, while gas storage decreased by €2,130.6k. Inventories of guarantees of origin in the amount of €235.0k are new.

The change in trade receivables and other receivables is primarily attributable to the decrease in trade receivables of €27,192.6k (of which from affiliated companies: €11,290.9k), the reduction of other receivables from affiliated companies in the amount of €2,398.5k, the increase in provisions of collateral for trading of electricity derivatives in the amount of €55,280.4k, the increase in deferred tax assets of €86,033.6k and the increase in other accruals and deferrals in the amount of €2,741.2k. In addition, the surplus in corporate tax prepayments compared to provisions for corporate tax resulted in an increase in other receivables of €33,866.5k.

The change in current provisions and tax liabilities is due to the reduction in other non-current provisions by €2,649.7k and the decline in provisions for taxes by €24,550.7k, compared to the increase in provisions for onerous contracts of €313,359.0k. Provisions from the electricity business remained largely unchanged.

The change in trade payables and other liabilities is the result of an increase in liabilities from the electricity business in the amount of €9,895.7k and the increase in other liabilities of €1,801.1k.

(2) Cash flow from investing activities

Net cash flow from investment activities resulted in a total cash outflow of €458,334.4k (previous year: cash inflow of €283,650.4k), resulting primarily from the acquisition of equity interests in the amount of €1,438,878.7k (of which shareholder contributions of €53,399.7k), the granting of loans amounting to €228,498.4k and the purchasing of securities totalling €1,408.9k. These have to be seen alongside the repayment of loans in the amount of €854,450.8k, the disposal of equity interests totalling €310,900.0k (of which €40,000.0k from a disposal in 2012 which only resulted in payment in 2013), as well as the disposal of securities totalling €50,373.6k.

Capital expenditure for intangible assets and property, plant and equipment primarily comprised capital expenditure relating to office and plant equipment in the amount of €1,978.7k, relating to office adaptations in the amount of €1,375.2k, relating to rights totalling €1,223.7k and relating to software in the amount of €763.3k.

(3) Cash flow from financing activities

As part of the dividend distribution approved for 2012, €208,449.4k was paid out to shareholders. This was equivalent to a dividend of €0.60 per share.

Within Group financing, granting short-term funding to Austrian Power Grid AG resulted in cash outflow of €250,000.0k (previous year: cash outflow of €32.7k).

Group clearing resulted in a cash inflow of €1,014,824.8k (previous year: cash outflow of €175,302.0k).

Loans in the amount of €200,000.0k were taken out and repayments in the amount of €15,333.3k were made.

Cash flow statement

€k

	Notes	2012	2013
Net income/net loss for the year		393,084.7	–546,931.0
Amortisation of intangible assets and depreciation of property, plant and equipment		2,548.1	2,848.1
Amortisation of financial assets		26,006.6	126,382.8
Result from disposal of non-current assets		–39,132.0	302.8
Change in non-current provisions and deferred tax liabilities		4,604.8	1,847.6
Income from the reversal of contributions to building costs		–35.1	–35.1
Other non-cash expenses and income		3,345.5	–17,315.4
Change in inventories		–2,399.2	–762.9
Change in trade receivables and other receivables		–63,388.2	–150,069.5
Change in trade payables and other liabilities		26,346.6	11,696.8
Change in current provisions		26,050.0	286,692.9
Cash flow from operating activities	(1)	377,031.6	**–285,342.8**
Cash outflow from capital expenditure on intangible assets and property, plant and equipment		–10,344.8	–5,341.0
Cash inflow from the disposal of intangible assets and property, plant and equipment		2,135.6	68.1
Cash outflow from capital expenditure on investments		–452,682.3	–1,668,786.0
Cash inflow from the disposal of investments		699,541.9	1,215,724.5
Cash flow from investing activities	(2)	238,650.4	**–458,334.4**
Cash inflow (outflow) from money market transactions		–26.5	0.0
New non-current loans		0.0	200,000.0
Cash outflow from the repayment of financial liabilities (excluding money market transactions)		–246,086.2	–15,333.3
Cash inflow from contributions to building costs received and grants		12.0	0.0
Cash inflow (outflow) from increases (decreases) in Group financing		–32.7	–250,000.0
Cash inflow (outflow) from increases (decreases) in Group clearing balances		–175,302.0	1,014,824.8
Dividends paid		–191,078.6	–208,449.4
Cash flow from financing activities	(3)	–612,514.1	**741,042.1**
Change in cash and cash equivalents		3,168.0	–2,635.0
Cash and cash equivalents as at 1/1/		4,865.0	8,032.9
Cash and cash equivalents as at 31/12/[1]		8,032.9	**5,397.9**

[1] Also see note (5)

Report on research, development and the environment

Human Resources

With their commitment and their knowledge, our employees make an essential contribution to the goals and to the performance of our Group. We place value on highly qualified and dedicated employees to secure our long-lasting economic success. We invest in people by rewarding them in line with their performance and market conditions, and by offering consistent, needs-based continuing education.

Market situation necessitates personnel measures

2013 was marked by a persistently difficult situation in European energy markets. To lower costs and remain competitive, VERBUND initiated various measures such as a freeze on hiring external personnel from mid-April and a reorganisation programme.

Even in the previous years we had only allowed personnel levels to rise minimally, and hiring was tightened in the past year. The number of employees nonetheless rose by 5% compared with 2012 due to the purchase of Grenzkraftwerke GmbH and Innwerk AG, which involved taking on 216 employees. The number of new hires decreased compared with 2012. The focus in 2013 was on filling apprenticeship positions, positions relevant to succession planning and positions that had been advertised in the first quarter.

The reorganisation gives top priority to continued employment for the employees concerned. Necessary personnel reductions will be carried out in a socially responsible manner by offering some employees retirement and others part-time retirement opportunities. Enforced redundancies will be avoided. To achieve these goals, VERBUND implemented key initiatives such as the creation of an "internal employment market" and the conclusion of a social compensation plan.

Internal employment market promotes continued employment

Priority is given to filling vacant positions with personnel from the internal employment market. This is where our many years of investing in comprehensive continuing education pay off, as the employees affected by restructuring are able to work in many different areas. Targeted retraining programmes offer further prospects for participants in the internal employment market. VERBUND is therefore acknowledging the principle of continuous employment as part of its long-term personnel development.

Social plan supports transition

A detailed social plan was drawn up conjointly with the employee representatives. The plan provides for several measures. In addition to the legally stipulated part-time retirement models, the social plan will provide bridging payments for employees seeking new challenges in the external employment market. Employees interested in switching careers can take advantage of a labour foundation co-financed by VERBUND. For the duration of the stipend, they receive unemployment payments as provided by law. Additional internal retraining and advanced training programmes, some of which can be combined with the statutory educational leave options, enable us to provide all affected employees with solutions that are socially responsible and adapted to individual needs.

Apprentice training secures future talent

We are continuing the apprentice training initiative we introduced at VERBUND some years ago. Our goal in this is to counteract the demographically based wave of retirements that will occur during the next 5 years. Ongoing, quality-based human resources planning on the basis of “job families” has shown that the coming retirements will primarily involve skilled workers and master craftsmen.

Our employees in the trade professions are strategically important to our core business. For this reason, we pay special attention to securing their knowledge. We make significant investments in training our own apprentices and in ensuring structured succession planning.

For more than 60 years, apprenticeship training has been of great significance to our Group. The competence and skills needed to meet future challenges at VERBUND are conveyed to young talent at 3 apprentice workshops and at approximately 23 locations in Austria and Germany. Each year, over 40 dedicated men and women begin their 4-year training programme to become “electrical engineering and metalworking technicians” or “electronic and electrical engineering technicians”. These dual professional qualifications are in high demand and offer excellent opportunities for the future. The results of the final apprenticeship examinations confirm the high quality of the training offered at VERBUND. In 2013, all apprentices passed this examination and about one-third of them with distinction.

In recent years, we have formed a pool of “skilled young workers” from the ranks of our apprentices. These workers receive additional training at the power plants. This will allow us to fill most of the technical positions opening up in the coming years from our own ranks.

Sustainability

Sustainable business management is particularly important in economically challenging times. We see our opportunity in environmentally friendly, renewable and socially acceptable energy generation. This is how VERBUND is making a key contribution to the future. In 2013, the new sustainability reporting guidelines were published by the Global Reporting Initiative. The guidelines foresee a focus on significant corporate topics and call for greater integration of stakeholders.

