70 years of VERBUND.
Energising the future.

VERBUND SINCE 1947
70
YEARS OF FUTURE

Verbund
Power for the Future

Annual Report VERBUND AG 2016

VERBUND AG

Annual Report 2016

Contents

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

Three-year comparison

€m, %

	2014	2015	**2016**
Revenue[1]	1,673.6	435.0	420.9
Earnings before interest and taxes (EBIT)	243.2	166.2	356.8
Earnings before taxes	69.1	39.4	267.0
Net income for the year[1]	279.2	143.7	272.5
Net profit	100.8	121.6	100.8
Total assets[1]	6,311.1	5,536.7	5,473.8
Fixed assets	5,816.5	5,082.2	4,871.3
Capital expenditure for property, plant and equipment	1.6	0.9	0.7
Depreciation of property, plant and equipment	1.8	1.7	1.5
Equity[1]	2,271.3	2,314.3	2,465.2
Return on sales (ROS)[1]	14.5%	38.2%	84.8%
Return on equity (ROE)	3.0%	1.7%	11.5%
Return on investment (ROI)[1]	4.4%	2.6%	6.4%
Return on capital employed (ROCE)[1]	3.2%	2.3%	5.4%
Equity ratio[1]	36.0%	41.8%	45.0%
Debt repayment period	12.8	26.1	6.5
Cash flow from operating activities	214.4	428.2	126.6
Gearing	164.6%	114.2%	107.7%
Working capital	–327.2	–400.2	–227.7
Net debt	3,738.4	2,643.4	2,653.8
Current liabilities	1,174.9	585.9	915.4
Current assets	847.7	185.6	687.8
Share price high	16.7	17.3	15.8
Share price low	13.7	11.6	10.0
Closing price	15.3	11.9	15.2
(Proposed) dividend per share	0.29	0.35	0.29
Dividend yield	1.90%	2.95%	1.91%
Operational headcount	181.4	152.7	140
Group electricity sales volume (GWh)[2]	54,359	55,238	**58,855**

[1] Prior-year key performance indicators were adjusted in accordance with the changes in presentation from the Austrian Accounting Amendment Act 2014. // [2] incl. 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 Managing director of FI Beteiligungs- und Finanzierungs GmbH, managing director of Transfer Industries GmbH, managing director of Hereschwerke GmbH, managing partner of Franz Heresch & Co GmbH	1956	16/3/2000	AGM 2020
Prof. Dipl.-Ing. Dr. Michael Süß 1st Vice-Chairman CEO of Georgsmarienhütte Holding GmbH; member of the supervisory boards of Herrenknecht AG and Oerlikon AG (chairman of the board of directors); Renova AG (manager); Süß Management Systems and Süß Film (shareholder)	1963	22/4/2015	AGM 2020
Mag. Elisabeth Engelbrechtsmüller-Strauß 2nd Vice-Chairwoman CEO of Fronius International GmbH; member of the board of trustees of the Institute of Science and Technology	1970	22/4/2015	AGM 2020
Mag. Harald Kaszanits Head of Cabinet of the Vice-Chancellor and Federal Minister; Secretary-General for the Federal Ministry of Science, Research and Economy	1963	7/4/2010	AGM 2020
Mag. Dr. Martin Krajcsi 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 (member) and Wiener Netze GmbH (vice-chairman); member of the supervisory board of Burgenland Holding AG	1963	9/4/2014	AGM 2020

Name	Year of birth	Date of initial appointment	End of current term of office
Dipl.-Ing. Dr. Peter Layr Spokesman 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 2020
Mag. Werner Muhm Director of the Vienna Chamber of Labour and the Federal Chamber of Labour (until 30 June 2016); member of the supervisory boards of Wiener Städtische Versicherung, AWH Beteiligungsges.m.b.H., Kommunalkredit Austria AG and KA Finanz AG; member of the General Council of OeNB; member of the managing board of Leopold Museum Privatstiftung	1950	22/4/2015	AGM 2020
Dr. Susanne Riess CEO of Bausparkasse Wüstenrot AG; member of the supervisory boards of Wüstenrot Versicherungs-AG (chairwoman), Wüstenrot stambena štedionica d.d., Croatia (chairwoman), Wüstenrot životno osiguranje d.d., Croatia (chairwoman), Wüstenrot Fundamenta-Lakáskassza Zrt., Hungary (vice-chairwoman), Wüstenrot stavebná sporiteľňa a.s., Slovakia (vice-chairwoman), Wüstenrot poisťovňa a.s., Slovakia (vice-chairwoman), and IHAG Privatbank Zürich (member of the board of directors)	1961	22/4/2015	AGM 2020
Mag. Jürgen Roth Managing partner at Tank Roth GmbH; member of the supervisory boards of ICS Internationalisierungscenter Steiermark GmbH (chairman) and ELG (Erdöl-Lagergesellschaft m.b.H.)	1973	22/4/2015	AGM 2020
Christa Wagner Managing partner at Josko Immobilien GmbH; member of the supervisory board of Eurosun a.s., Shareholder in Josko Holding Gesellschaft m.b.H.	1960	7/4/2010	AGM 2020

Supervisory Board appointments in publicly traded 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	Date of initial appointment	
Anton Aichinger Chairman of the Group's employee representatives	1955	since 25/10/2016	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
Dr. Isabella Hönlinger Chairwoman of the Works Council	1971	since 1/9/2016	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	1951	from 29/8/2006 until 1/9/2016	appointed by the employee representatives
Dipl.-Ing. Hans Pfau Chairman of the Works Council	1953	since 1/9/2016	appointed by the employee representatives
Ing. Joachim Salamon Member of the Central Works Council	1956	from 25/10/2006 until 1/9/2016	appointed by the employee representatives

The appointment of employee representatives by the Group's employee representatives is for an unlimited period and can be revoked at any time.

Report of the Supervisory Board

In financial year 2016, the difficult economic climate continued to impact VERBUND, Austria's leading utility. VERBUND nonetheless succeeded in continuing on a profitable and sustainable path thanks to its focused strategic approach coupled with consistent implementation of comprehensive restructuring and efficiency improvement measures. Thus despite the unfavourable market conditions, the Group once again produced good results. The Supervisory Board actively monitored and supported this strong performance.

Discharge of responsibilities In financial year 2016, the Supervisory Board discharged the responsibilities and exercised the powers incumbent upon it by virtue of the law and the Articles of Association at seven plenary meetings. The overall attendance rate of all Supervisory Board members was 89%. The Chairman additionally kept in regular contact with the Board members to ensure that all members were always involved in important matters. The Executive Board provided the Supervisory Board with regular and comprehensive real-time information, both verbally and in writing, on all relevant matters relating to the performance as well as the position and strategy of the Group and all significant Group companies; information was also provided on the Group's risk position and its risk management activities. The Supervisory Board advised the Executive Board on key questions concerning the future, particularly as regards the Group's structure and its strategy, and continuously monitored the Executive Board's management activities based on its extensive reporting. Supervision took place in the context of open and constructive meetings between the Executive Board and the Supervisory Board and revealed no grounds for objection. In addition, the Chairman of the Supervisory Board conversed regularly with the members of the Executive Board, particularly the Chairman.

In addition to approving the annual financial statements and the Group budget, the main decisions made by the Supervisory Board in the past financial year involved a policy decision to review all options for the Mellach power plant as well as authorisation for a major investment project in Zillertal valley (Tuxbach transfer line) and approval of the sale of the solar parks in Spain.

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, we have achieved almost full compliance with the rules relating to the Supervisory Board's collaboration with the Executive Board and within the Supervisory Board itself. Pursuant to the requirements of the Code (Rule 36), the Supervisory Board again conducted a self-evaluation of its activities during the reporting period, particularly of its organisation and work procedures. The evaluation was undertaken in the form of a comprehensive written questionnaire that was completed by the Board members. At the subsequent meeting, the Supervisory Board discussed the results of its evaluation and took down suggestions for improvements. In addition, the Supervisory Board again discussed possible conflicts of interest when dealing with the approval of contracts with companies where individual Supervisory Board members are related parties. No conflicts were identified that would require any action to be undertaken beyond that taken at the meetings. As provided for in the Code, meetings were held as needed, including meetings which the Executive Board did not attend.

The Supervisory Board's Working Committee met four times during the year under review, especially to prepare plenary meetings and to approve the acquisition of an equity interest. The Audit Committee held three meetings. It dealt above all with the semi-annual financial statements and preparation of the resolution to approve the annual financial statements, as well as with the appointment of the auditor and examination of the auditor's work. In addition, it concentrated on the internal control, audit and risk management system and on the audits performed by the internal audit function. Due to a change in the Supervisory Board's rules of procedure, the number of Working Committee members and Audit Committee members increased effective 1 January 2016.

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 in the rules of procedure. The General and Remuneration Committee convened twice to discuss the agreements on targets and the variable remuneration paid to the Executive Board. The Nomination Committee did not meet. There were no changes in the composition of the Supervisory Board or its committees apart from a switch of two employee representatives.

Further information on the composition, work procedures and meetings of the Supervisory Board and its committees as well as the remuneration paid to its members is contained in the Group's consolidated corporate governance report for 2016.

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 2016 were audited by Deloitte Audit Wirtschaftsprüfungs GmbH and issued with an unqualified auditor's report. The auditor reported its findings in writing and found that the Executive Board had provided the explanations and evidence requested, that the book-keeping, annual financial statements and consolidated financial statements fulfilled 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. The auditor also confirmed that the management report and the Group management report were consistent with the annual financial statements and the consolidated financial statements. Following in-depth examination and discussion by the Audit Committee and the Supervisory Board, the Supervisory Board approved the annual financial statements for financial year 2016 as presented by the Executive Board. As a result, they are final for the purposes of Section 96(4) of the Austrian Stock Corporation Act (Aktiengesetz, AktG). The management report prepared by the Executive Board was approved, as was the profit appropriation proposal. The Supervisory Board also approved the consolidated financial statements and the Group management report along with the consolidated corporate governance report for the Group submitted by the Executive Board, which was reviewed and approved by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.

In conclusion, the Supervisory Board would like to thank the Executive Board and all employees for their great dedication and their successful work during financial year 2016. The Supervisory Board would also like to thank the Group's shareholders, customers and business associates for their trust.

Vienna, March 2017

Dr. Gilbert Frizberg
Chairman of the Supervisory Board

Management report

Report on business performance and economic position

General conditions

VERBUND's business operations are substantially impacted by the development in wholesale electricity prices and the political and regulatory framework. Electricity prices depend not only on demand but also on price trends for fuel and CO_2. In addition, the energy sector is undergoing fundamental changes due to the transition to increasingly climate-neutral energy generation.

Conditions in the European electricity market remained extremely challenging in financial year 2016. The energy markets continued to experience upheavals, and commodity prices for oil, gas and coal underwent a further decline compared with 2015. CO_2 prices also collapsed in Europe due in particular to political uncertainty concerning the future role of the United Kingdom in EU emissions trading as well as uncertainty regarding the next step in pursuing reform in the fourth trading period. Moreover, economic growth remained sluggish in Europe. All of this in conjunction with the new energy efficiency regulations taking effect led to stagnating demand for electricity in the joint German/Austrian price zone in 2016. At the same time, electricity generation capacities increased due to continued heavy subsidisation of energy generated from wind and photovoltaics. Thus wholesale prices for electricity dropped once again in financial year 2016 in comparison with 2015.

VERBUND responded to the foreseeable decline in revenue by launching a programme to reduce costs and increase efficiency, increasing the regulated portion of its asset portfolio and initiating an innovation and services campaign. Thus VERBUND continued in 2016 to work steadily towards its goal of becoming a CO_2-free, cost-effective and innovative electricity generation company.

General economic environment

Growth accelerates in a risky climate

Real global output rose only moderately in 2016 with an increase of 3.1% despite stabilisation of the situation in the emerging markets. At +4.1%, growth in economic output in the emerging markets in 2016 was approximately at the level of the previous year.

The highly expansionary monetary policy used by central banks in the advanced economies to stimulate the economy in 2016 was counteracted by structural impediments and political uncertainty. This included geopolitical tension along with increasingly isolationist, protectionist tendencies as came to light in the Brexit vote, for instance. According to the January 2017 forecast by the International Monetary Fund (IMF), real economic growth increased by 1.6% in the industrial countries in 2016 after an increase of 2.1% in 2015.

The Brexit vote also curbed economic output in the eurozone, which IMF experts estimate to have risen by 1.7% in 2016 or somewhat less than in the prior year (2015: +2.0%). Economic output in Germany, the eurozone's largest economy, performed in line with the rest of the eurozone in the reporting period (2016: +1.7%).

The Austrian economy was on the upswing in 2016 following the low growth levels registered in 2015. Economic growth was fuelled by an acceleration in domestic consumption, due above all to the positive impact of the 2015/2016 tax reforms and the associated increase in household incomes. By contrast, the sluggish performance of global trade provided little stimulus for the export economy. According to the December 2016 economic forecast by the Austrian Institute of Economic Research (WIFO), real gross domestic product increased by 1.5% in 2016 (2015: +1.0%).

Energy market environment

Higher electricity consumption due to the 2016 leap year and considerably colder winter months

According to initial data from E-Control[1] (ECA), electricity consumption in Austria rose by 1.0% to 70,297 GWh in 2016 (total supply of electricity, domestic electricity consumption excluding pumped storage consumption). One of the reasons for the increase in consumption was the extra day in February 2016 due to the leap year. Higher consumption also resulted from the considerably colder winter months compared with 2015.

Due to the increase in the water supply compared with the previous year, Austrian hydropower plants supplied 7.1% more electricity in 2016 (total supply of electricity). “Other generation” increased by 4.2%, while thermal power plant generation decreased by 0.2% due to unfavourable market conditions. “Other generation” includes electricity production from other renewable energy sources (excluding biomass, which comes under the category of thermal generation) and from plants that cannot yet be allocated for statistical purposes. All in all, electricity generation increased by 4.7% in Austria in 2016.

The energy trading balance was affected by the fact that the quantities of electricity produced domestically rose significantly, whereas consumption of electricity increased at a lower rate. Net electricity imports (imports minus exports) decreased by 28.9%. Therefore, the figure representing the foreign dependence of the Austrian power supply amounted to nearly 10% in 2016 after 13% in 2015.

[1] Energie-Control Austria für die Regulierung der Elektrizitäts- und Erdgaswirtschaft

OPEC agrees to limit oil production

The average price for one barrel of Brent crude oil (front month) was $45.1/bbl in 2016 compared with $53.6/bbl in 2015. This represents a decrease of 15.8%.

At the start of 2016, oil prices continued the downward spiral that had begun in mid-2014. The price for one barrel of Brent crude (front month) fell below the $30/bbl mark in January 2016. Although crude oil prices subsequently recovered, the low price levels created serious difficulties overall for numerous oil-producing countries and companies. The OPEC countries – which have a total market share of around 40% of all crude oil production – nonetheless proved unable to agree on price interventions for quite some time.

It was not until the end of November 2016 that OPEC decided to cut production for the first time since 2008. Oil prices rose immediately. At the end of 2016, one barrel of Brent crude (front month) was quoted at $56.8/bbl.

Gas prices continue falling

Price levels in European gas trading declined sharply compared with 2015. The spot price at the European NCG trading point decreased by €5.8/MWh compared with the previous year to €14.2/MWh on average in 2016. In futures trading, supplier contracts for the coming year (NCG front year) were invoiced at €15.7/MWh, or €4.7/MWh less than had to be paid for the NCG front year in 2015. European gas prices came under pressure in 2016 due to falling oil prices and an increased supply of liquefied natural gas (LNG).

Coal recovers after first-quarter 2016 low

Major excess capacities put prices under even greater downward pressure at the start of 2016. Coal listings (ARA front year) on the futures market fell well below $40/t at times during quarter 1/2016, after which the coal market recovered again. Hard coal for the front year was trading at \$70.3/t at the end of 2016.

The rise in hard coal prices observable at the end of quarter 1/2016 was mainly attributable to the cutbacks in coal production ordered in China (closure of loss-making hard coal mines) being offset in full by increased imports.

On average, hard coal was 2.1% cheaper on the futures market (ARA front year, euro basis) in 2016 than in the previous year in spite of the recent price increase. By contrast, coal prices in the spot market were up 4.9% in 2016 compared with the average listing in 2015 (euro basis).

CO_2 prices take a nosedive

The Dec 2017 EUA (European Union Allowance) emissions rights benchmark contract traded at an average of €5.4/t in 2016, a decrease of €2.4/t from a year earlier. Many experts believe that this is still much too low to induce corporations to gear their decisions on production methods and investments towards low-emission solutions rather than high-emission fuels, technologies and processes.

Certificate prices (EUA with a December 2017 delivery date) initially declined steadily from the start of 2016 until mid-February 2016, when they reached a low of under €5/t of CO_2. Prices then moved sideways until reaching just under €6/t of CO_2 at the end of April 2016. Following the UK decision in favour of leaving the EU on 23 June 2016, certificate prices declined, dropping below €5/t of CO_2 at times.

