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Annual Report VERBUND AG 2018

Power for the Future

# VERBUND AG
# Annual Report 2018

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

# Three-year comparison

€m, %

| | 2016 | 2017 | **2018** |
|---|---|---|---|
| Revenue | 420.9 | 282.0 | 259.6 |
| Earnings before interest and taxes (EBIT) | 356.8 | –33.5 | 641.3 |
| Earnings before taxes | 267.0 | –113.8 | 564.7 |
| Net income/net loss | 272.5 | –167.1 | 563.0 |
| Net profit | 100.8 | 145.9 | 145.9 |
| | | | |
| Total assets | 5,473.8 | 4,690.7 | 4,915.3 |
| Fixed assets | 4,871.3 | 4,384.3 | 4,676.3 |
| Capital expenditure for property, plant and equipment | 0.7 | 1.3 | 1.6 |
| Depreciation of property, plant and equipment | 1.5 | 1.4 | 1.4 |
| Equity | 2,465.2 | 2,197.4 | 2,614.5 |
| | | | |
| Return on sales (ROS) | 84.8% | –11.9% | 247.1% |
| Return on equity (ROE) | 11.5% | –4.6% | 25.7% |
| Return on investment (ROI) | 6.4% | –0.6% | 13.7% |
| Return on capital employed (ROCE) | 5.3% | –0.5% | 10.4% |
| | | | |
| Equity ratio | 45.0% | 46.8% | 53.2% |
| Debt repayment period | 6.5 | 6.3 | 8.5 |
| | | | |
| Cash flow from operating activities | 126.6 | 281.4 | 178.7 |
| Gearing | 107.7% | 103.9% | 84.0% |
| | | | |
| Working capital | –227.7 | –140.1 | –915.8 |
| Net debt | 2,653.8 | 2,283.2 | 2,196.8 |
| Current liabilities | 915.4 | 598.2 | 1,091.1 |
| Current assets | 687.8 | 458.1 | 175.2 |
| | | | |
| Share price high | 15.8 | 21.8 | 44.8 |
| Share price low | 10.0 | 14.7 | 20.0 |
| Closing price | 15.2 | 20.1 | 37.2 |
| (Proposed) dividend per share | 0.29 | 0.42 | 0.42 |
| Dividend yield | 1.91% | 2.08% | 1.13% |
| | | | |
| Average number of employees | 140 | 123 | 115 |
| | | | |
| Group electricity sales volume (GWh)[1] | 58,855 | 63,264 | **63,195** |

[1] Including system requirements

# Board members

## Executive Board

| Name | Year of birth | Date of initial appointment | End of current term of office |
|---|---|---|---|
| Dipl.-Ing. Wolfgang Anzengruber<br>CEO and Chairman of the Executive Board | 1956 | 1/1/2009 | 31/12/2020 |
| Dr. Johann Sereinig<br>Deputy CEO and Vice-Chairman of the Executive Board | 1952 | 1/1/1994 | 31/12/2018 |
| Mag. Dr. Michael Strugl<br>Deputy CEO and Vice-Chairman of the Executive Board | 1964 | 1/1/2019 | 31/12/2021 |
| Dr. Peter F. Kollmann<br>CFO and Member of the Executive Board | 1962 | 1/1/2014 | 31/12/2021 |
| Dipl.-Ing. Dr. Günther Rabensteiner<br>Member of the Executive Board | 1953 | 1/4/2011 | 31/12/2018 |
| Mag. Dr. Achim Kaspar<br>Member of the Executive Board | 1965 | 1/1/2019 | 31/12/2021 |

## Supervisory Board

| Name | Year of birth | Date of initial appointment | End of current term of office |
|---|---|---|---|
| Dr. Gerhard Roiss<br>Chairman<br>Board of directors of SULZER AG Switzerland | 1952 | 5/4/2017 | AGM 2020 |
| Dipl.-Ing. Dr. Michael Süß<br>1st Vice-Chairman<br>Member of the supervisory board of Herrenknecht AG and the board of directors of Oerlikon AG (chairman); Renova AG (asset director); Süß Management Systems and Süß Film (shareholder) | 1963 | 22/4/2015 | AGM 2020 |
| Mag. Elisabeth Engelbrechtsmüller-Strauß<br>2nd Vice-Chairwoman<br>CEO of Fronius International GmbH; member of the supervisory board of Wels Betriebsansiedlungs-GmbH (chairwoman); member of the board of trustees of the Institute of Science and Technology and the University Council of Johannes Kepler University in Linz | 1970 | 22/4/2015 | AGM 2020 |
| Mag. Harald Kaszanits<br>Austrian Economic Chambers | 1963 | 7/4/2010 | AGM 2020 |
| Dipl.-Ing. Dr. Peter Layr | 1953 | 13/4/2011 | 23/4/2018 |
| Mag. Werner Muhm<br>Member of the supervisory boards of Wiener Städtische Versicherung, AWH Beteiligungsges.m.b.H., KA Finanz AG; 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 |

| Name | Year of birth | Date of initial appointment | End of current term of office |
|---|---|---|---|
| Dr. Susanne Riess<br>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 (member), SIGNA Development Selection and Prime Selection (member), Einlagensicherungsgesellschaft Austria GmbH (member) and IHAG Privatbank Zürich (member of the board of directors) | 1961 | 22/4/2015 | AGM 2020 |
| Mag. Jürgen Roth<br>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 |
| Mag. Stefan Szyszkowitz<br>Spokesman of the managing board of EVN AG; member of the supervisory boards of Burgenland Holding Aktiengesellschaft (chairman), EVN Macedonia AD (chairman), RAG-Beteiligungs-Aktiengesellschaft (chairman) and RAG Austria AG (chairman), Energie Burgenland AG (vice-chairman) and Netz Niederösterreich GmbH (vice-chairman); member of the supervisory boards of Österreichische Post AG and Wiener Börse AG/CEESEG AG | 1964 | 23/4/2018 | AGM 2020 |
| Christa Wagner<br>Managing partner at Wagner – Josko Immobilien GmbH; partner in Josko Fenster und Türen GmbH; member of the supervisory boards of Eurosun a.s. and exceet Card Group AG | 1960 | 7/4/2010 | AGM 2020 |
| Dipl.-Ing. Peter Weinelt<br>Managing director of Wiener Stadtwerke GmbH and Wiener Stadtwerke Planvermögen GmbH; member of the supervisory boards of Wien Energie GmbH (chairman), Wiener Netze GmbH (chairman) and Burgenland Holding Aktiengesellschaft (member) | 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<br>Chairman of the<br>Group's employee representatives | 1955 | from 25/10/2006<br>until 5/4/2018 | appointed by the employee representatives |
| Doris Dangl<br>Chairwoman of the<br>Group's employee representatives | 1963 | since 5/4/2018 | appointed by the employee representatives |
| Kurt Christof<br>Chairman of the Central Works Council<br>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<br>Chairwoman of the Works Council | 1971 | since 1/9/2016 | appointed by the employee representatives |
| Ing. Wolfgang Liebscher<br>Chairman of the Central Works Council | 1966 | since 1/11/2013 | appointed by the employee representatives |
| Dipl.-Ing. Hans Pfau<br>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 trajectory in financial year 2018. The Group once again generated very good results in a market climate that remained volatile and in which water supply was poor. The Supervisory Board actively monitored and supported this strong performance.

**Performance of duties.** In financial year 2018, the Supervisory Board discharged the responsibilities and exercised the powers incumbent upon it by virtue of the law and the Articles of Association at six plenary meetings. The overall attendance rate for all Supervisory Board members was 91%. 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.

The Supervisory Board 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, with the Supervisory Board paying particularly close attention to the Group's structure, business processes and strategy. This involved the Supervisory Board working to advance the ongoing strategy process and adopting a new version of the rules of procedure for the Executive and Supervisory Boards. The main resolutions adopted by the Supervisory Board are presented in the 2018 Consolidated Corporate Governance Report. Between meetings, the Chairman of the Supervisory Board conversed regularly with the members of the Executive Board, particularly the Chairman.

**Changes in the Executive and Supervisory Boards.** In addition to approving the annual financial statements and the Group budget, one of the Supervisory Board's most important decisions during the reporting period involved the (re-)appointment of Executive Board members. The Supervisory Board extended the Executive Board appointments of Dipl.-Ing. Wolfgang Anzengruber as CEO and Dr. Peter Kollmann as CFO. It also appointed Mag. Dr. Michael Strugl to the Executive Board as member and Vice-Chairman, and Mag. Dr. Achim Kaspar as a member of the Executive Board effective 1 January 2019. Effective 31 December 2018, Dr. Johann Sereinig and Dipl.-Ing. Dr. Günther Rabensteiner left the Executive Board and entered retirement. The Supervisory Board would like to thank Dr. Johann Sereinig and Dipl.-Ing. Dr. Günther Rabensteiner for their many years of successful work on the Executive Board.

There were two personnel changes on the Supervisory Board as well. Mag. Stefan Szyszkowitz was appointed to the Supervisory Board to replace Dipl.-Ing. Dr. Peter Layr as a shareholder representative at the Annual General Meeting held on 23 April 2018. With respect to the employee representatives, Doris Dangl was appointed to replace Anton Aichinger effective 5 April 2018.

**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 in the reporting period, particularly of its organisation and work procedures. The evaluation was undertaken in the form of a comprehensive written questionnaire that was completed by the Board members. 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.

Adopted on 23 April 2018, the amended rules of procedure for the Supervisory Board provide for changes involving the Supervisory Board committees as well as modified regulations for Supervisory Board meetings. For example, the Working Committee, which did not meet in the reporting period, was dissolved. In lieu of the Working Committee, the rules of procedure established the previously temporary Strategy Committee as a standing Supervisory Board committee. The Strategy Committee is responsible above all for coordinating corporate strategy with the Executive Board, conducting the annual strategy review and supervising any modifications to be made. During the reporting period, the Strategy Committee held five meetings for the purpose of monitoring revision of the Group's strategy.

The Audit Committee held three meetings in the year under review. 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, the Audit Committee 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. The number of Audit Committee members was reduced under the new rules of procedure, as was the number of Strategy Committee members. The same applies to the Emergencies Committee provided for in the rules of procedure, which did not meet in the reporting period.

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 Remuneration Committee convened seven times, mainly to discuss the agreements on targets and the variable remuneration paid to the Executive Board as well as the termination agreements with former members of the Executive Board and the new Executive Board contracts. The Nomination Committee held five meetings to prepare for the Supervisory Board elections as well as for the call for applicants to the Executive Board and the Executive Board appointments in June 2018.

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 2018.

**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 2018 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 generally accepted accounting principles, 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 2018 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 2018. The Supervisory Board would also like to thank the Group's shareholders, customers and business partners for their trust.

Vienna, March 2019

Dr. Gerhard Roiss
**Chairman of the Supervisory Board**

# Management report

# Report on business performance and economic position

## General conditions

Prices for crude oil, natural gas and coal increased in financial year 2018 before falling again in October 2018. $CO_2$ prices also rose significantly in 2018 fuelled by concerns about shortages in the supply of $CO_2$ emission rights in connection with the launch of the market stability reserve in 2019. The increases in $CO_2$ and raw materials prices pushed up prices for wholesale electricity.

Demand for electricity increased slightly in 2018. The somewhat higher level of demand starting in the second quarter of 2018 compared with 2017 compensated for the lower demand experienced in the winter months of 2018.

VERBUND's clear strategic positioning as an energy supplier focusing on sustainable renewable energy in combination with timely implementation of organisational and structural measures has given VERBUND an excellent foundation for the Group's continued growth. Challenges such as digitalisation, decarbonisation and decentralisation of the energy system present a multitude of opportunities for continued growth at VERBUND.

### General economic environment

**Global economy in stable growth phase**

The steady growth trend since mid-2016 was sustained in 2018 with global economic growth of 3.7%, as in the previous year. In the US, gross domestic product continued to rise sharply despite global trade disputes and the resulting loss of investor confidence. Economic growth in 2018 was 2.9% in the US and 1.8% in the eurozone. In Japan, economic growth declined to 0.9% in 2018, down from 1.9% in 2017 (all figures from the January 2019 forecast published by the International Monetary Fund (IMF)).

The Chinese economy registered its slowest rate of growth since 2009 at 6.6% in 2018, with the trade dispute between the United States and China being the main factor in the decline. China has attempted to keep the country's growth levels relatively stable through monetary and budgetary easing. While growth in Russia and Brazil was lower by comparison, both countries posted growth rates surpassing the 2017 figures.

Growth in the eurozone economy slipped to 1.8% in 2018 compared with the prior-year reporting period (2017: 2.4%). Since the start of the year in 2018, the economies in key eurozone countries have been negatively impacted by the slowdown in foreign trade. The German economy recorded growth of 1.5% in 2018. For 2019, the IMF is projecting GDP growth of 1.3% for Germany. According to the IMF experts, the lower forecast is based on declining exports and weaker industrial production.

Austria's economy performed well in 2018 by international standards. Economic growth picked up to 2.7% (January 2019 economic forecast by the Austrian Institute of Economic Research) on the back of strong industrial activity. The aforementioned uncertainties will likewise curb growth in Austria in 2019, however, with the growth rate projected to drop to approximately 2.0% in 2019. Although household spending continues to support economic growth, it is not sufficient to fully compensate for declining demand in foreign trade.

### Energy market environment

**Electricity consumption increases in Austria**

According to initial data from E-Control[1], electricity consumption in Austria rose by 0.3% in 2018 (total supply of electricity: domestic electricity consumption less pumped storage consumption).

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

Electricity generation from hydropower dropped 2.2% below the 2017 level in 2018. In the first half of 2018, electricity generation from hydropower was still well above the 2017 generation levels (+24%) with the exception of the month of March. In the second half of 2018, generation from hydropower fell to nearly one-quarter below the 2017 level due to the prolonged drought.

Average annual electricity generation from thermal power plants decreased by as much as 7.0% in 2018 compared with 2017 levels. Only in March and in the months from September to December 2018 did generation levels exceed the prior-year figures.

Generation from wind power plants was down 10.3% on the previous year's level due to lower wind supply. "Other generation" increased by 4.5%. 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. Total electricity production in Austria decreased by 3.7% in 2018.

Decreases were seen in both imports (–4.4%) and exports (–16.2%) of electricity in 2018. Net imports came to 8,947 GWh in 2018, or around 2,401 GWh less than in the prior year.

### Oil price up sharply compared with 2017

The average price for one barrel of Brent crude oil (front month) rose by more than 30% in 2018 to just under $72/bbl, compared with approximately $55/bbl in 2017.

In 2018, the oil market was impacted in particular by the emerging trade dispute between the US and China as well as the withdrawal of the United States from the Iran nuclear deal and the announced imposition of sanctions on Iran by the US. The price of Brent crude fluctuated between $60/bbl and $70/bbl for quite some time at the start of the year, after which it rose on the back of OPEC production cuts and announcement of the re-imposition of sanctions against Iran coupled with unchecked demand for oil. By the end of May 2018, the price had nearly reached the $80/bbl mark. Crude oil prices then underwent a correction in the face of reports of OPEC discussions with Russia on increasing production as well as robust growth in US production levels and an increase in crude oil inventories in the US. By mid-June 2018, the price had fallen to around $70/bbl. In the ensuing period, the threat of sanctions against Iran proved to be the determining factor for the price of oil, which rose to over $85/bbl at the start of October. Oil prices fell substantially from mid-October onwards, dipping to below $60/bbl at times once it emerged that the production cuts arising from the Iran sanctions would be less far-reaching than imagined (eight key oil buyers were exempted from the prohibition on buying Iranian oil) in combination with production expansions in Saudi Arabia, Russia and the US. The decision of OPEC and Russia to cut production led to a brief stabilisation of the price of oil at just under $60/bbl. Oil prices dropped further at the end of 2018 to close the year at below $55/bbl.

