Shaping a sustainable energy future.
Our drive. Our energy.

Annual Report VERBUND AG 2019

Verbund
Power for the Future

VERBUND AG
Annual Report 2019

Contents

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

Three-year comparison

€m, %	2017	2018	**2019**
Revenue	282.0	259.6	**313.9**
Earnings before interest and taxes (EBIT)	–33.5	641.3	**682.7**
Earnings before taxes	–113.8	564.7	**622.4**
Net income/net loss	–167.1	563.0	**619.5**
Net profit	145.9	145.9	**239.7**
Total assets	4,690.7	4,915.3	**5,157.6**
Fixed assets	4,384.3	4,676.3	**4,907.8**
Capital expenditure for property, plant and equipment	1.3	1.6	**1.2**
Depreciation of property, plant and equipment	1.4	1.4	**1.6**
Equity	2,197.4	2,614.5	**3,088.1**
Return on sales (ROS)	–11.9%	247.1%	**217.5%**
Return on equity (ROE)	–4.6%	25.7%	**23.8%**
Return on investment (ROI)	–0.6%	13.7%	**13.9%**
Return on capital employed (ROCE)	–0.5%	10.4%	**10.4%**
Equity ratio	46.8%	53.2%	**59.9%**
Debt repayment period	6.3	8.5	**7.3**
Cash flow from operating activities	281.4	217.8	**293.4**
Gearing	103.9%	84.0%	**61.7%**
Working capital	–140.1	–915.8	**–742.0**
Net debt	2,283.2	2,196.8	**1,905.5**
Current liabilities	598.2	1,091.1	**1,085.7**
Current assets	458.1	175.2	**343.7**
Share price high	21.8	44.8	**55.3**
Share price low	14.7	20.0	**38.0**
Closing price	20.1	37.2	**44.7**
(Proposed) dividend per share	0.42	0.42	**0.69**
Dividend yield	2.08%	1.13%	**1.54%**
Average number of employees	123	115	**132**
Group electricity sales volume (GWh)[1]	63,264	63,195	**66,292**

[1] including system requirements

Board members

Executive Board

Name	Year of birth	Date of initial appointment	End of current term of office
CEO Dipl.-Ing. Wolfgang Anzengruber Chairman	1956	1/1/2009	31/12/2020
Vice-Chairman Mag. Dr. Michael Strugl Member of the Executive Board	1963	1/1/2019	31/12/2021
Dr. Peter F. Kollmann Member of the Executive Board	1962	1/1/2014	31/12/2021
Mag. Dr. Achim Kaspar 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	1952	5/4/2017	30/4/2019
Prof. Dipl-Ing. Dr. Michael Süß	1963	22/4/2015	30/4/2019
MMag. Thomas Schmid Chairman Member of the board of directors of Österreichische Beteiligungs AG; Member of the supervisory boards of OMV AG (vice-chairman), Telekom Austria AG (member), Bundesimmobiliengesellschaft m.b.H. (chairman), ARE Austrian Real Estate GmbH (chairman) and Österreichische Lotterien GmbH (member)	1975	30/4/2019	AGM 2024
Mag. Martin Ohneberg 1st Vice-Chairman Managing partner of HENN Industrial Group GmbH & Co KG, HENN GmbH and HENN GmbH & Co KG; member of the supervisory boards of Aluflexpack AG, Switzerland (president of the board of directors) and ASTA Energy Transmission Components GmbH (member)	1971	30/4/2019	AGM 2024
Mag. Elisabeth Engelbrechtsmüller-Strauß 2nd Vice-Chairwoman CEO of Fronius International GmbH; Member of the supervisory boards of Wels Betriebsansiedlungs-GmbH (chairwoman); member of the board of trustees of the Institute of Science and Technology	1970	22/4/2015	AGM 2020
Mag. Harald Kaszanits Austrian Economic Chambers	1963	7/4/2010	AGM 2020
Mag. Werner Muhm Member of the supervisory boards of Wiener Städtische Versicherung AG, AWH Beteiligungsges.m.b.H. and KA Finanz AG; managing board of Leopold Museum Privatstiftung (member); board of trustees of the Austrian National Library (vice-chairman)	1950	22/4/2015	AGM 2020

Name	Year of birth	Date of initial appointment	End of current term of office
Dr. Susanne Riess CEO of Bausparkasse Wüstenrot AG; member of the supervisory boards of Wüstenrot Versicherungs-AG (chairwoman), Wüstenrot stambena štedionica d.d., Croatia (chairwoman), Wüstenrot životno osiguranje d.d., Croatia (chairwoman), Wüstenrot Fundamenta-Lakáskassza Zrt., Hungary (vice-chairwoman), Wüstenrot stavebná sporiteľňa a.s., Slovakia (vice-chairwoman); Wüstenrot poisťovňa a.s., Slovakia (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 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 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), Netz Niederösterreich GmbH (vice-chairman); member of the supervisory boards of Österreichische Post AG and Wiener Börse AG/CEESEG AG (member)	1964	23/4/2018	AGM 2020
Christa Wagner Managing partner at Wagner-Josko Immobilien GmbH; shareholder in Josko Fenster und Türen GmbH; supervisory board of exceet Card Group AG (member)	1960	7/4/2010	AGM 2020
Dipl.-Ing. Peter Weinelt 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), B&F Wien – Bestattung und Friedhöfe GmbH (chairman) and Burgenland Holding Aktiengesellschaft (member)	1966	5/4/2017	AGM 2020

Supervisory Board appointments or comparable roles 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	
Kurt Christof Chairman of the Central Works Council Member of the supervisory boards of Stadtwerke Voitsberg GmbH and of Sparkasse Voitsberg/Köflach Bankaktiengesellschaft	1964	since 8/3/2004	appointed by the employee representatives
Doris Dangl Chairwoman of the Central Works Council Chairwoman of the Group's employee representatives	1963	since 5/4/2018	appointed by the employee representatives
Dr. Isabella Hönlinger Chairwoman of the Works Council	1971	since 1/9/2016	appointed by the employee representatives
Ing. Wolfgang Liebscher Chairman of the Central Works Council	1966	since 1/11/2013	appointed by the employee representatives
Dipl.-Ing. Hans Pfau Chairman of the Works Council	1953	from 1/9/2016 until 30/4/2019	appointed by the employee representatives
Veronika Neugeboren Chairwoman of the Works Council	1967	since 30/4/2019	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

VERBUND, Austria's leading utility, succeeded in making good use of the positive energy market climate and operating environment in financial year 2019 and once again generated very good results, remaining on a profitable and sustainable trajectory. The Supervisory Board actively monitored and supported this strong performance.

Performance of duties. In financial year 2019, the Supervisory Board discharged the responsibilities and exercised the powers incumbent upon it by virtue of the law and the Articles of Association at five plenary meetings. The overall attendance rate for all Supervisory Board members was 95%. 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 advised the Executive Board on key questions concerning the future, particularly as regards the Group's structure and strategy, and monitored the Executive Board's management activities continuously based on its extensive reporting. Following a detailed strategy process, the revised corporate strategy was approved. Supervision took place in the context of open and constructive discussions between the Executive Board and the Supervisory Board and revealed no grounds for objections. The main resolutions adopted by the Supervisory Board are presented in the 2019 Consolidated Corporate Governance Report. Between Board meetings, the Chairman of the Supervisory Board conversed regularly with the members of the Executive Board, particularly the Chairman.

New General Committee of the Supervisory Board. In place of Dr. Gerhard Roiss, who stepped down from the Supervisory Board, MMag. Thomas Schmid was elected to the Supervisory Board at the Annual General Meeting on 30 April 2019 and subsequently unanimously elected as its Chairman. Mag. Martin Ohneberg was elected to the Supervisory Board as a further shareholder representative and as 1st Vice-Chairman to replace Prof. Dr. Michael Süß, who also stepped down from the Board.

Among the employee representatives, Veronika Neugeboren took the place of Dipl.-Ing. Hans Pfau on the Supervisory Board effective 30 April 2019.

Code of Corporate Governance, Supervisory Board committees. As a leading listed group, VERBUND made an early commitment to comply with the Austrian Code of Corporate Governance. VERBUND's Supervisory Board views compliance with the Code as obligatory and endeavours to consistently comply with the provisions relating to the Supervisory Board. In this spirit, we have achieved fundamental compliance with the rules relating to the Supervisory Board's collaboration with the Executive Board and within the Supervisory Board itself.

Pursuant to the requirements of the Code (Rule 36), the Supervisory Board again conducted a self-evaluation of its activities, particularly of its organisation and work procedures. The evaluation was undertaken in the form of a comprehensive written questionnaire that was completed by the Board members. The Supervisory Board discussed the results of its evaluation at a meeting. The Supervisory Board once again also discussed possible conflicts of interest when dealing with the approval of contracts with companies where individual Supervisory Board members are related parties. No conflicts of interest were identified that would require any action to be undertaken beyond that taken at the meetings.

The Supervisory Board's Audit Committee met three times during the financial year now ended. 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 Internal Audit.

The Strategy Committee of the Supervisory Board 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 three meetings for the purpose of monitoring revision of the Group's strategy.

In accordance with the Code of Corporate Governance and the rules of procedure, three other Supervisory Board committees – an Emergencies Committee, a Nomination Committee and a Remuneration Committee – were again formed in the past financial year. The Remuneration Committee held one meeting to discuss in particular target agreements and the achievement of targets for the variable remuneration of the Executive Board. The Nomination Committee and the Emergencies Committee did not meet in the reporting period.

Further information on the composition, work procedures and meetings of the Supervisory Board and its committees as well as on the remuneration paid to its members is contained in the Group's Consolidated Corporate Governance Report for 2019.

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 2019 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 2019 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 2019. The Supervisory Board would also like to thank the Group's shareholders, customers and business partners for their trust.

Vienna, March 2020

MMag. Thomas Schmid
Chairman of the Supervisory Board

Management report

Report on business performance and economic position

General conditions

In financial year 2019, commodity prices for oil, gas and coal decreased, while prices for CO_2 emission rights increased further. By contrast, mixed signals could be observed in the markets for wholesale electricity. In the futures market prices rose sharply, whereas in the spot market prices decreased significantly by the same measure.

Overall demand for electricity in Austria edged down in 2019. However, the volumes of electricity generated in 2019 were significantly higher than in 2018, allowing net imports to be reduced significantly compared with 2018.

General economic environment

A subdued global economy in 2019

The global economy continued to lose momentum in 2019. The trade dispute and the associated tariff increases between China and the United States, geopolitical tensions and uncertainty in connection with Brexit put a damper on investment demand internationally, which in turn had a negative impact on global industrial production and world trade.

The relatively stable economic growth seen until 2018 slowed in 2019. The forecasts for 2020 are below the figures for previous years. In 2019, the global economy grew by 2.9%, the lowest level since 2008/2009. A modest increase to 3.3% is expected for 2020. The IMF has forecast a slightly higher growth rate for the years 2021 to 2024.

The US economy grew by 2.3% in 2019, down from 2.9% in the previous year. The decline in eurozone economic growth is even more marked; here, economic growth slipped from 1.9% in 2018 to 1.2% in 2019.

China's economy fell to new lows since 2009 with growth of 6.1%; this decrease was due in particular to the trade dispute between the United States and China coupled with weaker external demand.

Along with the uncertainty generated by Brexit and the international trade disputes, the weaker growth in the eurozone was caused by softening international demand. Weaker consumer demand could also be observed in a number of eurozone countries. The IMF revised its economic outlook downwards by 0.6 points to +1.1% for 2020. For 2021 the IMF is forecasting a modest recovery of +1.4%.

Austria's economy also slowed down in spring 2019. At +0.3%, quarter-on-quarter growth in total economic output in quarter 2/2019 was at its lowest level since 2015, with exports in particular losing considerable momentum. All the same, the Austrian economy remained relatively robust in 2019 compared with the German economy. Weaker growth in goods manufacturing was mostly outweighed by trends in the construction and services sectors. Consumer spending also stimulated aggregate demand. Overall, the Austrian Institute of Economic Research expects GDP to rise by 1.7% in 2019 and by 1.2% in 2020.

Energy market environment

Marked improvement in net imports in Austria

Austria's electricity consumption (less pumped storage consumption) in 2019 was 433 GWh (0.7%) lower than that of the previous year (total supply of electricity: domestic electricity consumption less pumped storage consumption).

Electricity generation from hydropower in 2019 was up 8.0% compared with the prior-year figures. Generation volumes exceeded those from 2018, particularly from June 2019 onwards. Only in the winter months of January and February and in May and December 2019 were levels lower than in the previous year.

Electricity generation from thermal power plants increased by as much as 6.2% in 2019 compared with the 2018 figure. Only in February and March and in November and December 2019 was electricity generation from thermal power plants down on 2018 levels.

Generation from wind power plants showed the biggest increases on prior-year levels with growth of 20.6%. Wind supply exceeded the prior-year figures, particularly in the first six months of 2019. From June to November 2019, the figures were at a similar or slightly lower level, but after November were up on the prior-year figure once more. Other generation rose slightly by 1.1% in 2019 and included 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 increased by 8.0% in 2019.

A 7.2% decrease was seen in electricity imports in 2019, while exports rose by 19.8%. Net imports in 2019 came to 3,129 GWh, a marked improvement on 2018.

Oil prices down compared with 2018

The price for one barrel of Brent crude oil (front month) was around $64/bbl in 2019 compared with nearly $72/bbl in 2018. This represents a decrease of 11%.

In 2019, oil markets were rocked by the still smouldering trade dispute between the United States and China and the accompanying concern about its economic impact. This weighed on oil prices in the second half of 2019 in particular. On the other hand, the United States' withdrawal from the Iran deal, which led to the US imposing renewed sanctions on Iran, and the United States' sanctions against Venezuela fuelled price increases in the oil market in the first four months of 2019. Starting from a price of $55/bbl at the beginning of the year, the price of oil rose to its high for the year of $75/bbl in April 2019. Further movements in the oil price were marked above all by the ongoing trade talks between the United States and China, with prices rising or falling depending on the information released. Overall, however, a falling trend was initially recorded in the second half of the year. In mid-September 2019, oil prices surged again to nearly $70/bbl following the drone attack on Saudi oil facilities. Yet the price fluctuations were only short-lived and the supply disruption was soon rectified. By early October 2019, oil prices had returned to $58/bbl. In the last quarter, however, oil prices recouped their losses to end the year at around $66/bbl.

Decrease in gas prices

Prices on the well-supplied spot market at the European NCG trading point decreased by over €9/MWh (39%) year-on-year to around €14/MWh on average in 2019. In futures trading, supplier contracts for the coming year (NCG front year) were invoiced at around €19/MWh in 2019, or nearly €2/MWh (10%) less than the amount to be paid for the NCG front year in 2018. Gloomy economic prospects, falling oil prices and substantially lower prices for liquefied natural gas (LNG) acted as a drag on gas prices in Europe in 2019.

Decrease in steam coal prices

Steam coal prices also witnessed a marked decline in 2019 compared with the previous year. Coal prices on the futures market (ARA front year) were down $18 (20%) on the prior year at an average of $69/t.

Coal prices on the spot market also plunged to an average of $61/t in 2019, down over 30% compared with the average listing in 2018. Coal-fired electricity generation in Europe declined due to increased generation of electricity from renewable energy sources as well as more expensive CO_2 emission rights. No stimulus for the coal market came from other parts of the world either. Coal stores were full, the economic outlook was rather gloomy and commodities across the board suffered from oversupply in 2019.

