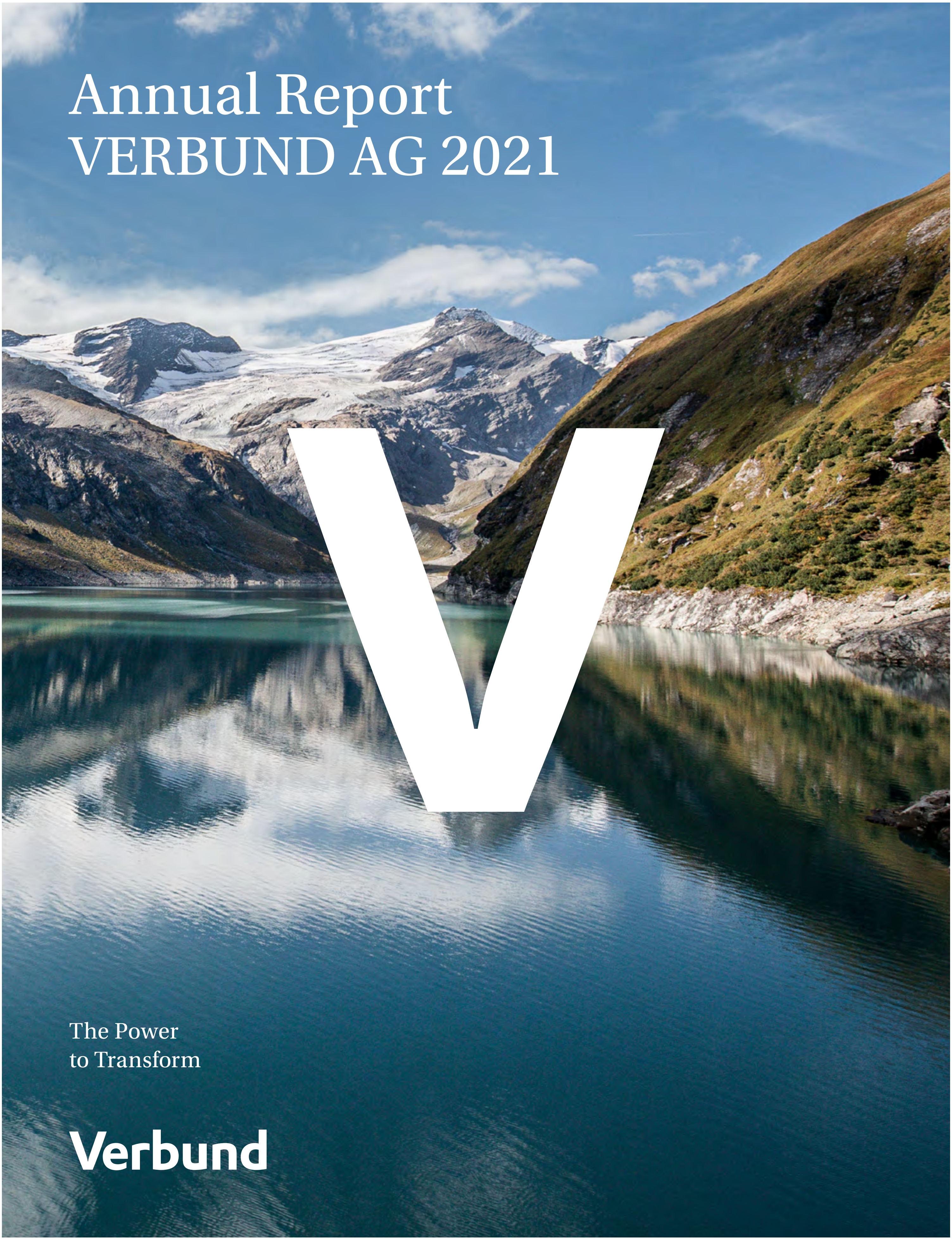
Annual Report VERBUND AG 2021



The Power
to Transform

Verbund

VERBUND AG
Annual Report 2021

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

Three-year comparison

€m, %

	2019	2020	**2021**
Revenue	313.9	350.9	**392.6**
Earnings before interest and taxes (EBIT)	682.7	476.3	**689.4**
Earnings before taxes	622.4	437.2	**649.3**
Net income for the year	619.5	420.5	**610.6**
Net profit	239.7	260.6	**364.8**
Total assets	5,157.6	5,202.3	**6,020.0**
Fixed assets	4,907.8	5,044.5	**5,809.9**
Capital expenditure for property, plant and equipment	1.2	3.5	**2.9**
Depreciation of property, plant and equipment	1.6	2.5	**2.2**
Equity	3,088.1	3,268.8	**3,618.9**
Return on sales (ROS)	217.5%	135.8%	**175.6%**
Return on equity (ROE)	23.8%	14.2%	**19.9%**
Return on investment (ROI)	13.9%	9.2%	**13.3%**
Return on capital employed (ROCE)	10.4%	7.2%	**9.7%**
Equity ratio	59.9%	62.8%	**60.1%**
Debt repayment period	7.3	4.6	**4.7**
Cash flow from operating activities	293.4	564.3	**473.6**
Gearing	61.7%	51.2%	**58.4%**
Working capital	–742.0	–870.1	**–756.3**
Net debt	1,905.5	1,673.7	**2,112.8**
Current liabilities	1,085.7	981.9	**978.9**
Current assets	343.7	111.8	**222.6**
Share price high	55.3	69.9	**106.2**
Share price low	38.0	29.0	**59.6**
Closing price	44.7	69.9	**98.9**
(Proposed) dividend per share	0.69	0.75	**1.05**
Dividend yield	1.54%	1.07%	**1.06%**
Average number of employees	132	148	**156.8**
Group electricity sales volume (GWh)[1]	66,292	66,989	**63,274**

[1] incl. system requirements

Board members

Executive Board

Name	Year of birth	Date of initial appointment	End of current term of office
Mag. Dr. Michael Strugl MBA CEO and Chairman of the Executive Board (since 1/1/2021)	1963	1/1/2019	31/12/2023
Dr. Peter F. Kollmann CFO and Member of the Executive Board	1962	1/1/2014	31/12/2023
Mag. Dr. Achim Kaspar Member of the Executive Board	1965	1/1/2019	31/12/2023

Supervisory Board

Name	Year of birth	Date of initial appointment	End of current term of office
MMag. Thomas Schmid Chairman (until 8/6/2021)	1975	30/4/2019	8/6/2021
Mag. Martin Ohneberg Chairman (from 22/9/2021) 1st Vice-Chairman (until 22/9/2021) Managing partner of HENN Industrial Group GmbH & Co KG, HENN GmbH and HENN GmbH & Co KG; member of the boards of directors of Aluflexpack AG, Switzerland (president) and Montana Aerospace AG, Switzerland (vice-president); member of the supervisory boards of VARTA AG, Germany, and Getzner Werkstoffe Holding GmbH, Austria	1971	30/4/2019	AGM 2024
Mag. Dr. Christine Catasta 1st Vice-Chairwoman (from 22/9/2021) 2nd Vice-Chairwoman (until 22/9/2021) Member of the management board and director (authorised representative) of Österreichische Beteiligungs AG (until 31/1/2022); member of the supervisory boards of OMV AG (vice-chairwoman), Telekom Austria AG (member), Bundesimmobiliengesellschaft m.b.H. (chairwoman), ARE Austrian Real Estate GmbH (chairwoman), Austrian Airlines AG (member), ÖLH Österreichische Luftverkehrs-Holding-GmbH (member) and Casinos Austria AG (member)	1958	16/6/2020	AGM 2024
Mag. Christa Schlager 2nd Vice-Chairwoman (from 22/9/2021) Head of the economic policy department at the Vienna Chamber of Labour; member of the supervisory board of Forschungsförderungsgesellschaft mbH	1969	16/6/2020	AGM 2023
Dr. Susan Hennersdorf CEO of cresc. gmbH, member of the supervisory board of Tele Columbus AG (member until June 2021)	1967	16/6/2020	AGM 2022

Name	Year of birth	Date of initial appointment	End of current term of office
Prof. Dr. Barbara Praetorius Professor at the University of Applied Sciences (HTW) Berlin, member of the supervisory board of Berliner Wasserbetriebe (BWB) AöR	1964	16/6/2020	AGM 2022
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.); member of the European Economic and Social Committee	1973	22/4/2015	AGM 2023
Dipl.-Ing. Eckhardt Rümmler Member of the supervisory board of PreussenElektra GmbH, Germany	1960	16/6/2020	AGM 2024
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), RAG Austria AG (chairman), Energie Burgenland AG (vice-chairman), Netz Niederösterreich GmbH (vice-chairman); member of the supervisory boards of Österreichische Post AG (member) and Wiener Börse AG (member)	1964	23/4/2018	AGM 2023
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), Bestattung und Friedhöfe Wien GmbH (chairman), WienIT GmbH (chairman), EVN AG (member), Burgenland Holding Aktiengesellschaft (member) and Wiener Gesundheitsverbund (member)	1966	5/4/2017	AGM 2023

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 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
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

As Austria's leading energy utility, VERBUND took advantage of the energy market climate and generated outstanding results once again in financial year 2021 despite the ongoing COVID-19 pandemic. The Group succeeded in strengthening its profitability and in successfully continuing its sustainable development. The Supervisory Board actively monitored and supported this strong performance.

Performance of duties

In financial year 2021, the Supervisory Board discharged the responsibilities and exercised the powers incumbent upon it by virtue of the law and the Articles of Association at seven plenary meetings, which due to the preventive measures against COVID-19 were held as video or teleconferences. The overall attendance rate for all Supervisory Board members was 98%. 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 regularly discussed the implementation of the strategy with the Executive Board. Major investment and acquisition projects were among the main topics discussed. The Supervisory Board monitored and supported the Executive Board's management activities continuously based on its extensive reporting. Supervision took place in the context of open and constructive meetings between the Executive Board and the Supervisory Board and revealed no grounds for objection. The main resolutions adopted by the Supervisory Board are presented in the 2021 Consolidated Corporate Governance Report. Between meetings, the Chairman of the Supervisory Board conversed regularly with the Chairman of the Executive Board and also held a number of discussions with individual members of the Executive Board.

Change in the General Committee of the Supervisory Board

MMag. Thomas Schmid stepped down as member and Chairman of the Supervisory Board on 8 June 2021 with immediate effect. His position was not filled in the reporting period. The Supervisory Board subsequently appointed Mag. Martin Ohneberg as Chairman and Mag. Christa Schlager as 2nd Vice-Chairwoman. There were no other changes in the composition of the Supervisory Board.

Code of Corporate Governance, Supervisory Board Committees

As a leading listed Group, VERBUND made an early commitment to adhere to the Austrian Code of Corporate Governance (Österreichischer Corporate Governance Kodex, ÖCGK). VERBUND's Supervisory Board views compliance with the Code as obligatory and endeavours to consistently conform to the provisions relating to the Supervisory Board. In this spirit, we have achieved essential compliance with the rules relating to the Supervisory Board's collaboration with the Executive Board and within the Supervisory Board itself.

In addition, the Supervisory Board again discussed at length possible conflicts of interest when dealing with the approval of contracts with companies where individual Supervisory Board members are related parties. No conflicts of interest were identified that would require any action to be undertaken beyond that taken at the meetings.

The 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 voting on the implementation of the Group's strategy and to discuss individual topics of strategic relevance. The Project Committee formed as a sub-committee of the Strategy Committee also met on one occasion.

The Supervisory Board's Audit Committee met three times during the financial year now ended. It dealt above all with the quarterly financial statements, the budget 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 commercial integration of equity interests and on the audits performed by Internal Audit.

The newly established Sustainability Committee addresses in particular the topics of sustainability, the New Green Deal, decarbonisation, the energy transition, climate action and environmental protection. It is responsible for the development of appropriate strategies and implementation measures as well as for the annual review of the sustainability strategy and goals. The Sustainability Committee held four meetings in financial year 2021 to discuss various specific areas of emphasis in addition to fundamental objectives and reporting.