### Increase in gas prices

The average spot price for natural gas at the European NCG trading point increased by over €5/MWh year-on-year to nearly €23/MWh in 2018. In futures trading, supplier contracts for the coming year (NCG front year) were invoiced at around €21/MWh, or nearly €4/MWh more than had to be paid for the NCG front year in 2017. European gas prices received a boost in 2018 from strong oil prices as well as rising LNG prices.

### Further increase in steam coal prices

Steam coal prices also increased substantially in 2018 compared with the previous year. Coal prices on the spot market (ARA front year) were up by more than \$13, or nearly 20%, on the prior year at an average of \$87/t.

Coal prices were also up on the spot market with an increase of 8% in 2018 compared with the average listing in 2017. The price of coal benefited above all from the general upward trend on the commodities markets as well as from sustained high demand in the EU, Japan and Korea. Key exporter Indonesia, however, did not meet its planned export targets.

### EU implements emissions trading reforms

Prices on the emissions trading market benefitted from the agreement on reforming the emissions trading regime reached at the start of 2018 by the Council of the European Union and the European Parliament. The agreement stipulates stricter climate targets for installations in the power sector and energy-intensive industry that are subject to the EU ETS. Greenhouse gas emission allowances for such installations will be lowered by 2.2% per year – more than has hitherto been the case – between 2021 and 2030. At the same time, pollution allowances will be taken off the market in order to lower the supply.

$CO_2$ prices nearly tripled in 2018 as a result. Whereas the 2017 average was just below €6/t, this figure rose to around €16/t in 2018 (futures market front year). The price even surpassed €25/t for a short period, although this was followed by a downward correction. Not until the end of 2018 did $CO_2$ prices again approach the previous high.

### Substantial increase in wholesale electricity prices

In 2018, the market for wholesale electricity was impacted on the one hand by a sharp price increase in connection with price hikes in the markets for primary energy and $CO_2$ and on the other by the split of the German-Austrian joint bidding zone effective 1 October 2018. The physical incapacity of the grid to transport the rapidly rising quantities of electricity generated from wind farms in the north of Germany to the demand centres in the south in sufficient capacities led to unscheduled power flows (“loop flows”) via Poland and Czech Republic. To reduce these unplanned loop flows, Germany pushed introduction of a congestion management procedure at the German-Austrian border.

The congestion management procedure introduced at the border between Austria and Germany at the start of October 2018 increased electricity prices in Austria as expected. The price increase was due to the relatively inexpensive excess power generated from German renewables no longer being able to be supplied to Austria in the accustomed quantities. The average price of electricity on the Austrian spot market during the first three months of market separation (October to December 2018) was approximately €7.3/MWh above the price in Germany. It remains to be seen how the price will evolve in the future.

The average price for base load electricity deliveries on EPEX SPOT, the European power exchange, increased by approximately 34% year-on-year to €46.3/MWh in 2018 (reflecting the prices in the Austrian market area from 1 October 2018). Peak-load prices were at €54.0/MWh, or 25% higher than the 2017 average. The average price for immediate base load electricity deliveries in the German market area (from 1 October 2018) was €44.5/MWh, and the price for peak-load energy was €52.1/MWh. The price increases were driven mainly by higher prices for steam coal and $CO_2$.

Against the backdrop of the split of 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 range of Phelix products in the first half of 2017.

In the futures market at the European Energy Exchange (EEX), base load for 2019 (front year base) was traded at an average price of €46.64/MWh in 2018 for the Austrian bidding zone, and peak-load (front year peak) was traded at €56.84/MWh. In 2017, front year base contracts cost €32.38/MWh on average and front year peak contracts cost €40.51/MWh (for the joint German-Austrian market area). In the German market area, front year base traded at an average of €43.84/MWh and front year peak at €53.95/MWh in 2018. The higher prices were due to the rise in $CO_2$, gas and coal prices.

VERBUND sells most of the electricity it generates in advance on the futures markets so as to reduce short-term selling and price risks. The price trend in the futures market in 2018 had only a minor influence on revenue during the reporting period. The trend will positively impact earnings in subsequent periods, however.

## Political and regulatory framework

In 2018, the Council of the European Union and the European Parliament succeeded in clearing up the last remaining issues with the Clean Energy Package (CEP) during the term of the Austrian presidency following extensive negotiations.

In Austria, the federal government presented its Climate and Energy Strategy (#mission2030) which sets the objectives of a reduction of 25–30% in primary energy intensity by 2030 compared with 2015 and covering 100% of total electricity consumption (national balance) from national renewable energy sources by 2030. The strategy package includes reforms involving the topics of system charges and Österreichische Beteiligungs AG, among other things.

### EU energy policy

#### “Clean Energy for All Europeans”: negotiations on the legislative package concluded

After two years of negotiations, the European legislators succeeded in bringing the negotiations on the Clean Energy for All Europeans package to a close in the second half of 2018 during the term of the Austrian Council presidency. In essence, the package defines new targets for developing renewable energy and improving energy efficiency by 2030, dismantles a number of internal energy market barriers and facilitates access to the energy market for consumers and new market players alike.

Specifically, the share of energy from renewables is to reach 32% of the EU’s gross final consumption by 2030, with 14% of all fuels used in the transport industry to come from renewables. An energy efficiency headline target of 32.5% has been set for 2030. In 2023, the targets for both renewables expansion and energy efficiency are to be revisited and possibly raised. The reporting duties set out in the new policy framework’s Governance Regulation are intended to ensure adherence to the targets defined in national energy and climate plans. Any deviations are to be met with appropriate countermeasures. The Renewable Energy Directive (RED II) specifies that support for electricity from renewable sources is to be granted by means of tendering procedures and in a market-based way. RED II also stipulates a framework for renewables self-consumption. The single market directive and regulation are dismantling barriers in energy trading markets, introducing rules for market-based capacity mechanisms in the event of supply shortages, defining a new process for the introduction of price zones, strengthening regional cooperation between transmission system operators (TSOs) and aligning the statutory framework for distribution system operators (DSOs) to changed market conditions. They are also creating a level playing field for all generation technologies, including flexibility instruments such as storage capacity and demand response tools. In the future, storage systems will continue to be managed by market players as a rule, and by regulated TSOs in exceptional cases only. In addition, European regulator ACER has been given a stronger role.

### Europe’s long-term decarbonisation strategy: A Clean Planet for All

At the end of November 2018, the European Commission published a set of documents outlining its vision for transitioning to a climate-neutral economy by 2050. The scenarios proposed in the documents are to be discussed among EU institutions during 2019. The new European Commission will then present its final strategy after broad consultation and on the basis of the European Council’s findings of May 2019.

### Low-carbon mobility

A number of legislative proposals aimed at reducing carbon emissions in the mobility sector were under discussion in 2018. New $CO_2$ standards are to be introduced from 2021 for passenger cars as well as for both light and heavy commercial vehicles. The standards are intended to bring about significant decarbonisation in the transport sector by 2030. The Clean Vehicles Directive is designed to incentivise public procurers to invest a significant portion of their resources in carbon-free drive technologies when awarding contracts for new vehicles.

### Hydropower: environmental guidance and initiation of EU Water Framework Directive revision process

Upon conclusion of a process extending over several years, in May 2018 the European Commission published its “Guidance on the requirements for hydropower in relation to Natura 2000”, which includes guidance on the construction and operation of hydropower installations. The new guidance provides more detail on existing Natura 2000 legislation in relation to hydropower, presents good practice examples and aims to harmonise national application.

Work on revising the Water Framework Directive began in 2018 with a public consultation, which is expected to continue until March 2019.

## New legal framework for the energy sector in Austria

### Climate and Energy Strategy #mission2030

In May 2018, the Austrian federal government approved a new Climate and Energy Strategy (#mission2030). The Federal Ministry for Sustainability and Tourism and the Federal Ministry for Transport, Innovation and Technology are responsible for overseeing the #mission 2030 project, which introduces a structured framework for implementing the necessary action plans in the area of climate and energy policy. The objectives of the strategy are decarbonisation of the energy system by 2050, a reduction of 25–30% in primary energy intensity by 2030 compared with 2015 and covering 100% of total electricity consumption (national balance) from national renewable energy sources by 2030. The Climate and Energy Strategy is currently being transposed into legislation and administrative law. The central element of the strategy in the area of electricity is the Renewable Energy Development Act (Erneuerbaren-Ausbau-Gesetz, EAG), which is intended to restructure support schemes for renewable electricity generation. The Green Electricity Act (Ökostromgesetz, ÖkostromG) as well as the Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG) and the

Natural Gas Act (Gaswirtschaftsgesetz, GWG) will be amended in the process, too.

### Act on the Development and Advancement of Austria as a Business Location

The Act on the Development and Advancement of Austria as a Business Location (Standort-Entwicklungsgesetz, StEntG) presented by the Federal Ministry for Digital and Economic Affairs was approved by the Austrian Parliament in December 2018.

The StEntG is intended to enable the Austrian federal government to designate specific projects that serve the development or advancement of Austria as a business location to an exceptional degree as being in the public interest of the Republic of Austria in order to accelerate environmental impact assessment (EIA) procedures for such projects. If the EIA authorities do not issue a decision within twelve months of application, the project applicant may file a complaint transferring the matter to the Austrian Federal Administrative Court for decision.

### Change in system charges

The grid tariffs for 2019 have been established by E-Control in the amended System Charges Order (SNE-VO). The new System Charges Order brings significant relief with regard to the “system services fees” generation rate component based on the EU regulation establishing a guideline on electricity balancing.

### Renewable Energy Development Act

The Federal Ministry for Sustainability and Tourism began working on a new Renewable Energy Development Act (EAG) in 2018. In December 2018, a preliminary contract for the EAG containing the main elements of the new support regime for renewable energy was submitted in the form of an address to the Council of Ministers. The bill is expected to be presented in the second quarter of 2019. The primary purpose of the EAG is to restructure public subsidies for renewables based on the specifications laid out in the European Commission’s guidelines on public support for environmental protection and energy as well as those set forth in the EU Renewable Energy Directive (RED II), such as the provisions on transitioning from feed-in tariffs to market-based premiums. The EAG also addresses the topics of market design, system responsibility and sector coupling.

### Austrian environmental package

In autumn 2018, the Federal Ministry for Sustainability and Tourism adopted an environmental package consisting of the Aarhus Participation Act (Aarhus-Beteiligungsgesetz), the Federal Act on Environmental Liability (Bundesumwelthaftungsgesetz, B-UHG) and the Environmental Impact Assessment Act (Umweltverträglichkeitsprüfungsgesetz, UVP-G). The Aarhus Participation Act implements an ECJ ruling concerning the legal remedies available to recognised environmental organisations as well as the provisions of the third pillar of the Aarhus Convention by way of three special administrative laws, including the Water Rights Act (Wasserrechtsgesetz, WRG). The amended Federal Act on Environmental Liability (B-UHG) aligns the legal situation in Austria with the ECJ’s finding that, in the future, exceptions from liability for environmentally hazardous activities causing damage to water as defined by the B-UHG shall only apply if the water rights permit was granted in accordance with Section 104a of the Water Rights Act (WRG), which provides for exceptions from the requirement to prevent deterioration of the status of a body of surface water. The amended Environmental Impact Assessment Act (UVP-G) provides for various mechanisms to expedite environmental procedures, such as the requirement to use a so-called "Business Hub Ombudsman" (*Standortanwalt*) and requiring official decisions to be made within six weeks. In addition, the right to participate in environmental proceedings has been restricted to NGOs fulfilling certain minimum requirements.

### Network and Information Security Act (NISG)

The Network and Information Security Act (Netz- und Informationssystemsicherheitsgesetz, NISG) adopted at the end of 2018 transposes the EU's Network and Information Security Directive into Austrian law. The legislation is intended to ensure a high level of security in network and information systems. Specifically, it provides for the establishment of national coordination structures to prevent and handle security incidents and the formation of computer security incident response teams (CSIRTs) to support operators of essential services, which include energy sector services. As an operator of essential services, VERBUND is affected by the new legislation and in the future will cooperate closely with the authorities in matters of cybersecurity. VERBUND is also a founding member of the Computer Emergency Response Team (CERT) working group. In recent years, the CERT working group has established an Austrian Energy CERT (E-CERT), one of whose roles will be to act as a computer security incident response team (CSIRT) for the energy sector as provided for in the Network and Information Security Act (NISG).

### Österreichische Beteiligungs AG (ÖBAG)

The "Federal act amending the ÖIAG Act of 2000, the Austrian Real Estate Act and the Financial Market Stability Act" provides for a transformation of Österreichische Bundes- und Industriebeteiligungen GmbH into a stock corporation operating under the new name of Österreichische Beteiligungs AG (ÖBAG). The legislation also assigns ÖBAG to supervise the Austrian federal government's investment in VERBUND AG. The specifics of ÖBAG's duties with respect to VERBUND AG will be stipulated in a management agreement between the Republic of Austria and ÖBAG. VERBUND AG's ownership structure will not be impacted.

## New legal framework for the energy sector in Germany

### Creation of a Commission on Growth, Structural Change and Employment

On 6 June 2018, the German federal government approved the establishment of a Commission on Growth, Structural Change and Employment. The Commission was tasked with coming up with a fossil fuel phase-out plan suitable for achieving short-, medium- and long-term climate protection targets. It was also assigned to put forward proposals for structural development designed to promote growth and employment in the affected regions. On 26 January 2019, the Commission published its final report in which it recommended that the German federal government draw up a road map for the gradual withdrawal from coal-fired electricity generation by 2038 at the latest by pushing rapid expansion of energy storage and sector coupling technologies. Structural aid is to be offered to the regions that rely on brown coal and hard coal mining to give them a future-proof perspective. In addition, an accelerated approvals process for new gas power plants is intended to facilitate the transition from coal to gas. The Commission recommends checking the implementation and effectiveness of the proposed measures through regular monitoring with a view to electricity prices, security of supply and climate protection.

### Regulation on Gradual Introduction of Standardised National Transmission System Fees

The Regulation on Gradual Introduction of Standardised National Transmission System Fees entered into force on 29 June 2018. The Regulation provides for gradual standardisation of grid usage fees across Germany. The implementation process will be completed by 1 January 2023. In October 2018, transmission system operators published their grid usage fees for 2019 for the first time on the basis of the new regulations. The standardised fee share for 2019 has been set at 20% of the relevant cost basis of the respective TSO.

## Finance

### Factors affecting the result

#### Wholesale electricity prices

VERBUND contracted most of its own generation for 2018 on the futures market back in 2016 and 2017. Prices for front-year base load contracts averaged €32.4/MWh in 2017 and front-year peak load was traded at an average of €40.5/MWh in 2017. This represents a year-on-year increase of 21.8% for base load and 20.9% for peak load. Price levels in the electricity futures market largely mirrored the trend in prices for gas, coal and emission rights.

In the German spot market, wholesale trading prices for electricity in 2018 were well above the prior-year level. Prices for base load electricity increased by an average of 30.0% to €44.5/MWh and prices for peak load rose by 22.0% to €52.1/MWh. Since the split of the joint German-Austrian price zone in October 2018, separate, higher prices have prevailed in Austria. Wholesale electricity traded at €46.3/MWh for base load and €54.0/MWh for peak load on average in Austria in 2018. In the fourth quarter of 2018, the average spot market price in Austria was €7.3/MWh higher than in the German market. Spot market prices in 2018 followed the trend in prices for emission rights in particular.

#### Water supply

The water supply in rivers is of particular significance for VERBUND since around 90% of its electricity is produced using hydropower. Water supply is measured by means of a hydro coefficient, with the value of 1.00 representing the long-term average. In the 2018 reporting period, the hydro coefficient for run-of-river and pondage power plants was 0.94, which is considerably lower than the long-term average and 5 percentage points below the prior-year level. The hydro coefficients for the individual quarters varied significantly: quarter 1: 1.17; quarter 2: 1.03; quarter 3: 0.74; quarter 4: 0.86.