CO_2 prices up further

Prices on the emissions trading market in 2019 continued to benefit from the reform of the emissions trading regime initiated in 2018. That year, the reform had caused CO_2 prices to nearly triple compared with 2017. In 2019, CO_2 prices, which averaged €25/t, then rose again by 56% on the 2018 figure (futures market front year). At the end of July, prices soared to over €30/t for a short time, but the continuing uncertainty over Brexit with the related question of whether the UK will remain in the Emission Trading System (ETS) or what concrete form the British emissions trading system will take subsequently had a negative impact on CO_2 prices.

Mixed signals in the market for wholesale electricity

In 2019, the market for wholesale electricity was influenced by a significant increase in prices in the futures market on the one hand and by an equally large drop in prices in the spot market on the other. In the futures market, the decline in coal and gas prices was more than compensated by the increase in the price of CO_2 emission rights. Production costs for both gas and coal-fired power plants rose. The erosion in prices of primary energy sources was much more pronounced in the spot market. As a result, gas power plants at least were able to produce more cost-effectively than in 2018 in spite of higher prices for CO_2. Together with increased generation from renewables in connection with their low marginal costs, this led to electricity prices in the spot market falling in 2019.

The average price for base load electricity deliveries in the Austrian bidding zone on EPEX SPOT, the European electricity exchange spot market, decreased by 14% year-on-year to €40.1/MWh in 2019. The peak-load prices were €46.4/MWh, also 14% lower than the 2018 average. The average price for immediate base load electricity deliveries in the German market area in 2019 was €37.7/MWh, and the price for peak-load energy was €44.5/MWh. This represents a decrease of 15% in each case.

In the futures market at the European Energy Exchange (EEX), base load for 2020 (front year base) was traded at an average price of €51.2/MWh in 2019 in the Austrian market area and peak load (front year peak) was traded at €62.1/MWh. This constitutes an increase of 10% year-on-year for front year base and 9% for front year peak. In the German market area, front year base traded at an average of €47.8/MWh and front year peak at €57.7/MWh in 2019. This corresponds to an increase of 9% and 7%, respectively.

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 2019 had only a minor influence on revenue in the reporting period.

Political and regulatory framework

In Austria, the ruling coalition between the Austrian People's Party (ÖVP) and the Freedom Party of Austria (FPÖ) collapsed in May 2019 and a cabinet of experts took over the management of official business. It was the intention of the transitional government not to prejudice the incoming federal government politically or in budgetary terms, which is why no government bills requiring landmark policy decisions were presented. However, work continued at civil servant level, for example on the National Energy and Climate Plan and on the hydrogen strategy.

EU energy policy

European Parliament elections

Elections to the European Parliament for the 2019–2024 legislative period were held in May 2019. The European People's Party (EPP) gained the most votes with a share of approximately 24%, followed by the Socialists and Democrats with around 20%. The Liberals achieved 14% and the Greens around 9% of the votes. In the overall result, the EPP and S&D together for the first time no longer provide the majority of MEPs and need a third party to secure a majority.

Renewal of the European Commission and planned focus of activities

On 27 November 2019, the European Parliament approved the new European Commission headed by Ursula von der Leyen, who took office on 1 December 2019. Responsibility for energy and environmental issues was reassigned. While Frans Timmermans, Executive Vice-President for the Green Deal, has taken on the overall strategic supervision of climate and energy issues, Kadri Simson is responsible for the energy dossier and her colleague Virginijus Sinkevičius for the environment dossier. One of the principal goals of Ursula von der Leyen's Commission is to fight climate change. Against the background of the Paris Agreement on climate change, the new Commission President proposed to raise the CO_2 reduction target for 2030 from the current 40% (based on 1990) to at least 50–55%.

Formal finalisation of the Clean Energy Package

The legal acts of the Clean Energy Package (Internal Electricity Market Regulation, Internal Electricity Market Directive, Risk Preparedness Regulation, ACER Regulation), which were in final negotiations by policymakers during the Austrian Council Presidency, were finally adopted by the EU Parliament and the Council of Ministers in spring 2019. Unless directly applicable, these must now be transposed into national law. The Clean Energy Package also provides for a number of delegated acts, which will be prepared in the coming months.

Publication of the evaluation report for the Water Framework Directive

In February 2019, the European Commission published its fifth Water Framework and Flood Directive Implementation Report. The report acknowledges the efforts being made by the member states in hydro-ecology, but also criticises the lack of measurable results. For Austria the Commission recommends continuity in funding the necessary water conservation measures.

Sustainable finance

In March 2018, the EU Commission presented the Sustainable Finance package in implementation of the Paris Agreement for channelling cash flows into sustainable investments in the future. The aim is to create a common EU-wide system which, on the basis of uniform, transparent criteria, defines the conditions under which economic activities contribute to environmental objectives. The Taxonomy Regulation provides the legislative framework for this. A group of experts formed by the European Commission has drawn up proposals for criteria in different sectors which have been made available for public consultation. The Council and the Parliament reached political consensus on the Taxonomy Regulation in December 2019.

New legal framework for the energy sector in Austria

VERBUND's positioning on energy and climate policy priorities for the next legislative period

In view of the election campaign and government negotiations, VERBUND has drawn up a position paper with energy and climate policy priorities for the incoming federal government. Key VERBUND requirements relate to the following topics: adequate pricing of CO_2 in all sectors, acceleration of the expansion of renewables by exploiting all potential, the switch to a system in the area of energy efficiency based on strategic measures, increased consideration of sector coupling and sector integration using green hydrogen, design of regulations for renewable energy communities, anchoring of the grid reserve in the Austrian Electricity Industry and Organisation Act (ElWOG) and use of green finance to channel investment flows into sustainable projects.

Legislative package on renewable energy expansion postponed

On account of the snap elections, among other things, the legislative package on renewable energy expansion, with which a new system of subsidies for renewable energy was to be adopted and the ElWOG and the GWG amended, could no longer be presented for decision. However, preparations continued at civil servant level in 2019 and the package will be launched by the new federal government in 2020. There are plans to submit the legislative package on renewable energy expansion and the amended Energy Efficiency Act for review in the first half of 2020. The remaining legal acts from the Clean Energy Package, in particular the Internal Electricity Market Directive and Regulation, will then be tackled in the second half of 2020.

2019 amendment of the Green Electricity Act

To prevent an interruption of the expansion of green electricity needed to achieve the energy targets of #mission2030 given the delays in adopting the Renewable Energy Expansion Act, interim funding was negotiated in parliament over the summer of 2019 through a series of motions. A reform of the Green Electricity Act was consequently adopted in October 2019. Funds were made available to shorten the waiting lists for new contracts for wind power plants and small hydropower plants by bringing forward annual funds of subsequent years and changing the calculation method. Investment subsidies of €36m were made available for solar power (€24m for photovoltaic installations, €12m for storage systems). The funding pots for medium-sized hydropower plants were topped up by €30m and the maximum support rate was raised from 10% to 15%. Dedicated funds for biomass follow-up tariffs of €8.7m were also created.

E-Control's Gas Labelling Regulation

Energie-Control Austria für die Regulierung der Elektrizitäts- und Erdgaswirtschaft

E-Control adopted the Gas Labelling Regulation in September 2019. The Regulation defines three categories of gases: natural gas or synthetic gas based on natural gas; renewable gas (including renewable hydrogen, biogas and synthetic gas based on renewable hydrogen); and other gases (decarbonised gas, i.e. conventionally produced hydrogen with CCS/CCU). The Regulation came into force on 1 January 2020 and stipulates that volumes of renewable gas that are fed into or withdrawn from the public gas network must initially be labelled on a voluntary basis, with mandatory labelling only when a certain threshold has been reached. The renewable gases must be labelled with guarantees of origin. The origin of the gas is required to be disclosed in a table on the invoice sent to the consumer. Guarantees of origin are issued, transferred and validated by means of E-Control's registry database.

Preparations for an Austrian hydrogen strategy

In March 2019, the Federal Ministry for Sustainability and Tourism began preparations for the development of an Austrian hydrogen strategy. This strategy will address the technical, regulatory and economic aspects of a hydrogen production infrastructure using electricity from renewable sources and hydrogen storage. Measures for the strategy were developed in four working groups with active involvement of stakeholders. Based on these analyses and recommendations, development of the actual Austrian hydrogen strategy will now begin at ministerial level. The strategy is expected to be adopted by the new federal government in 2020.

National Energy and Climate Plan

The Federal Ministry for Sustainability and Tourism submitted the National Energy and Climate Plan for review in November 2019. The EU Governance Regulation requires EU member states to report the contributions they will make to the European energy and climate targets to the European Commission by the end of 2019 in the form of a national plan. Given Austria's special political situation in relation to the transitional cabinet, no far-reaching new measures or measures with relevance for the state budget were included in the plan. Many aspects were only included as optional measures. The National Energy and Climate Plan will be updated once a government programme is in place.

New legal framework for the energy sector in Germany

The reorganisation of the energy system gained considerable momentum in 2019. Germany's last coal-fired power plants are set to be removed from the market by 2038. Alongside socio-political issues, this target raises above all questions of security of supply in relation to electricity and heat. This is because by 2022, as compared with 2017, coal-fired power plants with a capacity of 12.6 GW will be disconnected from the grid. The future after the coal phase-out will be dominated by renewables, which are secured by gas capacity and whose gas origin will be optimised by power-to-gas.

Furthermore, the German government's climate package established a new framework on climate change in 2019, even though some points in the package were initially referred by the Bundesrat to the Bundestag-Bundesrat mediation committee. This did not affect the introduction of a national emissions trading system through CO_2 pricing, including a national CO_2 certificate system, from 2021. At the same time, mandatory sectoral emission targets were set, compliance with which will be monitored and whose attainment will be ensured by means of mandatory emergency programmes in cases where there is a risk that targets will not be achieved. The overriding goal of the Climate Change Act is to achieve greenhouse gas neutrality in Germany by 2050.

Finance

Factors affecting the result

Wholesale electricity prices

VERBUND contracted for most of its own generation for 2019 on the futures market back in 2017 and 2018. Ever since the split of the joint German-Austrian price zone in October 2018, separate, higher prices have prevailed in Austria. Prices for AT 2019 front-year base load contracts (traded in 2018) averaged €46.6/MWh, and prices for DE 2019 front-year base load contracts averaged €43.8/MWh. This represents an increase of 44.0% (AT) and 35.4% (DE) compared with the previous year, in which a joint price was still calculated in futures trading (€32.4/MWh). Front-year peak load (AT) contracts averaged €56.8/MWh in 2018 and front-year peak load (DE) contracts traded at an average of €54.0/MWh. Prices on the futures market were therefore up 40.3% and 33.2%, respectively, versus the prior year (€40.5/MWh).

On both the Austrian and German spot markets, wholesale trading prices for electricity fell below the prior-year levels in quarters 1–4/2019. Prices for base load electricity decreased by an average of 13.5% to €40.1/MWh in Austria and by 15.3% to €37.7/MWh in Germany. Prices for peak load declined by 14.1% to €46.4/MWh in Austria and by 14.7% to €44.5/MWh in Germany.

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 2019 reporting period, the hydro coefficient for run-of-river and pondage power plants was 1.01, which is slightly above the long-term average and 7 percentage points above the prior-year level. The hydro coefficients for the individual quarters differed substantially as follows: quarter 1: 1.21 (previous year: 1.17); quarter 2: 1.05 (1.03); quarter 3: 0.85 (0.74); quarter 4: 0.99 (0.86).

Electricity supply and sales volumes

VERBUND's own generation rose by 2,029 GWh to 33,159 GWh in quarters 1–4/2019. This represents a year-on-year increase of 6.5%. Generation from hydropower increased by 1,976 GWh compared with the previous reporting period. The hydro coefficient for the run-of-river power plants came to 1.01, or 7 percentage points above the prior-year figure and 1 percentage point above the long-term average. Generation from annual storage power plants decreased by 2.2% in quarters 1–4/2019 due to lower generation from turbining and increasing reservoir levels.

VERBUND's wind power installations generated 95 GWh more electricity in quarters 1–4/2019 than in the previous year due to more windy conditions.

Generation from thermal power plants decreased by 42 GWh in quarters 1–4/2019. The Mellach CCGT generated 27 GWh less electricity in 2019. Generation at the Mellach hard coal power plant fell by 15 GWh.

Purchases of electricity from third parties for trading and sales rose by 2,018 GWh. By contrast, electricity purchased from third parties for grid losses and control power decreased by 950 GWh.

Group electricity supply GWh

	2018	2019	Change
Hydropower[1]	28,684	30,660	6.9%
Wind power	834	929	11.4%
Thermal power	1,611	1,570	–2.6%
Own generation	31,130	**33,159**	6.5%
Electricity purchased from third parties (trading/sales)	27,039	29,056	7.5%
Electricity purchased for grid loss and control power volumes	5,026	4,077	–18.9%
Electricity supply	63,195	**66,292**	4.9%

[1] including purchase rights

VERBUND's electricity sales volume increased by 3,270 GWh in quarters 1–4/2019. Electricity volumes delivered to consumers rose by 1,988 GWh. Here, a sharp rise in sales to international customers in Germany and Romania more than compensated for the slight decline in sales to domestic customers. As at 31 December 2019, our residential customer base comprised approximately 500,000 electricity and gas customers. Sales to resellers fell by 649 GWh year-on-year, mainly as a result of the change in the allocation of the Romanian sales business from resellers to consumers. Electricity deliveries to trading firms increased by 1,930 GWh due to significantly higher spot trading volumes. Own use of electricity rose minimally by 33 GWh.

Group electricity sales volume and own use GWh

	2018	2019	Change
Consumers	12,490	14,478	15.9%
Resellers	28,455	27,806	–2.3%
Retailers	17,964	19,894	10.7%
Electricity sales volume	58,908	**62,179**	5.6%
Own use	3,145	3,178	1.1%
Control power volume	1,141	935	–18.1%
Total electricity sales volume and own use	63,195	**66,292**	4.9%

Approximately 55% of the electricity sold by VERBUND in quarters 1–4/2019 went to the Austrian market. The increase compared with the previous year's figure of 49% was due to the trend towards selling within the Austrian price zone. International trading and sales activities focused on the German market, which accounted for around 85% of all volumes sold abroad in 2019.

Electricity sales volume by country

GWh

	2018	2019	Change
Austria	28,615	34,475	20.5%
Germany	26,022	23,511	–9.6%
France	3,036	3,301	8.7%
Romania	1,044	865	–17.2%
Other	192	26	–
Electricity sales volume	58,908	**62,179**	5.6%

Financial performance

Revenue and result

	Unit	2018	2019
Revenue	€k	259,550.3	313,905.8
Earnings before interest and taxes (EBIT)	€k	641,333.9	682,719.5
Earnings before taxes	€k	564,663.4	622,387.6
Net income for the year	€k	563,049.7	619,537.0
Net profit	€k	145,914.6	239,716.8
Return on equity (ROE)	%	25.7	23.8
Return on investment (ROI)	%	13.7	13.9
Return on capital employed (ROCE)	%	10.4	10.4
Return on sales (ROS)	%	247.1	217.5

Revenue

Revenue from electricity deliveries increased by 21.3% or €43,276.9k, due primarily to higher average futures market prices obtained for the 2019 supply year for volumes hedged for the long term. This effect was somewhat offset by lower spot market prices. In 2019, revenue from electricity sales based on purchase rights of hydropower producers was also above that of the previous year due to the higher water supply. This resulted in higher electricity revenue from purchase rights of €37,664.5k. The increase in the consumer segment amounted to €7,327.1k or 7.8%.

