

# Renewable, efficient, innovative: shaping the future.





VERBUND AG  
Annual Report 2014



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**Note on rounding:** The addition of rounded amounts and the calculation of percentages may lead to rounding differences due to the use of computing software.

# Three-year comparison

	€m, %		
	2012	2013	<b>2014</b>
Revenue	2,667.4	2,726.7	<b>1,618.3</b>
Earnings before interest and taxes (EBIT)	556.9	-259.7	<b>243.2</b>
Profit or loss on ordinary activities before taxation	415.6	-672.6	<b>69.1</b>
Net income/net loss for the year	393.1	-546.9	<b>279.2</b>
Net profit	208.4	347.4	<b>100.8</b>
Balance sheet total	5,604.3	5,582.6	<b>6,311.4</b>
Fixed assets	4,385.1	4,753.8	<b>5,816.6</b>
Capital expenditure for property, plant and equipment	8.5	2.8	<b>1.6</b>
Depreciation of property, plant and equipment	1.8	1.8	<b>1.8</b>
Equity	3,092.1	2,336.8	<b>2,268.6</b>
Return on sales (ROS)	20.9%	-9.5%	<b>15.0%</b>
Return on equity (ROE)	14.4%	-21.7%	<b>3.0%</b>
Return on investment (ROI)	10.0%	-4.6%	<b>4.4%</b>
Return on capital employed (ROCE)	7.8%	-3.6%	<b>3.2%</b>
Equity ratio	55.2%	41.9%	<b>36.0%</b>
Debt repayment period	6.1	-	<b>12.8</b>
Cash flow from operating activities	377.0	-285.3	<b>214.4</b>
Gearing	48.0%	128.8%	<b>164.6%</b>
Share price high	23.0	19.9	<b>16.7</b>
Share price low	14.5	14.3	<b>13.7</b>
Closing price	18.8	15.5	<b>15.3</b>
(Proposed) dividend per share	0.60	1.00	<b>0.29</b>
Dividend yield	3.20%	6.44%	<b>1.90%</b>
Operational headcount	168	172.8	<b>181.4</b>
Group electricity sales volume (GWh) <sup>1</sup>	64,397	53,589	<b>54,359</b>

<sup>1</sup> 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
Dr. Peter F. Kollmann CFO and Member of the Executive Board	1962	1/1/2014	31/12/2018
Dipl.-Ing. Dr. Günther Rabensteiner Member of the Executive Board	1953	1/4/2011	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 1 <sup>st</sup> Vice-Chairman Member of the supervisory boards of Semper Constantia Privatbank AG (vice-chairman), Mareto Kunststoffverarbeitung GmbH and TUPACK Verpackungen GmbH	1946	16/3/2000	AGM 2015
Mag. Dr. Reinhold Süßenbacher 2 <sup>nd</sup> Vice-Chairman Member of the supervisory boards of KSV 1870 Holding AG (vice-chairman), Richter Pharma AG, Voglauer Möbelwerk Gschwandtner & Zwilling GesmbH, UMDASCH AG, LISEC Holding GmbH 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), 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 Head of Cabinet of the Vice-Chancellor and Federal Minister, Secretary-General Federal Ministry of Science, Research and Economy	1963	7/4/2010	AGM 2015

Name	Year of birth	Date of initial appointment	End of current term of office
Mag. Herbert Kaufmann Former board member of Flughafen Wien AG	1949	26/3/2008	AGM 2015
Mag. Dr. Martin Krajcsir CEO of WIENER STADTWERKE Holding AG; member of the supervisory boards of Wiener Stadtwerke Finanzierungs-Services GmbH (chairman), IWS TownTown AG (chairman), B&F Wien – Bestattung und Friedhöfe GmbH (chairman), Wien Energie GmbH (vice-chairman) and Wiener Netze GmbH	1963	9/4/2014	AGM 2015
Dipl.-Ing. Dr. Peter Layr Speaker of the managing board of EVN 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 Former chairwoman of the managing board of WIENER STADTWERKE Holding AG	1959	13/4/2011	9/4/2014
Christa Wagner Managing shareholder in several companies of the JOSKO Group	1960	7/4/2010	AGM 2015
Ing. Siegfried Wolf Chairman of the board of Russian Machines LLC	1957	16/3/2000	30/6/2014

Supervisory Board mandates in publicly listed companies and other significant companies have been listed in relation to (ancillary) functions. Full-time functions are listed where appropriate.



## 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
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

Employee representatives are seconded by the Group's employee representatives for an unlimited term and can be recalled at any time.

# Report of the Supervisory Board

In financial year 2014, the difficult economic climate continued to impact VERBUND, Austria's leading utility. However, thanks to comprehensive restructuring and cost reduction measures as well as a good 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 generate satisfactory earnings under these conditions. The Supervisory Board actively monitored and supported these positive developments.

**Discharge of 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 five plenary meetings. The overall attendance rate of all Supervisory Board members was 92%. In addition, the Chairman had regular contact with all members of the Supervisory Board on important matters so that all members were always involved. The Executive Board provided the Supervisory Board with regular and comprehensive real-time information, verbal and written, on all relevant questions relating to the Group's performance and its position and strategy, and those of significant 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 the Group's structure and strategy, and monitored the Executive Board's management activities continuously based on its extensive reporting. Supervision took place in open and constructive meetings between the Executive Board and the Supervisory Board and revealed no grounds for criticism. In addition, the Chairman of the Supervisory Board met regularly with the members of the Executive Board, particularly the Chairman.

**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 relates to the Group's restructuring measures, particularly concerning thermal power plants. By selling the gas power plants in France as well as Sorgenia in Italy, we largely succeeded in relieving ourselves of burdensome international commitments. Other key topics were the formation of two joint ventures in the New Solutions segment, the successful issue of the first green bond in the German-speaking region and the extension of a syndicated credit facility. The Supervisory Board also dealt intensively with the compliance management system.

**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, particularly of its organisation and procedures. The evaluation consisted of an extensive questionnaire completed by all members and discussed among the Supervisory Board at its subsequent meeting without the participation of the Executive Board. In addition, the Supervisory Board again thoroughly addressed possible conflicts of interest. No conflicts were identified that would require any measures to be undertaken.

As provided for in the Code of Corporate Governance, meetings were held as needed, including meetings in which the Executive Board did not participate. The Supervisory Board's Working

Committee met twice during the year under review, above all to plan plenary meetings. The Audit Committee – which is an independent offshoot of the Working Committee – met four times. It dealt above all with the semi-annual financial statements and preparation of the resolution to approve the annual financial statements as well as the appointment of the auditor and examination 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 and performed the duties stipulated by the rules of procedure. The General and Remuneration Committee convened six times and discussed the target agreements and the variable remuneration of the Executive Board as well as current topics of emphasis. The Nomination Committee did not meet. The composition of the Supervisory Board changed as follows in the reporting year: Mag. Dr. Martin Krajcsir was elected to the Supervisory Board by the Annual General Meeting of 9 April 2014 to replace Dr. Gabriele Payr, who resigned her position. Ing. Siegfried Wolf left the Supervisory Board as at 30 June 2014. Further information about the composition, operation and meetings of the Supervisory Board and its committees and 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 2014, were audited by Deloitte Audit Wirtschaftsprüfungs GmbH and issued with 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 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, 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 2014 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 (Aktengesetz, 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.

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 2014. The Supervisory Board would also like to thank the Group's shareholders, customers and business associates for their trust.

Vienna, March 2015

Dr. Gilbert Frizberg

Chairman of the Supervisory Board





# Report on business performance and economic position

## General conditions

The operating environment for the European electricity sector remained extremely challenging in 2014. Europe has still not succeeded in overcoming the debt crisis. Demand for electricity declined in the wake of the continued weak economic trend. The weak economic environment in Europe and the rest of the world led to decreasing prices for primary energy. These developments in combination with continuing overcapacities in the European electricity market – particularly due to the massive subsidisation of electricity generation from new renewables – led to wholesale electricity prices continuing to drop in 2014.

The European electricity market is currently at a turning point. The transition of electricity generation to a predominantly supply-dependent system for renewable energy generation calls for a redesign of the market.

### General economic environment

#### Economy remains weak

Global economic growth did not demonstrate much momentum in 2014. Economic recovery faltered in the eurozone in particular. The economy in the emerging markets also showed little movement compared with historic trends. Furthermore, geopolitical tensions (Ukraine, Russia, the Middle East) acted to slow economic activity. According to forecasts published by the International Monetary Fund (IMF) in January 2015, real economic growth is calculated to have risen slightly (by 1.8%) in industrial countries in 2014 after an increase of 1.3% in 2013. Although the eurozone has overcome the recession, economic output showed little momentum with a rise of 0.8% in 2014 according to forecasts (2013: -0.5%). Germany remained the growth driver with an increase of 1.5% in GDP. By contrast, weaker exports caused the Austrian economy to lose momentum, with expansion of only 0.3% in 2014 according to estimates by the Austrian Institute of Economic Research (WIFO). In France and Italy, unsolved structural problems slowed growth markedly, while the peripheral countries made gains thanks to reforms.

### Energy market environment

#### Mild weather conditions and weak economy push down energy demand

In 2014, energy consumption in Austria was well below that of the previous year. The primary reasons for this were the milder weather conditions compared with the previous year and the weak economy.

By contrast with the unusual cold spell at the beginning of 2013, the start of 2014 saw temperatures that were above average. No unusual temperature trends were registered in the summer, while the rest of the year again proved to be much warmer than usual. Total heating degree days decreased by 19.2% in 2014. This indicator is generally used as a temperature-independent indication for the use of heating energy.

Natural gas consumption decreased by 9.4% in 2014. The use of natural gas in power plants, which had already dropped sharply in 2013, continued to see heavy declines. Demand for gas was also negatively impacted by the considerably warmer weather compared with the previous year as well as the weak performance of industrial production.

Hard coal consumption decreased due to the decline of approximately one-third in the use of coal in power plants. Mineral oil consumption likewise registered a decrease in 2014. Demand for fuels was

stable on the whole, with lower sales of extra light heating oil contributing in particular to the overall trend.

Renewables maintained their share in total energy consumption. Although hydropower saw a supply-related decline, the new renewable energy sources – especially wind power and solar power – were able to sustain their upward trend.

### **Electricity consumption declines, dependency on imports rises**

According to figures from E-Control<sup>1</sup>, electricity consumption in Austria decreased by 1.1% in 2014. The decline was particularly substantial among industrial operations, where production declines in a number of industrial sectors with high electricity use led to reduced consumption. Among private households, the mild winter was the main factor contributing to lower electricity consumption.

Due to the lower water supply compared with the previous year, hydropower plants supplied 3.4% less electricity in 2014. In addition, utilisation of thermal power plants decreased by 16.5% in this period due to market conditions.

“Other generation” recorded a 13.7% rise. 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 4.0% in Austria in 2014. The decline in generation was offset by a significant increase in net imports (+27.6%).

### **Oil prices fall back**

The average price for one barrel of Brent crude oil (front month) was \$99.4/bbl in 2014 compared with \$108.7/bbl a year earlier. This represents a decrease of 8.5%.

The price of oil fluctuated in a range of between \$105/bbl and \$111/bbl from the beginning of January to the end of May 2014. Reports on the economic trend in key economies, drilling disruptions in Libya and the Ukraine conflict led to upward and downward movement in the listings during this period.

In June 2014, listings increased to somewhat over \$115/bbl due to unplanned disruptions in oil production among a number of OPEC producers and unrest in Iraq. Prices declined steadily thereafter, the chief reason being the abundant supply of oil and only modest demand. US production increased, and US oil imports decreased sharply as a result. Added to this was the fact that oil production was not scaled back in Iraq.

The downward trend accelerated after the economic data signalled a further slowdown in economic momentum. The OPEC decision in November 2014 to keep production levels constant was responsible in particular for the price drop. At the end of 2014, one barrel of Brent crude (front month) was quoted at only \$57.3/bbl, the lowest figure since mid-2009.

### **Gas and coal also see price declines**

In gas trading, the collapse in demand resulting from the weather situation and reduced utilisation of gas power plants led to significant price reactions. The spot price in the European NCG trading point decreased by €6.0/MWh on average in 2014 to €21.1/MWh. With regard to futures market gas products, the Ukraine conflict resulted in a risk premium being established. However, at €24.6/MWh, the NCG front year was nonetheless €2.2/MWh less expensive on average than in 2013.

Prices for coal deliveries in the ARA region (Amsterdam, Rotterdam, Antwerp) continued on their downward trend from the previous year. Coal prices were down 7.6% in the spot market in 2014 and

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

12.0% in the futures market year-on-year (ARA front year; both on a euro basis). The global coal market is currently experiencing an oversupply.

### **Political and regulatory framework at a European level**

#### **EU agrees on energy and climate package for 2030**

On 24 October 2014, heads of state and government approved a new EU energy and climate policy for the period from 2020 to 2030. The package involves the following objectives: a binding EU target for reducing greenhouse gases by at least 40% (1990 base year), a renewable energy target at EU level in the amount of at least 27% of energy consumption and an energy efficiency target of at least 27%, which can be raised at a later time to 30% (the European Commission's original proposal). A new governance system will monitor future achievement of the targets.

#### **Reinforcement of EU emissions trading**

The EU emission trading system is not fulfilling its purpose of promoting low-emission technologies due to the persistently low level of prices for CO<sub>2</sub> emission rights. The reason for this is the current oversupply of emission rights.

To reduce the oversupply, the European Commission has submitted a proposal for a “market stability reserve” that would have an automated mechanism designed to gradually transfer excess CO<sub>2</sub> emission rights to a reserve starting in 2021, and then put them back into the market in the event of a shortage.

#### **Reform of the Renewable Energy Sources Act in Germany**

The amendments to the Renewable Energy Sources Act (Erneuerbare-Energien-Gesetz, EEG) in Germany in 2014 represented a further advancement in the primary legal instrument for promoting the use of renewable energy. The changes were necessary due to the rapid development of renewable energy, especially the rise in allocations under the Renewable Energy Sources Act and increasing challenges to the stability of the power grid and the security of supply. The new Renewable Energy Sources Act focuses on cost-efficient technologies in order to lower the cost of additional development. Existing oversubsidisation will be scaled back, subsidies for new installations will be gradually lowered, and exceptions to the allocations under the Renewable Energy Sources Act will also be reduced. Specific quantity targets (“expansion corridors”) have been established for the annual build-up of each renewable energy technology to enable better planning of the expansion of renewable energy. To improve the integration of renewable energy into the electricity market, operators of major new installations will in future be obliged to directly market the electricity they generate themselves. This obligation will be introduced gradually to allow all market operators to make the necessary preparations.