#### Electricity supply and sales volumes

VERBUND's own generation decreased by 1,736 GWh to 31,130 GWh in quarters 1–4/2018. This represents a year-on-year decline of 5.3%. Generation from hydropower fell by 1,003 GWh compared with the prior-year period. The hydro coefficient for the run-of-river power plants dropped to 0.94, or 5 percentage points below the prior-year figure and 6 percentage points below the long-term average. Despite lower generation from turbining and the lower water supply, generation from annual storage power plants increased by 5.5% due to the high reservoir levels as at 31 December 2017.

VERBUND's wind power installations generated 118 GWh less electricity in quarters 1–4/2018 than in the prior-year period due to less windy conditions.

Generation from thermal power plants decreased by 615 GWh in quarters 1–4/2018. The Mellach combined cycle gas turbine power plant produced 550 GWh less electricity in 2018 due to the significant reduction in the use of this plant for congestion management compared with the prior year. Generation at the Mellach hard coal-fired power plant declined by 65 GWh.

Purchases of electricity from third parties for trading and sales rose by 1,403 GWh. Electricity purchased from third parties for grid loss and control power volumes increased by 264 GWh in the reporting period.

**Group electricity supply** GWh

| | 2017 | **2018** | Change |
|---|---|---|---|
| Hydropower[1] | 29,687 | **28,684** | –3.4% |
| Wind power | 952 | **834** | –12.4% |
| Thermal power | 2,227 | **1,611** | –27.6% |
| Own generation | 32,866 | **31,130** | –5.3% |
| Electricity purchased from third parties (trading) | 25,635 | **27,039** | 5.5% |
| Electricity purchased for grid loss and control power volumes | 4,763 | **5,026** | 5.5% |
| Electricity supply | 63,264 | **63,195** | –0.1% |

[1] including purchase rights

VERBUND's electricity sales volume increased by 390 GWh in quarters 1–4/2018. Electricity volumes delivered to consumers rose by 596 GWh. Here, a sharp rise in sales to international customers more than compensated for the slight decline in sales to domestic customers. As at 31 December 2018, our residential customer base comprised approximately 469,000 electricity and gas customers. Sales to resellers rose by 697 GWh year-on-year due to a significant rise in sales to German municipal utilities. Electricity deliveries to trading firms decreased by 904 GWh, with increases in deliveries to France and Austria unable to fully compensate for lower deliveries to Germany. Own use of electricity declined by 506 GWh due to reduced turbining operations.

**Group electricity sales volume and own use** GWh

| | 2017 | **2018** | Change |
|---|---|---|---|
| Consumers | 11,894 | **12,490** | 5.0% |
| Resellers | 27,757 | **28,455** | 2.5% |
| Retailers | 18,867 | **17,964** | –4.8% |
| Electricity sales volume | 58,518 | **58,908** | 0.7% |
| Own use | 3,651 | **3,145** | –13.8% |
| Control power volume | 1,095 | **1,141** | 4.2% |
| Total electricity sales volume and own use | 63,264 | **63,195** | –0.1% |

In 2018, approximately 49% of the electricity sold by VERBUND went to the Austrian market. The lower share of sales to Austria was attributable primarily to the new position of Austrian customers as a result of the price zone split. Austrian customers now purchase electricity in Germany and transfer it to

Austria themselves through exchange trading. International trading and sales activities focused on the German market, which accounted for around 86% of all volumes sold abroad.

### Electricity sales volume by country

| GWh | 2017 | 2018 | Change |
|---|---|---|---|
| Austria | 31,559 | 28,615 | –9.3% |
| Germany | 23,485 | 26,022 | 10.8% |
| France | 2,599 | 3,036 | 16.8% |
| Romania | 719 | 1,044 | 45.2% |
| Other | 156 | 192 | 23.1% |
| Electricity sales volume | 58,518 | **58,908** | 0.7% |

## Financial performance

### Revenue and result

| | Unit | 2017 | 2018 |
|---|---|---|---|
| Revenue | €k | 281,990.7 | 259,550.3 |
| Earnings before interest and taxes (EBIT) | €k | –33,524.4 | 641,333.9 |
| Earnings before taxes | €k | –113,750.4 | 564,663.4 |
| Net income for the year | €k | –167,079.2 | 563,049.7 |
| Net profit | €k | 145,914.6 | 145,914.6 |
| | | | |
| Return on equity (ROE) | % | –4.6 | 25.7 |
| Return on investment (ROI) | % | –0.6 | 13.7 |
| Return on capital employed (ROCE) | % | –0.5 | 10.4 |
| Return on sales (ROS) | % | –11.9 | 247.1 |

### Revenue

Revenue from electricity deliveries decreased by 13.1% or €30,753.2k. This is mainly attributable to invoicing of associates directly by VERBUND Hydro Power GmbH (VHP), a change implemented as at 1 January 2018. In the previous year, deliveries to associates amounting to €14,972.6k had been included in electricity revenues. In addition, the average futures market prices obtained for the 2018 supply year for volumes hedged for the long term were below those for the 2017 supply year. In 2018, revenue from electricity sales based on purchase rights of hydropower producers was below that of the previous year due to the lower water supply, although the 2018 spot market prices were above the level of the previous year. This resulted in lower electricity revenue from purchase rights of €28,821.6k. By contrast, electricity revenue in the consumer segment increased by €13,814.0k.

Revenue from gas deliveries rose by 46.1%, boosted by the expansion of the customer base and the resulting increase in deliveries. Total revenue thus decreased by a total of €22,440.4k or 8.0%.

### Expenses for electricity purchases

Expenses for the purchase of electricity increased by 4.0%, from €141,969.8k to €147,580.6k. Electricity purchases from purchase rights are based on reimbursement of costs and therefore remained at approximately the same level as in the previous year despite lower volumes. Electricity purchased for the consumer business is procured at market prices and therefore increased in financial year 2018 as a result of higher sales volumes and higher purchase prices. The changeover to the invoicing of deliveries to associates directly by VHP also led to a reduction in electricity purchases similar to the effect in electricity revenue. In the previous year, deliveries to associates amounting to €14,972.6k had been included in electricity purchases.

### Expenses for gas purchases

Expenses for the purchase of gas rose by 60.7% to €22,342.3k as a result of the increase in consumer business volume.

### Personnel expenses

Personnel expenses increased by €3,338.3k, or 14.1%, to €27,040.3k. The 3.0% increase in salaries and ancillary expenses under the collective agreement and the biennial pay rises stipulated by the collective agreement contributed to an increase in personnel expenses, while the reduction in the average number of employees by 8 to 115 had the opposite effect. Employee benefit expenses increased by €3,240.6k, of which €2,207.7k resulted from the change in underlying calculation parameters.

### Other operating expenses

Other operating expenses increased by €2,512.9k, or 7.4%, to €36,489.1k. This increase is primarily attributable to higher consulting expenses (€1,428.6k) along with greater use of temporary personnel and provision of personnel (€384.8k) and to the increase in intra-Group invoicing.

### Earnings before taxes

Earnings before taxes increased from €–113,750.4k to €+564,663.4k as a result of the influencing factors described above and the significant year-on-year improvement in the financial result of €566,043.5k (previous year: decrease of €152,553.2k). The financial result changed primarily due to impairment loss reversals of equity interests in the amount of €349,918.7k (previous year: €27,363.6k). Investment income fell by €110,470.6k from €382,592.5k to €272,121.9, of which €57,895.7k (previous year: €215,414.7k) concerned the reversal of a provision relating to an equity interest. Transfers of losses in the amount of €5,164.4k (previous year: €0.0k) had a counteracting effect. In addition, there were depreciation, amortisation and provisions for equity interests of €11,073.8k (previous year: €526,037.5k).

## Financial position

### Financial position

| | Unit | 2017 | 2018 |
|---|---|---|---|
| Fixed assets | €k | 4,384,286.2 | 4,676,287.1 |
| Current assets | €k | 71,070.5 | 64,251.7 |
| Working capital | €k | –140,109.1 | –915,848.3 |
| Net debt | €k | 2,283,190.1 | 2,196,806.2 |
| Equity | €k | 2,197,351.3 | 2,614,486.4 |
| Current liabilities | €k | 598,230.5 | 1,091,066.3 |
| Current assets | €k | 458,121.4 | 175,218.0 |
| Average capital employed | €k | 4,799,622.1 | 4,645,854.7 |
| Equity ratio | % | 46.8 | 53.2 |

**Fixed assets**

Intangible assets and property, plant and equipment fell by €32,220.1k. In financial year 2018, the disposal of an electricity purchase right led to a reduction in the carrying amount of €35,277.8k. Additions primarily related to an electricity purchase right of €3,214.9k, to office and plant equipment and electrical installations of €1,564.1k and to investments in buildings of €759.2k. Amortisation of intangible assets and depreciation of property, plant and equipment amounted to €1,737.0k in the financial year.

Investments relating to equity interests rose by €338,873.2k, due on the one hand to impairment loss reversals of foreign equity interests (€349,882.5k) and the impairment loss reversal of an Austrian equity interest (€36.4k) and on the other hand to additions to equity interests amounting to €48.3k and the disposal of a domestic equity interest amounting to €20.0k. Impairment losses of €11,073.8k were recognised for one domestic equity interest.

Other investments decreased in total by €14,652.2k. Loans were granted in the amount of €367,712.8k, while loans of €382,146.8k were repaid. The carrying amount of securities under fixed assets decreased due to impairment losses amounting to €218.2k.

**Current assets**

The decrease of €6,818.8k in current assets mainly resulted from the contractual transfer of invoicing of the associate KELAG-Kärntner Elektrizitäts-Aktiengesellschaft from VERBUND AG to VERBUND Hydro Power GmbH, which included the transfer of receivables as of 1 January 2018. Trade receivables decreased by €4,166.4k. Other receivables from affiliated companies increased by €10,806.8k, of which an amount of €4,350.6k concerns the increase in corporate income tax allocations which are not yet due.

**Equity**

Due to the net income for the year in the amount of €563,049.7k, reduced by the distribution for financial year 2017 of €145,914.6k, equity increased by €2,614,486.4k. The equity ratio rose from 46.8% to 53.2%, mainly as a result of this.

### Liabilities

Non-current and current liabilities decreased by €83,256.2k to €2,207,486.7k. In financial year 2018, repayments to banks amounted to €252,202.8k. A loan taken out in the amount of €100,000.0k had a counteracting effect. Liabilities to affiliated companies rose by €70,883.9k due to intra-Group invoicing. Trade payables fell by €2,410.9k to €38,959.7k.

## Financing

### Financing strategy

In today's volatile energy market environment, VERBUND bases its financing strategy on three pillars: 1. securing liquidity and ensuring suitable liquidity reserves with greater use of innovative, sustainable financial instruments, 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 – and particularly in a difficult market environment – has the highest priority. As at 31 December 2018, VERBUND AG had an ESG-linked (environmental social governance) syndicated credit line in the amount of €500.0m at its disposal that had not been drawn down. The facility runs until 2023 with two additional extension options of one year in each case. It was taken out on 10 December 2018 with twelve domestic and international banks with good credit ratings. In addition, VERBUND AG also had uncommitted lines of credit amounting to approximately €582.0m at the end of 2018. None of the credit lines had been drawn down as at 31 December 2018.

### 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 2018, VERBUND AG had a long-term rating of "A– with stable outlook" from Standard & Poor's (S&P) and "Baa1 with a positive outlook" from Moody's. S&P raised its rating from "BBB+" to "A– with stable outlook" in September 2018. In September 2018, Moody's also raised its rating from "Baa2" to "Baa1" with a "positive" outlook.

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

### Financing measures

In 2018, 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. As part of its active liability management, VERBUND AG continuously monitors its financial liabilities to evaluate options for reducing interest expenses (e.g. by making early repayments of principal).

After having issued the first green bond in the German-speaking region in 2014 in the amount of €500.0m (maturing in 2024, coupon of 1.5% p.a.), we stepped up our green, sustainable finance activities significantly in 2018. VERBUND AG issued the world's first green Schuldschein over a digital platform in March 2018. The Schuldschein was issued in the volume of €100.0m with a coupon of 1.6% p.a. and matures in 2028. Moreover, the margin structure of the syndicated loan that was refinanced in December 2018 was linked exclusively to VERBUND's ESG rating (sustainability rating). The ESG rating was determined by Sustainalytics, the leading agency in this field, and is reviewed each year. If VERBUND's ESG rating deteriorates, the Group's financing costs increase. If the ESG rating improves, the Group's financing costs decrease. This effectively decouples the Group from the established financial ratings.

### KPIs – finance

| | Unit | 2017 | 2018 |
|---|---|---|---|
| Cash flow from operating activities | €k | 281,399.4 | 178,731.0 |
| Cash flow from investing activities | €k | 179,331.3 | 64,265.1 |
| Cash flow from financing activities | €k | –460,730.5 | –243,012.3 |
| Financial result | €k | –152,553.2 | 566,043.5 |
| Gearing | % | 103.9 | 84.0 |
| Debt repayment period | years | 6.3 | 8.5 |

Compared with the previous year, the financial result improved by €718,596.8k to €566,043.5k. The main reason for this was the recognition of high impairment loss reversals of equity interests amounting to €349,918.7k in the financial year (previous year: €27,363.6k) whereas in financial year 2017 amortisation of equity interests had been recognised in the amount of €526,037.5k (current year: €11,073.8k). In contrast, provisions related to equity interests were reduced by €57,895.7k (previous year: €215,414.8k). Investment income from distributions increased by €47,048.5k to €214,226.2k. Losses amounting to €5,164.4k were transferred in 2018 (previous year: €0.0k). In relation to investments, there was also income from the disposal of investments of €9.2k (previous year: €965.5k). Interest income improved by €3,667.7k, while income from loans decreased by €5,655.4k.

A decline of €86,383.9k in interest-bearing net debt and the simultaneous increase of €417,135.1k in equity reduced the gearing by 19.9 percentage points to 84.0%. Weaker cash inflow from earnings before taxes of €269,208.5k (previous year: €396,323.6k) accompanied by a lower reduction in debt of 7.7% (reduction in previous year: 17.1%) increased the debt repayment period from 6.3 years in the previous year to 8.5 years.

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

### Cash flow statement

#### (1) Cash flow from operating activities

Cash flow from operating activities was determined using the indirect method and resulted in a cash inflow of €178,731.0k (previous year: €281,399.4k).

The change in trade receivables and other receivables is primarily attributable to the decrease in deferred tax assets of €57,083.3k and the decrease in other accruals and deferrals in the amount of €3,119.1k. As a result of the transfer of electricity invoicing with one national company directly to VHP, receivables from this company fell by €13,524.2k. Receivables from electricity and gas deliveries to consumers decreased by €3,911.2k. The increase in receivables from affiliated companies in the amount of €11,089.0k is mainly attributable to higher open tax allocations and value added tax recharges than in the previous year.

The change in trade payables and other liabilities is mainly the result of the decrease in liabilities from the electricity and gas business of €5,159.5k. Under other liabilities related to payroll, there was an increase of €1,590.0k. Liabilities from value added tax to the financial authorities rose by €6,399.5k.

The change in current provisions and tax liabilities is largely attributable to the reversal of a provision in connection with an equity interest in the amount of €57,895.7k and the reversal of corporate income tax provisions, an item in which prepayments are netted, including provisions recognised for the subsequent taxation of foreign losses, in the amount of €49,061.8k.

### (2) Cash flow from investing activities

Net cash flow from investing activities consisted of an inflow of €64,265.1k (previous year: €179,331.3k), resulting primarily from the repayment of loans amounting to €382,146.8k and the disposal of an electricity purchase right in the amount of €39,014.1k. These contrast with the granting of loans in the amount of €351,323.4k.