Maintaining a dialogue with our stakeholders

We engage in an open and objective dialogue with our stakeholders and ensure that our actions are comprehensible and clear. In 2013, we conducted a structured survey of our stakeholders in Austria and Germany (with a focus on Bavaria). The questions related to VERBUND in general as well as to our sustainability communications. Suggestions and requests were gathered in an online survey as well as in interviews with individuals from a variety of interest groups. The objectives were to evaluate our previous communications and to point out possible topics for future reporting as well as new areas on which to focus our work.

The survey indicated that more than 60% of our Austrian and Bavarian stakeholders are (very) satisfied with their exchange of information with VERBUND. The stakeholders named one of our main strengths as being quick provision of high-quality information and the high level of competence of the contact persons in individual discussions. Moreover, the German stakeholders also appreciated the respectful and confident tone of the communications and the high level of service offered. A direct ranking of the topics covered showed that, from the perspective of the Austrian stakeholders, the most important ones were the provision of a secure power supply for VERBUND customers, an increase in the value of the Group and protection of the environment, nature and climate, as well as innovation.

Systematic measurement of sustainability

Since 2002, VERBUND has published sustainability reports in accordance with Global Reporting Initiative guidelines. One of our main challenges is collecting up-to-date, auditable data. To this end, in 2013 we set up a new central data collection system for all sustainability figures. Central data collection also increases our efficiency, since transferring data from previous systems decreases the effort involved in collection and review. Structured collection using uniform definitions and identifiable processes reduces error rates and increases transparency. Enhanced auditability of our sustainability data forms the basis for a higher level of quality and credibility of our reported figures. Other advantages of the new system are better data security and faster access times, which greatly facilitate the preparation of multiple reports.

VERBUND in sustainability indices

Our approach to sustainable business management is proving effective. We are assessed by several specialised sustainability agencies and are represented in a number of indices, such as:

- VÖNIX (VBV Österreichischer Nachhaltigkeitsindex): this sustainability index is made up of listed Austrian companies that lead the field in the areas of social responsibility and ecological achievements. The assessment is made by rfu sustainability research consulting.
- FTSE4Good Europe Index and Global Index: these are a series of stock exchange indices that specialise in ethical investments. The ratings institution is Ethical Investment Research Services (EIRIS).
- STOXX Europe Sustainability Index: this stock index is part of the Dow Jones Sustainability Index (DJSI). In addition to economic criteria, ecological and social criteria are also taken into account. The ratings are performed by Sustainalytics (head office in Amsterdam).

Emissions further reduced

In 2013, VERBUND again received recognition for its comprehensive reporting on greenhouse gas emissions and climate protection. The Carbon Disclosure Project assesses listed companies all over the world. As in 2012, VERBUND was singled out as the best Austrian company and the best energy company in the D-A-CH region. Total emissions are reported in accordance with the Greenhouse Gas Protocol. The majority of emissions were direct emissions from electricity generation from coal and gas as well as indirect emissions from purchased electricity. Due to its high share of renewable energy and low emissions, VERBUND is one of Europe’s most environmentally friendly energy companies. In 2013, we lowered our greenhouse gas emissions to 104 t/GWh by reducing generation from thermal power. This reduction will continue over the next few years, and we will remain among the best in our peer group.

Environmental management system and certification

Since 1995, we have been using our environmental management system to improve the environmental performance of our sites on an ongoing basis. Our demand for high quality is supported by external certification in accordance with international standards. At the end of 2013, approximately 80% of all power plant sites were either EMAS or ISO 14001 certified, including 116 of 127 hydropower plants. All Austrian thermal power plants are equipped with an environmental management system certified to EMAS and ISO 14001. To allow better monitoring of the environmental impact of wind power plant operation, VERBUND's 3 Austrian wind farms are likewise being included in a certified environmental management system. The wind farms in Germany and Romania will follow during the next few years. Ever since 2008, all the grid locations and lines have complied with the following standards: ISO 9001, ISO 14001, ISO 27001, OHSAS 18001 and EMAS.

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. VERBUND is thus a pioneer among Europe's electricity companies.

Innovation, research and development

Innovation is and has always been the driving force behind the development of society. For this reason, VERBUND promotes research and development with a clear goal in mind: to promote future technologies and areas of business at an early stage and to develop them until they are ready for the market. With the help of our Competence Centre for Innovation, we dedicate ourselves to the topics of tomorrow – such as energy management, renewable electricity generation and electromobility. We do this because we want a smart future for Austria and for all of Europe.

Key figures - R & D

	Unit	2012	**2013**
Number of R&D projects	Number	81	**82**
Total project volume[1]	€m	149.8	**203.2**
Of which EU projects[1]	€m	93.3	**125.4**
VERBUND's total share[1]	€m	14.3	**15.8**
Annual VERBUND expenses[1]	€m	5.2	**6.1**

[1] Over the whole duration of the projects.

Smart Energy – the energy system of the future

We have increased the access to our customers by developing new products and services with our "Energy Management and Services" programme. By innovatively linking reservoir solutions with a photovoltaics installation or heat pump, we enable households to meet their energy needs themselves to a greater degree. This enhances the role of customers as "prosumers". Electricity consumers also gain both an energy and financial advantage from the development of the energy system of the future.

In the area of business, we are offering access to electricity trading to both small- and medium-sized enterprises and industrial operations. We are taking on a new role in the control energy market with our VERBUND Power Pool, which allows facilities' load potentials and flexibilities to be combined and jointly marketed. Demand response enables us to render system services that would not be accessible to individual customers. VERBUND ECO NET provides a scientific basis for energy efficiency, making it available for systematic use. The idea is for businesses to learn from each other so that everyone can save energy.

Priority for electromobility with 100% renewable energy

Electromobility can make a key contribution to meeting Austria's energy and climate targets for 2020. It also supports stabilisation of the grid, which is subject to stress due to the integration of volatile energy from wind and solar power. 100% of the additional electricity requirements come from renewable sources, above all hydropower as a proven source. To make optimum use of the positive effects from electromobility for the economy, Austria as a business location and the employment market, political signals must be set:

- A cross-regional, nationwide concept with links to Europe
- Transparent, non-prohibitive market regulations
- Fiscal, procurement-based market stimulation

We have already successfully completed EMPORA, Austria's biggest research project led by VERBUND, and the EMPORA2 project is in the final stages. In addition, we are coordinating the cross-border VIBRATe electromobility region, we are working on "Green eMotion", the EU's biggest electromobility project, and we have initiated an international flagship project called "Crossing Borders". 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 coming to the streets of Austria. Under the brand name of SMATRICS, E-Mobility Provider Austria – which we established together with Siemens – is building a nationwide, high-performance charging network to be completed at the end of 2014. In addition, attractive electromobility packages will be offered to corporate and retail customers.

Energy trading: new strategies for a difficult climate

The current market situation continues to be marked by sideways movement in wholesale electricity prices as well as stagnating long-term price levels. Short-term prices show high volatility, mainly as a result of the high levels of fluctuation in electricity generation from wind and solar installations. Our electricity traders respond to this by using new, option-based hedging products and fine-tuning their existing optimisation and forecasting tools.

Hydropower: efficient and environmentally friendly

We are continuing on our path of using innovative solutions to make our installations even more efficient and environmentally friendly. One good example of this is our test facility at the Retznei/Styria run-of-river power plant, which uses a HydroConnect hydrodynamic fish transport screw intended to combine fish passage with electricity generation. We are also working on improvements in upstream and downstream fish migration as well as fish protection in general.

Wind power: pioneer in optimising operations

We expanded our wind power portfolio by more than 400 MW within a short period of time. More than 140 wind turbines with capacities of between 1.8 and 7.5 MW are monitored in real time. The data they supply is processed immediately. We are currently developing an analysis tool for automatically identifying any variations in performance from the multitude of data sets generated and deriving measures to prevent damage. This technology makes VERBUND a pioneer in the optimisation of wind farms in Austria.

Thermal power: electricity generation on demand

The high level of volatility in electricity generated from new renewable energy sources requires us to operate our thermal power plant flexibly as well. To this end, we are investigating minimum load reductions and “load gradient” increases. An additional challenge is posed by the temporal separation of electricity and heat generation for facilities with cogeneration (district heating storage). We are also focusing on the lifecycle of components subject to severe stresses, preventing damage through structured component analysis and constant efficiency improvements to power plants.

