Smart Power.
Sustainable solutions for the future of energy.

Annual Report VERBUND AG 2017

Verbund
Power for the Future

VERBUND AG
Annual Report 2017

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, %	2015	2016	**2017**
Revenue	435.0	420.9	282.0
Earnings before interest and taxes (EBIT)	166.2	356.8	–33.5
Earnings before taxes	39.4	267.0	–113.8
Net income/net loss	143.7	272.5	–167.1
Net profit	121.6	100.8	145.9
Total assets	5,536.7	5,473.8	4,690.7
Fixed assets	5,082.2	4,871.3	4,384.3
Capital expenditure for property, plant and equipment	0.9	0.7	1.3
Depreciation of property, plant and equipment	1.7	1.5	1.4
Equity	2,314.3	2,465.2	2,197.4
Return on sales (ROS)	38.2%	84.8%	–11.9%
Return on equity (ROE)	1.7%	11.5%	–4.6%
Return on investment (ROI)	2.6%	6.4%	–0.6%
Return on capital employed (ROCE)	2.3%	5.3%	–0.5%
Equity ratio	41.8%	45.0%	46.8%
Debt repayment period	26.1	6.5	6.3
Cash flow from operating activities	428.2	126.6	281.4
Gearing	114.2%	107.7%	103.9%
Working capital	–400.2	–227.7	–140.1
Net debt	2,643.4	2,653.8	2,283.2
Current liabilities	585.9	915.4	598.2
Current assets	185.6	687.8	458.1
Share price high	17.3	15.8	21.8
Share price low	11.6	10.0	14.7
Closing price	11.9	15.2	20.1
(Proposed) dividend per share	0.35	0.29	0.42
Dividend yield	2.95%	1.91%	2.08%
Operational headcount	152.7	140	123
Group electricity sales volume (GWh)[1]	55,238	58,855	**63,264**

[1] 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	1956	16/3/2000	5/4/2017
Dr. Gerhard Roiss Chairman (from 5 April 2017) Supervisory board of SULZER AG Switzerland (board of directors)	1952	5/4/2017	AGM 2020
Prof. Dipl.-Ing. Dr. Michael Süß 1st Vice-Chairman Member of the supervisory boards of Herrenknecht AG and Oerlikon AG (chairman of the board of directors); Renova AG (asset director); 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; Supervisory board of Wels Betriebsansiedelungs-GmbH (Chairwoman)	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 (until 30 September 2017); Austrian Economic Chambers (from 1 October 2017)	1963	7/4/2010	AGM 2020
Mag. Dr. Martin Krajcsir	1963	9/4/2014	5/4/2017
Dipl.-Ing. Dr. Peter Layr Spokesman of the managing board of EVN AG (until 30 September 2017); chairman of the supervisory boards of Netz Niederösterreich GmbH, Rohöl-Aufsuchungs AG and RAG-Beteiligungs-AG (until 30 September 2017)	1953	13/4/2011	AGM 2020

Name	Year of birth	Date of initial appointment	End of current term of office
Mag. Werner Muhm Member of the supervisory boards of Wiener Städtische Versicherung, AWH Beteiligungsges.m.b.H., KA Finanz AG; member of the General Council of OeNB; member of the managing board of Leopold Museum Privatstiftung, vice-chairman of the board of trustees of the Austrian National Library	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., partner in Josko Holding Gesellschaft m.b.H.	1960	7/4/2010	AGM 2020
Dipl.-Ing. Peter Weinelt Deputy CEO of Wiener Stadtwerke GmbH; member of the supervisory boards of Wien Energie GmbH (chairman) and Wiener Netze GmbH (chairman)	1966	5/4/2017	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 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. Hans Pfau Chairman of the Works Council	1953	since 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

As Austria's leading utility, VERBUND succeeded in remaining on a profitable and sustainable course in financial year 2017, generating good results once again in a market climate that remains volatile. The Supervisory Board actively monitored and supported this strong performance.

Performance of duties. In financial year 2017, the Supervisory Board discharged the responsibilities and exercised the powers incumbent upon it by virtue of the law and the Articles of Association at five plenary meetings. The overall attendance rate for all Supervisory Board members was 93%. The Chairman additionally kept in regular contact with the Board members to discuss matters of importance as they arose. 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.

In particular, the Supervisory Board analysed the Group's structure along with its business processes and strategy and ordered the initiation of a strategy process as well as revision of the Executive Board's rules of procedure. With respect to corporate governance, the Board ordered evaluations of certain processes. The Supervisory Board also monitored the Executive Board's management of the Company based on the reports received from the Executive Board. Supervision took place in the context of open and constructive discussions between the Executive Board and the Supervisory Board. 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 approving the decommissioning of the Mellach coal-fired power plant and the sale of shares in E-Mobility Provider Austria GmbH and SMATRICS GmbH & Co KG. The Board also dealt comprehensively with succession planning, particularly in the context of the upcoming call for applicants to the Executive Board.

New Chairman of the Supervisory Board. Dr. Gilbert Frizberg has left the Supervisory Board after 17 years, ten of which as Chairman. Dr. Gerhard Roiss was elected to the Supervisory Board at the General Meeting held on 5 April 2017 and was unanimously elected as Chairman of the Supervisory Board afterwards. Dr. Martin Krajcsir also left the Board and was replaced by Dipl.-Ing. Peter Weinelt.

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 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 fundamental 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, 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, and the results were discussed by the Supervisory Board at the next meeting. In addition, the Supervisory Board again discussed at length possible conflicts of interest when dealing with the approval of contracts with companies where individual Supervisory Board members are related parties.

No conflicts of interest were identified that would require any action to be undertaken beyond that taken at the meetings.

The Supervisory Board's Working Committee met twice during the year under review, especially to prepare plenary meetings. 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 opportunity and risk management as well as the Group's internal control and audit procedures and on the audits performed by the internal audit function. 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. The General and Remuneration Committee convened three times to discuss the agreements on targets and the variable remuneration paid to the Executive Board in particular. The Nomination Committee held two meetings to prepare for the Supervisory Board elections and the call for applicants to the Executive Board in 2018. The Supervisory Board also formed its own temporary Strategy Committee to oversee the revision of the Group's corporate strategy; that committee met four times during the reporting period.

Further information on the composition, work procedures and meetings of the Supervisory Board and its committees as well as on the remuneration paid to its members is contained in the Group's consolidated corporate governance report for 2017.

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 2017 were audited by Deloitte Audit Wirtschaftsprüfungs GmbH and issued with an unqualified auditor's report. The auditor prepared the additional report required to be made to the Audit Committee under Article 11 of the Regulation on the statutory audit of public-interest entities and reported its findings in writing. The auditor 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 2017 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 proposal for the appropriation of profit. The Supervisory Board also approved the consolidated financial statements and the Group management report along with the consolidated corporate governance report submitted by the Executive Board and the separate Non-Financial Report. There were no grounds for any material objections.

In conclusion, the Supervisory Board would like to thank the Executive Board and all employees for their high level of dedication and their successful work during financial year 2017. The Supervisory Board would also like to thank the Group's shareholders, customers and business partners for their trust.

Vienna, March 2018

Dr. Gerhard Roiss
Chairman of the Supervisory Board

Management report

Report on business performance and economic position

General conditions

In financial year 2017, higher prices for oil, gas and coal kept electricity wholesale prices on the rise. However, the recovery in electricity prices that set in during 2017 must not obscure the fact that wholesale prices for electricity remain well below the full cost for new power plants.

In VERBUND's core markets of Austria and Germany, freezing temperatures across Europe at the start of 2017 and another spurt in economic growth led to higher electricity consumption. Supply volumes also increased substantially once again due to the sustained, heavily subsidised expansion of new renewable energy sources in 2017.

CO_2 prices persisted at a low level until mid-2017, when hopes of effective reform of the EU's emissions trading system and discussions on the introduction of minimum CO_2 prices began pushing prices gradually upwards.

In combination with market liberalisation and unbundling, subsidised decentralised generation of electricity is turning the usual market logic on its head. Business models and processes are undergoing fundamental change once again due to digitalisation, increasing automation of the value chain, intelligent control systems and smart metering, network components capable of bi-directional communications, data analytics and big data.

VERBUND began making preparations early on for operating in an environment that has undergone fundamental change in the context of transitioning to new forms of energy. We have thus created the foundation for sustainable, profitable corporate development based on our clear strategic positioning coupled with systematic implementation in recent years of the measures defined in the Group's restructuring programme. This foundation will enable VERBUND to take active advantage of the opportunities arising in the energy sector and look to the developments of the future with optimism.

General economic environment

Global economy in stable growth phase

Global economic output rose by 3.7% in 2017, up from 3.2% a year earlier. According to the January 2018 projection by the International Monetary Fund (IMF), total economic output once again increased at a faster rate in 2017 than in the prior year not only in the United States (+2.3%) but also in Japan (+1.8%) and in the eurozone (+2.4%).

The Chinese economy posted a respectable result again in 2017 with growth of 6.8% thanks to expansionary economic policies. In combination with higher commodities prices, the upswing in these major economies also gave a boost to the emerging markets on the whole. Russia and Brazil likewise appear to have come out of deep recession as the economies in both countries returned to growth in 2017.

The global economic revival fuelled an acceleration in international trade.

According to IMF projections, total economic output in the eurozone increased by 2.4% in 2017, up from 1.8% in 2016. Exports were driven by increasing momentum in world trade and an easing of the economic problems in the emerging markets. Companies also benefitted from solid domestic demand. Low interest rates and more favourable lending terms stimulated capital spending. However, potential trade barriers pose a considerable risk of downward movement. Heavyweights Germany, France, Italy and the Netherlands saw accelerated growth, and the Spanish economy was almost able to maintain its rapid pace of growth.

In Austria, real gross domestic product increased by 3.0% in 2017, up from 1.5% in the prior year according to the December 2017 forecast by the Austrian Institute of Economic Research (WIFO). Strong momentum came from the recovery in world trade. The export business continued to drive the acceleration in economic growth in 2017. The positive economic trend in the eurozone, with momentum coming from both the core and the periphery, brought considerable additional support. Strong export demand led Austrian companies to heavily expand investments in machinery and equipment. Construction spending also made much stronger gains in 2017 than in the prior year.

Private consumption was another factor driving robust domestic demand in 2017. The improved situation on the labour market had a positive impact on incomes in all sectors of the economy and offset the gradually diminishing effects of the 2016 tax reforms.

Energy market environment

Higher electricity consumption in Austria

According to initial data from E-Control[1], electricity consumption in Austria rose by 1.4% to 71,121 GWh in 2017 (total supply of electricity, domestic electricity consumption less pumped storage consumption). The higher consumption was due to the much colder winter and faster economic growth. In terms of generation, electricity produced from hydropower decreased by 1.9% in 2017 due to the lower water supply compared with the previous year. The run-of-river power plants generated 1.2% less electricity, and generation was down by 3.2% at the storage power plants.

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

By contrast, production in thermal power plants was up markedly with a rise of 13.6% in 2017. Natural gas power plants in particular generated substantially more electricity in 2017 than in 2016. Electricity production from run-of-river power plants dropped by nearly 13% in January 2017 alone due to the below-average water supply. At the same time, the cold weather led to an increase of 7.5% in Austrian electricity demand. Generation was ramped up at thermal power plants to make up the difference. Greater use of renewable energy in the German/Austrian bidding zone also resulted in increased use of gas power plants for grid stabilisation and congestion management.

"Other generation" increased by 11.1%. Other generation includes electricity produced from other renewable energy sources (excluding biomass, which comes under the category of thermal generation) and from power plants that cannot yet be allocated for statistical purposes. All in all, electricity generation increased by 4.1% in Austria in 2017.

Increases were seen in both imports (+11.4%) and exports (+18.8%) of electricity in 2017. Net imports came to approximately 6,500 GWh, or around 600 GWh less (–8.6%) than in the prior year. Therefore, the figure representing the dependence of the Austrian power supply on imports amounted to just under 9% in 2017 after just under 10% in 2016.

Oil price: well over $60/bbl at year end

The average price for one barrel of Brent crude oil (front month) was $54.7/bbl in 2017 compared with $45.1/bbl in 2016. This represents a decrease of 21.3%.

Brent crude oil (front month) traded at between $54/bbl and $57/bbl during the first two months of 2017, after which expectations of a sustained oversupply of crude oil in the global market pushed prices down to $44.8/bbl at the end of June 2017. Crude oil prices subsequently made a gradual recovery based on the combination of somewhat higher demand and a slight decline in supplies. Apart from the reduction in oil output in the United States, OPEC was able to improve its rate of implementation of the agreed production cuts. Iraq additionally experienced production shortfalls. Prices received an added boost around the end of the reporting period based on smouldering geopolitical hotspots and the decision reached on 30 November 2017 to extend production cuts. Oil producers agreed to extend the output cuts beyond the originally agreed March 2018 until the end of 2018. Near the end of 2017, one barrel of Brent crude (front month) was trading at around $67/bbl. This is the highest price seen for crude oil in the past two-and-a-half years.

Increase in gas prices

The spot price at the European NCG trading point increased by €3.3/MWh compared with the previous year to €17.5/MWh on average in 2017. In futures trading, supplier contracts for the coming year (NCG front year) were invoiced at €17.3/MWh, or €1.6/MWh more than had to be paid for the NCG front year in 2016.

Gas prices rose in line with the higher oil prices and stronger demand. Prices for liquefied natural gas (LNG) were driven higher by growing demand and rising oil prices. Despite the higher prices in Asia, the influx of LNG to Europe increased.

Coal: strong recovery after low in 2016

Production of hard coal declined by 3.8% worldwide to 6.7 billion tonnes in 2016, mainly due to lower output in China (–185 million tonnes) and in the United States (–147 million tonnes). In the US, the boom in shale gas was a contributing factor. In China, the central government began closing mines that are both unsafe and expensive. Chinese imports therefore rose to 124 million tonnes. The imported coal was used above all to make up for the production cuts due to reduced working hours. This also ended the downward spiral in coal prices.

Prices for thermal coal more than doubled between their February 2016 low and the end of 2017. On average, hard coal was 33.1% more expensive on the futures market (ARA front year, euro basis) in 2017 than in the previous year. Coal prices in the spot market were up 39.1% in 2017 compared with the average listing in 2016 (euro basis).

EU implements emissions trading reforms

Certificate prices for EUA (European Union Allowance) emission rights (EUAs with a December 2018 delivery date) were initially trading at between €5/t CO_2 and €6/t CO_2 at the start of 2017. Prices fluctuated at around that level until falling back below €5/t CO_2 amidst concerns about reform of the European Union’s emissions trading system (EU ETS), the “trilogue” negotiations having commenced on 4 April 2017. CO_2 prices subsequently rose on growing optimism about a reform of the EU ETS. The EUA Dec18 emissions rights benchmark contract closed 2017 at a price of at €8.2/t.

Following lengthy negotiations, on 9 November 2017 the European Council and the European Parliament reached agreement on a joint text for a new emissions trading directive. The directive will stipulate much stricter climate targets for installations in the power sector and energy-intensive industry that are subject to the EU ETS. Greenhouse gas emission allowances will be lowered by 2.2% per year – more than ever before – between 2021 and 2030. At the same time, pollution allowances are being taken off the market in order to lower the supply. These activities will help to reduce emissions of CO_2 and other greenhouse gases produced by the around 11,000 installations in Europe by at least 43% by 2030 compared with 2005 levels.