In accordance with the Code of Corporate Governance and the rules of procedure, three other committees – an Emergencies Committee, a Nomination Committee and a Remuneration Committee – were again formed in the financial year now ended. The Remuneration Committee held two meetings to discuss in particular target agreements and the achievement of targets for the variable remuneration for the Executive Board as well as the 2020 remuneration report. 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 is contained in the Group's Consolidated Corporate Governance Report for 2021. Information on the remuneration paid to the Supervisory Board members can be found in the remuneration report that the Executive Board and the Supervisory Board jointly prepared for presentation to the Annual General Meeting in April 2022 in accordance with Section 78c of the Austrian Stock Corporation Act (Aktiengesetz, AktG).

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 2021 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 and 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 2021 as presented by the Executive Board. As a result, they are final for the purposes of Section 96(4) 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 of the Group's employees for their successful work in 2021. Their tireless efforts in exceptional circumstances ensured an uninterrupted supply of electricity in Austria. The Supervisory Board would also like to thank the Group's shareholders, customers and business partners for their trust.

Vienna, March 2022

Mag. Martin Ohneberg
Chairman of the Supervisory Board

Management report

Report on business performance and economic position

General conditions

Prices for primary energy sources rose steeply in financial year 2021. In spite of this, the economy experienced a significant recovery compared with the previous year. Oil prices increased by more than 60%, gas prices by 390%, coal prices by around 65%, and even prices for emission allowances doubled in 2021. This in turn led to a sharp rise in prices for electrical energy on both the spot and futures markets.

Overall demand for electricity in Austria increased again in 2021 as the economic rebounded. However, domestic electricity generation was down against 2020, leading to a deterioration in net imports.

General economic environment

Significant recovery in the global economy in 2021

The global economy saw significant expansion again in 2021 after the sharp slump in 2020 due to COVID-19. The International Monetary Fund (IMF) put global growth at 5.9%, but also noted that countries with access to vaccines were growing at different rates to those without. Along with the COVID-19 pandemic, supply chain issues as well as rising commodity prices and the related increase in inflation posed major challenges to economic growth.

According to the IMF, economic output rose by 5.6% in the United States and by 5.2% in the euro area, with the countries in Europe that had experienced the sharpest downturns in 2020 showing comparatively higher growth in 2021 (Italy and France, for example). For Germany the IMF anticipated a comparatively smaller increase of 2.7% in 2021.

Besides the above-mentioned issues, economic growth in the coming years will depend to a large extent on the evolution of the COVID-19 pandemic. If more aggressive mutations of the virus emerge, leading to lockdowns, the key indicators can be expected to deteriorate compared with 2021.

For Austria, the Austrian Institute of Economic Research (Österreichisches Institut für Wirtschaftsforschung, WIFO) predicted economic growth of 4.1% for 2021 and 5.2% for 2022. Although the economic upswing was heterogeneous from sector to sector, overall it was extremely strong. However, in the second half of 2021, supply bottlenecks, rising commodity prices and further lockdowns had a dampening effect. The labour market also recovered rapidly in spite of weaker growth in the tourism sector.

Energy market environment

Electricity consumption up amid lower power generation in Austria

Austria's electricity consumption (less pumped storage consumption, including grid loss and own use of electricity by power plants) in 2021 was up 3.4% year-on-year at 71.2 TWh, principally on the back of the economic recovery. With the exception of January, February and October, electricity consumption in the remaining months of 2021 was higher than in the previous year. The biggest increase in consumption, of 15.2%, was in April 2021.

Generation of electricity from hydropower was down by as much as 5.5% on the 2020 figure. By contrast, generation from thermal power plants in Austria rose by 2.1% year-on-year in 2021 (+0.3 TWh).

Electricity generation from wind power plants also declined in 2021 due to lower wind supply after 2020. Generation volumes in 2021 were down by 1.0%. In contrast to 2020, there was a decrease in other generation (–5.3%). This figure includes other renewable energy sources (excluding biomass, which falls into the category of thermal generation) and from plants that cannot yet be allocated for statistical purposes. Overall, at 69.0 TWh, electricity production in Austria in 2021 was down 3.3% on the prior-year figure.

Net imports likewise deteriorated year-on-year in 2021 owing to lower generation volumes amid an increase in demand. In 2021, electricity imports rose by 7.8% and electricity exports fell by 15.2%, giving net imports of –7.5 TWh.

Oil prices recover compared with 2020

The price of Brent crude oil (front month) was around $71/bbl in 2021 compared with approximately $43/bbl in 2020. This represents an increase of more than 60%.

After oil prices had tanked in 2020 in connection with the COVID-19 crisis (–33%), in 2021 the oil market saw an equally strong recovery in prices when a rebound in demand triggered by the economic recovery was met with only a halting increase in supply, especially from OPEC+ countries. The steep rise in gas and coal prices also drove oil prices sharply higher, as oil now increasingly came into consideration as a substitute energy source.

Surge in gas prices

Prices on the spot market at the European NCG trading point (from 1 October 2020 THE – Trading Hub Europe) averaged around €47/MWh in 2021, which was €37/MWh or 390% higher year-on-year. In futures trading, invoiced amounts for supplier contracts for the coming year (NCG front year) were around €34/MWh in 2021 – approximately €20/MWh or 146% higher than prices for front year in 2020. This price rally was mainly attributable to the incipient economic recovery with increased demand for gas (primarily in Asia), but also to supply problems and insufficient gas storage facilities in Europe. The conflict between Russia and Ukraine caused additional strain in the European gas market.

Increase in steam coal prices

Steam coal prices also surged in 2021 compared with the previous year. Coal prices on the futures market (ARA front year) were up $37/t (64%) on the prior year at an average of $95/t.

Coal prices on the spot market also rose sharply. Averaging $122/t in 2021, these were 144% higher than the average listing in the previous year.

There are several reasons for this price increase. In Europe, the steep rise in gas prices and weak renewable electricity generation led to increased coal-fired power generation, while in Asia the economic recovery resulted in strong growth in demand. This was met with faltering supply, especially in China. Following several catastrophic mining accidents, a new mining safety campaign was declared. As a result, but also due to flooding in coal-producing regions, coal production slowed down significantly.

Rising carbon prices

After 2020, a year dominated by the COVID-19 crisis, a significant recovery was also observed on the CO_2 market in 2021: while prices were just shy of €35/t at the beginning of the year (forward market front year), they rose during the year to reach around €80/t at year-end. Reasons for this price increase were the EU's stricter climate targets, the economic recovery, and higher CO_2 emissions related to the sharp rise in coal-fired power generation as a consequence of surging gas prices and weak wind power generation. In 2021, CO_2 prices averaged €54/t, more than twice the average level of €25/t in 2020.

Sharp price increase in the market for wholesale electricity

In 2021, the market for wholesale electricity was affected by a sharp price increase, both on the spot market and on the futures market. The two markets were impacted by the steep rise in CO_2 and primary energy prices and by the rebound in demand for electricity in Europe.

The average price for base load electricity deliveries in the Austrian market area on EPEX SPOT, the European electricity exchange spot market, was up 222% year-on-year to €107/MWh in 2021. At €127/MWh, peak-load prices were also 219% higher than the 2020 average. The average price for immediate base load electricity deliveries in the German market area in 2021 was €97/MWh (up 218% on the previous year), and the price for peak-load energy was €116/MWh (up 208%). From September 2021 onwards, the average base spot price in the German market area was well over €100/MWh, rising to more than €200/MWh in December 2021. This constituted a historic high. Prices in Austria during this period were significantly higher again.

In the futures market at the European Energy Exchange (EEX), base load for 2022 (front year base) was traded at an average price of €91/MWh in 2021 in the Austrian market area and peak load (front year peak) was traded at €110/MWh. This represented an increase of over 110% year-on-year. In the German market area, front year base traded at an average of €88/MWh and front year peak at €107/MWh in 2021, an increase of around 120%.

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 2021 had only a minor influence on revenue in the reporting period.

Political and regulatory framework

EU energy policy

European Climate Law

The main aim of the European Green Deal – the central European strategy document for energy and climate policy – unveiled back in 2019 is to increase the EU's climate targets for 2030 and 2050. The Union's ambitious objective has also been enshrined in law with the European Climate Law adopted in 2021. The European Commission raised its target for 2030 from a 40% reduction in greenhouse gas emissions to a 55% cut (1990 baseline), while the target reduction for 2050 has been increased from 80% to 95% on the path to net climate neutrality (1990 baseline).

Fit for 55 legislative package

In mid-July 2021 the European Commission provided more details on the implementation and structure of the target trajectory for achieving this reduction in greenhouse gases in a comprehensive legislative package entitled "Fit for 55". The package comprises twelve legislative proposals and other non-legislative statements. A reform of the EU Emissions Trading System (EU ETS) is central to achievement of the targets; this will increase the linear reduction factor (reduction of the number of emission allowances issued each year) from 2.2% p.a. to 4.2% p.a. and lead to a one-time overall reduction of the available emission allowances. The total number of free allowances allocated will also be reduced at a faster pace. Shipping will be integrated into the EU ETS from 2026 and separate emissions trading systems for road transport and buildings will be introduced. As regards the amendment to the Renewable Energy Directive (RED3), the European Commission intends to raise the EU final energy consumption target for renewables from 32% at present to 40% in 2030. More ambitious 2030 renewables sub-targets have been defined for transport (13% greenhouse gas intensity reduction) and for heating and cooling (annual binding increase of 1.1 percentage point in the share of renewables). For renewable hydrogen, it is proposed that the rules for the production of green hydrogen from electrolysis, which under the current RED2 are applicable exclusively to the transport sector, be extended to all final hydrogen consumption sectors. Furthermore, the draft RED3 provides for a 50% renewable share in hydrogen consumption in industry by 2030. The Energy Efficiency Directive also seeks to introduce a higher target for reducing primary (39%) and final (36%) energy consumption by 2030, up from the current target of 32.5% (for both primary and final consumption). This will be reflected in a higher annual obligation on member states to achieve annual energy savings of 1.5% in end-use consumption (currently set at 0.8%).

Another central component of the package is the proposal for a carbon border adjustment mechanism, i.e. a type of CO_2 countervailing duty for carbon-intensive sectors. The European Commission is pushing for the legislation to be passed by 2023 to allow enough time to reach the 2030 targets.

Sustainable Finance Taxonomy Regulation

In April, the European Commission published the delegated act setting out technical screening criteria for the environmental objectives of climate change mitigation and adaptation based on the Sustainable Finance Taxonomy Regulation. According to the technical screening criteria, all electricity generated from wind power and solar energy shall be considered sustainable within the meaning of the taxonomy. In principle, this likewise applies to electricity generated from hydropower, but the delegated act requires further proof of the sustainability of hydropower plants. At the time the report was published, the European Commission was proposing to classify investments in electricity generation from nuclear and gas-fired power plants as sustainable under certain circumstances. The proposal is currently being examined by the European Council and the European Parliament. In July, the European Commission also published a delegated act with details on reporting requirements for companies from 2022 onwards arising from the Taxonomy Regulation.

IPCEI Hydrogen – Important Projects of Common European Interest

In August 2021 Austria submitted a pre-notification to the European Commission with a selection of Austrian hydrogen projects as part of the IPCEI industrial policy initiative. If awarded IPCEI status by the European Commission, the projects could be given preferential treatment in terms of public funding.

Austria has earmarked €125m for this from the funds it receives under the EU growth initiative Recovery & Resilience Fund. The pre-notification document names three VERBUND projects (Carbon2Product Austria and two modular sub-projects of Green Hydrogen@Blue Danube). The award of a subsidy cannot be inferred from the pre-notification.

Hydrogen and Decarbonised Gas Market Package

The European Commission released its Hydrogen and Decarbonised Gas Market Package (also known as the gas package) in mid-December 2021. A sister package to the Fit for 55 package, it addresses the integration of decarbonised gases (blue hydrogen produced from natural gas plus CCS/CCU) as well as low-carbon gases (nuclear hydrogen). The Hydrogen and Decarbonised Gas Market Package presents a unified nomenclature for hydrogen that classifies hydrogen according to its method of production (renewable or fossil origin) and its final CO_2 life cycle emissions. The future use of gas infrastructure is also addressed. In addition, specific regulations for the construction and operation of hydrogen networks are proposed. These are supplemented by regulations on the conversion of existing gas grid infrastructure.