In revenue from gas deliveries, the customer base grew, resulting in higher deliveries. As a consequence, revenue from gas deliveries increased by 20.0%, from €26,686.8k to €32,027.2k.

Total revenue thus increased by €54,355.5k or 20.9%.

Expenses for electricity purchases

Expenses for the purchase of electricity increased by 1.1%, from €147,580.6k to €149,185.2k. 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 fluctuating volumes. Electricity purchased for the consumer business is procured at market prices and therefore increased by 4.0% in financial year 2019 as a result of higher sales volumes and higher purchase prices.

Expenses for gas purchases

Expenses for the purchase of gas rose by 11.8% from €22,342.3k to €24,983.4k as a result of the increase in consumer business volume.

Personnel expenses

Personnel expenses increased by €6,196.3k, or 22.9%, to €33,236.6k. The 3.4% 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, and the increase in the average number of employees by 17 to 132 also caused personnel expenses to rise. Employee benefit expenses increased by €4,798.1k, which resulted primarily from the change in underlying calculation parameters.

Other operating expenses

Other operating expenses rose by €2,009.3k, or 5.5%, to €38,498.4k. This increase is primarily attributable to higher consulting expenses (€444.1k) and higher other administrative expenses (€494.1k).

Earnings before taxes

Earnings before taxes increased from €564,663.4k to €622,387.6k as a result of the influencing factors described above and the year-on-year improvement in the financial result of €588,830.5k (previous year: €566,043.5k).

The financial result changed primarily due to higher impairment loss reversals of equity interests in the amount of €384,905.7k (previous year: €349,918.7k). Furthermore, investment income fell by €40,530.4k from €272,121.9k to €231,591.5k, of which €57,895.7k concerned the reversal of a provision relating to an equity interest. Transfers of losses in the amount of €6,347.3k (previous year: €5,164.4k) had a counteracting effect. In addition, there were depreciation and amortisation charges as well as provisions for equity interests of €125.0k (previous year: €11,037.8k). Interest expenses fell by €15,157.1k from €71,833.9k to €56,676.8k, of which €15,108.1k concerned the reduction of loans and credit facilities.

Financial position

Financial position

	Unit	2018	2019
Fixed assets	€k	4,676,287.1	4,907,778.8
Current assets	€k	64,251.7	120,785.9
Working capital	€k	–915,848.3	–742,013.4
Net debt	€k	2,196,806.2	1,905,488.3
Equity	€k	2,614,486.4	3,088,108.8
Current liabilities	€k	1,091,066.3	1,085,681.4
Current assets	€k	175,218.0	343,668.0
Average capital employed	€k	4,645,854.7	4,902,414.1
Equity ratio	%	53.2	59.9

Fixed assets

Intangible assets and property, plant and equipment remained nearly unchanged. Additions primarily related to intangible assets (software) of €1,052.7k, to office and plant equipment and electrical installations of €993.8k and to investments in buildings of €239.7k. Amortisation of intangible assets and depreciation of property, plant and equipment amounted to €2,056.3k in the financial year.

Investments relating to equity interests rose by €391,271.3k, due on the one hand to impairment loss reversals of foreign equity interests of €378,546.6k and the impairment loss reversal of a domestic equity interest of €6,359.2k and on the other hand to additions to domestic equity interests amounting to €6,134.9k and additions to foreign equity interests amounting to €2,063.6k, along with the disposal of domestic equity interests amounting to €1,707.9k. Impairment losses of €125.0k were recognised for one foreign equity interest.

Other investments decreased in total by €165,889.2k. Loans were granted in the amount of €57,425.8k, while loans of €215,831.8k were repaid. The carrying amount of securities under fixed assets decreased by €1,594.7k due to reversals of impairment losses amounting to €1,262.1k and disposals totalling €332.6k.

Current assets

The increase of €56,534.2k in current assets resulted from the rise in trade receivables by €6,162.4k and in other receivables from affiliated companies by €50,471.4k, of which an amount of €55,627.3k 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 €619,537.0k, reduced by the distribution for financial year 2018 of €145,914.6k, equity increased to €3,088,108.8k. The equity ratio rose from 53.2% to 59.9%, mainly as a result of this.

Liabilities

Non-current and current liabilities decreased by €298,797.1k to €1,908,689.6k. In financial year 2019, repayments to banks amounted to €718,834.4k. No new loans were taken out in financial year 2019 (previous year: €100,000.0k). Liabilities to affiliated companies rose by €440,835.1k due to intra-Group invoicing. Trade payables fell by €1,199.6k to €37,760.1k.

Financing

Financing strategy

In today’s volatile energy market environment, VERBUND bases its financing strategy on three pillars: 1. safeguarding liquidity and ensuring suitable liquidity reserves by increased utilisation of innovative, sustainable financial instruments; 2. securing a solid credit rating over the long term; and 3. optimising the capital structure.

Safeguarding liquidity and ensuring suitable liquidity reserves

For VERBUND, ensuring that liquidity is available at all times has the highest priority. As at 31 December 2019, VERBUND AG had an ESG-linked (Environmental, Social and Governance) syndicated loan in the amount of €500.0m at its disposal that had not been drawn down. The loan, which was taken out with twelve domestic and international banks with good credit ratings, matures in 2023 with two additional extension options of one year in each case. VERBUND also had access to uncommitted lines of credit amounting to approximately €500.0m at the end of 2019. As at 31 December 2019, €65.0m of these credit lines had been drawn down.

Securing a solid, long-term credit rating

The better a company's credit rating, the easier and more inexpensive it is to benefit from full access to international capital markets. Having a solid credit rating gives VERBUND AG access to various financing instruments, including those in the capital market. As at 31 December 2019, VERBUND had a long-term rating of A with a stable outlook from Standard & Poor's (S&P) and a rating of Baa1 with a positive outlook from Moody's. S&P raised its rating from A– to A with a stable outlook in December 2019. Moody's left its rating unchanged in 2019 but raised it in January 2020 from Baa1/positive outlook to A3/stable outlook. For the long term, VERBUND is aiming for a solid "A" category rating. VERBUND is therefore focusing its management of the Group primarily 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 2019, VERBUND AG was again able to take advantage of its strong internal financing capability to finance its ongoing investment programme and to continue to reduce Group debt. As part of active liquidity management, VERBUND AG subjects its financial liabilities to ongoing monitoring to ensure that opportunities to optimise interest expenses are taken advantage of (e.g. by making early principal repayments).

VERBUND AG will continue to pursue green finance activities in the future. Following a number of innovative transactions in recent years such as the issuance of the first green bond in the German-speaking region, the world's first green Schuldschein over a digital platform and the first green syndicated loan whose margin structure is linked exclusively to VERBUND AG's ESG rating (sustainability rating) over the term of the loan, no new funds were raised in the capital market in 2019 due to VERBUND AG's outstanding liquidity situation.

KPIs – finance

	Unit	2018	2019
Cash flow from operating activities	€k	217,843.1	293,366.6
Cash flow from investing activities	€k	101,687.5	189,738.0
Cash flow from financing activities	€k	–319,546.9	–483,104.7
Financial result	€k	566,043.5	588,830.5
Gearing	%	84.0	61.7
Debt repayment period	years	8.5	7.3

Compared with the previous year, the financial result improved by €22,787.0k to €588,830.5k. The main reason for this was the recognition of high impairment loss reversals of equity interests amounting to €384,905.7k in the financial year (previous year: €349,918.7k), whereas in financial year 2018 amortisation of equity interests had still been recognised in the amount of €11,073.8k (current year: €125.0k). As all provisions for equity interests had been adjusted in 2018, there were no further positive effects in the financial year from this area (previous year: €57,895.7k). Investment income from distributions increased by €17,365.2k to €231,591.5k. Losses amounting to €6,347.3k were transferred in 2019 (previous year: €5,164.4k). Interest income improved by €14,600.0k, and income from loans also increased by €1,579.5k. Dividend distributions from securities amounting to €1,832.2k were received in 2019 (previous year: €0.0k). Write-downs on securities amounted to €784.9k (previous year: €218.2k).

A sharp decline of €291,317.9k in interest-bearing net debt and the simultaneous increase of €473,622.4k in equity reduced the gearing by 22.3 percentage points to 61.7%. Higher cash inflow from earnings before taxes of €281,841.7k (previous year: €269,208.5k) accompanied by a more significant reduction in debt of 10.0% (reduction in previous year: 7.7%) lowered the debt repayment period from 8.5 years in the previous year to 7.3 years.

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

Cash flow statement

In financial year 2019, the cash flow statement was prepared in accordance with the expert opinion KFS/BW 2 issued by the Austrian Chamber of Public Accountants and Tax Advisors. However, since VERBUND AG also operates as a holding company, income and expenses from equity interests continued to be reported under cash flow from operating activities. Prior-year figures were restated.

(1) Cash flow from operating activities

Cash flow from operating activities is determined using the indirect method and resulted in a cash inflow of €293,366.6k (previous year: cash inflow of €217,843.1k).

Profit or loss for the period includes investment income impacting the cash flow net of losses transferred amounting to €225,244.1k (previous year: €209,061.9k).

The change in trade receivables and other receivables is primarily attributable to the decrease in receivables from affiliated companies in the amount of €4,503.4k and the decrease in other accruals and deferrals in the amount of €3,854.6k, effects which are partially offset by an increase in trade receivables of €6,041.9k.

The change in trade payables and other liabilities is mainly the result of the increase in liabilities from the electricity and gas business of €2,359.1k. Trade payables, excluding the electricity and gas business, fell by €3,558.7k. Under other liabilities, there was an increase of €1,444.6k. Liabilities from value-added tax to the tax authorities fell by €2,974.2k.

The change in current provisions is attributable mainly to provisions for the consumer business in the amount of €3,334.0k and provisions for personnel expenses of €1,164.1k.

Of the net asset position arising from income tax payments in the amount of €41,569.0k (previous year: €2,111.3k), €10,011.3k is attributable to assessments from previous years and €78,720.6k to the credit of tax allocations from group members. These contrast with prepayments to tax authorities in the amount of €46,301.6k. Other income taxes such as capital gains tax resulted in a cash outflow of €861.2k.

(2) Cash flow from investing activities

Net cash flow from investing activities consisted of an inflow of €189,738.0k (previous year: €101,687.5k), resulting primarily from the repayment of loans amounting to €215,831.8k. These contrast with the granting of loans in the amount of €57,425.8k and investments in affiliated companies in the amount of €6,490.6k.

Capital expenditure for intangible assets and property, plant and equipment comprised capital expenditure relating to office and plant equipment in the amount of €1,547.4k, relating to software in the amount of €1,052.7k, investments in buildings in the amount of €239.7k and relating to electrical equipment in the amount of €84.0k.

Cash inflow from interest mainly for loans granted remained at nearly the same level as the previous year.

(3) Cash flow from financing activities

As part of the dividend distribution approved for financial year 2018, €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 €441,178.6k (previous year: cash inflow of €55,105.0k).

Through the continued reduction of debt, VERBUND AG reduced cash outflows for interest and similar expenses by €17,000.4k.

Repayments at maturity in the amount of €683,465.0 (previous year: €138,000.0k), scheduled payments by instalment in the amount of €35,369.4k (previous year: €47,536.1k) and early payments of instalments of €0.0k (previous year: €66,666.7k) took place in financial year 2019. Loans taken out amounted to €0.0k (previous year: €100,000.0k).

Cash flow statement

€k

	Notes	2018	2019
Earnings before taxes		564,663.4	622,387.6
Amortisation of intangible assets and depreciation of property, plant and equipment		1,737.0	2,056.3
Amortisation and reversal of impairment of investments		–338,627.0	–383,995.8
Result from disposal of non-current assets		–3,748.3	52.0
Income from investments, other interest and similar income and interest and similar expenses		38,982.7	19,711.4
Change in non-current provisions		–743.2	4,820.6
Income from the reversal of contributions to building costs		–35.1	–35.1
Other non-cash expenses and income		–4,064.9	–17,703.1
Change in inventories		10.7	–18.2
Change in trade receivables and other receivables[1]		13,959.6	2,183.0
Change in trade payables and other liabilities[2]		2,284.5	–2,684.0
Change in current provisions		–58,687.7	5,023.0
Payments for income taxes		2,111.3	41,569.0
Cash flow from operating activities	(1)	217,843.1	**293,366.6**
Cash outflow from capital expenditure on intangible assets and property, plant and equipment		–5,557.4	–2,923.8
Cash inflow from the disposal of intangible assets and property, plant and equipment		39,017.9	9.6
Cash outflow from capital expenditure on investments		–351,371.6	–63,916.4
Cash inflow from the disposal of investments		382,176.2	216,080.4
Cash inflow from investment and security income		0.0	1,832.2
Cash inflow from interest		37,422.5	38,656.0
Cash flow from investing activities	(2)	101,687.5	**189,738.0**
New non-current loans		100,000.0	0.0
Cash outflow from the repayment of financial liabilities (excluding money market transactions)		–252,202.8	–718,834.4
Cash inflow (outflow) from increases (decreases) in Group clearing balances		55,105.0	441,178.6
Dividends paid		–145,914.6	–145,914.6
Cash outflow from interest and similar expenses		–76,534.6	–59,534.2
Cash flow from financing activities	(3)	–319,546.9	–483,104.7
Change in cash and cash equivalents		–16.3	0.0
Cash and cash equivalents as at 1/1/		16.3	0.0
Cash and cash equivalents as at 31/12/[3]		0.0	0.0

[1] incl. prepayments and accrued income // [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

VERBUND takes its social responsibility as Austria's leading utility and an important player in the European electricity market very seriously. Back in 1994, VERBUND was one of the first companies in Austria to prepare an environmental report. In doing so, it was well in advance of the trend towards reporting on environmental factors. That annual publication was followed in 2002 by VERBUND's first sustainability report. From then until 2014, this report was published annually as a supplement to the annual report. Since 2015, VERBUND has responded to rising demand from different groups of stakeholders for comprehensive company information by publishing an integrated annual report. The annual sustainability report is now included in VERBUND's integrated annual report.

The Austrian Sustainability and Diversity Improvement Act (Nachhaltigkeits- und Diversitätsverbesserungsgesetz, NaDiVeG) entered into force on 6 December 2016; this stipulates that starting in financial year 2017 large public interest entities are required to publish non-financial information. VERBUND uses the Global Reporting Initiative (GRI) for this purpose. This report covers the activities of all of the companies included in the Group's consolidated financial statements. Significant events occurring at unconsolidated companies are also reported to provide a complete picture of the Group. The reporting period comprises the 2019 calendar year.

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 Environment 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 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 on request.

Impacts on the environment

The impacts, both positive and negative, that the VERBUND generation portfolio has on the environment are a key topic in VERBUND's environmental management systems. 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.) VERBUND has specific emergency plans and a crisis management team.

Certification of environmental management systems

VERBUND engages external auditors to audit and certify its environmental management systems at generation and grid facilities and at major administrative sites in accordance with ISO 14001. 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.

Generation and use of power

In 2019, 95% of electricity generated at VERBUND originated from hydropower and wind power, and 5% from thermal generation. At 24.2 million gigajoules (GJ), VERBUND's total energy consumption in 2019 remained on nearly the same level as 2018, despite higher total generation.