The past fiscal year also saw intensification of the debate on the implementation of an EU-wide minimum price on pollution rights. A “carbon price floor” along these lines was introduced in the UK a number of years ago. France has been contemplating implementation of a price floor in cooperation with other member states, or alternatively at a national level for the French coal-fired power plants. In the Netherlands, the administration has proposed introduction of a carbon price floor of €18/t from 2020, rising to €43/t by 2030.

Wholesale electricity prices on the rise again

The average price for immediate base load electricity deliveries in the German/Austrian bidding zone on EPEX SPOT, the European electricity exchange spot market, increased by 17.8% in 2017 compared with the previous year to €34.2/MWh. Peak-load prices were at €42.7/MWh, or 21.2% higher than the average 2016 price.

The sharp rise was attributable to the cold snap occurring at the start of 2017, when low wind yields in Germany and low temperatures across Europe drove up spot market prices in the German-Austrian electricity market to a high level. The day-ahead figures in euros even briefly reached the triple digits in the second half of January 2017. Low wind supply and cold temperatures at the start of February 2017 also propelled prices higher, with rising fuel and CO_2 prices sustaining the upward trend.

In the futures market at the European Energy Exchange (EEX), base load for 2018 (front year base) was traded at an average price of €32.4/MWh in 2017 for the German/Austrian bidding zone, and peak-load (front year peak) was traded at €40.5/MWh. In 2016, front year base contracts paid €26.6/MWh on average and front year peak contracts still paid €33.5/MWh. The higher prices were due to the rise in CO_2, gas and coal prices.

Against the backdrop of a possible split in the German-Austrian price zone, the European Energy Exchange (EEX) added futures products for Germany (Phelix-DE Future) and Austria (Phelix-AT Future) to its existing Phelix range of products in the first half of 2017.

VERBUND sells most of the electricity it generates in advance on the futures markets so as to reduce short-term selling and price risks. In 2017, 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 comprehensive legislative package for the electricity sector called “Clean Energy for All Europeans”. The legislation was heatedly debated throughout 2017. An agreement on reforming the emissions trading system was reached in November 2017. In Austria, discussions focused on the splitting up of the joint German-Austrian price zone, the drafting of an energy and climate strategy, a reform of the tariff system and the adoption of a green electricity package.

EU energy policy

“Clean Energy for All Europeans”: commencement of negotiations on a comprehensive legislative package

On 30 November 2016, the European Commission presented a comprehensive legislative package for the energy sector. The package covered the following: introduction of a governance framework, reorganisation of the provisions applicable to renewable energy (subsidies, market integration), improving the energy trading markets (control power market, intraday/day-ahead/futures markets), removing market barriers (price caps, regulated consumer prices), regulations for capacity mechanisms, strengthening regional cooperation (especially between transmission system operators), regulations for distribution system operators, strengthening ACER (Agency for the Cooperation of Energy Regulators), new rules for determining price zones, promotion of electromobility, provisions for new market participants (aggregators, local energy communities), the legal framework for demand response, clarification of the legal framework for storage, improving consumer services in relation to offers and billing, and regulations for own generation. Proposals were also presented for revised energy efficiency and building efficiency directives.

The year 2017 was dominated by the legislative process concerning the Clean Energy Package. Progress was made in negotiations on the Energy Efficiency Directive (EED), the Energy Market Directive and the Energy Market Regulation as well as on the Renewable Energy Directive (RES Directive). Due to the complexity of the issues at hand, both in terms of context as well as the political considerations involved, a number of the above dossiers are not expected to be completed until the second half of 2018, when Austria will hold the EU presidency.

Reform of EU emissions trading system

In November 2017, an agreement was reached on reforming the EU emissions trading system (ETS). The ETS reform aims firstly to strengthen EU emissions trading and, secondly, to reduce the current oversupply of certificates. This will mainly be achieved by increasing the rate of reduction in the number of certificates issued each year, from the current –1.7% to –2.2%. The reform also calls for removing twice as many excess certificates from the market as originally envisaged (24% per year instead of 12%) by the end of 2023 and transferring them to the market stability reserve. On the other hand, comprehensive carbon leakage protection legislation will remain in place and a modernisation fund for lower-income member states will be launched with the goal of protecting energy-intensive European industry from competitive disadvantages arising from the EU’s ambitious climate regime.

German-Austrian electricity price zone

The German (DE) and Austrian (AT) regulators – the German Federal Network Agency (Bundesnetzagentur, BNetzA) and E-Control – have agreed to implement congestion management at the DE/AT border from 1 October 2018. The objective of the agreement is to link the DE/AT border to the Central West European (CWE) region for the purpose of installing a system of flow-based market coupling. Electricity is traded via a day-ahead market coupling process on the respective exchanges, with the long-term capacity allocation set at 4,900 MW. It remains to be seen whether the bilateral agreement will hold up in the ongoing European legislative processes (including the ACER and bidding zone review process).

VERBUND will continue to work vigorously at both national and European level towards maintaining the German-Austrian electricity price zone, as in the past, while taking precautions to prepare for a possible split of the price zone (adapting the trading systems, modifying agreements/procurement and preparing systems and resources for trading at the border).

New legal framework for the energy sector in Germany

2017 Renewable Energy Sources Act takes effect

On 1 January 2017, the 2017 Renewable Energy Sources Act (2017 Erneuerbare-Energien-Gesetz, 2017 EEG) entered into force. The revised legislation contains numerous changes compared to the 2014 Renewable Energy Sources Act, including significant subsidy levels and the EEG allocation obligation.

The main changes introduced in the 2017 EEG relating to the promotion of renewable energy sources include the following:

- Details of the EEG tendering process and provisions concerning exceptions
- Changes to sanctions imposed for failing to register EEG installations with the German Federal Network Agency (BNetzA)
- Modification of wind farm subsidies under the 2017 EEG
- Changed definition of solar installations in the EEG and effects of the 4 November 2015 ruling by the German Federal Court of Justice
- Effects of the amended provisions concerning deviations on both existing and new feed-in agreements
- Changes in direct marketing and feed-in tariffs in exceptional cases
- Effects of taking advantage of EEG subsidies and electricity tax benefits at the same time
- Changes relating to reduced payment claims in the event of negative prices on electricity exchanges
- Changes in support levels for existing biomass and wind power installations
- Repowering of hydropower plants in accordance with the 2017 EEG
- Changes in the EEG allocation obligation, notably relating to own use
- Introduction of regional green electricity marketing

German Federal Network Agency (BNetzA) reduces reserve requirement

On 31 May 2017, the German Federal Network Agency (BNetzA) presented its report on reserve generation capacity requirements pursuant to Section 13k of the Energy Industry Act (Energiewirtschaftsgesetz, EnWG). The report by the Federal Network Agency confirms the validity of the original determination made in the transmission systems operators' safety analysis conducted in February 2017 of a need for 2 GW in reserve generation capacity. However, the Agency has now reduced the amount to 1.2 GW in response to criticism from the European Commission.

Green Paper on Energy Efficiency – consultation evaluation report published

In autumn 2016, the German government initiated a broad consultation process concerning its Green Paper on Energy Efficiency. The evaluation report on the public consultation was published in early June 2017.

The main topics addressed in the responses to the consultation were sector coupling, the necessity of further developing the set of instruments used for energy efficiency policy, and "Efficiency First". Going forward, it is planned to place increased focus on the traditional benchmarks of profitability, security of supply and cost-effectiveness rather than giving priority to purely efficiency-related aspects.

The topic of carbon pricing was addressed, as was the possibility of expanding the emissions trading system to additional sectors. Some statements also called for regulatory measures to address both existing and new buildings.

Amendment to the German Electricity Grid Access Regulation (Stromnetzzugangsverordnung, StromNZV)

The German bidding zone evolved organically over time rather than being determined by law. The existence of one uniform bidding zone ensures equal conditions for network access, electricity generation and electricity purchasing throughout Germany.

The 23 December 2017 amendment to the Electricity Grid Access Regulation (StromNZV) now legally requires transmission grid operators to enable electricity to be traded throughout the entire territory of the Federal Republic of Germany, with no capacity allocation, such that the entire Federal Republic makes up a single bidding zone.

The amendment should be viewed as a response to the relevant draft EU regulation, which provides for a transfer of responsibility to the European Commission and thus permits the Commission to split up bidding zones on its own authority.

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. In 2017, the ministries in charge continued working on the energy and climate strategy. Due to the elections held in October 2017, however, no report has been published given that input from the new administration is needed with respect to issues of key significance for the direction of Austria's energy and climate policy.

2017 Green Electricity Package

After intense political debate, the Austrian government adopted a Green Electricity Package in mid-2017. The package centres on a green electricity amendment known as the "Kleine Ökostrom-novelle", which provides for additional subsidies to reduce project backlog, especially for wind power. In addition, subsidy volumes and subsidy levels were raised for small hydropower plants. An amendment to the Austrian Electricity Industry and Organisation Act (ElWOG) will enable the joint use of generation facilities, particularly solar installations, in multi-unit dwellings in the future.

"Tariffs 2.0" – adaptation of the fee structure for the power grid

In April 2017, Energie-Control Austria (ECA) published a position paper in which it discussed new challenges for the electricity system such as increasingly decentralised and volatile generation and rapidly advancing digitalisation. The main points made by the ECA paper are that greater emphasis should be placed on the capacity component of the fees charged, and that flexibility options should be considered with respect to the grid and system stabilisation. In ECA's opinion, grid fees will need to be restructured as of 2019.

Amendment to data protection law

The 2018 Austrian Data Protection Amendment Act (Datenschutz-Anpassungsgesetz 2018, DSAG 2018) was adopted in summer 2017. The amendment not only implements EU law, but also takes account of changes based on experience with the current data protection provisions. The Data Protection Amendment Act builds upon the EU's directly applicable General Data Protection Regulation (GDPR) and is intended to take effect simultaneously with the GDPR on 25 May 2018.

Finance

Factors affecting the result

Wholesale prices for electricity

In 2016, VERBUND entered into contracts in the futures market for most of its own generation for 2017. Prices for front-year base load contracts averaged €26.6/MWh in 2016, and front-year peak load was traded at an average of €33.5/MWh in 2016. In both cases, this represented a drop of 14.2% in futures market prices compared with the prior year. Price levels on the electricity futures market largely mirrored the trend in fuel and CO_2 prices. Commodity prices for oil, gas and coal on the futures market in 2016 declined again compared with 2015, and CO_2 prices virtually collapsed. 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 2017 were well above the prior-year level. Prices for base load electricity increased by an average of 17.8% to €34.2/MWh, and prices for peak load rose by 21.2% to €42.7/MWh. The sharp rise is mainly attributable to the cold snap occurring at the start of 2017, when low wind yields in Germany and low temperatures across Europe drove up spot market prices in the German-Austrian electricity market to a high level. The day-ahead price in euros reached the triple digits in the second half of January 2017. Low wind supply and cold temperatures at the start of February 2017 also led to sustained high prices, with rising fuel and CO_2 prices supporting the upward trend.

Water supply

The water supply in rivers is of particular significance to VERBUND since around 90% of its electricity is produced using hydropower. Water supply is measured by means of a hydro coefficient. The value of 1.00 stands for the long-term average. In the 2017 reporting period, the hydro coefficient for run-of-river and pondage power plants was 0.99, which is slightly below the long-term average and 1 percentage point below the prior-year level. The hydro coefficients for the individual quarters were as follows: quarter 1: 0.92; quarter 2: 0.86; quarter 3: 1.07; quarter 4: 1.15.

Electricity supply and sales volumes

VERBUND's own generation rose by 871 GWh to 32,866 GWh in quarters 1–4/2017. This represents a year-on-year increase of 2.7%. Generation from hydropower decreased by 122 GWh compared with the prior-year period. At 0.99, the hydro coefficient for the run-of-river power plants was 1% below both the prior-year figure and the long-term average. Generation from annual storage power plants increased by 1.1%, primarily because of the significant increase in generation from turbining, despite lower water inflows and water impoundment.

VERBUND's wind power and photovoltaic installations generated 117 GWh more electricity in quarters 1–4/2017 than in the prior-year period, mainly due to the windier conditions. The photovoltaic farms in Spain were sold effective 12 December 2016.

Generation from thermal power plants increased by 876 GWh in quarters 1–4/2017. The Mellach combined cycle gas turbine power plant produced 825 GWh more electricity in 2017 due to greater use of congestion management than in the previous year. Generation at the Mellach hard coal-fired power plant increased by 51 GWh.

Purchases of electricity from third parties for trading and sales rose by 2,761 GWh. Electricity purchased from third parties for grid losses and control power increased by 777 GWh in the reporting period.

Group electricity supply GWh

	2016	2017	Change
Hydropower[1]	29,809	29,687	–0.4%
Wind/solar power	835	952	14.0%
Thermal power	1,351	2,227	64.8%
Own generation	**31,995**	**32,866**	**2.7%**
Electricity purchased from third parties (trading)	22,875	25,635	12.1%
Electricity purchased for grid loss and control power volumes	3,986	4,763	19.5%
Electricity supply	**58,855**	**63,264**	**7.5%**

[1] incl. purchase rights

VERBUND's electricity sales volume increased by 3,330 GWh in quarters 1–4/2017. Electricity volumes delivered to consumers rose by 639 GWh. Here, a sharp rise in sales to domestic customers more than compensated for the slight decline in the Group's international business. As at 31 December 2017, our private customer base comprised approximately 447,000 electricity and gas customers. Sales to resellers rose by 1,851 GWh year-on-year due to a significant rise in congestion management services supplied by Austrian Power Grid AG (APG) and higher sales volumes to German municipal utilities.

Electricity deliveries to trading firms increased by 840 GWh, with decreases in deliveries to France compensated by increases in Germany and Austria. Own use of electricity rose by 1,012 GWh. The increase was due to a significant rise in generation from turbining.

Group electricity sales volume and own use GWh

	2016	2017	Change
Consumers	11,255	11,894	5.7%
Resellers	25,906	27,757	7.1%
Retailers	18,028	18,867	4.7%
Electricity sales volume	**55,189**	**58,518**	**6.0%**
Own use	2,639	3,651	38.4%
Control power volume	1,028	1,095	6.5%
Total electricity sales volume and own use	**58,855**	**63,264**	**7.5%**

In 2017, approximately 54% 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 87% of all volumes sold abroad. The German and Austrian markets accounted for most of the Group's growth.