The erosion in prices reflects the uncertainty regarding the United Kingdom's continued participation in the European Emissions Trading System (ETS) as well as whether the EU will be successful in its efforts to reform the ETS.

Further drop in electricity wholesale prices

The average price for base load electricity deliveries in the German/Austrian bidding zone on EPEX SPOT, the European electricity exchange spot market, decreased by 8.2% compared with the previous year to €29.0/MWh in 2016. Peak-load prices were €35.2/MWh in 2016, or 9.8% lower than the average prices for 2015.

Apart from declining prices for CO_2 and primary energy, the lower spot market prices were attributable to the greater quantities of energy from renewables being fed into the grid in the joint German/Austrian price zone amid stagnating demand. The accumulation of renewable energy increases the likelihood of lower prices or negative prices occurring during certain hours in the spot market.

In the futures market at the European Energy Exchange (EEX), base load for 2017 (front year base) was traded at an average price of €26.6/MWh in 2016 for the German/Austrian bidding zone, and peak-load (front year peak) was traded at €33.5/MWh. In 2015, front year base contracts still paid €31.0/MWh on average and front year peak contracts paid €39.0/MWh. These prices are a reflection of expectations that the production of renewable energy will continue to increase and price levels will remain favourable in the markets for primary energy and CO_2.

VERBUND sells most of the electricity generated in futures markets in advance so as to reduce short-term selling and price risks. In 2016, the price trend in the futures market had only a minor influence on revenue during the reporting period. The trend will affect the results of subsequent periods, however.

Political and regulatory framework

At the end of 2016, the European Commission presented a new energy package known as “Clean Energy for All Europeans”. The next stage of the energy transition has been ushered in by Germany with its comprehensive reform of the German Renewable Energy Sources Act (Erneuerbare-Energien-Gesetz, EEG) in addition to enacting the Act for the Further Development of the Electricity Market (Gesetz zur Weiterentwicklung des Strommarkts), also known as the Electricity Market Act (Strommarktgesetz) to adapt the electricity market to the requirements of the energy transition. In Austria, the focus was on splitting up the German/Austrian price zone and the government’s “autumn package”.

EU energy policy

“Clean Energy for All Europeans”: European Commission presents the fourth internal energy market package

On 30 November 2016, the European Commission presented a comprehensive legislative package for the energy sector. The legislation covered the following: introduction of a corporate governance framework, reorganisation of the regulations applicable to renewable energy (subsidies, market integration), improving the energy trading market (control power market, intraday/day-ahead/futures markets), removing market barriers (upper price limits, regulated consumer prices), regulations for capacity mechanisms, strengthening regional cooperation (especially between transmission system operators), regulations for the distribution grid, strengthening ACER (Agency for the Cooperation of Energy Regulators), new rules for determining price zones, promotion of electromobility, regulations for new market participants (aggregators, local energy communities), the legal framework for demand response, clarification of the legal framework for storage capacity, improving consumer services in relation to quotations and billing, and regulations for own generation. Proposals were also presented for revised energy efficiency and building efficiency guidelines. The legislative process thus initiated at EU level is likely to be completed during the Austrian presidency in the second half of 2018.

European Commission’s decarbonisation package

In July 2016, the European Commission presented a proposal to all member states regarding binding carbon reduction targets for the 2021–2030 period. The proposal is directed at those sectors not subject to the EU Emissions Trading System (ETS) regulations (transport, building, agriculture, waste, land use and forest management). Under the proposal, Austria would be required to reduce carbon emissions by 36% compared with 2005 levels by 2030. The Commission also announced its European strategy for low-emission mobility.

German-Austrian electricity pricing zone

ACER (Agency for the Cooperation of Energy Regulators), the European regulatory authority, published a non-binding opinion on 23 September 2015 in which it recommended splitting up the joint German-Austrian bidding zone. This step was taken because of “loop flows” (unscheduled flows of electricity), most of which occur via Poland and the Czech Republic.

Together with the Federation of Austrian Industries, the Austrian Economic Chambers and EXAA, the Austrian energy exchange, VERBUND took the lead in having a legal opinion prepared by European law firm Clifford Chance by 4 November 2016. The opinion stated that ACER had no authority to decide on splitting up the German-Austrian electricity market and that the European Network of Transmission System Operators for Electricity (ENTSO-E) had sole responsibility, together with the member states, for reviewing possible congestion in Germany and Austria. The initial results from ENTSO-E are expected in the spring of 2018 in the context of its bidding zone review.

On 17 November 2016, the European regulatory authority ACER announced that although it would initiate preparations for separating the German-Austrian electricity price zone, splitting the zone would depend on the outcome of the bidding zone review currently being conducted by ENTSO-E.

VERBUND will follow E-Control, APG, sector associations, Austrian energy policymakers ("Österreichs Energie") and EXAA in taking legal action against the decision, since it is not permissible for ACER to even make preparations for splitting the joint price zone at the Austrian border.

VERBUND will thus continue to work vigorously at both national and European level towards maintaining the German-Austrian electricity price zone, as in the past.

New legal framework for the energy sector in Germany

Electricity Market Act

A new electricity market law was enacted by the German parliament based on the green paper and white paper discussions on the design of the electricity market. The German Electricity Market Act (Strommarktgesetz) lays the foundation for the future design of the market and is an acknowledgement of the Energy-Only-Market (EOM) 2.0 proposals. The new legislation emphasises the electricity market, incorporating a capacity reserve and a grid reserve as well as provisions for permanently closing down lignite-fired plants. It also gives more responsibility to balancing group managers and specifies the compensation for redispatch measures. The Electricity Market Act took effect on 30 July 2016.

"Electricity 2030" discussion paper published by the German Federal Ministry for Economic Affairs and Energy

In September 2016, the German Federal Ministry for Economic Affairs and Energy (BMWi) opened the debate on "Electricity 2030". The discussion involves outlining the primary tasks for the coming years based on twelve long-term trends with a focus on cost-efficient supply of electricity. Three main topics have emerged in the process: 1) efficiency in line with the "efficiency first" concept; 2) direct use of renewables and 3) "sector coupling".

All of the issues under discussion essentially come down to two main points: where will investments need to be made to transition from Electricity Market 2.0 to Energy Market 2.0, and how will the regulatory framework ensure that the market will provide incentives for those investments to be made?

The effects of the discussion paper on energy policy legislation are expected to be seen in the next legislative period.

Amendment to the Renewable Energy Sources Act

The 2017 Renewable Energy Sources Act (Erneuerbare-Energien-Gesetz 2017, EEG 2017) ushers in a near-complete change in the system for subsidising electricity from renewable energy. In future, a competitive bidding procedure will be carried out for the key plant technologies of wind, solar and biomass. The bidding process will be designed to manage expansion in accordance with the planning and to keep costs down. It will also maintain the variety of players in the market by excluding small plants from participation in the bidding procedure and improve coordination of the development of renewable energy and grid expansion.

For 2017, the transmission system operators have announced that allocations under the Renewable Energy Sources Act (EEG) will increase by 8.3% to 6.88 ct/kWh. The German Federal Ministry for

Economic Affairs and Energy (BMWi) noted that following the high reached in 2013, the combined total figure of the exchange market price and the allocation under the Renewable Energy Sources Act (EEG) has declined for three years in a row and will presumably decrease again in 2017 despite the increase in compensation for electricity generated from renewables of approximately 40% (2013–2017). The additional increase in the allocation under the Renewable Energy Sources Act (EEG) illustrates the continuing need for reform.

Green paper on energy efficiency

The German Federal Ministry for Economic Affairs and Energy (BMWi) led a consultation process in the context of preparing a green paper on energy efficiency in 2016. The green paper focuses on five main topics: "efficiency first", advancing the development of energy efficiency tools, energy efficiency policy at EU level, sector coupling and digitalisation. The key issue for the Ministry was formulated as follows: "How can we reduce the demand for energy, and how can energy be converted and used more efficiently in the future?".

Electromobility package

The German government has approved a €1bn range of measures aimed at accelerating development of the electromobility market. In addition to paying incentives for the purchase of electric cars and plug-in hybrids, the government has set aside €300m for improvements to the charging infrastructure. The package also calls for increasing the percentage of electric vehicles in the government fleet to at least 20%.

New legal framework for the energy sector in Austria

Integrated energy and climate strategy

The consultation process on the "green book for an integrated energy and climate strategy" conducted by the Austrian government in 2016 represented the first key step in moving towards 2030 in terms of energy policy. Specific strategic measures in energy and climate policy are expected in 2017.

"Tariffs 2.0"

In February 2016, E-Control (ECA) launched a discussion process with its consultation paper entitled "Further development of the fee structure for the power grid ('Tariffs 2.0')". The consultation paper is the ECA's response to current challenges such as increasingly decentralised, volatile generation, demand response and the roll-out of smart metering. The main point made by the ECA paper is that greater emphasis should be placed on the capacity component of the charge. The ECA will publish the final document in the first quarter of 2017.

Amendment to the Stock Exchange Act

The EU's new market abuse regime necessitated amendments to the Stock Exchange Act (Börsegesetz, BörseG) in 2016. As was the case with implementation of the 2013 EU transparency guidelines, the amendments tightened regulations for exchange-traded companies. VERBUND has adapted its internal regulations on financial market compliance accordingly.

Federal government's "autumn package"

In 2016, the federal government discussed and prepared a legislative package comprising various legislative proposals ("autumn package"). The package contains plans to amend the Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG), the Natural Gas Act (Gaswirtschaftsgesetz, GWG), the E-Commerce Act (E-Commerce-Gesetz, ECG) and the Federal Energy Efficiency Act (Bundes-Energieeffizienzgesetz, EEffG) and to revise the Combined Heat and Power Act (KWK-Punkte-Gesetz, KPG) as well as a technology compensation law for biogas plant operators. The discussion is still ongoing, however, given the different points of view of the various key stakeholders regarding subsidies for biogas plants. Adoption of the package has been postponed until 2017.

Discussion of storage capacity in the future regulatory framework

The increasing proliferation of decentralised generation units and the rising share of volatile renewable energies as well as new consumers of electricity have altered the electricity markets in that small-scale, local storage capacity is being used more and more frequently. Detailed discussions are being held on how to integrate local storage capacities into the existing regulatory framework, particularly in view of the use of local capacities by grid operators for grid support measures.

Finance

Factors affecting the result

Wholesale prices for electricity

In 2015, VERBUND entered into contracts in the futures market for most of its own generation for 2016. At an average of €31.0/MWh for base load and €39.0/MWh for peak load, electricity wholesale prices were down 11.8% and 12.0%, respectively, on the prior-year levels. Price levels on the electricity futures market thus largely mirrored the trend in fuel and CO_2 prices. Excess capacities in the European electricity market and construction of additional renewable energy plants have exerted additional pressure on the futures market.

In the spot market, wholesale trading prices for electricity in 2016 were also significantly below the prior-year level. Prices for base load decreased by an average of 8.2% to €29.0/MWh, and prices for peak load fell by 9.8% to €35.2/MWh. Apart from declining prices for CO_2 and primary energy, the lower spot market prices were attributable to the greater quantities of energy from renewables being fed into the grid in the joint German/Austrian price zone amidst stagnating demand.

Water supply

Water supply in the rivers is of particular significance to VERBUND since around 93% 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. In the 2016 reporting period, the hydro coefficient for run-of-river and pondage power plants was 1.00, which is exactly the same as the long-term average and 7 percentage points above the prior-year level. The hydro coefficients for the individual quarters were as follows: quarter 1: 1.00; quarter 2: 0.98; quarter 3: 1.05; quarter 4: 0.96.

Electricity supply and sales volumes

At 31,995 GWh, VERBUND's own generation increased by 756 GWh, or 2.4%, compared with the previous year. Generation from hydropower rose by 6.1%, or 1,711 GWh, compared with 2015. The hydro coefficient for the run-of-river power plants was 1.00, which corresponds to the long-term average and is 7 percentage points above the prior-year figure. Generation from annual storage power plants fell 5.0% below the prior-year level due to decreased utilisation of reverse operation and despite the greater water inflows and increased lowering of water levels.

Wind power and photovoltaic installations generated 47 GWh, or 5.4%, less electricity. The decrease was attributable above all to less windy conditions in Romania and production cutbacks in Germany.

Generation from thermal power plants was reduced by 908 GWh, or 40.2%, in the reporting period. The Mellach combined cycle gas turbine power plant produced 127 GWh less electricity in 2016 due to decreased use for congestion management. Generation from VERBUND's other thermal power plants in Austria decreased by 781 GWh, primarily due to the closure of the Dürnrohr power plant effective 30 April 2015.

Electricity purchased from third parties for trading and sales increased by 3,202 GWh. Purchases of electricity from third parties for grid losses and control power, including congestion management, dropped by 341 GWh.

Group electricity supply

GWh

	2015	**2016**	Change
Hydropower[1]	28,098	29,809	6.1%
Wind/solar power	882	835	–5.4%
Thermal power	2,259	1,351	–40.2%
Own generation	31,239	**31,995**	2.4%
Electricity purchased from third parties (trading)	19,673	22,875	16.3%
Electricity purchased for grid loss and control power volumes	4,326	3,986	–7.9%
Electricity supply	55,238	**58,855**	6.5%

[1] incl. purchase rights

Electricity sales volumes increased by 3,814 GWh in 2016 compared with the previous year. We were able to increase electricity volumes delivered to consumers by 2,308 GWh thanks to increased activity in the Austrian and international consumer markets (Austria: +342 GWh; international: +1,966 GWh). The rise in sales to resellers (+1,589 GWh) was due above all to higher demand in Austria and in France. Electricity deliveries to trading firms were nearly unchanged (–84 GWh). Own use of electricity decreased by 462 GWh, primarily due to the significant decrease in the use of reverse operation.

Group electricity sales volume and own use

GWh	2015	2016	Change
Consumers	8,946	**11,255**	25.8%
Resellers	24,317	**25,906**	6.5%
Retailers	18,112	**18,028**	–0.5%
Electricity sales volume	51,375	**55,189**	7.4%
Own use	3,100	**2,639**	–14.9%
Control power volume	762	**1,028**	34.9%
Total electricity sales volume and own use	55,238	**58,855**	6.5%

In 2016, approximately 53% of the electricity sold by VERBUND went to the Austrian market. International trading and sales activities focused on the German market, which accounted for around 82% of all volumes sold abroad. The German and Austrian markets accounted for most of the growth.

Electricity sales volume by country

GWh	2015	2016	Change
Austria	27,366	**29,107**	6.4%
Germany	19,628	**21,394**	9.0%
France	3,641	**3,847**	5.6%
Romania	473	**437**	–7.7%
Switzerland	131	**236**	79.8%
Other	135	**169**	24.9%
Electricity sales volume	51,375	**55,189**	7.4%

Financial performance

Revenue and result

	Unit	2015	2016
Revenue[1]	€k	435,012.9	**420,886.4**
Earnings before interest and taxes (EBIT)	€k	166,203.2	**356,755.4**
Earnings before taxes	€k	39,389.8	**267,005.3**
Net income for the year[1]	€k	143,745.0	**272,506.8**
Net profit	€k	121,595.5	**100,750.5**
Return on equity (ROE)	%	1.7	**11.5**
Return on investment (ROI)[1]	%	2.6	**6.4**
Return on capital employed (ROCE)[1]	%	2.3	**5.4**
Return on sales (ROS)[1]	%	38.2	**84.8**

[1] Prior-year key performance indicators were adjusted in accordance with the changes in presentation from the Austrian Accounting Amendment Act 2014.

Revenue

The decrease in revenue of 6.1% is mainly attributable to lower wholesale electricity prices and the transfer of an electricity supply liability effective 1 January 2016. The electricity revenue which resulted in the reduction of this electricity supply liability amounted to €21,408.4k in the previous year. The share of electricity revenue generated in the international sales market in Germany also fell to 0.0% (previous year: 5.5%) as a result of this discontinuation. However, the positive effect arising from this transferred electricity supply liability was contributed to electricity revenue by VERBUND AG's subsidiary VERBUND Trading GmbH and amounted to €15,639.0k in 2016.

In addition, the effects of arbitration proceedings resulted in reductions in revenue amounting to €6,120.0k. Offsetting this, electricity purchases were also reduced by this amount.

In accordance with regulations governing changes in presentation under the Austrian Accounting Amendment Act 2014 (RÄG 2014), €23,919.1k (previous year: €27,641.4k) was also reclassified from other income to revenue. The decrease in the reclassified revenue is attributable to lower revenue from intra-Group invoicing and lower lease income.

Revenue thus decreased by a total of €14,126.5k or 3.2%; in contrast, electricity sales volume within the Group increased by 552.0 GWh or 1.1% compared with the previous year.