New legal framework for the energy sector in Austria

Renewable Energy Development Act approved

The Renewable Energy Development Act (Erneuerbaren-Ausbau-Gesetz, EAG) was approved by the Austrian National Council on 7 July 2021. The EAG will serve to implement the goal of 100% of electricity generated from renewables by 2030 (national balance). Technology-specific expansion trajectories are envisaged for this. The annual subsidy volume (three-year average) is not expected to exceed €1bn. The EAG stipulates that renewable energy contributions shall be capped for low-income households. For hydropower plants, the EAG largely provides for subsidies granted by means of administratively determined market premiums, i.e. up to 25 MW (or, in the case of larger plants, for the first 25 MW) for new construction, expansion and rehabilitation projects. The total annual contract award volume is 100 MW, with 20 MW being put out to tender together with the wind power projects due to objections by the European Commission under state aid law. To be eligible for funding, rehabilitation projects must achieve an increase of 5% in mean energy capability/maximum electrical capacity for plants up to 1 MW, and an increase of 3% for plants above 1 MW.

Photovoltaic installations with a capacity of 10 kWp or higher will be subsidised via tenders for market premiums; investment grants are also possible for plants with a capacity of up to 1 MWp. A subsidy reduction of 25% is provided for open-field solar installations on grassland or on land used for agricultural purposes (with exceptions). Wind power plants with a capacity of 1 MW or higher will be subsidised in 2022 via an administrative allocation and from 2023 via tenders for market premiums. A location differentiation model is planned so that less profitable locations can also be expanded.

A local area (NE 6, NE 7) and a regional area (NE 5, partly NE 4) are defined as territorial limitations for renewable energy communities (RECs). These will particularly be exempted from the grid fees of the upstream grid levels, but will also enjoy other benefits.

The EAG also provides for subsidies for generation facilities in the field of renewable gases. Among other things, investment subsidies of €40m per year will be made available for green hydrogen production plants. Tariff relief and exemptions from end-user charges for electrolysis (similar to the exemption from tariffs and end-user charges for pumped storage that will be granted in the future for 15 years) have also been defined.

Ecosocial tax reform

A proposal for ecosocial tax reform was presented in autumn 2021. The project envisaged in the government programme provides for progressive national carbon pricing of sectors outside the EU Emissions Trading Scheme (buildings, transport, sections of industry) from 1 July 2022, offset by a substantial relief mechanism. Carbon will be priced at €30/t in July 2022, rising to €55/t by 2025. In 2026, the price is to be aligned with the EU ETS. Reimbursement will be made by easing the burden of labour and pensions (e.g. wage tax reduction), by reducing the pressure on the economy (e.g. reduction of corporate income tax) and through other compensation mechanisms such as regional bonuses.

The amendments of the Energy Efficiency Act (Energieeffizienzgesetz, EEffG) and the Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG) for implementation of the Clean Energy Package were not presented in 2021. The Austrian Climate Change Act (Klimaschutzgesetz, KSG) and the amended Environmental Impact Assessment Act (Umweltverträglichkeitsprüfungsgesetz, UVP-G) are also not expected until 2022. Likewise, a decision on the Austrian hydrogen strategy was not made in 2021.

New legal framework for the energy sector in Germany

The 2021 Climate Change Act passed by the German Bundestag in summer 2021 ushered in stricter requirements for mitigating climate change and made the goal of achieving greenhouse gas neutrality by 2045 binding. Accompanying the bill, Germany's federal government adopted an emergency programme to underpin the ambitious goals.

Emissions are to be cut by 65% by 2030 (1990 baseline). An 88% reduction in greenhouse gases is targeted for 2040. New ambitious targets have also been defined in the individual sectors of the economy such as transport and energy. Besides the ambitious expansion targets, changes in approval procedures are also expected to accelerate the expansion of renewables. In future, power plant upgrades will face fewer hurdles. This could make it easier to replace existing wind power plants with new ones. Looking ahead, only the question of whether the replacement of the plant will bring about an improvement for the environment will be decisive for approval.

The new federal government that took office in December 2021 will continue on the path to climate neutrality in 2045 and aims to achieve the climate targets by moving ahead with the expansion of renewables and a climate check for all draft legislation. Going forward, achievement of targets will be reviewed on the basis of a multi-year national account of climate action policy.

Finance

Factors affecting the result

Wholesale electricity prices

VERBUND contracted for most of its own electricity generation for 2021 on the futures market back in 2019 and 2020. Ever since the split of the joint German-Austrian price zone in October 2018, separate, higher prices have prevailed in Austria. Prices for AT 2021 front-year base load contracts (traded in 2020) averaged €42.8/MWh, and prices for DE 2021 front-year base load contracts averaged €40.2/MWh. Futures market prices thus decreased year-on-year by 16.4% (AT) and 16.0% (DE).

Front-year peak load (AT) contracts traded at an average of €52.0/MWh and front-year peak load (DE) contracts traded at an average of €49.0/MWh. Futures market prices in this area thus also decreased year-on-year by 16.3% (AT) and 14.9% (DE). The declines are mainly attributable to the COVID-19 pandemic.

Following the sharp drop in the previous year due to COVID-19, wholesale trading prices for electricity on both the Austrian and German spot markets rallied significantly in quarters 1–4/2021. Prices for base load electricity increased by an average of 222.4% to €106.8/MWh in Austria and by 217.9% to €96.8/MWh in Germany. Prices for peak load rose by 218.7% to €127.3/MWh in Austria and by 208.3% to €115.5/MWh in Germany. These massive increases can be attributed to the sharp rise in CO_2 and primary energy prices.

Water supply

The water supply in rivers is of particular significance for VERBUND since around 94% 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 2021 reporting period, the hydro coefficient for run-of-river and pondage power plants was 0.95, which is 5 percentage points lower than the long-term average and 6 percentage points below the prior-year level (1.01). The hydro coefficients for the individual quarters differed substantially as follows: quarter 1: 0.99 (previous year: 1.09), quarter 2: 0.93 (0.86), quarter 3: 1.03 (1.05) and quarter 4: 0.83 (1.11).

Electricity supply and sales volumes

VERBUND's own generation decreased by 2,176 GWh, or 6.5% in quarters 1–4/2021 to 31,306 GWh compared with the same period in 2020. Generation from hydropower decreased by 2,185 GWh compared with the previous year. The hydro coefficient for the run-of-river power plants dropped to 0.95, or 6 percentage points below the prior-year figure and 5 percentage points below the long-term average. Generation from our annual storage power plants fell by 6.9% in quarters 1–4/2021 versus 2020. The effects from increasing reservoir levels and a slightly lower inflow outweighed the higher generation from turbining.

The volume of electricity generated by VERBUND's wind power installations in quarters 1–4/2021 was 84 GWh lower in the reporting period than in the previous year due to the low wind supply in all markets (Austria, Germany, Romania). Electricity generated by photovoltaic installations stood at 2.1 GWh in 2021.

By contrast, generation from thermal power plants increased by 91 GWh in quarters 1–4/2021. The Mellach combined cycle gas turbine power plant produced 437 GWh more electricity in the reporting period than in the prior-year reporting period due to market-driven operations for district heating production in quarter 4/2021, in spite of the plant's reduced use for congestion management. The Mellach district heating power plant, which since the end of quarter 1/2020 has been used solely in gas operation, was deployed for only a brief period and generated 345 GWh less electricity.

Purchases of electricity from third parties for trading and sales fell by 2,126 GWh. By contrast, electricity purchased from third parties to cover grid loss and control power volumes increased by 587 GWh.

Group electricity supply

GWh

	2020	2021	Change
Hydropower[1]	31,525	29,340	–6.9%
Wind power	924	839	–9.1%
Solar power	1	2	–
Thermal power	1,033	1,125	8.8%
Own generation	33,482	**31,306**	–6.5%
Electricity purchased for trading and sales	29,918	27,793	–7.1%
Electricity purchased for grid loss and control power volumes	3,588	4,175	16.4%
Electricity supply	66,989	**63,274**	–5.5%

[1] incl. purchase rights

VERBUND's electricity sales volume fell by 3,845 GWh in quarters 1–4/2021. Electricity volumes delivered to consumers rose by 636 GWh. In the wake of the COVID-19-related decline in the previous year, the numbers of both domestic and foreign customers rose. As at 31 December 2021, our residential customer base comprised approximately 527,000 electricity and gas customers. By contrast, sales to resellers fell by 2,116 GWh year-on-year, mainly due to lower delivery volumes in Austria. Electricity deliveries to trading firms decreased by 2,366 GWh due to lower spot trading volumes. Own use of electricity rose by 61 GWh. This increase is attributable above all to increased operation of the Group's power plants in turbining mode.

Group electricity sales volume and own use

GWh

	2020	2021	Change
Consumers	13,568	14,204	4.7%
Resellers	29,009	26,893	–7.3%
Retailers	20,164	17,799	–11.7%
Electricity sales volume	62,741	**58,896**	–6.1%
Own use	3,327	3,388	1.8%
Control power volume	921	990	7.5%
Total electricity sales volume and own use	66,989	**63,274**	–5.5%

Approximately 56% of the electricity sold by VERBUND in quarters 1–4/2021 went to the Austrian market (previous year: around 55%). International trading and sales activities focused on the German market, which accounted for around 81% of all volumes sold abroad in 2021.

Electricity sales volume by country

GWh

	2020	2021	Change
Austria	34,469	33,185	– 3.7%
Germany	23,098	20,798	– 10.0%
France	4,284	4,191	– 2.2%
Romania	875	669	– 23.5%
Other	15	53	-
Electricity sales volume	62,741	**58,896**	– 6.1%

Financial performance

Revenue and result

	Unit	2020	2021
Revenue	€k	350,880.6	392,639.9
Earnings before interest and taxes (EBIT)	€k	476,339.3	689,381.4
Earnings before taxes	€k	437,188.5	649,348.3
Net income for the year	€k	420,453.1	610,569.6
Net profit	€k	260,561.8	364,786.5
Return on equity (ROE)	%	14.2	19.9
Return on investment (ROI)	%	9.2	13.3
Return on capital employed (ROCE)	%	7.2	9.7
Return on sales (ROS)	%	135.8	175.6

Revenue

Revenue from electricity deliveries increased by 10.1% or €28,042.7k. The average futures market prices obtained for the 2021 supply year for volumes hedged for the long term were below the prior-year level while, in contrast, the average spot market prices rose again. In the 2021 reporting period, the hydro coefficient for run-of-river power plants was 5 percentage points below the long-term average and 6 percentage points below the previous year. Overall, this resulted in lower electricity revenue from the marketing of purchase rights of approximately €1,838.4k. Invoicing for one partner authorised to purchase electricity was changed at the beginning of financial year 2021 to be directly through VERBUND Hydro Power GmbH (VHP). The previous year's electricity revenue still included €3,769.9k in connection with this partner. Overall, revenue from recharging partners authorised to purchase electricity fell by €4,403.8k. The increase in the consumer segment amounted to €16,312.6k or 14.1% and is primarily attributable to the favourable sales trend at higher electricity prices. Revenue from marketing free volumes, primarily allocated to ÖMAG for the consumer segment, increased by €17,972.3k or 172.4% to €28,398.3k.

Revenue from gas deliveries saw a price adjustment in mid-2020, which means the average sales price is higher in 2021 than in 2020. In addition, the customer base grew, resulting in higher delivery volumes. Consequently, revenue from gas deliveries increased by €10,393.5k, or 29.1%, to €46,102.4k.

Total revenue thus increased by €41,759.3k or 11.9%.

Expenses for electricity purchases

Expenses for the purchase of electricity increased by 20.5%, from €156,905.6k to €189,022.6k. Electricity purchases from purchase rights are based on reimbursement of costs and are therefore slightly below the levels of the previous year (€2,288.9k) despite fluctuating volumes. Electricity purchased for the consumer business is procured at market prices and therefore increased by 39.0% in financial year 2021 in addition to higher sales volumes. Similar to electricity revenue, the change made to invoice partners authorised to purchase electricity directly through VHP also resulted in a reduction of electricity purchases. The previous year's electricity purchases still included €3,769.9k in connection with these partners.