Fuels made up 59% of total use of power at 14.3 million GJ. Mainly the fossil fuels hard coal and natural gas and, to a lesser degree, the renewable fuel sewage sludge were used for thermal generation in order to generate electricity for grid support for congestion management purposes as well as for district heating. The use of hard coal in the Mellach district heating plant decreased by 7% in 2019 to around 7.3 million GJ (2018: 7.9 million GJ) and will be reduced to zero by 2021. In addition, 6.9 million GJ of energy from natural gas was used, 9% more than in 2018 (2018: 6.3 million GJ). At 0.7 million GJ, the volume of fuels used for the vehicle fleet and equipment was equivalent to around 0.5% of the total use of power from fuels.

Electricity purchases by VERBUND comprise grid purchases for administration, power plants, pumps and grid facilities. In 2019, the share of electricity purchased was 41% of total use of power. At around 10 million GJ of electricity mainly for pumping and turbining and for compensating grid losses, approximately the same volume of electricity was drawn from the grid as in financial year 2018. More than 70% of this electricity volume originated from renewable generation.

The relevant energy savings potential at VERBUND was determined in 2019 in Group-wide energy audits. These audits identified opportunities to increase energy efficiency in the conversion of energy in power plants and in electricity transmission. A total potential of approximately 170 gigawatt hours per year was calculated for selected projects.

The KPI energy intensity, which is expressed by the ratio of the Group's power use to the volume of electricity and district heating generated, improved to 0.20 in 2019 (2018: 0.21). VERBUND's target is to reduce the energy intensity in 2021 by 25% compared with 2015. This is mainly achievable by phasing out generation from hard coal and increasing renewable generation as planned.

Use of materials

Materials VERBUND uses include additives and consumables for flue gas and effluent treatment and for energy generation in power plants and grid facilities. Most of these are produced using non-renewable materials. A small portion, such as copying paper in the administrative areas, is from renewable materials.

Total material requirements fell by 7% in 2019. This decrease is primarily attributable to reduced use of additives and consumables in the Mellach district heating plant in 2019. The volumes needed for thermal generation have already decreased by 46% since 2015. VERBUND plans to continue reducing this amount to 80% compared with 2015 by converting the generation from hard coal to natural gas and putting the new effluent treatment plant into operation by 2021.

Greenhouse gas emissions

The Group's focus on electricity generation from renewable energy is a crucial factor for VERBUND in both reducing and avoiding greenhouse gas emissions. Of the electricity generated at VERBUND, 95% already originates from hydropower and wind power. Because it is still necessary to use thermal power plants to provide grid support and district heating, the remaining 5% share of generation originates from thermal power plants. Work to reduce the specific greenhouse gas emissions for these volumes is ongoing. VERBUND is thus contributing to the avoidance and reduction of emissions as well as to SDG 13 "Climate action".

VERBUND's goal is to reduce the VERBUND-specific direct greenhouse gas emissions (Scope 1) for the Group to below 10 g CO_2e per kWh of total electricity generated by 2021. In 2019, this figure amounted to just 32 g CO_2e/kWh. At the end of 2019, VERBUND was already well below the specific figure for direct greenhouse gas emissions from the Austrian production mix in 2018 at 142 g CO_2/kWh and even further below the German figure at 469 g CO_2/kWh. This comparison demonstrates VERBUND's success in its drive to decarbonise electricity generation. VERBUND's strategic alignment includes phasing out generation from hard coal and increasing generation from renewable energy sources. These will serve to further improve this figure.

Emissions avoided through generation from renewable energy

By generating electricity from renewable energy sources rather than from thermal generation, VERBUND avoided 24 million tonnes of CO_2 in Europe in 2019. This is calculated based on average thermal generation emissions based on ENTSO-E.

Airborne emissions

Increased load changes at all plants at the Mellach site resulted in a 13% increase in emissions of carbon monoxide (CO). Reduced use of the Mellach hard coal power plant lowered emissions of nitrogen oxides (NO_x) by 8%. Sulphur dioxide (SO_2) and dust emissions from operation of the Mellach hard coal power plant decreased by approximately 20% in the reporting period.

In the period from 2015 to 2019, SO_2 emissions were reduced by 58%, NO_x emissions by 43% and dust emissions by 79%. Compared with 2015, phasing out thermal generation from hard coal will result in a 90% decrease in dust emissions and an 80% decrease in NO_x emissions from 2021 onwards. SO_2 emissions will be eliminated entirely.

Conservation and biodiversity

Some VERBUND power plants and grid facilities are located in nature conservation areas or other protected areas. Information on the geographical location of the power plants is published on the VERBUND website. The locations of the protected areas can be found on the Austrian and Bavarian geodata portals. In 2019, all basic data on sites located in protected areas was updated and the assessments digitalised.

Current examples of capital expenditure for the environment and biodiversity such as the construction of fish passes to re-establish river continuity and rehabilitation measures implemented at water bodies can be found in the Renewable generation section. 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, on the APG website and on the VERBUND website.

In 2019, another fish pass was completed at the Ering-Frauenstein power plant on the Inn. This brings the total of fish passes in operation to 54.

Water and effluents

In this reporting period, reporting in the area of water was converted to the new GRI Standard 2018 and supplemented. In 2019, water withdrawal at VERBUND sites was down by 7% compared with 2018. Compared with 2015, water intensity of total electricity generated has already been reduced by 47%; the goal for reduction is 50% by 2021.

Around 94% of the total water volume was used as cooling water at the thermal power plants. For this purpose, surface water is withdrawn, used for cooling and returned chemically unchanged. Only 0.3% of this water volume is actually consumed. Details on other treatment methods used and the water quality including compliance with limits are published for the thermal power plants in the annual environmental statement.

Compliance with the limits for effluent treatment plants at all other sites is also monitored. It was determined that a limit for chemical oxygen demand (COD) was exceeded in 2019 at one site. The cause was the overloading of the small effluent treatment plant with effluent from office containers at a construction site. This was rectified by treating the additional effluent separately.

In order to determine whether sites are located in areas with a water stress level above 40%, the location of VERBUND operating sites was compared with the location of areas of high or extremely high water stress as defined in the Aqueduct Water Risk Atlas of the World Resource Institute (WRI). This comparison found that all VERBUND operating sites are located in areas which were below the threshold of 40% in 2019.

Please refer to the 2019 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	2017	2018	**2019**
Number of IR&D projects	Number	85	74	**80**
Total project volume[1]	€m	179.8	177.9	**192.6**
of which EU projects[1]	€m	111.7	104.5	**118.2**
VERBUND's total share[1]	€m	53.5	61.6	**58.7**
Annual VERBUND expenses	€m	9.0	10.5	**17.5**

[1] over the entire duration of the projects

International climate protection agreements, national strategies and programmes and the commitment of civil society are indications that the energy transition away from fossil fuels to renewable energy sources is underway. Research, development and innovation contribute significantly to reducing climate-damaging emissions and limiting the impact of climate change. With its commitment in the areas of innovative technologies and business models, VERBUND assumes responsibility for the decarbonisation of various sectors.

Electrification of the transportation sector

Together with its subsidiary SMATRICS and strategic partners from Europe, VERBUND is focusing on electrifying the transportation sector. The goal is a reduction of the still increasing emissions in this area.

A high-performance charging network with output of up to 350 kW for electric cars is being built throughout Austria as part of innovation projects such as EVA+ and ultra-E (projects co-financed by the European Commission). Mobility services like the connection to international charging networks (roaming) are also being developed and implemented. This will make it possible to charge electric cars easily, conveniently and independently of national borders, making even long-distance mobility a reality. Research projects such as NeMo (also co-financed by the European Commission), involving partners from research institutes and universities, are developing platform solutions aimed at creating even more effective networks of charging services.

Adding value through sector coupling

Increasing charging capacity for electric cars means greater convenience for users because the vehicle range is extended significantly. However, this necessitates much higher charging output power per charging station for the latest technology at charging hubs of up to 1 MW, which in turn represents a challenge for the electrical grid infrastructure.

VERBUND is addressing precisely this problem with the European innovation project SYNERG-E. Local battery storage units at high-power charging stations and the smart local management system make it possible to balance out load peaks and provide a uniform level of service to the electromobility operators of the charging station. In addition, local storage batteries are bundled virtually in order to provide grid services. Three local storage batteries with capacity from 0.3 to 0.5 MW were set up in 2019, and seven others are in the planning stage for Austria and Germany.

Use of battery storage units in hydropower

The Blue Battery project is a research project with the purpose of integrating an industrial-scale battery storage unit at an existing hydropower plant. The goal of this combination is to be able to create a Frequency Containment Reserve (FCR) which is available within a matter of seconds. The efficiency and availability of the power plant will be significantly improved by the corresponding longer useful life of the turbines.

Construction at the Wallsee-Mitterkirchen site began in 2019. Austria's largest battery storage unit with 8 MW of FCR capacity and a storage capacity of 14.2 MWh will be built and operated at this power plant site.

Green hydrogen – an all-rounder

The aim of the H2FUTURE project that was launched in 2017 is to construct a proton exchange membrane electrolyser with a capacity of 6 MW at the voestalpine site in Linz in cooperation with industrial and research partners in Europe. Following preliminary construction and technical work, the plant began operating in 2019 and started to produce green hydrogen. The main focus of the work in 2020 will be on testing various applications to assess the performance of the plant. Green hydrogen is produced primarily for use in steel production. In the future, the plant will also be used for services to support the grid. H2FUTURE, a research project co-financed by the European Commission, is also looking into other options for using green hydrogen in sectors such as the chemical industry.

At a national level, VERBUND is a partner of WIVA Power & Gas, the hydrogen initiative of the Austrian model region, subsidised by the Austrian Climate and Energy Fund. Working together with Austrian partners from industry and research, this initiative aims to implement hydrogen projects and thus reinforce Austria's reputation as a centre of research and innovation. As of 31 December 2019, VERBUND was involved in two WIVA projects concerning green hydrogen for industrial use.

VERBUND set a milestone in new hydrogen technologies with the HOTFLEX project. A new hydrogen technology was tested at VERBUND's Mellach site together with partners from research and industry and with the support of the Austrian research funding agency Österreichische Forschungsförderungsgesellschaft (FFG) and the Fuel Cells and Hydrogen Joint Undertaking (FCH JU). The high-temperature electrolysis/fuel cell system with rated power of 150 kW is the core of the research plant. These research findings will serve to determine the potential of this technology for power to gas (to power) applications, such as its use as emergency power supply units in power plants and in other industrial plants.

The cooperation with the Zillertal Railway is focused on the use of hydrogen in the transport sector. Starting in late 2022, the narrow-gauge railway will be the first train in trial operation to be powered by hydrogen. The green hydrogen will be produced with renewable electricity from VERBUND's power plants in the Zillertal.

Fish protection and flow at low-pressure hydropower plants

As part of the FFG research project FINI, VERBUND worked in financial year 2019 to further develop effective fish protection designs for hydropower plants with low heads using numerical and experimental methods and researched an optimised flow into the turbines. The central aspects are fish protection and fish bypasses.

Condition-based maintenance of rotor blades

In the area of wind power, the focus in 2019 was on condition-based maintenance of rotor blades. The most important changes were related to the implementation of a new method to determine damage to rotor blades. Replacing a costly, time-consuming process in which the blades are examined using abseiling techniques, VERBUND introduced an innovative imaging procedure to capture a complete digital depiction of the rotor blade surface. In a benchmark comparison, different systems were evaluated in detail and their suitability for everyday use assessed. A ground-based system has now been in use since 2019, and service technicians can use this system to carry out checks on site quickly and efficiently. The images are evaluated using an automated image recognition algorithm. Next, an expert can review the pre-categorised damage and approve it for the report. In the future, it will be possible to project the damage progression and schedule and carry out predictive maintenance to reduce costs.

Digitalisation and information security

An Information Security and Digitalisation division was established at the holding company to account for the growing importance of digitalisation and information security at VERBUND. All of the responsibilities within the Group have been bundled under this new division and new positions created in the field of cybersecurity.

The Digitalisation department is a driver of the digital transformation and the stimulus for innovative solutions and provides support in specific Group activities within VERBUND. Digital innovations, skills and abilities are continually evaluated and developed further. The aim is to unlock potential in all areas, from generation through trading to sales. Digital solutions are the catalyst for a successful energy future in Austria.

A technology master plan for the areas of digitalisation, information security and information technology (IT) with a medium-term planning horizon was created in 2019 on the basis of the current VERBUND strategy.

With a basis in stable and efficient IT operations and a management system for information security, new technological services are being established and methods for the digital transformation are being provided. This makes it possible to implement projects and plans focused on efficient generation and digital sales and trading.

The projects Digital Workforce Management and Digital Power Plant are pioneering in the field of hydropower. In this connection, processes are being optimised and automated. The projects involve searching for new technical solutions and testing them for feasibility in practice and, if applicable, rolling them out within the Group.

In the area of trading, existing and innovative customer platforms are being expanded and supplemented with new services in order to generate further advantages in the market.

In the area of sales, the existing CRM solution was updated to include a campaign management solution in financial year 2019. This will make it possible to use new functions and options in the areas of marketing, sales and service.

A survey of the current situation and challenges was carried out in the area of information security. New legislation and regulatory requirements such as the EU Directive on Security of Network and Information Systems (NIS Directive) applicable to operators of essential services ("critical infrastructure") and the General Data Protection Regulation (GDPR) are among the main drivers of increasingly stringent requirements in information security. In accordance with the Austrian Network and Information System Security Act (Netz- und Informationssystemsicherheitsgesetz, NISG), passed by the Austrian parliament in quarter 4/2018 in order to comply with the NIS Directive, Group companies with installations rated over the 340 MW threshold will be receiving official notices in this regard. The key prerequisites for this were already established in a VERBUND Group project in 2018. A follow-up project in 2019 aimed at meeting the specifications in the approval notice coordinated the prescribed certification of 13 VERBUND installations to international ISO/IEC standards in Austria (German certification was obtained in 2018). Further driving these information security measures is the fact that opportunities to attack are increasing along with the widening penetration of information technology and the digitalisation of business processes. Intensifying this effect, cybercrime activities are becoming more and more professional and intense.

In light of the upcoming or planned requirements and the evolving threats, a number of projects have been initiated to heighten information security and improve the maturity level in information security risk management.

Digital Hydro Power Plant – Hydropower 4.0

As part of the Digital Hydro Power Plant innovation programme, VERBUND analysed various digitalisation options in 2019 to identify the potential for further improvement of the processes in hydropower plants. The range of potential digitalisation technologies is broad, extending from platform solutions, anomaly detection models in connection with novel sensor designs, mobile assistance systems, digital twins and drones to innovative inspection technologies. A test system for the Rabenstein pilot power plant was designed and implemented for promising technologies. This project is focused on technical and economic evaluation. If added value from cost savings, efficiency increases or security improvements can be demonstrated after completion of the project, the technology will be transferred to other hydropower plants.

Electricity trading: SNOWPOWER improves inflow forecasting

The snow conditions and annual melt water inflows to the Alpine reservoirs and rivers are of great significance in planning and managing energy production in VERBUND's hydropower plants. Drones and digital cameras are an efficient method of evaluating snow cover in high Alpine regions and for determining the potential for run-off. The snow cover in spring varies each year due to the meteorological conditions in the preceding winter. Using new methods such as drone technology, the snow cover in Alpine regions can be recorded in order to forecast the potential for run-off and the melt water inflow as precisely as possible and further optimise the use of reservoirs.