Capital expenditure for intangible assets and property, plant and equipment primarily comprised capital expenditure relating to rights in the amount of €3,214.9k, relating to office and plant equipment in the amount of €1,457.7k, investments in buildings in the amount of €759.2k and relating to electrical equipment in the amount of €106.4k.

### (3) Cash flow from financing activities

As part of the dividend distribution approved for financial year 2017, €145,914.6k was paid out to shareholders. This was equivalent to a dividend of €0.42 per share. Group clearing resulted in a cash inflow of €55,105.0k (previous year: cash outflow of €61,742.6k).

Repayments at maturity in the amount of €138,000.0k, scheduled payments by instalment in the amount of €47,536.1k and early payments of instalments of €66,666.7k took place in financial year 2018. One loan was taken out in the amount of €100,000.0k.

## Cash flow statement

€k

| | Notes | 2017 | **2018** |
|---|---|---|---|
| Net income/net loss for the year | | –167,079.2 | 563,049.7 |
| Amortisation of intangible assets and depreciation of property, plant and equipment | | 1,727.3 | 1,737.0 |
| Amortisation and reversal of impairment of investments | | 498,549.1 | –338,627.0 |
| Result from disposal of non-current assets | | –975.3 | –3,748.3 |
| Change in non-current provisions and deferred tax liabilities | | –2,759.8 | –743.2 |
| Income from the reversal of contributions to building costs | | –35.1 | –35.1 |
| Other non-cash expenses and income | | –4,361.3 | –4,214.1 |
| Change in inventories | | 58.5 | 10.7 |
| Change in trade receivables and other receivables[1] | | 102,573.1 | 66,712.0 |
| Change in trade payables and other liabilities[2] | | 23,954.2 | 2,284.5 |
| Change in current provisions | | –170,252.3 | –107,695.4 |
| Cash flow from operating activities | (1) | 281,399.4 | **178,731.0** |
| Cash outflow from capital expenditure on intangible assets and property, plant and equipment | | –12,788.6 | –5,557.4 |
| Cash inflow from the disposal of intangible assets and property, plant and equipment | | 31.1 | 39,017.9 |
| Cash outflow from capital expenditure on investments | | –221,675.2 | –351,371.6 |
| Cash inflow from the disposal of investments | | 413,763.9 | 382,176.2 |
| Cash flow from investing activities | (2) | 179,331.3 | **64,265.1** |
| New non-current loans | | 0.0 | 100,000.0 |
| Cash outflow from the repayment of financial liabilities (excluding money market transactions) | | –298,237.3 | –252,202.8 |
| Cash inflow (outflow) from increases (decreases) in Group clearing balances | | –61,742.6 | 55,105.0 |
| Dividends paid | | –100,750.5 | –145,914.6 |
| Cash flow from financing activities | (3) | –460,730.5 | **–243,012.3** |
| Change in cash and cash equivalents | | 0.2 | –16.3 |
| Cash and cash equivalents as at 1/1/ | | 16.1 | 16.3 |
| Cash and cash equivalents as at 31/12/[3] | | 16.3 | **0.0** |

[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

In all of its fields of activity, VERBUND is committed to taking a responsible and sustainable approach to the environment. The VERBUND environmental mission and a Group-wide environmental management policy guarantee that the requirements of internal and external stakeholders concerning professional environmental management are taken into consideration.

The Environmental executive order and additional environmental provisions define the framework for the systematic planning, execution and measurement of and reporting on the environmental achievements of VERBUND. Existing structures, processes and responsibilities in environmental management ensure compliance with legal requirements, nationally and internationally accepted regulations and the Group's own, more stringent standards. To ensure this, VERBUND has established a decision-making body at the highest management level and a working team made up of in-house environmental experts.

International standards such as the GRI standards and the Greenhouse Gas Protocol form the basis for the Group-wide collection of and reporting on VERBUND's environmental data. Detailed information on the standards applied and applicable factors is available from VERBUND's Investor Relations and Sustainability departments upon request.

### Impacts on the environment

One key topic in VERBUND's environmental management has always been the impacts, both positive and negative, that our generation portfolio and our activities have on the environment. In transitioning to ISO 14001:2015 Revision, the focus has shifted to the analysis of the organisation's context and to risk- and opportunity-based thinking as additional aspects of the standard.

There are two primary ways that VERBUND's normal operations have a detrimental impact on the environment: through the effect of hydropower plants on habitats in relation to river morphology and biodiversity and through the effect of thermal power plants in relation to airborne emissions. The VERBUND plants themselves present no significant risks with potentially negative effects for the environment. By operating the facilities in compliance with the laws, VERBUND further 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. The transition to ISO 14001:2015 Revision throughout the Group was completed in 2018. 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 are 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

Electricity generated from hydropower and wind power produces no direct emissions. In this way, VERBUND customers are contributing to the avoidance of emissions as well as to SDG 13 "Climate action".

Due to the high proportion of renewable energy sources representing 95% 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 both 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.

Total greenhouse gas emissions (Scope 1–3, with Scope 2 market-based) decreased by 17% in 2018 to around 1.7 million tonnes $CO_2e$ compared with the previous year (2017: 2.0 million tonnes $CO_2e$). Of this amount, 63% (1.1 million tonnes $CO_2e$) is attributable to greenhouse gas emissions in Scope 1, 17% (0.28 million tonnes $CO_2e$) to Scope 2 market-based and 20% to Scope 3 (0.34 million tonnes $CO_2e$).

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 2018, this figure amounted to just 34 g $CO_2e$/kWh. VERBUND is thus already well below the specific figure for the 2017 Austrian production mix at 148 g $CO_2$/kWh and even further below the German figure at 488 g $CO_2$/kWh. These results 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 22 million tonnes $CO_2$ during the reporting period. This is calculated based on average thermal generation emissions based on ENTSO-E.

### Airborne emissions

Lower use of the Mellach combined cycle gas turbine power plant reduced emissions of carbon monoxide (CO) by around one-third and nitrogen oxides ($NO_x$) by around 17%. Sulphur dioxide and dust emissions from operation of the Mellach hard coal power plant remained approximately the same.

### Conservation and biodiversity

Some of our power plants and grid facilities are located in nature conservation areas or other protected areas. Information on their geographic location can be found on the geodata portals for Austria and Bavaria.

Please refer to the Renewable generation section of the 2018 Group Integrated Annual Report for current examples of capital expenditure for the environment and biodiversity such as the construction of fish passes to re-establish river continuity and restoration measures implemented at water bodies. The wide range of measures that VERBUND has already implemented and those that are still at the planning stage in the areas of conservation and biodiversity are described on the web pages of the respective LIFE projects and on the VERBUND website.

Additional fish passes were completed in Austria in financial year 2018 at the Greifenstein power plant on the Danube and the Edling power plant on the Drau and in Bavaria at the Wasserburg power plant on the Inn. With these, a total of 53 fish passes are now in operation.

Please refer to the 2018 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 – IR&D**

| | Unit | 2016 | 2017 | **2018** |
|---|---|---|---|---|
| Number of IR&D projects | Number | 68 | 85 | **74** |
| Total project volume[1] | €m | 139.1 | 179.8 | **177.9** |
| of which EU projects[1] | €m | 93.6 | 111.7 | **104.5** |
| VERBUND's total share[1] | €m | 22.1 | 53.5 | **61.6** |
| Annual VERBUND expenses | €m | 5.5 | 9.0 | **10.5** |

[1] over the entire duration of the projects

The transition from fossil fuels to renewable energy is gaining traction in many spheres of economic activity and private life. Research, development and innovation play a crucial role in this endeavour. VERBUND also takes its responsibility for a climate-friendly and environmentally friendly energy future very seriously and provides the “raw material” for an all-electric society.

### Electrification of mobility, sector coupling

VERBUND continues to work hard with strategic partners on European and Austrian development and innovation projects. For a number of years now, special emphasis has been placed here on electrifying the mobility sector. The development of new services for trade and industry is another area of focus. Additional potential for implementing a new energy system will be tapped through sector coupling.

Two projects are following on the heels of VERBUND’s successfully completed e-mobility projects. They are fundamental for the rapid expansion of the fast-charging corridors for electric cars and are establishing a connection to international networks of charging stations in neighbouring countries. Under the EVA+ project, the network of fast charging stations in Austria was expanded through the installation of 20 more stations by the end of 2018. Roaming agreements allow customers to easily use the Austrian SMATRICS network as well as the charging networks in neighbouring countries.

Furthermore, VERBUND is using cutting-edge charging infrastructure technology to build four charging stations in Austria as part of the ultra-E project. The first of these stations, whose charging capacity of up to 350 kW caters to the latest generation of electric vehicles designed for long-distance journeys, has already been installed in Vienna. Others will follow in Graz, Innsbruck and Salzburg. Follow-up projects for implementation of this integrated high-performance charging infrastructure in Europe are already at the planning stage. This means that the SMATRICS charging network is equipped to cope with the latest models of electric vehicles designed for even higher ranges.

### Combining energy and mobility

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 needed. 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 a capacity of 0.5 MW in each case. This will significantly weaken load peaks in the grid and reduce grid expenses. The first buffer battery was positioned in Vienna in 2018; others will follow in 2019 at selected locations. A particular challenge is local management of the battery and charging infrastructure to ensure optimal interplay of the components in situ. To this end, VERBUND has been testing the battery packs at the new test facility at the Mellach power plant since 2018.

### Green hydrogen being tested

The aim of the H2FUTURE project that has been running since 2017 is to construct a proton exchange membrane electrolyser with a capacity of 6 MW at the voestalpine site in Linz in conjunction with industrial and research partners. All of the preliminary structural work and the work required to obtain the permits was completed in 2018. The electrolyser will be delivered in 2019. Following extensive testing, the installation will come on stream in the second half of 2019. Besides producing green hydrogen for steel production, the electrolyser will be used to support the electricity grid. Whether and how the concept can also be applied to other industrial sectors such as chemicals, oil & gas or fertilizers is additionally being examined within the scope of the project.

The WIVA Power & Gas energy model region was officially launched in 2018. Together with domestic partners from industry and research, VERBUND is developing hydrogen projects along the entire value chain. WIVA will give these hydrogen projects an organisational and substantive framework for several years. Here, VERBUND is working in particular on implementing other collaborative projects relating to the use of carbon-neutral hydrogen in industry.

### Hydropower: fish protection and migration measures

In the area of hydropower, VERBUND continued to develop mainly measures for fish protection and migration in 2018. Furthermore, in the year now ended VERBUND initiated a research project to examine the effects of key stimuli such as heat, sounds and light – as these occur at power plants – on fish.

How fish find the fish ladders based on flows is also being studied with the use of drones fitted with high-resolution camera and video sensors. A software tool for quantitative tracking analysis and visualisation of flows will be developed on this basis.

This will allow the flow behaviour of structural conditions on the installation and in the area of weirs to be mapped precisely. It will also facilitate optimisation of the modes of operation for power plants and optimisation of the fish ladders.

### Wind power: ice forecasts add value for operations management

In the area of wind power, VERBUND focused its research activities in 2018 on operational improvements under icing conditions and developed new innovative operating concepts. For this purpose, VERBUND evaluated icing measurements at its Ellern wind farm in Hunsrück, Germany and verified these. Operation of the rotor blade heating system was also analysed and adjusted to the prevailing meteorological conditions at the site.

VERBUND is currently analysing how icing forecasts can add value for operations management. Here, the main objective is to avoid forecast icing events by starting up the rotor blade heating system ahead of time. This would involve a changeover from reactive operation to completely new preventive operation of the rotor blade heating system. VERBUND theoretically calculates the resulting economic value added using the cost-loss model. Going forward, this will enable VERBUND to prevent light icing on the rotor blades and substantially reduce icing-related idle times.

### Digitalisation of hydropower and wind power

In the area of hydropower, VERBUND continued its two digitalisation initiatives, Digital Workforce Management and Digital Hydro Power Plant.

The Digital Workforce Management project addresses digital support of the administrative and operational processes for implementing potential improvements in the existing systems and for making new, mobile working methods possible. To this end, a mobile application was developed in 2018 that will now be tested and tailored to the requirements of operations.

In the Digital Hydro Power Plant project, activities for identifying new digital technologies that are suited to hydropower were successfully continued in 2018. These technologies will serve to provide support in operations and ultimately increase efficiency.

In the area of wind power, the project for the digitalisation of maintenance was concluded in 2018 and put into operation. As a result, all service technicians are now able to access digital information for troubleshooting and document fault repair using their smartphone. Implementation of further digitalisation measures for increasing efficiency in rotor blade inspections and rotor blade angle measurements was begun and will continue in 2019.

### Electricity trading: improved inflow forecasting

Research activities in electricity trading in 2018 also covered inflow forecasting. High spatial resolution in the forecast values and stochastic optimisation methods facilitate optimised management of the storage systems and improved assessment of forecast uncertainties. This provides a better basis for estimating the effects on power plant use and for flood management.

Other areas of emphasis are new products with renewable energy and certificates as well as new opportunities for marketing virtual pumped storage power plants and flexibility options. Thus, VERBUND's electricity trading is part of the H2FUTURE and BlueBattery projects.

In light of digitalisation and the increasingly fragmented market environment, VERBUND's electricity trading segment also addresses future challenges with the Intraday Price Forecasting, Autotrader and Volery projects (optimisation/simulation of a large number of decentralised plants).

### A safety system for the power grid

Europe's power plant portfolio is moving away from large generation units towards small to medium-sized plants for renewable energy sources. Frequency stability and regulation in the European transmission grid are therefore becoming increasingly important.

Austrian Power Grid AG (APG), VERBUND AG's independent grid subsidiary, was active in 2018 with 20 research projects, three of which at an international level. One of these is the FutureFlow project, an international project funded as part of Horizon2020 that incorporates neighbouring transmission system operators from south-eastern Europe and IT experts from the industry. The main task of

FutureFlow is developing a central optimisation function for activation of balancing reserves and modification of power plant utilisation.

An Austrian project with international significance is “ABS for the power grid” – similar to the automatic safety system used in cutting-edge vehicles. In this project, which is sponsored by the Climate and Energy Fund, APG is collaborating with the Austrian Institute of Technology (AIT), the Vienna University of Technology and VERBUND on a smart support system for power grid operation. The core element of the project is a battery storage system with a capacity of 1 MW/500 kWh. Starting in June 2019, the pilot plant in the Vienna-South East substation will be tested in operation over a two-year period. At the end of April 2021, the results will show how fast it is possible to respond to frequency variations in the power grid.

### Innovation within our own ranks

The internal pilot project dubbed the Idea Power Plant was launched in 2018. In the first stage of the project, some 300 employees were given a window of around three months to submit their ideas on the campaign topics of “Growth in the VERBUND Group – New solutions, new markets”, “New Work – Striking out in new directions”, “VERBUND services of the future – Exploit our full potential” and “Re-imagine our image: Improve the public perception of VSE”. The Idea Power Plant was intended to encourage active participation by employees and make the most innovative ideas ready for implementation.

Prizes for the most promising ideas were awarded in June 2018. These concepts are being implemented at VERBUND Services GmbH (VSE) and refined in a new Group-wide format – “VERBUND Innovation Kit 2018” – with the assistance of internal and external experts. The VERBUND Innovation Kit 2018 uses state-of-the-art innovation methods such as Design Thinking and Lean Startup for rapid, efficient development of ideas.

Please refer to the 2018 Group Integrated Annual Report for further information as well as additional details on innovation, research and development.

## Human resources and social responsibility

Employees acting in a performance-based, productive and entrepreneurial manner helps to safeguard the core business in the long term and makes it possible for VERBUND to take advantage of new business opportunities. Generation and skills management programmes serve to support the performance of VERBUND employees, as do the year-round measures implemented as part of the health management and personnel development programmes. In an effort to simplify processes, we are constantly putting new digitalisation measures in place in compliance with data protection aspects.