Expenses for gas purchases

Rising consumer business volume at significantly higher prices increased the expenses for gas purchases by 77.3%, from €23,213.7k to €41,167.0k. In the previous year, lower prices caused expenses for gas purchases to fall despite gains in the customer base.

Personnel expenses

Personnel expenses decreased by €1,510.2k, or 5.2%, to €27,310.5k. Factors contributing to an increase in personnel expenses were the 1.5% increase in salaries and ancillary expenses under the collective agreement and the biennial pay rises stipulated by the collective agreement as well as an increase of 8.8 average employees to 156.8 employees. Employee benefit expenses fell by €3,164.4k, primarily as a result of the positive effect of the change in underlying calculation parameters in the amount of €2,206.5k (previous year: negative effect of €467.9k).

Other operating expenses

Other operating expenses rose by €3,091.1k, or 6.5%, to €50,338.5k. The increase is mainly attributable to higher IT expenses (€1,430.6k), advertising and market development costs of €732.2k and the rise in the miscellaneous item in other operating expenses of €2,441.5k. These contrast with lower legal, audit and consulting expenses of €1,513.2k.

Earnings before taxes

Earnings before taxes increased by €212,159.8k from €437,188.5k to €649,348.3k as a result of the influencing factors described above and the higher year-on-year financial result of €596,084.7k (previous year: €376,093.3k).

The financial result changed primarily due to higher impairment loss reversals of equity interests in the amount of €135,558.6k (previous year: €36,262.7k). Reduced by transfers of losses, investment income increased by €153,556.4k from €333,574.1k to €487,130.5k. Interest expenses fell by €2,495.1k from €36,104.0k to €33,608.9k primarily as a result of a reduction in interest for loans and credit facilities by €1,581.3k and the decrease in interest from Group financing of €859.9k.

The financial result includes income from the disposal of equity interests of €4.5k (previous year: €4,692.3k). Capital procurement costs increased by €3,377.4k, from €3,046.8k to €6,424.2k, due to the issuance of a new bond.

Financial position

Financial position

	Unit	2020	2021
Fixed assets	€k	5,044,498.0	5,809,947.4
Current assets	€k	62,830.2	119,742.1
Working capital	€k	–870,142.6	–756,273.9
Net debt	€k	1,673,709.3	2,112,803.9
Equity	€k	3,268,845.0	3,618,852.9
Current liabilities	€k	981,938.4	978,887.0
Current assets	€k	111,795.8	222,613.1
Average capital employed	€k	4,967,150.0	5,336,163.3
Equity ratio	%	62.8	60.1

Fixed assets

Intangible assets and property, plant and equipment increased by €331.4k. Additions primarily related to intangible assets (software) of €216.1k, to office and plant equipment and electrical installations of €2,060.5k and to investments in buildings of €797.7k. Amortisation of intangible assets and depreciation of property, plant and equipment amounted to €2,710.4k in the financial year. Carrying amounts of €32.6k were written off in the financial year.

In accounting for investees, the investments item increased by €420,382.0k. On the one hand, there were additions to domestic equity interests amounting to €434,301.6k and to foreign equity interests amounting to €69,261.5k. On the other hand, reversals of impairment losses amounting to €135,558.6k were recognised for domestic equity interests, and impairment losses of €28,555.5k were recognised for one domestic equity interest. There was one disposal of €190,184.2k under foreign equity interests.

Other investments increased in total by €344,736.0k. Loans were granted in the amount of €430,338.6k, while loans of €86,939.0k were repaid. The carrying amount of securities under fixed assets increased by €1,336.4k due to impairment loss reversals amounting to €1,444.2k, which were partly offset by disposals totalling €107.8k.

Current assets

The increase of €56,911.9k in current assets resulted mainly from the rise in other receivables from affiliated companies by the amount of €53,979.7k (adjusted for the prior-year balance of the acquisition of one subsidiary), of which €52,795.3k concerns the increase in corporate income tax allocations which are not yet due and €1,000.0k relates to the additional granting of a short-term loan. The increase in trade receivables amounted to €8,109.3k. This contrasts with a decrease in receivables from the disposal of one equity interest in the amount of €4,336.3k.

Equity

Due to the net income for the year in the amount of €610,569.6k, reduced by the distribution for financial year 2020 of €260,561.8k, equity increased to €3,618,852.9k. The equity ratio fell slightly from 62.8% to 60.1%, mainly as a result of one external loan.

Liabilities

Non-current and current liabilities increased by €469,916.0k to €2,150,220.6k. In financial year 2021, one new loan was taken out in the amount of €500,000.0k (previous year: €0.0k). Repayments to banks in financial year 2021 amounted to €30,125.0k. Liabilities to affiliated companies fell by €31,351.1k due to intra-Group invoicing. Trade payables rose by €6,713.9k to €48,406.4k. Other liabilities increased by a total of €21,385.4k, primarily as a result of the €21,146.7k rise in liabilities to tax authorities.

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; 2. securing a solid credit rating over the long term; and 3. implementing innovative financial transactions in the field of green finance.

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 2021, VERBUND had an ESG-linked 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 committed lines of credit amounting to €300m and uncommitted lines of credit amounting to approximately €2,345.0m at the end of 2021. As at 31 December 2021, €1,430.0m 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 access to various financing instruments, among other things, in the capital market. As at 31 December 2021, VERBUND had a long-term rating of A with a stable outlook from Standard & Poor's (S&P) and a rating of A3 with a stable outlook from Moody's. For the long term, VERBUND is aiming for a solid "A" category rating. VERBUND is therefore focusing primarily on optimising free cash flow and on the two key rating-related performance indicators of FFO/net debt and RCF/net debt.

Implementing innovative financial transactions in the field of green finance

Green finance has very high priority for VERBUND because the entire strategy is focused on sustainability and this area is decisive in the international arena and a cornerstone of the national climate strategy. VERBUND will continue to position itself as a pioneer in a future decarbonised energy market.

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 syndicated loan whose margin structure is linked exclusively to VERBUND's ESG rating (sustainability rating) over the term of the loan, a Green & Sustainability-linked Bond was issued in 2021 that combines all four available sustainable components in green finance in a single transaction:

1. Use of proceeds (classic project-specific green bond);
2. EU taxonomy aligned (the projects must be aligned with the EU Taxonomy Regulation as at the date of issue);
3. Sustainable link (margin dependency relating to the achievement of the Group's sustainability goals); and
4. UN Principles for Responsible Investments (strong preference for sustainable investors in accordance with a transparency requirement in bookbuilding).

Specifically, VERBUND is planning to use the proceeds exclusively for "green" projects conforming to the VERBUND Green Financing Framework. Developed at the beginning of 2021, this Framework is consistent with the current (as of the issue date) draft of the EU Taxonomy Delegated Act and the EU Green Bond Standard. It was also drawn up in accordance with the ICMA Green Bond Principles and the ICMA Sustainability-linked Bond Principles. The proceeds from this bond will be used to finance the rehabilitation and expansion of a hydropower plant in Germany and high-voltage power line projects in Austria. ISS ESG, a leading global sustainability rating agency, rated the quality of the Green Financing Framework very positively in a second party opinion. In addition, VERBUND commits to expanding both the newly installed production output exclusively in the areas of hydropower, wind power and solar power by at least 2,000 MW (KPI 1) and the installation of additional transformer capacity (necessary for feeding the renewable electricity into the high-voltage grid) by at least 12,000 MVA (KPI 2). Both of these targets are very ambitious. If one of the targets is not achieved by 31 December 2032, the coupon payments of the bond will increase by 0.25% p.a. for the remaining term of the bond.

KPIs – finance

	Unit	2020	2021
Cash flow from operating activities	€k	564,286.7	473,615.4
Cash flow from investing activities	€k	–61,719.0	–613,008.5
Cash flow from financing activities	€k	–502,567.7	139,393.1
Financial result	€k	376,093.3	596,084.7
Gearing	%	51.2	58.4
Debt repayment period	years	4.6	4.7

Compared with the previous year, the financial result increased by €219,991.4k to €596,084.7k. The main reason for this was the high impairment loss reversals recognised on equity interests in financial year 2021 amounting to €135,558.6k, whereas in financial year 2020 impairment loss reversals recognised on equity interests had amounted to only €39,262.7k. Investment income reduced by transfers of losses increased by €153,556.4k to €487,130.5k. Interest income remained largely the same (change: €–21.3k). Income from loans increased by €1,123.2k to €36,259.4k. Income from the disposal of equity interests of €4.5k (previous year: €4,692.3k) was recognised during the financial year. Distributions from securities amounted to €924.5k in 2021 (previous year: €0.0k). Write-ups of securities amounted to €1,444.2k (previous year: write-downs of €100.9k).

A sharp increase of €439,094.7k in interest-bearing net debt and the simultaneous sharp increase of €350,007.8k in equity resulted in a moderate increase in gearing by 7.2 percentage points to 58.4%. The debt repayment period remained nearly unchanged at 4.7 years (previous year: 4.6 years) due to the higher cash inflow from earnings before taxes of €510,657.5k (previous year: €417,638.3k) accompanied by a sharp rise in debt of 24.2% (previous year: 6.6% reduction).

Cash flow statement

The cash flow statement is prepared in accordance with AFRAC position statement 36 (Cash flow statement in accordance with the Austrian Commercial Code (Unternehmensgesetzbuch, UGB)). 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.

(1) Cash flow from operating activities

Cash flow from operating activities is determined using the indirect method and resulted in a cash inflow of €473,615.4k (previous year: €564,286.7k).

Profit or loss for the period includes investment income impacting the cash flow net of losses transferred amounting to €487,130.5k (previous year: €333,584.1k).

The change in trade receivables and other receivables is primarily attributable to the increase in trade receivables in the amount of €8,109.3k and partially offset by a decrease in other accruals and deferrals of €2,888.4k.

The change in trade payables and other liabilities is mainly the result of the increase in liabilities from the electricity and gas business of €6,391.2k. Trade payables, excluding the electricity and gas business, rose by €322.8k. Under other liabilities there was a decrease of €544.9k. Liabilities to the tax authorities, mainly comprising value-added tax, rose by €21,148.1k. Trade payables to affiliated companies fell by €1,048.4k.

The change in current provisions is mainly attributable to utilisation and partial reversal of provisions for the consumer business in the amount of €8,525.6k and to lower provisions for outstanding purchase invoices in the amount of €802.8k. Provisions for personnel expenses rose by €109.7k.

The net liability position arising from income tax payments in the amount of €72,705.8k (previous year: inflow of €166,956.7k) is attributable to prepayments to the tax authorities of €214,339.0k and other income taxes such as capital gains taxes of €1,165.0k. Assessments from previous years with a net inflow of €1,127.4k and the net credit effect of tax allocations from Group members of €141,670.8k had a counteracting effect.

(2) Cash flow from investing activities

Net cash flow from investing activities consisted of an outflow of €613,008.5k (previous year: outflow of €61,719.0k), resulting primarily from the repayment of loans in the amount of €86,939.0k (of which €83,438.3k in loans to affiliated companies). These contrast mainly with the granting of loans in the amount of €430,338.6k (of which €430,327.9k in loans to affiliated companies) and investments in affiliated companies in the amount of €311,732.9k. In addition, the Group received subsequent proceeds of €4,336.3k from the disposal of an investment. Income of €112.3k was generated by intercompany sales of securities.

Capital expenditure for intangible assets and property, plant and equipment comprised capital expenditures for office and plant equipment in the amount of €1,476.3k, for buildings in the amount of €797.7k and for electrical equipment in the amount of €478.5k, as well as investments in software in the amount of €216.1k.

Dividend distributions from securities generated inflows of €924.5k.

(3) Cash flow from financing activities

As part of the dividend distribution approved for financial year 2020, €260,561.8k was paid out to shareholders. This was equivalent to a dividend of €0.75 per share. Group clearing resulted in a cash outflow of €30,302.7k (previous year: cash inflow of €9,731.8k).

Through VERBUND AG's reduction of debt in previous years, the cash outflows for interest and similar expenses of €39,617.5k (previous year: €38,679.9k) were held at nearly the same level as in the 2020 financial year.

In financial year 2021, financial liabilities amounting to €30,125.0k were repaid in line with planning. One new loan was taken out in the amount of €500,000.0k (previous year: €0.0k).