Power grid: ensuring effective transmission

Austrian Power Grid AG (APG), our innovative grid subsidiary, is working on innovative grid expansion and improved utilisation of the power grid infrastructure. In numerous energy market scenarios, the effects of new energy systems on the grid and the network have been analysed. Among other uses, the results form the basis for grid planning and support the planning of the electricity transmission system at a European level. Last year, in addition to the 2013 Network Development Plan, the APG 2030 Master Plan was completed. The Master Plan is intended to establish a stable basis for long-term planning.

Our innovation work also focused on the topic of the “smart grid”. One of the projects – Active Demand Side Management (aDSM) – is leading to the establishment of an improved feed-in forecast for solar electricity. This will help to improve the distribution of loads in the power grid.

In its grid system management, APG is increasingly confronted with critical load situations that approach stability thresholds. To maintain grid security, new monitoring systems are therefore constantly being developed, such as thermal rating, ice-line monitoring and wide-area measurement systems. Some of these have already been integrated into active operations.

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 importance of a functioning risk and opportunity management system becomes particularly evident in times of transition. Such a system can support the decision-making process, reduce possible effects from risk, and identify potential. VERBUND installed risk management centrally in 2000; beginning in 2001, tasks and functions were set up throughout the Group. Today, the system is an established component of the comprehensive management concept. We define risk management as the repeated sequence of the following processes: risk identification, analysis, measurement, elimination of possible causes for deviations, derivation of rules for measurement, monitoring of specific developments, and implementation of measures.

Principles, structures, and processes

Risk and opportunity management at VERBUND is based upon guiding principles such as the increase in value, security of supply and sustainability. As part of the management and control system, risk management is being refined continuously. Assessments of the risk position are incorporated into strategic decisions, into the analyses that are periodically updated during implementation of projects, and into the management of ongoing business. The thorough quantitative analysis of risks and opportunities facilitates the incorporation of risk management into the value-based management philosophy of VERBUND. The presentation of risks in reporting is based on 2 principles: completeness and a clear traceability of contexts and changes.

VERBUND has established various Risk Management Committees (RMCs). These bodies deal with topics such as energy management, business management and financial management, regulatory conditions, or 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) organisationally assigned to Risk Management has been coordinating all information security and data protection issues within the Group. To deal with extraordinary events, VERBUND has established a Group Crisis Management system, which is constantly being adapted to changing conditions and increasing requirements. VERBUND subsidiary APG was certified as an independent transmission system operator in 2012, and has had its own independent risk organisation ever since.

Risk and opportunity management is a significant part of the business processes at VERBUND. Risk management is based upon result, inventory, and liquidity parameters. Within an ongoing monitoring process, we collect information on possible hazards and opportunities, model cause-effect relationships, determine deviations, and take the necessary actions based upon this information. All significant processes within the Group are run through this control loop. When making strategic decisions, business plans are supplemented by the consideration of risks and opportunities. The most important decision-making criterion is the expected return on capital invested, taking risk into account.

Energy transition and the economic crisis are increasing the risk of required re-evaluation of assets or liabilities. Normal business performance is significantly driven by market price risks. These include, for example, trends in wholesale prices for electricity, prices for gas, coal, or emission rights, interest, and exchange rates. These risks are evaluated using statistical valuation methods. The measurement of operating risks is based upon estimates by experts. The measurements are subject to a continuous improvement process. Risks from potential bad debts arise from the financial processing of business processes. These are measured based upon credit rating criteria available in the market.

During the implementation phase of projects, the risk of unplanned payments due to deviations in time, costs, or quality is assessed and reported. The valuation includes the entire remaining project runtime and presents the possible financial effects, while considering unplanned payments and countermeasures.

Current risk position of VERBUND

The business activities of VERBUND tie up significant financial resources. They require the use and the availability of technically complex systems and operating procedures. They are also part of the socio-political discussion. The construction of property, plant and equipment is generally preceded by lengthy approval proceedings. The operation and maintenance of assets used over many years require highly qualified employees.

Risks in the economic environment and the sector

The current economic crisis is leading to a deterioration in external risk factors, i.e. risk factors that cannot be directly influenced. These originate from politics, the economy, the energy sector and social issues. As a result, planning security for VERBUND is reduced. This may have negative consequences on pending investment decisions and could affect the recoverability of the business assets. The expansion of the Austrian electricity supply is occurring within the context of pan-European developments. The EU growth strategy “Europe 2020” and the growth targets defined therein provide the guidelines for this expansion.

The risk department at the “Trading and Sales” level of the value chain secures compliance with prescribed limits in the electricity business. The subsidised expansion of electricity generation from wind power and photovoltaics has overridden 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 importance 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, 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 are operated with daily, monthly or yearly retention periods respectively. The economic efficiency of VERBUND’s pumped storage is based upon the flexibility of the overall system, which has been built up over decades. Additional operating hours to cover unplanned changes in demand also provide more revenue opportunities. The earnings contribution depends largely upon the frequency and absolute extent of short-term price fluctuations in the electricity markets.

Information and communication systems form the backbone of VERBUND’s business activities. Given the increasing size and complexity of international electronic networks, cybercrime is also an increasing potential threat to VERBUND. The Group is therefore implementing appropriate activities in this area.

VERBUND places high priority on the security of its control systems. VERBUND’s crisis management system was also activated during the disruption of the control system network that occurred on 2 May 2013 at individual distribution grid and power plant operators in Austria. This allowed a very rapid restoration of secure normal operating conditions.

Over the long term, climate change is another risk. This has a possible influence on both the seasonal distribution and the fundamental water supply.

Risks caused by the legal environment

No agreement on a National Energy Efficiency Act was reached during the last session of the legislature. This is therefore a priority for the new federal government. Its programme discusses "binding industry obligations on a statutory basis for all energy sources" while offsetting existing programmes. Given the period for implementation established under European law, VERBUND expects a national law to be enacted by the middle of 2014.

Following months of delay at the EU level, the European Commission, European Council, and European Parliament agreed on the text of the revised "Markets in Financial Instruments Directive" (MiFID) in January 2014. In contrast to the interim drafts of "MiFID II," which had different wording, wholesale energy providers will not be required to hold securities or banking licenses in the future.

When certain threshold values are exceeded, the "European Market Infrastructure Regulation" (EMIR) specifies that over-the-counter (OTC) derivatives transactions must be cleared through a central counterparty. Contrary to original assumptions, VERBUND is not currently affected by this. Nevertheless, such transactions must be reported in a transaction register beginning in 2014.

The introduction of a financial transaction tax in Austria would tax trading in shares and bonds as well as derivatives. This could be relevant for VERBUND, not least in view of possible mergers, sales, and company takeovers.

Other risk factors

The asset swap performed in 2013 with E.ON was the most far-reaching financial transaction in VERBUND's corporate history. Changing conditions in the energy markets led to impairment losses in 2013 as well as a more extensive reorganisation of the gas portfolio. This also includes the initiation of legal steps. The implementation of possible options for action can significantly influence the Group result.

VERBUND has entered into long-term agreements to facilitate the conduct of its business. Changes in economic conditions have influenced the profitability of some of these agreements. Possible contract amendments reduce the risks. The risk that facilities may become impaired remains high. Previously unplanned contributions to Group companies could also be necessary. VERBUND recognises provisions for contractually agreed expenses from ongoing reorganisation programmes, for pensions and severance payments, and for the post-use phase of generation facilities (e.g. for their dismantling). Deviations from the assumptions for the creation of these provisions may produce fluctuations in the result.

Within the scope of financial management, an 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. Ongoing measures are taken to counter the possible crystallisation of collateral provided. These also include possible effects of a further change in the rating of VERBUND AG on the off-balance-sheet cross border leasing transaction.

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.

Outlook: Risks and opportunities for 2014

The planned operating results for 2014 may fluctuate as a result of impairments, market valuations, volume and price risk of own generation, and default risks.

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 based upon the reporting date measurement of a yen liability to be repaid as planned in 2015.

Financial instruments

The primary financial instruments held by VERBUND include, in particular, investments such as securities, loans and equity interests, 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 is always recognised in profit or loss.

Additional information on 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 entered into with the counterparty, the positive and negative fair values of the transaction for this counterparty 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 on accounting treatment and measurement can be found in Section III (2) of the notes.