Expenses for electricity purchases

Expenses for electricity purchases fell by 20.7% to €157.1k. Along with the discontinuation of the long-term electricity supply liability, the corresponding electricity purchases amounting to €15,952.9k were no longer necessary. In addition, the effects of arbitration proceedings resulted in reductions in electricity purchases amounting to €6,120.0k. Offsetting this, electricity revenue also decreased by this amount. The remaining decrease is attributable to significantly lower wholesale electricity prices. The grid fees necessary for the electricity purchases increased by €10,679.0k or 8.8%. Overall, expenses for electricity purchases therefore decreased by €30,374.3k or 9.5%.

Personnel expenses

Personnel expenses decreased by €898.1k or 3.4% to €25,757.7k. The 1.3% to 1.5% increase in salaries and ancillary expenses under the collective agreement and the biennial pay rises under the collective agreement contributed to an increase in personnel expenses, while the decrease in operational headcount by 13 to 140 employees had the opposite effect. Expenses for employee benefits relating to pension and termination benefits increased by €1,319.4k. The main reason for this was the interest rate reduction of 0.5% in the financial year.

Other operating expenses

Other operating expenses decreased by €3,968.8k, or 10.2% to €35,085.5k. This decrease is primarily attributable to the discontinuation of expenses for operating a fictitious gas storage facility (€1,720.9k), lower advisory services (€827.2k) and lower advertising and entertainment expenses (€329.8k) as well as the decline in intra-Group invoicing.

Earnings before taxes

Earnings before taxes increased from €39,389.8k to €267,005.3k as a result of the influencing factors described above and yet another significantly higher financial result of €239,433.3k compared with the previous year (previous year: €18,987.8k). The financial result changed mainly due to overall higher results from equity interests of €437,913.3k (previous year: €352,241.6k), of which €187,133.7k was related to the reversal of a provision relating to an equity interest. This was reduced by higher transfers of losses amounting to €5,460.2k (previous year: €3,319.0k). In addition, lower depreciation and amortisation and provisions for investees amounted to €167,032.8k (previous year: €283,408.6k).

Financial position

Financial position

	Unit	2015	2016
Fixed assets	€k	5,082,168.2	4,871,318.4
Current assets	€k	99,246.8	296,688.8
Working capital	€k	–400,249.4	–227,684.2
Net debt	€k	2,643,373.8	2,653,776.5
Equity[1]	€k	2,314,269.6	2,465,181.0
Current liabilities	€k	585,879.7	915,435.2
Current assets	€k	185,630.3	687,751.0
Ø Capital employed	€k	5,507,570.0	4,925,476.2
Equity ratio[1]	%	41.8	45.0

[1] Prior-year key performance indicators were adjusted in accordance with the changes in presentation from the Austrian Accounting Amendment Act 2014.

Fixed assets

Intangible assets and property, plant and equipment increased by €5,714.8k. Additions primarily related to an electricity purchase right of €6,903.4k and to office and plant equipment and electrical installations of €683.8k. Amortisation of intangible assets and depreciation of property, plant and equipment amounted to €1,861.3k in the financial year.

Investments relating to investees changed by €31,906.5k, due on the one hand to the increase in carrying amounts for foreign equity interests (€24,754.6k) and to increased shareholdings or reversals of impairment losses recognised on Austrian equity interests (€11,746.2k), and on the other hand to the disposal of a foreign equity interest amounting to €4,594.3k.

Other investments decreased in total by €248,471.0k. Loans were granted in the amount of €26,000.0k, while loans of €274,689.7k were repaid. Measurement of securities under fixed assets increased on the one hand due to reversals of impairment losses amounting to €689.2k and decreased on the other hand due to disposals totalling €470.5k.

Current assets

The increase in current assets by €197,441.9k to €296,288.8k mainly resulted from the granting of short-term interim financing to subsidiaries in the amount of €220,000.0k. The decrease in the receivable from the tax authorities for excess corporate tax prepayments by €12,719.2k had an offsetting effect.

Equity

Equity increased by €150,911.3k to €2,465,181.0k due to the net income for the year, reduced by the distribution for financial year 2015. The equity ratio rose from 41.8% to 45.0%. Changes to the definition of equity in accordance with Section 224(3)(a) of UGB as a result of the Austrian Accounting Amendment Act 2014 (RÄG 2014) resulted in a slight increase of €2.7m. Upon taking effect, untaxed reserves will be disclosed in equity, less the deferred taxes attributable to them. The equity ratio was not affected by this change because in past years it was already calculated including the untaxed reserves adjusted for the attributable deferred taxes.

Liabilities

Non-current and current liabilities decreased by €69,756.2k to €2,634,507.4k. In financial year 2016, repayments to banks amounted to €115,407.1k. Liabilities to affiliated companies rose by €231,137.3k due to intra-Group invoicing. In addition, an electricity supply liability in the amount of €180,634.1k was transferred to VERBUND Trading GmbH.

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 in a difficult market environment has the highest priority. As at 31 December 2016, VERBUND AG had a syndicated credit line in the amount of €500.0m at its disposal that had not been drawn down. The facility runs until 2019 with two extension options of one year in each case. It was taken out on 15 October 2014 with twelve domestic and international banks with good credit ratings. VERBUND AG also had uncommitted lines of credit amounting to approximately €700.0m at the end of 2016. None of the credit lines had been drawn down as at 31 December 2016.

Securing a solid, long-term credit rating

The better a company's credit rating, the easier and more inexpensive it is to fully access international capital markets. A solid credit rating gives VERBUND AG access to various financing instruments, including those in the capital market. As at 31 December 2016, VERBUND AG had a long-term rating of BBB with a stable outlook from Standard & Poor's (S&P) and Baa2 with a stable outlook from Moody's. S&P lowered its rating from BBB+ to BBB with a negative outlook in May 2016. However, it raised the outlook back to "stable" in October 2016. In April 2016, Moody's downgraded its rating to Baa2 with a negative outlook. This rating was also later upgraded to "stable" (in August 2016).

For the long term, VERBUND AG is aiming for a solid "A" category rating. VERBUND AG is therefore focusing its management of the Group on optimising free cash flow and improving the two key rating-related indicators of FFO/net debt and RCF/net debt.

Financing measures

To reduce interest expenses, VERBUND AG repaid a promissory note early as part of its liability management activities. This involved early repayment of a total principal amount of €62.0m from a loan maturing in 2018.

In 2016, oekom research AG, one of the top independent rating agencies worldwide in the sustainable investment segment, again verified on a voluntary basis the green bond issued by VERBUND in 2014 in the amount of €500m (maturing in 2024, coupon of 1.5% p.a.). This is the first green bond issue by a company in the German-speaking region.

KPIs – finance

	Unit	2015	**2016**
Cash flow from operating activities	€k	428,226.0	126,591.0
Cash flow from investing activities	€k	703,795.2	–170,475.6
Cash flow from financing activities	€k	–1,132,013.4	43,882.1
Financial result	€k	18,987.8	239,433.3
Gearing	%	114.2	107.7
Debt repayment period	years	26.1	6.5

Compared with the previous year, the financial result improved by €220,445.5k to €239,433.3k. The main reason for this was lower allocations for provisions relating to investees during the financial year amounting to €167,032.8k (previous year: €283,408.6k). In contrast, provisions were reduced by €187,133.7k. Results from equity interests from distributions decreased by €101,462.0k to €250,779.5k. This was partially offset by higher transfers of losses amounting to €5,460.2k, an increase of €2,141.2k. In the area of investments, there was also an impairment loss reversal of €5,796.2k (previous year: €3,549.9k) and income from disposals of investments of €2,518.5k (previous year: €5,881.8k). Interest income improved by €30,886.9k while income from loans decreased by €14,521.3k.

An increase in interest-bearing net debt by €10,402.6k and the simultaneous increase in equity by €150,911.3k resulted in a decrease in gearing of 6.5 percentage points to 107.7%. The strong increase in cash inflow from ordinary activities of 299.3% compared with the simultaneous reduction in debt by 6.7% resulted in the debt repayment period decreasing from 26.1 years in the previous year to 6.5 years.

The composition of cash in hand and cash at banks (cash and cash equivalents) is presented under note (5) in the notes to the annual financial statements.

Cash flow statement

(1) Cash flow from operating activities

Cash flow from operating activities was determined using the indirect method and resulted in a cash inflow of €126,591.0k (previous year: cash inflow of €428,226.0k).

The change in trade receivables and other receivables is primarily attributable to the decrease in deferred tax assets of €45,250.6k and the decrease in other accruals and deferrals in the amount of €3,601.8k. The decrease in deferred tax assets includes a negative amount of €25,039.2k for the subsequent taxation of foreign losses which was reclassified from deferred taxes to tax provisions in accordance with AFRAC Opinion 30 “Deferred Taxes in the Annual Financial Statements” (issued in December 2016). In addition, the reduction of the surplus in corporate tax prepayments resulted in a decrease in other receivables of €12,719.2k. The increase in receivables from affiliated companies in the amount of €37,691.8k is mainly attributable to higher future tax payments than in the previous year.

Changes in trade payables and other liabilities were mainly the result of settling the transfer of an electricity supply liability.

The change in current provisions and tax liabilities is mainly attributable to the reversal of a provision in connection with an investment in the amount of €187,133.7k and the recognition of corporate income tax provisions, particularly provisions recognised for the subsequent taxation of foreign losses, in the amount of €47,573.4k. For the subsequent taxation of foreign losses, an adjustment decreasing deferred tax assets by €25,039.2k was recognised in the previous year, and €8,129.5k was not recognised in 2015 due to lack of utilisation (an increase to the loss carryforward in 2015).

(2) Cash flow from investing activities

Net cash flow from investing activities consisted of an outflow of €170,475.6k (previous year: cash inflow of €703,795.2k), resulting primarily from the repayment of loans amounting to €274,689.7k, the disposal of an equity interest in the amount of €7,038.7k and the sale of securities totalling €482.0k. These have to be seen alongside the granting of loans and short-term investments in the amount of €246,000.0k and additions to equity interests in the amount of €197,737.4k.

Capital expenditure for intangible assets and property, plant and equipment comprised capital expenditure relating to rights in the amount of €6,903.4k and relating to office and plant equipment totalling €2,057.0k.

(3) Cash flow from financing activities

As part of the dividend distribution approved for financial year 2015, €121,595.5k was paid out to shareholders. This was equivalent to a dividend of €0.35 per share. Group clearing resulted in a cash inflow of €280,884.7k (previous year: cash outflow of €88,098.7k).

An unscheduled repayment of a promissory note in the amount of €62,000.0k and scheduled payments by instalments in the amount of €53,407.1k took place in financial year 2016.

Cash flow statement

€k

	Notes	2015	2016
Net income for the year[1]		143,745.0	272,506.8
Amortisation of intangible assets and depreciation of property, plant and equipment		2,012.4	1,861.3
Amortisation and reversal of impairment of financial assets		–3,549.9	161,118.6
Result from disposal of non-current assets		–4,438.3	–2,519.2
Change in non-current provisions and deferred tax liabilities		–4,003.1	–2,206.6
Income from the reversal of contributions to building costs		–35.1	–35.1
Other non-cash expenses and income		–52,456.9	–3,953.6
Change in inventories		–41.4	59.3
Change in trade receivables and other receivables[1, 2]		72,881.6	21,993.7
Change in trade payables and other liabilities[3]		–3,438.7	–181,288.2
Change in current provisions		277,550.4	–140,946.0
Cash flow from operating activities	(1)	428,226.0	**126,591.0**
Cash outflow from capital expenditure on intangible assets and property, plant and equipment		–18,817.5	–8,960.4
Cash inflow from the disposal of intangible assets and property, plant and equipment		33.1	11.8
Cash outflow from capital expenditure on investments		–19,351.9	–443,737.4
Cash inflow from the disposal of investments		741,931.5	282,210.4
Cash flow from investing activities	(2)	703,795.2	**–170,475.6**
Cash inflow (outflow) from money market transactions		–28.6	0.0
New non-current loans		0.0	0.0
Cash outflow from the repayment of financial liabilities (excluding money market transactions)		–943,135.6	–115,407.1
Cash inflow (outflow) from increases (decreases) in Group clearing balances		–88,098.7	280,884.7
Dividends paid		–100,750.5	–121,595.5
Cash flow from financing activities	(3)	–1,132,013.4	**43,882.1**
Change in cash and cash equivalents		7.9	–2.5
Cash and cash equivalents as at 1/1/		10.7	18.6
Cash and cash equivalents as at 31/12/[4]		18.6	**16.1**

[1] Prior-year figures were adjusted in accordance with the changes in presentation from the Austrian Accounting Amendment Act 2014. // [2] incl. prepayments and accrued income and deferred tax assets // [3] incl. other deferred income // [4] see also note (5) in the notes to the annual financial statements

Report on the environment, research, development and social aspects

Environmental performance

VERBUND bears responsibility for preserving the natural environment. The Group works continuously to reduce the environmental impact of its corporate activities, plants, products and services. The environmental mission statement lays out the environmental principles followed by VERBUND.

Existing structures, processes and responsibilities in environmental management ensure compliance with legal requirements, nationally and internationally accepted regulations and the Group's own, more stringent standards.

Environmental management systems

VERBUND's objective is to implement environmental management systems certified to ISO 14001 in all generation and grid facilities. To date, environmental management systems have been certified by external auditors at 93% of VERBUND's sites. New facilities will be incorporated into the environmental management system as quickly as possible after commissioning and included in the scope of the certificate for the next audit. The Malta/Reißeck hydropower plants and the Mellach thermal generation plants are also validated in accordance with the EMAS III directive. Separate environmental statements were published for the plants; these are available on the VERBUND website.

Greenhouse gas emissions

Due to the high proportion of renewable energy sources representing 96% of its generation, VERBUND is one of Europe's most environmentally friendly energy companies. The Group's focus on electricity generation from renewable energy is a crucial factor in reducing and avoiding emissions. VERBUND's strategic objective is the transition to 100% generation from renewable energy by the end of 2020.

Greenhouse gas emissions (Scope 1–3) decreased by 34% in 2016 to around 1.6 million tonnes CO_2e compared with the previous year (2015: 2.3 million tonnes CO_2e). Of the total emissions, 65% (1 million tonnes CO_2e) are allocated to Scope 1, 19% to Scope 2 and 16% to Scope 3 emissions.

The amount of direct emissions in Scope 1 decreased in 2016 by 42% compared with the previous year. Emissions from the use of fuels in thermal power plants make up the largest share of Scope 1 emissions. Relatively small amounts are generated from the use of diesel and petrol by the VERBUND vehicle fleet and from emissions of SF_6 at grid facilities. These quantities of direct emissions (from fuels and SF_6 emissions) will continue to occur even without operating thermal power plants. However, no direct emissions arise from the generation of electricity using renewable energy.

Compared with 2014, VERBUND was also able to reduce indirect emissions from electricity purchased in Scope 2 by 40% because pumped storage power plants are operated exclusively using electricity with guarantees of origin from 100% hydropower. The figure for other indirect emissions in Scope 3 fell by 19% in the reporting period.

Specific greenhouse gas emissions in the VERBUND Group in Scopes 1, 2 and 3 in 2016 fell to 49 grammes of CO_2e per kWh of total electricity generated (2015: 75). In addition to direct emissions from electricity generation, this figure also includes indirect emissions from extraction and transportation of fuels, purchased electricity, the vehicle fleet and air travel. VERBUND aims to reduce this figure by 90% in the period from 2011 to 2021.

In 2016, direct greenhouse gas emissions (Scope 1) specific to VERBUND amounted to 31 grammes of CO_2e per kWh of total electricity generated. This corresponds to less than one-tenth of the CO_2 emissions from the European energy mix. In 2015, this figure representing electricity from the transmission grid of the European Network of Transmission System Operators (ENTSO-E) amounted to 344 grammes of CO_2/kWh. This figure demonstrates VERBUND's success in its drive to decarbonise electricity generation.

We present our climate change targets and our achievements in reducing emissions in electricity generation in our disclosures to CDP (formerly the Carbon Disclosure Project). Once more, VERBUND ranked highly in the 2016 CDP Leadership Index. In 2016, VERBUND was the best company in the energy sector in the Germany-Austria-Switzerland region. VERBUND again achieved country leader status in Austria in 2016, which places the Group among the two best enterprises in the country.

Conservation and biodiversity

VERBUND is constructing multiple fish passes as part of the implementation of the EU Water Framework Directive. We provide an overview of our capital expenditure for the environment and biodiversity such as the construction of fish passes to re-establish the river continuity and restoration measures implemented at water bodies in the Renewable generation section in the 2016 Integrated Annual Report. We also describe the wide range of measures we have already implemented in the areas of conservation and biodiversity on the websites of the LIFE projects and on the VERBUND website.

Please refer to the 2016 Group Integrated Annual Report for detailed environmental information as well as further information on generation, use of materials, energy consumption, waste and by-products, and other environmental KPIs.