Electricity sales volume by country

GWh

	2016	2017	Change
Austria	29,107	31,559	8.4%
Germany	21,394	23,485	9.8%
France	3,847	2,599	–32.4%
Romania	437	719	64.7%
Switzerland	236	0	–
Other	169	156	–7.6%
Electricity sales volume	**55,189**	**58,518**	**6.0%**

Financial performance

Revenue and result

	Unit	2016	2017
Revenue	€k	420,886.4	281,990.7
Earnings before interest and taxes (EBIT)	€k	356,755.4	–33,524.4
Earnings before taxes	€k	267,005.3	–113,750.4
Net income for the year	€k	272,506.8	–167,079.2
Net profit	€k	100,750.5	145,914.6
Return on equity (ROE)	%	11.5	–4.6
Return on investment (ROI)	%	6.4	–0.6
Return on capital employed (ROCE)	%	5.3	–0.5
Return on sales (ROS)	%	84.8	–11.9

Revenue

The 36.4% decrease in revenue from electricity deliveries is mainly attributable to application of the so-called reimbursement model effective 1 January 2017. This model reforms the risk of outage with grid operators. From 2017, the grid operator primarily bears the risk of outage. As a result of the changing conditions from this, grid purchases and the corresponding grid revenue will be presented on a net basis in the income statement from 2017 (2017: €135,489.8k). In the previous year, €131,706.7k in recharged grid purchases had been presented in electricity revenue.

This rule also applied to revenues from gas deliveries. In 2017, grid revenue of €20,086.7k was netted (previous year: €11,779.5k gross amount of the recharged stipulated amounts for grid tariffs). This resulted in a reduction of 23.3% in revenue from gas deliveries. If the prior-year figure is adjusted for the recharged grid revenue, revenue from gas deliveries increased by 51.7%.

Revenue thus decreased by a total of €138,896.6k or 33.0%. If the prior-year figure is adjusted for the recharged grid purchases, this amounts to an increase of 1.7%.

Expenses for electricity purchases

Expenses for electricity purchases (excluding grid share) fell by 9.6% to €142.0k. As explained for revenue, the grid fees necessary for the purchase of electricity will be presented on a net basis from 2017. In the previous year, electricity purchases still included €131,706.7k. Overall, the expenses for electricity purchases therefore decreased by €146,862.8k or 50.8%. If the prior-year figure is adjusted for the recharged grid purchases, this amounts to a decrease of 6.0%.

Expenses for gas purchases

Expenses for the purchase of gas (excluding grid share) increased by 56.6% to €13,907.1k. As explained for revenue, the grid fees necessary for the purchase of gas will be presented on a net basis from 2017. In the previous year, gas purchases still included €11,779.5k. Overall, the expenses for gas purchases decreased by €6,752.7k or 32.7%. If the prior-year figure is adjusted for the recharged grid purchases, this amounts to an increase of 56.6%.

Personnel expenses

Personnel expenses decreased by €2,055.6k or 8.0% to €23,702.1k. The 1.3% to 1.55% 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 17 to 123 employees had the opposite effect. Employee benefit expenses increased by €190.5k.

Other operating expenses

Other operating expenses decreased by €1,109.3k, or 3.2%, to €33,976.2k. This decrease is primarily attributable to lower advertising and entertainment expenses (€278.3k) as well as to the decline in intra-Group invoicing.

Earnings before taxes

Earnings before taxes decreased from €267,005.3k to €–113,750.4k as a result of the influencing factors described above and the significant deterioration year-on-year in the financial result of €–152,553.2k (previous year: €239,433.3k). The financial result changed mainly due to overall lower investment income of €382,592.5k (previous year: €437,913.3k), of which €215,414.7k (previous year: €187,133.7k) concerned the reversal of a provision relating to an equity interest. There were no transfers of losses (previous year: €5,460.2k). In addition, there were high depreciation and amortisation and provisions for investees of €526,037.5k (previous year: €167,032.8k). Impairment on investees was reversed in the amount of €27,363.6k in 2017 (previous year: €5,796.2k).

Financial position

Financial position

	Unit	2016	2017
Fixed assets	€k	4,871,318.4	4,384,286.2
Current assets	€k	296,688.8	71,070.5
Working capital	€k	–227,684.2	–140,109.1
Net debt	€k	2,653,776.5	2,283,190.1
Equity	€k	2,465,181.0	2,197,351.3
Current liabilities	€k	915,435.2	598,230.5
Current assets	€k	687,751.0	458,121.4
Average capital employed	€k	5,062,423.2	4,799,622.1
Equity ratio	%	45.0	46.8

Fixed assets

Intangible assets and property, plant and equipment increased by €12,640.2k. Additions primarily related to an electricity purchase right of €13,069.4k and to office and plant equipment and electrical installations of €1,021.8k. Amortisation of intangible assets and depreciation of property, plant and equipment amounted to €1,727.3k in the financial year.

Investments relating to investees decreased by €501,464.8k, due on the one hand to the reversal of impairment losses on a foreign equity interest (€12,080.9k) and reversals of impairment losses recognised on Austrian equity interests (€15,282.7k) and on the other hand to the disposal of a domestic equity interest amounting to €1,484.6k and repayment of shareholder contributions by a domestic subsidiary amounting to €2,981.5k. Furthermore, shareholdings in a foreign equity interest were increased by €1,675.2k, and impairment losses of €526,037.5k were recognised on foreign equity interests.

Other investments increased in total by €1,792.5k. Loans were granted in the amount of €410,000.0k, while loans of €408,332.4k were repaid. Measurement of securities under fixed assets increased due to reversals of impairment losses amounting to €124.9k.

Current assets

The decrease in current assets by €225,618.2k to €71,070.5k mainly resulted from the conversion of short-term interim financing granted to subsidiaries in 2016 in the amount of €220,000.0k into long-term loans. The increase in trade receivables by €19,022.5k had an offsetting effect. Other receivables from affiliated companies decreased by €25,229.4k, of which €20,463.7k concern the reduction in corporate income tax allocations which are not yet due.

Equity

Due to the loss for the year and the distribution for financial year 2016, equity decreased by €267,829.7k to €2,197,351.3k. The equity ratio nevertheless rose from 45.0% to 46.8%.

Liabilities

Non-current and current liabilities decreased by €343,794.6k to €2,290,742.8k. In financial year 2017, repayments to banks amounted to €298,237.4k. Liabilities to affiliated companies fell by €61,982.6k due to intra-Group invoicing. Trade payables rose by €25,940.7k.

Financing

Financing strategy

In today's volatile energy market environment in which planning is difficult, VERBUND bases its financing strategy on three pillars: 1. securing liquidity and ensuring suitable liquidity reserves, 2. securing a solid credit rating over the long term and 3. optimising the capital structure.

Securing liquidity and ensuring suitable liquidity reserves

For VERBUND, ensuring that liquidity is secure at all times – particularly in a difficult market environment – has the highest priority. As at 31 December 2017, 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 additional 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 has uncommitted lines of credit amounting to approximately €546.0m at the end of 2017. None of the credit lines had been drawn down as at 31 December 2017.

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 2017, VERBUND AG had a long-term rating of "BBB+ with a stable outlook" from Standard & Poor's (S&P) and "Baa2 with a positive outlook" from Moody's. S&P raised its rating from "BBB" to "BBB+ with stable outlook" in December 2017. Moody's held its rating at "Baa2" in 2017, although it changed the outlook from "stable" to "positive" in December.

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 performance indicators of FFO/net debt and RCF/net debt.

Financing measures

In 2017, VERBUND AG was again able to take advantage of its strong internal funding options to finance its ongoing investment programme and to continue to reduce Group debt. No long-term borrowing was taken out in 2017. As part of its active liability management, VERBUND AG continuously monitors its financial liabilities to evaluate options for reducing interest expenses (e.g. by early repayment).

In 2017, 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 €500.0m (maturing in 2024, coupon of 1.5% p.a.), with very positive results. This is the first green bond issue by a company in the German-speaking region.

KPIs – finance

	Unit	2016	2017
Cash flow from operating activities	€k	126,591.0	281,399.4
Cash flow from investing activities	€k	–170,475.6	179,331.3
Cash flow from financing activities	€k	43,882.1	–460,730.5
Financial result	€k	239,433.3	–152,553.2
Gearing	%	107.7	103.9
Debt repayment period	years	6.5	6.3

Compared with the previous year, the financial result deteriorated by €391,986.5k to €–152,553.2k. The main reason for this was higher impairment losses on equity interests during the financial year amounting to €526,037.5k (previous year: €167,032.8k). In contrast, provisions related to investees were reduced by a further €215,414.8k (previous year: €187,133.7k). Investment income from distributions decreased by €83,601.8k to €167,177.7k. No losses were transferred in 2017 (previous year: €5,460.2k). In relation to investments, there were also reversals of impairment losses amounting to €27,363.6k (previous year: €5,796.21k) and income from disposals of investments of €965.5k (previous year: €2,518.5k). Interest income improved by €8,417.0k while income from loans decreased by €11,559.4k.

A decline in interest-bearing net debt by €370,586.4k and the simultaneous decrease in equity by €267,829.7k resulted in a decrease in gearing of 3.7 percentage points to 103.9%. The continued strong cash inflow from ordinary activities of €396,323.6k with a simultaneous reduction in debt by 17.1% resulted in the debt repayment period decreasing from 6.5 years in the previous year to 6.3 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 €281,399.4k (previous year: cash inflow of €126,591.0k).

The change in trade receivables and other receivables is primarily attributable to the decrease in deferred tax assets of €66,045.2k and the decrease in other accruals and deferrals in the amount of €3,436.5k. The decrease in receivables from affiliated companies in the amount of €22,761.0k is mainly attributable to lower open tax allocations than in the previous year. In addition, a short-term investment in affiliated companies was repaid in a cash transaction of €30,000.0k. The receivables from electricity deliveries increased by €19,843.7k.

The change in trade payables and other liabilities is mainly the result of an increase in liabilities from the electricity business.

The change in current provisions and tax liabilities is largely attributable to the reversal of a provision in connection with an investment in the amount of €215,414.8k and the recognition of corporate income tax provisions, including provisions recognised for the subsequent taxation of foreign losses, in the amount of €46,143.2k.

(2) Cash flow from investing activities

Net cash flow from investing activities consisted of an inflow of €179,331.3k (previous year: cash outflow of €170,475.6k), resulting primarily from the repayment of loans amounting to €408,332.4k, the disposal of an equity interest in the amount of €2,450.0k and the repayment of shareholder contributions totalling €2,981.5k. These have to be seen alongside the granting of loans (decreased by the conversion of short-term investments from the previous year) in the amount of €220,000.0k and an addition to equity interests in the amount of €1,675.2k.

Capital expenditure for intangible assets and property, plant and equipment primarily comprised capital expenditure relating to rights in the amount of €11,719.4k, relating to office and plant equipment totalling €459.5k and relating to electrical equipment in the amount of €312.1k.

(3) Cash flow from financing activities

As part of the dividend distribution resolved for financial year 2016, €100,750.5k was paid out to shareholders. This was equivalent to a dividend of €0.29 per share. Group clearing resulted in a cash outflow of €61,742.6k (previous year: cash inflow of €280,884.7k).

Repayments at maturity in the amount of €254,534.6k and scheduled payments by instalments in the amount of €43,702.8k took place in financial year 2017.

Cash flow statement

€k

	Notes	2016	2017
Net income/net loss for the year		272,506.8	–167,079.2
Amortisation of intangible assets and depreciation of property, plant and equipment		1,861.3	1,727.3
Amortisation and reversal of impairment of financial assets		161,118.6	498,549.1
Result from disposal of non-current assets		–2,519.2	–975.3
Change in non-current provisions and deferred tax liabilities		–2,206.6	–2,759.8
Income from the reversal of contributions to building costs		–35.1	–35.1
Other non-cash expenses and income		–3,953.6	–4,361.3
Change in inventories		59.3	58.5
Change in trade receivables and other receivables[1]		21,993.7	102,573.1
Change in trade payables and other liabilities[2]		–181,288.2	23,954.2
Change in current provisions		–140,946.0	–170,252.3
Cash flow from operating activities	(1)	126,591.0	**281,399.4**
Cash outflow from capital expenditure on intangible assets and property, plant and equipment		–8,960.4	–12,788.6
Cash inflow from the disposal of intangible assets and property, plant and equipment		11.8	31.1
Cash outflow from capital expenditure on investments		–443,737.4	–221,675.2
Cash inflow from the disposal of investments		282,210.4	413,763.9
Cash flow from investing activities	(2)	–170,475.6	**179,331.3**
Cash inflow (outflow) from money market transactions		0.0	0.0
New non-current loans		0.0	0.0
Cash outflow from the repayment of financial liabilities (excluding money market transactions)		–115,407.1	–298,237.3
Cash inflow (outflow) from increases (decreases) in Group clearing balances		280,884.7	–61,742.6
Dividends paid		–121,595.5	–100,750.5
Cash flow from financing activities	(3)	43,882.1	**–460,730.5**
Change in cash and cash equivalents		–2.5	0.2
Cash and cash equivalents as at 1/1/		18.6	16.1
Cash and cash equivalents as at 31/12/[3]		16.1	**16.3**

[1] incl. prepayments and accrued income and deferred tax assets // [2] incl. other deferred income // [3] see also note (5) in the notes to the annual financial statements

Report on the environment, research, development and social aspects

Environmental performance

Under normal operations, VERBUND plants present no significant risks with potentially negative effects for the environment. By operating the facilities in compliance with the laws, VERBUND minimises the likelihood that these risks will arise. For extreme events (severe flooding, earthquakes, etc.) there are specific emergency plans and a crisis management team.

Certification of environmental management systems

VERBUND has implemented environmental management systems in accordance with ISO 14001 at generation and grid facilities and at major administrative sites. Due to the audits successfully conducted at the Grenzkraftwerke power plant group, all of the hydropower plants operated by VERBUND have been externally certified to the ISO 14001 standard since 2017.

The Mellach thermal generation facilities are also validated in accordance with the EMAS Directive. A separate environmental statement is published annually on the VERBUND website for these facilities. 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.

Greenhouse gas emissions

Due to the high proportion of renewable energy sources representing 93% 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 greenhouse gas emissions. In accordance with the Paris Agreement on climate change from 2015, VERBUND commits to reduce its worldwide emissions of greenhouse gases to a level intended to limit a rise in global temperatures to below 2 degrees (or, better still, to below 1.5 degrees). VERBUND's target of reducing greenhouse gas emissions by 90% measured beginning from the basis year (2011: 5 million tonnes CO_2e) until 2021 includes Scope 1, Scope 2 market-based and Scope 3 energy-related activities and air travel. The Science Based Targets Initiative validated this goal as science-based in October 2016, i.e. it meets global standards.

In 2017, VERBUND continued its long-term trend of declining greenhouse gas emissions, although higher emissions were generated than in the previous year. This is due to the fact that emissions were very low in 2016, rebounding in 2017 as a result of the significantly higher volumes from thermal generation for congestion management.

VERBUND's strategic goal is to reduce the VERBUND-specific direct greenhouse gas emissions (Scope 1) to below 10 g CO_2e per kWh of total electricity generated by 2020. In 2017, this figure amounted to just 41 g CO_2e/kWh. VERBUND is thus already well below the specific figure for the 2016 Austrian production mix at 139 g CO_2/kWh and even further below the German figure at 513 g CO_2e/kWh. These figures demonstrate VERBUND's success in its drive to decarbonise electricity generation.

Emissions avoided through generation from renewable energy

By generating electricity from renewable energy sources rather than from thermal generation, VERBUND avoided 23.7 million tonnes CO_2 during the reporting period. This is calculated based on average thermal generation emissions based on ENTSO-E.