As at 18 February 2014, no risks were foreseeable for 2014, the effects of which – either individually or in interaction 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)

According to Section 243a(2) of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB), the internal control and risk management systems for the accounting process must be described. VERBUND's internal control system (ICS) includes all measures for ensuring the reliability, effectiveness, and efficiency of this process, as well as the compliance with external regulations. The risk management system is explained separately in the section entitled "Risk and opportunity management".

Organisational framework

VERBUND has responsibilities 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 ICS, whose effectiveness is monitored by the Supervisory Board's Audit Committee.

Fundamentals of the internal control system

VERBUND's accounting process is governed by Group-wide guidelines and requirements. In its practical implementation, the performance, monitoring, and supervision of business transactions are kept structurally separate. This prevents any single employee from acting alone in performing all the process steps of a transaction from the beginning to the end.

The review of authorisations is integrated into the technical processing of transactions. Compliance with and the effectiveness of these checks is reviewed on a periodic basis. Based upon VERBUND's process map, business processes and the risks that they entail are systematically analysed and documented, as are checks of the accounting process. The documentation of the time schedule for the checks, flow charts and the process map together constitute the process manual, which is updated regularly. VERBUND's organisational structure is continually adapted as needed to address changing internal and external conditions.

Reporting in compliance with unbundling provisions

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. The VERBUND subsidiary APG has been operating in the market since 2012 as an independent transmission system operator. An external equal opportunities officer monitors compliance with the contractually specified unbundling provisions.

Periodic monitoring

Internal audit reviews the handling of 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 internal 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 in accordance with the provision of the Articles of Association based upon this, 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 unaware 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 of 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. Pursuant to the Austrian Code of Corporate Governance, a Nomination Committee has been established within the Supervisory Board and makes arrangements for the appointment of Executive Board members on behalf of the Supervisory Board. The rules of the Code with respect to the appointment and dismissal of the members of the Executive Board and the Supervisory Board are complied with (see corporate governance report 2013). Apart from the above, there are no other regulations derived directly from law that relate to the members of the Executive Board and the Supervisory Board, or to the amendment of the Articles of Association.

7. **Authorised capital**: In the Extraordinary General Meeting held on 24 September 2010, the Executive Board was authorised under Section 169 of the Stock Corporation Act (Aktiengesetz, 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 – made in several instalments, if applicable. The issue amount, the terms of issue and the further details of the implementation of the capital increase are to be

determined with the approval of the Supervisory Board. The prerequisite is that the Republic of Austria subscribes for new shares within the scope of a capital increase from the authorised capital, and that the shareholding of the federal government in the Company thereby does not fall below 51% of the Company's share capital even after completion of such 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 through the issue of up to 114,884,314.00 new bearer or registered ordinary shares (no-par shares).

Share buyback: The 66th Annual General Meeting of VERBUND AG held on 17 April 2013 authorised the Executive Board under Section 65(1) Item 8 as well as Sections (1a) and (1b) of the Stock Corporation Act (AktG) to purchase no-par value bearer shares of the Company in the amount of up to 10% of the Company's share capital during a period of 30 months beginning on 17 April 2013, both in an exchange market and in over-the-counter trading, whereby the transaction value must not be more than 15% below or above the average quoted price of the last five trading days prior to purchase of the shares. The purchase may not be for the purpose of trading in the Company's own shares. The authorisation may be exercised in whole or in part by the Company, by a subsidiary, or by third parties on account of the Company.

The Executive Board is authorised for a period of 5 years from the adoption of the resolution under Section 65(1b) of the Stock Corporation Act (AktG), with the approval of the Supervisory Board, to decide upon a different type of sale of its own shares other than in an exchange market or through a public offering, also with exclusion of the right of repurchase (reverse preemptive right) of the shareholders, and to determine the terms of sale. Finally, the Executive Board is authorised, with the approval of the Supervisory Board, to reduce the share capital if necessary by redeeming these own shares without an additional resolution by the General Meeting.

Apart from the above, there are no authorisations of the Executive Board 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 expansion of the global economy will remain moderate in 2014. Even though prospects have brightened recently in the industrialised nations, economic growth is still moderate and risks to the outlook remain.

Economic climate improves at a moderate pace

The debt crisis in the eurozone remains unresolved and setbacks are possible. The budget dispute in the USA was recently settled with a compromise. The fundamental conflict over spending policies and measures to reduce government debt has not been finally resolved, however. Uncertainties also exist about the economic prospects of the large emerging nations, which have been the drivers of the global economy for some time. A distinct weakening of growth in these countries would put a noticeable brake on the global economy.

In Europe, the International Monetary Fund (IMF) is seeing the first indications of an economic recovery. The pace of revitalisation should nevertheless remain moderate. The structural adjustment processes in the crisis countries will continue to burden the economy for some time. According to the IMF, the eurozone may return to economic growth in 2014 with a positive growth of 1.0%. The Austrian economy may grow by 1.7% in 2014 according to the forecast by the Austrian Institute of Economic Research (Österreichisches Institut für Wirtschaftsforschung, WIFO).

The challenge of energy transition

The electricity market is undergoing the most far-reaching changes since deregulation in 1999. New renewable energy is receiving enormous subsidies. Demand for electricity, on the other hand, is weak or even declining due to the economy. For these reasons, the futures market is providing no investment incentive for the next few years, with electricity prices remaining low and stagnant. Given a further strong expansion of renewable energy, investments over the medium term in new flexible power plants and efficient grids are necessary in order to ensure security of supply.

Moreover, the CO_2 market is not currently functioning. The low prices provide no incentive to move towards low-carbon generation technologies. As a result, profitable operation of gas power plants is impossible due to their high fuel costs (mostly because of long-term contracts tied to volumes and the price of oil). By contrast, power plants with the highest specific CO_2 emissions, namely lignite-fired power plants, are profitable.

Energy transition requires sound judgement and a holistic approach. There is a need to create a functioning, shared European domestic electricity market that takes into account the 3 central goals of European energy policy: security of supply, cost-effectiveness, and sustainability.

Investments in hydropower and regulated business areas

VERBUND's investment plan has been adapted to the changing conditions in the European electricity market: €2.3bn will be invested during the 2014–2018 period. Of this total, €1.5bn will be spent on growth investments and €0.8bn on maintenance. The investments will almost exclusively involve our core markets of Austria and Germany. We will complete ongoing construction projects and increase the efficiency of existing hydropower plants. We will also be investing in regulated operating segments: wind power and the Austrian high-voltage grid. In financial year 2014, we plan to invest a total of €369.5m; €207.3m in growth and €162.2m in maintenance.

Dividend policy

We plan to distribute a dividend of €1 per share for financial year 2013. This dividend consists of a basic dividend of €0.55 per share and a special dividend of €0.45 per share. The distribution of the special dividend is due to the successfully completed asset swap with E.ON in 2013. For 2014, we are planning a payout ratio of around 50% – based upon the Group result adjusted for non-recurring effects.

Earnings projection 2014

The development of the VERBUND result is significantly affected by the following factors: wholesale prices for electricity, the Group's own generation, and further energy management developments in gas power plants. VERBUND AG's 2013 result was significantly influenced by extraordinary effects such as impairment losses from investees. Based on the forecast at the beginning of the year, VERBUND AG expects a profit on ordinary activities before taxation of around €370m for financial year 2014.

Events after the balance sheet date

On 1 January 2014, the pension fund responsible for investing plan assets was changed. BAV Pensionskassen AG began to sell the securities on 10 December 2013. As a result, plan assets were held exclusively as cash as at 31 December 2013 and effective 1 January 2014 transferred to APK Pensionskasse AG, which has been responsible for its investment since that time.