#### **Water charges/ECJ proceedings**

The complaint brought against Germany by the European Commission to comply with the Water Framework Directive in terms of cost obligations relating to water services was rejected by the European Court of Justice. The decision firmly established that the Directive does not stipulate that a price must be put on measures such as the removal, damming, storage, treatment, or distribution of surface or ground water. Based on that decision, the Republic of Austria (which was admonished by the European Commission in the same matter) can assume that the default action will not be pursued further.



## New legal framework for the energy sector in Austria

### Energy efficiency package adopted

The energy efficiency package of the federal government was adopted by Parliament by a majority of two-thirds in the second attempt in July 2014. The cornerstones of the law are: an annual savings obligation for energy suppliers of 0.6% of sales registered in the previous year and a requirement for large companies to conduct energy audits. The legislation additionally stipulates that a quota of at least 40% must be reached in energy efficiency measures for households. The savings obligation for the energy sector (which involves a total savings target of 159 PJ over the entire period) can be adjusted each year by the minister of the economy depending on the changes made to the government targets. The supplier obligation will take effect on 1 January 2015.

### Preparations for a national water management plan

In order to implement the European Water Framework Directive, all member states, including Austria, are required to draft and implement national water management plans. National Water Plan I (2009–2015) is in the final phase of implementation. The Austrian Federal Ministry of Agriculture, Forestry, Environment and Water Management (BMLFUW) has begun preparations for National Water Plan II, which will take effect in 2016 with the intensive involvement of the federal states.

National Water Plan I has focused firstly on creating passability in priority bodies of water, whereby costs have risen massively from the original estimates due to the increase in the legal and technical requirements applicable to fish ladders (as much as 2.5-times). Current studies relating to Austria indicate that total generation by run-of-river power plants in Austria will decrease by approximately 300 GWh/a solely on the basis of the leading flow allocation. A second focus of National Water Plan I and the coming National Water Plan II is the adaptation of the residual water budget which could lead to additional generation losses of around 1,500 GWh/a for all Austrian run-of-river power plants. The latter is due above all to the very high standards required by the “Ecology” quality objective ordinance (Qualitätsziel-Verordnung Ökologie, QZVO-Ö).

National Water Plan II contains the following new items: specifications for creating passability, for residual water and for pressure surges and drops as well as possible new requirements concerning fish protection/fish bypasses. However, these specifications must be based on clear consideration of energy and environmental policy targets and a comprehensible cost-benefit ratio with regard to possible interventions as well as comprehensive scientific research that takes the companies involved into account. National Water Plan II will focus in particular on the possible requirements for pressure surges and drops. When strictly interpreted, the use of (pumped) storage power plants will be restricted, which will lead to notable losses in peak capacity, flexibility and balancing energy. This could lead to the occurrence of massive disadvantages in terms of energy and economic policy.

## Finance

### Factors affecting the result

#### Wholesale prices for electricity

In 2013, VERBUND already entered into contracts for the majority of its own generation for 2014 in the futures market. At an average of €39.1/MWh for base load and €49.7/MWh for peak load, electricity wholesale prices were below the previous year's levels by 20.7% and 18.4% respectively. The weak

economy, lower prices for coal and CO<sub>2</sub> emission rights, overcapacities in the European electricity market and higher generation from renewable energy due to the construction of new plants exerted enormous pressure on the futures market. For immediate deliveries (spot market), wholesale trading prices for electricity were also well below the prior-year level in 2014. Prices for base load decreased by an average of 13.3% to €32.8/MWh and prices for peak load fell by 15.8% to €41.0/MWh.

#### **Water supply performance**

Water supply in the rivers is of particular significance for VERBUND since around 90% 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. Although water supply levels were low in the first half of the year, the levels were well above average in the second half. At 1.02, the hydro coefficient for run-of-river and pondage power plants was 2% above the long-term average but 5 percentage points below the previous year's level. The hydro coefficients for the individual quarters were as follows: quarter 1: 0.93; quarter 2: 0.93; quarter 3: 1.10; quarter 4: 1.16.

#### **Electricity supply and sales volumes**

At 34,030 GWh, VERBUND's own generation was 1,509 GWh lower than in the previous year. Generation from hydropower rose by 245 GWh in 2014. The increase is predominantly attributable to the hydropower plant shares acquired in Germany in April 2013 and to higher generation from annual storage power plants. The increase of 12.1% in generation of the annual storage power plants resulted from higher water flows, a lowering of the water level and increased pumped storage operations. At 1.02, the hydro coefficient for run-of-river power plants was 2% above the long-term average, but 5 percentage points below the previous year's level. Wind power and photovoltaic installations generated 246 GWh of additional electricity in 2014. The increase was due firstly to the commissioning of new wind power plants in Austria in 2014 and secondly to the fact that the wind power plants commissioned in 2013 in Romania and Germany were at our full disposal in 2014. In contrast, generation from thermal power fell by 2,000 GWh owing to unfavourable market conditions. The Mellach CCGT generated only 105 GWh in 2014 (2013: 394 GWh). Generation from VERBUND's other thermal power plants in Austria fell by 578 GWh. The two thermal power plants in France produced a total of 1,133 GWh less electricity than in the previous year prior to their deconsolidation.

Electricity purchased from third parties for trading and sales increased by 1,927 GWh. Electricity purchased from third parties for grid losses and balancing energy increased by 352 GWh, above all due to increased congestion management.

Group electricity supply	GWh		
	2013	2014	Change
Hydropower <sup>1</sup>	30,943	31,188	0.8%
Wind power and photovoltaics	565	811	43.5%
Thermal power	4,031	2,031	-49.6%
<b>Own generation</b>	<b>35,539</b>	<b>34,030</b>	<b>-4.2%</b>
Electricity purchased from third parties (trading)	14,874	16,801	13.0%
Electricity purchased for grid loss and control energy volumes	3,175	3,527	11.1%
<b>Electricity supply</b>	<b>53,589</b>	<b>54,359</b>	<b>1.4%</b>

<sup>1</sup> incl. purchase rights

Electricity sales volume increased slightly in 2014, rising by 547 GWh compared with the previous year. Electricity volumes delivered to consumers declined by 608 GWh. The increase in volumes supplied to domestic consumers (+240 GWh) was not able to compensate for the competition-related declines in volumes delivered to international consumers (-848 GWh). Sales to resellers rose by 504 GWh. Deliveries to domestic resellers increased by 685 GWh while sales to international resellers declined by 181 GWh based on competition. Electricity deliveries to trading firms increased by 649 GWh compared with the previous year. The increase in own use by 258 GWh was due to higher utilisation of the pumped storage power plants in reverse operation.

#### Group electricity sales volume and own requirements

	GWh		
	2013	2014	Change
Consumers	10,093	9,485	-6.0%
Resellers	21,601	22,105	2.3%
Retailers	18,583	19,232	3.5%
<b>Electricity sales</b>	<b>50,276</b>	<b>50,823</b>	<b>1.1%</b>
Own requirements	2,685	2,943	9.6%
Control energy volumes	627	593	-5.5%
<b>Electricity sales and own requirements</b>	<b>53,589</b>	<b>54,359</b>	<b>1.4%</b>

In 2014, approximately 51% of the electricity sold by VERBUND went to the Austrian market. The German market was the focus of international trading and distribution activities and accounted for 90% of all volumes sold abroad.

## Financial performance

### Revenue and result

	Unit	2013	2014
Revenue	€k	2,726,684.9	1,618,333.0
Earnings before interest and taxes (EBIT)	€k	-259,714.0	243,160.8
Profit or loss on ordinary activities before taxation	€k	-672,637.2	69,127.9
Net income/net loss for the year	€k	-546,931.0	279,156.9
Net profit	€k	347,415.7	100,750.5
Return on equity (ROE)	%	-21.7	3.0
Return on investment (ROI)	%	-4.6	4.4
Return on capital employed (ROCE)	%	-3.6	3.2
Return on sales (ROS)	%	-9.5	15.0

### Lower revenue due to transfer

The decrease in revenue is mainly attributable to the transfer of the electricity business to VERBUND Trading GmbH. For this area, only revenue for the months from January to August of the financial year is now included in the revenue of VERBUND AG. Because of this, the absolute amounts are not comparable.

Electricity revenue generated in foreign countries, primarily Germany, amounted to 41.3% (previous year: 45.1%).

Electricity sales volume rose within the Group by 769.2 GWh or 1.4% compared to the previous year.

### Other operating income increased

Other operating income rose by €27,870.1k to €71,444.9k. This is mainly due to higher reversals of provisions (€6,235.9k), income from disposals of investments (€6,408.0k – primarily related to Gemeinschaftskraftwerk Inn GmbH electricity purchase rights) and income of €22,263.2k from the termination of a natural gas storage management agreement, which is offset by lower income from invoicing services to Group companies.

### Expenses for the purchase of electricity decreased due to transfer

Expenses for electricity purchases fell by 40.6% to €1,308,373.1k. The decrease in electricity purchases is mainly attributable to the transfer of the electricity business to VERBUND Trading GmbH. For this area, only expenses for the months from January to August of the financial year have been included in the purchases of VERBUND AG. Because of this, the absolute amounts are not comparable.

### Personnel expenses

Current personnel expenses increased by €2,304.3k to €27,906.8k. The 2.5% 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 due to the merger with VERBUND International GmbH (29 employees). This increase is partly offset by a reduction in the number of employees due to the transfer of the electricity business to

VERBUND Trading GmbH (16 employees), although the personnel expenses for the months from January to August for employees in the electricity business are still included. The increase in personnel expenses was offset by a slight decline in bonuses and remuneration. Expenses for employee benefits relating to pension and severance payments increased by €3,608.2k. The interest rate reduction from 3.5% to 2.0% for pensions and severance payments as well as the increase in pension benefits and the higher basis of measurement for severance payments with an increased number of employees were mainly responsible for this. Overall, the operational headcount increased by 9 to 181.

#### Other operating expenses

Other operating expenses decreased by €34,674.6k to €76,097.0k. This decrease is primarily attributable to a lower level of advisory services (€9,925.6k), the reduction in expenses for operating a fictitious gas storage facility as a result of transferring the electricity business to VERBUND Trading GmbH (€6,275.9k) as well as the elimination of intragroup invoicing due to the merger of VERBUND International Finance GmbH.

#### Profit or loss on ordinary activities before taxation

Profit or loss on ordinary activities before taxation increased from €-672,637.2k to €-69,127.9k as a result of the influencing factors described above and the significantly improved financial result of €-19,716.7k (previous year: €-802,332.0k). The change in financial result was mainly attributable to higher results from equity interests of €498,294.8k (previous year: €390,304.4k) and lower transfers of losses of €79,514.6k (previous year: €694,463.6k) which were partly offset by depreciation and amortisation and provisions for investees amounting to €394,710.5k (previous year: €410,928.6k).

## Financial position

#### Financial position

	Unit	2013	2014
Fixed assets	€k	4,753,833.3	5,816,638.8
Current assets	€k	646,609.9	128,588.8
Working capital	€k	-686,408.5	-327,210.5
Net debt	€k	3,011,659.5	3,738,414.9
Equity	€k	2,336,843.8	2,268,617.7
Current liabilities	€k	1,386,607.2	1,174,924.8
Current assets	€k	700,198.7	847,714.3
Equity ratio	%	41.9	36.0

#### Fixed assets

Intangible assets and property, plant and equipment fell by €8,000.4k. Of that amount, €9,493.8k was attributable to the transfer of the electricity business to VERBUND Trading GmbH as at 31 December 2013. In addition, the partial sale of electricity purchase rights to Gemeinschaftskraftwerk

Inn GmbH resulted in a decrease of €14,211.9k. These have to be seen alongside additions primarily relating to electricity purchase rights of €16,495.5k, software of €341.5k, office adaptations of €819.1k and office and plant equipment of €778.4k. Amortisation on intangible assets and depreciation on property, plant and equipment amounted to €2,586.1k in the financial year.

Investments relating to investees decreased by €1,189,497.6k due to the increase of carrying amounts for equity interests in Austria (€+91,615.8k; of which due to the transfer of the electricity business to VERBUND Trading GmbH: €89,800.8k), the acquisition of equity interests in German wind power and infrastructure companies (€+30,968.5k), additions from contributions (€+144,557.2k), which have to be seen alongside disposals of €1,305,259.7k (of which merger-related disposals of VERBUND Beteiligungsholding GmbH and VERBUND International Finance GmbH: €-1,302,816.7k) as well as amortisation of equity interests (€-149,264.4k).

Other investments increased in total by €2,260,303.4k. Of that amount, €1,537,524.3k was attributable to carrying amounts as at 31 December 2013 from the contributions of VERBUND International Finance GmbH and VERBUND International GmbH into VERBUND AG. Loans were granted in the amount of €1,104,229.2k, while loans of €328,392.7k were repaid and impairment losses of €49,348.3k were recognised. Securities decreased by €3,709.1k.

#### Current assets

The decrease in current assets by €518,021.1k to €128,588.8k mainly resulted from the transfer of the electricity business to VERBUND Trading GmbH in the amount of €357,089.1k and the conversion of the short-term financing of Austrian Power Grid AG to a loan in the amount of €250,000.0k. This has to be seen alongside the recognition of an impaired receivable from debt-discharging repayments including the associated accrued interest from Toul Power S.A.S. in a net amount of €48,653.7k. In addition, the receivable from the tax authorities arising from excess corporate tax prepayments decreased by €11,382.7k.

#### Equity

Due to the results for the year and the offsetting distribution for financial year 2013, equity decreased by €68,226.1k to €2,268,617.7k. The equity ratio decreased from 41.9% to 36.0%.