Cash flow statement

€k

	Notes	2020	2021
Earnings before taxes		437,188.5	649,348.3
Amortisation of intangible assets and depreciation of property, plant and equipment		2,925.7	2,710.4
Amortisation and reversal of impairment of investments		–39,363.6	–108,447.3
Result from disposal of non-current assets		–11.3	–7.4
Other interest and similar income, and interest and similar expenses		–3,473.8	–770.4
Change in non-current provisions		–1,913.5	–3,770.4
Income from the reversal of contributions to building costs		–35.1	–35.1
Other non-cash expenses and income		–4,881.5	–4,629.9
Change in inventories		–158.2	–332.2
Change in trade receivables and other receivables[1]		–5,277.2	–5,416.5
Change in trade payables and other liabilities[2]		2,382.2	26,890.5
Change in current provisions		9,947.8	–9,218.7
Payments for income taxes		166,956.7	–72,705.8
Cash flow from operating activities	(1)	564,286.7	**473,615.4**
Cash outflow from capital expenditure on intangible assets and property, plant and equipment		–3,739.4	–2,968.7
Cash inflow from the disposal of intangible assets and property, plant and equipment		28.0	40.0
Cash outflow from capital expenditure on investments		–322,764.3	–742,071.6
Cash inflow from the disposal of investments		226,716.7	91,387.6
Cash inflow from investments and securities		0.0	924.5
Cash inflow from interest		38,040.0	39,679.6
Cash flow from investing activities	(2)	–61,719.0	**–613,008.5**
New non-current loans		0.0	500,000.0
Cash outflow from the repayment of financial liabilities (excluding money market transactions)		–233,902.8	–30,125.0
Cash inflow (outflow) from increases (decreases) in Group clearing balances		9,731.8	–30,302.7
Dividends paid		–239,716.8	–260,561.8
Cash outflow for interest and similar expenses		–38,679.9	–39,617.5
Cash flow from financing activities	(3)	–502,567.7	**139,393.1**
Change in cash and cash equivalents		0.0	0.0
Cash and cash equivalents as at 1/1/		0.0	0.0
Cash and cash equivalents as at 31/12/		0.0	**0.0**

[1] incl. prepayments, accrued income and deferred tax assets // [2] incl. other accruals and deferred income

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, thus pre-empting the trend towards reporting on environmental factors. That annual publication was followed in 2002 by VERBUND's first sustainability report. From then until 2014, a sustainability report was published annually as a supplement to the annual report. Since 2015, VERBUND has published an integrated annual report in response to the rising demand from different groups of stakeholders for comprehensive company information. The annual sustainability report is now included in VERBUND's integrated annual report.

The Austrian Sustainability and Diversity Improvement Act (Nachhaltigkeits- und Diversitätsverbesserungsgesetz, NaDiVeG), which entered into force on 6 December 2016, stipulates that large public interest entities must publish non-financial information starting in financial year 2017. VERBUND uses the Global Reporting Initiative (GRI) for this purpose. Consequently, the present report was also prepared in accordance with the GRI Standards as well as the G4 Sector Disclosures for "Electric Utilities", Core option.

Starting in 2022, VERBUND is also required to disclose information on environmentally sustainable revenues, capital expenditures (CAPEX) and operational expenditures (OPEX) pursuant to the EU Taxonomy Regulation for financial year 2021. This reporting requirement is complied with through the Materiality section of the Non-Financial Report in the 2021 Group Integrated Annual Report.

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 2021 calendar year.

Sustainable topics and projects in 2021

Code of Conduct for Sustainable Business

In 2021, the VERBUND Code of Conduct and the sustainability mission statement were comprehensively updated and revised. Among other things, this took into account the increased interest of external stakeholders and internal developments, e.g. VERBUND's 2030 strategy, the updating of the 2019 stakeholder survey and the implementation of the Supplier Code of Conduct. The interdisciplinary project team recognised the numerous synergies between the existing Code of Conduct and the sustainability mission statement. An innovative approach was therefore selected and the two documents were combined to form the new "Code of Conduct for Sustainable Business". The Code covers the following action areas: our ethical corporate governance, our commitment to the climate and environmental, our way of working, our economic responsibility and our contribution to society. With a clearly defined channel for submitting reports and reporting violations of the rules, and including specific practical examples, it serves the Group, the Executive Board, the management and the employees as a set of guidelines for responsible conduct. Sustainability and responsible conduct towards society, the environment and the economy go hand in hand.

Sustainable supplier assessment

VERBUND is conscious of its responsibility within the supply chain, which is why we are working intensively on this topic. As the next step in the further development of its sustainable supplier management system, VERBUND has therefore been working since 2021 on the implementation of a new rating system for assessing the sustainability performance of suppliers. To this end, VERBUND is working with an external provider whose ESG ratings are to be used for the sustainability assessment in future. Rollout will initially be to VERBUND's top 100 suppliers. In the medium term, additional strategic supplier groups will be included using a risk-based approach.

Climate Impact Day

In 2021, VERBUND took part in Climate Impact Day (CID), which was organised for the first time by start-up company Glacier. The aim of this day is to promote the topic of sustainability and to raise awareness for climate change mitigation both in the community and within the Group. VERBUND also organised a day for its employees dedicated to climate change and its mitigation. This gave employees an opportunity to learn about VERBUND's solutions for mitigating climate change, such as e-mobility and solar power, and about the topic of climate change risks, and to test their knowledge in a quiz and a game of climate bingo.

Environmental performance

In all of its fields of activity, VERBUND is committed to taking a responsible 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 VERBUND's environmental achievements. Existing structures, processes and responsibilities in environmental management ensure compliance with legal requirements, nationally and internationally accepted regulations and the Group's own standards. For 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 form the basis for the Group-wide collection and reporting of VERBUND environmental data. Detailed information on the standards applied and applicable factors is available from VERBUND's Investor Relations or Corporate Responsibility 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 issue in VERBUND's environmental management systems. There are two primary ways in which normal operation of VERBUND's plants has 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 contingency 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. This applies to sites of consolidated companies, excluding wind power plants if the operating company is certified and sites in which VERBUND has a share of < 51% and where another co-owner is responsible for management. The Mellach thermal generation facilities are also validated in accordance with the EMAS Regulation. A separate environmental statement is published annually on VERBUND's website for these facilities. This means that 100% of VERBUND's sites have been certified since 2017. The objective is to continue with ISO 14001 certification at existing sites and to add new sites. New facilities are therefore 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 2021, 96.4% of electricity generated at VERBUND originated from hydropower, wind power and solar power, and 3.6% from thermal generation. VERBUND's total energy consumption decreased to 18.9 million gigajoules (GJ) in 2021 from 19.5 million GJ in 2020, with approximately 6% reduction in total generation.

Fossil fuels accounted for 42% of total use of power at 8 million GJ. Only the fossil fuel natural gas was used for thermal generation to generate electricity for grid support for congestion management purposes as well as for district heating. Therefore, neither hard coal nor sewage sludge (biomass as a substitute fuel) is used from 2021 onwards. In addition, natural gas is used in the gas compressor stations to operate Gas Connect Austria's (GCA) gas grid. Around 51% more natural gas was used in 2021 than in 2020 (2020: 5.2 million GJ; 2021: 7.9 million GJ). The volume of fuels used for the vehicle fleet and equipment amounted to 0.06 million GJ (2020: 0.06 million GJ), corresponding to around 0.7% of the total use of power from fossil fuels.

Internal electricity consumption by VERBUND comprises grid purchases for administration, power plants, pumps and grid facilities. In 2021, the share of electricity purchased was 58% of total use of power. At around 10.9 million GJ of electricity, mainly for pumping and turbining and for compensating grid losses, a slightly higher volume of electricity was drawn from the grid than in financial year 2020. Over 72% of this electricity came from renewable energy sources.

The key performance indicator energy intensity, which is expressed as the ratio of the Group's power use to the volume of electricity and district heating generated, remained the same in 2021, at 0.16 GWh/GWh (2020: 0.16 GWh/GWh). VERBUND's target of a 25% reduction in energy intensity by 2021 (2015 baseline) was achieved between 2019 and 2021, largely thanks to the rapid phase-out of generation from hard coal, the implementation of measures to improve efficiency and the increase in renewable generation.

Use of materials

Materials VERBUND uses include additives and consumables for effluent treatment and for energy generation in the power plants and for the grid facilities.

Total material requirements fell by 78% year-on-year. This decrease is primarily attributable to reduced use of additives and consumables at the Mellach site in 2021. The material intensity for thermal generation has been reduced by 97% since 2015. VERBUND therefore achieved its goal of an 80% drop in this figure by 2021 (2015 base year) by switching from generation from hard coal to natural gas and through the use of the new waste water treatment system.

Greenhouse gas emissions

The Group's focus on electricity generation from renewable energy is a crucial factor for both VERBUND and its customers for reducing and avoiding greenhouse gas emissions. Of the electricity generated at VERBUND in 2021, 96.4% was generated from hydropower, solar power and wind power. As it is still necessary to use thermal power plants to provide grid support and district heating, the remaining 3.6% share of generation came from thermal power plants. VERBUND ceased using hard coal in April 2020 and now uses only natural gas.

VERBUND's GHG reporting meets the criteria of the Greenhouse Gas Protocol (GHG Protocol) and, with publication in 2021, also those of EN ISO 14064-1:2018. Under both these standards, GHG emissions are divided into three scopes. Scope 1 emissions are all direct emissions generated from internal company activities and activities at VERBUND. Scope 2 emissions are generated indirectly from internal electricity and district heating consumption and from grid losses. Scope 3 emissions, from the consumption-based perspective, comprise other indirect GHG emissions in the upstream and downstream value chain.

In 2021, the carbon footprint was recalculated and the scope of reporting was expanded as part of the Corporate Carbon Footprint project. The comprehensive revaluation was carried out based on the enhanced business model, new areas of business, the expansion of generation facilities for renewable energy and the application of the ISO standard. A direct comparison of any historical publication of GHG-related data is only possible for VERBUND's Scope 1 emissions, which are subject to the EU ETS. For other GHG emissions, a recalculation was carried out in some cases, and a complete initial calculation for others. GHG emissions from the operation of GCA's gas grid have been included in the data collection since June 2021.

VERBUND has already ceased using lignite (2006), oil (2015) and hard coal (2020) as fuel and counts as one of the early movers among electric utilities. VERBUND has continuously reduced its CO_2 emissions from thermal power plants since 2005, which fall under the European Emissions Trading System (EU ETS). Between 2005 (3.8 million tonnes CO_2) and 2021 (0.4 million tonnes CO_2) VERBUND reduced its ETS emissions by 88%. VERBUND is thus contributing to the avoidance and reduction of emissions as well as to SDG 13 "Climate action". By reducing thermal production volumes and switching fuels to natural gas, VERBUND has also massively reduced its airborne emissions (dust, NOx, SO_2). The Group fell just slightly short of achieving its target to reduce VERBUND-specific direct GHG emissions (Scope 1) to below 10 g CO_2e per kWh of total electricity generated, with these emissions amounting to 14 g CO_2e per kWh.

Due to the transformation of the energy sector and the implementation of VERBUND's strategy, the business model that has evolved with it, and new calculation methods, there is a new GHG emission forecast for VERBUND for the years ahead. VERBUND has been and will continue to be perceived in Austria as a reliable partner for securing supply. In the area of security of supply, VERBUND is trusted by the population and has a responsibility in this respect. VERBUND tries to meet these needs at best possible by generating electricity from hydropower, wind power and solar power, also with the Mellach site and as an operator of electricity and gas transmission networks. Use of the state-of-the-art Mellach combined cycle gas turbine power plant (Mellach CCGT) is therefore necessary to continue to provide and maintain a secure domestic supply.

Conservation and biodiversity

Some VERBUND power plants and grid facilities are located in nature conservation areas or other protected areas. The following table contains the disclosures on the sites by type of protected area. 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.

Rehabilitation measures implemented at water bodies and the construction of fish passes to re-establish river continuity are making an important contribution to the preservation and promotion of biodiversity. Current examples of investments in ecology and biodiversity in the vicinity of VERBUND hydropower plants can be found in the Hydro section and information on wind and solar power projects can be found in the New renewables 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 presented on the web pages of the respective LIFE projects, on the Austrian Power Grid AG (APG) website and on the VERBUND website.