Airborne emissions

The increase in emissions of carbon monoxide (CO) by a factor of two and in emissions of nitrogen oxides (NO_x) by around 22% was attributable mainly to the use of the Mellach combined cycle gas turbine power plant for congestion management (grid stabilisation) requiring frequent powering up and down and changes of load. Dust emissions from operation of the Mellach hard coal power plant increased to 12 tonnes (2016: 6 tonnes). They remained well under the total of 50 tonnes in 2015, which still included the dust emissions of the last year of operation for the Dürnrohr hard coal power plant.

Conservation and biodiversity

For current examples of 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, please refer to the Renewable generation section of the Group integrated annual report. The wide range of measures that VERBUND has already implemented and those that are at the planning stage in the areas of conservation and biodiversity are also described on the websites of the LIFE projects and on the VERBUND website.

In 2017, a total of five fish passes were completed at power plants on the Danube River in Austria and on the Inn River in Bavaria, bringing the total of fish passes in operation to 56.

Please refer to the 2017 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	2015	2016	2017
Number of R&D projects	Number	65	68	85
Total project volume[1]	€m	144.5	139.1	179.8
of which EU projects[1]	€m	92.2	93.6	111.7
VERBUND's total share[1]	€m	16.2	22.1	53.5
Annual VERBUND expenses	€m	4.2	5.5	9

[1] over the entire duration of the projects

The energy transition is in full swing in Europe, and the mobility transition is gaining traction. Our society is systematically moving towards a more electrified world. One of VERBUND's primary objectives is to be actively involved in shaping a climate-friendly, efficient future for energy. Innovation, research and development play a crucial role in this endeavour.

Opportunities provided by blockchain technology

Blockchain technology provides opportunities, also for the electricity sector. In 2017, VERBUND successfully built up expertise on the areas of application in the energy markets by conducting an initial pilot project. Several more pilot projects are now being implemented.

For example, within the framework of the ENERCHAIN consortium a technology standard is being developed for processing OTC transactions in wholesale trading of electricity in Europe. In conjunction with Salzburg AG, VERBUND also initiated two blockchain pilot projects for private photovoltaic installations on multi-unit dwellings (tenants' electricity supply) and local storage optimisation. Last but not least, VERBUND is analysing several energy-related blockchain applications in a Eurelectric working group.

Further milestones for electromobility

VERBUND is involved in European and Austrian research and development projects for electrifying the mobility sector. It is also developing new services for trade and industry. Through sector coupling, potential for reorganising the energy system is tapped.

Two projects are following on the heels of successfully completed e-mobility projects. They will make a significant contribution to the rapid expansion of the fast-charging corridors for electric cars and tie in with international networks of charging stations in neighbouring countries. Under the EVA+ project, 20 additional fast charging stations will be installed in Austria by the end of 2018 and connected to the Italian rapid charging network. Climate-friendly alternatives in the mobility sector are also becoming increasingly attractive for private customers. For this reason, the Ultra-E project is setting completely new standards in parallel and is facilitating charging for long-distance journeys for the next generation of electric vehicles. To this end, 25 ultra-fast charging stations with a charging capacity of up to 350 kW will be installed by the end of 2018, including 21 stations in Germany, Belgium and the Netherlands, as well as four in Austria. This high-performance charging network will be set up in parallel to the 50 kW network of charging stations.

Smart storage solutions for the future of energy

As the range of e-cars grows, so too does the charging capacity required. This makes e-car drivers happy but presents huge challenges for the power grid. Smart solutions are required.

In the SYNERG-E project, VERBUND is installing and operating a total of ten local buffer storage units at ultra-fast charging sites across Austria and Germany that will supply the required charging capacity of 0.5 MW in each case. This will significantly weaken the peaks in the grid load and substantially reduce grid costs. As a result, sector coupling of energy and mobility will be achieved in the SYNERG-E project.

Green hydrogen has vast potential for the industry

In the H2FUTURE project, VERBUND together with voestalpine, Siemens and three other partners are taking important first steps to decarbonise large-scale industrial processes in the steel sector. To this end, a proton exchange membrane electrolyser with a capacity of 6 MW is being constructed at the voestalpine site in Linz. This will generate "green" hydrogen with power from renewable sources. Initiated at the beginning of 2017, the project is being coordinated by VERBUND. The plant will not only produce green hydrogen, but also market it in the control power market. Whether the results are also applicable in other sectors such as in refineries or in the fertilizer or food industry will likewise be examined in the course of the project.

Smart home services at European level

In the FLEXICIENCY project, new services for consumers are being developed and tested and the market for these services throughout Europe is being planned. VERBUND is proactively working on this European research project, which was initiated in 2015. Demonstration operations in Austria were successfully started in 2017.

Research into hydropower

Through its research activities in relation to the implementation of the EU Water Framework Directive, VERBUND has already helped to shape the state of the art in the hydropower sector. At the present time, VERBUND is focusing on details of the comprehensive protection of fish, especially the migration behaviour of domestic fish species: the migration behaviour of fish in a branched flow system is being analysed using special antennas. The results will allow VERBUND to implement targeted measures aimed at improving habitats in order to maintain and protect fish populations. VERBUND is also investigating incentives for the discoverability and passability of fish passes for organisms, for example by increasing the volume of water.

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

To find potential for the flexibility of power plant use increasingly needed by the electricity market, VERBUND is analysing battery storage with different requirements at two sites.

Digitalisation of hydropower and wind power

Two digitalisation initiatives are currently running in VERBUND's hydropower operations. The Digital Workforce Management project involves digital support of the administrative and operational work processes for implementing potential improvements in the existing systems and for making new, mobile working methods possible. In the Digital Hydro Power Plant project, new digital technologies that are suited to hydropower will be identified through testing in a pilot power plant; these will be able to be used profitably for support during operations and ultimately to increase efficiency.

In the area of wind power, VERBUND geared up for the digitalisation of maintenance in 2017; for this, workflows were optimised from the planning of service assignments to the performance of troubleshooting and integrated into the existing management software. Going forward, service technicians will be able to access detailed information for troubleshooting directly at the wind power plant using their smartphone or a tablet. Inspection protocols including documentation of defects will be processed digitally.

Improved forecasts in electricity trading

In 2017, VERBUND continued to work on the further development of the inflow forecasting and optimisation of storage management. High spatial resolution in the forecast values and state-of-the-art stochastic optimisation methods now allow optimised management of the reservoirs. Numerous forecasts developed previously – and in particular the statistical distributions – provide a better basis for estimating forecast uncertainties and their effects on power plant use. Moreover, VERBUND is now even better equipped to cope with flooding. In addition, VERBUND is driving forward the development of new products with renewable sources of energy and certificates as well as new opportunities for marketing virtual pumped storage power plants and flexibility options in electricity generation.

Analysis of big data in the power grid

Our independent grid subsidiary APG was involved in 25 research projects, including three international projects, in 2017. A system for further improvement of the photovoltaic capacity forecast was developed as part of WEDDA-S (Weather Driven Demand and Supply Analysis). By dividing Austria into different regions, the forecasts for the individual clusters of photovoltaic installations can be prepared far more exactly and correlations analysed better.

The EN2VA (Visual Analytics for Energy and Engineering Applications) project developed a tool for visualising large volumes of data (big data) better and depicting their interdependencies more precisely. This method is applied, for example, in data analysis in the areas of control power, the Ten-Year Network Development Plan (TYNDP) and energy market issues.

Last but not least, the "Wolke-Erde-Blitze" (cloud-to-ground strikes) project was launched in the Alpine Region. This is being used for early detection of lightning strikes and faster investigation of faults when line failures occur.

Please refer to the 2017 Group integrated annual report for further information as well as additional details on innovation, research and development.

Human resources and social responsibility

Sustainable cost management

The noticeable improvements in the cost structure confirm the validity of the measures to improve efficiency adopted by the Group Executive Board and implemented since 2013. Restructuring efforts and divestments in the thermal power plant segment both in Austria and abroad, the reductions in investments and the significant job cuts under the programmes to increase efficiency were necessary steps to improve the Group's cost structure and maintain its competitiveness.

The overall reduction potential identified under the programmes to increase efficiency and the corresponding measures defined are being taken on in an orderly fashion. With the support of the steps agreed upon with the employee representatives, socially responsible solutions have been found for the affected employees. The trend in the number of employees reflects the results of the workforce reduction programmes. Compared with financial year 2016, the number of employees fell by 133 to 2,819 as at 31 December 2017. Around 730 jobs have been cut since the programmes to increase efficiency took effect.

In actual fact, VERBUND operates nearly 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 entails corresponding personnel costs. It is worth noting that VERBUND is among the top European electric utilities in terms of productivity. Therefore, alongside the programmes to increase efficiency that have been mentioned, it is essential for VERBUND that the existing remuneration structures at Group 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. Agency staff are used for a certain length of time as temporary leave replacements and to cover capacity peaks as well as specifically for positions with particularly flexible work requirements. This primarily concerns the implementation of new business models, sales and APG's project business for grid construction projects. Agency staff receive salaries in line with the market and, in accordance with the statutory provisions, are regarded as equals to the other VERBUND employees in terms of their remuneration structures.

Similar to the current VERBUND Group pension plan model in Austria, a defined contribution pension plan model was introduced in 2017 for new employees joining the companies in Germany. The model is funded by the ongoing contributions by the Company, making the operating expense predictable and keeping obligations off the balance sheet.

Personnel planning and management

VERBUND has been using a modern, user-friendly planning and reporting tool for personnel data, for which it received the "Bronze Winner – Large Implementations" SAP quality award in 2013. This integrated personnel and expense planning system makes the personnel planning process simple and transparent. Consistent and strict personnel planning promotes the optimal use of resources.

The Personnel Management department at VERBUND has the authority to issue guidelines concerning all personnel management matters in the VERBUND Group. Focal points include personnel planning and development, personnel management, recruiting, personnel marketing and employer branding, labour and social law, employer representation in interactions with employee representatives, compensation and benefits, and strategic guidelines relating to occupational health care, as well as diversity and inclusion management.

We use a variety of methods such as audits, internal reviews and analyses of KPIs including internal and external benchmarks to assess the effectiveness of these management approaches. Based on the results of these feedback and performance review processes, the guidelines are regularly evaluated and adapted as needed.

When all employees behave in a performance-oriented, productive and entrepreneurial manner, this safeguards the core business in the long term and makes it possible to take advantage of new business opportunities. Generation and skills management programmes help VERBUND employees to sustain their level of performance. VERBUND implements measures throughout the year as part of its occupational health management and personnel development endeavours. In an effort to simplify processes, digitalisation measures are employed for some individual services, always in compliance with data protection aspects.

The protection of employees and safety of the employees have been of great importance to VERBUND for decades. We have made it our objective at VERBUND to continually improve the accident rate.

VERBUND attaches great importance to a corporate culture that serves as the foundation for working together constructively and successfully. Consideration is given to maintaining a balance between work and personal life, open communication and a culture of discussion in which appreciation is shown for others. In connection with this, the topics of leadership culture and diversity in the Group are also of particular significance.

Types of employment and benefits offered

VERBUND generally offers permanent contracts to all of its employees. Temporary employment contracts are only entered into when there are objective reasons for doing so (e.g. to replace employees on parental leave or in relation to future issues such as digitalisation). VERBUND aims to achieve long-lasting employment relationships and gives employees the opportunity to work under various working-time models, including full-time, part-time and part-time during parental leave. Temporary workers are also hired to cover capacity peaks and for project work. VERBUND engages external contractors for clearly defined construction, overhaul and maintenance contracts in particular. The employees at these firms are subject to the same safety regulations as VERBUND personnel and therefore receive the same safety briefings.

VERBUND offers all of its employees a number of voluntary benefits and benefits under collective bargaining agreements. These include a pension fund, supplementary health insurance, discounted lunches, dependent child benefits and health checks.

Furthermore, VERBUND has declared its commitment to paying its employees in line with the market and according to employees' performance. To meet this commitment, we have had a performance-based remuneration model in place since 2010. This model uses both targets based on individual performance and the Group's profitability and ensures fair pay for employees at all levels.

Strengthening the competitive position of VERBUND in the labour market is paramount to ensure that VERBUND continues to be able to hire the best employees. At the same time, the intention is to improve the skill level of existing employees by means of targeted personnel development programmes – also through e-learning solutions.

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

By making specific investments in select employer branding measures, VERBUND took further steps in 2017 to mitigate the risk of losing its standing in the labour market as a highly attractive employer. With the use of even fewer funds, VERBUND continued to demonstrate a clear presence in the labour market – for example at education and job fairs and in print and online media, as well as on social media, focusing on IT experts and apprentices as target groups.

In 2017, the strategic focus in the area of employer branding 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. In connection with this, existing measures were also continued. These included the annual award of the VERBUND women's scholarship, participation in Take Your Daughter to Work Day in Vienna, the Women in Technology ("Frauen in die Technik," FIT) initiative and Girls! Tech up, as well as organising an alumnae event for all recipients of the women's scholarships.

In 2017, VERBUND again took part as a service learning partner in the Sustainability Challenge, in which around 60 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 "Sustainability and the city" from the perspective of the UN Sustainable Development Goals viewed as an opportunity for urban transformation. This strengthens our position as an attractive employer for graduates of the participating universities.

Recruiting

To continue to remain attractive for internal and external candidates as well, VERBUND's career opportunities were continually updated yet again in 2017. The recruiting platform implemented for applicants in 2016 complements this perfectly. VERBUND continually strives to maintain its high degree of professionalism in recruitment quality and to reflect the state of the art even in the digital world.

This was rewarded in the reporting period by the Golden Seal from the 2017 Career's Best Recruiters study, with VERBUND being awarded first place in the "Energy" category.

Personnel development

VERBUND puts emphasis on the development of its employees. In 2017, each employee took part in 36 hours of training on average. Personnel development focused on training in the areas of safety, technology and organisational and team development. The majority of employees in the fields of technology and safety are men. This is also reflected in the average training hours, which are slightly higher for men (36.7 hours) than for women (34.6 hours).

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 new prospects for existing employees.

e-training – digitalising learning solutions

More and more, learning is designed to help employees improve their own skills and often takes place embedded in the work process. To take account of this, VERBUND is therefore creating learning spaces and opportunities to allow individualised and organisational learning. The training for the standard client roll-out to Windows 10 and Office 2016 was held using digital learning media.

The e-training sessions specific to VERBUND and the intranet community support and accompany the employees during the roll-out. The Resilienz4Business e-training session guides the employee step by step through the most important areas of mental health and shows ways to recognise critical factors related to mental stress and to reinforce and improve the individual's own resilience. A module for executives offers them a set of tools to use in recognising, addressing and reacting early to the first signs of mental stress among employees.

By purchasing licenses for the Lynda learning platform offering a range of over 2,500 courses, VERBUND is also offering its employees the option to learn flexibly under the motto "what, when and where you want." Removing limitations to when and where the courses can be accessed makes the platform suitable for a wide range of learning types. The learning style and speed of learning can be adjusted individually.

Apprentice training

Maintenance and operation of our plants are key functions at VERBUND. To ensure reliable operations, in 1983 VERBUND became one of the first companies in Austria to provide its apprentices with a four-year programme of dual vocational training (electrical engineering and metalworking technician). These dual professional qualifications are in high demand and offer excellent opportunities for the future. From the second year onwards, the VERBUND apprentices work at one of VERBUND's power plants, where they are able to acquire the necessary knowledge about the plant. This ensures the transfer of expertise in the technical/skilled trade area.