#### Liabilities

Non-current and current liabilities increased by €958,775.8k to €3,797,861.7k. Liabilities from bonds and loans in the amount of €3,017,605.8k were included in the balance sheet as at 1 January 2014 as a result of the merger with VERBUND International Finance GmbH. Through the merger, VERBUND AG also assumed an investment of Grenzkraftwerke GmbH in the amount of €44,000.0k. At the same time, as an opposite effect, the financial liability of VERBUND AG to VERBUND International Finance GmbH in the amount of €1,390,000.0k was eliminated as a result of the merger. VERBUND AG's electricity supply liability to VERBUND International GmbH of €280,859.2k decreased due to the merger with VERBUND International GmbH, resulting in income of €137,045.3k by way of confusion of rights. In financial year 2014, the net movement in borrowing from and repayments to banks was €49,269.0k. Liabilities to affiliated companies fell by €178,838.4k as a result of cash management.

## Financing

### Financing strategy

In today's volatile energy market environment in which planning is difficult, VERBUND bases its financing strategy on three 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 2014, VERBUND AG had a syndicated credit line in the amount of €500.0m at its disposal that had not been drawn upon. This facility runs until 2021. It was taken out on 15 October 2014 with twelve domestic and international banks. VERBUND AG also had uncommitted lines of credit amounting to €651.5m at the end of 2014, primarily with Austrian banks. In addition, VERBUND holds cash and cash equivalents with maturities of three to six months.

As at 31 December 2014, VERBUND had invested a total of €265.0m in time deposits and in the money market with a variety of banks. These investments serve to cover the high level of funds needed in 2015, primarily for the repayment of a bond in the amount of €500.0m due in April 2015. As at 31 December 2014, VERBUND had additionally taken out €25.0m over the short term to manage short-term liquidity.

#### Securing a solid credit rating over the long term

The better a company's credit rating, the easier and more inexpensive it is to access international capital 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 BBB+ with a stable outlook by Standard & Poor's (S&P) and Baa1 with a negative outlook by Moody's. The S&P rating was downgraded to "credit watch negative" in August 2014. This implies that the rating will be reduced by one to two notches within the following 90 days. The rating evaluation was subsequently completed in October 2014 with a downgrade from A- to BBB+. By contrast, Moody's left its rating unchanged at Baa1 in 2014, but it downgraded the outlook from stable to negative in August 2014. The rating reductions followed the negative performance of the utilities sector. The difficult sector environment resulted in a deterioration of the capital structure and the cash flows of many European utility companies.

For the long term, VERBUND is aiming for a solid "A" category rating. Our Group management is therefore focusing, among other things, on two key rating ratios: FFO/net debt and RCF/net debt. VERBUND's internal target for the FFO/net debt indicator is a minimum of 30% by 2020.

#### 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. VERBUND has targeted a reduction in gearing to less than 45% by 2020. To this end, VERBUND has implemented numerous measures in recent years. We divested ourselves of non-strategic activities as well as non-controlling interests.

**Financial key figures**

	Unit	2013	2014
Cash flow from operating activities	€k	-285,342.8	214,446.7
Cash flow from investing activities	€k	-458,334.4	-695,573.9
Cash flow from financing activities	€k	741,042.1	475,740.0
Financial result	€k	-802,332.0	-19,716.7
Gearing	%	128.8	164.6
Debt repayment period	years	-	12.8

Compared with the previous year, the financial result improved by €782,615.3€ to €-19,716.7k mainly as a result of transfers of losses which were down by €614,949.0k, while results from equity interests had increased by €107,990.4k. A provision of €178,559.1k (previous year: €286,809.5k) was recognised for expected losses from investees. In the area of investments, an impairment loss reversal of €17,538.7k and income from disposals of investments of €8,600.7k were offset by higher impairment losses of €216,151.5k (previous year: €126,382.8k).

An increase in interest-bearing net debt by €726,755.4k and the simultaneous reduction in adjusted equity by €68,250.4k resulted in an increase in gearing of 35.9 percentage points to 164.6%. The debt repayment period was negative in the previous year due to a decrease in the surplus funds from ordinary activities and a 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

The balance sheet amounts disclosed in the table under II. Notes to the balance sheet and to the income statement as having been eliminated as a result of the transfer have been allocated to the respective items in the cash flow statement. Under the transfer agreement, the equity of the absorbing company is fixed at €100 million and the difference is settled through Group clearing.

### (1) Cash flow from operating activities

Cash flow from operating activities was determined using the indirect method and resulted in a cash inflow of €214,446.7k (previous year: cash outflow of €285,342.8k).

Inventories decreased by €14,931.8k mainly due to the transfer of the electricity business to VERBUND Trading GmbH.

The change in trade receivables and other receivables is primarily attributable to the elimination of receivables as a result of the transfer of the electricity business (€342,157.4 is attributable to trade receivables – of which from affiliated companies: €46,816.4k; of which from investees: €373.0k – €122,122.2k is attributable to provisions of collateral for trading of electricity derivatives and €9,265.1k to accruals and deferrals), the increase of receivables from investees as a result of the debt-discharging repayments in the amount of €322,676.5k, the increase in deferred tax assets of €136,038.1k and the increase in other accruals and deferrals in the amount of €2,430.2k. In addition, the reduction of the surplus in corporate tax prepayments resulted in a decrease in other receivables of €11,385.6k.

The change in trade payables and other liabilities is mainly the result of the transfer of the electricity business to VERBUND Trading GmbH in the amount of €126,316.3k and the elimination of a liability to VERBUND International GmbH as a result of the merger in the amount of €143,813.9k, which resulted in income by way of confusion of rights.

The change in current provisions and tax liabilities is attributable mainly to the decrease in other current provisions as a result of the transfer of the electricity business to VERBUND Trading GmbH in the amount of €28,989.0k and the recognition, use and reversal of provisions in connection with investments in the amount of €113,322.4k.

### (2) Cash flow from investing activities

Net cash flow from investing activities resulted in a total cash outflow of €695,573.9k (previous year: cash outflow of €458,334.4k), resulting primarily from the acquisition of equity interests in the amount of €122,584.3k (of which from the transfer of the electricity business to VERBUND Trading GmbH €89,800.8k), the granting of loans amounting to €854,229.1k and the purchasing of securities totalling €2,364.3k. These have to be seen alongside the repayment of loans in the amount of €268,073.2k, the disposal of equity interests totalling €-2,713.4k (of which €-17,368.7k from a value adjustment of a disposal from previous years which only resulted in payment in 2014), as well as the disposal of securities totalling €6,077.3k.

Capital expenditure for intangible assets and property, plant and equipment primarily comprised capital expenditure relating to rights in the amount of €16,495.5k, relating to office adaptations in the amount of €819.1k, relating to office and plant equipment totalling €778.4k and relating to software in the amount of €341.5k.

Of the cash inflows from the disposal of intangible assets and property, plant and equipment, €20,606.7k is attributable to the sale of an electricity purchasing right in connection with the reduction

of the investment in Gemeinschaftskraftwerk Inn GmbH and €9,493.8k is attributable to the disposal from the transfer of the electricity business in VERBUND Trading GmbH.

**(3) Cash flow from financing activities**

As part of the dividend distribution approved for financial year 2013, €347,415.6k was paid out to shareholders. This was equivalent to a dividend of €1.0 per share.

Group clearing resulted in a cash inflow of €872,367.5k (previous year: cash inflow of €1,014,824.8k), of which €120,365.5k was from the transfer of the electricity business to VERBUND Trading GmbH.

Two loans totalling €600,000.0k were taken out and repayments at maturity in the amount of €500,000.0k, scheduled payments of instalments in the amount of €55,740.4k, early repayments in the amount of €66,000.0k and repayments in the amount of €27,500.0k from other financial liabilities were made.

**Cash flow statement**

		2013	2014
	Notes		
Net income/net loss for the year		-546,931.0	279,156.9
Amortisation of intangible assets and depreciation of property, plant and equipment		2,848.1	2,586.1
Amortisation of financial assets		126,382.8	198,612.7
Result from disposal of non-current assets		302.8	-7,043.4
Change in non-current provisions and deferred tax liabilities		1,847.6	709.8
Income from the reversal of contributions to building costs		-35.1	-35.1
Other non-cash expenses and income		-17,315.4	44,310.1
Change in inventories		-762.9	14,892.0
Change in trade receivables and other receivables		-150,069.5	-160,973.1
Change in trade payables and other liabilities		11,696.8	-236,886.1
Change in current provisions		286,692.9	79,116.7
<b>Cash flow from operating activities</b>	(1)	<b>-285,342.8</b>	<b>214,446.7</b>
Cash outflow from capital expenditure on intangible assets and property, plant and equipment		-5,341.0	-18,892.6
Cash inflow from the disposal of intangible assets and property, plant and equipment		68.1	30,499.0
Cash outflow from capital expenditure on investments		-1,668,786.0	-979,177.7
Cash inflow from the disposal of investments		1,215,724.5	271,997.5
<b>Cash flow from investing activities</b>	(2)	<b>-458,334.4</b>	<b>-695,573.9</b>
Cash inflow (outflow) from money market transactions		0.0	28.6
New non-current loans		200,000.0	600,000.0
Cash outflow from the repayment of financial liabilities (excluding money market transactions)		-15,333.3	-649,240.4
Cash inflow (outflow) from increases (decreases) in Group financing		-250,000.0	0.0
Cash inflow (outflow) from increases (decreases) in Group clearing balances		1,014,824.8	872,367.5
Dividends paid		-208,449.4	-347,415.7
<b>Cash flow from financing activities</b>	(3)	<b>741,042.1</b>	<b>475,740.0</b>
Change in cash and cash equivalents		-2,635.0	-5,387.2
Cash and cash equivalents as at 1/1/		8,032.9	5,397.9
<b>Cash and cash equivalents as at 31/12/1</b>		<b>5,397.9</b>	<b>10.7</b>

<sup>1</sup> also see note (5)

# Report on the environment, research, development and social aspects

## Innovation, research and development

Increasing digitalisation is enabling new means of access and innovative solutions. Energy providers are moving from a supplier-only model to becoming partners offering innovative, customised solutions. In addition, traditional end consumers are becoming prosumers who generate their own electricity and feed it into the grid. Large power plants will exchange energy with decentral generation units.

### Key figures R & D

	Unit	2013	2014
Number of R&D projects	Number	82	71
Total project volume <sup>1</sup>	€m	203.2	131.0
Of which EU projects <sup>1</sup>	€m	125.4	97.5
VERBUND's total share <sup>1</sup>	€m	15.8	17.8
Annual VERBUND expenses	€m	6.1	4.3

<sup>1</sup> Over the whole duration of the projects.

Innovation represents a key pillar of corporate development at VERBUND. Firstly, it is the central core which governs the Group's strategic research activities and technology development as well as its environmental and climate agenda. Secondly, innovation in the form of new products and services enables our operating subsidiaries to tap into new markets.

### Promoting e-mobility in Central Europe

One of the steps necessary for promoting individual electromobility is the establishment of the required charging infrastructure. We at VERBUND have been playing a leading role in this for years. Through the e-mobility provider Austria GmbH & Co KG (known as SMATRICS) founded in the autumn of 2012 together with Siemens, a high-performance charging network has been operating in Austria since mid-2014 already comprising 170 charging stations, about 60 kilometres apart, in all federal states, with additional stations being added every week.

VERBUND coordinates the Central European Green Corridors project, which is subsidised by the European Union and acts to speed up implementation of the charging infrastructure. By the end of 2015, 115 quick charging stations will be set up in Central Europe as part of the project under the leadership of VERBUND. Of those stations, 61 will be located in Austria and the remainder in Germany, Slovenia, Croatia and Slovakia. Our partners in the project are OMV, BMW, Nissan, Renault and VW, to name a few.

We are also working together with Green eMotion, Europe's largest research and development project for electromobility. A review is being conducted to determine which requirements must be fulfilled in the EU to implement comfortable, cross-border e-car traffic. Together we are defining standard, Europe-wide processes and standards by which cross-border IT solutions such as roaming can be developed via the project marketplace.

### Clean, small-scale hydropower

VERBUND and its partners have been testing a promising innovation in small-scale hydropower technology for more than two years. This new type of turbine developed in Austria is lubricated entirely using water rather than oil. The developers are now beginning to market the turbine internationally. Engineers and ecologists alike are enthusiastic about the StreamDiver® produced by Kössler GmbH. The machine operates entirely free of high-maintenance sealing systems and environmentally questionable lubricants. This innovation makes it possible to utilise even low heads in addition to being suitable for residual water and weir power plants. The total generation potential is sufficient to meet the electricity needs of more than 100,000 private households in Austria alone.

The research project has been extended until mid-2015 in order to continue observing the long-term wear and tear behaviour of the water-lubricated bearings.

The European Water Framework Directive is of great significance to VERBUND. In this context, VERBUND is researching hydropower plant pressure surges and drops that impact the flora and fauna in and around flowing bodies of water. We are cooperating in this with the University of Natural Resources and Applied Life Sciences in Vienna. The research project aims to use case studies to portray this topic comprehensively for the first time.

We are also supporting efforts to record both historical and recent earthquake activity in Tyrol together with the Central Institution for Meteorology and Geodynamics. This six-year project is geared towards gaining a scientifically sound level of information for the first time and is important for future construction projects and storage installations in Tyrol.

### Wind power

VERBUND's wind power plants are already able to supply climate-friendly electricity to more than 270,000 households. To increase the productivity of the plants even further, we are working on an innovative update to the management software to minimise generation losses. For example, we are currently in the process of implementing an analysis tool in order to fully quantify any possible generation losses. This will allow us to identify turbine components that are prone to error so that we can implement countermeasures at an early stage. Wind and turbulence is measured using innovative, nacelle-based laser measuring equipment, which additionally increases efficiency.

### Electricity trading: strategies for a changing market environment

The current market conditions of volatile electricity prices in an environment of integrating renewable energy into the market calls for ongoing innovation and adjustments to trading strategies. VERBUND is rising to this challenge by developing the Group's optimisation and forecasting horizon and improving the modelling of electricity price processes. In addition, we are working on the development of new products relevant to trading on an ongoing basis.

### Power grid: research and innovation for an efficient transmission grid

In line with the trend of past financial years, Austrian Power Grid AG (APG), VERBUND's independent grid subsidiary, continued to work intensively on research and innovation in 2014 so as to be able to deal with the challenges of the future. Four of the total 27 research projects were successfully completed in 2014.