Innovation, research and development

KPIs – R&D

	Unit	2014	2015	**2016**
Number of R&D projects	Number	75	65	**68**
Total project volume[1]	€m	138.1	144.5	**139.1**
of which EU projects[1]	€m	97.5	92.2	**93.6**
VERBUND's total share[1]	€m	19.2	16.2	**22.1**
Annual VERBUND expenses	€m	5.4	4.2	**5.5**

[1] Over the entire duration of the projects

Decarbonisation, decentralisation, digitalisation – the profound transformation of the European energy system is advancing. VERBUND's overarching goals include the integration of renewable energy and the orientation toward energy services. Innovation, research and development play a crucial role in setting the pace for these within the Group.

We firmly believe that with the help of renewable energy sources the world will see a massive expansion of electrification in the decades to come and that the human race is headed towards an all-electric society. We are therefore working hard on developing profitable technological solutions for a safe, affordable and environmentally friendly energy supply.

Special focus on electromobility

VERBUND is involved in European and Austrian research projects relating to the future of electrical energy. Electromobility is a special focus in this regard.

After 65 fast charging stations were successfully put into operation under the Central European Green Corridor (CEGC) project, VERBUND has been working since last autumn on the expansion of a high-level charging infrastructure for electric cars as part of two further European innovation projects. Under EVA+, on one hand, the density of Austria's network of fast charging stations is being increased, and access is being expanded to Italy. On the other hand, the groundwork is being laid for the next generation of electric cars under ULTRA-E. In the next two years, four ultra-fast charging stations with power output of up to 350 kW will be constructed in Austria – in addition to the 50 kW rapid charging network.

As part of the NeMo project, which was also launched in 2016, VERBUND is working with partners on researching new services for e-mobility customers. Under this project, new services aimed at improving the user-friendliness of charging electric vehicles are being developed for private customers. The spectrum ranges from easier access to charging stations to making reservations to charge.

The CROSSING BORDERS project was also successfully completed last summer. As part of this project, 30 fast charging stations were constructed between Bratislava and Munich.

The LEEFF (Low Emission Electric Freight Fleets) project was kicked off in 2016. This project involves working with partners to develop an overall concept for electrification and operation of a truck fleet to be used for deliveries in metropolitan areas by 2019.

Research emphasis on smart homes

The topic of smart homes was another focal point. In order to test new services for the consumer and to design the market for these services throughout Europe, VERBUND is taking part in the European research project FLEXICIENCY. The project will run until 2019. In 2016, the focus was on designing the Austrian demonstration operations slated to begin in 2017.

Green hydrogen – a central issue for the future

VERBUND sees vast potential in the topic of green hydrogen. Together with partners, VERBUND launched the EU-funded H2FUTURE project at the beginning of 2017. The project examines the future role of hydrogen – produced from water using renewable energy – as an energy source and an industrial gas. VERBUND is working with voestalpine and Siemens as well as with three other partners in Austria to construct one of the world's largest – at 6 MW – PEM electrolyser, which works using a proton exchange membrane.

Since 2016, VERBUND is also partnered with WIVA, the hydrogen initiative of the Austrian model region for energy. One of the initiative's main goals is to create a network of partners working on hydrogen and power-to-gas projects.

Last but not least, VERBUND continued the tailored technology scouting programme it launched in 2015. VERBUND is currently tracking and monitoring 90 forward-looking technologies in the field of energy under this programme.

Hydropower innovations

In its hydropower operations, VERBUND continues to research different ways to create passability through bodies of water in order to progressively achieve the objectives of the EU Water Framework Directive. In the process, greater emphasis is being placed on comprehensive protection of fish. VERBUND is analysing the migratory behaviour of various fish species in detail. This will allow VERBUND to implement measures aimed at helping fish and improving habitats in order to maintain and protect fish populations.

In addition to the effects of pressure surges and drops at VERBUND storage power plants, we are also examining sediment management. This primarily covers basic research on erosion, transport, sedimentation and remobilisation.

The changing conditions in the electricity market are resulting in new demands and the need for greater flexibility of hydropower. In response to this, VERBUND is gathering data on increased mechanical loads as well as potential areas of flexibility in the energy markets of the future. At the same time, we are monitoring signs of wear and tear on materials like seals and sprayed concrete and testing new materials.

Wind power innovations

In the area of wind power, VERBUND is focusing on improving operations in icing conditions. Unanticipated icing of VERBUND wind power plants results in unplanned downtime and reduces electricity production. To address this, VERBUND and other relevant experts kicked off the ICE-CONTROL project last year. As part of the project, which will run until 2019, complex models are being developed to predict the onset, duration, end and intensity of rotor blade icing. High-resolution camera systems monitor ice build-up, and additionally installed ice detectors measure surface temperatures and the thickness of the ice layer directly on the rotor blade. VERBUND is using these tools to evaluate the models developed and to optimise the operation of rotor blade heating as well as the call times of its service technicians.

Innovations in the area of electricity trading

In 2016, VERBUND's innovation activities in the field of electricity trading were dedicated to further improvement of the inflow forecasting and optimisation of storage management in hydropower. High spatial resolution in the forecast values and state-of-the-art stochastic optimisation methods now allow for optimised management of the reservoirs. Numerous forecasts developed previously and updated using appropriate statistical methods provide a better basis for estimating forecasting uncertainties. Moreover, VERBUND is now better equipped to cope with more severe flooding.

In addition, VERBUND is continually driving forward the development of new products with new renewable energy sources and certificates as well as new opportunities for marketing virtual pumped storage power plants and flexibility options in electricity generation.

Innovations in the power grid

Ongoing improvement of operations is the focus of the innovative efforts of independent grid subsidiary APG. In 2016, this company was involved in over 20 research projects. Among other things, APG was involved in the "Innovationssektion" project, working with partners in industry and science on the development of noise-optimised overhead power lines for ultra-high voltage power lines and their testing in operation. Such lines are actually effective in reducing the noise of the corona discharge caused by rain. In the future, the new transmission lines can be used for new construction and renovations.

Another emphasis was a project for measuring direct currents in transformers in the high and ultra-high voltage grids. This project was conducted in conjunction with the Graz University of Technology and the Central Institution for Meteorology and Geodynamics (ZAMG). Building on this project, a simulation model was developed to make it possible to now calculate the resulting direct currents as well. This is the first time in Central Europe that theoretical predictions of geomagnetically induced direct current caused by solar flares can be verified through this calculation.

Calculation results showed surprisingly high figures for this quasi direct current produced by the earth's magnetic field. ZAMG is currently developing a forecast and alerting system to allow rapid responses to solar flares in the high-voltage grid.

Please refer to the 2016 Group Integrated Annual Report for further information as well as additional details on innovation, research and development.

Human resources and social responsibility

Objectives

The substantial fall in electricity prices in the early months of 2016 exacerbated the persistently difficult situation in European energy markets and made it imperative for VERBUND to take action. The restructuring and cost management path that the Group had chosen was promptly deepened. Further cost reduction potential was identified and realised in the programmes to increase efficiency. The large-scale personnel reduction measures that again became necessary are being implemented in a socially responsible manner. In addition, VERBUND is continuing to pursue its objective of modernising remuneration structures at the company and collective agreement level with the social partners.

In the next ten years, a high number of VERBUND employees will reach the regular retirement age. This fact makes demographic management essential and endorses the Group's long-standing focus on training and continuing education. To prepare VERBUND for its future tasks and responsibilities and to manage the hand-over of operations to the next generation, the main focus in personnel development is on digitalisation. VERBUND is pushing e-recruitment and e-learning. An IT trainee programme is planned for 2017.

The development of and changes in VERBUND's core operating segments require continuous enhancement of the corporate culture. The topics of leadership culture and diversity in the Group are of particular significance. In addition, occupational health and safety of VERBUND employees has remained of great importance to us for decades. At VERBUND, our goal is to keep the accident rate stable at a low level of fewer than twelve workplace-related accidents per 1,000 employees and to improve it further.

Further cost-cutting and sustainable cost management

Even though restructuring and cost management programmes have been implemented systematically in recent years, the sharp decline in electricity prices at the beginning of 2016 necessitated further radical measures. Reductions in operating expenses and personnel costs are being made as part of an additional cost reduction programme. By 2021, a further 211 jobs will be cut in a socially responsible manner.

This means that starting with 2013 a total of around 850 jobs specified in the efficiency programmes will be reduced by the end of 2021, thereby applying the social plan agreed with the Works Council. To date, around 650 of these job cuts have already been realised. In addition to the statutory part-time retirement models, the social plan allows for additional measures to be implemented for employees, such as voluntary termination benefit programmes. Further internal retraining and continuing education programmes, some of which can be combined with the statutory educational leave options, enable employees to remain with VERBUND in new positions obtained via the internal job market. In addition, available human resources are actively managed and deployed for short and medium-term assignments in a "capacity exchange" established specifically for this purpose. Starting in 2016, all employees have the opportunity to switch to temporary part-time work or take time out from their job under the social plan in agreement with their direct line manager. Along with fulfilling employees' growing desire to plan their working hours flexibly, this will further meet VERBUND's cost reduction objectives.

The Group's workforce reduction measures are clearly effective: compared with financial year 2015, the number of employees fell by 146 to 2,952 employees by 31 December 2016. This trend of declining employee numbers will also continue in 2017. Agency staff are hired for a certain length of time as temporary leave replacements to cover capacity peaks as well as specifically for positions with particularly flexible work requirements – in new businesses, sales and APG's project business for line construction projects. Agency staff receive competitive salaries, and the equal opportunities of agency staff as stipulated by law have also been put into practice.

In actual fact, VERBUND operates almost exclusively in Central Europe, a region which has high standards in terms of labour law and social welfare. Employment of highly and very highly qualified employees is associated with corresponding personnel costs. At the same time, it should be noted that based on productivity figures VERBUND is among the top European electric utilities. Therefore, alongside the programmes to increase efficiency that have been mentioned, it is essential for VERBUND that the existing remuneration structures at company and industry levels be modernised and adapted to market conditions. In addition to adapting internal guidelines on salary determination, the Group is taking a leading role at industry level in redesigning the collective agreement for electricity companies in Austria. The objective is to design a collective agreement that is fair and, at the same time, suited to modern working life. A further step was taken in 2016 to complete the reform of the Group's internal pension fund system. The contribution rates for the Group's defined contribution pension plan were adjusted to a mid-market level.

Demographic challenges

The demographic trend already observable over years continued during the reporting period. Around 7% of VERBUND employees will retire over the next five years and 28% over the next ten years. The programmes to increase efficiency mean that not all of those leaving will be replaced. A significant proportion of these positions, however, are essential to operations, and replacements will have to be found for these.

Thus in future years, strengthening the competitive position of VERBUND in the labour market will remain a central task to identify and hire the right candidates for our company.

At the same time, the intention is to retain and motivate existing employees by means of targeted personnel development programmes – also through e-learning solutions.

Strengthening the Group's position in the labour market with employer branding

In order to retain VERBUND's attractive employer brand, in 2016 VERBUND again invested in selected employer branding measures. With an efficient use of funds, VERBUND continued to demonstrate a clear presence in the labour market – for example at job fairs and in print and online media, as well as on social media, focusing on apprentices as a target group.

In 2016, the strategic focus was on maintaining long-term contact with top performing students from the Vienna University of Technology (TU) and on measures for the advancement of women such as the annual award of the VERBUND women's scholarship and participation in "TUtheTop", the high potential programme offered by the Vienna University of Technology.

In addition, VERBUND took part for the first time as a service learning partner in the seventh Sustainability Challenge, in which around 70 students from the four largest universities in Vienna (Vienna University of Economics and Business, Vienna University of Technology, University of Natural Resources and Life Sciences, Vienna, and University of Vienna) researched interdisciplinary aspects of the topic "Smart City". Thus VERBUND continues to be an attractive employer for key internal and external personnel.

Recruiting

VERBUND's strong employer brand and continued strong competitive position in the labour market proved an advantage when staffing 104 high-quality positions essential to operations in 2016. More than 80% of these were positions to maintain succession planning in operations and in the Grid segment.

Measures to optimise the recruiting process were introduced in 2016 in order to meet the challenges of demographic change and do justice to the technological advancements and requirements in personnel recruiting. A future-fit e-recruitment solution that follows the latest trends was implemented to offer internal and external applicants a state-of-the-art tool integrating the ever more frequently used mobile devices. This reimplementation also ensured optimised presentation of VERBUND's career opportunities as part of the Group-wide website relaunch. Receiving the Golden Seal Career's Best Recruiters study again in 2016, thereby being awarded first place in the "Energy" industry, is testament to the high degree of professionalisation of recruitment quality that this entails.

Personnel development

Once employees have been hired by VERBUND, their professional and personal development remains a matter of importance to us. In 2016, each employee took part in 35.2 hours of training on average. Personnel development focused on technical and safety qualifications as well as SAP and IT training.

As part of the internal programme to increase efficiency, continuing education is also crucial in ensuring that measures are implemented in a socially responsible manner. Among other things, targeted retraining creates prospects and new roles for employees affected by restructuring.

e-training – increased digitalisation also in learning solutions

Digitalisation and the need for life-long learning are leading to a paradigm shift in learning at VERBUND in favour of flexible, job-related learning solutions. The "New at VERBUND" electronic onboarding programme simplifies the induction of new employees. Employees can comfortably complete the modules at their own pace directly at their workstation during their first days on the job in parallel to the specialist introduction. Thus, all important information and support is available from the outset.

Apprentice training

In 1983, VERBUND became one of the first businesses in Austria to offer a four-year dual apprenticeship for electrical and mechanical engineering. Currently, apprentices at VERBUND can train to become electrical engineering and metalworking technicians or electronic and electrical engineering technicians. These dual professional qualifications are in high demand and offer excellent opportunities for the future. In 2016, 43 apprentices were recruited in Austria and Germany. The high quality of the apprenticeship training is evident not only in the outstanding achievements in the final apprenticeship examinations. VERBUND has also been recognised as a nationally certified training company by the Austrian Federal Ministry of Science, Research and Economy.

Within the framework of refugee activities at VERBUND, the Executive Board decided to additionally take on four refugees as apprentices in order to make a contribution to the integration of refugees in Austria. In September 2016, two refugees entitled to asylum therefore began their vocational training at the apprenticeship training centre in Ybbs, with another two starting in Kaprun. Outside of their apprenticeship, the refugees will also receive assistance from dedicated people. Further tutoring will be provided in German, mathematics and English so that the refugees can follow the tuition at the apprenticeship training centres and the vocational college.

Further improvement in corporate culture

Employee survey – incorporating employee concerns

In order to create the best possible work environment, VERBUND wants to identify sources of stress for its employees and potential areas for improvement in the workplace. To assist in these efforts, the third Group-wide employee survey was conducted in 2015, entitled “How are you doing at VERBUND?”.

Based on the results of the employee survey, specific measures were developed in 2016 in agreement with the Executive Board and the companies’ managing directors. The results of the survey on mental stress conducted in 2014 were also taken into consideration. Implementation of the measures has already commenced at the relevant companies and will continue in 2017. In segments with a high average age, the measures focus on age-appropriate work by adapting jobs and tasks to changing requirements and placing particular emphasis on timely knowledge transfer.

Management feedback

Ongoing improvement of our leadership culture is an important component in developing our corporate culture. All first-level and second-level executives and line managers at VERBUND took part in the VERBUND management feedback in recent years.

The management feedback gives executives the opportunity to reflect on their own perception of roles and responsibilities and provides a basis for individual and organisation-wide support and development measures. Appropriate follow-up measures as part of management training serve to further improve the quality of leadership and thus guarantee the Group’s success.

Work-life balance

Maintaining a balance between work and private life is a tradition at VERBUND. Since 2009, the Work and Family Audit has provided a way to better structure the measures so that more opportunities can be created to meet specific needs and encourage a better work-life balance. In 2016, we made the issue of work and private life a fixed part of performance reviews at VERBUND; this can be discussed on a voluntary basis. In addition, new information about care as well as paid and unpaid carer's leave was made available on the intranet to make it easier to get access to information. The most recent employee survey also confirms that satisfaction with the compatibility of work and family life has been continuously growing since 2008.

Important steps for promoting diversity at VERBUND have been taken in recent years: equal opportunities have always been part of the corporate philosophy, and by signing the Diversity Charter ("Charta der Vielfalt") VERBUND has publicly demonstrated its commitment to diversity.

In the future, diversity and inclusion will be advanced further by planning and implementing structured measures. VERBUND has therefore defined a diversity strategy with the aims of actively promoting diversity within the Group and employing a variety of people at all levels. This enables VERBUND to strengthen its employer brand and Group brand and utilise the diversity of people to increase its commercial success and prevent discrimination. The diversity strategy includes strategic objectives, key performance indicators and suggestions for measures that will promote diversity. Although VERBUND considers diversity management as a whole on account of resources being limited, particular emphasis has been placed on the dimensions of age, gender and disability.