Water and effluents

Water withdrawals at VERBUND sites totalled 66.6 million m^3 in 2021 and were therefore 43% lower than the figure of 116.7 million m^3 recorded in 2020. Approximately 87% of this total volume of water was used as cooling water in our Mellach CCGT. This share is withdrawn from the surface water, used for cooling and returned chemically unchanged. Around 13% are volumes of service water. Only 0.3% of the total water volume withdrawn is actually consumed.

Details on treatment methods used and the water quality, including the review of the main substances of concern and 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. In 2021 limits were found to have been exceeded to a minor extent at five sites. The causes were analysed and appropriate countermeasures have already been put in place to ensure compliance again.

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%.

The KPI water intensity as a percentage of total electricity generated decreased by 77% compared with 2015. The target reduction of 50% by 2021 was overachieved in 2020 and 2021.

Please refer to the 2021 Group Integrated Annual Report (NFI Report) and the VERBUND website 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	2019	2020	**2021**
Number of IR&D projects	Number	80	91	**127**
Total project volume[1]	€m	192.6	257.0	**266.4**
of which EU projects[1]	€m	118.2	152.2	**103.5**
VERBUND's total share[1]	€m	58.7	77.6	**110.4**
Annual VERBUND expenses[2]	€m	10.7	9.5	**11.3**
Annual VERBUND investments[2]	€m	6.8	4.1	**2.4**

[1] over the entire duration of the projects // [2] the entire beginning in 2020, expenses and investments are reported separately; previous years were adjusted

International agreements on climate change, the European Commission's Fit for 55 plan, national strategies and programmes and the commitment of civil society are clear indications that the energy transition away from fossil fuels to renewable energy sources is in full swing – even in spite of the continuing COVID-19 crisis.

Research, development and innovation contribute significantly to implementing climate action projects and initiatives. VERBUND also assumes responsibility in this context and demonstrates this with its strategic commitment to innovative technologies and business models for decarbonisation. These efforts are supported by cooperations with universities and research institutes, businesses and start-ups in Austria and internationally.

Focus on electromobility: green electricity as the basis for climate-friendly mobility

For the latest generation of electric cars, VERBUND is relying on the expansion of a high-performance charging infrastructure network through its investment in SMATRICS-EnBW. In conjunction with European partners, a network of charging opportunities is being established along European mobility corridors. The interoperable network thus provides cross-border mobility services based on electricity from renewable energy. The high-performance charging network is being built under the Central European Ultra Charging (CEUC) project – co-funded by the European Commission – in Austria and with partners in Italy and South-Eastern Europe. The eCharge4Drivers research project is testing and demonstrating potential applications for intelligent charging services with funds from the European research programme Horizon 2020. In addition to publicly accessible charging infrastructure, VERBUND is focusing on innovative charging solutions for private individuals and corporate customers. This centres on the smart link between energy provision and management using charging solutions in each respective environment.

Focus on new storage: batteries as the link between generation and consumption

VERBUND relies on innovation and research projects in the field of new storage systems to address the growing share of volatile renewable energy sources in the power grid and local consumers and to combine different generation and storage technologies at a regional level.

In the Blue Battery research project successfully implemented in 2020, an industrial-scale battery storage unit was integrated into an existing hydropower plant with the objective of being 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.

In the European innovation project SYNERG-E, the focus is on the interface between the energy and mobility sectors. The electricity infrastructure faces challenges as charging output power rises up to 1 MW for high-performance charging infrastructure. This challenge is being addressed by implementing local battery storage at electric vehicle charging stations in the SYNERG-E project. Intelligent management of batteries and the charging processes at the respective site makes it possible to balance out the load peaks generated by the charging process for electric cars. In addition, the stationary battery storage is bundled virtually in order to provide grid services. A total of nine high-performance charging sites in Austria and Germany will be equipped with local battery storage in this project funded by the European Commission.

Focus on green hydrogen: a game changer in the energy sector

Working together with partners, VERBUND is prioritising green hydrogen with the goal of further advancing decarbonisation of the industrial and mobility sectors.

Launched in 2017, the H2FUTURE project, co-funded by the Fuel Cells and Hydrogen Joint Undertaking (FCH JU), implemented a proton exchange membrane (PEM) electrolyser with a capacity of 6 MW together with research project partners. The demonstration facility first produced green hydrogen in 2019. Numerous potential applications were subsequently demonstrated with the plant. One of these was the provision of grid services by the plant. In addition, tests were conducted to maximise hydrogen production. Green hydrogen is produced primarily for use in steelmaking. The H2FUTURE research project was ultimately successfully completed at the end of 2021 and the findings it generated were then incorporated into subsequent projects.

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. The focus of the WIVA projects in which VERBUND is involved is on production and use of green hydrogen in industrial companies or for storage in storage facilities. Under the WIVA project H2Pioneer, VERBUND is coordinating a research project aimed at the utilisation of green hydrogen in the semiconductor industry.

In the Carbon to Product Austria (C2PAT) innovation project, VERBUND is collaborating with partners from the industrial sector – Lafarge, Borealis and OMV – to test the use of green hydrogen in a circular economy project.

VERBUND is setting another focus in new hydrogen technologies with the HOTFLEX project. In this project, a new hydrogen technology is being 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 FCH JU. The high-temperature electrolysis/fuel cell system with rated power of 150 kW is the core of the research plant.

The cooperation with Zillertaler Verkehrsbetriebe is focused on the use of hydrogen in the transportation sector. In late 2023, the narrow-gauge railway in the Zillertal Valley is scheduled to begin trial operation powered by hydrogen. The green hydrogen to be used for this will be produced with renewable electricity from VERBUND's power plants in the Zillertal Valley.

In the Green Hydrogen@Blue Danube innovation project, VERBUND is taking a major step towards bringing the hydrogen activities to the international stage. The goal is to work with international partners in establishing a European hydrogen value chain reaching from the production using renewable energy sources, through transport, to the buyers. In 2021, the project's implementation focus was on developing regional hydrogen hubs together with customers. In the course of this, VERBUND is participating in the ongoing IPCEI (Important Projects of Common European Interest) process and is networking with hydrogen initiatives in Europe.

Focus on biodiversity: fish passes ensure habitat connectivity at run-of-river power plants

Working together with partners, valuable habitats were connected to each other at VERBUND's Altenwörth and Greifenstein power plants on the Danube River as part of the LIFE Network Danube Plus project, safeguarding accessibility for migrating fish and water organisms and creating new habitats in the Krems and Kamp rivers.

Lower Austria's longest fish pass at more than 12.5 km in length has been constructed in Altenwörth. The fish pass connects restoration projects on the Danube and its tributaries, thereby fostering the biodiversity in the Danube. A total of 575,000 m^3 of gravel and fine sediment was relocated during the work. The excavated material was used locally near the river's old course.

In addition to the fish pass, as a power plant operator VERBUND is working with the market municipality of Kirchberg am Wagram to improve the bathing quality of the old course of the Danube at Altenwörth. An artificial biotope was constructed on the left bank of the old course in order to filter out and reduce the excess quantity of nutrients. This is intended to reduce the growth of algae to a natural level.

During construction of the Greifenstein power plant, the water balance of the neighbouring floodplain was secured by means of a system of artificial reservoirs. Today, this system of channels is a protected area with an abundance of typical plants and animals. With a total of four fish passes, the channel system is now accessible for fish and the Schmida and Göllersbach rivers have been reconnected to the Danube.

Focus on new renewables: intelligent management of wind and solar farms

VERBUND is focused on new renewables and specifically on solar and wind power. As part of this, research and development projects addressing preventative maintenance and intelligent plant management are being implemented.

The objective of the Smart Operation of Wind Turbines under Icing Conditions (SOWINDIC) research project is the significant reduction of unplanned ice-related production losses and balancing energy volumes through research into a completely new and innovative operation method for heating the rotor blades of wind turbines. Sponsored through the sixth tender of the Austrian Climate and Energy Fund's energy research programme, the project will extend over 36 months. Project partners of the research project comprise the Austrian Institute of Technology (AIT), the University of Vienna's Institute of Mathematics and its Data Science@Uni Vienna research platform, along with Meteotest AG.

The database information system (DBIS) project aims to develop a scalable IT platform solution for automated monitoring of all VERBUND Green Power wind and solar farms currently in operation. In this project, the highest degree of process automation was developed for the data stream including an innovative method which was developed in house for processing data related to the individual assets encompassing validated final reports and completed maintenance assignments. In this way, DBIS contributes to the efficient operation and maintenance of VERBUND Green Power's plants. The project entered the implementation phase in 2021. It is expected to go live in May 2022.

One of the first single-axis tracking photovoltaic demonstration systems was realised in the megawatt range in the project entitled “Single-axis tracking photovoltaic installation (Mitterkirchen)”. The objective of the project is to optimise the use of space at VERBUND Hydropower’s Wallsee/Mitterkirchen power plant site. Besides optimising the use of space, the project also focuses on cost effectiveness, the impact of mechanical moving components on maintenance work and future uses of solar applications in the agricultural sector.

Focus on digitalisation: Digital Hydro Power Plant – hydropower 4.0

In view of the promising options for further digitalisation in the field of hydropower, the Digital Hydro Power Plant project aims to systematically develop and evaluate digital testing systems in practical application at the Rabenstein pilot plant. The range of topics extends from platform solutions for a multitude of areas, smart sensor designs, mobile assistance systems, artificial intelligence, digital twins, drones and 3D printing to innovative inspection devices. Digital solutions will contribute to further improvements in operations and the maintenance of hydropower plants, the transfer and broadening of expert knowledge, and personal and plant safety. Initial solutions are already being used outside of the pilot power plant. The diverse solutions developed by VERBUND in the Digital Hydro Power Plant project were presented in the course of an event attended by international experts in 2021.

Innovations in the power grid: Vertical Market Integration

As the control area manager, APG is responsible for keeping consumption of electrical energy in balance with generation at any given moment in Austria. In order to achieve the target anchored in the Renewable Energy Expansion Act (Erneuerbaren-Ausbau-Gesetz, EAG) of generating all electricity from renewable energy sources by 2030 (national balance), the share of volatile generation facilities is being greatly increased. To maintain the balance between generation and consumption in the future as well, comprehensive utilisation of existing and new flexibility options is essential.

In the Vertical Market Integration project, APG is working with its implementation partner EQUIGY to facilitate low-threshold, standardised, transparent and non-discriminatory integration of flexibility services into the automatic frequency restoration reserves. By using the EQUIGY ecosystem, existing functionalities can be accessed and new developments will follow an internationally standardised format. This streamlines consistent market access for flexibility providers in several countries, helping to bring new providers to the market more efficiently. Furthermore, since multiple grid operators cooperate in the development, costs are kept low for the market and subsequently also for consumers.

This innovative integration model for automatic frequency restoration reserves is also expected to serve as a basis for other applications in future such as congestion management. Meanwhile, a concept for comprehensive utilisation of flexibility services is currently being developed with industry partners. A first draft of this joint model will be coordinated with regulatory authorities in 2021.

ABS for the power grid (ABS4TSO)

Large rotating masses of turbines and generators in hydropower plants and thermal plants create inertia in the power grid, which counters sudden changes in grid frequency. Due to the rapidly growing share of inverter-based feed-in from wind and solar farms without that inherent inertia, new services are required to stabilise grid frequency.

A joint effort between the Vienna University of Technology (TU), the Austrian Institute of Technology (AIT) and VERBUND developed a 1 MW/500 kWh battery storage system for this purpose which is capable of providing highly dynamic system services with specific parameterisation options for the inverter. The field test in APG's substation in southeast Vienna began in 2021 following in-depth functional testing in the AIT laboratory.

BVLOS drone flights for rapid incident inspections

From time to time, high and ultra-high voltage lines have to be temporarily shut down due to critical incidents. Lines must be inspected for damage or foreign objects before being put back into operation.

Long-distance drones equipped with high-resolution cameras can be automated to fly along the routes and inspect lines beyond the visual line of sight (BVLOS) of a pilot. Collected images are provided to experts for examination. In the future, routine inspections can be assisted by this approach as well.