The development of energy market scenarios is a key focus of the research carried out by APG. By participating in projects such as Grid Tech, e-Highway 2050 and Merit Order for Energy Storage in 2030,

APG is steadily accumulating findings on the use of new technology applications and their impact on the grid infrastructure and the market. This forms the basis for targeted grid expansion in connection with the Grid Development Plan.

Another focus of the scientific studies is on grid monitoring and system management. Information is being gathered on how to effectively respond to critical load situations.

## Sustainability

In addition to the economic aspects, the decisions made in 2014 to temporarily or permanently shut down thermal power plants in Austria, the sale of the French combined cycle gas turbine power plants and the divestment of non-controlling interests in Italian company Sorgenia had a positive environmental impact: VERBUND was able to markedly reduce its carbon footprint.

### Greenhouse gas emissions further reduced

We disclose the trends in greenhouse gas emissions each quarter in our internal reports. This data is integrated into our corporate management and has been audited externally since the 2011 reporting year. Due to the Group's high proportion of renewable energy, VERBUND is one of Europe's most climate-friendly energy companies.

Specific greenhouse gas emissions declined to 89 t/GWh in 2014. For 2020, we are aiming to lower this figure to less than 10 t/GWh and for 100% of our own generation to come from renewable energy.

### Award received for reporting in Carbon Disclosure Project

Since 2006, we have published our data on greenhouse gas emissions via the Carbon Disclosure Project (CDP), the world's largest climate reporting initiative. The benchmark comparison for German-speaking countries again identifies us as one of the best companies with regard to greenhouse gas emissions, managing potential climate risks and exploiting opportunities, and achieving reduction targets.

In 2014, VERBUND was included in the Performance Leadership Index for the first time and again included in the Carbon Disclosure Leadership Index of the 350 largest companies in the D-A-CH region. We received an award for our outstanding reporting and increased our points to 99 A out of 100 A-E. This makes us the leader and the best company in the energy supply sector in the D-A-CH region, the Austria Country Leader and the ATX index leader.

### Combining financial reporting and sustainability reporting

In the world of finance, the integration of non-financial content into financial reporting has been under discussion for some time now. VERBUND has been publishing annual sustainability reports since 2002 and was therefore one of Austria's first companies to publish non-financial information in a separate report.

In 2013, we introduced a new central data collection system for all sustainability figures in order to ensure prompt, auditable data collection. In 2014, the conversion was made to the new G4 generation of the Global Reporting Initiative, which will be required for future sustainability reporting. This will lead to a stronger focus on significant topics. The measures implemented represent the prerequisites for us to be able to bring financial and sustainability reporting more closely together in the near future. Thus

VERBUND is once again demonstrating that sustainability should not be viewed separately from business operations but should be integrated into corporate processes.

The VERBUND sustainability report received the Austrian Sustainability Reporting Award multiple times in past years. We were pleased to receive this award again in 2014.

### Five years of cooperation with Caritas and Diakonie

Energy poverty and its negative consequences occur most frequently when incomes are very low and standards of living are poor. VERBUND's Electricity Relief Fund in collaboration with Caritas provides assistance quickly, in an unbureaucratic manner and, above all, permanently, by means of three measures: immediate financial assistance to pay outstanding electricity bills and avoid service disruption, professional, on-site energy consulting and a free exchange service for old, inefficient electrical appliances. Since the start of the project, the VERBUND Electricity Relief Fund in collaboration with Caritas has offered assistance in a total volume of €1.3m to some 6,700 individuals in 2,600 households all over Austria, regardless of who their electricity provider is. All in all, around 3,500 MWh of electricity and around 465 tonnes of CO<sub>2</sub> equivalent have been saved after clients had a single energy consulting session and were then evaluated in a second session with scientific support one year later.

To live up to our responsibility to society, in the future we will continue our dedication to fighting energy poverty in Austria by conducting around 350 energy consulting sessions each year and providing support for some 500 households annually.

More than 60,000 people with speech impediments live in Austria. With the aid of the VERBUND Empowerment Fund run by Diakonie, a Protestant humanitarian assistance organisation, help was provided to around 9,000 people during the past five years to enable them to live a considerably more independent life through the use of modern technologies. Between 2009 and 2014, aids and assisting technologies worth €1.2m were purchased for approximately 1,650 people. In addition, 7,350 people were provided with consulting services. We will also continue our collaboration with Diakonie at the same level in the years to come.

### First green bond

In November 2014, VERBUND AG became the first company in the German-speaking region to issue a green bond in the capital market. The bond has a volume of €500m and a term of 10 years. The issue proceeds from the bond will be used solely for the purpose of financing or refinancing energy efficiency measures at hydropower and wind power plants in Austria and Germany. oekom research, a sustainability rating agency, reviewed the sustainability of the projects in terms of their environmentally relevant aspects, stakeholder dialogue, occupational safety in construction and operation and the avoidance of CO<sub>2</sub> emissions and confirmed these project elements by issuing a second party opinion. This type of investment gives investors the additional benefit of investing in forward-looking projects.

### VERBUND in sustainability indices

In its current company ratings, oekom research gave VERBUND an overall rating of B-, which means that VERBUND is recommended as a "prime investment" for socially responsible investors (SRI). VERBUND is among the ten best companies of 160 utilities evaluated all over the world.

VERBUND is included in the following sustainability indices:

- VÖNIX (VBV Österreichischer Nachhaltigkeitsindex)
- FTSE4Good Europe Index and the Global Index

#### **Certified environmental management systems further expanded**

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. In 2014, our environmental management system was expanded again, and the operations department of three of VERBUND's Austrian wind farms received ISO 14001 certification for the first time. This means that environmental management systems have already been certified at approximately 92% of VERBUND's sites. All sites are expected to be certified under ISO 14001 by 2020 at the latest.

#### **Corporate Governance Report**

The Corporate Governance Report is available on our website at [www.verbund.com](http://www.verbund.com) > Financial Reports.

## Human resources

VERBUND's employees make a key contribution to the successful performance of our Group. Their expertise and dedication are what makes the difference, particularly in Austria's currently challenging energy environment for electricity supply.

In 2014, VERBUND employed an average of 3,245 people. To secure our strong market position over the long term, VERBUND is investing in a performance-based, market-oriented remuneration system as well as needs-based advanced training for our highly qualified and dedicated employees.

#### **Objectives**

Our long-term focus on training and continuing education ensures that our highly qualified employees will retain their level of knowledge. Against the backdrop of the difficult economic situation in the electricity markets and the associated restructuring and personnel reduction measures, it was not possible in 2014 to achieve the high number of advanced training hours attained in previous years.

To ensure smooth, sustained industrial operations, we are focussing on continuing our apprenticeship initiative in VERBUND's apprentice workshops.

In order to retain our highly trained employees, we foster a working environment of fairness, transparency and dedication. This is one of the necessary prerequisites for ensuring that our employee fluctuation rate remains below 5%. This target is even more significant in light of the personnel cuts implemented.

Another key matter that is of great importance to us is occupational health and safety. Our goal is to keep the accident rate stable at a low level of less than twelve workplace accidents per 1,000 employees.

#### **Market situation necessitates reorganisation measures**

In order to keep our Group fit for the future, the cost savings embarked upon in the previous year continued to be consistently implemented in financial year 2014. The hiring freeze on external staff recruitment and the internal reorganisation programme continued in the year under review. Overall, we



were able to streamline the organisational structure in VERBUND AG and in the operating companies. The approved merger of companies and adaptation of organisational forms was implemented.

#### **Internal employment market promotes continued employment**

We succeeded in making the necessary personnel adjustments in coordination with the employee representatives, while focusing on our social responsibility and giving top priority to employment security for the employees affected by the restructuring. This was implemented via the internal employment market we created in 2013. The necessary retraining and advanced training in preparation for new positions was implemented in cooperation with the human resources development team. In view of the hiring freeze for external personnel, vacant positions were filled with personnel from the internal employment market in financial year 2014. Positions falling vacant due to natural attrition – especially as a result of retirement – have not been filled, and the tasks covered by these jobs were transferred to other positions.

#### **Social plan implemented consistently**

Together with the employee representatives, the social plan negotiated in 2013 was adapted and extended until 2020. This will enable the restructuring course embarked upon and the related personnel reductions to be implemented with as much social responsibility as possible, even beyond 2014. In addition to the legally stipulated part-time retirement models, the social plan allows for additional measures for employees to be implemented such as voluntary severance programmes. Additional internal retraining and advanced training programmes, some of which can be combined with the statutory educational leave options, enable employees to remain with the company in new positions obtained via the internal employment market. In addition, free human resources will be actively managed and deployed for short and medium-term assignments in a “capacity exchange” established specifically for this purpose.

#### **Responsibility**

In order to maintain VERBUND’s attractive employer brand profile, VERBUND again invested in selected employer branding measures in 2014 despite cost reductions and savings measures. For example, efforts centred on displaying a focussed but clear presence on the employment market and continuing to cost-effectively reinforce VERBUND’s stable employer brand. As part of our strategic focus in 2014, we placed special emphasis on our participation in TUtheTop, a high-potential programme established by the Vienna University of Technology, and the annual awarding of the VERBUND women’s scholarship to three students at the Vienna University of Technology.

Each year, the high-potential programme of Vienna University of Technology gives top students insight into the VERBUND Group and facilitates a personal exchange of information and dialogue with our management and our top experts. The objective of this strategic cooperation is to maintain a long-term network with young talent at Vienna University of Technology. As part of our TUtheTop programme, we offer selected students the opportunity to take a look behind the scenes of our Group over the duration of one academic year.

VERBUND makes a targeted contribution to fostering talented women studying technical subjects by awarding the VERBUND women’s scholarship which supports three very committed students for one academic year. For VERBUND, the women’s scholarship is a means of enabling the winners to supplement their university education with additional personal and professional training. VERBUND has been

awarding the women's scholarship every year since 2009 together with the Career Center of Vienna University of Technology. In addition, the second alumni meeting for the now 16 VERBUND scholarship recipients took place in October 2014.

As in 2013, VERBUND achieved the golden seal in the "energy" category of the Career's Best Recruiters study in 2014, thus maintaining its leading position in the areas of recruiting and employer branding. Achieving this award once again attests not only to the excellent quality of the employer branding initiatives we have carried out thus far, but also illustrates the importance and the added value of sustaining a consistent and uniform presence in the employment market.

## 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

### 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 projects, and into the management of ongoing business. As a result of a thorough quantitative analysis of risks and opportunities in line with IFRSs, the risk reports can be seamlessly integrated into the value-based management philosophy of VERBUND. Risk reporting is based on two principles: completeness and a clear traceability of interrelationships and changes.

Risk and opportunity management represents a significant part of the management of business processes at VERBUND. Operational implementation is based upon result, inventory and liquidity parameters. As part of periodic monitoring, we collect information on possible hazards and opportunities, model cause-effect relationships, determine deviations and take the necessary action 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 potential risks and opportunities. The most important decision-making criterion is the expected return on capital invested, taking risk into account. During the implementation phase of projects the risk of unplanned cash flows due to deviations in time, costs or quality is assessed and reported. The measurement includes the entire remaining project runtime and presents possible effects, while considering countermeasures.

The decision to use measurement methods depends mainly on the type of problem and the availability of necessary information. At the level of trading and financing, risk management is primarily focused on the management of market risks which are relevant to VERBUND. These include, for example, trends in wholesale prices for electricity, prices for gas, coal or emission rights, interest and exchange rates. These risks are assessed using customary statistical risk indicators (e.g. VaR). At the generation, transmission, trading, sales, solutions and services levels of value creation, management of operating risks is based mainly on the objective practical knowledge of VERBUND. The measurement and the reporting of opportunities and risks are subject to a continuous improvement process.

### Current risk position of VERBUND

The business activities of VERBUND are focussed on the long term and 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. Ratings agencies consider the majority owner, the Republic of Austria, and the integrated business model of VERBUND (generation, grid, trading and sales) to be significant, stabilizing elements, thus protecting the current credit ratings. The current risk situation of VERBUND is largely defined by the freefall in electricity prices as well as the uncertainty in the medium-term performance of European energy supply systems.

### **Risks in the economic environment and the sector**

Limit systems used at the trading, sales and solutions levels of value creation minimise the price risk of the electricity and service business. The economic crisis and misguided regulation have negated the market rules of price formation (e.g. merit order, i.e. utilisation depending on variable production costs, and the spread between base and peak loads).

As the leading power generation company with a dominant proportion 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. Profitability 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. Their earnings contribution depends largely upon the frequency and absolute extent of short-term price fluctuations in the electricity markets.

The transformation of the European energy system increases external risk factors from politics, the economy, the energy market and the larger society, i.e. risk factors that cannot be directly influenced. Increasing planning uncertainty represents a threat to the European energy market. Business models are being restructured, planned investment decisions suspended and heavy impairment losses are being applied to business assets.

Information and communication systems form the backbone of VERBUND's business activities. VERBUND is addressing the growing risks from cyber space with information security strategies, processes and internal guidelines. On 30 October 2014, VERBUND participated in the European crisis exercise "Cyber Europe 2014" organised by the European Network and Information Security Agency (ENISA) in which over 200 organisations took part along with 400 cyber security experts from 29 European countries. VERBUND places high priority on the security of its control systems. For security reasons, these are operated largely independently from administrative networks.

Climate change represents another risk. Over the long term, this can affect both the seasonal and the annual water supply. Natural events such as floods, storms or avalanches could cause an unscheduled outage of electricity generation or transmission facilities as well as consequential damage.

### **Risks caused by the legal environment**

The Federal Energy Efficiency Act stipulates a two-fold system of obligations. On the one hand, large companies such as VERBUND are required to introduce energy audits or certified energy management systems. On the other hand, energy supply companies will also be required to save 0.6% of the electricity sales volume delivered to consumers. The challenge for VERBUND will be to realise 40% of the reductions in the household segment. The savings measures are to be reported to the national energy efficiency monitoring office.

In proceedings against Germany (that were highly relevant for Austria as well), the European Court of Justice pronounced that the use of water for generating electricity did not necessarily represent a water supply service within the meaning of the Water Framework Directive, thus does not have to be priced. However, a revision of the Directive within the framework of the review to be conducted by the EU Commission in 2019 cannot be ruled out.