In the age dimension, we are striving to achieve a balanced age structure. The main objectives in managing the demographic change are keeping knowledge in the Group and maintaining the loyalty of VERBUND's top performers. In the gender dimension, the total percentage of women is to be increased to 20% by 2020 and the percentage of women in management positions will also be increased. Our goal in the disability dimension is to continue to fulfil or even exceed the quotas stipulated in the Austrian Disabled Persons Employment Act (Behinderteneinstellungssgesetz, BEinstG) and to recruit and employ people with disabilities.

Focus on disabled persons

VERBUND exceeds the statutory quotas stipulated in Austria and Germany for the employment of disabled people. For VERBUND the mandatory quota for Austria is 108, and VERBUND employs 151 people who qualify as disabled persons under the Disabled Persons Employment Act (BEinstG). The corresponding mandatory quota for Germany is 18, and 26 people with disabilities are employed. In 2014, an accessibility management programme was introduced as part of diversity and inclusion management that has been effective in increasing the accessibility of our sites and our company information and in providing suggestions for improvements.

By implementing specific measures, VERBUND hopes to make everyday dealings with disabled people an established part of the corporate culture. In the summer of 2016, for example, the Human Resources department employed a sight-impaired woman. During 2017, VERBUND plans to strengthen this initiative and take on more people with disabilities as seasonal interns.

Focus on advancement of women

Traditionally, the percentage of women in predominantly technical companies such as VERBUND has been on the low side. That is why VERBUND has put measures in place to increase the current percentage of 17.5% to 20% by 2020. In 2016, the percentage of women among new employee hires was 14.4%.

Based on the results of the employee survey, specific measures for the advancement of women were agreed when measures were being developed. To increase the visibility of female employees, greater consideration will be given to women especially when filling vacancies in bodies or committees or project manager positions. Women can express their interest in a management position by putting themselves forward whenever the succession planning is being periodically updated. When management positions are advertised, women in particular will be encouraged to apply.

VERBUND also takes care to ensure pay equalisation. This is based on strict compliance with the classifications of the collective agreement as well as a performance-related remuneration scheme. Nevertheless, socio-political and cultural aspects such as increased part-time work among women, a lower number of women in technical professions, and the difficulty for women to achieve more highly paid (management) positions are also reflected within VERBUND.

Inspiring women to enter technical professions is important to VERBUND. Therefore, VERBUND has been participating in Take Your Daughter to Work Day in Vienna for 13 years. This campaign sponsored by the City of Vienna, the Vienna Economic Chamber and the Vienna School Board aims to awaken the interest of girls in the technical professions. In 2016, a total of 24 girls took part in a variety of workshops and became acquainted with the APG control centre and the Freudenau power plant in tours of the facilities.

By awarding the VERBUND women's scholarship, VERBUND has supported talented female students during their technical training since 2009. Another aim for the Group is to generate enthusiasm for the company among qualified women, particularly technicians, and, ideally, to recruit them. The VERBUND women's scholarship was awarded for the eighth time in 2016. The three winners each received a scholarship worth €5,000 for one year of study, enabling them to supplement their university education with additional personal and professional training.

Health and safety

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

For the area of occupational safety VERBUND has a large number of internal regulations in place that are continually updated and rapidly amended as soon as changes in the law come into effect. These regulations cover the management of working materials, accident reporting and behaviour after an accident occurs, briefings and instruction, fire safety, personal protective gear, coordination on construction sites and in projects and dealings with external contractors, as well as coordination and responsibilities of the occupational health service.

Accidents in 2016

Since 1 January 2015, the employees of the Enns power plants and Alpha Wind S.R.L. in Romania have also been included in the statistics. Agency staff are likewise included in the accident statistics. The number of employees was therefore 2,952 at the end of 2016, plus 89 agency staff. Fortunately, the number of accidents fell by 11 compared with 2015 to 27 work-related accidents subject to reporting requirements, and the number of sick leave days decreased by 82 to 724.

The number of accidents at VERBUND therefore showed a marked improvement in 2016. The accident statistics within the Group are significantly lower than the average figures at Austrian electric utilities.

Accident prevention

Preventive measures are based on the analysis of work-related accident statistics at VERBUND. In 2016, the focus of the annual training sessions was on “working in containers”. These sessions used presentations and practical exercises to provide training in the potential risks of hazardous gases in containers, handling the gas detectors used on site and proper use of personal protective gear.

To properly address “water” as a hazard, in particular at our hydropower plants, a refresher course was provided on the topic of “Waterway hazards”. A comprehensive training session used practical exercises to familiarise employees with the subject matter. In this two-year training programme, around 700 employees received the training in 2015/2016. Participants included staff from the power plants and from the hydrology and surveying specialist groups as well as the boat operators and employees of VERBUND Services GmbH.

The annual safety briefing for all employees is completed via e-learning and a subsequent test at the office sites in Am Hof and Westbahnhof/Vienna, Peggau/Styria, Villach/Carinthia, Schwarzach/Salzburg, and Töging and Simbach/Bavaria. This briefing is successfully completed each year by almost 100% of the workforce, as was the case in financial year 2016.

Promoting health among employees

The “Fit and Healthy” initiative at VERBUND promotes a healthy lifestyle. The initiative motivates employees to do something for their health on a voluntary basis. Seminars on mental fitness again placed the emphasis on psychosocial health.

Other important points of focus on the health management front included nutrition and exercise, stress management and active muscle training. In this context, employees are made aware of the direct relationship between health and performance in a working environment that is constantly changing.

Mental stress

Following a written survey conducted in 2014 for evaluating mental stress, VERBUND is now in the implementation phase. More than 160 specific measures were developed at 34 workshops throughout the Group during 2016. In some cases, suggestions were directly implemented at the companies, and working groups have already been established for others. Any suggestions that were not endorsed were documented, with justification provided. Further measures will be specified and carried out in 2017 in line with the results of the employee survey.

Social responsibility

VERBUND assumes responsibility towards a society that perceives readily available electricity generated from clean sources as a quality-of-life factor. In fulfilling its shared responsibility to society, VERBUND supports a number of charitable organisations and employees pass on their knowledge in schools and universities.

Caritas and Diakonie

Energy poverty and its negative consequences occur most frequently when incomes and standards of living are very poor. The VERBUND Electricity Relief Fund in collaboration with Caritas provides assistance quickly, in an unbureaucratic manner and, above all, long-lasting by offering immediate financial assistance to pay outstanding electricity bills, professional on-site energy consulting and a free exchange service for old, inefficient electrical appliances.

Since the project began in 2009, the VERBUND Electricity Relief Fund has offered assistance to a total of 3,344 households with a total of 8,742 people living in these households.

In the seventh period from 1 January 2016 to 31 December 2016, 362 households advised by the social advice centres run by Caritas were referred to the VERBUND Electricity Relief Fund in collaboration with Caritas.

In 2016, 725 disabled people received direct support for communication and assistive technologies with funds from the VERBUND Empowerment Fund run by Diakonie. In total, 105 disabled people received financial assistance for the purchase of communication aids. The emergency aid fund spent around €60,000 on this. The fund has been providing assistance since 2009.

VERBUND climate school in the Hohe Tauern National Park

The collaboration between VERBUND and the Hohe Tauern National Park on creating the mobile VERBUND Hohe Tauern National Park climate school was extended for three more years in 2016. The aim is to reach an additional 9,000 pupils by the end of the 2018/2019 school year. Based on the knowledge transmitted by rangers from the Hohe Tauern National Park, the students will become climate protection advocates who spread the acquired knowledge in their social environment.

The VERBUND electricity school kindles enthusiasm for technology

With the most up-to-date learning materials, a state-of-the-art game and activities which focus on renewable energy, we provide an exciting and interactive physics lesson for the next generation.

More than 600 school classes have made use of the free tools for designing active lessons. As part of the VERBUND electricity school, over 1,500 pupils visited the Ybbs-Persenbeug power plant in 2016. The offer is free of charge for schools. For storage power plants, 2,500 pupils took advantage of the offer.

Volunteering

More and more, our employees are showing their responsibility to society with the utmost personal dedication. Two team seminars with a background in societal issues were again held in 2016.

- The Industrial Customer Management and Quality Management department of VERBUND Sales GmbH helped out in the Jamal House, a home for unaccompanied under-age refugees.
- The Operations department of VERBUND Trading GmbH provided assistance at the Regenbogental therapeutic farm.

In all seminars, urgently necessary work was carried out under the direction of professionals. Overall, these initiatives were an unforgettable experience and an enrichment for everyone involved in the teams. Furthermore, in 2016 employees of VERBUND Trading GmbH prepared meals on several occasions for homeless and socially disadvantaged people in the “Gruft” (an institution of Caritas Vienna for homeless people).

Refugee relief

Four refugees began apprenticeships at VERBUND in September 2016 and are now being trained in the two apprentice training centres in Ybbs and Kaprun. An Iraqi family in Zillertal valley was furnished with accommodation. In addition, VERBUND provided funding to the Vienna university for refugees and also handed over rucksacks with useful equipment. Further support measures are planned for 2017.

Please refer to the 2016 Group Integrated Annual Report for further information as well as additional details on human resources and social responsibility.

Report on significant risks and uncertainties

Opportunity and risk management

Risk management as an integral component of the management system

Since financial year 2000, risk and opportunity management has been a separate component of VERBUND's comprehensive management system. The structures, processes and products that have emerged in this context are referred to collectively as Enterprise Risk Management. Our goal is to make continuous improvements to the manner in which the risk-return approach is implemented in practice in the Group. We currently apply the risk-return approach to strategic decision-making, project management and the management of current operations.

VERBUND continuously adapts its risk management system to changes in internal and external requirements. Each year, VERBUND's auditor reviews and confirms the effectiveness of the ERM system based on the recommendations contained in the ISO 31000:2009 reference model.

Resource-intensive business model designed for the long term in a state of flux

The business activities of VERBUND are focused on the long term and tie up significant financial resources. They require the availability and use of technically complex systems and operating procedures. They are also a topic of socio-political discussion. VERBUND plants meet the highest environmental standards. Their construction is preceded by lengthy approval processes. Early inclusion of interest groups, compliance with all regulatory conditions and effective project management can ensure the success of VERBUND's projects. The operation and maintenance of these assets, which are used over many years, require highly qualified employees.

A crucial success factor for capital-intensive companies is secure access to the capital market. Rating agencies also consider the majority owner of VERBUND, the Republic of Austria, as well as low-cost, environmentally friendly hydropower generation and the regulated grid to be significant, stabilising elements.

The transformation of the European energy system is increasing the severity of the external risk factors arising from politics, the economy, the energy market and the larger society, i.e. risk factors that cannot be influenced directly. The loss of planning security forces electric utilities to change their business models, delays or prevents investment decisions from being made and causes value adjustments (i.e. erratic changes in the assets and liabilities on the balance sheet. The economic crisis and misguided regulation have overridden market pricing rules (variable production cost-based use). This also applies to the distinction between base and peak load. By expanding the business model to include energy-related services, VERBUND is entering into new areas of risk, though new opportunities are likewise opening up for the Group. These are also subject to consumer protection requirements relating to information technology.

Volume risk due to fluctuation in water/wind supply

As the leading renewable energy producer, VERBUND is heavily dependent on the weather (rain and wind), which cannot be influenced. The VERBUND storage power plants as well as some ultra-high voltage lines are located in high Alpine regions. Over the long term, climate change can affect both the seasonal and the annual water/wind supply. In addition, geological conditions, for example permafrost, can change. Natural events such as floods, storms or avalanches can cause an unscheduled outage of electricity generation or transmission facilities as well as consequential damage. Output from run-of-river plants can be controlled only to a very minor extent (hydropeaking). At the same time, storage power plants are operated with daily, monthly or yearly retention periods. 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 short-term electricity requirements due to volatile wind and solar power generation also provide revenue opportunities. In other words, energy amounts must be additionally generated or "stored" in pumped storage and the grids stabilised with flexible power plant output (congestion management). These flexible earnings contributions depend largely upon the frequency and absolute extent of short-term price fluctuations in the electricity markets; however, they do not come anywhere close to compensating for the decline in wholesale electricity prices.

Share of information technology in value creation is growing; cyber risk is rising

Information and communication systems form the backbone of VERBUND's business activities. VERBUND is addressing the growing risks from cyber space by implementing preventive information security strategies, processes and internal guidelines. In addition to providing the necessary resources internally, VERBUND actively participates in national and international bodies (e.g. energy-CERT). VERBUND also places high priority on the security of its control systems. For security reasons, these are operated largely independently from administrative networks. VERBUND's administrative buildings and decentralised plants are protected by structural measures and electronic monitoring systems.

Financial management supports the effective monitoring of financial risks

VERBUND minimises defaults in performance or payment by its business partners (counterparty risk) through effective financial management. Adhering to the dual control principle, counterparty limits (awarding, monitoring) are managed centrally and implemented during the course of the business process. Stable cash flows from the operating business ensure that debt can be serviced. In addition, VERBUND possesses sufficient credit lines for accessing cash and cash equivalents at short notice.

New business model necessitates amendments to long-term agreements

To facilitate the conduct of its business, VERBUND has entered into long-term agreements with employees, customers, suppliers and co-owners and co-users of individual power plants. Changes in economic conditions have influenced the profitability of some of these agreements. Amending the agreements increases the risk of potential countermeasures taken by contractual parties. VERBUND is in the process of adapting its structural organisation in an ongoing project to increase efficiency. This entails, among other things, shutting down sites and terminating purchase or supply agreements as well as implementing personnel measures in a socially responsible manner. In accordance with the International Financial Reporting Standards (IFRSs), VERBUND recognises provisions for contractually agreed expenses from ongoing reorganisation programmes, for pensions and termination benefits and for the post-use phase of generation facilities (e.g. for the costs of dismantling facilities). Any deviations from the assumptions used when recognising these provisions may produce fluctuations in the result. Ongoing measures are taken to counter the potential crystallisation of collateral provided. These also include possible effects of a further change in the rating of VERBUND AG on an off-balance-sheet cross-border leasing transaction that remains valid.

Financial instruments

Primary financial instruments 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.

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 IV (2) of the notes.

As at 16 February 2017, no risks were foreseeable for 2017, the effects of which – either individually or in interaction with other risks – could pose a threat to the continued existence of VERBUND AG.

Report on branch offices

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

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 includes all measures for ensuring the reliability, effectiveness and profitability of this process, as well as compliance with external regulations. The structure of the risk management system is explained in detail in the document entitled Disclosures on Management Approach (DMA) and the risk position in the section of the integrated annual report entitled Opportunity and risk management.

Organisational framework

VERBUND has responsibilities towards many interest groups and the environment. Group management acts in accordance with the principles defined in the corporate philosophy. 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 can act alone in performing all the process steps of a transaction from beginning to 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 to address changing internal and external conditions.

Reporting in compliance with unbundling provisions

VERBUND's interim reports and the VERBUND integrated annual report consolidate information from management accounting, financial management and risk management. All reports are based upon uniform Group-wide rules for preparation and measurement. The liberalised European energy market stipulates the unbundling of grid operations from the generation, trading and sales of formerly integrated electric utilities. 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 and the internal control and risk management system. The individual audits are performed according to the audit schedule approved by the VERBUND Executive Board, supplemented by short 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 reporting date, the called-up and paid-up 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. A total of 347,415,686 shares were in circulation at the reporting date. With the exception of the voting restriction described under point 2, all shares bear 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 made up of 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 offer 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. 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. As part of an authorisation to buy back shares (which expired on 17 October 2015), the Annual General Meeting held on 17 April 2013 resolved to also authorise the Executive Board for a period of five years (i.e. until 17 April 2018), with the approval of the Supervisory Board, to decide upon a different type of sale of treasury shares other than in an exchange market or through a public offering, also with exclusion of the right of repurchase (reverse purchase right) of the shareholders, and to determine the terms of sale. Furthermore, the Executive Board is authorised, with the approval of the Supervisory Board, to reduce the share capital if necessary by retiring these treasury shares without an additional resolution by the General Meeting. Where there are no treasury shares, this

authorisation becomes irrelevant. Apart from the above, there are no authorisations of the Executive Board within the meaning of Section 243a(1)(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(1)(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(1)(9) of the Austrian Commercial Code (UGB).

The consolidated corporate governance report is available in the 2016 Group Integrated Annual Report on the VERBUND website at www.verbund.com > Investor Relations > Financial reports.

Report on the expected performance of the Company

Outlook

European economic growth in 2017 is expected to be somewhat slower than in 2016. This cooling of economic growth is attributable to the effects of Brexit and the sanctions against Russia. The eurozone is also at risk of an economic slowdown from the ongoing debt crises in Italy and Greece, yet another downturn in China, geopolitical conflicts and a bubble resulting from expansive monetary policy. However, private consumption spurred in the eurozone by the expectation of further improvement in employment figures and slightly higher wages is likely to provide positive economic stimulus. According to the IMF's forecast from January 2017, the eurozone economy is expected to grow by 1.6% in 2017 (2016: +1.7%). Economic growth of 1.5% is forecast for Germany (2016: +1.7%).