Vienna,18 February 2014
Executive Board

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

Dr. Johann Sereinig
Vice-Chairman of the Executive Board

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

Dr. Peter F. Kollmann
Member of the Executive Board

Annual financial statements

Balance sheet

Assets

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	Notes	2012	2013
A. Fixed assets			
I. Intangible assets	(1)	5,409.3	6,235.0
II. Property, plant and equipment		31,733.5	32,662.7
III. Investments	(2)	4,347,977.1	4,714,935.6
		4,385,119.9	**4,753,833.3**
B. Current assets			
I. Inventories	(3)	14,241.9	15,004.8
II. Receivables and other assets	(4)	1,093,373.5	626,207.2
III. Cash in hand, cash at banks	(5)	8,032.9	5,397.9
		1,115,648.4	**646,609.9**
C. Prepayments and accrued income	(6)	103,565.8	**182,153.2**
		5,604,334.0	**5,582,596.4**
Rights of recourse	(7)	4,154,790.7	2,497,927.5
Less counter-guarantees from cross-border leasing		–456,673.9	–399,747.8
		3,698,116.9	**2,098,179.7**

Liabilities

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	Notes	2012	2013
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	670,292.1
IV. Net profit of which profit carried forward €0.0k; previous year: €0.0k	(10)	208,449.4	347,415.7
		3,092,084.2	**2,336,843.8**
B. Untaxed reserves	(11)	3,112.1	**2,972.0**
C. Provisions	(12)	105,347.1	**393,800.5**
D. Liabilities	(13)	2,394,459.6	**2,839,085.9**
E. Accruals and deferred income	(14)	9,331.2	**9,894.2**
		5,604,334.0	**5,582,596.4**
Contingent liabilities	(15)	4,154,790.7	2,497,927.5
Less counter-guarantees from cross-border leasing		–456,673.9	–399,747.8
		3,698,116.9	**2,098,179.7**

Income statement

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	Notes	2012	2013
1. Revenue	(16)	2,667,377.0	2,726,684.9
2. Change in total services not yet billable		–50.0	61.4
3. Other operating income	(17)	38,050.6	43,574.8
4. Operating income (subtotal of lines 1 to 3)		2,705,377.5	**2,770,321.1**
5. Expenses for electricity, grid/gas purchases and purchases of emission rights and other purchased production services and other services		–2,399,223.3	–2,496,024.3
6. Personnel expenses	(18)	–34,118.6	–30,982.3
7. Depreciation and amortisation	(19)	–2,548.1	–2,848.1
8. Other operating expenses	(20)	–84,997.8	–110,771.6
9. Operating result (subtotal of lines 4 to 8)		184,489.7	**129,694.8**
10. Income from equity interests		305,374.2	390,304.4
11. Income from other securities and loans in financial assets		32,156.3	16,139.8
12. Other interest and similar income		36,294.2	25,293.7
12. Income from the disposal and reversal of impairment losses on investments		52,719.8	43.1
14. Expenses from investments		–54,158.3	–821,189.6
15. Interest and similar expenses		–141,282.4	–412,923.3
16. Financial result (subtotal of lines 10 to 15)	(21)	231,103.8	**–802,332.0**
17. Profit or loss on ordinary activities before taxation		415,593.5	**–672,637.2**
18. Taxes on income	(22)	–22,508.8	125,706.3
19. Net income/net loss for the year		393,084.7	**–546,931.0**
20. Reversal of untaxed reserves		210.8	140.1
21. Disposal of revenue reserves		0.0	894,206.6
22. Allocation to revenue reserves		–184,846.1	0.0
23. Net profit		208,449.4	**347,415.7**

Statement of changes in fixed assets

	As at 1/1/2013	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	327,885.7	1,832.2	13.3	0.0
	327,885.7	1,832.2	13.3	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	27,113.9	518.8	2.1	0.0
c. Undeveloped land	7,208.4	0.0	0.0	0.0
2. Electrical installations	7,776.6	76.8	969.3	431.9
3. Office and plant equipment	18,028.5	1,613.9	289.7	0.0
4. Effected advance payments and plants under construction	431.9	632.1	0.0	–431.9
	60,637.0	2,841.6	1,261.0	0.0
Property, plant and equipment and intangible assets	388,522.7	4,673.8	1,274.4	0.0
III. Investments				
1. Shares in affiliated companies	2,678,575.5	1,439,458.7	0.0	26,461.9
2. Loans to affiliated companies	1,026,901.8	228,476.6	854,420.1	0.0
3. Equity interests	598,281.8	0.0	287,592.4	–26,461.9
4. Securities (loan stock rights) under fixed assets	73,528.6	1,408.9	50,764.1	0.0
5. Other loans	211.2	21.8	30.7	0.0
	4,377,498.9	1,669,366.0	1,192,807.3	0.0
Fixed assets	4,766,021.6	1,674,039.8	1,194,081.7	0.0

Base value of land as at 31/12/2013: €10.549.1k (previous year: €10,549.1k).

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As at 31/12/2013	Accumulated depreciation, amortisation and write-downs	Net carrying amount as at 31/12/2013	Net carrying amount as at 31/12/2012	Impairment losses 2013	Depreciation and amortisation 2013
329,704.6	323,469.6	6,235.0	5,409.3	0.0	1,006.6
329,704.6	323,469.6	**6,235.0**	5,409.3	0.0	1,006.6
77.6	75.6	2.0	2.6	0.0	0.6
27,630.6	17,121.9	10,508.7	10,557.2	0.0	565.2
7,208.4	0.0	7,208.4	7,208.4	0.0	0.0
7,316.1	5,411.8	1,904.2	1,718.2	14.6	306.4
19,352.7	6,945.5	12,407.2	11,815.1	0.0	954.8
632.1	0.0	632.1	431.9	0.0	0.0
62,217.5	29,554.8	**32,662.7**	31,733.5	14.6	1,827.0
391,922.1	353,024.5	**38,897.7**	37,142.8	14.6	2,833.6
4,144,496.0	719.3	4,143,776.7	2,678,555.5	699.3	0.0
400,958.3	80,680.6	320,277.8	1,026,901.8	80,680.6	0.0
284,227.5	54,316.3	229,911.2	572,276.0	45,003.0	0.0
24,173.5	3,405.7	20,767.7	70,032.7	0.0	0.0
202.2	0.0	202.2	211.2	0.0	0.0
4,854,057.5	139,121.9	**4,714,935.6**	4,347,977.1	126,382.8	0.0
5,245,979.7	492,146.4	**4,753,833.3**	4,385,119.9	126,397.4	2,833.6

Statement of changes in untaxed reserves

€k

	As at 1/1/2013	Additions/ reclassifications	Reversals/ disposals	**As at 31/12/2013**
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	122.8	0.0	7.7	115.1
1.2. Office and plant equipment	108.9	0.0	19.8	89.1
	231.7	0.0	27.6	**204.1**
2. Transfer of hidden reserves in accordance with Section 12 of the Austrian Income Tax Act (EStG)				
2.1. Electrical installations	2.4	0.0	2.3	0.1
2.2. Office and plant equipment	1,034.5	0.0	110.2	924.3
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
	2,880.4	0.0	112.5	**2,767.9**
Untaxed reserves	3,112.1	0.0	140.1	**2,972.0**

Maturity schedule 2013

				€k
				Residual term to maturity as at 31/12/2013
	< 1 year	> 1 year	> 5 years	Total
Loans				
1. Loans to affiliated companies	33,991.7	127,686.1	158,600.0	320,277.8
2. Other loans	36.9	164.1	1.2	202.2
	34,028.6	127,850.2	158,601.2	320,480.0
Receivables and other assets				
1. Trade receivables	176,474.5	0.0	0.0	176,474.5
2. Receivables from affiliated companies	290,511.6	0.0	0.0	290,511.6
3. Receivables from investees	2,861.5	0.0	0.0	2,861.5
4. Other receivables and assets	156,359.6	0.0	0.0	156,359.6
	626,207.2	0.0	0.0	626,207.2
Liabilities				
1. Bonds	939.0	46,645.6	127,823.0	175,407.6
2. Liabilities to banks	15,549.9	245,333.3	36,666.7	297,549.9
3. Financial liabilities to others	28,691.5	0.0	0.0	28,691.5
4. Trade payables	124,550.0	1.0	0.0	124,551.0
5. Liabilities to affiliated companies	837,870.2	81,901.9	1,083,706.1	2,003,478.2
6. Other liabilities	21,915.6	25,021.3	162,470.7	209,407.6
	1,029,516.2	398,903.2	1,410,666.5	2,839,085.9

Maturity schedule 2012

			Residual term to maturity as at 31/12/2012	€k
	< 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

Notes
to the annual financial statements

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

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 optional method of measurement with respect to social security expenses, severance payments as well as pensions and similar obligations within the meaning of Section 203(3) of the Austrian Commercial Code (UGB) as well as 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 the lower fair value. Securities and loan stock rights under fixed assets are measured at cost or at the lower fair value; impairment is not reversed. Interest-bearing loans are recognised at nominal value. Impairment losses are recognised if the impairment is expected to be permanent; impairment is not reversed. Receivables with a maturity of more than one year are reported under investments as loans.