In 2017, 37 new 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 but also in the recognition of VERBUND by the Austrian Federal Ministry of Science, Research and Economy as a nationally certified training company.

Trainee programme

In order to meet current and future needs in the field of digitalisation, VERBUND launched a trainee programme for young IT professionals in 2017. Over the course of 24 months, eight trainees (four women and four men – including one deaf person) each complete three stations in the Group's various IT fields (IT requirements management, agile software development, network technology, etc.).

Further improvement in corporate culture

Interdisciplinary work in the digital unit

The development of and changes in VERBUND's core operating segments require continuous enhancement of the corporate culture. To promote new forms of working, establishing a digital unit as a pilot project represents one step towards an agile corporate culture. An interdisciplinary team of 15 employees from many different business areas work together outside of the line organisation, across divisions and companies. The goal is to think outside of the box in terms of digitalisation and develop usable ideas for VERBUND out of the wide array of digitalisation options.

The use of new methods supports smart work and is growing in significance. VERBUND is employing novel methods to drive forward the necessary business model innovations. The project management method SCRUM, design thinking and prototyping with mock-ups are some of the methods being used. The range of training and continuing education opportunities at VERBUND therefore includes seminars teaching the methodology of agile product development and flexible project work.

Leadership culture

Continuous professional development of executives serves to further improve the quality of leadership and thus guarantee the Group's success. VERBUND defines measures to continually improve the leadership culture.

Regular feedback for executives is one such measure. As part of a feedback process that takes place every two years, the (leadership) behaviour from the perspective of the direct work environment (supervisors, employees and colleagues) is evaluated and compared with the executive's own appraisal. These structured and comprehensive feedback processes provide valuable information about developing executives' skills. Through an examination of the discrepancies between self-appraisals and appraisals by others and a comparison with the last feedback conducted, the goal is to highlight personal improvement in addition to identifying strengths and areas requiring attention. Targeted individual development measures adapted to each executive's needs are then defined based upon these analyses.

As yet another measure – based on the results of the last employee survey, the VERBUND executive feedback and the evaluation of mental stress – a compact format of the mandatory executive development customised to meet the individual's specific needs is carried out. The objective of this programme is to give executives new approaches, new ideas, techniques and tools for their everyday work. This is aimed at reinforcing their role as a decision-maker in the digital transformation and safeguarding the success of the Group in the long term.

Maintaining a 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. VERBUND demonstrates its commitment to being a family-friendly company through its involvement in the Companies for Families network. In 2017, VERBUND also put into effect an internal regulation on a parental leave month for fathers.

The last employee survey conducted in 2015 also confirms that satisfaction with the compatibility of work and private life in our Group has been continuously growing since 2008.

Diversity management

In 2017, VERBUND continued to work towards the diversity strategy defined in 2016. With the ZukunftVIELFALT® certification, VERBUND took another step towards continuous improvement in managing diversity. In addition to serving as a label for organisations with comprehensive diversity management systems, ZukunftVIELFALT® is a management concept for expanding an existing overarching diversity management system. VERBUND aims to firmly embrace diversity within the Group and to systematically expand on and update its diversity strategy. In this manner, VERBUND promotes diversity within the Group and guarantees equal opportunities. VERBUND earned this recognition for the first time in 2017.

Efforts to advance diversity and inclusion are ongoing. They began with initiatives such as enshrining equal opportunities in the corporate philosophy, appointment of an equal opportunities officer and a diversity and inclusion manager, Diversity Charter ("Charta der Vielfalt") premium membership and appointment of an accessibility manager.

Particular emphasis has been placed on the dimensions of age, gender and disability, and planned measures were implemented mainly in these areas in 2017.

Focus on age

VERBUND strives to achieve a balanced age structure. The objectives in managing the demographic change are keeping knowledge in the Group and maintaining the loyalty of VERBUND's top performers.

The demographic trend which has already been observable for many years continued during the reporting period. Around 7% of VERBUND employees will retire over the next five years. Over the next ten years, 29% will retire. The programmes to increase efficiency mean that not all of these positions will be filled again. However, a significant percentage of these departures concern positions that are essential to operations, which are necessary for maintaining ongoing operations and therefore must be staffed.

For many years, VERBUND has relied on an occupational health management programme targeted at keeping its workforce healthy for an extended period of time and helping to achieve a smooth transition from generation to generation. VERBUND's "Fit and Healthy" initiative is designed to promote a healthy lifestyle. The initiative motivates employees to do something for their health on a voluntary basis. Another benefit VERBUND provides to all employees is free counselling on work-related or personal problems under the Employee Assistance Programme.

Focus on gender

In connection with the gender dimension, the percentage of women overall is to be increased to 20% by 2020 – just as the percentage of women in the individual management levels is to rise as well.

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 share of 17.5% by 2020. In 2017, the percentage of women among new employee hires was 15.4%.

Based on the results of the employee survey, specific activities for the advancement of women were also agreed. 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 at VERBUND can express their interest in a management position by putting themselves forward whenever the succession planning is being periodically updated. In 2017, around 11% of women stated their interest in assuming a management position. Around half of those had not yet been included in the succession planning. The goal of identifying previously unknown potential has thus been met. In 2017, objectives for the advancement of women were agreed with the executives at the top management level in order to further promote awareness of equal opportunities for women.

VERBUND also takes care to ensure equal pay. This is based on strict compliance with the classifications of the collective agreement and on a performance-related remuneration scheme. In 2017, VERBUND also once again prepared an income overview containing information on average salaries for women and men. The ratio of the base salaries of women and men of 1:1.07 improved compared with the last reporting period. Nevertheless, socio-political and cultural aspects such as part-time work among women, a small number of women in technical professions, and the difficulty for women to advance to more highly paid (management) positions are still also reflected within VERBUND.

Inspiring women to enter technical professions is important to VERBUND. VERBUND therefore participates in several initiatives such as Take Your Daughter to Work Day in Vienna, Women in Technology ("Frauen in die Technik," or FIT) and the amaZone Award. Since 2009, our Group has awarded the VERBUND women's scholarship to talented female students who have completed a recognised technical education programme. Women at VERBUND receive support from the intra-Goup VERBUND women's network.

VERBUND has been participating in Take Your Daughter to Work Day in Vienna for 14 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 2017, a total of 16 girls took part in a variety of workshops and became acquainted with the Greifenstein power plant.

FIT also aims to generate interest among young girls in pursuing technical professions, motivates female high school graduates to study technical subjects and presents successful women in technical professions as role models. In this way, we hope to break down inhibitions and anxieties about technical or scientific education among girls.

The apprentice training programme at VERBUND has been distinguished with the amaZone Award since 2014 and continues to participate each year. The Sprungbrett association uses this award to recognise businesses with a particular commitment to training women in trades and technical professions.

By awarding the VERBUND women's scholarship, VERBUND has also supported talented female students during their technical training since 2009. Another aim for the Group is to generate enthusiasm for the Company among technically qualified women and, ideally, to recruit them. The VERBUND women's scholarship was awarded for the ninth time in 2017. The three winners each received a scholarship worth €5,000 for one year of study. This award is a means of enabling the winners to supplement their university education with additional personal and professional training.

Focus on disabled persons

VERBUND assumes its social responsibility by ensuring equal opportunities as a Group. To send a visible signal, VERBUND's stated goal is to continue to fulfil the quotas stipulated in the Austrian Disabled Persons Employment Act (Behinderteneinstellungssgesetz, BEinstG) and to recruit and employ people with disabilities even beyond that.

In this way, VERBUND exceeds the statutory quotas stipulated in Austria and Germany for the employment of disabled people. For VERBUND, the mandatory quota for Austria is 105. However, VERBUND employs 139 people who qualify as disabled persons under the Disabled Persons Employment Act (BEinstG). The corresponding mandatory quota for Germany is 18, and 23 people with disabilities are employed.

Together with the accessibility management programme, the diversity management programme continually works towards improving the employment of people with disabilities. By implementing specific measures, VERBUND aims to alleviate inhibitions and make working with disabled people a natural and established part of the corporate culture. As executives make a significant contribution to changing the corporate culture, Gregor Demblin (co-founder of the social enterprise MyAbility and himself a wheelchair user) provided information to the VERBUND executives at the top management level on employing people with disabilities. Training sessions for executives were also held in some subsidiaries.

In summer 2017, three people with disabilities completed their seasonal internships at VERBUND. One trainee with a disability began working at VERBUND in October 2017. As a member of the DisAbility business forum, VERBUND also exchanges experiences with other companies and continually increases its knowledge on the topic of employing people with disabilities.

Health and safety

The protection of employees and occupational health and safety are matters of great importance to VERBUND.

Accidents in 2017

The number of employees plus agency staff and all employees of proportionately consolidated equity interests serve as the basis for calculating the occupational safety KPIs. This figure therefore amounted to 3,030 employees at the end of 2017 and includes 117 agency staff and the entire workforce of Ennskraftwerke Aktiengesellschaft, VUM Verfahren Umwelt Management GmbH and VERBUND Tourismus GmbH.

Unfortunately, there were more injuries in 2017 than in the previous year. The injury-related lost days also increased by approximately one-third due to some very severe accidents which will continue to impact 2018.

When interpreting accident statistics, absolute accident figures must be considered in relation to the number of employees (injury frequency) and days of sick leave per accident (injury severity). Starting in 2017, lost time injury (LTI) is used for assessing accident statistics. All work injuries will now be recorded and reported beginning from the first lost day. This makes it possible to measure performance against international benchmarks.

A comparison of the VERBUND injury rate (reportable injuries beginning on the fourth day of leave) of 13.07 with the average workplace accident rate for the Austrian utilities of 13.45 per 1,000 employees shows the high technical standards applied in protecting employees both at VERBUND and in the entire sector (source: accident statistics published by Oesterreichs Energie).

Comparing VERBUND's lost time injury frequency (LTIF) of 10.1 workplace injuries per million working hours with other national and international groups, however, indicates that there is room for improvement. For this reason, VERBUND initiated the Safety Culture project.

The number of workplace injuries among staff from external contractors working at our sites is also recorded and amounted to seven such injuries in the reporting period. These unfortunately included the death of one person working for a subcontractor which occurred during road construction at a guardrail near the Malta high alpine road.

Improvement measures are identified and implemented based on an analysis of each individual accident within the Group and at external contractors. As in previous years, neither third-party fault nor organisational shortcomings were identified as the cause of any workplace injury in 2017. This shows that safety standards within the Group are very high and that safeguards for employees are being implemented as well as possible.

Accident prevention

Preventive measures are based on the analysis of workplace injury statistics at VERBUND. In 2017, the annual continuing education measures focused on continuing the training sessions on "Working in the tank", "Neophytes", "Cell phones in the workplace" and "Working with emergency services organisations and authorities." Particular attention was given to practical implementation in day-to-day work.

Every year, the legally mandated safety briefings are carried out – either in person or through an e-learning with a final test – for almost 100% of the workforce, as was the case in financial year 2017.

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. For instance, these regulations cover the following topics: 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. These regulations are intended to guarantee that the same standards are available and employed throughout the Group.

Safety Culture project

Injury KPIs have been consistently low in recent years, although they have remained stagnant at this level for several years. As the situation currently stands, a further reduction in injury KPIs is not anticipated without implementing new measures, because the potential of technical measures to protect employees has been virtually exhausted. From 2018, the Safety Culture project with its focus on protecting employees and on occupational health and safety and a deeper awareness of safety are therefore aimed at achieving a revitalised corporate culture and should result in a further reduction in accidents.

This involves additional efforts towards shaping employees' mindsets. The ultimate goal is to develop and implement personal behaviours that allow employees to come to work healthy, work safely and go home healthy.

Promoting health among employees

VERBUND's "Fit and Healthy" initiative is designed to promote a healthy lifestyle. The initiative motivates employees to do something for their health on a voluntary basis. Seminars on mental fitness again place 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.

Social responsibility

VERBUND takes 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 reinforces children's awareness of using energy carefully.

Caritas and Diakonie

Energy poverty and its negative consequences occur most frequently when incomes and standards of living are very low.

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 3,700 households with a total of 8,700 people living in these households. In the eighth period from 1 January 2017 to 31 December 2017, 350 households (seeking assistance in the social advice centres run by Caritas) were referred to the VERBUND Electricity Relief Fund in collaboration with Caritas.

Also in 2017, 700 disabled people received direct support for communication and assistive technologies with funds from the VERBUND Empowerment Fund run by Diakonie. In total, 100 disabled people received direct financial assistance for the purchase of communication aids. The emergency aid fund spent around €60,000 on this, the same amount as in the previous year. The fund has been providing assistance since 2009.

VERBUND climate school in the Hohe Tauern National Park

Through the knowledge transmitted by rangers from the Hohe Tauern National Park, students become climate protection advocates. The aim is to reach an additional 9,000 pupils by the end of the 2018/2019 school year. Beginning in 2018, the lessons of the VERBUND climate school will also be available online in all German-speaking countries.

The VERBUND electricity school kindles enthusiasm for technology

With updated learning materials, a state-of-the-art game and activities which focus on renewable energy, VERBUND provides an exciting and interactive physics lesson for the next generation. As part of the VERBUND electricity school, over 1,400 pupils visited the Ybbs-Persenbeug power plant in 2017. The tours are free of charge for students taking part in a school activity. For storage power plants, around 2,600 pupils took advantage of the offer for a school tour.

Human rights

Principles

In assessing its responsibility concerning respect for human rights, VERBUND bases its actions on ISO 26000 Guidance on social responsibility:

"Human rights are the basic rights that every person should have. There are two main categories of human rights. The first category comprises civil and political rights; it includes rights such as the right to live and freedom, the right to equal treatment under the law and the right to free speech. The second comprises economic, social and cultural rights. This category includes rights like the right to work, the right to food, the right to the highest attainable standard of health, the right to education and the right to social security."

In its materiality analysis, VERBUND identified the aspects of equality and freedom of association as material human rights issues in its sphere of direct influence. In 2017, the upstream supply chain was checked for risks in a hot spot analysis.

Equality and non-discrimination

The VERBUND Code of Conduct stipulates equal treatment of all people, regardless of their gender, age, disability, religious beliefs, culture, skin colour, education, social origin, sexual orientation or nationality. In connection with this, VERBUND firmly rejects any form of discrimination, bullying and sexual harassment. Executive development places high priority on teaching of these values.

VERBUND has had an equal opportunities officer since 2011, and diversity and inclusion management was introduced in financial year 2014. This function bundles all related activities within the Group. The responsible persons also carry out and document the development, implementation and realisation of equality targets and measures.

The diversity and inclusion strategy adopted in 2016 enables VERBUND to promote diversity in an even more structured manner. The ZukunftVIELFALT® certification confirms that VERBUND has implemented a sustainable diversity management system.

Freedom of association and collective bargaining

Industrial relations in Austria are based on a tradition of cooperation between employers and employees ("Sozialpartnerschaft"). This involves cooperation between employer and employee representatives to jointly prepare and execute economic and socio-political measures. In so doing, taking an overall economic view is regarded as being of the utmost importance.