**Other risk factors**

Existing structures are being adapted to VERBUND's modified business model by means of the implementation of socially acceptable measures. Cost-cutting measures can lead to unplanned disruptions in generation, thus negatively impacting the Group result. Restructuring of the thermal portfolio carried out in 2014 considerably eased the burden on the risk position – this is true both for ongoing losses as well as the potential crystallisation of collateral provided. The danger of further impairment losses remains high due to the difficult situation in the energy markets in the medium term.

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. Amending contracts increases the risk of potential countermeasures by the counterparties (e.g. arbitral tribunal regarding Mellach district heating). In accordance with accounting guidelines, 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 recognition 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 AG 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 from a further change in the rating of VERBUND AG on an 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.

**Outlook: risks and opportunities for 2015**

The planned operating result for 2015 may fluctuate as a result of impairment losses, volume and price risks of own generation and default risks.

VERBUND AG's financial result is increasingly being 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 fluctuates based upon the reporting date measurement of a yen liability to be repaid as planned in 2015 as well as other changes in market prices and interest rates.

**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**

With the transfer of the electricity business to VERBUND Trading GmbH, the derivative financial instruments (electricity/gas/CO<sub>2</sub> futures and forwards) relating to the electricity business were transferred to VERBUND Trading GmbH.

Derivative financial instruments relating to the electricity business comprise electricity futures, electricity forwards and swaps. The 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 26 February 2015, no risks were foreseeable for 2015, 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 profitability 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 as well as towards the environment. Group management acts in accordance with the principles defined in the corporate mission statement. The Executive Board bears responsibility for developing and implementing the internal control system and the risk management system, whose effectiveness is monitored by the Supervisory Board's Audit Committee.

## Fundamentals of the internal control system

VERBUND's financial reporting process is governed by Group-wide guidelines and requirements. In its practical implementation, the performance, monitoring and supervision of business transactions are segregated from each other. This is intended to ensure that no single employee acts 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 they entail are systematically analysed and documented, as are checks of the financial reporting process. Documentation of the time schedule for the checks, the flow charts and the process map takes place in 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

VERBUND's interim 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. 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 unbundling provisions specified in the contract.

## 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 comprised:
  - 170,233,686 no-par value shares (bearer shares category A), equivalent to 49% of share capital;
  - 177,182,000 no-par value shares (registered shares category B), equivalent to 51% of share capital, authenticated by an interim certificate deposited with the Federal Ministry of Finance and made out in the name of the Republic of Austria. Thus, there were 347,415,686 shares in circulation at the balance sheet date. With the exception of the voting restriction described under point 2, all shares have the same rights and obligations.
  
2. In accordance with constitutional law, which regulates the ownership structure of companies in the Austrian electricity sector (Federal Law Gazette I [BGBl] 1998/143(2)) and also forms the basis for the Company's Articles of Association, the following voting restriction applies: "With the exception of regional authorities and companies in which regional authorities hold an interest of at least 51%, the voting rights of each shareholder in the Annual General Meeting are restricted to 5% of the share capital." VERBUND AG is 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 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 VERBUND corporate governance report 2014). 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 (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 value 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 value 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 value shares).

**Share buyback:** The 66th Annual General Meeting of VERBUND AG held on 17 April 2013 authorised the Executive Board under Section 65(1)(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 five 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 retiring 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, a public takeover bid is improbable 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

According to experts on the economy, the European economy will grow at a moderate rate in 2015. However, risks to the outlook such as geopolitical tensions and the instability of the financial markets still remain.

To improve growth prospects in the eurozone, it is important that the path of reforms chosen is followed consistently and stimulus measures are introduced. In addition, lower crude oil prices and the devaluation of the euro – which increases Europe’s price competitiveness – should provide positive stimuli.

According to the IMF’s forecast, the eurozone economy may grow by only 1.2% in 2015. Economic growth of 1.3% is forecast for Germany. The outlook for the Austrian economy is less optimistic. According to the Austrian Institute of Economic Research (Österreichisches Institut für Wirtschaftsforschung, WIFO), weak economic growth of 0.5% is expected in 2015.

Against this backdrop, prices in the futures market for electricity are decreasing again. On average for 2014, base load prices for deliveries in 2015 quoted at €35.1/MWh are 10.2% below that of the previous year. In 2014, the price for the peak load product fell 10.6% to €44.4/MWh compared to 2013. In this difficult market environment, VERBUND’s strong hydropower base is an absolute competitive advantage despite lower revenue.

### Investment plan 2015–2017

In 2014, VERBUND’s investment plan has once again been adapted to the changing conditions in the European electricity market: €870m will be invested during the 2015–2017 period. Of this total, around €430m will be spent on growth investments and around €440m on maintenance. The majority of the growth investments will go towards expanding the regulated Austrian high-voltage grid (approximately €330m). In addition, we are investing in the efficiency of existing plants and the completion of ongoing hydropower plant and wind power plant projects. The investments will almost exclusively involve our domestic markets of Austria and Germany. In financial year 2015, VERBUND plans to invest a total of approximately €280m – of that amount, approximately €140m will be invested in growth and approximately €140m in maintenance.

### Demand for generation and consumption flexibility increases

VERBUND’s core markets are Austria and Germany. Even before the energy transition, VERBUND positioned itself as a provider of flexible solutions and green electricity, and is now among the leading providers in these segments.

In the field of green electricity, VERBUND has been highly successful with its innovative products:

- H2Ö, electricity from VERBUND’s Austrian hydropower plants certified by TÜV SÜD and
- Electricity from VERBUND’s German hydropower plants certified by TÜV SÜD.

Therefore, VERBUND made an early adjustment to the energy transition. Our customers – municipal utilities, resellers, industrial, commercial and household customers – are already benefiting demonstrably from a sustainable electricity supply. VERBUND wants to continue to expand its leading role as a supplier of green electricity in Austria and Germany.

Due to the increase in supply-dependent and more volatile electricity generation by expanding new renewable energy sources, the power supply system's need for flexibility and storage is increasing. With its pumped storage power plants, VERBUND is extremely well structured both in terms of technology and also the geographic positioning. In addition, VERBUND offers a variety of different flexibility products such as balancing energy, virtual storage and asset options to secure supply.

However, in addition to the growing demand for generation flexibility, the demand for consumption flexibility – demand response – is also increasing. Here we are one of the first Austrian companies who are already offering their customers the opportunity to bundle their flexibility options within the framework of a “power pool” and to market these together.

Energy services create a new market. With our decades of expertise in the energy markets, we develop innovative products tailored to the individual needs of our customers. Examples of this include bundling and optimal marketing of decentralised third-party renewable energy plants, energy consulting or energy efficiency contracting.

This combination of flexible, renewable generation and energy services opens up strategic advantages for the future performance of the company.

#### Dividend policy

We plan to distribute a dividend of €0.29 per share for financial year 2014 in accordance with our dividend policy. The payout ratio for 2014 will thus amount to 46.7% based on the adjusted Group result. For 2015, we are also planning a payout ratio of around 50% of the Group result after adjustment for non-recurring effects.

#### Earnings projection 2015

The performance of the VERBUND result is significantly affected by the following factors: wholesale prices for electricity, the Group's own generation from hydropower and further energy industry developments. In accordance with our hedging strategy, VERBUND had already contracted around 70% of the planned own generation for 2015 as at 31 December 2014. The price achieved was approximately €4/MWh below the sales price reached in 2014. We are planning with the current market prices for those volumes not yet hedged. Based on the forecast at the beginning of the year, VERBUND AG expects a profit on ordinary activities before taxation of around €292m for financial year 2015.

# Events after the balance sheet date

In a letter dated 6 February 2015, the sale of the 100% other equity interests in Pont-sur-Sambre Power S.A.S. and Toul Power S.A.S. to KKR Credit Advisors (US) LLC was granted final approval by the competition authorities. The transaction will therefore close in quarter 1/2015. The disposal of the equity interest is not expected to have a material effect on the profit or loss for the period.

Effective 25 February 2015, the restructuring agreement of Sorgenia S.p.A. (Group) was approved by the Supreme Court in Milan. The capital increase from the creditor banks and the subsequent sale of the remaining other equity interest in Sorgenia S.p.A. (Group) after the capital increase is expected to take place during the first half of 2015. The disposal of the equity interest is not expected to have a material effect on the profit or loss for the period.

Vienna, 26 February 2015  
The 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



# Balance sheet

<b>Assets</b>		€k	
	Notes	2013	2014
<b>A. Fixed assets</b>			
I. Intangible assets	(1)	6,235.0	6,388.1
II. Property, plant and equipment		32,662.7	24,509.3
III. Investments	(2)	4,714,935.6	5,785,741.5
		4,753,833.3	<b>5,816,638.8</b>
<b>B. Current assets</b>			
I. Inventories	(3)	15,004.8	112.8
II. Receivables and other assets	(4)	626,207.2	128,465.3
III. Cash in hand, cash at banks	(5)	5,397.9	10.7
		646,609.9	<b>128,588.8</b>
<b>C. Prepayments and accrued income</b>			
	(6)	182,153.2	<b>366,162.3</b>
		5,582,596.4	<b>6,311,390.0</b>
Rights of recourse	(7)	2,497,927.5	949,258.7
Less counter-guarantees from cross-border leasing		-399,747.8	-433,386.0
		2,098,179.7	<b>515,872.7</b>
<b>Liabilities</b>			
	Notes	2013	2014
<b>A. Equity</b>			
I. Share capital	(8)	347,415.7	347,415.7
II. Capital reserves		971,720.3	971,720.3
III. Revenue reserves	(9)	670,292.1	848,731.1
IV. Net profit of which profit carried forward €0.0k; previous year: €0.0k	(10)	347,415.7	100,750.5
		2,336,843.8	<b>2,268,617.7</b>
<b>B. Untaxed reserves</b>			
	(11)	2,972.0	<b>2,939.7</b>
<b>C. Provisions</b>			
	(12)	393,800.5	<b>240,954.6</b>
<b>D. Liabilities</b>			
	(13)	2,839,085.9	<b>3,797,861.7</b>
<b>E. Accruals and deferred income</b>			
	(14)	9,894.2	<b>1,016.4</b>
		5,582,596.4	<b>6,311,390.0</b>
Contingent liabilities	(15)	2,497,927.5	949,258.7
Less counter-guarantees from cross-border leasing		-399,747.8	-433,386.0
		2,098,179.7	<b>515,872.7</b>

# Income statement

		€k	
	Notes	2013	2014
1. Revenue	(16)	2,726,684.9	1,618,333.0
2. Change in total services not yet billable		61.4	-61.4
3. Other operating income	(17)	43,574.8	71,444.9
<b>4. Operating income (subtotal of lines 1 to 3)</b>		<b>2,770,321.1</b>	<b>1,689,716.5</b>
5. Expenses for electricity, grid/gas purchases and purchases of emission rights and other purchased production services and other services		-2,496,024.3	-1,485,264.3
6. Personnel expenses	(18)	-30,982.3	-36,924.5
7. Depreciation and amortisation	(19)	-2,848.1	-2,586.1
8. Other operating expenses	(20)	-110,771.6	-76,097.0
<b>9. Operating result (subtotal of lines 4 to 8)</b>		<b>129,694.8</b>	<b>88,844.6</b>
10. Income from equity interests		390,304.4	498,294.8
11. Income from other securities and loans in financial assets		16,139.8	74,625.9
12. Other interest and similar income		25,293.7	37,161.4
13. Income from the disposal and reversal of impairment losses on investments		43.1	26,139.4
14. Expenses from investments		-821,189.6	-481,905.4
15. Interest and similar expenses		-412,923.3	-174,032.8
<b>16. Financial result (subtotal of lines 10 to 15)</b>	(21)	<b>-802,332.0</b>	<b>-19,716.7</b>
<b>17. Profit or loss on ordinary activities before taxation</b>		<b>-672,637.2</b>	<b>69,127.9</b>
18. Differences from mergers		0.0	73,894.3
19. Taxes on income	(22)	125,706.3	182,766.4
20. Changes to net assets as result of the spin-off		0.0	-46,631.7
<b>21. Net income/net loss for the year</b>		<b>-546,931.0</b>	<b>279,156.9</b>
22. Reversal of untaxed reserves		140.1	32.6
23. Disposal of revenue reserves		894,206.6	0.0
24. Allocation to revenue reserves		0.0	-178,439.0
<b>25. Net profit</b>		<b>347,415.7</b>	<b>100,750.5</b>

# Statement of changes in fixed assets

	As at 1/1/2014	Additions/ disposals from mergers	Additions	Disposals	Reclassifications
<b>I. Intangible assets</b>					
1. Industrial property rights, electricity purchase rights, usage fees and similar rights and benefits as well as licences derived therefrom	329,704.6	-5,977.0	16,837.0	14,313.9	0.0
	<b>329,704.6</b>	<b>-5,977.0</b>	<b>16,837.0</b>	<b>14,313.9</b>	<b>0.0</b>
<b>II. Property, plant and equipment</b>					
1. Land, land rights and buildings, including buildings on third-party land					
a. With residential buildings	77.6	0.0	0.0	0.0	0.0
b. With plant and other plant facilities	27,630.6	0.0	73.1	777.8	0.0
c. Undeveloped land	7,208.4	-7,208.4	0.0	0.0	0.0
2. Electrical installations	7,316.1	-3,332.6	746.7	45.3	627.2
3. Office and plant equipment	19,352.7	-300.4	778.4	224.4	5.0
4. Effected advance payments and plants under construction	632.1	0.0	0.0	0.0	-632.1
	<b>62,217.5</b>	<b>-10,841.5</b>	<b>1,598.1</b>	<b>1,047.5</b>	<b>0.0</b>
<b>Property, plant and equipment and intangible assets</b>	<b>391,922.1</b>	<b>-16,818.4</b>	<b>18,435.2</b>	<b>15,361.4</b>	<b>0.0</b>
<b>III. Investments</b>					
1. Shares in affiliated companies	4,144,496.0	-233,040.5	121,834.3	643,704.3	-66,690.0
2. Loans to affiliated companies	400,958.3	1,455,488.1	1,059,100.0	288,928.2	-175,666.7
3. Equity interests	284,227.5	2,150.0	750.0	80.0	66,690.0
4. Loans to equity interests	0.0	0.0	45,000.0	0.0	175,666.7
5. Securities (loan stock rights) under fixed assets	24,173.5	4.6	2,364.3	6,366.4	0.0
6. Other loans	202.2	104,161.2	129.2	38,589.4	0.0
	<b>4,854,057.5</b>	<b>1,328,763.4</b>	<b>1,229,177.7</b>	<b>977,668.3</b>	<b>0.0</b>
<b>Fixed assets</b>	<b>5,245,979.7</b>	<b>1,311,945.0</b>	<b>1,247,612.9</b>	<b>993,029.8</b>	<b>0.0</b>

Base value of land as at 31/12/2014: €3,340.7k (previous year: €10,549.1k).