Power grid: automated emergency messages by QR code

When high-voltage emergencies occur, rapid access to the responsible contact persons within and outside the Company is critical. APG, VERBUND's independent grid subsidiary, has developed a new smartphone app that can be used to safely and quickly notify APG and the emergency services.

All 12,000 pylons in the APG grid have been labelled with a QR code for this purpose. When this code is scanned with a mobile phone, an automated report including the relevant location information is sent directly to APG, the police, emergency rescue services and the fire department. For the emergency responders using this function, APG's digital safety platform opens immediately, and assistants are available to provide fast and specific help. In addition to options for reporting an emergency or sending a message or an image to the central security office, the app also includes information bulletins detailing the safety clearances to be maintained in the areas around electrical installations.

The existing pylon panels displaying the pylon number, line number and emergency telephone number will remain in place. This will ensure that emergencies can still be reported in future without a smartphone or internet connection.

Please refer to the 2019 Group Integrated Annual Report for further information as well as additional details on innovation, research and development.

Human resources

The employees of VERBUND make a crucial contribution to the Group's profitability. Through their commitment and their entrepreneurial actions, they enable continuous further development and implementation of the VERBUND strategy.

Personnel planning and management

VERBUND has been using a modern, user-friendly planning and reporting tool for personnel data which was upgraded in 2019 to include additional features. The application now reflects the state of the art. This integrated personnel and expense planning system makes the personnel planning process simple and transparent. Consistent and strict personnel planning also promotes the optimal use of resources.

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

VERBUND uses a variety of methods such as external 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, compliance with the guidelines is regularly reviewed and adapted as needed.

For example, in light of the new industry collective agreement, jobs were recalibrated on the basis of the Willis Towers Watson Global Grading System.

Types of employment and benefits offered

VERBUND operates nearly exclusively in Central Europe, a region which has high standards in terms of labour law and social welfare. 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). VERBUND generally seeks to retain employees for the long term. Various working time models, including full-time, part-time and part-time during parental leave, accommodate the different phases of an employee's life while meeting the requirements of the labour market. Temporary workers are also hired to cover capacity peaks, during project work and for temporary leave replacements.

VERBUND provides all of its employees, regardless of the working time model, with a number of voluntary benefits and benefits under collective bargaining agreements. These include a pension fund, supplementary health insurance, discounted lunches, child benefits and health checks.

Employment of highly and very highly qualified employees entails corresponding personnel costs. VERBUND therefore offers remuneration 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 at all levels. Alongside the programmes to increase efficiency, it is essential for VERBUND to modernise the existing remuneration structures at Group and industry levels and to adapt them to market conditions. In addition to adapting internal guidelines on salary determination, VERBUND has taken a leading role at industry level in redesigning the collective agreement for electricity companies in Austria. The agreement has been applicable since 1 February 2019. In this way, the energy industry together with employer and employee representatives has 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 general industry standards make it possible to categorise employees more precisely and therefore set compensation more in line with the market, particularly in the lower wage brackets. In guaranteeing the actual wage level and reasonable expectations as agreed with the trade unions in coordination with the employee representatives, VERBUND transferred its employees to the new remuneration scheme of the collective agreement with effect from June 2019.

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

In order to continue positioning VERBUND's employer brand attractively on the labour market and to continue to be considered an employer of choice in the future, VERBUND invested in selected existing, but also some new, employer branding activities in 2019. Despite low budgets, VERBUND demonstrated 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.

Changes implemented in 2019 concerned, in particular, the apprentices as a target group: a new apprentice initiative focused on social media such as Facebook, Instagram, YouTube and LinkedIn directly addressed young people interested in completing an apprenticeship.

Another strategic focal point of the employer branding activities was on attracting women as employees. In the Vienna University of Technology's anniversary year 2019, VERBUND supported the project "100 years of Women Studying Technology" as a premium partner.

In addition, existing measures were continued in 2019. 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, along with participation in selected educational and career fairs.

Recruitment

VERBUND continually strives to maintain its high degree of professionalism in recruitment quality. In order to confront a continually changing framework (digitalisation, big data technology, etc.) in recruitment and to proactively work to counteract a persistent lack of skilled workers (particularly in the IT area), VERBUND explored new methods of recruitment again in 2019.

Supplementary measures such as active sourcing and video applications were implemented during improvements to existing recruitment processes.

The focus of the improvement measures was on personnel marketing for IT experts. In 2019, for example, VERBUND participated in specific career fairs centred on IT topics. These included the

IT Security Exchange held at the University of Applied Sciences in St. Pölten, the corporate trade fair at the University of Applied Sciences Technikum Wien, and fit, the career information fair held at the Vienna Higher Technical School Spengergasse.

In 2019, VERBUND received the first place award in Career's Best Recruiters Study in the "Energy" category for the eighth time and came sixth in the overall ranking. This is an extraordinary confirmation of the quality of the focused recruitment and personnel marketing activities. This award is also an outstanding starting point for the recruitment and personnel marketing activities in regard to the growth curve and demographic change.

Personnel development

Personnel development is a key element particularly in times of a new strategic alignment. In 2019, each VERBUND employee took part in 40.0 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 was also reflected in the average training hours, which were slightly higher for men (41.6 hours) than for women (35.4 hours).

E-training – digitalising learning solutions

The digital transition requires learning to be adapted. In an increasingly fast-moving environment, more complex knowledge must be directly available. New learning formats address employees' changing needs and expectations.

Digital learning methods are expanding on and, in some cases, replacing the more familiar classroom training. This makes it possible to share information more directly and also allows knowledge to be transferred in a cost- and resource-efficient manner. The essential aspect is responding to the needs of the employees. A wide spectrum of newly formatted courses on information security, compliance, employee safety, financial KPIs, the energy market and the GDPR is already available to VERBUND employees. Through LinkedIn Learning, an online knowledge library with a catalogue of over 2,000 courses, staff also have access to a variety of other topics. As part of the introduction of the VERBUND Learning Management System (LMS), further topics are planned for 2020. A mobile film studio – Mastersolution 3D – is available beginning in 2019 so that employees in the departments can make and publish their own short videos on important content professionally, easily and quickly.

Employees can also very easily sign up for classroom events or complete an e-training course and the corresponding knowledge test using the new LMS. This innovative, modern tool has integrated all of the systems previously used and enhanced them through the addition of new features. LMS makes the administration of classroom and online events within personnel development much simpler. Various reports provide executives with an overview of employees' continuing education and training. This is how VERBUND is meeting the challenges of the digital transition and fostering the types of independent and target group-specific learning that accompany it, as well as promoting the exchange of knowledge between people. Following the successful pilot phase carried out in individual companies, LMS was put into productive operation throughout the Group.

Apprentice training

Reliable operations and ongoing maintenance of VERBUND plants is a key prerequisite for the Group's economic success. In order to optimally manage the ongoing generational shift in power plant operations, VERBUND has trained apprentices since 1983. VERBUND is one of the first companies in Austria to offer a four-year dual vocational training programme (electrical engineering and metalworking) with outstanding future prospects for apprentices. In the first year of the apprenticeship, apprentices are trained in apprentice workshops in order to continue their training at one of VERBUND's power plants from the second year onwards. There, they are able to acquire the necessary knowledge about the plant, ensuring the transfer of expertise in the technical/skilled trade area.

In 2019, VERBUND recruited 45 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.

Trainee programme

As a result of the growing number of digitalisation projects at VERBUND, digital and mobile skills continue to gain in importance. In order to keep up with the developments in digital technology, a VERBUND trainee programme focused on information technology and SAP was advertised in financial year 2019 for the second time. In April and October 2019, a total of six trainees began the 24-month programme at VERBUND.

Additional trainee positions will be advertised in 2020 under the strategically relevant corporate project Transformation to S/4 HANA. These will be focused on the combination of IT skills with commercial processes and with project management. The trainee programme will begin in quarter 1/2020 and last 18 months.

Further development of the corporate culture

Employee survey

Employee satisfaction and the commitment of VERBUND employees is a key concern for us. They make a significant contribution to our shared success every day. In order to create the best possible work environment, it is important to identify sources of stress and potential areas for improvement. To assist in these efforts, VERBUND conducted the fourth Group-wide employee survey in March 2019 under the title "How are you doing at VERBUND?" Nearly 58% of the workforce took part in the survey.

The results show that the economic situation of Austria and the Group have a very strong impact on how the respondents evaluate their work situation. Compared with the results of the previous survey in 2015, the Group's economic performance is seen more optimistically. In light of this, the subjective labour market opportunities are also assessed much more positively. Of the different types of work-related stressors, bureaucracy and slow decision-making processes are ranked highest along with perceived time pressure. However, these subjective stressors are more than offset by a series of positive aspects at work. For instance, job security, relationships with colleagues, the working time models and the relationship with direct supervisors are considered particularly satisfactory.

In autumn 2019, numerous workshops were also conducted with interested employees in order to analyse the action areas and define specific recommendations for actions which would contribute to an improvement of the working climate and to raising employee satisfaction. In an added step, these measures and potential improvements will be discussed with the managing directors of the companies and VERBUND's Executive Board. The goal for 2020 is to approve specific measures.

Mindset initiative

In 2019, Strategic Personnel Development in cooperation with the Digitalisation and Innovation department launched the mindset initiative "Leaders in Transformation". The objective of this initiative is to contribute to the further development of the innovation and digitalisation culture and to support the transformation process within the Group.

The initiative is based on innogy's New Way of Working (NWOW) transformation model. By first changing mindsets, a behavioural change is introduced to promote personal responsibility, capacity for innovation, collaboration and the exchange of information and cooperation across departments, as well as to launch a learning culture in which mistakes are used as a learning opportunity. An observable and practical project approach is chosen for this process in order to then improve on, apply and scale the method and skill set independently at VERBUND.

In the first phase of the project in 2019, unfavourable mental models were identified which may counteract agile working methods, innovation and better performance. A two-day boot camp on the basis of these mental models and aimed at reducing systemic blocks was conducted for a pilot group of participants from across all departments and levels of the Group. The two-day management conference initiated in 2019 was also developed using the project's design criteria and followed the New Way of Working approach. Further steps are planned in 2020.

Maintaining a work-life balance

VERBUND is a family-friendly company, as the employee survey conducted in 2019 also confirmed. Satisfaction with the ability to maintain a work-life balance rose once again.

Since 2009, the Work and Family Audit has provided a way to better structure the measures. In this way, more opportunities are 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.

The works agreement concerning Mobile Working and Telecommuting was updated in 2019. This works agreement defines the framework for flexible forms of working in order to further improve work-life balance. Shared leadership models are also successfully implemented in the Group. As always, VERBUND demonstrates its commitment to being a family-friendly company through its involvement in the Companies for Families network.

Diversity management

The diversity strategy defined in 2016 was endorsed in 2018 with the ZukunftVIELFALT® certification and in 2019 with the implementation of planned measures placing particular emphasis on the dimensions of age, gender and disability.

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 as well as the appointment of an accessibility manager in 2012.

Another benefit VERBUND also provides to all employees is free counselling on work-related or personal problems under the Employee Assistance Programme.

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 10% of VERBUND employees will retire over the next five years and 30% will retire over the next ten years.

One focus is on safeguarding the knowledge of those employees entering retirement. Structured succession planning implemented at all levels (from apprentices up to executives) ensures that knowledge will be retained and passed on.

In order to keep its workforce healthy for a longer period of time, VERBUND bundles the topics of health, safety and environment within one department. For further information on the topic of health management, please refer to the Occupational health and safety section.

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 17.8% to 20% by 2025, just as the proportion of women at the executive level is to rise to 20%. In 2019, the proportion of women among new employee hires was 22.9%.

Measures to promote the equal treatment of women continued in 2019. In the past financial year, VERBUND set challenging targets for its executives to increase the proportion of women among new employee hires. To raise the visibility of female employees, greater consideration will be given to women especially when filling vacancies in bodies or committees or project manager positions.

Additional seminars and networking sessions are offered to women who are interested in a management position.

In 2019, VERBUND also once again prepared an income overview containing information on average salaries for women and men. The ratio of the base salaries of women and men of 1:1.03 improved compared with the last reporting period. 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 a concern of 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 Group among technically qualified women and, ideally, to recruit them.

amaZone Award

VERBUND's apprenticeship training programme was recognised for outstanding performance in training girls and women in technology. In 2019, the Ybbs apprenticeship workshop received the amaZone Award in the category of Public and Semi-Public Companies.

The amaZone Award recognises companies that are particularly committed to apprentice training for girls and young women in professions with a low percentage of women. Every year, the best businesses demonstrate that women apprentices are an enrichment to every workplace and embracing their presence wholeheartedly can serve the common good. This sets an example of modern, innovative worlds of work beyond traditional gender stereotypes.

Focus on disabled persons

VERBUND assumes its social responsibility by ensuring equal opportunities, not just within the Group, but also in the energy sector. Since 2019, VERBUND has therefore supported the industry survey conducted by the energy sector on the topic of "Opportunities from Employing Disabled Persons", which was organised on the initiative of the social partners of Oesterrreichs Energie and the Essl Foundation. VERBUND reports on its own experience as an example of best practices.

Within VERBUND, the stated goal is to continue to fulfil the quotas stipulated in the Austrian Disabled Persons Employment Act (Behinderteneinstellungssgesetz, BEinstG) and to recruit and employ people with disabilities even beyond that. In 2019, one deaf employee was transferred from a trainee position to a permanent employment contract. Together with the accessibility management programme, the diversity management programme continually works towards improving the employment of people with disabilities.

VERBUND exceeds the statutory quotas stipulated in Austria and Germany for the employment of disabled people. For VERBUND the mandatory quota in Austria is 108; as at 31 December 2019, VERBUND employed 137 people who qualify under the Disabled Persons Employment Act (BEinstG). In Germany, the corresponding mandatory quota for VERBUND is 14; VERBUND employed 36 disabled people here in 2019.

In summer 2019, four people with disabilities completed their seasonal internships in different divisions 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.

Occupational health and safety

Healthy and motivated employees are very important to the Group's success. Occupational health and safety are therefore prioritised very highly at VERBUND. Work-related injuries, occupational diseases and work-related illnesses are avoided through targeted measures to protect employees. VERBUND uses occupational health and safety standards to protect employees and staff employed by external contractors. We equally prioritise providing safe and healthy working conditions, eliminating dangers and minimising risks, just as we endeavour to comply with the applicable legal obligations and requirements.

Accidents in 2019

The number of employees under labour law including employees in partial retirement, temporary staff and all employees of proportionately consolidated equity interests serves as the basis for calculating the occupational safety KPIs. On this basis for calculation, VERBUND had 3,417 employees at the end of 2019. This figure includes 187 temporary staff, 262 employees in partial retirement 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 and Energji Ashta Shpk.

The number of accidents continued to undergo a positive trend in financial year 2019. Despite a slight increase compared with 2018, the second-best result was achieved since this has been tracked.

When interpreting accident statistics, absolute accident figures must be considered in relation to the number of employees (injury frequency) and lost days 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, VERBUND has also tracked their hours worked at all work sites since 2018 and reports accidents in the “LTIF including external contractors” KPI.

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. These persons therefore receive the same safety briefings. Contractors commissioned for the construction of plant subsections 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 briefed in accordance with VERBUND’s rules.

In comparison with other national and international companies, the LTIF including external contractors of 6.4 in 2019 indicates that VERBUND is 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 work-related injuries in 2019. 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 work-related injury statistics at VERBUND. In 2019, the annual continuing education measures focused on training sessions on the following topics from the “We Live Safety” project: perception, near misses and the follow-up of an accident as well as environmental management. Particular attention was given to practical implementation in day-to-day work.