In cooperation with SmartDigital, APG conducted two automated drone flights along 100 km of 380-kV high voltage lines in 2021. The flight was able to be tracked from the operation centre using live view and live radar technology. Trials for a future night flight were also conducted.

Please refer to the 2021 Group Integrated Annual Report for further information as well as additional details on innovation, research and development.

Digitalisation, information security and data protection

Digitalisation

The topic of digitalisation is the focus of activities in all of VERBUND's operating segments, with the goal of making internal and external services and processes efficient. Digital innovations, skills and abilities are continually evaluated and developed further. Potential for greater digitalisation is being unlocked in all areas, from generation through trading to sales. Digital solutions are the catalyst for a successful energy future in Austria.

The Digitalisation master plan had further digital projects added to it in financial year 2021 and includes projects from the categories of digitalisation, auto machine learning, big data, digital workforce management, digitalisation in power plants and modern working practices. This master plan thus encompasses all strategically relevant digitalisation projects in the Group and serves to help plan and coordinate digital innovations.

The Digital Deep Dive initiative started in financial year 2020 was completed in 2021. The goal of this initiative was to continuously identify further potential for digitalisation within VERBUND using new approaches and dynamic methods. This project generated further digital follow-up projects, such as the development of an employee app for VERBUND Thermal Power and the establishment of an aerial drone strategy.

Projects within the scope of Hydropower 4.0, such as the Digital Hydro Power Plant and the Digital Workforce Management projects, have allowed additional technologies for the digitalisation of energy generation (including the flight over the Drossen Dam in Kaprun using an aerial drone) to be tested and implemented.

Furthermore, the first projects on the use of auto machine learning for automation were successfully completed in quarter 4/2020. Back-testing confirmed the success of this method.

The first big data platform was also established at VERBUND in December 2020. The necessary tools and a strategic data governance committee were established in 2021 to manage data assets ("meta-data catalogue") and create a data map. The combination of big data and auto machine learning technologies will enable VERBUND to achieve a higher degree of automation of business processes in the future.

Modern Work@VERBUND is an initiative started by an interdisciplinary, cross-company core team with the aim of creating a new, open, transparent and trusting culture of cooperation (cooperation, networking and exchange) throughout the entire Group. In Phase I, after interviews and management consultations had taken place, the action areas for specific initiatives were defined. Three specific initiatives were then planned and implemented in Phase II. Phase III of the project commenced in 2021. The well-established team shall continue to be the contact and sparring partner for projects and measures in the Modern Work environment (e.g. gender balance, MS365, etc.) and shall communicate the measures implemented in Phase II and establish and integrate these further within the Group.

Information security

Information security is a high priority at VERBUND and extends through all areas of the Group. A key role in this is also played by the obligations arising for critical infrastructure companies under the Network and Information Security Act (Netz- und Informationssystemsicherheitsgesetz, NISG). In summer 2020, several VERBUND companies were identified by official notices as "operators of an essential service". In the 2021 reporting period, the central information security management system was once again certified to ISO 27001 and ISO 27019. In addition, the security measures required by the Network and Information Security Act (NISG) were also audited by an external agency for the first time.

Digitalisation projects at VERBUND are always carried out with information security in mind. Information security is therefore a key driver of progress and makes an essential contribution to the achievement of the objectives of the Group's strategy.

The Information Security department established in 2019 was also expanded. In addition to safeguarding infrastructure operations, this department thus also ensured the implementation in 2021 of the Information Security master plan adopted by VERBUND's Executive Board in 2019. The aim of the entire programme is to maintain but also continuously increase the degree of maturity in all areas of information security.

The Security Operation Center (SOC) plays a central role in achieving this objective and in countering the significant increase in cybercrime. The SOC was therefore expanded further, the visibility of attempted cyberattacks on VERBUND was further increased and contingency plans were developed. The sphere of action encompasses not only the entire IT landscape, but also the systems for electricity generation.

Due to the rapid establishment of the Information Security department since 2019 and the speedy progress with the master plan projects, VERBUND was well prepared for the COVID-19 pandemic. New and state-of-the art working methods such as remote working have already been used in project implementation. Information security was therefore at no point in jeopardy, even with the ongoing COVID-19 pandemic. As in 2020, and even with extensive access restrictions at VERBUND sites, at least two members of staff from the Information Security department were always present at the corporate headquarters in order to be able to respond on the ground in an emergency. The security awareness programme was also intensively pursued to make all employees aware of the security risks in the working environment at home and to protect them against possible attacks.

Data protection

VERBUND takes the implementation of the provisions of the EU General Data Protection Regulation (GDPR) very seriously.

An integrated data protection management system has been established internally and includes all Group companies. The Group Data Protection Officer manages and coordinates all of the Group's data protection-related matters and is supported in this by the data protection officers at the individual companies.

The data protection tool TOM&PIA developed by VERBUND supports the data protection officers in updating the records of processing activities, protecting the rights of data subjects and managing the notifications to the supervisory authority. This tool is now also offered to other external companies as software as a service.

In financial year 2021, 30 enquiries from data subjects were processed and responded to. There were no cases of personal data breaches that had to be reported to the supervisory authority and no cases of data leaks, data theft or data loss in connection with customer data.

Due to COVID-19, the mandatory awareness and training programme was restricted to online channels and therefore to an e-training course and the proprietary online courses "Stories of TOM&PIA".

Human resources

VERBUND's employees make a vital contribution to the Group's success. Their commitment and entrepreneurial actions enable continuous further development and implementation of VERBUND's strategy.

After financial year 2020, which was dominated by the global COVID-19 pandemic, financial year 2021, which was also defined by the COVID-19 crisis, showed how the dedication of VERBUND's employees contributes to the Group's success. Thanks to their commitment, flexibility and entrepreneurial action, VERBUND continued to cope well with the crisis. In spite of the restrictions due to the pandemic, the majority of VERBUND's projects have gone ahead, enabling VERBUND to continue to consistently pursue its strategy.

Crisis management

As an Austrian industry leader and an operator of critical infrastructure, VERBUND has a responsibility to be as best prepared as possible for crisis situations and to take the appropriate action quickly in case of emergency. Like 2020, 2021 was an exceptional year and showed that the good preparation of the established crisis management system paid off.

Aside from protecting the health of all of its employees, VERBUND's priority was to maintain the electricity supply and ensure continuity of the necessary business processes. Although the pandemic created an exceptional situation worldwide for the second year in succession, the challenges brought by COVID-19 in the past financial year were successfully overcome once again with a professional and flexible crisis management system. The crisis teams met on a regular basis and the protection concepts were adapted according to the current infection situation. The measures were implemented in close cooperation with the relevant stakeholders and were accompanied by transparent communication.

New works agreement on home office and mobile working

Based on the extensive experience with remote working due to the COVID-19 pandemic, the Group works agreement on remote working that has been in place since 2004 was replaced with a modern set of rules on home office and mobile working. The new regulations, which were drawn up in successful collaboration with the employee representatives, have set a milestone in the direction of modern working and more flexible working conditions – even after the pandemic. The aim is to increase VERBUND's attractiveness as an employer in future, too. It is particularly significant that mobile working brings another new, flexible and location-independent form of carrying out work.

Personnel planning and management

VERBUND uses a contemporary and user-friendly planning and reporting instrument for employee data. This integrated personnel and expense planning system ensures a transparent personnel planning process. Consistent and strict personnel planning also promotes efficient use of resources.

VERBUND's central personnel management function 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 controlling, recruitment, personnel marketing and employer branding, labour and social law, company pension management, 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.

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 seeks to retain employees for the long term. Apart from probationary periods, fixed-term employment contracts are only used in exceptional cases. The majority of employment contracts at VERBUND are therefore open-ended. 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. Around 25% of part-time employees are men. 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.

Strategic personnel planning project

Various challenges were identified in strategic personnel planning and the planning of the long-term quantitative framework was considered. Implementation of the corporate strategy with the planned growth and the capacities for digitalisation also presents VERBUND with challenges, such as the development of new areas of business (for example in connection with renewable energy and e-mobility). This requires responsible building-up of resources. Other European energy companies are also faced with the same task.

At the same time, VERBUND must deal with the effects of demographic change within the Group and in the external market. In view of the rapidly changing demands on the world of work, the focus in 2021 was also on the qualitative change in the relevant occupational groups for VERBUND. The changes in activities and skills were assessed in a long-term analysis up to 2030. Resulting longer-term needs for action in the areas of training, analysis of potential and employee development were identified and strategies were developed for meeting these needs in the specific occupational groups. This will ensure that the necessary resources can be guaranteed, taking demographic changes, labour market trends and gender balance into account. The specific measures in the areas of employee development, employer branding and apprenticeship training are already being implemented. With early definition of coverage strategies and responsible management of existing and future human resources capacity, VERBUND aims to maintain and enhance its attractiveness as an employer for women and generations to come.

Refocusing of employer image – employer branding

Demographic effects, the increasing complexity in the fields of work in the energy market and the future cultural transformation of VERBUND also necessitate extensive refocusing of the Group's positioning as an employer. A distinctive, differentiated employer brand is crucial for this.

The brand essence of the current employer brand was sharpened in 2020, key positioning statements were developed and a clear differentiating feature from established companies was defined with the aim of continuing efficient, high-quality recruitment and strengthening employee retention and the identification of VERBUND employees with the Group. The intention is to thus improve VERBUND's reputation as an attractive employer and to increase the number of applicant fits.

Under the new slogan #lead (ing) the way, a new employer campaign was rolled out in 2021, starting with the apprentices target group. Emotive job stories were created for this and employer videos were produced about the power plants.

The development of clear communication messages for the main target groups of students (apprentices), graduates and experts achieved an even better response.

Anchoring of the #lead (ing) the way slogan internally has also been driven forward by measures such as the job ambassador programme, ongoing training programmes as well as publications on the intranet. The implementation was geared to the current COVID-19 situation and tailored primarily to digital media.

Existing measures, with the strategic focus on maintaining long-term contact with top-performing students from the Vienna University of Technology (TU) and on measures for the advancement of women, were continued in 2021. COVID-19 continued to make it more difficult to hold events such as Take Your Daughter to Work Day in Vienna, the Women in Technology ("Frauen in die Technik," FIT) initiative and Girls! Tech up in 2021. The selection process for awarding the VERBUND women's scholarship was held virtually. This allowed VERBUND to give three highly qualified and committed female technicians additional personal and professional training beyond their everyday university life once again in 2021.

Recruitment – virtual, but not impersonal

Developments in connection with COVID-19 also made it more difficult to follow the usual recruitment process at VERBUND. As normal face-to-face contact was not possible, other measures were taken to continue interviewing applicants and select them for VERBUND. Dealing with the challenges of COVID-19 made it even clearer that the recruitment process needs to be flexible and that digital solutions offer crucial advantages, particularly in times of crisis.

During the COVID-19 crisis, a comprehensive digital recruitment and onboarding process made it possible to recruit staff for VERBUND without any face-to-face contact. As before, all applications were processed and video interviews were held in place of the traditional in-person interviews.

A large number of the career fairs were also held virtually. The new online-only framework offered virtual trade fair booths, video presentations and many different networking possibilities.

The continuous efforts to maintain the high level of professionalism of recruitment quality, even at this challenging time, were validated in 2021, when VERBUND was once again acknowledged in Career’s Best Recruiters study and awarded the silver seal. This award with a special focus on crisis resilience demonstrated that VERBUND overcame the challenges of 2021 professionally.

Personnel development

The area of personnel development also required many flexible solutions in 2021 due to the COVID-19 crisis. In 2021 each VERBUND employee nevertheless took part in 26 hours of training on average.

Personnel development in financial year 2021 focused on training in the areas of safety, technology and mandatory compliance training.

Due to the pandemic, many events could not be attended in person as planned in 2021. Measures for which a virtual format was not feasible due to the nature of the training (e.g. first aid courses, working at height, etc.) had to be either postponed or cancelled altogether. The majority of events were switched to a virtual format. Virtual workshops and webinars are usually in a highly condensed form, due to their online format, and are therefore often significantly shorter than in-person events. This had an effect on the number of training hours again in 2021, which, as in the previous year, only amounted to around 50% of training hours in a normal year.