VERBUND attaches great importance to a corporate culture that serves as the foundation for working together constructively and successfully: 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.

The protection of employees and safety of its employees have been of great importance to VERBUND for decades. As a consistent continuation of this, VERBUND initiated a comprehensive safety culture project in 2018 in order to be able to achieve its ambitious goals in the field of occupational safety.

## Sustainable cost management

The noticeable improvements in the cost structure confirm the effectiveness of the measures taken to improve efficiency since 2013. Restructuring efforts and divestments in the thermal 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 thus maintain its competitiveness.

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. 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 took a leading role at industry level in redesigning the collective agreement for electricity companies in Austria. The agreement was signed in December 2018 and is applicable from 1 February 2019. The industry together with employer and employee representatives reached a collective agreement that is fair and, at the same time, suited to modern working life. A comprehensive assessment demonstrated that the new pay levels can in some cases significantly reduce entry level compensation as well as final salaries. The new job descriptions based on industry wording make it possible to categorise employees more precisely and therefore set compensation more in line with the market, particularly in the lower wage brackets.

## Personnel planning and management

VERBUND has been using a modern, user-friendly planning and reporting tool for personnel data which was upgraded in 2018 to include additional features and can therefore be considered a state-of-the-art application. 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 and diversity and inclusion management.

VERBUND uses a variety of methods such as audits, internal reviews and analyses of KPIs including the observation of 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.

The protection of employees and safety of its 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 key issues for the future such as digitalisation). VERBUND aims to achieve long-lasting employment relationships and gives opportunity for employees 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, for project work and as temporary leave replacements. 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. Contractors awarded work related to the construction of plants are responsible for managing their own work. However, they are also required to comply with the safety standards defined in the VERBUND Group and are instructed in accordance with VERBUND's rules. The working hours incurred by contractors are included in calculating the occupational safety KPI.

VERBUND provides all of its employees with 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 targets based on both individual performance and the Group's profitability and ensures fair pay for employees at all levels.

### 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 2018 to mitigate the risk of losing its standing in the labour market as a highly attractive employer. Despite using 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 2018, 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 this connection, existing measures were also continued. These included the annual award of the VERBUND women's scholarship, 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.

### Recruiting

To ensure that VERBUND also continues to be a future employer of choice for internal and external candidates, the ongoing updates were made to the presentation of VERBUND's career opportunities once again in 2018.

Derived from VERBUND's new brand and product campaign, the first print and online job postings were revised and adapted to the new layout. The recruiting platform implemented in 2016 was an ideal complement. 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 recognised in the reporting period by the Golden Seal from the 2018 Best Recruiters Study conducted by the publishing house Career, in which VERBUND was awarded first place in the “Energy” category, and by a spot in the top 25 overall ranking and second place award from the trendence Employer Branding Awards 2018 in the “Best Employer Branding in Social Media” category.

## Personnel development

VERBUND puts emphasis on the development of its employees. In 2018, each employee took part in 33.6 hours of training on average.

Personnel development focused on training in the areas of safety, technology and the energy market. 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 (34.5 hours) than for women (30.8 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

The digital transformation is affecting learning, too. Knowledge is becoming faster paced and more complex and increasingly on demand. Employees’ changing needs and expectations call for new learning formats.

As part of the Digital Learning Media 2.0 project, digital learning media are increasingly being offered in addition to classroom training to complement and enhance information. The contents are prepared in accordance with media education practices in a way that allows users to easily acquire new knowledge. In some cases, the digital learning media replaces classroom offerings, thus lowering costs and improving resource efficiency.

The Fit4Cyber, Fit4DSGVO and Compliance as well as Anti-corruption e-training courses have been available since the project first began. Additional e-training courses – particularly in the fields of occupational safety and energy market knowledge – are in the planning stages. The range is being expanded continuously.

With the new learning management system, VERBUND is making further progress towards digitalisation. Beginning in 2019, the classroom and online offerings will be managed in an innovative state-of-the-art system. For employees, this integrated system makes organising personnel development measures easy – from registration and participation to testing knowledge. The reporting function gives executives a quick overview of the status of their employees’ training and continuing education.

Digital Workforce Management supports the administrative and operational work processes involved in the operation and maintenance of the power plants. Heterogeneous processes are standardised and digitalised so that the workflows can be optimised. Employees are actively involved, among other things through the exchange of information between plants. The power plant groups are directly responsible for implementation, thus reinforcing a new understanding of leadership among plant group managers, operations engineers and master craftsmen.

As part of the Digital Hydro Power Plant project, new trends are being tested at the Rabenstein pilot power plant. The virtual reality model is intended to focus on interactive visualisation of inspections, scheduling maintenance activities and documentation, as well as on use in training and continuing education. There are several advantages associated with the use of virtual reality in a training and continuing education setting. For difficult tasks performed at infrequent intervals, it allows employees to prepare best for the work in actual practice. In addition, the trainers, whether in the plant or in the apprentice workshops, can observe the entire process on a monitor and provide real-time tips and information.

### Apprentice training

Maintenance and operation of our plants are key functions in our Group. 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 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 2018, VERBUND recruited 41 new apprentices in Austria and Germany. The high quality of our apprenticeship training is most evident in the outstanding achievements seen in the final apprenticeship examinations.

### Further development of the leadership culture

Continuous professional development of executives at VERBUND serves to constantly improve the quality of leadership and thus guarantee the Group's success.

Regular feedback for executives is one such measure. Every two years, leadership behaviour is evaluated from the perspective of the direct work environment (supervisors, employees and colleagues) and compared with the executive's own appraisal. These structured and comprehensive feedback processes provide valuable information about developing executives' skills. Examination of the discrepancies between self-appraisals and appraisals by others and a comparison with the last feedback conducted aims 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. The second cycle of the VERBUND feedback process was completed in autumn 2018.

### Maintaining a work-life balance

Maintaining a balance between work and private life is a tradition at VERBUND. VERBUND demonstrates its commitment to being a family-friendly company through its involvement in the Companies for Families network.

Since 2009, the Work and Family Audit has provided a way to better structure the measures. In this way, more opportunities can be created to meet specific needs and encourage a better work-life balance. VERBUND conducted this audit for the fourth time in 2018, earning the seal for the next three years. For the upcoming period, VERBUND aims to improve the flexibility of working hours, further simplify mobile working arrangements and inform its employees of new and existing offerings – particularly those related to looking after family members. Regular employee surveys indicate that satisfaction with the compatibility of work and personal life at VERBUND has been growing steadily since 2008.

### Diversity management

In 2018, VERBUND continued to work towards the diversity strategy defined in 2016. In the previous year, VERBUND took another important step with the ZukunftVIELFALT® certification.

In addition to serving as a label for organisations with comprehensive diversity management systems, ZukunftVIELFALT® is a management concept for expanding such an existing system. VERBUND aims to 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.

To support the leadership culture, VERBUND is relying more heavily on executive information and involvement. Initially, this involved 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 2018.

### 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 and 28% over the next ten years. 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 aimed 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. Another benefit VERBUND provides to all employees is free counselling on work-related or personal problems under the Employee Assistance Programme.

VERBUND has implemented structured succession planning at all levels (from apprentices through executives and board member candidates) as a personnel development measure that is critical for the Group's success. Its aim is to safeguard succession potential for the long term.

### Focus on gender

Traditionally, the proportion of women in predominantly technical companies such as VERBUND has been low. That is why VERBUND has put measures in place to increase the proportion of women from currently 17.6% to 20% by 2025, just as the proportion of women at the executive level is to rise to 20%. In 2018, the proportion of women among new employee hires was 20.9%.

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. Since 2017, objectives for the advancement of women are agreed with the executives at the top management level in order to further promote awareness of equal opportunities for women.

In a survey conducted in 2017, around 11% of women at VERBUND stated their interest in a management position. To reinforce this target group in striving to attain management positions, the seminar entitled "Ensuring female success in leadership roles" held in 2018 signalled the start of the series on women's empowerment. The VERBUND women's network is another measure aimed at supporting women at VERBUND.

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. Nevertheless, socio-political and cultural aspects such as more part-time work among women, a low number of women in technical professions and the difficulty women experience in advancing 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.

FIT aims to generate interest among young girls to pursue 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 aim to alleviate doubts about pursuing an education in a technical or scientific field.

By awarding the VERBUND women's scholarship, VERBUND has also supported talented female students during their technical training since 2009. This scholarship is a means of enabling the winners to supplement their university education with additional personal and professional training. Another aim for the Group is to generate enthusiasm for the Company among technically qualified women and, ideally, to recruit them. VERBUND celebrated the tenth anniversary of the VERBUND women's scholarship in 2018 and a special scholarship was awarded on this occasion to a disabled student.

**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. Together with the accessibility management programme, the diversity management programme continually works towards improving the employment of people with disabilities.

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 104. As at 31 December 2018, VERBUND employed 138 people who qualify under the Disabled Persons Employment Act (BEinstG). The corresponding mandatory quota for Germany is 18; here VERBUND employed 23 disabled people.

The main aspects of including disabled people at VERBUND are removing barriers and creating awareness among the workforce by providing ongoing information. During the Human Resources Day 2018, employees of the Human Resources department had an opportunity to address the topic of employing disabled people. It is these Human Resources employees in particular who play a crucial role in advising the workforce and the executives on this topic.

The accessibility implementation concept defines steps and measures for the upcoming years to further dismantle structural, organisational and communication barriers within VERBUND.

Training sessions for executives were also held in some subsidiaries. On Purple LightUpDay, a day aimed at highlighting the economic power of disabled people, VERBUND shared information about its disabled employees with the workforce.

In summer 2018, three more people with disabilities completed their seasonal internships at VERBUND. 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 2018

The number of employees plus temporary staff and all employees of proportionately consolidated equity interests serves as the basis for calculating the occupational safety KPIs. The number of employees was 3,154 at the end of 2018. This figure includes 165 temporary staff and the entire workforce of Ennskraftwerke Aktiengesellschaft, VUM Verfahren Umwelt Management GmbH, VERBUND Tourismus GmbH, Lestin & Co Tauch-, Bergungs- und Sprengunternehmen Gesellschaft m.b.H., VERBUND Wind Power Austria GmbH and Energji Ashta Shpk.

The number of accidents underwent a positive trend in 2018. Fewer accidents occurred than in 2017, although this trend was overshadowed by one fatal accident.

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). The key performance indicator called lost time injury frequency (LTIF) is used as a benchmark for comparison with national and international companies. To allow the use of external contractors to be evaluated as well, since 2018 VERBUND also tracks their hours worked at all work sites and reports those in the “LTIF including external contractors” KPI.

In comparison with other national and international companies, the LTIF including external contractors of 5.4 indicates that we are on the right track. Improvement measures are identified and implemented based on an analysis of each individual accident within the Group and by external contractors. As in previous years, neither third-party fault nor organisational shortcomings were identified as the cause of any workplace injury in 2018. This shows that safety standards within the Group are very high and that safeguards for employees are being effectively implemented.

### Accident prevention

Preventive measures are based on the analyses of workplace injury statistics at VERBUND. In 2018, the annual continuing education measures focused on training sessions on the following topics: “Working in the tank,” “Securing loads,” “Moving loads,” “Practical exercises,” “We live safety” and “The Electromagnetic Fields Directive (Verordnung elektromagnetische Felder, VEMF)”. Particular attention was given to practical implementation in day-to-day work.

Every year, as was the case in financial year 2018, legally mandated safety briefings are successfully completed by close to 100% of the workforce, either in person or via an e-learning programme that includes a final test.

In 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. The regulations cover the following topics, for example: 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 implemented throughout the Group.

### Safety culture

The “We live safety” project aims to raise and refine awareness of safety at VERBUND. The objective of the project is as follows: all employees should come to work healthy, work free of accidents and return home healthy. This is intended to be achieved mainly by executives acting as role models in addition to “employees looking out for one another” and calling attention to any dangerous behaviour.

An employee survey was conducted to establish the current situation. Executives helped to develop measures for specific activities and departments based on the feedback from this survey. The first training sessions for executives began in November 2018 and are to run until the end of 2019.

### 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. In 2018, VERBUND focused on healthy working in office workspaces with the seminar entitled “Dynamic health and back fitness at PC workstations” and a visual training session. Lectures on time and stress management give participants the tools to better handle these issues.

Other important points of focus on the health management front included nutrition and exercise, handling shift work, and tips for safe lifting and carrying. 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 assumes responsibility for 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 4,300 households with a total of 10,000 people living in these households. In the ninth period (1 January 2018 to 31 December 2018), 500 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 2018, 744 disabled people received direct support for communication and assistive technologies with funds from the VERBUND Empowerment Fund which has been in existence since 2009 and is run by Diakonie. A total of 102 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.

### VERBUND climate school in the Hohe Tauern National Park

The training programme offered since 2010 by VERBUND and Hohe Tauern National Park was named a decade project under the UN Decade of Education for Sustainable Development by UNESCO. Since the partnership began, over 24,000 school children have benefitted from the outreach work involving project lessons designed by specially trained park rangers and held in the classrooms. The stated goal is to teach skills for living consciously and being able to assess the impact of an individual's actions on the climate. The range of project lessons offered by rangers is available mainly in those states where the national parks are located: in Carinthia, Salzburg and Tyrol. The training programme has also been available online at www.klima.schule since 2018. Teachers are the primary target group of the initial online range of lessons for teaching climate protection skills. Even in the lesson preparation stage, the greatest emphasis was placed on ensuring that the material could be integrated into lessons as easily as possible.

**The VERBUND electricity school kindles enthusiasm for technology**

To support teachers in making their physics lessons exciting and interactive, VERBUND provides a range of physics teaching materials offered in combination with power plant tours. VERBUND also provides financial support for students taking part in tours as part of a school activity. For storage power plants, around 2,500 pupils took advantage of the offer for a school tour, as was the case in the previous year.

## Human rights

### Principles

VERBUND is aware of its responsibility to protect human rights in all Group activities and beyond. ONR 192500 (Social Responsibility of Organisations) is the basis for the due diligence processes at VERBUND concerning respect for human rights. In 2018, the Group was certified in accordance with this standard for the first time.

The CSR standard rests on the careful handling of human rights issues at all levels. Relationships with partners involved in human rights violations are to be avoided, as is discrimination, particularly that of vulnerable groups. All types of civil, political, economic, social and cultural rights are to be respected. Fundamental labour rights and principles such as equal opportunity, freedom of association and collective bargaining are to be observed. In this sense, VERBUND commits to uphold these ONR recommendations along with the Ten Principles of the UN Global Compact on human rights. The materiality analysis already identifies equal treatment and freedom of association as material topics. The topic of human rights gains even greater significance at VERBUND with the new international hydro consulting line of business.

### Human rights outside of Europe

Hydro consulting is a new service segment VERBUND has engaged in since 2017 which also contributes to meeting the United Nations Sustainable Development Goals and the climate change targets under the Paris Agreement.

The international climate agreement stipulates voluntary reduction measures called Nationally Determined Contributions (NDCs). As a leading hydropower company, VERBUND makes a material contribution to reducing $CO_2$ emissions by using its expertise in the field of renewable energy in developing countries and emerging markets. Hydro consulting involves consultancy projects for local hydropower plant operators aimed at knowledge transfer and increasing capacity so as to reinforce expertise at the local level for efficient and safe plant operation.

VERBUND is aware that operating in countries outside of Europe creates new challenges with regard to human rights. Therefore, VERBUND takes a strong interest in this issue and defines steps for acting in a manner consistent with human rights. For VERBUND, one main aspect of this is the mutual commitment to fair business practices as a prerequisite for accepting orders. This is governed by the business partner integrity checks performed for both ongoing projects and comparable future activities. Furthermore, the International Hydro Power Association's recommendations under the Hydropower Sustainability Assessment Protocol serve as a guideline for future project developments.