							€k
As at 31/12/2014	Accumulated depreciation, amortisation and write-downs	Net carrying amount as at 31/12/2014	Net carrying amount as at 31/12/2013	Reversal of impairment 2014	Impairment losses 2014	Depreciation and amortisation 2014	
326,250.8	319,862.7	6,388.1	6,235.0	0.0	0.0	796.1	
<b>326,250.8</b>	319,862.7	<b>6,388.1</b>	6,235.0	<b>0.0</b>	<b>0.0</b>	<b>796.1</b>	
77.6	76.2	1.4	2.0	0.0	0.0	0.6	
26,925.9	17,224.9	9,701.0	10,508.7	0.0	0.0	586.1	
0.0	0.0	0.0	7,208.4	0.0	0.0	0.0	
5,311.9	2,642.9	2,669.0	1,904.2	0.0	0.0	363.7	
19,611.3	7,473.4	12,137.9	12,407.2	0.0	0.0	839.6	
0.0	0.0	0.0	632.1	0.0	0.0	0.0	
<b>51,926.7</b>	27,417.4	<b>24,509.3</b>	32,662.7	<b>0.0</b>	<b>0.0</b>	<b>1,790.0</b>	
<b>378,177.5</b>	347,280.1	<b>30,897.3</b>	38,897.7	<b>0.0</b>	<b>0.0</b>	<b>2,586.1</b>	
3,322,895.5	386,825.1	2,936,070.3	4,143,776.7	0.0	166,803.1	0.0	
2,450,951.5	0.0	2,450,951.5	320,277.8	0.0	0.0	0.0	
353,737.5	105,617.6	248,120.0	229,911.2	17,538.7	0.0	0.0	
220,666.7	153,028.9	67,637.8	0.0	0.0	49,348.3	0.0	
20,175.9	3,117.3	17,058.7	20,767.7	0.0	0.0	0.0	
65,903.1	0.0	65,903.1	202.2	0.0	0.0	0.0	
<b>6,434,330.3</b>	648,588.9	<b>5,785,741.5</b>	4,714,935.6	<b>17,538.7</b>	<b>216,151.5</b>	<b>0.0</b>	
<b>6,812,507.8</b>	995,869.0	<b>5,816,638.8</b>	4,753,833.3	<b>17,538.7</b>	<b>216,151.5</b>	<b>2,586.1</b>	

# Statement of changes in untaxed reserves

	As at 1/1/2014	Additions/ reclassifications	Reversals/ disposals	€k As at 31/12/2014
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	115.1	0.0	6.4	108.7
1.2. Office and plant equipment	89.1	0.0	6.8	82.6
	<b>204.1</b>	<b>0.0</b>	<b>13.1</b>	<b>191.3</b>
2. Transfer of hidden reserves in accordance with Section 12 of the Austrian Income Tax Act (EStG)				
2.1. Electrical installations	0.1	0.0	0.1	0.0
2.2. Office and plant equipment	924.3	0.0	19.3	904.9
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
	<b>2,767.9</b>	<b>0.0</b>	<b>19.4</b>	<b>2,748.4</b>
Untaxed reserves	2,972.0	0.0	32.6	<b>2,939.7</b>

# Maturity schedule 2014

	€k			
	Residual term to maturity as at			31/12/2014
	< 1 year	> 1 year	> 5 years	Total
<b>Loans</b>				
1. Loans to affiliated companies	688,908.4	890,899.6	871,143.5	2,450,951.5
2. Loans to equity interests	0.0	45,000.0	0.0	45,000.0
3. Other loans	3,563.6	14,212.9	48,126.7	65,903.1
	<b>692,472.0</b>	<b>950,112.5</b>	<b>919,270.1</b>	<b>2,561,854.7</b>
<b>Receivables and other assets</b>				
1. Trade receivables	14,326.5	0.0	0.0	14,326.5
2. Receivables from affiliated companies	39,075.2	0.0	0.0	39,075.2
3. Receivables from investees	52,037.1	0.0	0.0	52,037.1
4. Other receivables and assets	23,026.4	0.0	0.0	23,026.4
	<b>128,465.3</b>	<b>0.0</b>	<b>0.0</b>	<b>128,465.3</b>
<b>Liabilities</b>				
1. Bonds	597,609.5	878,010.8	828,273.8	2,303,894.1
2. Liabilities to banks	203,825.5	631,433.6	296,263.5	1,131,522.7
3. Financial liabilities to others	0.0	0.0	0.0	0.0
4. Trade payables	13,975.3	0.0	0.0	13,975.3
5. Liabilities to affiliated companies	150,262.2	0.0	0.0	150,262.2
6. Liabilities to equity interests	25.2	0.0	0.0	25.2
7. Other liabilities	15,859.0	26,779.5	155,543.7	198,182.2
	<b>981,556.8</b>	<b>1,536,223.9</b>	<b>1,280,081.0</b>	<b>3,797,861.7</b>

# Maturity schedule 2013

	€k			
	Residual term to maturity as at 31/12/2013			Total
	< 1 year	> 1 year	> 5 years	
<b>Loans</b>				
1. Loans to affiliated companies	33,991.7	127,686.1	158,600.0	320,277.8
2. Loans to equity interests	0.0	0.0	0.0	0.0
3. Other loans	36.9	164.1	1.2	202.2
	<b>34,028.6</b>	<b>127,850.2</b>	<b>158,601.2</b>	<b>320,480.0</b>
<b>Receivables and other assets</b>				
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
	<b>626,207.2</b>	<b>0.0</b>	<b>0.0</b>	<b>626,207.2</b>
<b>Liabilities</b>				
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. Liabilities to equity interests	0.0	0.0	0.0	0.0
7. Other liabilities	21,915.6	25,021.3	162,470.7	209,407.6
	<b>1,029,516.2</b>	<b>398,903.2</b>	<b>1,410,666.5</b>	<b>2,839,085.9</b>



# 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
<b>Intangible assets</b>		
Rights to telecommunications installations	10	10
Rights to software products	25	4
Other rights	5	20
<b>Buildings</b>		
Residential and office buildings	2 or 3	33.3 or 50
Plant(s)	3	33.3
<b>Technical installations and machinery</b>		
Machinery	4 or 5	20 or 25
Electrical installations	5	20
Telecommunications installations	10	10
<b>Office plant and equipment</b>	<b>10–25</b>	<b>4–10</b>

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

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

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

Shares in affiliated companies and equity interests are recognised at cost or at 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 financial assets as loans.

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

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

Receivables and other assets are measured at nominal value, unless a lower amount is to be recognised if 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 with the strict lower of cost or market value principle.

If tax relief is expected in subsequent years, the option to recognise deferred tax assets is applied, whereby the deferred taxes attributable to Group members based on tax allocation are presented under the current result in their balance sheets.

This prepayment results from differences between the financial and tax accounts with respect to line items that can only be deducted as expenses for tax purposes in income statements of future periods.

Provisions take all foreseeable risks into account that can be allocated to a financial year that has already been completed 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 those 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. Collective bargaining agreement requirements for energy supply companies which exceed 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 APK Pensionskasse AG. The provision determined in accordance with the projected unit credit method typically used in international accounting is presented after off-set 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 APK Pensionskasse AG.

Provisions for current pensions, vested pension benefits and similar obligations are determined using the PUC method.

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

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

## Current assets

## Prepayments and accrued income, accruals and deferred income

## Provisions

The calculations as at 31 December 2014 and 2013 are based on the following assumptions:

	%	
	2013	<b>2014</b>
<b>Interest rate</b>		
Pensions and similar obligations	3.50	2.00
Severance payments	3.50	2.00
<b>Trend</b>		
Pension increases	2.25	2.25
Salary increases	2.75	2.25
Contributions to obligations similar to pensions – old contracts	7.00	6.50
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	3.50	2.00

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

### Liabilities

Liabilities are recognised at their redemption amount based on the principle of prudence. Trade payables denominated in foreign currency are measured at the ECB foreign exchange reference rate prevailing at the balance sheet date, provided that this rate is higher than the rate prevailing at the time of origination.

Liabilities from bonds and loans denominated in foreign currency are measured at the ECB foreign exchange reference rate prevailing at the balance sheet date, provided that this rate 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).



In individual cases of external financing, interest rate swaps (variable for fixed rate) were entered into in order to hedge cash flows. Individual interest rate swaps (variable for fixed rate) were also entered into for intragroup hedging of cash flows and underlying assets.

#### Derivative financial instruments

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.

#### Taxes on income

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 recharging of the tax allocations results in an adjustment decreasing or increasing the tax expense in the parent's income statement.

The tax recharges to Group members are only adjusted for subsequent deviations if these are material.

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

**VERBUND Trading GmbH** By means of a contribution in kind agreement dated 26 August 2014, VERBUND AG transferred its "Electricity trading and trade with other energy sources and associated products and certificates including those of the load dispatch centre" division to VERBUND Trading GmbH retroactively as from 31 December 2013 applying Article III of the Reorganisation Tax Act (Umgründungssteuergesetz, UmgrStG).

#### Corporate law matters

As at 31 December 2013, the contribution balance sheet of the division was as follows:

<b>Assets</b>	€k
	31/12/2013
<b>A. Fixed assets</b>	
I. Intangible assets	1,776.6
II. Property, plant and equipment	7,717.2
	9,493.8
<b>B. Current assets</b>	
I. Inventories	14,931.8
II. Receivables and other assets	332,892.3
	347,824.1
<b>C. Prepayments and accrued income</b>	9,265.1
	366,583.0

<b>Liabilities</b>	€k
	31/12/2013
<b>A. Equity</b>	
III. Revenue reserves	89,980.8
	89,980.8
<b>C. Provisions</b>	29,920.5
<b>D. Liabilities</b>	245,104.0
<b>E. Accruals and deferred income</b>	1,577.7
	366,583.0

The transfer of the division was implemented as at 31 August 2014. Since 1 September 2014, VERBUND Trading GmbH has been operating in its own name and for its own account. In accordance with the expert opinion Fachgutachten KFS/RL 25 of the Expert Committee for Commercial Law and Auditing of the Austrian Chamber of Public Accountants (Fachsenat für Unternehmensrecht und Revision der Kammer der Wirtschaftstreuhänder), the division result for the months from January to August 2014 attributable to VERBUND Trading GmbH will be shown in the item "Changes to net assets as a result of the spin-off" before net income for the year. This item comprises the following amounts remaining in VERBUND AG's income statement:

<b>Income statement</b>	€k
	from 1/1/ to 31/8/2014
1. Revenue	1,207,837.2
3. Other operating income	28,469.5
<b>4. Operating income (subtotal of lines 1 to 3)</b>	<b>1,236,306.8</b>
5. Expenses for electricity, grid/gas purchases and purchases of emission rights and other purchased production services and other services	-1,160,694.2
6. Personnel expenses	-1,369.8
7. Depreciation and amortisation	-493.1
8. Other operating expenses	-25,920.8
<b>9. Operating result (subtotal of lines 4 to 8)</b>	<b>47,828.9</b>
15. Interest and similar expenses	-1,197.3
<b>16. Financial result (subtotal of lines 10 to 15)</b>	<b>-1,197.3</b>
<b>21. Net income for the year</b>	<b>46,631.7</b>

**VERBUND Beteiligungsholding GmbH** Per the merger agreement dated 17 March 2014, VERBUND Beteiligungsholding GmbH was merged with the parent company VERBUND AG as at 30 June 2013 in accordance with Section 96 of the Limited Liability Companies Act (Gesetz betreffend die Gesellschaften mit beschränkter Haftung, GmbHG) in conjunction with Sections 220 ff. of the Stock Corporation Act (AktG) and in accordance with Article I of the Reorganisation Tax Act (Umgründungssteuergesetz, UmgrStG) claiming the benefits under the Reorganisation Tax Act (UmgrStG) and Capital Transfer Tax Act (Kapitalverkehrssteuergesetz, KVG). As at 31 December 2013, the carrying amounts carried forward were as follows:

<b>Net assets</b>	€k
	31/12/2013
Fixed assets	993,611.0
Current assets	288,340.5
Prepayments and accrued income	4,832.0
Provisions	-2.0
	1,286,781.5

The merger loss from assumption of the net assets of VERBUND Beteiligungsholding GmbH amounted to €14,000.1k. Prior-year comparatives year values were not adjusted.

**VERBUND International Finance GmbH** Per the merger agreement dated 9 April 2014, VERBUND International Finance GmbH was merged with the parent company VERBUND AG as at 31 December 2013 in accordance with Section 97 ff. of the Limited Liability Companies Act (GmbHG) and Sections 220 ff. and 231 f. of the Stock Corporation Act (AktG) in conjunction with Sections 234 f. of the Stock Corporation Act (AktG) and in accordance with Article I of the Reorganisation Tax Act (UmgrStG) claiming the benefits under the Reorganisation Tax Act (UmgrStG). In doing so, the acquiring company VERBUND AG opted to carry forward the carrying amount in accordance with Section 202(2) of the Austrian Commercial Code (UGB). As at 31 December 2013, the carrying amounts were as follows:

<b>Net assets</b>	€k
	31/12/2013
Fixed assets	3,389,838.1
Current assets	61,745.7
Prepayments and accrued income	8,401.7
Provisions	-18.0
Liabilities	-3,457,932.5
	2,035.0

Of the carrying amounts disclosed, the following carrying amounts were attributable to the absorbing company:

Fixed assets €1,439,150.9k, current assets €34,211.4k and prepayments and accrued income €7,026.5k. These have to be seen alongside liabilities amounting to €1,424,211.4k and accruals and deferred income amounting to €7,026.5k at the absorbing company.

The merger loss from assumption of the net assets of VERBUND International Finance GmbH thus amounted to €49,150.9k.