Current assets

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 were 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.

Prepayments and accrued income

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

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 earmarked 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.

The interest expense is shown in financial result, in line with international practice.

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

The calculations as at 31 December 2013 and 2012 are based on the following assumptions:

		%
	2012	**2013**
Interest rate		
Pensions and similar obligations	4.00	3.50
Severance payments	4.00	3.50
Trend		
Pension increases	2.25	2.25
Salary increases	2.75	2.75
Contributions to obligations similar to pensions – old contracts	7.00	7.00
Contributions to obligations similar to pensions – new contracts	4.00	4.00
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	3.50

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

Liabilities

Liabilities are recognised at their 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 is 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 financial years 1994 to 1997 in accordance with Section 198(7) of the Austrian Commercial Code (UGB).

Derivative financial instruments

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 in 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 counterparties (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.

Taxes on income

VERBUND AG is the parent of the tax group as defined by Section 9(8) of the Austrian Corporate Income Tax Act (Körperschaftsteuergesetz, 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 recharges to Group members are only adjusted for subsequent deviations if they are material.

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

In accordance with Section 223(7) of the Austrian Commercial Code (UGB), line items of the balance sheet and income statement with a carrying amount of zero in both the financial year and 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 €1,718.7k (previous year: €2,005.1k).

(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 €0.0k (previous year: €53,231.1k) 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 €1,806.1k (previous year: €1,625.6k).

B. Current assets

(3) I. Inventories

€k

	2012	**2013**
Goods	14,241.9	**14,943.4**
Services not yet billable	0.0	**61.4**
	14,241.9	**15,004.8**

(4) II. Receivables and other assets

For details see separate “Maturity schedule”.

€32,474.3k (previous year: €43,765.2k) of receivables from affiliated companies relate to trade receivables. Receivables from investees relate to trade receivables.

Other receivables and assets	2012	2013
		€k
Electricity trading activities	48,099.1	85,638.1
Security deposits electricity business	13,449.8	35,820.4
Interest accruals and commissions from bonds and loans	1,141.5	56.0
Tax authorities	14.1	33,876.5
Payroll	186.1	9.7
Effected advance payments	6.6	6.6
Emission rights trading	2,292.9	663.7
Other	40,911.6	288.5
	106,101.7	**156,359.6**

(5) III. Cash in hand, cash at banks

	2012	2013
		€k
Cash in hand	12.9	16.2
Cash at banks	8,020.0	5,381.7
	8,032.9	**5,397.9**

(6) C. Prepayments and accrued income

	2012	2013
		€k
Prepayments for electricity purchases	42,919.8	38,243.6
Deferred tax assets	7,304.4	93,338.0
Discounts, flotation costs and exchange rate differences relating to bonds and non-current loans	889.0	851.5
Auctions of cross-border capacities	104.8	29.7
Other	52,347.8	49,690.3
	103,565.8	**182,153.2**

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 €2,497,927.5k (previous year: €4,154,790.7k). 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 €399,747.8k (previous year: €456,673.9k). 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%

Authorised capital: In the Extraordinary General Meeting held on 24 September 2010, the Executive Board was authorised under Section 169 of the Stock Corporation Act (Aktiengesetz, 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 – made in several instalments, if applicable. The issue amount, the terms of issue and the further details of the implementation of the capital increase are to be determined with the approval of the Supervisory Board. The prerequisite is that the Republic of Austria subscribes for new shares within the scope of a capital increase from the authorised capital, and that the shareholding of the federal government in the Company thereby does not fall below 51% of the Company's share capital even after completion of such 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 through the issue of up to 114,884,314.00 new bearer or registered ordinary shares (no-par shares).

(9) III. Revenue reserves

€k	2012	**2013**
Statutory reserves	19,884.0	**19,884.0**
Distributable reserves	1,544,614.8	**650,408.1**
	1,564,498.7	**670,292.1**

The allocated 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 31/12/2012	208,449.4
Distribution of dividends	–208,449.4
Profit carried forward	0.0
Net loss	–546,931.0
Changes in reserves	894,346.7
As at 31/12/2013	347,415.7

(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 €3,266.4k (previous year: tax charge in the amount of €18,363.5k).

(12) C. Provisions

1. Provisions for severance payments

€k

	2012	2013
Premium reserve based on actuarial calculations	8,448.3	9,302.9
Taxed proportion of provisions	8,448.3	9,302.9

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	2013
Provisions for pension obligations	30,635.4	31,571.8
Of which obligations similar to pensions	4,995.4	5,541.1

3. Provisions for taxes

€k

	2012	2013
Corporate income tax (including prior reporting periods)	24,550.7	0.0
Other tax provisions	0.0	580.0
	24,550.7	**580.0**

4. Other provisions

€k

	2012	2013
Anticipated losses	24,001.2	337,360.2
Trade receivables not yet billed	7,453.4	4,657.3
Electricity/grid purchases	1,551.6	1,418.8
	33,006.2	**343,436.3**

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

Other personnel-related provisions	2012	2013
		€k
Premiums	3,637.7	3,394.2
Unused holidays	2,699.4	2,781.1
Early retirement benefits	1,322.2	1,575.5
Holiday allowance	701.8	760.0
Compensatory time credit	203.6	198.8
Other	141.8	199.9
	8,706.4	**8,909.5**

(13) D. Liabilities

For details see separate "Maturity schedule".

Of the liabilities to affiliated companies, €1,702,038.3k (previous year: €1,424,211.5k) relate to financial liabilities and €288,870.8k (previous year: €8,434.2k) to trade payables.

Other liabilities	2012	2013
		€k
Long-term electricity supply commitment	473,609.0	183,738.7
From taxes	17,466.3	12,859.9
Payroll	416.1	606.9
Related to social security	304.1	314.4
Other	17,264.9	11,887.8
	509,060.4	**209,407.6**

(14) E. Accruals and deferred income

	2012	2013
		€k
Guarantee payments from affiliated companies	6,784.9	7,509.6
Contributions to building costs	842.0	806.9
From electricity business	1,175.1	1,577.7
Other guarantee payments	529.2	0.0
	9,331.2	**9,894.2**

(15) Contingent liabilities

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 €1,743,719.5k (previous year: €3,358,737.5k), of which €1,724,360.2k (previous year: €2,413,706.5k) relate to affiliated companies and €0.0k (previous year: €0.0k) 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 denominated 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. 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 €754,208.0k (previous year: €796,053.2k). Of the rights of recourse against the primary debtors, €399,747.8k (previous year: €456,673.9k) 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 €354,460.2k (previous year: €339,379.3k) remains in contingent liabilities from cross-border leasing transactions after deducting these counter-guarantees.

With respect to the one remaining cross-border leasing transaction, the risk remains that a head lease filing will be carried out if VERBUND AG's rating falls below a certain threshold. This head lease filing trigger was not activated by the downgrading of VERBUND AG's credit rating by Moody's in the year under review, but the equity investor will be required to provide security presumably in the form of a bank guarantee. A provision was recognised by VERBUND Hydro Power AG for the estimated future expense required.

The ratings of contractual partners as well as VERBUND AG's rating exceeded the contractually agreed thresholds as at 31 December 2013 (with the exception of the security that the equity investor will be required to provide in the last remaining transaction described). Thus, there is currently no need for VERBUND AG or VERBUND Hydro Power AG to exchange individual contractual parties or investments.

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

Notes to the income statement

(16) 1. Revenue

€k

		2012	2013
Revenue from electricity deliveries			
Domestic[1]	Energy supply companies	1,266,993.7	**1,220,007.8**
	Industrial customers and consumers	164,669.0	**185,379.5**
	Other customers	21,305.7	**45,990.6**
		1,452,968.4	**1,451,377.9**
EU	Energy supply companies	131,016.0	**141,157.7**
	Industrial customers and consumers	18.8	**1,987.9**
	Other customers	1,056,974.5	**959,488.0**
		1,188,009.3	**1,102,633.6**
Third countries	Energy supply companies	– 19.7	**0.0**
	Other customers	9,033.0	**9,122.8**
		9,013.4	**9,122.8**
		2,649,991.1	**2,563,134.2**
Invoicing of grid tariffs; user and management fees		2,828.2	**2,736.7**
Other revenue (including emission rights and gas trading)		14,557.6	**160,814.0**
		2,667,377.0	**2,726,684.9**

[1] Of which €100,085.0k (previous year: €82,285.4k) from recharged grid fees.