### Equality and non-discrimination

The VERBUND Code of Conduct establishes the equal treatment of all people, regardless of their gender, age, disability, religious beliefs, culture, skin colour, education, social origin, sexual orientation or nationality. 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 in this department also carry out and document the development and implementation of equality targets and the realisation of the corresponding 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 joint cooperation between employer and employee representatives to 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 adhere to collective agreements and may not contain any provisions that are less advantageous than those contained in the respective 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 can 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 include employee concerns in the Supervisory Board's decision-making process.

Please refer to the 2018 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

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 are subject to ongoing development as part of what is referred to as Enterprise Risk Management.

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 confirms the effectiveness of the Enterprise Risk Management based on the recommendations contained in the ISO 31000:2018 reference model.

### Further development

Activities in recent months have focused mainly on refining the risk-return approach in the Group, developing a multi-year risk horizon and improving the calculation of the risk-bearing capacity. Our reporting processes have also been revised and expanded as part of the development of these approaches. As a result, the risk management agendas currently extend to strategic decision-making, project management and the management of ongoing operations.

### Current opportunities and risks

**Opportunities and risks arising from the business 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.

**Weather- and climate-related opportunities and risks**

As the leading renewable energy producer, VERBUND is very much at the mercy of weather events like precipitation 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 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). Depending on the existing water supply, storage power plants are operated on a daily, monthly or yearly basis to optimise grid usage. Coverage of short-term electricity requirements due to volatile wind and solar power generation is also providing new revenue opportunities for VERBUND. 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. These flexible earnings contributions depend largely upon the frequency and absolute extent of short-term price fluctuations in the electricity markets.

The second half of 2018 was dominated by drought and the resulting low water supply. Owing to climate change there is a risk that the number of dry years will rise in the future. VERBUND is aware of this risk and believes that close observation of long-term climatic developments and proactive measures (e.g. participation in innovation and research projects and implementation of promising concepts as necessary) to counter the growing challenges are crucial for a secure future.

### Opportunities and risks arising from technological development

The growing trend towards digitalisation is proving to be a particular challenge but also an opportunity for VERBUND. 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 its power plants and in APG's ultra-high voltage grid. VERBUND's administrative buildings and decentralised plants are protected by structural measures and electronic monitoring systems.

### Opportunities and risks arising from legal/regulatory developments

The strengthening of the ETS (Emissions Trading 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 additionally be considered in this context.

### Opportunities and risks arising from economic development

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 AG possesses sufficiently high credit lines to be able to access liquid funds at short notice. Long-term agreements have been concluded with customers, suppliers and co-owners of individual power plants. However, the changing conditions have affected the profitability of some of these agreements, leading them to be adapted accordingly in recent years. VERBUND has optimised its internal structures in several projects to increase efficiency. This has led to shut-downs of sites, terminations of purchase or supply agreements as well as implementation of personnel measures in a socially responsible manner.

### Strategic opportunities and risks

Climate change, changes in the legal environment, technological developments and changes in the market environment can have a major impact on a company's business model and strategy. Close examination of medium- and long-term strategic risks at an early stage is therefore important to ensure successful continuation of the direction in which the Group is moving. The relevant strategic risks at VERBUND are therefore continuously identified and assessed. This proactive management of long-term risks allows their effects on the Group to be limited accordingly and opportunities for additional growth to be consciously exploited.

### Risk-bearing capacity

An improved calculation of the risk-bearing capacity was developed and implemented in 2018. The concept for the risk-bearing capacity focuses on the rating of VERBUND AG and the resulting liquidity of the Group. For the long term, VERBUND is aiming for a stable "A" category rating.

## 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 14 February 2019, no risks were foreseeable for 2019, 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 VERBUND integrated annual report entitled Opportunity and risk management.

### Organisational framework

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 the management accounting, corporate accounting, financial management and risk management functions. 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 the generation, trading and sales of formerly integrated electric utilities. VERBUND subsidiary APG has been operating in the market since 2012 as an independent transmission system operator. An external equal opportunities officer monitors compliance with the unbundling provisions specified in the contract.

### Periodic monitoring

Internal Audit reviews the handling of business processes and the internal control and risk management system. The individual audits are performed according to the audit schedule approved by the VERBUND Executive Board 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 of 31 December 2018, 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 prepares the content for the appointment of Executive Board members on behalf of the entire Supervisory Board. VERBUND AG complies with the rules of the Code with respect to the appointment and dismissal of the members of the Executive Board and the Supervisory Board. Apart from the above, there are no other regulations not derived directly from law that relate to the members of the Executive Board and the Supervisory Board, or to the amendment of the Articles of Association.

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

# Report on the expected performance of the Company

## Outlook

At +1.6%, the 2019 economic growth forecast issued by the International Monetary Fund (IMF) for the eurozone is slightly lower than the figure for 2018 (+1.8%). Although the IMF continues to expect strong consumer demand, this will be more moderate than in previous years. In addition, the IMF anticipates a cooling export business and weaker industrial production. Further uncertainties from the IMF's perspective are the effects of Brexit and the customs disputes between the US and China.

Austria's economy continues to perform well by international standards. The Austrian Institute of Economic Research projects economic growth of 2% in 2019. Household spending will continue to support economic growth but will not be sufficient to fully compensate for declining demand in foreign trade.

In December 2018, the OPEC countries agreed to cut oil production for six months starting in January 2019. Ten non-OPEC countries are also participating in the reduction. The countries intend to review the measures in April 2019. The cut already raised the price of oil from around $55/bbl to $62/bbl at the beginning of January 2019. Prices for NCG and coal front years, on the other hand, declined again at the beginning of 2019 after rising sharply during 2018.

Wholesale electricity prices have risen substantially in recent years. Prices are currently hovering at around €50 for base load. How they will develop will depend in particular on $CO_2$ prices and the trend in primary energy prices (especially coal and gas).

Due to the further expansion in volatile renewable energy, the importance of VERBUND's generation portfolio is growing, with its flexible power plant portfolio with pumped storage power plants and the Mellach combined cycle gas turbine power plant (CCGT) on the one hand and its reliable run-of-river power plants on the other. APG, our wholly owned subsidiary, plays a key role in connection with the security of supply as owner and operator of one of Europe's most technically advanced transmission grids. In addition, VERBUND's innovative products and services already offer customers solutions for the future of energy.

### Investment plan 2019–2021

VERBUND's updated investment plan for the period 2019–2021 provides for capital expenditure in the amount of €1,834m. Of that total, around €875m will be spent on growth CAPEX and around €959m on maintenance CAPEX. Most of the growth CAPEX (approximately €614m) will go towards expanding the regulated Austrian high-voltage grid. 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 2019, VERBUND plans to invest a total of approximately €528m, around €226m of which will be invested in growth and around €302m in maintenance.

## Dividend

VERBUND plans to distribute a dividend of €0.42 per share for financial year 2018. The payout ratio for 2018 will thus amount to 42.6% based on the adjusted Group result.

## Earnings projection for 2019

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 flexibility products and ongoing developments in the energy market.

Around 66% of the planned own generation for 2019 was already contracted as at 31 December 2018. The price achieved was approximately €7.6/MWh above the sales price reached in 2018. 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 2019.

Vienna, 14 February 2019
Executive Board

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

Mag. Dr. Michael Strugl
**Vice-Chairman of the Executive Board**

Dr. Peter F. Kollmann
**Member of the Executive Board**

Mag. Dr. Achim Kaspar
**Member of the Executive Board**

# Annual financial statements

# Balance sheet

**Assets** €k

| | Notes | 2017 | 2018 |
|---|---|---|---|
| A. Fixed assets | | | |
| I. Intangible assets | (1) | 32,673.0 | 312.5 |
| II. Property, plant and equipment | | 22,811.3 | 22,951.6 |
| III. Investments | (2) | 4,328,802.0 | 4,653,023.0 |
| | | 4,384,286.2 | **4,676,287.1** |
| B. Current assets | | | |
| I. Inventories | (3) | 36.4 | 25.6 |
| II. Receivables and other assets | (4) | 71,017.9 | 64,226.1 |
| of which due in more than one year | | 0.0 | 0.0 |
| III. Cash in hand | (5) | 16.3 | 0.0 |
| | | 71,070.5 | **64,251.7** |
| C. Prepayments and accrued income | (6) | 72,468.0 | **68,999.4** |
| D. Deferred tax assets | (7) | 162,883.4 | **105,800.1** |
| | | 4,690,708.2 | **4,915,338.4** |
| Rights of recourse | (8) | 866,579.0 | 896,564.6 |
| less counter-guarantees from cross-border leasing | | −390,937.2 | −391,698.2 |
| | | 475,641.8 | **504,866.4** |

**Liabilities** €k

| | Notes | 2017 | 2018 |
|---|---|---|---|
| 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) | 732,300.7 | 1,149,435.8 |
| IV. Net profit | (12) | 145,914.6 | 145,914.6 |
| of which profit carried forward | | 0.0 | 0.0 |
| | | 2,197,351.3 | **2,614,486.4** |
| B. Provisions | (13) | 201,332.2 | **92,131.9** |
| C. Liabilities | (14) | 2,290,742.8 | **2,207,486.7** |
| of which due within one year | | 435,759.1 | 1,037,065.3 |
| of which due in more than one year | | 1,854,983.7 | 1,170,421.4 |
| D. Accruals and deferred income | (15) | 1,281.9 | **1,233.5** |
| | | 4,690,708.2 | **4,915,338.4** |
| Contingent liabilities | (16) | 866,579.0 | 896,564.6 |
| less counter-guarantees from cross-border leasing | | −390,937.2 | −391,698.2 |
| | | 475,641.8 | **504,866.4** |

# Income statement

€k

| | Notes | 2017 | 2018 |
|---|---|---|---|
| 1. Revenue | (17) | 281,990.7 | 259,550.3 |
| 2. Other operating income | (18) | 368.9 | 4,318.6 |
| 3. Operating income (subtotal of lines 1 and 2) | | 282,359.6 | **263,868.8** |
| 4. Expenses for electricity, grid/gas purchases and purchases of emission rights and other purchased production services and other services | | –184,151.2 | –199,982.5 |
| 5. Personnel expenses | (19) | –23,702.1 | –27,040.3 |
| 6. Depreciation and amortisation | (20) | –1,727.3 | –1,737.0 |
| 7. Other operating expenses | (21) | –33,976.2 | –36,489.1 |
| 8. Operating result (subtotal of lines 3 to 7) | | 38,802.9 | **–1,380.2** |
| 9. Income from equity interests | | 382,592.5 | 272,121.9 |
| 10. Income from other securities and loans classified as financial assets | | 39,881.9 | 34,226.5 |
| 11. Other interest and similar income | | 2,781.9 | 2,894.1 |
| 12. Income from the disposal and reversal of impairment losses on investments | | 28,453.9 | 349,927.9 |
| 13. Expenses from investments | | –526,037.5 | –16,456.3 |
| 14. Interest and similar expenses | | –80,225.9 | –76,670.5 |
| 15. Financial result (subtotal of lines 9 to 14) | (22) | –152,553.2 | **566,043.5** |
| 16. Earnings before taxes (subtotal of lines 8 and 15) | | –113,750.4 | **564,663.4** |
| 17. Taxes on income and profit | (23) | –53,328.8 | –1,613.7 |
| 18. Net income/net loss for the year | | –167,079.2 | **563,049.7** |
| 19. Disposal of revenue reserves | | 312,993.7 | 0.0 |
| 20. Allocation to revenue reserves | | 0.0 | –417,135.1 |
| 21. Net profit | | 145,914.6 | **145,914.6** |

# Statement of changes in fixed assets

| | As at 1/1/2018 | 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 | 353,008.6 | 3,234.1 | 349,233.1 | 0.0 |
| | 353,008.6 | 3,234.1 | 349,233.1 | 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 | 27,363.9 | 759.2 | 0.0 | 0.0 |
| 2. Electrical installations | 6,109.5 | 106.4 | 10.5 | 20.5 |
| 3. Office and plant equipment | 20,355.3 | 696.0 | 146.9 | 0.0 |
| 4. Effected advance payments and plants under construction | 20.5 | 0.0 | 0.0 | –20.5 |
| | 53,926.8 | 1,561.6 | 157.4 | 0.0 |
| Property, plant and equipment and intangible assets | 406,935.4 | 4,795.7 | 349,390.5 | 0.0 |
| III. Investments | | | | |
| 1. Shares in affiliated companies | 3,581,948.5 | 48.3 | 3.8 | 0.0 |
| 2. Loans to affiliated companies | 1,457,088.5 | 351,317.6 | 378,628.9 | 16,389.5 |
| 3. Equity interests | 282,663.0 | 0.0 | 20.0 | 0.0 |
| 4. Loans to equity interests | 65,000.0 | 0.0 | 0.0 | 0.0 |
| 5. Securities (loan stock rights) under fixed assets | 8,384.8 | 0.0 | 0.0 | 0.0 |
| 6. Other loans | 55,163.2 | 5.7 | 3,517.8 | 0.0 |
| | 5,450,247.9 | 351,371.6 | 382,170.5 | 16,389.5 |
| Fixed assets | 5,857,183.3 | 356,167.4 | 731,561.0 | 16,389.5 |

€k

| | As at 31/12/2018 | Accumulated amortisation as at 31/12/2018 | **Net carrying amount as at 31/12/2018** | Accumulated amortisation as at 31/12/2017 | Net carrying amount as at 31/12/2017 |
|---|---|---|---|---|---|
| | | | | | |
| | 7,009.6 | 6,697.1 | 312.5 | 320,335.6 | 32,673.0 |
| | 7,009.6 | 6,697.1 | **312.5** | 320,335.6 | 32,673.0 |
| | | | | | |
| | | | | | |
| | 77.6 | 77.6 | 0.0 | 77.6 | 0.0 |
| | 28,123.0 | 19,150.7 | 8,972.3 | 18,700.6 | 8,663.3 |
| | 6,225.9 | 3,973.7 | 2,252.2 | 3,579.5 | 2,530.0 |
| | 20,904.4 | 9,177.4 | 11,727.1 | 8,757.8 | 11,597.5 |
| | 0.0 | 0.0 | 0.0 | 0.0 | 20.5 |
| | 55,331.0 | 32,379.4 | **22,951.6** | 31,115.5 | 22,811.3 |
| | 62,340.6 | 39,076.5 | **23,264.2** | 351,451.1 | 55,484.3 |
| | | | | | |
| | 3,581,993.0 | 759,120.6 | 2,822,872.4 | 1,109,006.6 | 2,472,941.8 |
| | 1,446,166.7 | 0.0 | 1,446,166.7 | 0.0 | 1,457,088.5 |
| | 282,643.0 | 23,206.2 | 259,436.8 | 12,168.9 | 270,494.1 |
| | 65,000.0 | 0.0 | 65,000.0 | 0.0 | 65,000.0 |
| | 8,384.8 | 488.6 | 7,896.1 | 270.4 | 8,114.3 |
| | 51,651.1 | 0.0 | 51,651.1 | 0.0 | 55,163.2 |
| | 5,435,838.4 | 782,815.4 | **4,653,023.0** | 1,121,445.9 | 4,328,802.0 |
| | 5,498,179.0 | 821,891.9 | **4,676,287.1** | 1,472,897.0 | 4,384,286.2 |