Trade unions enter into collective agreements with the respective employer associations. Due to the "outsider effect" anchored in labour law, all employees are subject to the collective agreements regardless of whether they themselves belong to the union or not. Collective agreements have a particular impact on labour-management relations within their scope of application. Company agreements and employment contracts must respect collective agreements and may not contain any provisions that are less advantageous than those contained in the relevant collective agreement. Some of the areas governed by collective agreements are minimum salaries, working hours and supplemental payments (holiday and Christmas bonuses). Under the provisions of Austrian labour law, companies with five or more employees must elect a works council to represent the interests of employees. The same applies to Germany, where employees are subject to the provisions of German collective agreements. The social benefits provided for in these agreements are similar to Austria, with the exception of VERBUND's performance-based pay system.

Austrian labour law sets out a number of rights to which the works council is entitled in relation to information, participation and consent, as well as minimum notification periods for operational changes. VERBUND complies with these in full as a matter of course.

One of the ways in which cooperation takes place between management and the works council is through economic symposiums that are held each quarter and at which the Executive Board informs the staff representatives about the economic situation, all personnel management measures and other current developments in the Group. The economic symposiums give employees the opportunity to voice their suggestions, concerns and recommendations to the Executive Board via the works council.

Under the Austrian Labour Constitution Act, employees must be represented on the supervisory boards of stock corporations via the works council. At VERBUND as well, one-third of the Supervisory Board members are employee representatives who sit facing the Executive Board at the Supervisory Board meetings and are able to voice employee concerns in the Supervisory Board's decision-making process.

Please refer to the 2017 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

Ever since efforts to liberalise the Austrian electricity market began in financial year 2000, opportunity and risk management at VERBUND has been a separate component of its comprehensive management system. VERBUND's structures, processes and products have been subject to ongoing development as part of what is referred to as Enterprise Risk Management. Risk management activities in recent years have focused mainly on refining the risk-return approach in the Group. Under this approach, the risk management agendas extend to strategic decision-making, project management and the management of current operations.

Due in particular to the energy transition, which poses challenges for the energy industry as a whole and also for VERBUND, the risk management system is continuously adapted to changes in internal and external requirements. Each year, VERBUND's auditor also confirms the effectiveness of the ERM system based on the recommendations contained in the ISO 31000:2009 reference model.

As the business activities of VERBUND are focused on the long term on account of its investment structure, they tie up significant financial resources. Plant availability in the grid is a key factor. Furthermore, VERBUND plants are required to meet the most stringent environmental standards. Only early inclusion of all stakeholders, compliance with regulatory conditions and effective project management can ensure the success of VERBUND's projects. Operation and maintenance of these assets, which are used over many years, require highly qualified employees.

A crucial success factor in this context is secure access to the capital market. The Republic of Austria as the majority owner of VERBUND, as well as low-cost, environmentally friendly hydropower generation and the regulated grid are considered by rating agencies to be significant, stabilising elements.

The growing trend towards digitalisation is proving to be a particular challenge but also an opportunity for VERBUND. In the context of the energy transition, VERBUND is confronted with issues such as the possible auctioning of line capacity at the German-Austrian border. At the same time, security of supply must be guaranteed continuously. In this connection, the Mellach CCGT, for example, provides crucial support in stabilising the power grid. Decentralised generation is becoming increasingly important, and topics like electromobility represent new potential areas of business for VERBUND. The strengthening of the ETS system by the European Union is opening up new possibilities, but also creating impediments. For example, this transformation of the European energy system is bringing about a major change in the risk factors arising from politics, the economy, the energy market and the larger society that cannot be directly influenced. The future energy world requires electric utilities to radically change their business models and modify investment decisions. These could give rise to significant value adjustments (i.e. erratic changes in the assets and liabilities on the balance sheet). The highly regulated environment and excess capacities in Europe have overridden market pricing rules (variable production cost-based use). On the other hand, the business model of energy-related services is opening up new opportunities for VERBUND, though it also presents new risks. Issues relating to data protection legislation such as the implementation of the EU General Data Protection Regulation must also be considered in this context.

As the leading renewable energy producer, VERBUND is very much at the mercy of weather events like rain and wind, which cannot be influenced. This is particularly true for the VERBUND storage power plants as well as some of APG's ultra-high voltage lines located in high Alpine regions. Over the long term, climate change can affect both the seasonal and the annual water and wind supply. Geological conditions can also change significantly. Natural events such as floods, storms or avalanches may cause an unscheduled outage of electricity generation or transmission facilities in the future as well as consequential damage. Output from run-of-river plants is subject to seasonal fluctuations in the water supply of rivers and can be controlled only to a minor extent (hydropeaking). Storage power plants are operated on a daily, monthly or yearly basis to optimise grid usage. Owing to volatility, the marketable flexible products have emerged as a new business model. Coverage of short-term electricity requirements due to volatile wind and solar power generation is also providing revenue opportunities. In other words, energy amounts can be additionally generated or "stored" in pumped storage power plants 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 are unable to fully compensate for a decline in wholesale electricity prices.

State-of-the-art information and communication systems increasingly support VERBUND's business activities. VERBUND addresses the growing risks from cyber space for critical infrastructure by implementing preventive security strategies, internal guidelines and correspondingly secure processes. In doing so, VERBUND pays particular attention to the safety of the control technology in power plants and in the ultra-high voltage grid. VERBUND's administrative buildings and decentralised plants are protected by structural measures and electronic monitoring systems.

VERBUND manages counterparty risk in the form of possible defaults in performance or payment by its business partners with effective financial management. Adhering to the principle of dual control, counterparty limits are awarded and managed centrally. In addition to cash flows from the operating business, VERBUND possesses sufficiently high credit lines to be able to access liquid funds at short notice. Long-term agreements have been concluded with customers, suppliers, co-owners and co-users of individual power plants. However, the changing conditions have affected the profitability of some of these agreements, leading them to be adapted accordingly. VERBUND has optimised its internal structures in several projects to increase efficiency. This has led to the shutting down of sites, termination of purchase or supply agreements as well as implementation of personnel measures in a socially responsible manner. In accordance with the International Financial Reporting Standards and local accounting standards (IFRS, UGB), 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. dismantling costs). Any deviations in the current situation 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 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 15 February 2018, no risks were foreseeable for 2018, 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)

Internal control and risk management system

In accordance with 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 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 stakeholders as well as towards 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 entire internal control system and the risk management system, whose effectiveness is monitored by the Supervisory Board's Audit Committee.

Basic principles of the internal control and risk management system

VERBUND's extensive financial reporting process is governed by Group-wide guidelines and requirements. The performance, monitoring and supervision of business transactions are segregated from each other. This ensures that no single employee can act alone in performing all the process steps of a transaction from beginning to end. A 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 checks, the operational structure 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, corporate accounting, financial management and risk management. All reports are based upon uniform Group-wide rules for preparation and measurement. The liberalised European energy market requires an unbundling of the grid from 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 and are supplemented by 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 and paid-in share capital of VERBUND AG 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 at the General Meeting are restricted to 5% of the share capital." VERBUND AG is unaware of any other restrictions that affect voting rights or the transfer of shares.

3. The shareholder structure of VERBUND AG is largely defined by the majority holding of the Republic of Austria. In accordance with constitutional law, 51% of the share capital is owned by the Republic of Austria. A syndicate of the state energy companies Wiener Stadtwerke GmbH 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 a share buyback authorisation (expired as at 17 October 2015), the Annual General Meeting adopted a resolution on 17 April 2013 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 its treasury shares other than in an exchange market or through a public offering – also with exclusion of the right of repurchase (reverse preemptive right) of the shareholders – and to determine the terms of sale, and with the approval of the Supervisory Board to lower the share capital by calling these treasury shares, if necessary, without further resolution of the Annual 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 2017 Group integrated annual report on the VERBUND website.

Report on the expected performance of the Company

Outlook

According to the January 2018 forecast by the International Monetary Fund (IMF), economic growth in the eurozone is expected to weaken slightly, at 2.2% in 2018 after 2.4% in 2017. Monetary policy, the further reduction of debt in the public and private sectors and good labour market conditions will continue to sustain economic development in Europe. The stronger euro is expected to act as a damper on export growth. Brexit represents an additional risk to the development of the export-oriented economy in the eurozone.

Economic growth of 2.3% is forecast for Germany in 2018 (2017: 2.5%). Private consumption could lose some of its momentum. Investments in machinery and equipment, on the other hand, should rise. Construction continues to be sustained by the acute need for more housing and the increase in public spending.

In 2018, Austria's economy is expected to grow by 3.0% in real terms (2017: +3.0%; source: WIFO forecast from December 2017). Due to the solid income trend and the high level of consumer confidence, it is anticipated that the upswing in retail spending in Austria will continue. The excellent business expectations and the high capacity utilisation will give a further strong boost to investments in machinery and equipment again in 2018. Construction spending will also increase further, albeit at a weaker level than in 2017. Goods exports could rise by 5.0% in 2018 (after growth of +5.5% in 2017).

The oil market will be strengthened by the extension of the agreement to cut oil production. On 30 November 2017, oil producers agreed to extend oil output cuts until the end of 2018. The agreement between the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC producers led by Russia was originally applicable until March 2018. In addition, the constant resurgence of geopolitical tensions increases the danger of new conflicts.

The NCG front year and the coal front year were significantly more expensive in 2017. The price at the European gas hub NCG followed the specifications of the oil market. The correlation between the oil and gas price increased further as LNG gained in importance. Policy interventions in China were particularly responsible for the spike in coal prices, which underscores the importance of this country for the international coal trade. CO_2 prices also trended sharply upwards. An agreement on the reform of the EU ETS was reached on 9 November 2017.

The expansion of subsidised electricity generation from new renewable energy sources will continue in 2018 and electricity consumption will stagnate as a result of improvements in energy efficiency.

At an average of €32.4/MWh in 2017, the price for base load electricity deliveries in the German/Austrian bidding zone in the coming year (front-year base) was 21.8% higher than that for the previous year. Front-year peak increased by 20.9% in 2017 to €40.5/MWh.

With regard to the debate about possibly splitting up the German–Austrian price zone, a bilateral compromise was reached in May 2017 by the two countries' energy regulators – the Federal Network Agency in Germany and E-Control in Austria: trading in the German–Austrian electricity market, which is currently unrestricted, will be limited to 4.9 GW (Net Transfer Capacity – NTC) effective 1 October 2018. A final decision has not yet been made on whether the German–Austrian price zone will actually be split up. The European processes, especially the bidding zone review process, are expected to continue until the end of March 2018.

Based on the plans to split up the German–Austrian electricity market, the EEX issued futures for the German and the Austrian supply area during 2017. Notwithstanding the measures to fight the splitting-up of the price zone, VERBUND made preparations for a possible splitting up of the price zone as a precautionary measure (by adjusting the trading systems, amending the contracts/modifying procurement practices, preparing systems and resources for cross-border trade).

As a low-cost, environmentally friendly supplier of green electricity with flexible products based on a flexible power plant fleet with pumped storage power plants and the Mellach CCGT, VERBUND considers itself to be optimally positioned in light of the radical changes in conditions brought about by the energy transition. The importance of VERBUND's flexible power plant fleet is growing. APG, our wholly owned subsidiary, assumes a key role for the security of supply as owner and operator of one of Europe's most technically advanced transmission grids. VERBUND's innovative products and services already offer customers solutions for the future of energy.

The early and systematic implementation in recent years of the measures defined in the restructuring programmes makes our Group more resilient, allowing VERBUND to be optimistic about further developments in the energy sector.

Investment plan 2018–2020

VERBUND's updated investment plan for the period 2018–2020 provides for capital expenditure in the amount of €1,123m. Of that total, around €528m will be spent on growth CAPEX and around €596m on maintenance CAPEX. Most of the growth CAPEX will go towards expanding the regulated Austrian high-voltage grid (approximately €338m). In addition, VERBUND will be investing mainly in selected hydropower plant projects as well as in increasing the efficiency of existing power plants. The Töging run-of-river power plant in Germany deserves particular mention here. The investments will involve VERBUND's domestic markets of Austria and Germany. In financial year 2018, VERBUND plans to invest a total of approximately €357m, around €149m of which will be invested in growth and around €208m in maintenance.

Earnings projection for 2018

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, the contribution to earnings from flexible products and ongoing developments in the energy market.

Around 73% of the planned own generation for 2018 was already contracted as at 31 December 2017. The price achieved was approximately €3.5/MWh below the sales price reached in 2017. 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, VERBUND AG expects clearly positive earnings before taxes for financial year 2018.

Vienna, 15 February 2018
Executive Board

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

Dr. Johann Sereinig
Vice-Chairman of the Executive Board

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

Dr. Peter F. Kollmann
Member of the Executive Board

Annual financial statements

Balance sheet

Assets

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	Notes	2016	2017
A. Fixed assets			
I. Intangible assets	(1)	19,940.3	32,673.0
II. Property, plant and equipment		22,903.8	22,811.3
III. Investments	(2)	4,828,474.3	4,328,802.0
		4,871,318.4	**4,384,286.2**
B. Current assets			
I. Inventories	(3)	94.9	36.4
II. Receivables and other assets	(4)	296,577.7	71,017.9
of which due in more than one year		0.0	0.0
III. Cash in hand	(5)	16.1	16.3
		296,688.8	**71,070.5**
C. Prepayments and accrued income	(6)	76,827.0	**72,468.0**
D. Deferred tax assets	(7)	228,928.6	**162,883.4**
		5,473,762.8	**4,690,708.2**
Rights of recourse	(8)	991,226.2	866,579.0
less counter-guarantees from cross-border leasing		–462,748.8	–390,937.2
		528,477.3	**475,641.8**

Liabilities

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	Notes	2016	2017
A. Equity			
I. Called and paid-in share capital	(9)	347,415.7	347,415.7
II. Capital reserves	(10)	971,720.3	971,720.3
III. Revenue reserves	(11)	1,045,294.4	732,300.7
IV. Net profit	(12)	100,750.5	145,914.6
of which profit carried forward		0.0	0.0
		2,465,181.0	**2,197,351.3**
B. Provisions	(13)	372,744.1	**201,332.2**
C. Liabilities	(14)	2,634,507.4	**2,290,742.8**
of which due within one year		584,298.3	435,759.1
of which due in more than one year		2,050,209.1	1,854,983.7
D. Accruals and deferred income	(15)	1,330.3	**1,281.9**
		5,473,762.8	**4,690,708.2**
Contingent liabilities	(16)	991,226.2	866,579.0
less counter-guarantees from cross-border leasing		–462,748.8	–390,937.2
		528,477.3	**475,641.8**