Every year, as was the case in financial year 2019, 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. These regulations apply to the following topics, for instance: 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 dealing with external contractors, occupational health and safety documentation as well as coordination and responsibilities of the occupational health service. These regulations are intended to guarantee that the same standards are available and applied throughout the Group.

Safety culture

Occupational health and safety has reached a very high technical level at VERBUND thanks to the great efforts made and extensive measures implemented in recent years. The accident KPIs for the last five years until 2017 remained stagnant at an LTIF value of an average of ten. This figure was reduced significantly to below seven when the “We Live Safety” project was launched. The goal of the project is to reshape employee thinking and behaviour with the aim of further reducing the accident rate. Specifically, through its focus on protecting employees and on occupational health and safety, the Safety Culture project aims to revitalise corporate culture and create a deeper awareness of safety.

The project was initiated in 2018 by conducting an employee survey. This was followed by workshops held for all executives lasting until the end of 2019. In this process, 270 executives and 74 master craftsmen including their deputies received training in 84 sessions. Furthermore, 36 safety coaches from all VERBUND companies were trained for the roll-out of the project. These coaches will pass on the “We Live Safety” project to all colleagues beginning in 2020. At the end of 2019, an online survey identified a clear shift in safety awareness towards integrated safety.

A database for entering near misses, safety suggestions and hazard reports was created as a supporting tool. One-quarter of the over 2,600 reports received had been processed by the end of the year. The analysis of reports has already contributed significantly to a further improvement in technical safety standards at VERBUND.

In order to reinforce their impact as role models, the four members of the Executive Board conducted 41 safety walks. As another important measure, the following communication initiatives were launched in order to reach all employees of VERBUND: a video message from Chairman of the Executive Board Dipl.-Ing. Wolfgang Anzengruber, 14 safety incentives in 2019, an article in the employee magazine “kontakt”, posts on the intranet and on posters, and placement of the topic in all annual briefings.

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 financial year 2019, VERBUND continued to focus on healthy working in office workspaces with the seminar entitled “Dynamic health and back fitness at PC workstations” and a vision training session. The focus on the topic of movement was reinforced through support of sports offered by third parties and by means of courses offered at office sites.

Accessibility

The main aspects of the inclusion of disabled people at VERBUND are the removal of barriers and creation of awareness among the workforce by providing information on an ongoing basis. In 2019, sensitivity training courses gave employees the opportunity to interact with disabled people and experience simulated disabilities of different types through a “sensing journey”. This was intended to break down mental barriers.

While the accessibility management concept was being implemented, initial recommendations were developed for realising barrier-free equipment for conference rooms.

The international Purple Light Up Day on 3 December 2019 raised awareness of the economic strength of people with disabilities. VERBUND informed its employees about the event and used purple lighting at its corporate headquarters at "Am Hof" and at the Freudenau power plant to send a signal to the outside world as well.

Human rights

VERBUND is aware of its responsibility to protect human rights in all Group divisions and in any other areas in its sphere of influence. This holistic responsibility is defined in the internal guideline on respect for human rights drawn up in 2019.

As a result, VERBUND respects all types of civil, political, economic, social and cultural rights. VERBUND also considers human rights to include observance of laws and standards in the areas of environment, occupational safety, health and compliance. Discussion of human rights issues is therefore not restricted to this section.

All executives and all employees at VERBUND are responsible for respecting human rights and reporting any violations to the Chief Compliance Officer. No violations were reported in 2019. Beginning in 2020, all significant incidents of environmental pollution and severe deficiencies in the area of occupational health and safety must be reported to the head of the newly established Corporate Responsibility department.

Human rights at VERBUND

VERBUND endeavours to ensure due diligence in the protection of human rights in all Group divisions. To this end, VERBUND provides safe and healthy working conditions and relies on preventive measures to minimise hazards and risks in the work environment. Forced and compulsory labour, and child labour in particular, are forbidden.

Under freedom of association and collective bargaining, employees can communicate openly about working conditions and have the right to join a union. They earn wages and salaries that allow them and their families to have a dignified life. VERBUND rejects any form of discrimination, bullying and sexual harassment and works with all people regardless of gender, age, disability, religious beliefs, culture, skin colour, education, social origin, sexual orientation or nationality.

For VERBUND, protection of the environment also constitutes an important component of human rights. Human rights that are at risk from damage to the environment include the right to a reasonable standard of living and the right to health, among others.

Human rights in VERBUND's sphere of influence

Even in its cooperation with business partners and within its supply chain, VERBUND is concerned with the protection of all human rights. However, due to its activities in some regions, challenges can arise in the area of human rights. Special attention is required in the event of conflicts, political instability, failure of the rule of law and lack of civil rights. In an environment of corrupt structures, extreme poverty, natural disasters or proximity to vulnerable groups, extreme caution must be exercised in entering into or maintaining business relationships with customers or suppliers. To ensure this, VERBUND carries out business partner integrity checks prior to commencing cooperation in projects, supplier discussions and regular hot spot analyses within the supply chain, among other things.

Please refer to the 2019 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

In financial year 2019, VERBUND's risk management activities focused mainly on developing a multi-year risk horizon and improving the calculation of the risk-bearing capacity. Here, special emphasis was placed on strategic risks which could have a significant impact on VERBUND's business model in the long term and on developing potential measures to reduce risk. VERBUND's reporting processes have been revised and expanded as part of the development of these approaches. Under this approach, VERBUND's risk management agendas currently extend to activities aimed at supporting strategic decision-making processes as well as to project management and the management of current operations.

Current opportunities and risks

Opportunities and risks arising from the business model

The business activities of VERBUND are focused on the long term and require long-term investments. These tie up significant financial resources because the plants are required to meet the most stringent environmental requirements, among other things, and plant availability represents a key factor.

Only early inclusion of all stakeholders, compliance with regulatory conditions and effective project management can ensure the success of new projects.

Operation and maintenance of these assets require highly qualified employees.

One success factor is secure access to the capital market. From the perspective of the rating agencies, significant, stabilising elements include the Republic of Austria as the majority owner of VERBUND, low-cost, environmentally friendly generation from hydropower and the regulated grid area.

Weather- and climate-related opportunities and risks

VERBUND's plants are highly exposed to weather events which cannot be influenced. This is particularly true for VERBUND's hydropower plants and wind farms as well as APG's high-voltage lines. 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).

Over the long term, climate change can affect water and wind supply; as a result of this, greater seasonal or annual fluctuations in generation may occur in the future at both run-of-river plants and storage power plants. Moreover, it is possible that geological conditions may change significantly, and natural events such as floods, storms, avalanches and mudslides may cause an unscheduled outage of electricity generation or transmission in the future along with consequential damage.

VERBUND relies on the expansion of wind farms and photovoltaic installations to contribute to the goal set by the Republic of Austria of covering 100% of the electricity supply with renewable energy by 2030.

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, excess energy amounts can be "parked" in pumped storage power plants and the grids stabilised with flexible power plant output. These flexible earnings contributions depend largely on the frequency and absolute extent of short-term price fluctuations in the electricity markets. Yet the expansion of wind farms and photovoltaic installations still faces great challenges, mainly those concerning grid stability at an international level. For example, an unplanned shutdown of wind power plants in Germany in June 2019 jeopardised the stability of the European electricity market on several occasions, and a blackout was only prevented by the activation of conventional grid reserve plants throughout the EU, including VERBUND's Mellach power plant.

Opportunities and risks arising from technological development

Digitalisation is proving to be a particular challenge but also an opportunity for VERBUND. State-of-the-art information and communication systems increasingly support the Company'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 European Trading System (ETS) by the European Union is opening up new possibilities, but also creating impediments. In addition, this is giving rise to a transformation of the European energy system and is therefore 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 high level of regulation and excess generation capacity in Europe have overridden market pricing rules (variable production cost-based use). While the business model of energy-related services is opening up new opportunities for VERBUND, it also presents new risks. In addition, issues relating to data protection legislation such as the implementation of the EU General Data Protection Regulation must 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 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. In past years, 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.

In accordance with the International Financial Reporting Standards (IFRSs), VERBUND recognises provisions for contractually agreed expenses from ongoing reorganisation programmes, for pensions and termination benefits and for the post-use phase of generation facilities (e.g. dismantling costs). Any deviations in the current situation from the assumptions used when recognising these provisions may produce fluctuations in the result. Ongoing measures are taken to counter the potential utilisation of collateral provided.

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

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 the accounting treatment and measurement of financial instruments can be found in Section IV (2) of the notes.

Please refer to the 2019 Group Integrated Annual Report for further information as well as additional details on significant risks and opportunities.

As at 13 February 2020, no risks were foreseeable for 2020, 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 (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 and 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. The operational structure, the process map and the checks are documented regularly in the updated process manual. 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 as well as from the area of corporate responsibility. 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 2019, 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. 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 2019 Group Integrated Annual Report on the VERBUND website.

Report on the expected performance of the Company

Outlook

The International Monetary Fund (IMF) expects the global economy to grow more rapidly in 2020 than in 2019. The partial agreement in the trade war between China and the US, monetary easing, fiscal policy measures and expectations of fewer impacts from a disorderly Brexit will serve to stabilise the global economy. Yet, the IMF continues to warn against the risks of a re-escalation of trade and geopolitical tensions (e.g. between the US and Iran) and anti-government protests (e.g. in Chile). The global effects of the coronavirus epidemic remain to be seen.

Austria continues to demonstrate comparatively robust economic growth, even if this has weakened in the aftermath of an economic boom phase. Forecasts for 2020, at +1.2%, are below those of the previous years and yet above the forecasts for Germany and the eurozone.

Compared to the low point at the end of 2019, a slight increase in coal prices was seen in early 2020, although there is no fundamental indication of a sustained recovery in coal prices. The well-supplied European gas market is not expected to experience any significant price increase in gas prices.

How the price for CO_2 emission rights will develop remains uncertain. Under the Brexit deal, the continued participation of the UK in ETS is fixed until the end of 2020. British companies must cover their emissions with European Emission Allowances (EUA) for 2019 and 2020; at the same time, the CO_2 auctions from 2019 that were suspended by the British government are now set to resume, throwing large additional quantities onto the market.

The oil market trend is also uncertain. While economic performance is unlikely to generate a large increase in demand for oil and hence oil prices, tensions with Iran could escalate at any time, causing oil prices to skyrocket.

The expansion of volatile, new renewable generation is making VERBUND's generation portfolio more significant. In addition to the base load power plants (run-of-river hydropower), flexibly accessible storage and pumped storage power plants along with a highly efficient combined cycle gas turbine power plant (Mellach CCGT) supplement the generation portfolio. APG, VERBUND's wholly owned subsidiary, owns and operates the transmission grid in Austria and therefore plays a major role in connection with the security of supply in Austria and in the European electricity network. VERBUND's innovative products and services for consumers provide solutions for the future of energy today.

Investment plan 2020–2022

VERBUND's updated investment plan for the period 2020–2022 provides for capital expenditure in the amount of €2,077m. Of that total, around €1,287m will be spent on growth CAPEX and around €790m on maintenance CAPEX. Most of the growth CAPEX (approximately €719m) 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 2020, VERBUND plans to invest a total of approximately €614m, around €343m of which will be invested in growth and around €271m in maintenance.

Dividend

VERBUND plans to distribute a dividend of €0.69 per share for financial year 2019. The payout ratio for 2019 will thus amount to 43.7% based on the adjusted Group result.

Earnings projection for 2020

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 65% of the planned own generation for 2020 was already contracted as at 31 December 2019. The price obtained for this was approximately €10.5/MWh above the sales price achieved in 2019. 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, 13 February 2020
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

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	Notes	2018	2019
A. Fixed assets			
I. Intangible assets	(1)	312.5	891.1
II. Property, plant and equipment		22,951.6	22,594.1
III. Investments	(2)	4,653,023.0	4,884,293.6
		4,676,287.1	**4,907,778.8**
B. Current assets			
I. Inventories	(3)	25.6	43.8
II. Receivables and other assets	(4)	64,226.1	120,742.1
of which due in more than one year		0.0	6.5
		64,251.7	**120,785.9**
C. Prepayments and accrued income	(5)	68,999.4	**64,481.6**
D. Deferred tax assets	(6)	105,800.1	**64,586.3**
		4,915,338.4	**5,157,632.5**
Rights of recourse	(7)	896,564.6	963,514.9
less counter-guarantees from cross-border leasing		−391,698.2	−379,833.5
		504,866.4	**583,681.4**

Liabilities

€k

	Notes	2018	2019
A. Equity			
I. Called and paid-in share capital	(8)	347,415.7	347,415.7
II. Capital reserves	(9)	971,720.3	971,720.3
III. Revenue reserves	(10)	1,149,435.8	1,529,256.0
IV. Net profit	(11)	145,914.6	239,716.8
of which profit carried forward		0.0	0.0
		2,614,486.4	**3,088,108.8**
B. Provisions	(12)	92,131.9	**160,171.0**
C. Liabilities	(13)	2,207,486.7	**1,908,689.6**
of which due within one year		1,037,065.3	972,490.9
of which due in more than one year		1,170,421.4	936,198.7
D. Accruals and deferred income	(14)	1,233.5	**663.1**
		4,915,338.4	**5,157,632.5**
Contingent liabilities	(15)	896,564.6	963,514.9
less counter-guarantees from cross-border leasing		−391,698.2	−379,833.5
		504,866.4	**583,681.4**

Income statement

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	Notes	2018	2019
1. Revenue	(16)	259,550.3	313,905.8
2. Other operating income	(17)	4,318.6	694.4
3. Operating income (subtotal of lines 1 and 2)		263,868.8	**314,600.2**
4. Expenses for electricity, grid/gas purchases and purchases of emission rights and other purchased production services and other services		–199,982.5	–207,251.8
5. Personnel expenses	(18)	–27,040.3	–33,236.6
6. Depreciation and amortisation	(19)	–1,737.0	–2,056.3
7. Other operating expenses	(20)	–36,489.1	–38,498.4
8. Operating result (subtotal of lines 3 to 7)		–1,380.2	**33,557.1**
9. Income from equity interests		272,121.9	231,591.5
10. Income from other securities and loans classified as financial assets		34,226.5	37,638.2
11. Other interest and similar income		2,894.1	2,337.0
12. Income from the disposal and reversal of impairment losses on investments		349,927.9	384,905.7
13. Expenses from investments		–16,456.3	–7,309.9
14. Interest and similar expenses		–76,670.5	–60,331.9
15. Financial result (subtotal of lines 9 to 14)	(21)	566,043.5	**588,830.5**
16. Earnings before taxes (subtotal of lines 8 and 15)		564,663.4	**622,387.6**
17. Taxes on income and profit	(22)	–1,613.7	–2,850.6
18. Net income for the year		563,049.7	**619,537.0**
19. Allocation to revenue reserves		–417,135.1	–379,820.2
20. Net profit		145,914.6	**239,716.8**