# Statement of changes in depreciation and amortisation of fixed assets

| | Accumulated amortisation as at 1/1/2018 | 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 | 320,335.6 | 316.7 |
| | 320,335.6 | 316.7 |
| 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 |
| b. with plant and other plant facilities | 18,700.6 | 450.1 |
| 2. Electrical installations | 3,579.5 | 404.2 |
| 3. Office and plant equipment | 8,757.8 | 566.0 |
| 4. Effected advance payments and plants under construction | 0.0 | 0.0 |
| | 31,115.5 | 1,420.3 |
| Property, plant and equipment and intangible assets | 351,451.1 | 1,737.0 |
| III. Investments | | |
| 1. Shares in affiliated companies | 1,109,006.6 | 0.0 |
| 2. Loans to affiliated companies | 0.0 | 0.0 |
| 3. Equity interests | 12,168.9 | 0.0 |
| 4. Loans to equity interests | 0.0 | 0.0 |
| 5. Securities (loan stock rights) under fixed assets | 270.4 | 0.0 |
| 6. Other loans | 0.0 | 0.0 |
| | 1,121,445.9 | 0.0 |
| Fixed assets | 1,472,897.0 | 1,737.0 |

€k

| Additions from impairment losses | Disposals | Reversal of impairment | Reclassifications | **Accumulated amortisation as at 31/12/2018** |
|---|---|---|---|---|
| | | | | |
| 0.0 | 313,955.3 | 0.0 | 0.0 | 6,697.1 |
| 0.0 | 313,955.3 | 0.0 | 0.0 | **6,697.1** |
| | | | | |
| | | | | |
| 0.0 | 0.0 | 0.0 | 0.0 | 77.6 |
| 0.0 | 0.0 | 0.0 | 0.0 | 19,150.7 |
| 0.0 | 10.0 | 0.0 | 0.0 | 3,973.7 |
| 0.0 | 146.4 | 0.0 | 0.0 | 9,177.4 |
| 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 0.0 | 156.4 | 0.0 | 0.0 | **32,379.4** |
| 0.0 | 314,111.7 | 0.0 | 0.0 | **39,076.5** |
| | | | | |
| 0.0 | 3.8 | 349,882.3 | 0.0 | 759,120.6 |
| 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 11,073.8 | 0.0 | 36.4 | 0.0 | 23,206.2 |
| 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 218.2 | 0.0 | 0.0 | 0.0 | 488.6 |
| 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 11,292.0 | 3.8 | 349,918.7 | 0.0 | **782,815.4** |
| 11,292.0 | 314,115.4 | 349,918.7 | 0.0 | **821,891.9** |

# Maturity schedule 2018

| | | | | €k |
|---|---|---|---|---|
| | | | | Residual term to maturity as at 31/12/2018 |
| | < 1 year | > 1 year | > 5 years | Total |
| Loans | | | | |
| 1. Loans to affiliated companies | 57,312.8 | 329,570.5 | 1,059,283.4 | 1,446,166.7 |
| 2. Loans to equity interests | 45,000.0 | 20,000.0 | 0.0 | 65,000.0 |
| 3. Other loans | 3,519.0 | 48,130.9 | 1.2 | 51,651.1 |
| | 105,831.8 | 397,701.4 | 1,059,284.6 | 1,562,817.7 |
| Receivables and other assets | | | | |
| 1. Trade receivables | 27,619.5 | 0.0 | 0.0 | 27,619.5 |
| 2. Receivables from affiliated companies | 35,842.4 | 0.0 | 0.0 | 35,842.4 |
| 3. Receivables from investees | 95.0 | 0.0 | 0.0 | 95.0 |
| 4. Other receivables and assets | 669.2 | 0.0 | 0.0 | 669.2 |
| | 64,226.1 | 0.0 | 0.0 | 64,226.1 |
| Liabilities | | | | |
| 1. Bonds | 707,938.5 | 200,450.9 | 627,823.0 | 1,536,212.4 |
| 2. Liabilities to banks | 38,703.9 | 113,870.5 | 228,226.3 | 380,800.7 |
| 3. Trade payables | 38,956.2 | 3.5 | 0.0 | 38,959.7 |
| 4. Liabilities to affiliated companies | 242,213.5 | 0.0 | 0.0 | 242,213.5 |
| 5. Other liabilities | 9,253.2 | 47.2 | 0.0 | 9,300.4 |
| | 1,037,065.3 | 314,372.1 | 856,049.3 | 2,207,486.7 |

# Maturity schedule 2017

€k

| | < 1 year | > 1 year | > 5 years | Residual term to maturity as at 31/12/2017 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 |

# 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 assets, liabilities, financial position and financial performance.

In preparing these annual financial statements, the principle of completeness was adhered to and the principle of prudence was observed. Measurement 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 the lower fair value. Depending on the respective situation, calculation of the fair values is derived from market quotations, comparable recent transactions, measurement using the discounted cash flow method or multiples method. Using the discounted cash flow method (DCF method), the prices are determined by price quotations for energy futures and long-term electricity price forecasts. The discount rate is an after-tax interest rate which reflects current market estimates, the time value of money and the specific risks associated with the investment. Securities and loan stock rights under fixed assets are measured at cost or at the 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. The underlying tax rate for taxes due in Austria amounts to 25% and for taxes due in Germany, 15.83%.

**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 using a market interest rate.

Provisions for termination benefits are allocated at the full actuarial amount based on the projected unit credit method typically used in international financial reporting. 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 financial reporting 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 the updated "AVÖ 2018-P – Actuarial Assumptions for Pension Insurance".

The calculations as at 31 December 2018 and 2017 have been based on the following assumptions:

| % | 2017 | 2018 |
|---|---|---|
| Interest rate: | | |
| Pensions and similar obligations | 1.50 or 1.75 | 1.75 or 2.00 |
| Termination benefits | 1.50 | 1.75 |
| Trend: | | |
| Pension increases | 1.75 | 1.75 |
| Salary increases | 1.75 | 1.75 |
| Contributions to obligations similar to pensions – old contracts | 6.50 | 6.00 |
| Contributions to obligations similar to pensions – new contracts | 4.00 | 3.75 |
| 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 | 1.75 |

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).

The effects of the changes in parameters are presented in personnel expenses.

**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 Finance GmbH in 2014 are presented under financial liabilities and are being repaid.

**Accruals and deferred income**

In 2016, a reversal provision for tax purposes in accordance with Section 124b(270)(a) of the Austrian Income Tax Act (EStG) was 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) of 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 €286.4k (previous year: €572.9k).

#### (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".

In the presentation of intra-Group relationships in connection with the cross-border leasing of VERBUND Hydro Power GmbH (VHP), €16,389.4k (as at 31 December 2017) was moved from Group clearing to loans to affiliated companies (remaining term of more than five years) in the financial year.

**Securities (loan stock rights) under fixed assets** These 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 | 2017 | 2018 |
|---|---|---|
| Goods | 36.4 | 25.6 |

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

For details see separate "Maturity schedule".

Of the receivables from affiliated companies, €689.1k (previous year: €349.4k) related to trade receivables and €35,153.3k (previous year: €24,686.2k) to other receivables.

Of the receivables from investees, €14.1k (previous year: €13,590.8k) related to trade receivables and €80.8k (previous year: €80.4k) to other receivables.

€k

| Other receivables and assets | 2017 | 2018 |
|---|---|---|
| Accrued interest income and commissions from bonds and loans | 393.3 | 373.2 |
| Tax authorities | 16.4 | 35.1 |
| Payroll | 4.3 | 5.3 |
| Effected advance payments | 1.9 | 1.9 |
| Other | 109.3 | 253.7 |
| | 525.2 | **669.2** |

### (5) III. Cash in hand

€k

| | 2017 | 2018 |
|---|---|---|
| Cash in hand | 16.3 | 0.0 |

### (6) C. Prepayments and accrued income

€k

| | 2017 | 2018 |
|---|---|---|
| Prepayments for electricity purchases | 21,963.1 | 20,516.9 |
| Discounts, flotation costs and commitment fee relating to bonds and non-current loans | 6,540.7 | 6,191.1 |
| Other | 43,964.3 | 42,291.4 |
| | 72,468.0 | **68,999.4** |

### (7) D. Deferred tax assets

€k

| | 2017 | 2018 |
|---|---|---|
| Social capital | 6,236.0 | 6,430.1 |
| Valuation of fixed assets | –5.5 | –10.3 |
| Special tax deductions | –273.6 | –254.8 |
| Loss carried forward | 0.0 | 656.2 |
| Other | 156,926.4 | 98,978.9 |
| Deferred tax receivables (+) respectively liabilities (–) balanced | 162,883.4 | 105,800.1 |

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 tax rates of 15.83% and 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 €896,564.6k (previous year: €866,579.0k). 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 €391,698.2k (previous year: €390,937.2k). See also 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. As the deadline expired and there are no treasury shares, this authorisation is 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

| | 2017 | **2018** |
|---|---|---|
| Statutory reserves | 19,884.0 | 19,884.0 |
| Distributable reserves | 712,416.7 | 1,129,551.8 |
| | 732,300.7 | **1,149,435.8** |

### (12) IV. Net profit

| | €k |
|---|---|
| As at 31/12/2017 | 145,914.6 |
| Distribution of dividends | –145,914.6 |
| Profit carried forward | 0.0 |
| Net loss for the year | 563,049.7 |
| Changes in reserves | –417,135.1 |
| As at 31/12/2018 | 145,914.6 |

### (13) B. Provisions

#### 1. Provisions for termination benefits

| €k | 2017 | 2018 |
|---|---|---|
| Premium reserve based on actuarial calculations | 8,322.3 | **5,802.3** |
| Taxed proportion of provisions | 8,322.3 | **5,802.3** |

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 | 2017 | 2018 |
|---|---|---|
| Provisions for pension obligations | 29,654.4 | **31,337.8** |
| of which obligations similar to pensions | 6,472.1 | **6,129.9** |

#### 3. Provisions for taxes

| €k | 2017 | 2018 |
|---|---|---|
| Corporate income tax (including prior reporting periods) | 93,333.6 | **44,271.8** |
| Other tax provisions | 956.4 | **1,010.6** |
| | 94,290.0 | **45,282.4** |

#### 4. Other provisions

| €k | 2017 | 2018 |
|---|---|---|
| Trade receivables not yet billed | 2,640.9 | **1,980.6** |
| Other | 57,895.7 | **2.0** |
| | 60,536.6 | **1,982.6** |

Of the provisions, €0.0k (previous year: €57,895.7k) related to affiliated companies. The prior-year amount related 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. The liquidation status was rescinded in April 2018 on the basis of the resolution to continue the company.

€k

| Other personnel-related provisions | 2017 | **2018** |
|---|---|---|
| Bonuses | 3,940.9 | 3,647.5 |
| Unused holidays | 2,767.6 | 2,130.7 |
| Holiday allowance | 616.6 | 701.9 |
| Death grant | 507.2 | 496.9 |
| Compensatory time credit | 98.8 | 105.9 |
| Early retirement benefits | 165.5 | 92.0 |
| Other | 432.2 | 551.7 |
| | 8,528.8 | **7,726.8** |

**(14) C. Liabilities**

For details see separate “Maturity schedule”.

Of the liabilities to affiliated companies, €241,510.5k (previous year: €170,016.0k) related to financial liabilities and €703.1k (previous year: €1,313.6k) to other liabilities.

In the presentation of intra-Group relationships in connection with the cross-border leasing of VHP, €16,389.4k (as at 31 December 2017) was moved from Group clearing to loans to affiliated companies (remaining term of more than five years) in the financial year.

€k

| Other liabilities | 2017 | **2018** |
|---|---|---|
| From taxes | 1,959.9 | 7,267.8 |
| Payroll | 338.7 | 42.1 |
| Related to social security | 288.0 | 252.6 |
| From financing contributions | 243.4 | 516.0 |
| Other | 1,104.0 | 1,221.9 |
| | 3,934.0 | **9,300.4** |

**(15) D. Accruals and deferred income**

€k

| | 2017 | **2018** |
|---|---|---|
| Contributions to building costs | 666.6 | 631.5 |
| Revaluation reserve | 508.5 | 508.5 |
| From electricity business | 93.4 | 80.0 |
| Other | 13.4 | 13.4 |
| | 1,281.9 | **1,233.5** |

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 €21,478.3k (previous year: €27,924.0k). Of this, €21,474.8k (previous year: €27,920.5k) is attributable to affiliated companies and €0.0k (previous year: €0.0k) to investees.

The subsidiary VERBUND Hydro Power GmbH (VHP) entered into several cross-border leasing transactions during financial years 1999 to 2001. The figures reported in the balance sheet of VHP 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 was 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 VHP continued the existing B-loans and the corresponding investments.

In connection with these cross-border leasing transactions, VERBUND AG issued guarantee bonds for VHP, which for the most part still exist for the transaction that has not been terminated as well as for the liabilities transferred to VHP totalling €875,086.2k (previous year: €838,655.1k). Of the rights of recourse against the primary debtors, €391,698.2k (previous year: €390,937.2k) 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 €483,388.0k (previous year: €447,717.8k) 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 deteriorating energy market environment, VERBUND AG's credit rating was downgraded numerous times until 2016, in some cases falling below the required minimum rating. Corresponding provisions were recognised at VHP for the anticipated expenses. A portion of the provisions was able to be reversed as early as financial year 2017 on the basis of rating upgrades. The rating agencies further upgraded the credit rating in the reporting period to the extent that the provisions recognised at VHP were completely remeasured and were able to be almost fully reversed.

In addition, there is still a risk that the investing banks would have to be replaced or VHP would have to provide additional collateral if the rating of the investing banks were downgraded below a certain threshold. 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 were to deteriorate 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 2018, with the exception of the situation described above. Thus there is currently no need for VERBUND AG or VHP to exchange individual contractual parties or investments. This risk is also reduced not least by the existence in some cases 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 to the income statement

### (17) 1. Revenue

€k

| | | 2017 | 2018 |
|---|---|---|---|
| Revenue from electricity deliveries | | | |
| Domestic | Energy supply companies | 35,650.1 | 19,852.8 |
| | Industrial customers and consumers | 84,263.1 | 93,688.1 |
| | Other customers | 114,474.0 | 90,093.2 |
| | | 234,387.1 | **203,634.0** |
| Invoicing of grid tariffs; user and management fees | | 3,064.9 | 3,022.2 |
| Other revenue (including gas trading) | | 44,538.7 | 52,894.1 |
| | | 281,990.7 | **259,550.3** |

### (18) 2. Other operating income

€k

| | 2017 | 2018 |
|---|---|---|
| a) Income from disposal of fixed assets with the exception of investments | 10.4 | 3,793.4 |
| b) Income from reversal of provisions | 18.9 | 7.2 |
| c) Other | 339.6 | 517.9 |
| | 368.9 | **4,318.6** |

## (19) 5. Personnel expenses

| €k | 2017 | 2018 |
|---|---|---|
| a) Salaries | 18,944.1 | 18,423.7 |
| b) Expenses for termination benefits and payments to employee pension funds | | |
| Termination benefits | 1,118.2 | 3,174.9 |
| Contributions to employee pension funds | 159.2 | 160.3 |
| Change in the provision for termination benefits | –1,144.0 | –2,632.5 |
| Expenses/income and takeovers/transfers within the Group | 378.9 | 223.1 |
| | 512.4 | **925.8** |
| c) Expenses for pensions and similar obligations | | |
| Early retirement benefits and pension payments | 2,270.3 | 2,266.0 |
| Change in the provisions for pensions and similar obligations | –2,214.3 | 1,244.4 |
| Expenses/income and takeovers/transfers within the Group | 97.2 | 292.2 |
| Change in the provisions for early retirement benefits | –126.1 | –73.8 |
| Pension fund contributions | 858.7 | 811.2 |
| | 885.8 | **4,539.9** |
| d) Expenses for social security contributions as required by law as well as income-based charges and compulsory contributions | 3,158.8 | 2,950.8 |
| e) Other social security expenses | 201.0 | 200.1 |
| | 23,702.1 | **27,040.3** |

The effect of changing the adjusted mortality tables resulted in an expense of €3,696.7k in the financial year which is partly offset by a positive effect from interest rate changes of €1,488.9k. The effect of the changes in parameters was recognised in full in the financial year.