In 2017, Austria's economy is expected to grow by 1.5% (2016: +1.5%; source: WIFO forecast from December 2016). Domestic demand will remain the determining factor in 2017 although it is estimated to be slightly lower than in 2016. Tax relief will probably foster higher consumption of durable goods until mid-2017. Growth will slow somewhat when the effects of the tax reform are no longer being felt and inflation rises, particularly as high unemployment is putting a damper on consumer spending and foreign demand is seeing only slight growth. Despite robust expansion of employment, the influx of labour continues to overwhelm the capacity of the labour market. Unemployment will rise.

In light of OPEC's decision at the end of 2016 to cut production, the oil market should experience balanced supply and demand in 2017. Climbing oil prices could cause coal and gas prices to rise slightly again as well. Despite this, price levels on primary energy and CO_2 markets are expected to remain relatively low.

The expansion of subsidised electricity generation from new renewable energy sources will continue. On the other hand, as a result of only moderate economic growth in Europe and improvements in energy efficiency, electricity consumption will hardly rise at all again next year. These factors – but most importantly the still non-functioning CO_2 market – are the main reasons why VERBUND anticipates subdued wholesale prices in 2017.

On average for 2016, base load prices for electricity deliveries in 2017 were quoted at €26.6/MWh, down 14.2% on the figure for the previous year. In 2016, the price for the 2017 peak load product also fell by 14.2% compared with 2015 to €33.5/MWh.

The challenging market environment is taken into consideration for VERBUND's forecasts for full-year 2017. However, VERBUND's strong hydropower base represents an absolute competitive advantage within the European electricity sector in this difficult market.

Investment plan 2017–2019

VERBUND's updated investment plan for the period 2017–2019 provides for capital expenditure in the amount of €754m. Of that total, around €299m will be spent on growth CAPEX and around €455m on maintenance CAPEX. Most of the growth CAPEX will go towards expanding the regulated Austrian high-voltage grid (approximately €162m). In addition, VERBUND will be investing mainly in selected hydropower plant projects as well as in increasing the efficiency of existing power plants. Here, the Töging run-of-river power plant in Germany deserves particular mention. The investments will involve VERBUND's domestic markets of Austria and Germany. In financial year 2017, VERBUND plans to invest a total of approximately €212m, around €69m of which will be invested in growth and around €143m in maintenance.

Dividend

VERBUND AG plans to distribute a dividend of €0.29 per share for financial year 2016. The payout ratio for 2016 will thus amount to 30.9% based on the adjusted Group result.

Earnings projection for 2017

VERBUND's earnings performance is significantly influenced by the following factors: wholesale prices for electricity, the Group's own generation from hydropower and wind power and ongoing developments in the energy market. In accordance with VERBUND's hedging strategy, around 75% of the planned own generation for 2017 was already contracted as at 31 December 2016. The price achieved is approximately €1.5/MWh below the sales price reached in 2016. For those volumes not yet hedged, VERBUND has based its calculations on current market prices. Based on the forecast at the beginning of the year that indicates lower inflows of dividends from equity interests, VERBUND AG expects earnings before taxes for financial year 2017 significantly below the figure for financial year 2016.

Vienna, 16 February 2017
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

Annual financial statements

Balance sheet

Assets

€k

	Notes	2015	2016
A. Fixed assets			
I. Intangible assets	(1)	13,380.8	19,940.3
II. Property, plant and equipment		23,748.6	22,903.8
III. Investments	(2)	5,045,038.8	4,828,474.3
		5,082,168.2	**4,871,318.4**
B. Current assets			
I. Inventories	(3)	154.2	94.9
II. Receivables and other assets	(4)	99,074.0	296,577.7
of which due in more than one year		0.0	0.0
III. Cash in hand, cash at banks	(5)	18.6	16.1
		99,246.8	**296,688.8**
C. Prepayments and accrued income	(6)	81,362.8	**76,827.0**
D. Deferred tax assets	(7)	273,897.6	**228,928.6**
		5,536,675.4	**5,473,762.8**
Rights of recourse	(8)	1,230,842.2	991,226.2
Less counter-guarantees from cross-border leasing		–468,113.1	–462,748.8
		762,729.2	**528,477.3**

Liabilities

€k

	Notes	2015	2016
A. Equity			
I. Called-up and paid-up share capital	(9)	347,415.7	347,415.7
II. Capital reserves	(10)	971,720.3	971,720.3
III. Revenue reserves	(11)	873,538.1	1,045,294.4
IV. Net profit	(12)	121,595.5	100,750.5
of which profit carried forward		0.0	0.0
		2,314,269.6	**2,465,181.0**
B. Provisions	(13)	517,269.9	**372,744.1**
C. Liabilities	(14)	2,704,263.6	**2,634,507.4**
of which due within one year		112,408.4	584,298.3
of which due in more than one year		2,591,855.3	2,050,209.1
D. Accruals and deferred income	(15)	872.2	**1,330.3**
		5,536,675.4	**5,473,762.8**
Contingent liabilities	(16)	1,230,842.2	991,226.2
less counter-guarantees from cross-border leasing		–468,113.1	–462,748.8
		762,729.2	**528,477.3**

Income statement

€k

	Notes	2015	**2016**
1. Revenue	(17)	435,012.9	420,886.4
2. Change in total services not yet billable		14.4	–14.4
3. Other operating income	(18)	664.4	516.1
4. Operating income (subtotal of lines 1 to 3)		435,691.7	**421,388.1**
5. Expenses for electricity, grid/gas purchases and purchases of emission rights and other purchased production services and other services		–347,567.2	–331,111.5
6. Personnel expenses	(19)	–26,655.7	–25,757.7
7. Depreciation and amortisation	(20)	–2,012.4	–1,861.3
8. Other operating expenses	(21)	–39,054.3	–35,085.5
9. Operating result (subtotal of lines 4 to 8)		20,402.0	**27,572.0**
10. Income from equity interests		352,241.6	437,913.3
11. Income from other securities and loans classified as financial assets		65,962.6	51,441.3
12. Other interest and similar income		10,065.6	3,889.1
13. Income from the disposal and reversal of impairment losses on investments		9,431.6	8,432.7
14. Expenses from investments		–291,900.1	–172,493.0
15. Interest and similar expenses		–126,813.4	–89,750.1
16. Financial result (subtotal of lines 10 to 15)	(22)	18,987.8	**239,433.3**
17. Earnings before taxes (subtotal of lines 9 and 16)		39,389.8	**267,005.3**
18. Differences from mergers		21,850.0	0.0
19. Taxes on income and profit	(23)	82,505.2	5,501.5
20. Net income for the year		143,745.0	**272,506.8**
21. Allocation to revenue reserves		–22,149.5	–171,756.3
22. Net profit		121,595.5	**100,750.5**

Statement of changes in fixed assets

	As at 1/1/2016	Additions	Disposals	Reclassifications	
I. Intangible assets					
1. Industrial property rights, electricity purchase rights, usage fees and similar rights and benefits as well as licences derived therefrom	333,277.1	6,903.4	77.6	0.0	
	333,277.1	6,903.4	77.6	0.0	
II. Property, plant and equipment					
1. Land, land rights and buildings, including buildings on third-party land					
a. With residential buildings	77.6	0.0	0.0	0.0	
b. With plant and other plant facilities	27,071.9	0.0	0.0	0.0	
2. Electrical installations	5,277.2	301.5	17.3	322.4	
3. Office and plant equipment	19,718.6	382.2	143.5	0.0	
4. Effected advance payments and plants under construction	322.4	0.0	0.0	–322.4	
	52,467.6	683.8	160.9	0.0	
Property, plant and equipment and intangible assets	385,744.7	7,587.2	238.5	0.0	
III. Investments					
1. Shares in affiliated companies	3,388,086.7	196,787.4	4,594.3	0.0	
2. Loans to affiliated companies	1,716,073.1	26,000.0	270,521.9	0.0	
3. Equity interests	286,172.5	950.0	0.0	0.0	
4. Loans to equity interests	45,000.0	0.0	0.0	0.0	
5. Securities (loan stock rights) under fixed assets	8,872.1	0.0	487.4	0.0	
6. Other loans	63,200.7	0.0	4,167.8	0.0	
	5,507,405.2	223,737.4	279,771.4	0.0	
Fixed assets	5,893,149.9	231,324.6	280,009.9	0.0	

€k

As at 31/12/2016	Accumulated amortisation as at 31/12/2016	**Net carrying amount as at 31/12/2016**	Accumulated amortisation as at 31/12/2015	Net carrying amount as at 31/12/2015
340,102.9	320,162.5	19,940.3	319,896.3	13,380.8
340,102.9	320,162.5	**19,940.3**	319,896.3	13,380.8
77.6	77.4	0.2	76.8	0.8
27,071.9	18,295.7	8,776.2	17,804.4	9,267.6
5,883.8	3,250.6	2,633.1	2,881.0	2,396.2
19,957.3	8,463.0	11,494.3	7,957.0	11,761.6
0.0	0.0	0.0	0.0	322.4
52,990.5	30,086.7	**22,903.8**	28,719.1	23,748.6
393,093.4	350,249.3	**42,844.1**	348,615.4	37,129.3
3,580,279.8	595,050.0	2,985,229.8	428,037.2	2,960,049.5
1,471,551.2	0.0	1,471,551.2	0.0	1,716,073.1
287,122.5	27,451.5	259,671.0	33,227.7	252,944.8
45,000.0	0.0	45,000.0	0.0	45,000.0
8,384.8	395.3	7,989.4	1,101.4	7,770.8
59,032.8	0.0	59,032.8	0.0	63,200.7
5,451,371.1	622,896.9	**4,828,474.3**	462,366.3	5,045,038.8
5,844,464.5	973,146.1	**4,871,318.4**	810,981.7	5,082,168.2

Statement of changes in depreciation and amortisation of fixed assets

	Accumulated amortisation as at 1/1/2016	Additions from amortisation and depreciation
I. Intangible assets		
1. Industrial property rights, electricity purchase rights, usage fees and similar rights and benefits as well as licences derived therefrom	319,896.3	343.2
	319,896.3	343.2
II. Property, plant and equipment		
1. Land, land rights and buildings, including buildings on third-party land		
a. With residential buildings	76.8	0.6
b. With plant and other plant facilities	17,804.4	491.4
2. Electrical installations	2,881.0	381.2
3. Office and plant equipment	7,957.0	644.9
4. Effected advance payments and plants under construction	0.0	0.0
	28,719.1	1,518.1
Property, plant and equipment and intangible assets	348,615.4	1,861.3
III. Investments		
1. Shares in affiliated companies	428,037.2	0.0
2. Loans to affiliated companies	0.0	0.0
3. Equity interests	33,227.7	0.0
4. Loans to equity interests	0.0	0.0
5. Securities (loan stock rights) under fixed assets	1,101.4	0.0
6. Other loans	0.0	0.0
	462,366.3	0.0
Fixed assets	810,981.7	1,861.3

€k

Disposals	Reversal of impairment	Reclassifications	**Accumulated amortisation as at 31/12/2016**
77.0	0.0	0.0	320,162.5
77.0	0.0	0.0	**320,162.5**
0.0	0.0	0.0	77.4
0.0	0.0	0.0	18,295.7
11.6	0.0	0.0	3,250.6
138.9	0.0	0.0	8,463.0
0.0	0.0	0.0	0.0
150.5	0.0	0.0	**30,086.7**
227.5	0.0	0.0	**350,249.3**
0.0	20.0	0.0	595,050.0
0.0	0.0	0.0	0.0
0.0	5,776.2	0.0	27,451.5
0.0	0.0	0.0	0.0
16.8	689.2	0.0	395.3
0.0	0.0	0.0	0.0
16.8	6,485.4	0.0	**622,896.9**
244.3	6,485.4	0.0	**973,146.1**

Maturity schedule 2016

€k

	< 1 year	> 1 year	> 5 years	Residual term to maturity as at 31/12/2016 Total
Loans				
1. Loans to affiliated companies	382,062.7	497,876.8	591,611.7	1,471,551.2
2. Loans to equity interests	0.0	45,000.0	0.0	45,000.0
3. Other loans	3,869.0	14,037.3	41,126.4	59,032.8
	385,931.8	556,914.1	632,738.2	1,575,584.1
Receivables and other assets				
1. Trade receivables	12,763.3	0.0	0.0	12,763.3
2. Receivables from affiliated companies	250,264.9	0.0	0.0	250,264.9
3. Receivables from investees	33,053.4	0.0	0.0	33,053.4
4. Other receivables and assets	496.1	0.0	0.0	496.1
	296,577.7	0.0	0.0	296,577.7
Liabilities				
1. Bonds	41,257.7	892,988.5	627,823.0	1,562,069.1
2. Liabilities to banks	288,674.0	313,543.4	215,811.7	818,029.1
3. Trade payables	15,387.4	3.5	39.0	15,429.9
4. Liabilities to affiliated companies	233,312.2	0.0	0.0	233,312.2
5. Liabilities to equity interests	0.0	0.0	0.0	0.0
6. Other liabilities	5,667.0	0.0	0.0	5,667.0
	584,298.3	1,206,535.4	843,673.7	2,634,507.4

Maturity schedule 2015

€k

	< 1 year	> 1 year	> 5 years	Residual term to maturity as at 31/12/2015 Total
Loans				
1. Loans to affiliated companies	76,871.9	859,567.9	779,633.3	1,716,073.1
2. Loans to equity interests	0.0	45,000.0	0.0	45,000.0
3. Other loans	4,182.2	14,392.0	44,626.5	63,200.7
	81,054.1	918,959.9	824,259.8	1,824,273.8
Receivables and other assets				
1. Trade receivables	11,430.2	0.0	0.0	11,430.2
2. Receivables from affiliated companies	61,743.0	0.0	0.0	61,743.0
3. Receivables from investees	9,316.1	0.0	0.0	9,316.1
4. Other receivables and assets	16,584.7	0.0	0.0	16,584.7
	99,074.0	0.0	0.0	99,074.0
Liabilities				
1. Bonds	26,357.7	913,106.4	627,823.0	1,567,287.1
2. Liabilities to banks	58,268.2	620,626.6	254,158.3	933,053.1
3. Trade payables	13,879.1	15.7	0.0	13,894.8
4. Liabilities to affiliated companies	2,174.9	0.0	0.0	2,174.9
5. Liabilities to equity interests	2,255.1	0.0	0.0	2,255.1
6. Other liabilities	9,473.3	28,332.1	147,793.2	185,598.6
	112,408.4	1,562,080.8	1,029,774.5	2,704,263.6

Notes
to the annual financial statements

Notes

I. General notes

These annual financial statements have been prepared in accordance with the provisions of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB), as amended.

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

In accordance with Section 223(7) of the Austrian Commercial Code (UGB), balance sheet and income statement line items with a carrying amount of zero in both the financial year and the previous year are not reported. The designations of the items have been shortened or expanded to reflect their actual content in accordance with Section 223(4) of the Austrian Commercial Code (UGB) to the extent that this appeared expedient in order to present annual financial statements that are clear and easy to understand.

If the presentation has changed year-on-year or if the prior-year amounts are not comparable, the prior-year amounts are adjusted in accordance with Section 223(2) of the Austrian Commercial Code (UGB) and explained in the corresponding item.

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

II. Accounting policies

The annual financial statements have been prepared in accordance with Austrian Generally Accepted Accounting Principles and the general requirement to present a true and fair view of the Company's net assets, financial position and results of operations.

In preparing these annual financial statements, the principle of completeness was adhered to and the principle of prudence was observed. Valuation was based on the assumption that the company is a going concern.

Fixed assets

As a rule, depreciable fixed assets are measured at cost less depreciation and amortisation.

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

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

In addition to direct material and production costs, the cost of internally generated plant and equipment also includes directly attributable indirect material and production costs. The Company has chosen not to apply the measurement option relating to the inclusion of social security expenses, termination benefits 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 and reported as an asset disposal in the subsequent year.

Shares in affiliated companies and equity interests are recognised at cost or at lower fair value. Securities and loan stock rights under fixed assets are measured at cost or at lower fair value.

Interest-bearing loans are recognised at their nominal amounts. Impairment losses are recognised if the impairment is expected to be permanent. Receivables with a maturity of more than one year are reported under financial assets as loans.

In 2016, a reversal provision for tax purposes in accordance with Section 124b(270)(a) of the Austrian Income Tax Act (EstG) was recognised for the impairment reversals not carried out in past years and included in accruals and deferred income in accordance with Section 906(32) of the Austrian Commercial Code (UGB).

VERBUND's schedule of uniform depreciation and amortisation rates specifies the following depreciation and amortisation rates:

	Rate of depreciation/ amortisation in %	Useful life in years
Intangible assets		
Rights to telecommunications installations	10	10
Rights to software products	25	4
Other rights	5	20
Buildings		
Residential and office buildings	2 or 3	33.3 or 50
Plant(s)	3	33.3
Technical installations and machinery		
Machinery	4 or 5	20 or 25
Electrical installations	5	20
Telecommunications installations	10	10
Office plant and equipment	10 – 25	4 – 10

Current assets

Services not yet billable are recognised at production cost. Production cost includes direct material and production costs as well as directly attributable 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 fair value is required to be recognised in the case of specific identifiable risks. Receivables in foreign currencies are measured at the mean rate of exchange prevailing at the recognition date or the lower foreign exchange reference rate of the European Central Bank (ECB) prevailing at the reporting date (unless the exchange rate is otherwise hedged).