Statement of changes in fixed assets

	As at 1/1/2019	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	7,009.6	1,052.7	0.2	0.0	
	7,009.6	1,052.7	0.2	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	28,123.0	239.7	0.9	0.0	
2. Electrical installations	6,225.9	84.0	13.5	0.0	
3. Office and plant equipment	20,904.4	909.8	102.6	0.0	
	55,331.0	1,233.6	116.9	0.0	
Property, plant and equipment and intangible assets	62,340.6	2,286.3	117.1	0.0	
III. Investments					
1. Shares in affiliated companies	3,581,993.0	6,490.6	0.0	0.0	
2. Loans to affiliated companies	1,446,166.7	1,423.6	167,312.8	0.0	
3. Equity interests	282,643.0	0.0	0.0	0.0	
4. Loans to equity interests	65,000.0	50,000.0	45,000.0	0.0	
5. Securities (loan stock rights) under fixed assets	8,384.8	0.0	362.7	0.0	
6. Other loans	51,651.1	6,002.3	3,519.0	0.0	
	5,435,838.4	63,916.4	216,194.5	0.0	
Fixed assets	5,498,179.0	66,202.7	216,311.6	0.0	

€k

	As at 31/12/2019	Accumulated amortisation as at 31/12/2019	**Net carrying amount as at 31/12/2019**	Accumulated amortisation as at 31/12/2018	Net carrying amount as at 31/12/2018
	8,062.1	7,171.0	891.1	6,697.1	312.5
	8,062.1	7,171.0	**891.1**	6,697.1	312.5
	77.6	77.6	0.0	77.6	0.0
	28,361.9	19,658.3	8,703.5	19,150.7	8,972.3
	6,296.5	4,371.1	1,925.5	3,973.7	2,252.2
	21,711.7	9,746.5	11,965.1	9,177.4	11,727.1
	56,447.7	33,853.5	**22,594.1**	32,379.4	22,951.6
	64,509.8	41,024.5	**23,485.2**	39,076.5	23,264.2
	3,588,483.6	380,699.0	3,207,784.5	759,120.6	2,822,872.4
	1,280,277.4	0.0	1,280,277.4	0.0	1,446,166.7
	282,643.0	16,847.1	265,795.9	23,206.2	259,436.8
	70,000.0	0.0	70,000.0	0.0	65,000.0
	8,022.1	1,720.7	6,301.4	488.6	7,896.1
	54,134.3	0.0	54,134.3	0.0	51,651.1
	5,283,560.4	399,266.8	**4,884,293.6**	782,815.4	4,653,023.0
	5,348,070.1	440,291.3	**4,907,778.8**	821,891.9	4,676,287.1

Statement of changes in depreciation and amortisation of fixed assets

	Accumulated amortisation as at 1/1/2019	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	6,697.1	474.1	
	6,697.1	474.1	
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	19,150.7	507.7	
2. Electrical installations	3,973.7	410.8	
3. Office and plant equipment	9,177.4	645.9	
	32,379.4	1,564.4	
Property, plant and equipment and intangible assets	39,076.5	2,038.5	
III. Investments			
1. Shares in affiliated companies	759,120.6	0.0	
2. Loans to affiliated companies	0.0	0.0	
3. Equity interests	23,206.2	0.0	
4. Loans to equity interests	0.0	0.0	
5. Securities (loan stock rights) under fixed assets	488.6	0.0	
6. Other loans	0.0	0.0	
	782,815.4	0.0	
Fixed assets	821,891.9	2,038.5	

€k

	Additions from impairment losses	Disposals	Reversal of impairment	Reclassifications	**Accumulated amortisation as at 31/12/2019**
	0.0	0.2	0.0	0.0	7,171.0
	0.0	0.2	0.0	0.0	**7,171.0**
	0.0	0.0	0.0	0.0	77.6
	0.0	0.0	0.0	0.0	19,658.3
	0.0	13.5	0.0	0.0	4,371.1
	17.8	94.5	0.0	0.0	9,746.5
	17.8	108.0	0.0	0.0	**33,853.5**
	17.8	108.2	0.0	0.0	**41,024.5**
	125.0	0.0	378,546.6	0.0	380,699.0
	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	6,359.2	0.0	16,847.1
	0.0	0.0	0.0	0.0	0.0
	1,262.1	30.1	0.0	0.0	1,720.7
	0.0	0.0	0.0	0.0	0.0
	1,387.1	30.1	384,905.7	0.0	**399,266.8**
	1,404.9	138.2	384,905.7	0.0	**440,291.3**

Maturity schedule 2019

€k

			Residual term to 31/12/2019	
	< 1 year	> 1 year	> 5 years	Total
Loans				
1. Loans to affiliated companies	215,196.8	470,872.5	594,208.1	1,280,277.4
2. Loans to equity interests	0.0	70,000.0	0.0	70,000.0
3. Other loans	3,500.0	45,881.8	4,752.5	54,134.3
	218,696.9	586,754.3	598,960.6	1,404,411.7
Receivables and other assets				
1. Trade receivables	33,654.9	6.5	0.0	33,661.4
2. Receivables from affiliated companies	86,440.9	0.0	0.0	86,440.9
3. Receivables from investees	114.8	0.0	0.0	114.8
4. Other receivables and assets	525.0	0.0	0.0	525.0
	120,735.6	6.5	0.0	120,742.1
Liabilities				
1. Bonds	206,452.9	500,000.0	127,823.0	834,275.9
2. Liabilities to banks	37,093.7	105,172.5	203,152.5	345,418.7
3. Trade payables	37,756.6	3.5	0.0	37,760.1
4. Liabilities to affiliated companies	683,048.7	0.0	0.0	683,048.7
5. Other liabilities	8,139.0	47.2	0.0	8,186.2
	972,490.9	605,223.2	330,975.5	1,908,689.6

Maturity schedule 2018

€k

	< 1 year	> 1 year	Residual term to 31/12/2018 > 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

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 – with the exception of instalment sales – 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 under certain conditions to make pension payments to employees after they retire. These defined benefit obligations are partially covered by pension plan assets earmarked for this purpose by APK Pensionskasse AG. The provision determined in accordance with the projected unit credit method typically used in international 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 2019 and 2018 have been based on the following assumptions:

	2018	2019
		%
Interest rate		
Pensions and similar obligations	1.75 or 2.00	0.75 or 1.00
Termination benefits	1.75	0.75
Trend		
Pension increases	1.75	2.00
Salary increases	1.75	2.75
Contributions to obligations similar to pensions – old contracts	6.00	6.00
Contributions to obligations similar to pensions – new contracts	3.75	3.75
Employee turnover	0,00 – 3,30	0,00 – 4,10
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	1.75	0.75

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

Matters under corporate law

By means of a contribution in kind and transfer agreement dated 18 December 2019, VERBUND Solutions GmbH transferred its interest in SOLAVOLTA Energie- und Umwelttechnik GmbH to VERBUND Green Power GmbH retroactively as at 6 December 2019 as per Article III of the Austrian Reorganisation Tax Act (Umgründungssteuergesetz, UmgrStG). The carrying amount of SOLAVOLTA Energie- und Umwelttechnik GmbH amounted to €1,804.5k as at 6 December 2019.

To compensate for the decrease in assets at VERBUND Solutions GmbH caused by the contribution in kind, the company received a capital injection from VERBUND AG in the amount of the market value of the object contributed of €2,414.0k.

By means of a contribution in kind and transfer agreement dated 18 December 2019, VERBUND Sales GmbH contributed its 50% interest in smart Energy Services GmbH to VERBUND Energy4Customers GmbH (VEC) retroactively as at 30 November 2019 as per Article II of the Austrian Reorganisation Tax Act (UmgrStG).

The carrying amount of smart Energy Services GmbH amounted to €50.0k as of 30 November 2019.

To compensate for the decrease in assets at VERBUND Sales GmbH caused by the contribution in kind, the company received a capital injection from VERBUND AG in the amount of the market value of the object contributed of €1,943.0k.

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 €0.0k (previous year: €286.4k).

(2) III. Investments

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

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

Loans For details see separate “Maturity schedule”.

Securities (loan stock rights) under fixed assets 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

	2018	2019
Goods	25.6	**43.8**

(4) II. Receivables and other assets

For details see separate “Maturity schedule”.

Of the receivables from affiliated companies, €816.9k (previous year: €689.1k) related to trade receivables and €85,624.0k (previous year: €35,153.3k) to other receivables.

Of the receivables from investees, €6.9k (previous year: €14.1k) related to trade receivables and €107.9k (previous year: €80.8k) to other receivables.

€k

Other receivables and assets	2018	2019
Accrued interest income and commissions from bonds and loans	373.2	358.6
Tax authorities	35.1	33.9
Payroll	5.3	1.0
Effected advance payments	1.9	1.9
Other	253.7	129.6
	669.2	**525.0**

(5) C. Prepayments and accrued income

€k

	2018	2019
Prepayments for electricity purchases	20,516.9	19,068.2
Discounts, flotation costs and commitment fee relating to bonds and non-current loans	6,191.1	5,257.9
Other	42,291.4	40,155.5
	68,999.4	**64,481.6**

(6) D. Deferred tax assets

€k

	2018	2019
Social capital	6,430.1	7,205.2
Valuation of fixed assets	–10.3	–15.1
Special tax deductions	–254.8	–239.2
Loss carried forward	656.2	0.0
Other	98,978.9	57,635.3
Deferred tax receivables (+) respectively liabilities (–) balanced	105,800.1	**64,586.3**

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.

Starting in 2019, the deferred tax liabilities arising in connection with Germany are presented under provisions for taxes on the liabilities side of the balance sheet.

(7) Rights of recourse

Rights of recourse amounted to a total of €963,514.9k (previous year: €896,564.6k). 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 €379,833.5k (previous year: €391,698.2k). For further details, see Note (15), "Contingent liabilities".

Notes on equity and liabilities

A. Equity

(8) 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%

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

(9) 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.

(10) III. Revenue reserves

€k

	2018	**2019**
Statutory reserves	19,884.0	**19,884.0**
Distributable reserves	1,129,551.8	**1,509,372.0**
	1,149,435.8	**1,529,256.0**

(11) IV. Net profit

	€k
As at 31/12/2018	145,914.6
Distribution of dividends	–145,914.6
Profit carried forward	0.0
Net loss for the year	619,537.0
Changes in reserves	–379,820.2
As at 31/12/2019	239,716.8

(12) B. Provisions

1. Provisions for termination benefits

€k	2018	**2019**
Premium reserve based on actuarial calculations	5,802.3	6,235.1
Taxed proportion of provisions	5,802.3	6,235.1

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	2018	**2019**
Provisions for pension obligations	31,337.8	33,771.7
of which obligations similar to pensions	6,129.9	7,264.5

3. Provisions for taxes

€k	2018	**2019**
Corporate income tax domestic (including prior reporting periods)	44,271.8	98,390.6
Corporate income tax foreign (including prior reporting periods)	0.0	699.6
Other tax provisions	1,010.6	1,023.0
Deferred tax liabilities	0.0	4,002.2
	45,282.4	**104,115.5**

Deferred tax liabilities 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 competent tax authorities are located in Germany and, as a result of this, a tax rate of 15.83% was used for calculation.

4. Other provisions

€k	2018	2019
Trade receivables not yet billed	1,980.6	1,866.5
Electricity/grid purchases	0.0	3,334.0
Other	2.0	3.5
	1,982.6	5,204.0

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

Other personnel-related provisions (€k)	2018	2019
Bonuses	3,647.5	5,257.0
Unused holidays	2,130.7	2,921.9
Holiday allowance	701.9	911.2
Death grant	496.9	556.8
Compensatory time credit	105.9	147.8
Early retirement benefits	92.0	30.7
Other	551.7	1,019.4
	7,726.8	**10,844.8**

(13) C. Liabilities.

For details see separate “Maturity schedule”.

Of the liabilities to affiliated companies, €682,689.1k (previous year: €241,510.5k) related to financial liabilities and €359.6k (previous year: €703.1k) to other liabilities.

Other liabilities (€k)	2018	2019
From taxes	7,267.8	4,463.9
Payroll	42.1	45.2
Related to social security	252.6	330.6
From financing contributions	516.0	761.2
Other	1,221.9	2,585.4
	9,300.4	**8,186.2**

(14) D. Accruals and deferred income

€k	2018	2019
Contributions to building costs	631.5	596.4
Revaluation reserve	508.5	0.0
From electricity business	80.0	66.7
Other	13.4	0.0
	1,233.5	**663.1**

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

(15) Contingent liabilities

Contingent liabilities that are recognised below the line are primarily for letters of comfort and liabilities assumed for subsidiaries as part of the financing that VERBUND AG carries out centrally as well as other assumptions of liabilities, excluding the contingent liabilities in connection with cross-border leasing transactions in the total amount of €75,360.8k (previous year: €21,478.3k). Of this, €75,357.3k (previous year: €21,474.8k) is attributable to affiliated companies and €0.0k (previous year: €0.0k) to investees.

The subsidiary VERBUND Hydro Power GmbH entered into several cross-border leasing transactions during financial years 1999 to 2001. The figures reported in the balance sheet of VERBUND Hydro Power GmbH are all denominated in US dollars. For all transactions, there was full balance sheet cover for all obligations by way of corresponding acquisition of securities or through loans to financial institutions.

Beginning in 2009, and continuing during the 2010 reporting period, due also to the financial market crisis, about 85% of the original volume of the transactions was terminated. The last remaining cross-border leasing transaction (Freudenau power plant) has an off-balance sheet financing structure. In regard to this transaction, the lessee purchase option as stipulated under section 19 of the lease agreement (early buyout option) was exercised in the first half of 2019, thus also terminating this transaction with effect from 2 January 2021. Some of the transactions were terminated early in their entirety; that is, all associated liabilities were repaid. However, some of the transactions were only partially terminated, whereby the transactions with the investors and the associated A-loans were repaid, while VERBUND Hydro Power GmbH continued the existing B-loans and the corresponding investments.

In connection with these cross-border leasing transactions, VERBUND AG issued guarantee bonds for VERBUND Hydro Power GmbH, which for the most part still exist for the transaction that has not been terminated as well as for the liabilities transferred to VERBUND Hydro Power GmbH totalling €888,154.1k (previous year: €875,086.2k). Of the rights of recourse against the primary debtors, €379,833.5k (previous year: €391,698.2k) 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 €508,320.6k (previous year: €483,388.0k) 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 VERBUND Hydro Power GmbH 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 financial year 2018 to the extent that the provisions recognised at VERBUND Hydro Power GmbH were completely remeasured and were able to be almost fully reversed.

For two transactions which were terminated early and for which the financial liabilities were continued, there is still a risk that the investing banks might have to be replaced or VERBUND Hydro Power GmbH might have to provide additional collateral if the rating of the investing banks or of VERBUND AG were downgraded below a certain threshold.