## (20) 6. Depreciation and amortisation

| €k | 2017 | 2018 |
|---|---|---|
| a) Amortisation of intangible assets and depreciation of property, plant and equipment | | |
| Depreciation and amortisation | 1,667.6 | 1,699.8 |
| Immediate write-off of low-value assets in accordance with Section 13 of the Austrian Income Tax Act (EStG) | 59.7 | 37.2 |
| | 1,727.3 | **1,737.0** |

## (21) 7. Other operating expenses

| €k | 2017 | 2018 |
|---|---|---|
| a) Taxes other than taxes on income | 182.6 | 105.3 |
| b) Other | | |
| Advertising and market development costs | 10,271.0 | 10,328.4 |
| Other administrative expenses | 5,422.0 | 4,832.2 |
| Legal, audit and consulting expenses | 3,227.4 | 4,656.0 |
| Operating costs for buildings, rent and leasing | 3,168.7 | 3,218.3 |
| IT support, electronic data processing | 2,380.8 | 2,523.0 |
| Temporary personnel and provision of personnel | 608.7 | 993.5 |
| Membership fees | 709.1 | 778.4 |
| Training and further education | 476.9 | 552.3 |
| Telecommunications services, data services | 549.1 | 545.0 |
| Other | 6,979.9 | 7,956.6 |
| | 33,793.6 | **36,383.8** |
| | 33,976.2 | **36,489.1** |

## (22) 15. Financial result

| €k | 2017 | 2018 |
|---|---|---|
| Income from equity interests | | |
| from affiliated companies | 363,811.7 | 252,209.6 |
| of which from profit pools | 14,762.4 | 10,150.9 |
| Income from other securities and loans in financial assets | | |
| from affiliated companies | 37,480.1 | 31,904.7 |
| Other interest and similar income | | |
| from affiliated companies | 2,427.5 | 2,782.1 |
| Income from disposals and impairment loss reversals of investments | | |
| disposal of shares in affiliated companies | 0.0 | 0.0 |
| reversal of impairment of shares in affiliated companies | 12,080.9 | 349,882.3 |
| Expenses relating to investments | | |
| impairments on affiliated companies | 526,037.5 | 0.0 |
| expenses from affiliated companies | 0.0 | 5,164.4 |
| of which from profit pools | 0.0 | 5,164.4 |
| Interest and similar expenses | | |
| of which interest for long-term personnel provisions | 610.8 | 565.9 |
| from affiliated companies | 17,308.0 | 16,238.8 |

### (23) 17. Taxes on income and profit

| €k | 2017 | 2018 |
|---|---|---|
| Consolidated taxes on income | 57,072.3 | 21,697.4 |
| of which recharged to members of the Group[1] | –82,098.5 | –79,665.5 |
| Future tax expense for subsequent taxation of losses from foreign members of the tax group | 12,346.3 | 12,404.0 |
| Additional amounts/credit notes from previous periods | –36.5 | –9,905.4 |
| Change in deferred taxes | 66,045.2 | 57,083.3 |
| | 53,328.8 | **1,613.7** |

[1] tax allocation rate of 15% or 25% // [2] tax rate of 15.83% or 25%

## IV. Other disclosures

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

| Material items | Total commitment | 2019 | 2019–2023 |
|---|---|---|---|
| Rent, lease and insurance agreements | [1] | 3,048.1 | 14,097.1 |
| Purchase commitments | 4,434.6 | 3,733.7 | 4,434.6 |
| of which to affiliated companies | [1] | 25.2 | 125.1 |

€k

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

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

There are electricity supply agreements with Österreichisch-Bayerische Kraftwerke 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, 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 under certain conditions to make pension payments to employees after they retire. The employer is obligated to provide additional funding to the extent that these pension obligations are 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 €1,108.9k (previous year: €0.0k) to cover defined benefit obligations.

VERBUND AG gave a commitment to VERBUND Thermal Power GmbH & Co KG to ensure that the company has adequate financial means to meet its obligations in a timely manner. The commitment is limited to a maximum amount of €250.0m and can be terminated by 31 December 2025 at the earliest.

## 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 €100,687.5k (previous year: €115,312.5k) as at 31 December 2018. 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 conducted, it is not necessary to recognise a separate provision for onerous contracts for the negative fair values amounting to €8,885.4k (previous year: €10,628.9k). The future interest payments hedged by these hedging instruments will occur in the following eight years (2019 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 €140,600.0k (previous year: €159,025.0k), 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 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 €6,963.5k (previous year: negative fair value of €7,968.0k) as at 31 December 2018.

## 3. Number of employees

| Average | 2017 | **2018** |
|---|---|---|
| Salaried employees | 123 | 115 |

## 4. Expenses for termination benefits and pensions

€k

| | 2017 | **2018** |
|---|---|---|
| Members of the Executive Board, former members of the Executive Board and their surviving dependants[1] | 736.8 | 3,542.1 |
| Other employees[1] | 661.4 | 1,923.6 |
| | 1,398.2 | **5,465.7** |

[1] previous year's values adjusted (previous year: €155.3k and €1,242.9k, 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 2018, contributions to the pension fund were paid for the Executive Board in the amount of €225,992 (previous year: €219,681).

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 2018, €376,226 was paid out for pensions (previous year: €361,817) and €2,189,150 for termination benefits in favour of beneficiaries (previous year: €0).

Expenses for termination benefits and pensions and similar obligations (post-employment benefits) amounted to €256,551 (previous year: €4,718). Expenses for pensions and similar obligations for former members of the Executive Board and their surviving dependants amounted to a total of €494,178 (previous year: €150,573).

## 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] | Other | Total |
|---|---|---|---|---|
| Dipl.-Ing. Wolfgang Anzengruber | 849,770 | 563,457 | | 1,413,227 |
| Dr. Johann Sereinig | 813,641 | 385,665 | 598,682 | 1,797,988 |
| Dipl.-Ing. Dr. Günther Rabensteiner | 604,733 | 286,643 | 229,334 | 1,120,710 |
| Dr. Peter F. Kollmann | 806,096 | 382,089 | | 1,188,185 |

[1] Variable remuneration is always paid at the beginning of the following year, because whether or not goals have been achieved can only be determined at the end of the year. Consequently, the variable components paid to the members of the Executive Board in 2017 were paid in respect of the financial year 2016.

Remuneration for the four members of the Executive Board totalled €5,599,347 in 2018 (previous year: €4,485,156), which included €79,237 of payments in kind (previous year: €59,858). The other remuneration of €828,016 (previous year: €0) relates to payment in lieu of holiday for members of the Executive Board who have resigned.

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 2017 (and for the current financial year 2018). The level of performance-based remuneration components depends on the extent to which the targets agreed for the financial year are achieved. In the 2017 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 its 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 €348,934 (previous year: €380,801).

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

| € | 2017 | 2018 |
|---|---|---|
| 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 and Audit 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 2018, 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 existed as early as 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 2018, 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 2018 and authorisation for issue on 14 February 2019.

## 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 | **2018 kWh** |
|---|---|---|
| Hydropower | 100.0% | 1,584,011,586 |
| Solar energy | 0.0% | 36,944 |
| Total volume of electricity supplied in Austria to consumers for their own use | 100.0% | 1,584,048,530 |

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

| **Environmental impact of electricity generation for the volume of electricity supplied to consumers for their own use** | | **2018** |
|---|---|---|
| Radioactive waste (mg/kWh) | | 0.0 |
| $CO_2$ emissions (g/kWh) | | 0.0 |

Vienna, 14 February 2019
Executive Board

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

Mag. Dr. Michael Strugl
**Vice-Chairman of the Executive Board**

Dr. Peter F. Kollmann
**Member of the Executive Board**

Mag. Dr. Achim Kaspar
**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 31/12/2018 | Most recent annual financial statements | (+) (–) | Net income/loss for the year | Equity[1] |
|---|---|---|---|---|---|---|
| **Consolidated affiliated companies[2]** | | | | | | |
| Austrian Power Grid AG | Vienna | 100.00 | 2018 | + | 38,741.4 | 460,163.1 |
| Innwerk AG | Stammham | 100.00 | 2018 | + | 17,865.8 | 145,631.9 |
| VERBUND Finanzierungsservice GmbH | Vienna | 100.00 | 2018 | – | 198.6 | 218.1 |
| VERBUND Sales GmbH | Vienna | 100.00 | 2018 | + | 1,991.1 | 10,353.9 |
| VERBUND Services GmbH | Vienna | 100.00 | 2018 | + | 8,159.7 | 7,420.6 |
| VERBUND Solutions GmbH | Vienna | 100.00 | 2018 | – | 4,965.8 | 11,933.5 |
| VERBUND Thermal Power GmbH | Neudorf on Wildon | 100.00 | 2018 | + | 843.9 | 7,282.9 |
| VERBUND Trading GmbH | Vienna | 100.00 | 2018 | + | 45,828.2 | 255,453.9 |
| VERBUND Wind Power Deutschland GmbH | Wörrstadt | 100.00 | 2018 | + | 12.3 | 43.5 |
| VERBUND Thermal Power GmbH & Co KG | Neudorf on Wildon | 99.99 | 2108 | + | 87,911.8 | 30,016.1 |
| VERBUND Wind Power Romania S.R.L.[3, 4] | Bucharest | 99.98 | 2018 | – | 2,255.6 | 116,017.7 |
| Windpark Dichtelbach GmbH & Co. KG | Wörrstadt | 95.00 | 2018 | + | 91.7 | 2,921.1 |
| Windpark Dörrebach GmbH & Co. KG | Wörrstadt | 95.00 | 2018 | + | 181.1 | 3,232.5 |
| Windpark Eichberg GmbH & Co. KG | Wörrstadt | 95.00 | 2018 | – | 18.3 | 4,644.1 |
| Windpark Ellern GmbH & Co. KG | Wörrstadt | 95.00 | 2018 | – | 222.0 | 5,058.0 |
| Windpark Hochfels GmbH & Co. KG | Wörrstadt | 95.00 | 2018 | + | 55.9 | 3,347.8 |
| Windpark Rheinböllen GmbH & Co. KG | Wörrstadt | 95.00 | 2018 | – | 55.2 | 4,607.3 |
| Windpark Schönborn GmbH & Co. KG | Wörrstadt | 95.00 | 2018 | – | 86.8 | 4,575.6 |
| Windpark Seibersbach GmbH & Co. KG | Wörrstadt | 95.00 | 2018 | + | 297.5 | 4,997.7 |
| Windpark Stetten I GmbH & Co. KG | Wörrstadt | 95.00 | 2018 | – | 125.6 | 4,275.5 |
| Windpark Utschenwald GmbH & Co. KG | Wörrstadt | 95.00 | 2018 | + | 61.0 | 1,620.1 |
| Infrastruktur Oberheimbach I GmbH & Co. KG | Wörrstadt | 81.00 | 2018 | – | 18.2 | 50.0 |
| VERBUND Hydro Power GmbH | Vienna | 80.54 | 2018 | + | 158,111.2 | 1,563,131.5 |
| VERBUND Innkraftwerke GmbH | Töging | 70.27 | 2018 | + | 5,924.4 | 291,512.2 |

€k

| | Head-quarters | % share-holding as at 31/12/2018 | Most recent annual financial statements | (+) (–) | Net income/loss for the year | Equity[1] |
|---|---|---|---|---|---|---|
| Infrastrukturgesellschaft Bischheim GmbH & Co. KG | Wörrstadt | 61.26 | 2018 | – | 0.0 | 43.4 |
| Donaukraftwerk Jochenstein Aktiengesellschaft | Passau | 50.00 | 2018 | + | 833.2 | 15,752.6 |
| Grenzkraftwerke Gesellschaft mit beschränkter Haftung | Simbach | 50.00 | 2018 | + | 2,330.1 | 13,293.3 |
| Österreichisch-Bayerische Kraftwerke Aktiengesellschaft | Simbach | 50.00 | 2018 | + | 3,248.9 | 58,255.2 |
| **Non-consolidated affiliated companies** | | | | | | |
| AQUANTO GmbH in Liqu. | Munich | 100.00 | 2017 | – | 2,101.5 | 53.6 |
| **Associates** | | | | | | |
| Ennskraftwerke Aktiengesellschaft[5] | Steyr | 50.00 | 2018 | + | 392.3 | 26,669.2 |
| KELAG-Kärntner Elektrizitäts-Aktiengesellschaft[6] | Klagenfurt | 35.17 | 2017 | + | 65,670.5 | 833,285.8 |

[1] Equity as defined by Section 224(3)a of the Austrian Commercial Code (UGB) or local law // [2] Consolidation in accordance with Sections 253–261 of the Austrian Commercial Code (UGB) // [3] Annual financial statements in accordance with local law // [4] Figures translated using the exchange rate at the reporting date // [5] Accounted for using the equity method in accordance with Sections 263–264 of the Austrian Commercial Code (UGB) // [6] Proportionate consolidation in accordance with Section 262 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 2018, 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 2018 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 referred to as EU-VO) 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 audit 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.

**Carrying amounts of shares in affiliated companies**

**Description and issue**

As at 31 December 2018, VERBUND AG reported shares in affiliated companies in the amount of around €2,822.9m. Due to the current operating environment in the energy industry, the Company tested the recoverability of the carrying amounts of equity interests.

Wholesale electricity prices rose sharply in 2018 on the one hand because they were characterised by considerable price increases in the primary energy and $CO_2$ markets and on the other hand because they were influenced by the separation of the joint German-Austrian price zone beginning on 1 October 2018. The agreement on the reform of the emissions trading regime reached at the beginning of 2018 also has the effect of supporting prices on the emissions trading market. 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 developments by management and the sensitivity to the cost of capital and to the key assumptions regarding the medium- and long-term electricity price trends for the energy markets, this is a key audit matter.

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

### Audit approach

We compared the parameters used in the impairment tests with company-specific information and relevant market data and market expectations from external and internal data sources and assessed the adequacy of the applied valuation models.

We reviewed and comprehend the changes in valuation parameters compared with the previous year as a result of slightly higher capital costs as well as an expected higher increase in electricity prices.

The evaluation of assumptions regarding the medium- and long-term price trend on the energy markets was carried out based on the price quotations on the electricity exchanges up to the year 2021 and the available price forecasts for the years beyond 2021 under special consideration of the current trend in the energy market environment. We consulted internal experts in order to corroborate the capital costs by means of comparative analysis. We assessed the consistency of the future cash flows applied in the calculations by comparing the planning data used therein with the medium term plans approved by the Supervisory Board, contractual bases and electricity price scenarios specific to VERBUND.

### Other information

Management is responsible for the other information. The other information contains all information in the annual report and in the annual financial report (excluding the annual financial statements, the management report and our auditor's report thereon). The annual report and the annual financial report are expected to be made available to us after the date of the auditor's report.

Our opinion on the annual financial statements does not cover the other information, and we will not express any form of assurance conclusion thereon. Please refer to the "Report on the audit of the management report" regarding 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 Company's assets, liabilities, financial position and financial performance 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-VO 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.

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

**In addition:**

- We 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.
- We 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.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We 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.
- We 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 give a true and fair view.

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

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

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

## Report on the audit of the management report

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

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

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

### Opinion

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

### Statement

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

## Additional information required under Article 10 of the EU Audit Regulation

We were elected by the Annual General Meeting held on 23 April 2018 as the auditor for the financial year ended 31 December 2018 and engaged by the Supervisory Board on 3 May 2018 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-related services in accordance with Article 5(1) of the EU-VO 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.

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

Vienna, 14 February 2019
Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Gerhard Marterbauer
**Certified Public Accountant**

Mag. Christof Wolf
**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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