Cash at banks in foreign currency is also measured using the ECB foreign exchange reference rate in accordance with the strict lower of cost or market value principle.

Deferred tax assets

Since the 2004 financial year, if tax relief is expected in subsequent years, deferred tax assets are recognised in accordance with Section 198(9) of the Austrian Commercial Code (UGB) whereby the deferred taxes attributable to Group members based on tax allocation are presented under the current result in their balance sheets. The option to recognise deferred taxes for loss carryforwards is applied from financial year 2016.

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

Provisions

Provisions take into account all identifiable risks that can be allocated to a financial year that has already ended and include those amounts that it was necessary to recognise based on the best estimate of the settlement amount. Provisions with a remaining maturity of more than one year are discounted at an interest rate customary for the market.

Provisions for termination benefits are allocated at the full actuarial amount based on the projected unit credit method typically used in international accounting. The accumulation period for provisions for termination benefits is 25 years. Employees whose service began after 31 December 2002 are no longer entitled to a direct claim against their employer for statutory termination benefits. For these employment contracts, the employer pays 1.53% of salary monthly into an employee pension fund in which the contributions are deposited in an account of the employee. Collective bargaining agreement requirements for energy supply companies which exceed statutory claims are recognised in provisions for termination benefits.

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

Provisions for current pensions, vested pension benefits and similar obligations are determined using the PUC method. The interest expense is shown in the financial result, in line with international practice.

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

The calculations as at 31 December 2016 and 2015 have been based on the following assumptions:

		%
	2015	**2016**
Interest rate		
Pensions and similar obligations	2.00 or 2.25	1.5 or 1.75
Termination benefits	2.00	1.50
Trend		
Pension increases	2.25	1.75
Salary increases	2.25	1.75
Contributions to obligations similar to pensions – old contracts	6.50	6.50
Contributions to obligations similar to pensions – new contracts	4.00	4.00
Employee turnover	0.00–4.00	0.00–3.30
Retirement age – women	56.5–65 y.	56.5–65 y.
Retirement age – men	61.5–65 y.	61.5–65 y.
Expected non-current return on plan assets	2.00	1.50

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

Liabilities

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

Liabilities from bonds and loans denominated in foreign currency are measured at the ECB foreign exchange reference rate prevailing at the reporting date, provided that this rate is higher than the rate prevailing at the time of origination. The result of this measurement is presented under the corresponding liabilities. Discounts, the cost of procuring credit and loan commitment fees were capitalised in financial years 1994 and 2014 and are being repaid as scheduled. The discounts and costs of procuring credit assumed in connection with the merger of VERBUND International Frankreich GmbH in 2014 are presented under financial liabilities and are being repaid.

Accruals and deferred income

From 2016, a reversal provision for tax purposes in accordance with Section 124b(270)(a) of the Austrian Income Tax Act (EstG) is recognised in accruals and deferred income and presented under this item in accordance with Section 906(32) of the Austrian Commercial Code (UGB).

Derivative financial instruments

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 intra-Group hedging of cash flows and underlying assets.

Taxes on income

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

The tax group parent charges (tax allocation rate of 25%) or, in the event of a loss, credits (tax allocation rate ranging of 25%, 20% or 15% depending on the anticipated date of future profits of the group member) the group members with the corporate income tax amounts attributable to them by means of a tax allocation. The recharging of the tax allocations results in an adjustment decreasing or increasing the tax expense in the parent's income statement.
The tax recharges to Group members are only adjusted for subsequent deviations if these are material.

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

Notes on assets

A. Fixed assets

For details see separate "Statement of changes in fixed assets". Base value of land: €3,340.7k (previous year: €3,340.7k).

(1) I. Intangible assets

The net carrying amount of the rights of use of plants acquired by affiliated companies is €859.3k (previous year: €1,145.8k).

(2) III. Investments

The disclosures in accordance with Section 238(1)(4) of the Austrian Commercial Code (UGB) are presented separately in "Disclosures of equity interests in accordance with Section 238(1)(4) of the Austrian Commercial Code (UGB)".

The changes in and structure of equity interests, loans and securities (loan stock rights) classified as fixed assets are shown separately in the "Statement of changes in fixed assets".

Loans: 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 collateral. The impairment reversals not carried out in the previous year were transferred to a reversal provision for tax purposes in accordance with Section 124b(270)(a) of the Austrian Income Tax Act (EstG) as at 1 January 2016 and are recognised under accruals and deferred income in accordance with Section 906(32) of the Austrian Commercial Code (UGB) (see also note (15), D. Accruals and deferred income).

B. Current assets

(3) I. Inventories

€k	2015	2016
Goods	154.2	94.9

(4) II. Receivables and other assets

For details see separate "Maturity schedule". Of the receivables from affiliated companies, €26.5k (previous year: €0.0k) related to trade receivables and €250,238.5k (previous year: €61,743.0k) to other receivables. Of the receivables from investees, €12,961.9k (previous year: €9,200.9k) related to trade receivables and €20,091.5k (previous year: €115.2k) to other receivables.

Other receivables and assets	2015	2016
		€k
Accrued interest income and commissions from bonds and loans	469.5	419.7
Tax authorities	16,048.1	7.4
Payroll	4.8	4.2
Effected advance payments	2.9	1.9
Other	59.5	63.0
	16,584.7	**496.1**

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

	2015	2016
		€k
Cash in hand	16.1	16.1
Cash at banks	2.5	0.0
	18.6	**16.1**

(6) C. Prepayments and accrued income

	2015	2016
		€k
Prepayments for electricity purchases	25,719.1	23,695.5
Discounts, flotation costs and commitment fee relating to bonds and non-current loans	8,388.1	7,463.2
Other	47,255.6	45,668.4
	81,362.8	**76,827.0**

In accordance with the provisions of the Austrian Accounting Amendment Act 2014 (Rechnungslegungs-Änderungsgesetz, RÄG 2014) governing changes to presentation, prior-year amounts of deferred tax assets were reclassified to item D. Deferred tax assets (€273,897.6k).

(7) D. Deferred tax assets

	2015	2016
		€k
Social capital	7,390.6	6,918.5
Valuation of fixed assets	0.0	3.6
Special tax deductions	–281.6	–281.4
Other	266,788.6	222,287.9
Deferred tax receivables (+) respectively liabilities (–) balanced	273,897.6	**228,928.6**

Deferred tax assets are the result of differences between the financial and taxable result in respect of line items affected by expenses for tax purposes in income statements of future periods. The calculation was based on a tax rate of 25%. Deferred tax liabilities from special tax deductions result from the retroactive change to presentation of untaxed reserves in accordance with RÄG 2014.

Other deferred taxes are related to differences between the financial and tax treatment of the costs of procuring credit, non-current provisions and accounting for investees.

(8) Rights of recourse

Rights of recourse amounted to a total of €991,226.2k (previous year: €1,230,842.2k). 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 GmbH in the amount of €462,748.8k (previous year: €468,113.1k). See note (16) Contingent liabilities.

Notes on equity and liabilities

A. Equity

(9) I. Called-up and paid-up share capital

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

Composition	Stock (shares)	Proportion
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%

As part of an authorisation to buy back shares (which expired on 17 October 2015), the Annual General Meeting held on 17 April 2013 resolved to also authorise the Executive Board for a period of five years (i.e. until 17 April 2018), with the approval of the Supervisory Board, to decide upon a different type of sale of treasury shares other than in an exchange market or through a public offering, also with exclusion of the right of repurchase (reverse purchase right) of the shareholders, and to determine the terms of sale. Furthermore, the Executive Board is authorised, with the approval of the Supervisory Board, to reduce the share capital if necessary by retiring these treasury shares without an additional resolution by the General Meeting. Where there are no treasury shares, this authorisation becomes irrelevant.

There are no reciprocal equity interests in accordance with Section 241(6) of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB).

(10) II. Capital reserves

Capital reserves are made up entirely of allocated capital reserves. 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.

(11) III. Revenue reserves

		€k
	2015	**2016**
Statutory reserves	19,884.0	19,884.0
Distributable reserves	853,654.2	1,025,410.5
	873,538.1	**1,045,294.4**

In accordance with the changes in presentation from RÄG 2014, untaxed reserves amounting to €2,655.8k were transferred to distributable reserves with retroactive effect.

(12) IV. Net profit

	€k
As at 31/12/2015	121,595.5
Distribution of dividends	– 121,595.5
Profit carried forward	0.0
Net income for the year	272,506.8
Changes in reserves	– 171,756.3
As at 31/12/2016	100,750.5

(13) B. Provisions

1. Provisions for termination benefits

€k	2015	**2016**
Premium reserve based on actuarial calculations	9,375.7	9,335.3
Taxed proportion of provisions	9,375.7	9,335.3

In 2002, the provision permitted under Section 14 of the Austrian Income Tax Act (EStG) was transferred tax-free to a reserve qualifying as taxed (Section 124b(68) of the Austrian Income Tax Act (EStG)).

2. Provisions for pensions

€k	2015	**2016**
Provisions for pension obligations	33,423.8	31,403.1
of which obligations similar to pensions	6,154.4	6,572.3

3. Provisions for taxes

€k	2015	**2016**
Corporate income tax (including prior reporting periods)	0.0	46,960.7
Other tax provisions	573.3	1,186.1
	573.3	**48,146.8**

Corporate income tax provisions include €25,039.2k related to the subsequent taxation of foreign losses which were reclassified from deferred taxes to tax provisions in accordance with AFRAC Opinion 30 “Deferred Taxes in the Annual Financial Statements” from December 2016.

4. Other provisions

€k	2015	**2016**
Trade receivables not yet billed	4,091.3	1,456.8
Other	460,444.2	273,310.5
	464,535.5	**274,767.3**

Of the provisions, €273,310.5k (previous year: €460,444.2k) related to affiliated companies due to VERBUND AG’s legal commitment to provide funds to cover costs in connection with handling the liquidation of VERBUND Thermal Power GmbH & Co KG in Liqu.

Other personnel-related provisions	2015	2016
		€k
Bonuses	3,686.6	4,092.3
Unused holidays	3,206.8	2,990.7
Holiday allowance	746.7	704.9
Early retirement benefits	644.7	291.0
Death grant	529.1	505.6
Compensatory time credit	135.9	106.4
Other	411.9	400.7
	9,361.6	**9,091.6**

(14) C. Liabilities

For details see separate "Maturity schedule".

Of the liabilities to affiliated companies, €231,758.6k (previous year: €0.0k) related to financial liabilities and €0.0k (previous year: €87.3k) to trade payables.

Other liabilities	2015	2016
		€k
From financing contributions	1,936.2	1,601.7
From taxes	0.0	1,161.1
Related to social security	304.3	297.8
Payroll	149.1	203.1
Long-term electricity supply commitment	180,399.7	0.0
Other	2,809.2	2,403.3
	185,598.6	**5,667.0**

(15) D. Accruals and deferred income

	2015	2016
		€k
Contributions to building costs	736.7	701.7
Revaluation reserve	0.0	508.5
From electricity business	135.5	106.7
Other	0.0	13.4
	872.2	**1,330.3**

The impairment reversals not carried out in the previous year were transferred to a reversal provision for tax purposes in accordance with Section 124b(270)(a) of the Austrian Income Tax Act (EStG) as at 1 January 2016 and are recognised under accruals and deferred income in accordance with Section 906(32) of the Austrian Commercial Code (UGB).

Of the accruals and deferred income, €0.0k (previous year: €0.0k) related to affiliated companies.

(16) 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, excluding the contingent liabilities in connection with cross-border leasing transactions in the total amount of €33,873.9k (previous year: €297,290.8k). Of this, €28,617.4k (previous year: €294,770.8k) is attributable to affiliates and €1,725.0k (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 €957,352.2k (previous year: €933,551.4k). Of the rights of recourse against the primary debtors, €462,748.8k (previous year: €468,113.1k) were secured through counter-guarantees from financial institutions, state energy companies and regional authorities (from guarantors' liabilities). These counter-guarantees are presented under total rights of recourse (see note (8)). Thus, a total of €494,603.4k (previous year: €465,438.3k) 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. As a result of the downgrading of the credit rating by Standard & Poor's and Moody's which occurred in the reporting period, the only remaining cross-border leasing transaction triggered a so-called head lease filing (certificate deposit). As an alternative to depositing the certificate, a waiver could also be utilised by paying a one-time fee. Provisions were recognised at VERBUND Hydro Power GmbH for the estimated future expenses resulting from the impact of the head lease filing.

In addition, there is still a risk that the investing banks would have to be replaced or VERBUND Hydro Power GmbH would have to provide additional collateral if the rating of the investing banks were downgraded below a certain threshold amount. The same applies to two transactions which were terminated early and for which the financial liabilities were continued if the rating of either the investing bank or VERBUND AG deteriorates by a certain amount.

The ratings of the contractual partners as well as the rating of VERBUND AG exceeded the contractually agreed thresholds as at 31 December 2016, with the exception of the situation described above. Thus, there is currently no need for VERBUND AG or VERBUND Hydro Power GmbH to exchange individual contractual parties or investments. This risk is also reduced not least of all by the existence of guarantors' liabilities from regional authorities for individual contractual parties.

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

Notes on the income statement

(17) 1. Revenue

		2015	2016
Revenue from electricity deliveries			
Domestic[1]	Energy supply companies	52,370.1	44,283.3
	Industrial customers and consumers	207,136.7	217,094.6
	Other customers	111,121.9	106,888.2
		370,628.7	**368,266.2**
EU	Other customers	21,408.4	0.0
		21,408.4	**0.0**
		392,037.1	**368,266.2**
Invoicing of grid tariffs; user and management fees		3,127.9	2,983.8
Other revenue (including gas trading)		39,847.9	49,636.3
		435,012.9	**420,886.4**

€k

[1] of which €131,706.7k (previous year: €124,498.4k) from recharged grid fees

In accordance with the changes in presentation from RÄG 2014, €23,919.1k (previous year: €27,641.4k) was reclassified from other operating income to other revenue.

(18) 3. Other operating income

	2015	2016
a) Income from disposal of fixed assets with the exception of investments	2.2	2.0
b) Income from reversal of provisions	177.4	42.8
c) Other	484.7	471.3
	664.4	**516.1**

€k

In accordance with the changes in presentation from RÄG 2014, €23,919.1k (previous year: €27,641.4k) was reclassified from other operating income to other revenue.

(19) 6. Personnel expenses

€k	2015	2016
a) Salaries	22,705.2	20,773.0
b) Expenses for termination benefits and payments to employee pension funds		
Termination benefits	2,127.8	824.8
Contributions to employee pension funds	183.5	170.2
Change in the provision for termination benefits	–968.7	–218.4
Expenses/income and takeovers/transfers within the Group	–205.7	–1.7
	1,136.8	**775.0**
c) Expenses for pensions and similar obligations		
Early retirement benefits and pension payments	2,519.1	2,299.8
Change in the provisions for pensions and similar obligations	–4,465.9	–2,674.5
Expenses/income and takeovers/transfers within the Group	41.8	9.5
Change in the provisions for early retirement benefits	–352.1	–364.1
Pension fund contributions (including obligation to provide additional funding)	1,008.6	1,161.9
	–1,248.6	**432.7**
d) Expenses for social security contributions as required by law as well as income-based charges and compulsory contributions	3,822.3	3,561.0
e) Other social security expenses	240.0	216.0
	26,655.7	**25,757.7**

(20) 7. Depreciation and amortisation

€k	2015	2016
a) Amortisation of intangible assets and depreciation of property, plant and equipment		
Depreciation and amortisation	1,962.9	1,822.8
Immediate write-off of low-value assets in accordance with Section 13 of the Austrian Income Tax Act (EStG)	49.5	38.5
	2,012.4	**1,861.3**

(21) 8. Other operating expenses

€k	2015	**2016**
a) Taxes other than taxes on income	184.6	162.2
b) Other		
Advertising and market development costs	11,139.2	10,703.9
Other administrative expenses	5,510.5	5,929.8
Operating costs for buildings, rent and leasing	4,927.3	3,225.7
Legal, audit and consulting expenses	3,838.2	3,011.0
IT support, electronic data processing	2,554.2	2,859.6
Membership fees	1,611.9	1,194.9
Telecommunications services, data services	592.0	574.1
Training and continuing education	431.6	436.9
Temporary personnel and provision of personnel	273.2	315.6
Other	7,991.7	6,672.1
	38,869.7	**34,923.4**
	39,054.3	**35,085.5**

(22) 16. Financial result

€k	2015	**2016**
Income from equity interests		
from affiliated companies	334,383.9	419,235.6
of which from profit pools	72,290.2	9,436.4
Income from other securities and loans in financial assets		
from affiliated companies	62,370.8	48,885.8
Other interest and similar income		
from affiliated companies	2,293.7	3,615.2
Income from disposals and impairment loss reversals of investments		
disposal of shares in affiliated companies	4,291.9	2,444.3
reversal of impairment of shares in affiliated companies	0.0	20.0
Expenses relating to investments		
impairments on affiliated companies	0.0	167,032.8
expenses from affiliated companies	288,037.6	5,460.2
of which from profit pools	3,319.0	5,460.2
Interest and similar expenses		
of which interest for long-term personnel provisions	917.6	861.0
from affiliated companies	293.7	18,227.5

(23) 19. Taxes on income and profit

€k	2015	2016
Consolidated taxes on income	13.0	20,252.6
of which recharged to members of the Group[1]	–88,817.5	–79,858.9
Future tax expense for subsequent taxation of losses from foreign members of the tax group	0.0	18,925.1
Additional amounts/credit notes from previous periods	–179.5	–34,828.5
Changes in deferred taxes[2]	6,478.8	70,008.2
	–82,505.2	**–5,501.5**

[1] Tax allocation rate of 15% or 25% // [2] Prior-year amount was adjusted in accordance with the changes in presentation from the Austrian Accounting Amendment Act 2014 (€0.6k).