In addition, fixed assets amounting to €205,559.5k were attributable to VERBUND International Finance GmbH which were offset by liabilities in the same amount at VERBUND International GmbH. Prior-year comparatives were not adjusted.

**VERBUND International GmbH** Per the merger agreement dated 24 April 2014, VERBUND International GmbH was merged with the parent company VERBUND AG as at 31 December 2013 in accordance with Section 96 of the Limited Liability Companies Act (GmbHG) in conjunction with Sections 220 ff. of the Stock Corporation Act (AktG) and in accordance with Article I of the Reorganisation Tax Act (UmgrStG) claiming the benefits under the Reorganisation Tax Act (UmgrStG) and Capital Transfer Tax Act (KVG). In doing so, the acquiring company VERBUND AG opted to carry forward the carrying amount in accordance with Section 202(2) of the Austrian Commercial Code (UGB). As at 31 December 2013, the carrying amounts were as follows:

<b>Net assets</b>	€k
	31/12/2013
Fixed assets	146,908.1
Current assets	909,199.0
Prepayments and accrued income	46,340.6
Untaxed reserves	-0.3
Provisions	-46,065.9
Liabilities	-207,544.9
	<b>848,836.7</b>

Of the carrying amounts disclosed, the following carrying amounts were attributable to the absorbing company:

Fixed assets of €143,813.9k have to be seen alongside liabilities amounting to €280,859.2k in the absorbing company. The merger profit from assumption of the net assets of VERBUND International Finance GmbH thus amounted to €137,045.3k.

In addition, liabilities amounting to €205,559.5k were attributable to VERBUND International Finance GmbH; these were offset by receivables in the same amount at VERBUND Finance GmbH. Prior-year comparatives were not adjusted.

**VERBUND Solutions GmbH** By means of a contribution in kind agreement dated 20 November 2014, VERBUND AG transferred its shares in E-Mobility Provider Austria GmbH and in E-Mobility Provider Austria GmbH & Co KG to VERBUND Solutions GmbH retroactively as from 30 June 2014 applying Article III of the Reorganisation Tax Act (UmgrStG).

The carrying amount of E-Mobility Provider Austria GmbH was €17.5k as at 30 June 2014. The carrying amount of E-Mobility Provider Austria GmbH & Co KG was €2,382.5k as at 30 June 2014.

Contributions in the amount of €600.0k to E-Mobility Provider Austria GmbH & Co KG, made between the transfer date and the date the agreement was entered into, reverted back in accordance with Section 16(5)(1) UmgrStG.

In the interest of clear presentation, individual line items in the balance sheet and the income statement have been aggregated. These line items are explained separately in the notes to the annual financial statements. The individual line items of the balance sheet and income statement are presented in accordance with VERBUND's Group-wide requirements with respect to form and content.

In accordance with Section 223(7) of the Austrian Commercial Code (UGB), balance sheet and income statement line items with a carrying amount of zero in both the financial year and the previous year are not 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.

#### 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 €1,432.2k (previous year: €1,718.7k).

##### (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: €0.0k) are pledged as guarantees for electricity trading. The impairment reversals not carried out in accordance with Section 208(3) of the Austrian Commercial Code (UGB) amount to €2,029.6k (previous year: €1,806.1k).

#### B. Current assets

##### (3) I. Inventories

	2013	2014
Goods	14,943.4	112.8
Services not yet billable	61.4	0.0
	15,004.8	112.8

##### (4) II. Receivables and other assets

For details see separate "Maturity schedule".

€594.1k (previous year: €32,474.3k) of receivables from affiliated companies relate to trade receivables. Of receivables from investees, €44,375.6k is attributable to other receivables (previous year: €0.0k).

## General

## Notes to assets

	€k	
<b>Other receivables and assets</b>	2013	<b>2014</b>
Electricity trading activities	85,638.1	0.0
Security deposits electricity business	35,820.4	0.0
Accrued interest income and commissions from bonds and loans	56.0	474.4
Tax authorities	33,876.5	22,492.5
Payroll	9.7	8.9
Effectuated advance payments	6.6	18.3
Emission rights trading	663.7	0.0
Other	288.5	32.3
	156,359.6	<b>23,026.4</b>

	€k	
<b>(5) III. Cash in hand, cash at banks</b>	2013	<b>2014</b>
Cash in hand	16.2	7.1
Cash at banks	5,381.7	3.7
	5,397.9	<b>10.7</b>

	€k	
<b>(6) C. Prepayments and accrued income</b>	2013	<b>2014</b>
Prepayments for electricity purchases	38,243.6	27,656.7
Deferred tax assets	93,338.0	280,579.3
Discounts, flotation costs and exchange rate differences relating to bonds and non-current loans	851.5	9,314.7
Auctions of cross-border capacities	29.7	0.0
Other	49,690.3	48,611.7
	182,153.2	<b>366,162.3</b>

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 €949,258.7k (previous year: €2,497,927.5k). 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 €433,386.0k (previous year: €399,747.8k). See also note (15) Contingent liabilities.

**A. Equity****Notes to liabilities****(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 (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 value 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 value 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 value shares).

**(9) III. Revenue reserves**

	2013	2014
Statutory reserves	19,884.0	19,884.0
Distributable reserves	650,408.1	828,847.1
	670,292.1	<b>848,731.1</b>

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.

<b>(10) IV. Net profit</b>	€k
As at 31/12/2013	347,415.7
Distribution of dividends	-347,415.7
Profit carried forward	0.0
Net income/net loss for the year	279,156.9
Changes in reserves	-178,406.4
As at 31/12/2014	100,750.5

### **(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 €1,491.4k (previous year: tax charge of €18,363.5k).

### **(12) C. Provisions**

#### **1. Provisions for severance payments**

	2013	<b>2014</b>
Premium reserve based on actuarial calculations	9,302.9	10,053.1
Taxed proportion of provisions	9,302.9	10,053.1

In 2002, the provision permitted under Section 14 of the Austrian Income Tax Act (Einkommensteuergesetz; 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**

	2013	<b>2014</b>
Provisions for pension obligations	31,571.8	37,110.3
Of which obligations similar to pensions	5,541.1	6,908.6

#### **3. Provisions for taxes**

	2013	<b>2014</b>
Corporate income tax (including prior reporting periods)	0.0	0.0
Other tax provisions	580.0	579.1
	580.0	<b>579.1</b>



**4. Other provisions**

	€k	
	2013	2014
Anticipated losses	337,360.2	0.0
Trade receivables not yet billed	4,657.3	3,267.0
Electricity/grid purchases	1,418.8	1,919.6
Other	0.0	178,559.1
	<b>343,436.3</b>	<b>183,745.8</b>

Of the provisions, €178,559.1k (previous year: €0.0k) relates to affiliated companies.

	€k	
<b>Other personnel-related provisions</b>	2013	2014
Bonuses	3,394.2	3,934.9
Unused holidays	2,781.1	3,252.3
Early retirement benefits	1,575.5	965.4
Holiday allowance	760.0	798.1
Compensatory time credit	198.8	167.7
Other	199.9	348.0
	<b>8,909.5</b>	<b>9,466.3</b>

**(13) D. Liabilities**

For details see separate “Maturity schedule”.

Of the liabilities to affiliated companies, €149,250.1k (previous year: €1,702,038.3k) relates to financial liabilities and €7.0k (previous year: €288,870.8k) to trade payables.

	€k	
<b>Other liabilities</b>	2013	2014
Long-term electricity supply commitment	183,738.7	180,399.7
From taxes	12,859.9	5,182.7
Payroll	606.9	1,038.0
Related to social security	314.4	323.3
Other	11,887.8	11,238.5
	<b>209,407.6</b>	<b>198,182.2</b>

**(14) E. Accruals and deferred income**

	€k	
	2013	2014
Guarantee payments from affiliated companies	7,509.6	0.0
Contributions to building costs	806.9	771.8
From electricity business	1,577.7	0.0
Other guarantee payments	0.0	189.5
Other	0.0	55.0
	<b>9,894.2</b>	<b>1,016.4</b>

### (15) Contingent liabilities

Contingent liabilities that are recognised below the line are primarily for letters of comfort and liabilities assumed for subsidiaries as part of the financing that VERBUND AG carries out centrally as well as other assumptions of liabilities, in particular those arising from the French subsidiaries which are in the process of being sold excluding the contingent liabilities in connection with cross-border leasing transactions in the total amount of €101,897.3k (previous year: €1,743,719.5k). Of this, €51,565.1k (previous year: €1,724,360.2k) is attributable to affiliates and €50,332.2k (previous year: €0.0k) to investees.

The subsidiary VERBUND Hydro Power GmbH (formerly 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 GmbH 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 GmbH 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 GmbH, 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 GmbH totalling €847,361.5k (previous year: €754,208.0k). Of the rights of recourse against the primary debtors, €433,386.0k (previous year: €399,747.8k) 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 €413,975.5k (previous year: €354,460.2k) remains in contingent liabilities from cross-border leasing transactions after deducting these counter-guarantees.

Minimum ratings for the guarantors are stipulated in the agreements with lenders and with equity investors. The ratings downgrade of VERBUND AG by S&P triggered a head lease filing for VERBUND Hydro Power GmbH with lending banks. As an alternative to the head lease filing, a risk waiver by payment of a one-time fee is currently being negotiated. VERBUND Hydro Power GmbH recognised corresponding provisions for this fee, for estimated future expenses necessary (any bank guarantees) and for the legal and advisory fees incurred for Austrian and American attorneys. A further downgrade in the ratings of VERBUND AG would trigger the head lease filing with equity investors as well.

With the exception of the matter described above, the ratings of contractual partners as well as VERBUND's rating exceeded the contractually agreed thresholds as at 31 December 2014. Thus there is currently no need for VERBUND or VERBUND Hydro Power GmbH to replace individual contractual parties or investments.

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

**(16) 1. Revenue**

		€k	
		2013	2014
Revenue from electricity deliveries			
Domestic <sup>1</sup>	Energy supply companies	1,220,007.8	729,136.8
	Industrial customers and consumers	185,379.5	194,965.3
	Other customers	45,990.6	57,450.5
		<b>1,451,377.9</b>	<b>981,552.6</b>
EU	Energy supply companies	141,157.7	75,717.5
	Industrial customers and consumers	1,987.9	2,286.6
	Other customers	959,488.0	513,271.1
		<b>1,102,633.6</b>	<b>591,275.2</b>
Third countries	Energy supply companies	0.0	0.0
	Other customers	9,122.8	4,577.3
		9,122.8	<b>4,577.3</b>
		<b>2,563,134.2</b>	<b>1,577,405.1</b>
Invoicing of grid tariffs; user and management fees		2,736.7	2,948.2
Other revenue (including emission rights and gas trading)		160,814.0	37,979.7
		<b>2,726,684.9</b>	<b>1,618,333.0</b>

<sup>1</sup> Of which €114,188.6k (previous year: €100,085.0k) from recharged grid fees.

**(17) 3. Other operating income**

		€k	
		2013	2014
a) Income from disposal of fixed assets with the exception of investments		3.8	6,411.8
b) Income from reversal of provisions		2,032.9	8,268.8
c) Other		41,538.1	56,764.3
		<b>43,574.8</b>	<b>71,444.9</b>

**Notes to the income statement**

**(18) 6. Personnel expenses**

€k

	2013	2014
a) Salaries	21,705.6	23,461.8
b) Expenses for severance payments and payments to employee pension funds		
Severance payments	413.5	724.8
Contributions to employee pension funds	167.8	203.6
Change in the provision for severance payments	540.8	61.8
Expenses/income and takeovers/transfers within the Group	45.5	-127.4
	1,167.6	862.8
c) Expenses for pensions and similar obligations		
Early retirement benefits and pension payments	3,009.4	3,032.2
Change in the provisions for pensions and similar obligations	-223.2	4,560.6
Expenses/income and takeovers/transfers within the Group	-10.4	-108.6
Change in the provisions for early retirement benefits	210.8	-656.2
Pension fund contributions (including obligation to provide additional funding)	987.6	1,059.3
	3,974.2	7,887.3
d) Expenses for social security contributions as required by law as well as income-based charges and compulsory contributions	3,897.0	4,445.0
e) Other social security expenses	237.9	267.6
	30,982.3	36,924.5

**(19) 7. Depreciation and amortisation**

€k

	2013	2014
a) Amortisation of intangible fixed assets and depreciation of property, plant and equipment		
Depreciation and amortisation	2,781.4	2,512.6
Impairment losses	14.6	0.0
Immediate write-off of low-value assets in accordance with Section 13 of the Austrian Income Tax Act (EStG)	52.1	73.5
	2,848.1	2,586.1

**(20) 8. Other operating expenses**

	€k	
	2013	2014
a) Taxes other than taxes on income	244.2	111.4
b) Other		
Operating costs for buildings, rent and leasing	36,488.3	30,116.4
Legal, audit and consulting expenses	19,031.9	9,106.3
Other administrative expenses	17,480.4	5,998.1
Advertising and market development costs	16,130.8	13,014.4
Reimbursement of costs for services	4,017.4	2,222.3
IT support, electronic data processing	3,841.4	3,735.7
Membership fees	1,489.7	1,733.0
Telecommunications services, data services	1,199.6	1,206.7
Training and further education	657.1	411.3
Temporary personnel and provision of personnel	472.8	343.8
Other	9,718.0	8,097.6
	110,527.4	75,985.6
	110,771.6	76,097.0

**(21) 16. Financial result**

	€k	
	2013	2014
Income from equity interests		
From affiliated companies	360,752.8	480,292.2
Of which from profit pools	16,657.5	112,009.0
Income from other securities and loans in financial assets		
From affiliated companies	15,051.1	70,139.8
Other interest and similar income		
From affiliated companies	22,355.9	5,650.3
Income from disposals and impairment loss reversals of investments		
Disposal of shares in affiliated companies	0.0	8,009.6
Expenses relating to investments		
From affiliated companies	775,144.2	308,587.0
Of which from profit pools	694,463.6	79,514.6
Interest and similar expenses		
Of which interest for long-term personnel provisions	1,521.6	1,410.2
From affiliated companies	88,144.8	400.0

**(22) 19. Taxes on income**

€k

	2013	2014
Consolidated taxes on income	43,491.9	51,894.2
Of which recharged to members of the Group	-82,122.4	-101,755.4
Additional amounts/credit notes from previous periods	-1,042.2	3,360.1
Deferred taxes	-86,033.6	-136,265.2
	-125,706.3	-182,766.4

**III. Other disclosures**

€k

**1. Total amount of other financial obligations**

Material items:	Total commitment	2015	2015-2019
Rent, lease and insurance agreements	<sup>1</sup>	5,045.1	12,547.4
Purchase commitments	8,232.3	7,441.0	8,232.3
Of which to affiliated companies	<sup>1</sup>	10.2	50.8

<sup>1</sup> The amount of the 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 Aktiengesellschaft 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 Services GmbH for the invoicing of services in the areas of IT, insurance, procurement, financial accounting, payroll, telecommunications 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 GmbH 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 pension obligations are to be fulfilled by APK Pensionskasse AG. Due to the developments on the financial markets, APK Pensionskasse AG reported an obligation for additional funding in the amount of €0.0k (previous year: €133.3k) to cover defined retirement benefit obligations.