(17) 3. Other operating income

€k

	2012	2013
a) Income from disposal of fixed assets with the exception of investments	2,056.1	**3.8**
b) Income from reversal of provisions	291.5	**2,032.9**
c) Other	35,702.9	**41,538.1**
	38,050.6	**43,574.8**

(18) 6. Personnel expenses

€k	2012	2013
a) Salaries	21,481.8	**21,705.6**
b) Expenses for severance payments and payments to employee pension funds		
Severance payments	221.4	413.5
Contributions to employee pension funds	144.1	167.8
Change in the provision for severance payments	652.2	540.8
Expenses/income and takeovers/transfers within the Group	36.1	45.5
	1,053.8	**1,167.6**
c) Expenses for pensions and similar obligations		
Early retirement benefits and pension payments	2,849.5	3,009.4
Change in the provisions for pensions and similar obligations	2,476.0	–223.2
Expenses/income and takeovers/transfers within the Group	14.5	–10.4
Change in the provisions for early retirement benefits	405.4	210.8
Pension fund contributions (including obligation to provide additional funding)	1,808.9	987.6
	7,554.4	**3,974.2**
d) Expenses for social security contributions as required by law as well as income-based charges and compulsory contributions	3,801.2	3,897.0
e) Other social security expenses	227.4	237.9
	34,118.6	**30,982.3**

(19) 7. Depreciation and amortisation

€k	2012	2013
a) Amortisation of intangible fixed assets and depreciation of property, plant and equipment		
Depreciation and amortisation	2,500.5	2,781.4
Impairment losses	0.0	14.6
Immediate write-off of low-value assets in accordance with Section 13 of the Austrian Income Tax Act (EStG)	47.6	52.1
	2,548.1	**2,848.1**

(20) 8. Other operating expenses

€k

	2012	2013
a) Taxes other than taxes on income	286.2	244.2
b) Other		
Operating costs for buildings, rent and leasing	8,990.9	36,488.3
Legal, audit and consulting expenses	7,303.1	19,031.9
Other administrative expenses	18,278.3	17,480.4
Advertising and market development costs	23,895.0	16,130.8
Reimbursement of costs for services	4,752.9	4,017.4
IT support, electronic data processing	3,510.6	3,841.4
Membership fees	1,272.4	1,489.7
Telecommunications services, data services	1,311.0	1,199.6
Training and further education	627.2	657.1
Temporary personnel and provision of personnel	533.1	472.8
Other	14,237.1	9,718.0
	84,711.6	**110,527.4**
	84,997.8	**110,771.6**

(21) 16. Financial result

€k

	2012	2013
Income from equity interests		
From affiliated companies	274,191.1	360,752.8
Of which from profit pools	21,756.6	16,657.5
Income from other securities and loans in financial assets		
From affiliated companies	29,949.1	15,051.1
Other interest and similar income		
From affiliated companies	24,682.9	22,355.9
Income from disposals and impairment loss reversals of investments		
Disposal of shares in affiliated companies	52,719.8	0.0
Expenses from investments		
From affiliated companies	13,151.7	775,144.2
Of which from profit pools	13,139.6	694,463.6
Interest and similar expenses		
Of which interest for long term personnel provisions	1,639.8	1,521.6
From affiliated companies	69,533.2	88,144.8

(22) 18. Taxes on income

	2012	2013
Consolidated taxes on income	175,346.4	43,491.9
Of which recharged to members of the Group	–175,708.1	–82,122.4
Additional amounts/credit notes from previous periods	10,983.3	–1,042.2
Deferred taxes	11,887.2	–86,033.6
	22,508.8	**–125,706.3**

€k

III. Other disclosures

1. Total amount of other financial obligations

€k

Material items:	Total commitment	2014	2014–2018
Rent, lease and insurance agreements	[1]	10,922.3	46,479.7
Purchase commitments	10,240.3	8,685.0	10,240.3
Of which to affiliated companies	[1]	11.9	59.7

[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, Innwerk AG 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, procurement, financial accounting, payroll and administrative services.

There is an agreement with VERBUND Finanzierungsservice GmbH for the invoicing of services for the performance 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 €133.3k (previous year: €17.7k) to cover defined retirement benefit obligations.

As at the balance sheet date, five employees had a letter of loyalty granting them a higher degree of employment protection. The prerequisites were at least 20 years of service at VERBUND and a minimum age of 45.

VERBUND AG has provided a guarantee in favour of EconGas GmbH that VERBUND Thermal Power GmbH & Co KG in Liqu. will meet its obligations from a long-term natural gas supply agreement. In connection with the long-term natural gas supply agreement, however, an application for redress for competition law infringements by EconGas GmbH was filed with the Higher Regional Court of Vienna by VERBUND Thermal Power GmbH & Co KG in Liqu. on 29 May 2013. In addition, VERBUND AG has committed to pay all costs in connection with handling the liquidation of VERBUND Thermal Power GmbH & Co KG in Liqu.

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

2. Disclosures regarding financial instruments

Electricity business

Derivative financial instruments (electricity/gas/CO_2 futures and forwards) relating to the electricity business comprise the following:

€k

Trading	Total – positive	Total – negative	Total – net
Futures	85.8	664.7	–578.9
Forwards	442,116.6	442,021.5	95.1
Total before netting	**442,202.4**	**442,686.2**	**–483.8**
Of which non-current	189,661.7	189,426.2	235.5

€k

Sales	Fair values – positive	Fair values – negative	Fair values – net
Futures	96,214.0	127,434.1	–31,220.1
Forwards[1]	140,167.2	117,964.9	22,202.3
Options	0.0	2,519.6	–2,519.6
Total before netting	**236,381.3**	**247,918.6**	**–11,537.3**
Of which non-current	42,426.7	47,627.7	–5,201.0

€k

Total	Fair values – positive	Fair values – negative	Fair values[2] – net
Futures	96,299.8	128,098.8	– 31,799.0
Forwards	582,283.8	559,986.4	22,297.4
Options	0.0	2,519.6	– 2,519.6
Total before netting	**678,583.7**	**690,604.8**	**– 12,021.1**
Of which non-current	232,088.4	237,053.9	– 4,965.5
Taking netting agreements into consideration[3]	– 521,278.8	– 521,278.8	0.0
	157,304.9	169,326.1	– 12,021.1

[1] Positive fair values for forwards include €22,892.6k and negative fair values for forwards include €2,281.2k in respect to affiliated companies. // [2] The positive fair value amounting to €397.2k for the 2014 to 2020 annual portfolios is not recognised in the balance sheet. The negative fair value in the amount of €–11,047.5k has to be seen alongside underlying transactions with a positive fair value of the same amount, all of which constitute a hedge. // [3] If a framework agreement with a netting clause has been entered into with a counterparty, the positive and negative fair values of the transactions for this counterparty are netted for accounting purposes.

Derivative financial instruments (electricity/gas/CO_2 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	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 values[2] – net
Futures	108,864.4	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 hedge. // [3] If a framework agreement with a netting clause has been entered into with a counterparty, the positive and negative fair values of the transaction for this counterparty are netted for accounting purposes.

3. Number of employees

Average	2012	2013
Salaried employees	168	172

4. Expenses for severance payments and pensions

€k

	2012	2013
Members of the Executive Board, former members of the Executive Board and their surviving dependants	889.8	–124.8
Other employees	7,718.4	5,266.7
	8,608.2	**5,141.8**

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 2013, contributions to the pension fund were paid for the Executive Board in the amount of €130,892 (previous year: €148,552).

Statutory regulations apply, under consideration of the requirements of Rule 27a of the Austrian Code of Corporate Governance, with respect to the claims of members of the Executive Board upon termination of their position. In financial year 2013, €622,259 (previous year: €507,589) 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 €93,247 (previous year: €254,615). Expenses for pensions and similar obligations for former members of the Executive Board and their surviving dependants amounted to a total of €499,131 (previous year: €1,144,454).