The ratings of the contractual partners as well as the rating of VERBUND AG exceeded the contractually agreed thresholds as at 31 December 2019. Thus there is currently no need for VERBUND AG or VERBUND Hydro Power GmbH to exchange individual contractual parties or investments. This risk is also reduced not least 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

(16) 1. Revenue

€k

		2018	2019
Revenue from electricity deliveries			
Domestic	Energy supply companies	19,852.8	19,678.5
	Industrial customers and consumers	93,688.1	100,898.7
	Other customers	90,093.2	126,333.7
		203,634.0	**246,910.9**
EU	Energy supply companies	0.0	0.0
	Industrial customers and consumers	0.0	0.0
EU	Other customers	0.0	0.0
		0.0	**0.0**
Third countries	Energy supply companies	0.0	0.0
Third countries	Other customers	0.0	0.0
		0.0	**0.0**
		203,634.0	**246,910.9**
Invoicing of grid tariffs; user and management fees		3,022.2	3,091.7
Other revenue (including gas trading)		52,894.1	63,903.1
		259,550.3	**313,905.8**

(17) 2. Other operating income

€k

	2018	2019
a) Income from disposal of fixed assets with the exception of investments	3,793.4	2.1
b) Income from reversal of provisions	7.2	7.6
c) Other	517.9	684.7
	4,318.6	**694.4**

(18) 5. Personnel expenses

€k	2018	2019
a) Salaries	18,423.7	**22,522.6**
b) Expenses for termination benefits and payments to employee pension funds		
Termination benefits	3,174.9	1,075.7
Contributions to employee pension funds	160.3	311.6
Change in the provision for termination benefits	–2,632.5	343.8
Expenses/income and takeovers/transfers within the Group	223.1	–423.5
	925.8	**1,307.6**
c) Expenses for pensions and similar obligations		
Early retirement benefits and pension payments	2,266.0	2,273.3
Change in the provisions for pensions and similar obligations	1,244.4	1,896.0
Expenses/income and takeovers/transfers within the Group	292.2	–104.4
Change in the provisions for early retirement benefits	–73.8	–61.5
Pension fund contributions	811.2	1,760.5
	4,539.9	**5,763.9**
d) Expenses for social security contributions as required by law as well as income-based charges and compulsory contributions	2,950.8	3,422.1
e) Other social security expenses	200.1	220.4
	27,040.3	**33,236.6**

Interest rate changes for provisions related to termination benefits and pensions and similar obligations resulted in a negative effect of €5,925.7k in the financial year and a positive effect of €1,488.9k in the previous year. The effect of changing the adjusted mortality tables resulted in an expense of €3,696.7k in 2018. The effect of the changes in parameters was recognised in full in the financial year.

(19) 6. Depreciation and amortisation

€k	2018	2019
a) Amortisation of intangible assets and depreciation of property, plant and equipment		
Depreciation and amortisation	1,699.8	1,996.5
Impairment losses	0.0	17.8
Immediate write-off of low-value assets in accordance with Section 13 of the Austrian Income Tax Act (EStG)	37.2	42.1
	1,737.0	**2,056.3**

(20) 7. Other operating expenses

€k

	2018	2019
a) Taxes other than taxes on income	105.3	309.5
b) Other		
Advertising and market development costs	10,328.4	9,683.8
Other administrative expenses	4,832.2	5,326.3
Legal, audit and consulting expenses	4,656.0	5,100.0
Operating costs for buildings, rent and leasing	3,218.3	3,256.9
IT expenses	2,523.0	2,523.7
Temporary personnel and provision of personnel	993.5	1,198.7
Membership fees	778.4	838.8
Training and further education	552.3	644.7
Telecommunications services, data services	545.0	579.0
Other	7,956.6	9,037.0
	36,383.8	**38,188.9**
	36,489.1	**38,498.4**

(21) 15. Financial result

€k

	2018	2019
Income from equity interests		
from affiliated companies	252,209.6	213,444.9
of which from profit pools	10,150.9	25,626.9
Income from other securities and loans in financial assets		
from affiliated companies	31,904.7	33,522.5
Other interest and similar income		
from affiliated companies	2,782.1	2,193.8
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	349,882.3	378,546.6
Expenses relating to investments		
impairments on affiliated companies	0.0	125.0
expenses from affiliated companies	5,164.4	6,347.3
of which from profit pools	5,164.4	6,347.3
Interest and similar expenses		
of which interest for long-term personnel provisions	565.9	645.4
from affiliated companies	16,238.8	16,110.7

(22) 17. Taxes on income and profit

€k	2018	2019
Consolidated taxes on income[1]	21,697.4	89,923.7
of which recharged to members of the Group[2]	–79,665.5	–134,656.6
Future tax expense for subsequent taxation of losses from foreign members of the tax group	12,404.0	7,979.9
Additional amounts/credit notes from previous periods[1]	–9,905.4	–5,612.5
Change in deferred taxes[1]	57,083.3	45,216.1
	1,613.7	**2,850.6**

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

IV. Other disclosures

1. Total amount of other financial obligations

€k

Material items	Total commitment	2020	2020–2024
Rent, lease and insurance agreements	[1]	3,830.2	17,389.6
Purchase commitments	5,346.9	3,877.9	5,346.9
of which to affiliated companies	[1]	25.2	125.1

[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 €0.0k (previous year: €1,108.9k) 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 €86,062.5k (previous year: €100,687.5k) as at 31 December 2019. 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 €7,604.2k (previous year: €8,885.4k). The future interest payments hedged by these hedging instruments will occur in the following seven years (2020 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 €122,675.0k (previous year: €140,600.0k), 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 €6,152.9k (previous year: negative fair value of €6,963.5k) as at 31 December 2019.

3. Number of employees

Average	2018	**2019**
Salaried employees	115	132

4. Expenses for termination benefits and pensions

		€k
	2018	**2019**
Members of the Executive Board, former members of the Executive Board and their surviving dependants	3,542.1	1,169.6
Other employees	1,923.6	5,901.9
	5,465.7	**7,071.5**

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 2019, contributions to the pension fund were paid for the Executive Board in the amount of €253,000 (previous year: €225,992).

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 2019, €380,637 was paid out for pensions (previous year: €376,224) and €0 for termination benefits in favour of beneficiaries (previous year: €2,189,150).

Expenses for termination benefits and pensions and similar obligations (post-employment benefits) amounted to €703 (previous year: €256,551). Expenses for pensions and similar obligations for former members of the Executive Board and their surviving dependants amounted to a total of €535,265 (previous year: €494,178).

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	750,000	577,594		1,327,594
Mag. Dr. Michael Strugl	685,000	0		685,000
Mag. Dr. Achim Kaspar	475,000	0		475,000
Dr. Peter F. Kollmann	620,000	391,678		1,011,678

[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 2019 were paid in respect of financial year 2018.

Remuneration for the four members of the Executive Board totalled €3,549,980 in 2019 (previous year: €5,599,347), which included €50,708 of payments in kind (previous year: €79,237). The other remuneration of €0 (previous year: €828,016) 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 2018. The level of performance-based remuneration components depends on the extent to which the targets agreed for the financial year are achieved. In financial year 2018, 35% of the agreed goals related to the attainment of the Group result, 30% to the attainment of the free cash flow (three-year target from 2016 until 2018) and 35% to qualitative targets: occupational safety (10%), strategy (15%) and succession planning (10%). The total achievement of targets for 2018 was determined to be 82.5%.

The system of variable remuneration was revised beginning with the current financial year 2019 and a generally three-year Long Term Incentive Programme (LTIP) was agreed in addition to the short-term targets (one-year goals). For the one-year goals, the percentage rate for total achievement of the targets is a standard 70% of the relevant fixed remuneration. In financial year 2019, 70% of the agreement on targets was based on the achievement of the Group result and 30% on non-financial goals (one-year): safety (10%), succession planning (5%), innovation (5%), innovation projects (5%) and digitalisation (5%).

With respect to the LTIP, a maximum of 55% of the respective fixed remuneration can be paid out as long-term remuneration on the basis of medium-term performance criteria; the actual amount depends not only on the achievement of individual targets, but also on the performance of VERBUND shares. The duration of the LTIP is three years. In the beginning, the maximum value is depicted as the current price in phantom shares; the undiscounted amount is paid out in arrears, depending on the achievement of the individual targets and the share price at the end of the three-year assessment period. Therefore, no long-term variable remuneration was paid out in 2019.

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, VERBUND does not have a stock option programme for either the members of the Executive Board or senior management staff.

Remuneration paid to members of the Supervisory Board (including reimbursement of costs/travel expenses recharged) amounted to a total of €316,262 (previous year: €348,934).

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

€	2018	**2019**
Chairman/Chairwomen	25,000	**25,000**
Vice-Chairpersons	15,000	**15,000**
Member	10,000	**10,000**
Attendance fee	500	**500**

This remuneration also applies to work performed in each case in the Audit Committee and the Strategy Committee. As previously, there is no separate remuneration for work carried out in other committees.

No loans or advances were paid out to members of the Supervisory Board. All members of the Supervisory Board are covered by the D&O insurance taken out by VERBUND.

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 2019, 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 Energy4Customers GmbH, VERBUND Finanzierungsservice GmbH, VERBUND Green Power GmbH, VERBUND Sales GmbH, VERBUND Services 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 €0.69 per share to 347,415,686 no-par value shares from the distributable profit of financial year 2019, i.e. a total of €239,716,823.34.

10. Events after the reporting date

There were no events requiring disclosure between the reporting date of 31 December 2019 and authorisation for issue on 13 February 2020.

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	**2019 kWh**
Hydropower	100.0%	1,654,343,930
Solar energy	0.0%	75,064
Total volume of electricity supplied in Austria to consumers for their own use	100.0%	1,654,418,994

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		**2019**
Radioactive waste (mg/kWh)		0.0
CO_2 emissions (g/kWh)		0.0

Vienna, 13 February 2020
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

	Headquarters	% shareholding as at 31/12/2019	Most recent annual financial statements	(+) (–)	Net income/loss for the year	Equity[1]
Consolidated affiliated companies[2]						
Austrian Power Grid AG	Vienna	100.00	2019	+	18,714.5	459,191.2
Innwerk AG	Stammham	100.00	2019	+	35,227.2	163,094.4
VERBUND Energy4Customers GmbH	Vienna	100.00	2019	–	4.7	85.0
VERBUND Finanzierungsservice GmbH	Vienna	100.00	2019	+	1,536.1	218.1
VERBUND Green Power GmbH	Vienna	100.00	2019	–	4.5	1,839.5
VERBUND Sales GmbH	Vienna	100.00	2019	+	2,032.3	12,296.9
VERBUND Services GmbH	Vienna	100.00	2019	+	5,507.5	7,420.6
VERBUND Solutions GmbH	Vienna	100.00	2019	–	6,338.1	14,347.5
VERBUND Thermal Power GmbH	Neudorf on Wildon	100.00	2019	+	89.0	7,371.9
VERBUND Trading GmbH	Vienna	100.00	2019	+	45,828.2	263,128.3
VERBUND Wind Power Deutschland GmbH	Wörrstadt	100.00	2019	+	19.8	63.3
VERBUND Wind Power Romania S.R.L.[3, 4]	Bucharest	100.00	2019	+	51,428.5	175,218.4
Windpark Dichtelbach GmbH & Co. KG	Wörrstadt	100.00	2019	+	226.7	3,056.2
Windpark Dörrebach GmbH & Co. KG	Wörrstadt	100.00	2019	+	156.1	3,289.5
Windpark Eichberg GmbH & Co. KG	Wörrstadt	100.00	2019	+	156.3	4,800.5
Windpark Ellern GmbH & Co. KG	Wörrstadt	100.00	2019	–	135.1	4,922.9
Windpark Hochfels GmbH & Co. KG	Wörrstadt	100.00	2019	+	110.3	3,458.1
Windpark Rheinböllen GmbH & Co. KG	Wörrstadt	100.00	2019	+	190.4	4,745.1
Windpark Schönborn GmbH & Co. KG	Wörrstadt	100.00	2019	+	114.7	4,690.4
Windpark Seibersbach GmbH & Co. KG	Wörrstadt	100.00	2019	+	344.6	5,044.8
Windpark Stetten I GmbH & Co. KG	Wörrstadt	100.00	2019	+	358.6	4,634.1
Windpark Utschenwald GmbH & Co. KG	Wörrstadt	100.00	2019	+	21.4	1,641.5
VERBUND Thermal Power GmbH & Co KG	Neudorf on Wildon	99.99	2019	+	5,548.9	35,565.0
Infrastruktur Oberheimbach I	Wörrstadt	85.00	2019	–	0.7	49.3

€k

	Head-quarters	% share-holding as at 31/12/2019	Most recent annual financial statements	(+) (–)	Net income/loss for the year	Equity[1]
GmbH & Co. KG						
VERBUND Hydro Power GmbH	Vienna	80.54	2019	+	331,798.0	1,744,929.5
VERBUND Innkraftwerke GmbH	Töging	70.27	2019	+	23,455.8	304,968.0
Infrastrukturgesellschaft Bischheim GmbH & Co. KG	Wörrstadt	65.29	2019	+	0.0	43.4
Donaukraftwerk Jochenstein Aktiengesellschaft	Passau	50.00	2019	+	866.6	15,801.1
Grenzkraftwerke Gesellschaft mit beschränkter Haftung	Simbach	50.00	2019	+	2,523.3	15,816.6
Österreichisch-Bayerische Kraftwerke Aktiengesellschaft	Simbach	50.00	2019	+	3,224.2	58,207.2
Non-consolidated affiliated companies						
AQUANTO GmbH in Liqu.	Munich	100.00	2017	–	2,101.5	53.6
Associates						
Ennskraftwerke Aktiengesellschaft[5]	Steyr	50.00	2019	+	397.6	27,066.8
KELAG-Kärntner Elektrizitäts-Aktiengesellschaft[6]	Klagenfurt	35.17	2018	+	71,589.2	864,879.2

[1] Equity as defined by Section 224(3)a of the Austrian Commercial Code (UGB), IFRSs or local law // [2] Consolidation in accordance with Sections 253–261 of the Austrian Commercial Code (UGB) // [3] Annual financial statements in accordance with IFRSs // [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

(Translation)

Report on the audit of annual financial statements

Opinion

We have audited the annual financial statements of VERBUND AG, Vienna, which comprise the balance sheet as at 31 December 2019, 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 2019 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 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 financial year under review. 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 2019, VERBUND AG reported shares in affiliated companies in the amount of around €3,207.8m (previous year: around €2,822.9m).

Due to the current financial and energy market environment, the Company tested the carrying amounts of these companies.

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. These include in particular future electricity and primary energy price trends as well as price trends for CO_2 certificates.

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 as a result of the further decrease in capital costs compared with the previous year on the one hand and the price trend with respect to electricity and primary energy on the other hand.

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 2022 and the available price forecasts for the years beyond 2022 under special consideration of the current trend in the energy market environment. We consulted internal specialists in order to corroborate the capital costs by means of comparative analysis. We assessed the consistency of the future cash inflows applied in the calculations by comparing the planning data used therein with the technical performance data of the power plants, contractual bases and external electricity price scenarios.

Other information

Management is responsible for the other information. The other information contains all information in the annual report (excluding the annual financial statements, the management report and the auditor's report thereon). We received the annual report (not including the report of the Supervisory Board) prior to the date of our independent auditor's report; the report of the Supervisory Board will be provided to us after this date.

Our opinion on the annual financial statements does not cover the other information and we will not express any form of assurance thereon. Please refer to the "Report on the audit of the management report" regarding the information in 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.

If we arrive at the conclusion that this other information is materially misstated based on the work that we carried out for the other information received prior to the date of this auditor's report, we must report it. We have nothing to report in this regard.

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 that give a fair and true view of the Company's assets, liabilities, financial position and profit or loss 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 the 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 management's 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 the internal control system 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 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 30 April 2019 as the auditor for the financial year ended 31 December 2019 and engaged by the Supervisory Board on 30 April 2019 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 Consolidated 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 Art. 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.

Vienna, 18 February 2020
Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Gerhard Marterbauer
Wirtschaftsprüfer
(Austrian Certified Public Accountant)

Mag. Christof Wolf
Wirtschaftsprüfer
(Austrian Certified Public Accountant)

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) of the Austrian Commercial Code (UGB) applies to versions differing from the version audited by us.

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.

Current assets

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

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 after tax.

RCF (retained cash flow)

Funds from operations (FFO) less dividends paid.

ROCE (return on capital employed)

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

ROE (return on equity)

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

ROI (return on investment)

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

ROS (return on sales)

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

EDITORIAL DETAILS

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

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

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