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

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.

Outstanding contribution commitments to investees amount to €6,880.0k (previous year: €0.0k).

### Finance area

There are interest rate swaps to hedge increases in interest rates for financial liabilities bearing variable interest with an outstanding nominal value of €433,187.5k (previous year: €447,812.5k) as at 31 December 2014. These interest rate hedges consist of the interest rate swaps and the underlying loans. As there is a documented hedge strategy and detailed hedge documentation, and ongoing measurements of effectiveness are being conducted, it is not necessary to recognise a separate provision for onerous contracts for the negative fair values amounting to €34,618.3k (previous year: €28,356.8k). The future interest payments hedged by these hedging instruments will occur in the following twelve years (2015 to 2026) and will be recognised in profit or loss accordingly.

To avoid fluctuations in future cash flows from interest payments for loans granted to Group companies at variable rates of interest amounting to a total nominal value of €236,660.0k (previous year: €256,965.0k), interest rate hedges were entered into with banks in late 2012 and during the first half of 2013. At the same time, the outstanding credit agreements with the Group companies involved in this hedging transaction were converted to the fixed interest rate terms contractually agreed with the respective bank. As here, too, there is a documented hedge strategy and detailed hedge documentation, and ongoing measurements of effectiveness are being conducted, recognition of a separate provision for onerous contracts for the negative fair values is not required. The reporting date measurement of these transactions resulted in a negative fair value totalling €12,346.9k (previous year: positive fair value of €3,227.8k) as at 31 December 2014.

### Electricity business

With the transfer of the electricity business to VTR, the derivative financial instruments (electricity/gas/CO<sub>2</sub> futures and forwards) relating to the electricity business were transferred to VTR.

Derivative financial instruments (electricity/gas/CO<sub>2</sub> futures and forwards) relating to the electricity business comprised the following in the previous year:

## 2. Disclosures regarding financial instruments

€k			
<b>Trading</b>	Fair values – positive	Fair values – negative	Fair values – net
Futures	85.8	664.7	–578.9
Forwards	442,116.6	442,021.5	95.1
<b>Total before netting</b>	<b>442,202.4</b>	<b>442,686.2</b>	<b>–483.8</b>
Of which non-current	189,661.7	189,426.2	235.5

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

€k			
<b>Total</b>	Fair values – positive	Fair values – negative	Fair values <sup>2</sup> – 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
<b>Total before netting</b>	<b>678,583.7</b>	<b>690,604.8</b>	<b>–12,021.1</b>
Of which non-current	232,088.4	237,053.9	–4,965.5

Taking netting agreements into consideration <sup>3</sup>	–521,278.8	–521,278.8	0.0
	<b>157,304.9</b>	<b>169,326.1</b>	<b>–12,021.1</b>

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 transaction for this counterparty are netted for accounting purposes.

### 3. Number of employees

<b>Average</b>	2013	2014
Salaried employees	172	181

### 4. Expenses for severance payments and pensions

€k		
	2013	2014
Members of the Executive Board, former members of the Executive Board and their surviving dependants	–124.8	1,272.0
Other employees	5,266.7	7,478.0
	<b>5,141.8</b>	<b>8,750.1</b>



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 2014, contributions to the pension fund were paid for the Executive Board in the amount of €172,675 (previous year: €130,892).

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 2014, severance payments and pensions amounting to €525,892 (previous year: €622,259) were paid out to beneficiaries.

Expenses for severance payments and pensions and similar obligations (post-employment benefits) amounted to €362,082 (previous year: €93,247). Expenses for pensions and similar obligations for former members of the Executive Board and their surviving dependants amounted to a total of €909,953 (previous year: €499,131).

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

## 5. Board members

### Remuneration of members of the Executive Board

Name	Fixed remuneration	Variable remuneration <sup>1</sup>	Total
Dipl.-Ing. Wolfgang Anzengruber	791,912	366,601	1,158,513
Dr. Johann Sereinig	755,804	302,104	1,057,908
Dr. Peter F. Kollmann	750,000	0	750,000
Dipl.-Ing. Dr. Günther Rabensteiner	562,384	175,336	737,720

<sup>1</sup>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 2014 were paid in respect of financial year 2013.

Remuneration of the four members of the Executive Board totalled €3,810,420 in 2014 (previous year: €3,615,088), which included €106,279 of payments in kind.

Variable remuneration depends upon performance and is limited to a certain percentage of fixed remuneration. This percentage rate was between 50% and 70% in financial year 2013. 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 2013 reporting period related to attainment of the planned Group result and 50% related to the attainment of quantitative/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 strategic repositioning for internationalisation. 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 €318,543 (previous year: €314,969).

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

	2013	2014
Chairman	25,000	25,000
Vice-Chairman (two)	15,000	15,000
Members	10,000	10,000
Attendance fee	500	500

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 2014, 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. In accordance with Section 237(14) of the Austrian Commercial Code (UGB), the Company elects not to disclose the expenses for the auditor.

There are profit and loss transfer agreements with VERBUND Finanzierungsservice GmbH, VERBUND Services GmbH, VERBUND Sales GmbH, VERBUND Solutions GmbH and VERBUND Trading GmbH.

#### 8. Unbundling

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

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

**Electricity deliveries** VERBUND Hydro Power GmbH, VERBUND Thermal Power GmbH & Co KG in Liqu., VERBUND Innkraftwerke GmbH, Ennskraftwerke Aktiengesellschaft, Innwerk AG, Österreichisch-Bayerische Kraftwerke Aktiengesellschaft, Donaukraftwerk Jochenstein Aktiengesellschaft, KELAG-Kärntner Elektrizitäts-Aktiengesellschaft, Austrian Power Grid AG

**Electricity trading and sales** VERBUND Trading GmbH, 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.

**Grid services** Austrian Power Grid AG

**Telecommunications** VERBUND Services GmbH

**Services** VERBUND Services GmbH

**Financing** VERBUND Finanzierungsservice GmbH

**Provision of personnel** VERBUND Trading AG

<b>Result of the documentation of electricity by source</b>	<b>Share</b>	<b>2014 kWh</b>
Hydropower	100.0%	1,337,232,000
Total volume of electricity supplied in Austria to consumers for their own use	100.0%	1,337,232,000
100% of the proofs of origin used for the documentation come from Austria.		
<b>Impact of electricity generation on the environment</b>		<b>2014</b>
Radioactive waste (mg/kWh)		0.0
CO <sub>2</sub> emissions (g/kWh)		0.0

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

Vienna, 26 February 2015

The 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

# Disclosure of equity interests

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

	Headquarters	% Shareholding as at 31/12/2014	Most recent annual financial statements	(+) (-)	Net income/loss for the year	Equity <sup>1</sup>
€k						
<b>Consolidated affiliated companies<sup>2</sup></b>						
Austrian Power Grid AG	Vienna	100.00	2014	+	20,320.4	324,614.1
Innwerk AG	Landshut	100.00	2014	+	35,060.4	162,881.1
<b>VERBUND</b>						
Finanzierungsservice GmbH	Vienna	100.00	2014	+	1,585.8	218.1
VERBUND Renewable Power GmbH	Vienna	100.00	2014	-	203,398.9	13,795.5
VERBUND Sales GmbH	Vienna	100.00	2014	+	4,430.6	10,351.9
VERBUND Services GmbH	Vienna	100.00	2014	+	6,105.1	5,591.9
VERBUND Solutions GmbH	Vienna	100.00	2014	-	3,663.7	3,035.0
VERBUND Thermal Power GmbH	Neudorf ob Wildon	100.00	2014	+	5,290.7	5,712.2
VERBUND Trading GmbH	Vienna	100.00	2014	+	102,883.7	100,000.0
VERBUND Wind Power Deutschland GmbH	Wörrstadt	100.00	2014	+	0.0	25.0
VERBUND Thermal Power GmbH & Co KG in Liqu.	Neudorf ob Wildon	99.99	2014	-	84,490.8	-178,559.1
Windpark Dichtelbach GmbH & Co. KG	Wörrstadt	95.00	2014	+	187.8	3,017.2
Windpark Dörrebach GmbH & Co. KG	Wörrstadt	95.00	2014	+	29.5	3,163.0
Windpark Eichberg GmbH & Co. KG	Wörrstadt	95.00	2014	+	173.5	4,488.9
Windpark Ellern GmbH & Co. KG	Wörrstadt	95.00	2014	-	564.3	6,243.5
Windpark Hochfels GmbH & Co. KG	Wörrstadt	95.00	2014	-	76.8	3,287.0
Windpark Rheinböllen GmbH & Co. KG	Wörrstadt	95.00	2014	-	172.2	4,490.2
Windpark Schönborn GmbH & Co. KG	Wörrstadt	95.00	2014	-	201.5	4,507.8
Windpark Seibersbach GmbH & Co. KG	Wörrstadt	95.00	2014	+	1.6	4,701.8
Windpark Stetten I GmbH & Co. KG	Wörrstadt	95.00	2014	-	23.1	4,378.1
Windpark Utschenwald GmbH & Co. KG	Wörrstadt	95.00	2014	-	59.4	1,622.5
Infrastruktur Oberheimbach I GmbH & Co. KG	Wörrstadt	81.00	2014	-	0.5	69.5

	Headquarters	% Share- holding as at 31/12/2014	Most recent annual financial statements	(+) (-)	Net income/loss for the year	€k Equity <sup>1</sup>
VERBUND Hydro Power GmbH	Vienna	80.42	2014	+	249,887.3	1,364,584.6
Infrastrukturgesellschaft Bischheim GmbH & Co. KG	Wörrstadt	76.00	2014	+	0.0	35.0
VERBUND Innkraftwerke GmbH	Töging	70.27	2014	+	28,847.0	323,082.2
Donaukraftwerk Jochenstein Aktiengesellschaft	Passau	50.00	2014	+	708.2	15,400.4
Grenzkraftwerke Gesellschaft mit beschränkter Haftung	Simbach	50.00	2014	+	1,818.1	5,328.7
Österreichisch-Bayerische Kraftwerke Aktiengesellschaft	Simbach	50.00	2014	+	2,912.1	58,211.2
<b>Non-consolidated affiliated companies</b>						
Blaringhem Power S.A.R.L. in Liqu.	Boulogne- Billancourt	40.00	2013	+	18.0	26.0
<b>Associates</b>						
Pont-sur-Sambre Power S.A.S.	Pont sur Sambre	100.00	2013	-	173,788.0	-205,132.1
Toul Power S.A.S.	Toul	100.00	2013	-	235,535.1	-262,358.3
AQUANTO GmbH <sup>3</sup>	Untereöhring	50.00	<sup>4</sup>	<sup>4</sup>	<sup>4</sup>	100.0
Ennskraftwerke Aktiengesellschaft <sup>5</sup>	Steyr	50.00	2014	+	394.9	14,106.3
KELAG-Kärntner Elektrizitäts- Aktiengesellschaft <sup>3</sup>	Klagenfurt	35.17	2013	+	87,057.0	668,707.0
PÖYRY Energy GmbH	Vienna	25.10	2013	-	291.2	11,993.6

<sup>1</sup> Equity as defined by Section 224(3)A of the Austrian Commercial Code (UGB) or local law. // <sup>2</sup> Consolidation in accordance with Sections 253-261 of the Austrian Commercial Code (UGB). // <sup>3</sup> Accounted for using the equity method in accordance with Sections 263-264 of the Austrian Commercial Code (UGB). // <sup>4</sup> Company was formed in 2014 //

<sup>5</sup> Proportionate consolidation in accordance with Sections 250-258, 260 and 261 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 2014 to 31 December 2014, including the accounting system. These annual financial statements comprise the balance sheet as at 31 December 2014, the income statement for the financial year ended 31 December 2014 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. That responsibility involves: 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; and making accounting estimates that are reasonable in the circumstances.

## Auditor's 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. Those 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 auditor's 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 2014 and its cash flows and profit or loss for the financial year from 1 January 2014 to 31 December 2014 in accordance with Austrian Generally Accepted Accounting Principles.

## Comments on the management report

Pursuant to statutory provisions, the management report is to be examined as to whether it is consistent with the annual financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The 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, 26 February 2015

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Maximilian Schreyvogel  
Certified Public Accountant

Mag. Gerhard Marterbauer  
Certified Public Accountant

**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.

# 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 €0.29 per share to 347,415,686 non-par value shares from the distributable profit of financial year 2014, i.e. a total of €100,750,548.94.



# Documentation of electricity by source

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

<b>Result of the documentation of electricity by source</b>	<b>Proportion</b>	<b>2014 kWh</b>
Hydropower	100.0%	1,337,232,000
Total volume of electricity supplied in Austria to consumers for their own use	100.0%	1,337,232,000

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

<b>Impact of electricity generation on the environment</b>	<b>2014</b>
Radioactive waste (mg/kWh)	0.0
CO <sub>2</sub> emissions (g/kWh)	0.0





# Glossary

## Cash flow

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

## EBIT

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

## Equity ratio

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

## Funds from operations (FFO)

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Operating result plus depreciation and amortisation, interest income and effective taxes.

## Gearing

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

## Net debt

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

## Notional debt repayment period

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Ratio of debt to surplus funds from ordinary activities.

## Return on capital employed (ROCE)

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

## Return on equity (ROE)

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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) less current liabilities (including current accruals and deferred income).

#### **EDITORIAL DETAILS**

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