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	665,954	465,256	1,131,210
Dr. Johann Sereinig	634,407	401,385	1,035,792
Dipl.-Ing. Dr. Günther Rabensteiner	447,920	247,568	695,488
Dr. Ulrike Baumgartner-Gabitzer Member of the Executive Board (until 30/6/2013)			
Proportional remuneration until 30/6/2013	222,698	159,900	382,598
Other remuneration		370,000	370,000

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 components paid to members of the Executive Board in 2013 were paid in respect of financial year 2012.

Remuneration of the four members of the Executive Board totalled €3,615,088 in 2013 (previous year: €3,274,545). This amount includes remuneration amounting to €190,000 due to the termination of the contract with Dr. Baumgartner-Gabitzer (pull-forward effect in the payment of the variable remuneration components for 2012 and 2013) as well as €180,000 (contractual settlement), thus a total of €370,000 disclosed as “other remuneration”.

Variable remuneration depends upon performance and is limited to a certain percentage of fixed remuneration. In respect of financial year 2012, this percentage was no more than 50% and 70%. The level of performance-based remuneration components depends on the extent to which the targets agreed for the financial year are reached. 50% of the target agreement for the 2012 reporting period related to attainment of the planned Group result and 50% related to the attainment of qualitative, and, in part, medium-term, targets in areas such as innovation, research and development, consolidation and restructuring of the equity interest portfolio, as well as rationalisation and efficiency improvements. In addition, the successful realisation of the asset swap (sale of the Turkish equity interest and acquisition of the Inn and Danube run-of-river power plants) was taken into account. The principles underlying the Executive Board’s share of profit were unchanged from the previous year.

As in the previous year, no loans or advances were paid out to any Board members of the Group or their subsidiaries. As in the previous year, neither the members of the Executive Board nor senior management staff of VERBUND have stock options.

Remuneration paid to members of the Supervisory Board amounted to a total of €314,969 (previous year: €203,679).

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

€

	2012	**2013**
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 2013, 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.

7. Intra-Group relationships

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 VERBUND Beteiligungsholding GmbH, VERBUND Finanzierungsservice GmbH, VERBUND International Finance GmbH, VERBUND International Frankreich GmbH, VERBUND Management Service GmbH, VERBUND Mobile Power Region GmbH, VERBUND Sales GmbH, VERBUND Telekom Service GmbH and VERBUND Trading AG.

8. Unbundling

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 (ElWOG) were entered into specifically with the following companies:

Electricity deliveries VERBUND Hydro Power AG, VERBUND Thermal Power GmbH & Co KG in Liqu., VERBUND Innkraftwerke GmbH, VERBUND International GmbH, VERBUND International Frankreich GmbH, Ennskraftwerke Aktiengesellschaft, Innwerk AG, Österreichisch-Bayerische Kraftwerke Aktiengesellschaft, Donaukraftwerk Jochenstein Aktiengesellschaft, KELAG-Kärntner Elektrizitäts-Aktiengesellschaft, STEWEAG-STEG GmbH, Austrian Power Grid AG, POWEO Pont-sur-Sambre Production S.A.S.
Electricity trading and sales VERBUND Trading AG, VERBUND Sales GmbH, VERBUND Trading & Sales Deutschland GmbH, 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

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

Result of the documentation of electricity by source	Share	**2013 kWh**
Hydropower	100.0%	1,152,945,000
Total volume of electricity supplied in Austria to consumers for their own use	100.0%	1,152,945,000

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

Impact of electricity generation on the environment	**2013**
Radioactive waste (mg/kWh)	0.0
CO_2 emissions (g/kWh)	0.0

Vienna, 18 February 2014
Executive Board

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

Dr. Johann Sereinig
Vice-Chairman of the Executive Board

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

Dr. Peter F. Kollmann
Member of the Executive Board

Disclosures of equity interests

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

€k

	Head-quarters	% Share-holding as at 31/12/2013	Most recent annual financial statements	(+) (–)	Net income/loss for the year	Equity[1]
Consolidated affiliated companies[2]						
Austrian Power Grid AG	Vienna	100.00	2013	+	37,661.8	312,967.8
Innwerk AG	Landshut	100.00	2013	+	86,668.0	214,227.7
VERBUND Beteiligungsholding GmbH	Vienna	100.00	2013	–	649,258.6	1,286,781.5
VERBUND Finanzierungsservice GmbH	Vienna	100.00	2013	+	2,120.2	218.1
VERBUND International Finance GmbH	Vienna	100.00	2013	–	5,109.1	2,035.0
VERBUND International Frankreich GmbH	Vienna	100.00	2013	–	40,085.2	7,852.2
VERBUND Management Service GmbH	Vienna	100.00	2013	+	1,769.2	3,120.7
VERBUND Sales GmbH	Vienna	100.00	2013	+	6,977.2	7,351.9
VERBUND Telekom Service GmbH	Vienna	100.00	2013	+	5,474.9	2,325.0
VERBUND Trading AG	Vienna	100.00	2013	+	399.3	2,167.0
VERBUND Tourismus GmbH	Vienna	99.90	2013	–	616.7	4,790.9
VERBUND Hydro Power AG	Vienna	80.33	2013	+	280,356.5	1,357,272.4
VERBUND Innkraftwerke GmbH	Töging	70.27	2013	+	34,281.4	334,235.1
Donaukraftwerk Jochenstein Aktiengesellschaft	Passau	50.00	2013	+	1,537.7	15,510.2
Grenzkraftwerke Gesellschaft mit beschränkter Haftung	Simbach	50.00	2013	+	3,537.3	3,587.3
Österreichisch-Bayerische Kraftwerke Aktiengesellschaft	Simbach	50.00	2013	+	10,482.2	58,571.4
Non-consolidated affiliated companies						
VERBUND Mobile Power Region GmbH	Vienna	75.10	2012	–	10.6	40.7
Associates						
Ennskraftwerke Aktiengesellschaft[3]	Steyr	50.00	2012	+	335.9	13,429.0
Gemeinschaftskraftwerk Inn GmbH	Landeck	50.00	2012	+	5.4	231.8
KELAG-Kärntner Elektrizitäts-Aktiengesellschaft[3]	Klagenfurt	35.17	2012	+	90,850.4	620,356.2
PÖYRY Energy GmbH	Vienna	25.10	2012	+	3,046.4	15,331.2

[1] Equity as defines by Section 224(3)A of the Austrian Commercial Code (UGB) or local law. // [2] Consolidation in accordance with Sections 253-261 of the Austrian Commercial Code (UGB). // [3] Accounted for using the equity method in accordance with Sections 263-264 of the Austrian Commercial Code (UGB).

Auditor's 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 2013 to 31 December 2013, including the accounting system. These annual financial statements comprise the balance sheet as at 31 December 2013, the income statement for the financial year ended 31 December 2013 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 and special legislation. 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 the 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 as to 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 auditors' judgement, including the assessment of the risks of material misstatement in 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 assets and liabilities, financial position and profit or loss 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.

Audit 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 2013 and its cash flows and profit or loss for the financial year from 1 January 2013 to 31 December 2013 in accordance with Austrian Generally Accepted Accounting Principles.

Comments on the management report

I

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

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 auditor's 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, 18 February 2014
Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Maximilian Schreyvogl
Certified Public Accountant

MMag. Dr. Klaus-Bernhard Gröhs
Certified Public Accountant

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 €0.55 per share and a special dividend of €0.45 per share to 347,415,686 no-par value shares from the distributable profit of financial year 2013, i.e. a total of €347,415,686.

Documentation of electricity by source

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

Result of the documentation of electricity by source	Share	**2013 kWh**
Hydropower	100.0%	1,152,945,000
Total volume of electricity supplied in Austria to consumers for their own use	100.0%	1,152,945,000

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

Impact of electricity generation on the environment	**2013**
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 (ElWOG) and have audited the documentation prepared by VERBUND AG, Vienna, for financial year 2013 in accordance with Section 78 of the Austrian Electricity Industry and Organisation Act (ElWOG).

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, 18 February 2014
Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Maximilian Schreyvogl
Certified Public Accountant

MMag. Dr. Klaus-Bernhard Gröhs
Certified Public Accountant

Glossary

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).

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).

EDITORIAL DETAILS

Published by: VERBUND AG
Am Hof 6a, 1010 Vienna, Austria

Layout: produced inhouse with FIRE.sys
Creative concept and design: Brainds
Creative concept and design: Grayling
Translation and linguistic consulting:
Austria Sprachendienst International

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Verbund

Power for the Future