Income statement

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	Notes	2016	2017
1. Revenue	(17)	420,886.4	281,990.7
2. Change in total services not yet billable		–14.4	0.0
3. Other operating income	(18)	516.1	368.9
4. Operating income (subtotal of lines 1 to 3)		421,388.1	**282,359.6**
5. Expenses for electricity, grid/gas purchases and purchases of emission rights and other purchased production services and other services		–331,111.5	–184,151.2
6. Personnel expenses	(19)	–25,757.7	–23,702.1
7. Depreciation and amortisation	(20)	–1,861.3	–1,727.3
8. Other operating expenses	(21)	–35,085.5	–33,976.2
9. Operating result (subtotal of lines 4 to 8)		27,572.0	**38,802.9**
10. Income from equity interests		437,913.3	382,592.5
11. Income from other securities and loans classified as financial assets		51,441.3	39,881.9
12. Other interest and similar income		3,889.1	2,781.9
13. Income from the disposal and reversal of impairment losses on investments		8,432.7	28,453.9
14. Expenses from investments		–172,493.0	–526,037.5
15. Interest and similar expenses		–89,750.1	–80,225.9
16. Financial result (subtotal of lines 10 to 15)	(22)	239,433.3	**–152,553.2**
17. Earnings before taxes (subtotal of lines 9 and 16)		267,005.3	**–113,750.4**
18. Taxes on income and profit	(23)	5,501.5	–53,328.8
19. Net income/net loss for the year		272,506.8	**–167,079.2**
20. Disposal of revenue reserves		0.0	312,993.7
21. Allocation to revenue reserves		–171,756.3	0.0
22. Net profit		100,750.5	**145,914.6**

Statement of changes in fixed assets

	As at 1/1/2017	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	340,102.9	13,075.1	169.3	0.0	
	340,102.9	13,075.1	169.3	0.0	
II. Property, plant and equipment					
1. Land, land rights and buildings, including buildings on third-party land					
a. with residential buildings	77.6	0.0	0.0	0.0	
b. with plant and other plant facilities	27,071.9	291.9	0.0	0.0	
2. Electrical installations	5,883.8	291.6	65.8	0.0	
3. Office and plant equipment	19,957.3	709.7	311.6	0.0	
4. Effected advance payments and plants under construction	0.0	20.5	0.0	0.0	
	52,990.5	1,313.7	377.5	0.0	
Property, plant and equipment and intangible assets	393,093.4	14,388.8	546.8	0.0	
III. Investments					
1. Shares in affiliated companies	3,580,279.8	1,675.2	2,981.5	2,975.0	
2. Loans to affiliated companies	1,471,551.2	390,000.0	404,462.7	0.0	
3. Equity interests	287,122.5	0.0	1,484.6	–2,975.0	
4. Loans to equity interests	45,000.0	20,000.0	0.0	0.0	
5. Securities (loan stock rights) under fixed assets	8,384.8	0.0	0.0	0.0	
6. Other loans	59,032.8	0.0	3,869.6	0.0	
	5,451,371.1	411,675.2	412,798.4	0.0	
Fixed assets	5,844,464.5	426,064.0	413,345.2	0.0	

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	As at 31/12/2017	Accumulated amortisation as at 31/12/2017	**Net carrying amount as at 31/12/2017**	Accumulated amortisation as at 31/12/2016	Net carrying amount as at 31/12/2016
	353,008.6	320,335.6	32,673.0	320,162.5	19,940.3
	353,008.6	320,335.6	**32,673.0**	320,162.5	19,940.3
	77.6	77.6	0.0	77.4	0.2
	27,363.9	18,700.6	8,663.3	18,295.7	8,776.2
	6,109.5	3,579.5	2,530.0	3,250.6	2,633.1
	20,355.3	8,757.8	11,597.5	8,463.0	11,494.3
	20.5	0.0	20.5	0.0	0.0
	53,926.8	31,115.5	**22,811.3**	30,086.7	22,903.8
	406,935.4	351,451.1	**55,484.3**	350,249.3	42,844.1
	3,581,948.5	1,109,006.6	2,472,941.8	595,050.0	2,985,229.8
	1,457,088.5	0.0	1,457,088.5	0.0	1,471,551.2
	282,663.0	12,168.9	270,494.1	27,451.5	259,671.0
	65,000.0	0.0	65,000.0	0.0	45,000.0
	8,384.8	270.4	8,114.3	395.3	7,989.4
	55,163.2	0.0	55,163.2	0.0	59,032.8
	5,450,247.9	1,121,445.9	**4,328,802.0**	622,896.9	4,828,474.3
	5,857,183.3	1,472,897.0	**4,384,286.2**	973,146.1	4,871,318.4

Statement of changes in depreciation and amortisation of fixed assets

	Accumulated amortisation as at 1/1/2017	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	320,162.5	333.8	
	320,162.5	333.8	
II. Property, plant and equipment			
1. Land, land rights and buildings, including buildings on third-party land			
a. with residential buildings	77.4	0.2	
b. with plant and other plant facilities	18,295.7	404.9	
2. Electrical installations	3,250.6	394.3	
3. Office and plant equipment	8,463.0	594.2	
4. Effected advance payments and plants under construction	0.0	0.0	
	30,086.7	1,393.6	
Property, plant and equipment and intangible assets	350,249.3	1,727.3	
III. Investments			
1. Shares in affiliated companies	595,050.0	0.0	
2. Loans to affiliated companies	0.0	0.0	
3. Equity interests	27,451.5	0.0	
4. Loans to equity interests	0.0	0.0	
5. Securities (loan stock rights) under fixed assets	395.3	0.0	
6. Other loans	0.0	0.0	
	622,896.9	0.0	
Fixed assets	973,146.1	1,727.3	

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Additions from impairment losses	Disposals	Reversal of impairment	Reclassifications	**Accumulated amortisation and depreciation as at 31/12/2017**
0.0	160.7	0.0	0.0	320,335.6
0.0	160.7	0.0	0.0	**320,335.6**
0.0	0.0	0.0	0.0	77.6
0.0	0.0	0.0	0.0	18,700.6
0.0	65.4	0.0	0.0	3,579.5
0.0	299.4	0.0	0.0	8,757.8
0.0	0.0	0.0	0.0	0.0
0.0	364.8	0.0	0.0	**31,115.5**
0.0	525.5	0.0	0.0	**351,451.1**
526,037.5	0.0	12,080.9	0.0	1,109,006.6
0.0	0.0	0.0	0.0	0.0
0.0	0.0	15,282.7	0.0	12,168.9
0.0	0.0	0.0	0.0	0.0
0.0	0.0	124.9	0.0	270.4
0.0	0.0	0.0	0.0	0.0
526,037.5	0.0	27,488.4	0.0	**1,121,445.9**
526,037.5	525.5	27,488.4	0.0	**1,472,897.0**

Maturity schedule 2017

				€k
				Residual term to maturity as at 31/12/2017
	< 1 year	> 1 year	> 5 years	Total
Loans				
1. Loans to affiliated companies	378,628.9	350,405.4	728,054.2	1,457,088.5
2. Loans to equity interests	0.0	65,000.0	0.0	65,000.0
3. Other loans	3,536.7	51,625.1	1.3	55,163.2
	382,165.7	467,030.5	728,055.5	1,577,251.7
Receivables and other assets				
1. Trade receivables	31,785.9	0.0	0.0	31,785.9
2. Receivables from affiliated companies	25,035.6	0.0	0.0	25,035.6
3. Receivables from investees	13,671.3	0.0	0.0	13,671.3
4. Other receivables and assets	525.2	0.0	0.0	525.2
	71,017.9	0.0	0.0	71,017.9
Liabilities				
1. Bonds	26,699.2	887,339.4	627,823.0	1,541,861.5
2. Liabilities to banks	192,429.4	157,372.1	182,445.8	532,247.3
3. Trade payables	41,367.0	3.5	0.0	41,370.5
4. Liabilities to affiliated companies	171,329.6	0.0	0.0	171,329.6
5. Other liabilities	3,934.0	0.0	0.0	3,934.0
	435,759.1	1,044,714.9	810,268.8	2,290,742.8

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. 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

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 substance.

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 substance 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 primarily 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 and plant 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 their principal amount, 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 those 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 2017 and 2016 have been based on the following assumptions:

%	2016	2017
Interest rate		
Pensions and similar obligations	1.50 or 1.75	1.50 or 1.75
Termination benefits	1.50	1.50
Trend		
Pension increases	1.75	1.75
Salary increases	1.75	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	0.00–3.30	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	1.50	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 capital procurement cost and loan commitment fees were capitalised in financial years 1994 and 2014 and are being repaid as scheduled. The discounts and capital procurement cost 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 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 €572.9k (previous year: €859.3k).

(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.

B. Current assets

(3) I. Inventories

€k

	2016	2017
Goods	94.9	36.4

(4) II. Receivables and other assets

For details see separate "Maturity schedule". Of the receivables from affiliated companies, €349.4k (previous year: €26.5k) related to trade receivables and €24,686.2k (previous year: €250,238.5k) to other receivables. Of the receivables from investees, €13,590.8k (previous year: €12,961.9k) related to trade receivables and €80.4k (previous year: €20,091.5k) to other receivables.

Other receivables and assets	2016	2017
		€k
Accrued interest income and commissions from bonds and loans	419.7	393.3
Tax authorities	7.4	16.4
Payroll	4.2	4.3
Effected advance payments	1.9	1.9
Other	63.0	109.3
	496.1	**525.2**

(5) III. Cash in hand

	2016	2017
		€k
Cash in hand	16.1	16.3

(6) C. Prepayments and accrued income

	2016	2017
		€k
Prepayments for electricity purchases	23,695.5	21,963.1
Discounts, flotation costs and commitment fee relating to bonds and non-current loans	7,463.2	6,540.7
Other	45,668.4	43,964.3
	76,827.0	**72,468.0**

(7) D. Deferred tax assets

	2016	2017
		€k
Social capital	6,918.5	6,236.0
Valuation of fixed assets	3.6	−5.5
Special tax deductions	−281.4	−273.6
Other	222,287.9	156,926.4
Deferred tax receivables (+) respectively liabilities (–) balanced	228,928.6	**162,883.4**

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%.

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

(8) Rights of recourse

Rights of recourse amounted to a total of €866,579.0k (previous year: €991,226.2k). 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 €390,937.2k (previous year: €462,748.8k). See note (16) Contingent liabilities.

Notes on equity and liabilities

A. Equity

(9) I. Called and paid-in 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

	2016	**2017**
Statutory reserves	19,884.0	**19,884.0**
Distributable reserves	1,025,410.5	**712,416.7**
	1,045,294.4	**732,300.7**

(12) IV. Net profit

€k

As at 31/12/2016	100,750.5
Distribution of dividends	– 100,750.5
Profit carried forward	0.0
Net loss for the year	– 167,079.2
Changes in reserves	312,993.7
As at 31/12/2017	145,914.6

(13) B. Provisions

1. Provisions for termination benefits

€k	2016	2017
Premium reserve based on actuarial calculations	9,335.3	8,322.3
Taxed proportion of provisions	9,335.3	8,322.3

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	2016	2017
Provisions for pension obligations	31,403.1	29,654.4
of which obligations similar to pensions	6,572.3	6,472.1

3. Provisions for taxes

€k	2016	2017
Corporate income tax (including prior reporting periods)	46,960.7	93,333.6
Other tax provisions	1,186.1	956.4
	48,146.8	**94,290.0**

4. Other provisions

€k	2016	2017
Trade receivables not yet billed	1,456.8	2,640.9
Other	273,310.5	57,895.7
	274,767.3	**60,536.6**

Of the provisions, €57,895.7k (previous year: €273,310.5k) 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 (€k)	2016	2017
Bonuses	4,092.3	3,940.9
Unused holidays	2,990.7	2,767.6
Holiday allowance	704.9	616.6
Death grant	505.6	507.2
Early retirement benefits	291.0	165.5
Compensatory time credit	106.4	98.8
Other	400.7	432.2
	9,091.6	**8,528.8**

(14) C. Liabilities

For details see separate "Maturity schedule".

Of the liabilities to affiliated companies, €170,016.0k (previous year: €231,758.6k) related to financial liabilities and €0.0k (previous year: €0.0k) to trade payables.

Other liabilities	2016	2017
		€k
From taxes	1,161.1	1,959.9
Payroll	203.1	338.7
Related to social security	297.8	288.0
From financing contributions	1,601.7	243.4
Other	2,403.3	1,104.0
	5,667.0	**3,934.0**

(15) D. Accruals and deferred income

	2016	2017
		€k
Contributions to building costs	701.7	666.6
Revaluation reserve	508.5	508.5
From electricity business	106.7	93.4
Other	13.4	13.4
	1,330.3	**1,281.9**

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 €27,924.0k (previous year: €33,873.9k). Of this, €27,920.5k (previous year: €28,617.4k) is attributable to affiliates and €0.0k (previous year: €1,725.0k) to investees.

The subsidiary VERBUND Hydro Power GmbH 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. For all transactions, there was full balance sheet cover for all obligations by way of corresponding acquisition of securities or through loans to financial institutions.

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 (Freudenau power plant) 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 €838,655.1k (previous year: €957,352.2k). Of the rights of recourse against the primary debtors, €390,937.2k (previous year: €462,748.8k) 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 €447,717.8k (previous year: €494,603.4k) 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 2016 reporting period, the only remaining cross-border leasing transaction triggered a so-called head lease filing (certificate deposit). Provisions were recognised at VERBUND Hydro Power GmbH for the estimated future expenses resulting from the impact of the head lease filing trigger. Because the credit rating by Standard & Poor's was upgraded once again during the reporting period, the two institutes now have different ratings levels, which means the head lease filing trigger no longer applies. The provision recognised to offset the impact of the head lease filing trigger was therefore reversed.

In addition, there is still a risk that the investing banks would have to be replaced or VERBUND Hydro Power AG 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 2017, 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

		2016	2017
Revenue from electricity deliveries			
Domestic[1]	Energy supply companies	44,283.3	35,650.1
	Industrial customers and consumers	217,094.6	84,263.1
	Other customers	106,888.2	114,474.0
		368,266.2	**234,387.1**
Invoicing of grid tariffs; user and management fees		2,983.8	3,064.9
Other revenue (including gas trading)		49,636.3	44,538.7
		420,886.4	**281,990.7**

€k

[1] of which € 0.0k (previous year: €131,706.7k) from recharged grid fees

The so-called reimbursement model applies with effect from 1 January 2017. This model reformed the risk of outage that lies with Austrian grid operators. From 2017, the grid operator primarily bears the risk of outage. As a result of the changing conditions, grid purchases and the corresponding grid revenue will be presented on a net basis in the income statement from 2017 (2017: €135,489.8k).