IV. Other disclosures

1. Total amount of other financial obligations

Material items:	Total commitment	2017	2017–2021
Rent, lease and insurance agreements	[1]	4,191.7	12,840.3
Purchase commitments	3,172.2	2,833.8	3,172.2
Of which to affiliated companies	[1]	9.0	44.8

€k

[1] The amount of the total commitment cannot be determined due to unspecified contract periods.

There is an electricity supply agreement with Ennskraftwerke Aktiengesellschaft according to which the energy generated in its power plants, less electricity purchase rights 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-Frauenstein and Egglfing-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 IT, insurance, procurement, financial accounting, payroll, telecommunications and administrative services.

An agreement has been entered into with VERBUND Finanzierungsservice GmbH for the invoicing of the provision of payment transactions and cash management services.

For 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 to make pension payments to employees after they retire. The employer is obligated to provide additional funding to the extent that these pension obligations are required to be fulfilled by APK Pensionskasse AG. As a result of the trend on the financial markets, APK Pensionskasse AG reported an obligation for additional funding in the amount of €0.0k (previous year: €170.9k) to cover defined benefit obligations.

As at the reporting date, one employee had a letter of loyalty granting a higher degree of employment protection. The prerequisites were at least 20 years of service at VERBUND and a minimum age of 45.

Outstanding contribution commitments to investees amount to €1,025.0k (previous year: €5,000.0k).

2. Disclosures regarding financial instruments

Finance area

There are interest rate swaps to hedge increases in interest rates for financial liabilities bearing variable interest with an outstanding principal amount of €369,937.5k (previous year: €384,562.5k) as at 31 December 2016. These interest rate hedges consist of the interest rate swaps and the underlying loans. As there is a documented hedging 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 €15,960.7k (previous year: €23,756.0k). The future interest payments hedged by these hedging instruments will occur in the following ten years (2017 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 principal amount of €177,450.0k (previous year: €203,925.0k), 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 hedging 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 €11,003.7k (previous year: negative fair value of €10,035.2k) as at 31 December 2016.

3. Number of employees

Average	2015	**2016**
Salaried employees	153	140

4. Expenses for termination benefits and pensions

		€k
	2015	**2016**
Members of the Executive Board, former members of the Executive Board and their surviving dependants	1,034.1	–439.9
Other employees	–1,145.9	1,647.6
	–111.8	**1,207.7**

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 2016, contributions to the pension fund were paid for the Executive Board in the amount of €217,045 (previous year: €213,975).

Statutory regulations apply, taking account 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 2016, €361,210 was paid out for pensions (previous year: €384,644) and €0 for termination benefits in favour of beneficiaries (previous year: €0).

Expenses for termination benefits and pensions and similar obligations (post-employment benefits) amounted to €100,750 (previous year: €107,826). Expenses for pensions and similar obligations for former members of the Executive Board and their surviving dependants amounted to a total of €339,132 (previous year: €–1,141,911).

5. Board members

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

Remuneration of members of the Executive Board

€

Name	Fixed remuneration	Variable remuneration[1]	Total
Dipl.-Ing. Wolfgang Anzengruber	817,449	402,505	1,219,954
Dr. Johann Sereinig	781,431	385,702	1,167,133
Dipl.-Ing. Dr. Günther Rabensteiner	580,794	172,002	752,796
Dr. Peter F. Kollmann	774,185	229,275	1,003,460

[1] Variable remuneration is always paid in the following year, because whether or not targets have been achieved can only be determined at the end of the year. Therefore, the variable remuneration components granted to members of the Executive Board in the 2016 reporting period for the 2015 reporting period are shown.

Remuneration for the four members of the Executive Board totalled €4,293,724 in 2016 (previous year: €4,143,855), which included €150,380 of payments in kind (previous year: €105,924).

Variable remuneration depends upon performance and is limited to a specific percentage of the respective fixed remuneration. This percentage rate was between 30% and 50% in financial year 2015 and between 50% and 70% in the 2016 reporting period. 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 2015 reporting period related to the attainment of the Group result, 15% to the attainment of the free cash flow and 35% to medium-term (two-year and, in some cases, qualitative) targets, such as the attainment of specific cost targets in connection with the VERBUND 2015 project and the marketing campaign (e.g. increasing market share, new products and services, expanding B2B activities). 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 had stock options.

Remuneration paid to members of the Supervisory Board (including reimbursement of costs/travel expenses recharged) amounted to a total of €387,329 (previous year: €312,665).

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

		€
	2015	**2016**
Chairman	25,000	25,000
Vice-Chairpersons (two)	15,000	15,000
Members	10,000	10,000
Attendance fee	500	500

These arrangements also apply mutatis mutandis to 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 2016, 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 238(1)(18) 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. Disclosures in accordance with Section 8 of the Austrian Electricity Industry and Organisation Act (ElWOG)

In addition to the division into business areas (formal unbundling) that already existed 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, ElWOG) were entered into specifically with the following companies:

Electricity deliveries VERBUND Hydro Power GmbH, Ennskraftwerke Aktiengesellschaft, Innwerk AG, Österreichisch-Bayerische Kraftwerke Aktiengesellschaft, Donaukraftwerk Jochenstein Aktiengesellschaft, KELAG-Kärntner Elektrizitäts-Aktiengesellschaft
Electricity trading and sales VERBUND Trading GmbH, VERBUND Sales GmbH, VERBUND Trading & Sales Deutschland GmbH
Telecommunications VERBUND Services GmbH
Services VERBUND Services GmbH
Financing VERBUND Finanzierungsservice GmbH
Provision of personnel VERBUND Hydro Power GmbH, VERBUND Trading GmbH, VERBUND Services GmbH, VERBUND Sales GmbH

9. 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 no-par value shares from the distributable profit of financial year 2016, i.e. a total of €100,750,548.94.

10. Events after the reporting date

There were no events requiring disclosure between the reporting date of 31 December 2016 and approval for issue on 16 February 2017.

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

Result of the documentation of electricity by source	Proportion	**2016 kWh**
Hydropower	100.0%	1,377,886,000
Total volume of electricity supplied in Austria to consumers for their own use	100.0%	1,377,886,000

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

Impact of electricity generation on the environment		**2016**
Radioactive waste (mg/kWh)		0.0
CO_2 emissions (g/kWh)		0.0

Vienna, 16 February 2017
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(1)(4) of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB)

€k

	Head--quarters	% Share-holding as at 31/12/2016	Most recent annual financial statements	(+)(–)	Net income/loss for the year	Equity[1]
Consolidated affiliated companies[2]						
Austrian Power Grid AG	Vienna	100.00	2016	+	41,181.9	422,476.9
Innwerk AG	Stammham	100.00	2016	+	21,723.0	149,539.7
VERBUND Finanzierungsservice GmbH	Vienna	100.00	2016	+	885.4	218.1
VERBUND Sales GmbH	Vienna	100.00	2016	–	983.9	10,353.9
VERBUND Services GmbH	Vienna	100.00	2016	+	8,551.0	7,420.6
VERBUND Solutions GmbH	Vienna	100.00	2016	–	4,476.3	14,915.0
VERBUND Thermal Power GmbH	Neudorf ob Wildon	100.00	2016	+	768.9	4,236.3
VERBUND Trading GmbH	Vienna	100.00	2016	+	46,410.6	146,410.9
VERBUND Wind Power Deutschland GmbH	Wörrstadt	100.00	2016	+	0.0	25.0
VERBUND Thermal Power GmbH & Co KG in Liqu.	Neudorf ob Wildon	99.99	2016	+	187,133.7	–273,310.5
CAS Regenerabile S.R.L.[3, 4]	Bukarest	99.99	2016	–	12,365.7	38,951.2
Alpha Wind S.R.L.[3, 4]	Bukarest	99.98	2016	–	17,752.9	40,115.6
Ventus Renew Romania S.R.L.[3, 4]	Bukarest	99.98	2016	–	21,523.2	38,746.4
Windpark Dichtelbach GmbH & Co. KG	Wörrstadt	95.00	2016	+	209.0	3,038.4
Windpark Dörrebach GmbH & Co. KG	Wörrstadt	95.00	2016	+	55.1	3,188.6
Windpark Eichberg GmbH & Co. KG	Wörrstadt	95.00	2016	+	800.3	5,382.4
Windpark Ellern GmbH & Co. KG	Wörrstadt	95.00	2016	–	524.0	5,575.4
Windpark Hochfels GmbH & Co. KG	Wörrstadt	95.00	2016	+	89.3	3,402.8
Windpark Rheinböllen GmbH & Co. KG	Wörrstadt	95.00	2016	+	956.4	5,549.7
Windpark Schönborn GmbH & Co. KG	Wörrstadt	95.00	2016	+	987.3	5,649.7
Windpark Seibersbach GmbH & Co. KG	Wörrstadt	95.00	2016	+	376.6	5,076.8
Windpark Stetten I GmbH & Co. KG	Wörrstadt	95.00	2016	+	266.5	4,581.1
Windpark Utschenwald GmbH & Co. KG	Wörrstadt	95.00	2016	+	42.7	1,638.4
Infrastruktur Oberheimbach I GmbH & Co. KG	Wörrstadt	81.00	2016	+	1.0	68.6

€k

	Head--quarters	% Share-holding as at 31/12/2016	Most recent annual financial statements	(+) (–)	Net income/loss for the year	Equity[1]
VERBUND Hydro Power GmbH	Vienna	80.54	2016	+	151,080.3	1,505,247.2
VERBUND Innkraftwerke GmbH	Töging	70.27	2016	+	1,881.3	293,113.3
Infrastrukturgesellschaft Bischheim GmbH & Co. KG	Wörrstadt	61.26	2016	+	0.0	43.4
Donaukraftwerk Jochenstein Aktiengesellschaft	Passau	50.00	2016	+	960.0	15,710.7
Grenzkraftwerke Gesellschaft mit beschränkter Haftung	Simbach	50.00	2016	+	2,451.3	8,805.2
Österreichisch-Bayerische Kraftwerke Aktiengesellschaft	Simbach	50.00	2016	+	3,493.1	58,380.1
Associates						
AQUANTO GmbH[5]	Unterföhring	50.00	2015	–	2,375.8	220.8
Ennskraftwerke Aktiengesellschaft[6]	Steyr	50.00	2016	+	463.0	26,982.0
KELAG-Kärntner Elektrizitäts-Aktiengesellschaft[5]	Klagenfurt	35.17	2015	+	74,678.3	740,726.1
PÖYRY Energy GmbH	Vienna	25.10	2015	+	2,019.9	13,519.2

[1] Equity as defined by Section 224(3)a of the Austrian Commercial Code (UGB) or local law // [2] Consolidation in accordance with Sections 253–261 of the Austrian Commercial Code (UGB) // [3] Annual financial statements in accordance with local law // [4] Figures translated using the exchange rate at the reporting date // [5] Accounted for using the equity method in accordance with Sections 263–264 of the Austrian Commercial Code (UGB) // [6] proportionate consolidation in accordance with Section 262 UGB

Independent auditor's report

(complimentary translation, German original prevails)

Report on the Audit of the Annual Financial Statements

Opinion

We have audited the annual financial statements of VERBUND AG, Vienna, which comprise the balance sheet as at 31 December 2016, the income statement for the financial year then ended, and notes to the annual financial statements.

In our opinion, the accompanying annual financial statements comply with legal requirements and give a true and fair view of the financial position as at 31 December 2016, and its financial performance for the year then ended in accordance with Austrian Generally Accepted Accounting Principles and the special legislation of the Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG).

Basis for Opinion

We conducted our audit in accordance with the Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements of the current period. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of shares in affiliated companies

Description and Issue

As at 31 December 2016, VERBUND AG reported shares in affiliated companies in the amount of around €2,985.2m. Due to the currently strained operating environment in the energy industry, the Company tested the recoverability of the carrying amounts of equity interests.

Numerous inputs flow into the valuation model based on net present value methods applied in the test for impairment in order to assess the market. Due to the resulting complexity and in light of the persistently low price of electricity and interest rates, the impairment tests are particularly important in our view because their results are significantly influenced by the reasonableness of the estimate by management and are also particularly sensitive with respect to the applied discount rate and the assumptions regarding the trend in electricity prices.

Details regarding the impairment tests and the key valuation assumptions are presented in the notes to the annual financial statements in section II "Accounting policies".

Our Response

We compared the parameters used in the impairment tests with company-specific information and industry-specific market data and/or expectations from external and internal data sources and assessed the adequacy of the applied valuation models. We consulted internal experts in order to corroborate the capital costs by means of comparative analysis.

We assessed the consistency of the future cash flows applied in the calculations by comparing the planning data used therein with the medium term plans approved by the Supervisory Board, contractual bases and electricity price scenarios specific to VERBUND.

Other Information

Management is responsible for the other information. The other information contains all information in the annual report, in the supplement to the 2016 Integrated Annual Report (Disclosures on Management Approach, DMA) and in the annual financial report, but does not include the annual financial statements, the management report and our auditor's report thereon. The integrated annual report, DMA and the annual financial report are expected to be made available to us after the date of the auditor's report.

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

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

Responsibilities of Management and the Audit Committee for the Annual Financial Statements

Management is responsible for the preparation of the annual financial statements that give a true and fair view in accordance with Austrian Generally Accepted Accounting Principles and the special legislation of the Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG) and for such internal control as management determines is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Company's financial reporting process.

Auditor’s Responsibilities for the Audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

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

As part of an audit in accordance with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Management Report

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the annual financial statements and whether it has been prepared in accordance with the applicable legal requirements.

Management is responsible for the preparation of the annual management report in accordance with the Austrian Commercial Code.

We conducted our audit in accordance with laws and regulations applicable with respect to the management report.

Opinion

In our opinion, the management report is prepared in accordance with the applicable legal requirements, includes appropriate disclosures according to Section 243a UGB and is consistent with the annual financial statements.

Statement

In the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit of the annual financial statements, we have not identified material misstatements in the management report.

Engagement Partner

The engagement partner responsible for the audit is Mag. Gerhard Marterbauer.

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

Vienna, 16 February 2017
Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Gerhard Marterbauer	MMag. Dr. Klaus-Bernhard Gröhs
Certified Public Accountant	**Certified Public Accountant**

Glossary

Glossary

Cash flow

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

EBIT

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

Equity ratio

Ratio of equity to total capital

FFO (Funds from operations)

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

Gearing

Ratio of net debt to equity.

Net debt

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

Notional debt repayment period

Ratio of debt to surplus funds from ordinary activities.

RCF (Retained cash flow)

Funds from operations (FFO) less dividends paid.

ROCE (Return on capital employed)

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

ROE (Return on equity)

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

ROI (Return on investment)

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

ROS (Return on sales)

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

Working capital

Current assets (including current loans and current prepayments and accrued income) less current liabilities (including current accruals and deferred income).

EDITORIAL DETAILS

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

Layout: produced in-house with firesys
Creative concept and design: Brainds
Design and consulting: Grayling
Translation and linguistic consulting:
ASI GmbH – Austria Sprachendienst International

Contact: VERBUND AG
Am Hof 6a, 1010 Vienna, Austria
Phone: +43 (0)50313-0
Fax: +43 (0)50313-54191
Email: info@verbund.com
Homepage: www.verbund.com
Commercial register number: FN 76023z
Commercial register court: Commercial Court of Vienna VAT No.: ATU14703908 DPR No.: 0040771
Registered office: Vienna, Austria

Investor Relations:
Andreas Wollein
Phone: +43 (0)50313-52604
Email: investor-relations@verbund.com

Group Communications:
Beate McGinn
Phone: +43 (0)50313-53702
Email: media@verbund.com

Verbund
Power for the Future