(18) 3. Other operating income

€k

	2016	2017
a) Income from disposal of fixed assets with the exception of investments	2.0	10.4
b) Income from reversal of provisions	42.8	18.9
c) Other	471.3	339.6
	516.1	**368.9**

(19) 6. Personnel expenses

	€k 2016	2017
a) Salaries	20,773.0	18,944.1
b) Expenses for termination benefits and payments to employee pension funds		
Termination benefits	824.8	1,118.2
Contributions to employee pension funds	170.2	159.2
Change in the provision for termination benefits	–218.4	–1,144.0
Expenses/income and takeovers/transfers within the Group	–1.7	378.9
	775.0	**512.4**
c) Expenses for pensions and similar obligations		
Early retirement benefits and pension payments	2,299.8	2,270.3
Change in the provisions for pensions and similar obligations	–2,674.5	–2,214.3
Expenses/income and takeovers/transfers within the Group	9.5	97.2
Change in the provisions for early retirement benefits	–364.1	–126.1
Pension fund contributions (including obligation to provide additional funding)	1,161.9	858.7
	432.7	**885.8**
d) Expenses for social security contributions as required by law as well as income-based charges and compulsory contributions	3,561.0	3,158.8
e) Other social security expenses	216.0	201.0
	25,757.7	**23,702.1**

(20) 7. Depreciation and amortisation

	€k 2016	2017
a) Amortisation of intangible assets and depreciation of property, plant and equipment		
Depreciation and amortisation	1,822.8	1,667.6
Immediate write-off of low-value assets in accordance with Section 13 of the Austrian Income Tax Act (EStG)	38.5	59.7
	1,861.3	**1,727.3**

(21) 8. Other operating expenses

€k

	2016	2017
a) Taxes other than taxes on income	162.2	**182.6**
b) Other		
Advertising and market development costs	10,703.9	10,271.0
Other administrative expenses	5,929.8	5,422.0
Legal, audit and consulting expenses	3,011.0	3,227.4
Operating costs for buildings, rent and leasing	3,225.7	3,168.7
IT support, electronic data processing	2,859.6	2,380.8
Membership fees	1,194.9	709.1
Temporary personnel and provision of personnel	315.6	608.7
Telecommunications services, data services	574.1	549.1
Training and further education	436.9	476.9
Other	6,672.1	6,979.9
	34,923.4	**33,793.6**
	35,085.5	**33,976.2**

(22) 16. Financial result

€k

	2016	2017
Income from equity interests		
from affiliated companies	419,235.6	363,811.7
of which from profit pools	9,436.4	14,762.4
Income from other securities and loans in financial assets		
from affiliated companies	48,885.8	37,480.1
Other interest and similar income		
from affiliated companies	3,615.2	2,427.5
Income from disposals and impairment loss reversals of investments		
disposal of shares in affiliated companies	2,444.3	0.0
reversal of impairment of shares in affiliated companies	20.0	12,080.9
Expenses relating to investments		
impairments on affiliated companies	167,032.8	526,037.5
expenses from affiliated companies	5,460.2	0.0
of which from profit pools	5,460.2	0.0
Interest and similar expenses		
of which interest for long-term personnel provisions	861.0	610.8
from affiliated companies	18,227.5	17,308.0

(23) 18. Taxes on income and profit

€k	2016	2017
Consolidated taxes on income	20,252.6	57,072.3
of which recharged to members of the Group[1]	–79,858.9	–82,098.5
Future tax expense for subsequent taxation of losses from foreign members of the tax group	18,925.1	12,346.3
Additional amounts/credit notes from previous periods	–34,828.5	–36.5
Changes in deferred taxes	70,008.2	66,045.2
	–5,501.5	**53,328.8**

[1] tax allocation rate of 15% or 25%

IV. Other disclosures

1. Total amount of other financial obligations

€k

Material items	Total commitment	2018	2018–2022
Rent, lease and insurance agreements	[1]	4,239.3	14,262.7
Purchase commitments	4,996.1	4,375.1	4,996.1
of which to affiliated companies	[1]	6.8	34.2

[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 Aktiengesellschaft 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 obligated to deliver half of the energy generated in the Ering and Obernberg power plants to VERBUND AG at total production costs plus an agreed mark-up.

There is an agreement with VERBUND Services GmbH for the invoicing of IT, insurance, procurement, financial accounting, payroll, telecommunications and administrative services.

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

There are contractor agreements with VERBUND Trading GmbH and VERBUND Sales GmbH in the sales segment.

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: €0.0k) to cover defined benefit obligations.

As at the reporting date, no employees had letters of loyalty granting a higher degree of employment protection (previous year: one employee). The prerequisites were at least 20 years of service at VERBUND and a minimum age of 45.

Outstanding contribution commitments to investees amount to €0.0k (previous year: €1,025.0k).

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 €115,312.5k (previous year: €369,937.5k) as at 31 December 2017. These interest rate hedges consist of the interest rate swaps and the underlying loans. As there is a documented hedge strategy and detailed hedge documentation, and ongoing measurements of effectiveness are being conducted, it is not necessary to recognise a separate provision for onerous contracts for the negative fair values amounting to €10,628.9k (previous year: €15,960.7k). The future interest payments hedged by these hedging instruments will occur in the following nine years (2018 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 €159,025.0k (previous year: €177,450.0k), interest rate hedges were entered into with banks in late 2012 and during the first half of 2013. At the same time, the outstanding credit agreements with the Group companies involved in this hedging transaction were converted to the fixed interest rate terms contractually agreed with the respective bank. As here, too, there is a documented hedge strategy and detailed hedge documentation, and ongoing measurements of effectiveness are being conducted, recognition of a separate provision for onerous contracts for the negative fair values is not required. The reporting date measurement of these transactions resulted in a negative fair value totalling €7,968.0k (previous year: negative fair value of €11,003.7k) as at 31 December 2017.

3. Number of employees

Average	2016	**2017**
Salaried employees	140	123

4. Expenses for termination benefits and pensions

€k

	2016	**2017**
Members of the Executive Board, former members of the Executive Board and their surviving dependants[1]	439.9	155.3
Other employees[1]	1,207.7	1,242.9
	1,647.6	**1,398.2**

[1] previous year's values adjusted (previous year: €–439.9k and €1,647.6k, respectively)

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 2017, contributions to the pension fund were paid for the Executive Board in the amount of €219,681 (previous year: €217,045).

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 2017, €361,817 was paid out for pensions (previous year: €361,210) 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 €4,718 (previous year: €100,750). Expenses for pensions and similar obligations for former members of the Executive Board and their surviving dependants amounted to a total of €150,573 (previous year: €339,132).

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	827,375	499,972	1,327,347
Dr. Johann Sereinig	790,919	342,214	1,133,133
Dipl.-Ing. Dr. Günther Rabensteiner	587,845	254,348	842,193
Dr. Peter F. Kollmann	783,585	339,040	1,122,625

[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 2017 reporting period for the 2016 reporting period are shown.

Remuneration for the four members of the Executive Board totalled €4,485,156 in 2017 (previous year: €4,293,724), which included €59,858 of payments in kind (previous year: €150,381).

Variable remuneration depends upon performance and is limited to a specific percentage of the respective fixed remuneration. This percentage rate was between 50% and 70% for financial year 2016 (and for the current financial year 2017). The level of performance-based remuneration components depends on the extent to which the targets agreed for the financial year are achieved. In the 2016 reporting period, 50% of the agreed goals related to the attainment of the Group result, 30% to the attainment of the free cash flow (three-year target) and 20% to other medium-term (two-year, qualitative) targets, such as the concluding of old business (e.g. successfully ending disputes like pending actions and arbitration proceedings) and the optimisation and adaptation of structures, processes and business models to technological advancement (digitalisation) and the disruptive changes in the competitive landscape in the energy market. The principles underlying the Executive Board's share of profit were unchanged from the previous year.

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

Remuneration paid to members of the Supervisory Board (including reimbursement of costs/travel expenses recharged) amounted to a total of €380,801 (previous year: €387,329).

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

		€
	2016	**2017**
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 2017, 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 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
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 €0.42 per share to 347,415,686 no-par value shares from the distributable profit of financial year 2017, i.e. a total of €145,914,588.12.

10. Events after the reporting date

There were no events requiring disclosure between the reporting date of 31 December 2017 and approval for issue on 15 February 2018.

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	2017 kWh
Hydropower	100.0%	1,454,420,459
Solar energy	0.0%	9,329
Total volume of electricity supplied in Austria to consumers for their own use	100.0%	1,454,429,788

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

Impact of electricity generation on the environment		2017
Radioactive waste (mg/kWh)		0.0
CO_2 emissions (g/kWh)		0.0

Vienna, 15 February 2018
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 (UGB)

€k

	Head-quarters	% share-holding as at 31/12/2017	Most recent annual financial statements	(+) (–)	Net income/loss for the year	Equity[1]
Consolidated affiliated companies[2]						
Austrian Power Grid AG	Vienna	100.00	2017	+	40,260.9	441,742.1
Innwerk AG	Stammham	100.00	2017	+	24,940.6	152,590.0
VERBUND Finanzierungsservice GmbH	Vienna	100.00	2017	+	331.3	218.1
VERBUND Sales GmbH	Vienna	100.00	2017	+	2,891.2	10,353.9
VERBUND Services GmbH	Vienna	100.00	2017	+	9,521.3	7,420.6
VERBUND Solutions GmbH	Vienna	100.00	2017	+	2,018.5	11,933.5
VERBUND Thermal Power GmbH	Neudorf ob Wildon	100.00	2017	+	1,042.6	5,278.8
VERBUND Trading GmbH	Vienna	100.00	2017	+	63,214.7	209,625.6
VERBUND Wind Power Deutschland GmbH	Wörrstadt	100.00	2017	+	6.2	31.2
VERBUND Thermal Power GmbH & Co KG in Liqu.	Neudorf ob Wildon	99.99	2017	+	215,414.8	–57,895.7
VERBUND Wind Power Romania S.R.L.[3, 4]	Bucharest	99.98	2017	–	2,255.6	116,017.7
Windpark Dichtelbach GmbH & Co. KG	Wörrstadt	95.00	2017	+	177.7	3,007.1
Windpark Dörrebach GmbH & Co. KG	Wörrstadt	95.00	2017	–	82.0	3,051.4
Windpark Eichberg GmbH & Co. KG	Wörrstadt	95.00	2017	+	152.6	5,050.5
Windpark Ellern GmbH & Co. KG	Wörrstadt	95.00	2017	–	290.5	5,284.9
Windpark Hochfels GmbH & Co. KG	Wörrstadt	95.00	2017	–	72.0	3,291.8
Windpark Rheinböllen GmbH & Co. KG	Wörrstadt	95.00	2017	+	135.2	5,027.3
Windpark Schönborn GmbH & Co. KG	Wörrstadt	95.00	2017	–	227.6	4,746.6
Windpark Seibersbach GmbH & Co. KG	Wörrstadt	95.00	2017	+	647.5	5,347.7
Windpark Stetten I GmbH & Co. KG	Wörrstadt	95.00	2017	+	229.1	4,630.3
Windpark Utschenwald GmbH & Co. KG	Wörrstadt	95.00	2017	–	79.3	1,559.1
Infrastruktur Oberheimbach I GmbH & Co. KG	Wörrstadt	81.00	2017	–	0.4	68.2
VERBUND Hydro Power GmbH	Vienna	80.54	2017	+	149,773.1	1,555,020.3
VERBUND Innkraftwerke GmbH	Töging	70.27	2017	+	10,474.5	296,392.5

€k

	Head-quarters	% share-holding as at 31/12/2017	Most recent annual financial statements	(+) (–)	Net income/loss for the year	Equity[1]
Infrastrukturgesellschaft Bischheim GmbH & Co. KG	Wörrstadt	61.26	2017	+	0.0	43.4
Donaukraftwerk Jochenstein Aktiengesellschaft	Passau	50.00	2017	+	844.8	15,737.4
Grenzkraftwerke Gesellschaft mit beschränkter Haftung	Simbach	50.00	2017	+	2,158.0	10,963.2
Österreichisch-Bayerische Kraftwerke Aktiengesellschaft	Simbach	50.00	2017	+	3,170.8	58,278.6
Non-consolidated affiliated companies						
AQUANTO GmbH	Unterföhring	100.00	2016	–	2,000.7	545.1
Associates						
Ennskraftwerke Aktiengesellschaft[5]	Steyr	50.00	2017	+	394.9	26,776.8
KELAG-Kärntner Elektrizitäts-Aktiengesellschaft[6]	Klagenfurt	35.17	2016	+	74,898.0	807,611.2

[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] Proportionate consolidation in accordance with Section 262 of the Austrian Commercial Code (UGB) // [6] Accounted for using the equity method in accordance with Sections 263a–264 of the Austrian Commercial Code (UGB)

Independent auditor's report

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 2017, the income statement for the financial year then ended and notes to the annual financial statements.

In our opinion, the accompanying annual financial statements comply with legal requirements and give a true and fair view of the Company's financial position as at 31 December 2017 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 Regulation (EU) No. 537/2014 (hereinafter, the EU Audit Regulation) and Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Annual Financial Statements section of our report. We are independent of the Company in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 2017, VERBUND AG reported shares in affiliated companies in the amount of around €2,472.9m. Due to the current 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, the dependence of results on the assessment of market data by management and the sensitivity to the cost of capital and to the assumptions regarding the medium- and long-term trends in electricity and natural gas prices for the energy markets, this matter was of particular importance for our audit.

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. Quoted prices on electricity exchanges and also available price forecasts were used to evaluate the assumptions for the medium- and long-term price trends on the energy markets. We consulted internal experts in order to corroborate the capital costs by means of comparative analysis.

We assessed the consistency of the future cash inflows used 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.

Compared to the previous year, the measurement method underlying impairment testing was adapted to allow financial surpluses to be taken into account to reflect the permanent existence of a power plant site after price forecasts are no longer available by applying a terminal value calculation. The higher cost of capital and the adjustment of the electricity price scenarios used to better reflect the internal expectations of the long-term trend in electricity prices also resulted in changes compared to the previous year.

Other Information

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

Our opinion on the annual financial statements does not cover the other information and we will not express any form of assurance conclusion thereon. Concerning the management report, please refer to the section "Report on the Audit of the Management Report."

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

The Company's management is responsible for the preparation of the annual financial statements and that these give a true and fair view of the assets, liabilities, financial position, and financial performance of the Company in accordance with Austrian Generally Accepted Accounting Principles and the special legislation of the Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG). Furthermore, the management is responsible 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 the EU Audit Regulation and 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 the EU Audit Regulation and Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- When performing our audit in accordance with the applicable standards on auditing, we take into account the Company's legal and regulatory framework, but are not responsible for preventing or detecting violations on the part of the Company of laws or other legal provisions. The unavoidable risk due to the inherent limits of an audit that some material misstatements in the annual financial statements may not be detected, although the audit was properly planned and conducted, is greater for violations of other legal provisions. This is the case, because – among other things – there are many laws and other legal provisions related primarily to the operational aspects of a company that are not recorded by the Company's accounting-related information systems and such violations can be accompanied by an effort to conceal the violation.
- 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, and we 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.

Additional Information required under Article 10 of the EU Audit Regulation

We were elected by the Annual General Meeting held on 5 April 2017 as the auditor for the financial year ended 31 December 2017 and engaged by the Supervisory Board on 26 July 2017 to audit the annual financial statements. We have been the Company's auditor continuously since the financial year ending on 31 December 2007.

We declare that the audit opinion included in the "Report on the Audit of the Annual Financial Statements" is in line with the additional report to the Audit Committee and complies with Article 11 of the EU Audit Regulation.

We declare that we have not provided any non-audit services in accordance with Article 5(1) of the EU Audit Regulation and that we maintained our independence from the Company while conducting our audit.

Engagement Partner

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

I

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

Vienna, 15 February 2018
Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Gerhard Marterbauer	Mag. Christof Wolf
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 current 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 earnings before taxes.

RCF (Retained cash flow)

Funds from operations (FFO) less dividends paid.

ROCE (Return on capital employed)

Ratio of earnings before interest (including personnel-related interest) less applicable taxes to average capital employed.

ROE (Return on equity)

Ratio of earnings before taxes to equity at the beginning of the financial year.

ROI (Return on investment)

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

ROS (Return on sales)

Ratio of earnings before interest (including personnel-related interest) and taxes to revenue.

Working capital

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

EDITORIAL DETAILS

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Verbund
Power for the Future