Digital learning

The consistent digitalisation of learning in recent years has created the ideal basis for being able to respond quickly and efficiently to the new challenges presented by the coronavirus. The Learning Management System (LMS), which went online at the start of 2020, laid the foundations for digital learning formats and created a platform for virtual training and continuing education. Digital continuing education formats have already been offered before now in the form of e-training courses. Employees were already familiar with digital learning, which made the transition easier. Numerous e-training courses were added during the COVID-19 crisis, which were available to employees free of charge. There were also own productions on VERBUND-specific topics and new offerings, as well as acquisitions and cooperations with various providers. This expanded the portfolio to include topics such as personal development, software programmes and digitalisation.

Numerous events that would have been attended in person were also held virtually as webinars. Regardless of whether it is new software that is being introduced, a team workshop or a health topic, VERBUND can design and host a webinar on it. The great advantage of this is that it is possible to prepare content and make it available to employees a lot faster (than is the case for classroom training). In addition, during the “COVID-free period” (period when measures were relaxed) a number of face-to-face events were held again in compliance with strict safety requirements. The main focus at these events was to protect our employees.

The new framework requires a variety of new methods. Therefore, even more formats of content delivery are available, and these are also continuously growing. Comic-style explanatory videos were increasingly used here to explain complex content. In addition, acquisitions were made that include the compilation of reference books and give employees the opportunity to listen to these via podcasts.

The onboarding of new employees was mainly accomplished via virtual workshops in 2021, due to the COVID situation. During the “COVID-free period” the onboarding workshop was also conducted in person and a number of power plant tours for the new employees were possible in the summer months.

The global COVID-19 pandemic likewise restricted personnel development, executives and employees in their daily lives in 2021 and presented them with new challenges. As a company VERBUND found new ways to do things. The people within the Group grew together on both a personal and a professional level during this time and are well prepared to face the challenges ahead.

Apprenticeship training

Particularly in times of crisis, one of our core tasks is the safe operation and continuous maintenance of VERBUND’s plants. In order to optimally manage the ongoing generational shift in power plant operations, VERBUND has trained new apprentices every year since 1983. Apprentices at VERBUND learn two professions at once – electrical engineering and metalworking – over a period of four years, with excellent prospects for the future. The high quality of our apprenticeship training is most evident in the outstanding achievements seen in the final apprenticeship examinations.

The apprenticeship at VERBUND is as attractive to girls as it is to boys, which is reflected by the fact that it has once again received the amaZone Award for outstanding performance in training girls and women in technology. 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.

To give the young people an even more emotive and more authentic insight into the working environment of VERBUND’s power plants, the employer positioning was redefined together with the apprentices and a new campaign was developed under the slogan #lead (ing) the way. A strong sense of identification, pride and loyalty was achieved within the Group through the intensive involvement of various sites and the employees in the development of employer values, as well as regional job stories and content production. The campaign includes advertising materials, such as flyers, posters and social media posts as well as site-specific landing pages.

Further development of the corporate culture

Employee survey – Great Place to Work

Great Place to Work has been recognising the best employers for 30 years. In 2020, VERBUND participated for the first time in the company-wide Trust Index© employee survey run by the organisation Great Place to Work®. The Trust Index© employee survey provides a comprehensive site assessment of the perceived quality and attractiveness of the workplace culture. Around 74% of the workforce answered a variety of questions on the subjects of credibility, respect, fairness, pride, team spirit and trust and classified VERBUND as a consistently good and attractive employer.

Another Culture Audit© was also conducted at the start of the year. This involved answering open questions on all relevant aspects of human resources and cultural work that make up a successful workplace culture.

In the Culture Audit© these human resources measures and programmes were evaluated in comparison with the best employers from the current benchmark study. In its analysis of the human resources tools used, Great Place to Work® identified nine areas that distinguish the best employers from other employers in respect of their human resources work: Hiring/integrating, Celebrating/team activities, Sharing, Inspiring (targets/strategy/values), Speaking, Listening, Thanking, Developing, Caring.

The cultural evaluation conducted by the Culture Audit© shows that VERBUND's human resources and cultural work encompasses a large number of high-quality programmes and measures and that VERBUND has an employee-focused workplace culture. The personnel measures taken by VERBUND in the above areas were rated as above average in comparison with all companies that participated in the benchmark study.

The only area in which VERBUND was rated below average compared with the other benchmark study participants was in recognising special achievements of employees. In the areas of developing, caring and team spirit, VERBUND was even ranked well above the average of the best employers.

If the Culture Audit© rating is directly contrasted with the results of the employee survey, this provides an indication that the personnel measures are only partly perceived by the employees in their day-to-day lives. These measures need to be communicated better and the relevant processes need to be made more transparent.

Awards

Thanks to the high level of participation in the survey and the thoroughly positive assessment by employees as well as the positive cultural evaluation by the Culture Audit©, VERBUND was certified this year as a "Great Place to Work". In addition, VERBUND placed 7th in the X-Large category of the GREAT 40, making it one of "Austria's Best Employers 2021", and is also on the list of Best Workplaces in Europe™ 2021, holding 40th place in the Large category.

Competency model

Shaping the future at VERBUND also means shaping a future of competency. VERBUND is addressing this issue with its fundamentally redefined competency model. The competency model provides the framework for a large number of personnel development processes. VERBUND has therefore made it its mission to anchor several innovations at the same time in order to make employees at VERBUND fit for the future. Five areas of competency and a total of 30 competencies show what is important in cooperation at VERBUND.

The strategic focus in personnel development is strengthened by the implementation and stringent application of the competency model in the various processes relating to personnel development and personnel work. Under the new name "competency check", the new competencies are now also included in the performance review. Furthermore, all processes are being updated and adapted to the new competency model, for example the documents for the performance review, the inclusion of the competency areas in the selection decision for internal and external audit procedures, as well as initial adjustments to the 270-degree feedback process. Targeted competency development is also taken into consideration in the creation of the management development programme.

Maintaining a work-life balance

VERBUND places great emphasis on maintaining a work-life balance at all times. VERBUND has been doing the “berufundfamilie” audit (Work and Family Audit) since 2009, receiving its fourth certification in 2021. Particularly during the COVID-19 pandemic, flexible working is a high priority. The conclusion of the new works agreement on home office and mobile working laid a good foundation for these forms of working. Many other measures to achieve a better work-life balance were planned or implemented as part of the Group-wide Gender Balance project (see Gender Balance). VERBUND has set itself a number of objectives for the next audit cycle, including to further improve the communication about services and offers, to take a closer look at the topic of caring for relatives, and to continue to promote the flexible working culture.

Diversity management

VERBUND considers diversity management both holistically and in individual dimensions and takes both aspects into account. 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. The focus from 2020 to 2021 was on gender balance. However, since diversity can by no means be reduced to gender, the focus was turned in autumn 2021 to another sub-sector of diversity management: people with disabilities. It is not just the social responsibility that VERBUND clearly sees as a company that is crucial here, but above all the firm conviction that diversity makes VERBUND more successful and more resilient. VERBUND aims to support this by making VERBUND more accessible (for more details please refer to the accessibility management content) and creating more incentives for people with disabilities employed by VERBUND.

The aim of this is to expand the circle of diversity bit by bit and to give a better reflection of the reality of our society, because as a company VERBUND in no way wants to neglect the success factors of diversity and inclusion. VERBUND therefore renewed its ZukunftVIELFALT® certification in 2021. The individual dimensions of diversity were examined in a Group-wide process, focal points were set and new objectives were agreed in line with current priority areas. This also solidified the next goal referred to above – namely, to employ more people with disabilities at VERBUND over the next three years. In addition, executives continue to be set diversity targets so as to ensure continuous implementation. Communication on the other dimensions of diversity management is also being developed further.

Focus on gender

Although the proportion of women in a technology-focused company like VERBUND is traditionally low, VERBUND has been advocating for more gender balance in recent years and has been successful in this endeavour. The development of the KPIs showed only a small increase in the percentage of women in the various divisions, however. The Executive Board thus resolved to assign this topic strategic relevance and engaged renowned consulting firm Beekhuis Performance Culture to start the Gender Balance project in 2020.

A change in the corporate culture can only be achieved by developing different approaches. Specifically, several working groups developed measures on key issues for the entire Group in 2021.

A clear objective and the stipulation of results criteria ensured efficient implementation. The following key focus areas have already been implemented: fixed quotas for new hires; projects and committees; expansion of flexibility with respect to working hours and home office; increased communication on job vacancies, tools and internal processes; webinars for executives and employees; new gender rules that include all genders. By firmly anchoring these main focus areas, VERBUND aims to bring about a lasting change in the corporate culture and thus appeal to people of different talents in the labour market. This will ensure recruitment of qualified personnel in the long term.

Focus on people with disabilities

VERBUND assumes its social responsibility to offer equal opportunities and has set itself the goal of continuing to fulfil the quotas stipulated in the Austrian Disabled Persons Employment Act (Behinderteneinstellungssgesetz, BEinstG) and to recruit and employ people with disabilities even beyond that. Together with the accessibility management programme, the diversity management programme continually works towards improving the employment of people with disabilities.

VERBUND meets the statutory quotas stipulated for the employment of people with disabilities. For VERBUND, the mandatory quota is 144. As at 31 December 2021, VERBUND employed 149 people who qualify. However, as a further decline is expected in the next few years due to numerous retirements, the focus in 2022 is to be entirely on people with disabilities – existing employees are to be sensitised and informed and new talent is to be recruited.

For further information on the topic of accessibility, please refer to the section entitled Occupational health and safety.

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 observed for many years continued during the reporting period. Around 7% of VERBUND employees will retire in the next five years. Over the next ten years, around 21% will retire.

It remains important to VERBUND to manage the generation change well and thus retain and expand the knowledge within the Group. As part of its strategic personnel planning, VERBUND identified the most critical areas in 2021 and defined coverage strategies for these areas. To this end, quantitative and qualitative needs for change were considered and specific measures were derived, the majority of which are already being implemented.

In order to keep employees healthier for longer in the work process, the health management team at VERBUND is being expanded further. For more information on this, please refer to the section entitled Occupational health and safety.

Occupational health and safety

Healthy and motivated employees are very important to the Group’s success. Occupational health and safety are therefore also key pillars of VERBUND. Work-related injuries, occupational diseases and work-related illnesses are counteracted with targeted measures to protect employees. VERBUND applies high occupational health and safety standards to protect its own employees and staff employed by external contractors. In addition to complying with the prevailing legal requirements and obligations, high priority is given to providing safe and healthy working conditions, eliminating hazards, and mitigating risks.

Health protection during the COVID-19 pandemic

In accordance with VERBUND's protection targets formulated in connection with its continuity, contingency and crisis management plans, protecting the health of employees during the COVID-19 pandemic has utmost priority.

Along with the regulations based on prevailing legal requirements, additional, appropriate protective measures were also defined in accordance with the principles of hazard prevention so as to reduce the risk of infection from COVID-19. When being defined, the protective measures were ranked by order of importance based on the STOP principle. The hazards are countered by substitution or risk avoidance, as well as by technical, organisational and personal measures. In addition to preventing contact among staff by staggering shifts, splitting teams and having staff work remotely where possible, installing Plexiglas partitions and ensuring compliance with social distancing rules and hygiene measures, VERBUND also required staff to wear personal protective equipment such as mouth and nose coverings or filter masks, safety glasses or goggles, disposable gloves and hazmat suits (which the Group provided to employees). The topic of antigen and PCR tests was drafted in the form of a test strategy. Antigen and PCR tests are carried out on an ongoing basis depending on the situation.

Regulations were put in place for the most important work situations (such as business trips, attending or hosting events, working on construction sites), and appropriate protection plans were developed for larger, busier sites and continuously adapted to the prevailing situation. The respective regulations and protective measures were also applicable to any external contractors working at VERBUND sites.

To prevent infection and the further spread of the virus, a comprehensive testing strategy was also developed in collaboration with the occupational health service, with various test procedures such as swab tests in testing lanes and screening tests through to personal saliva tests. These COVID-19 rapid antigen tests have been carried out at VERBUND since November 2020 as a support measure to mitigate risks. Key cornerstones in the fight against the pandemic in 2021 were as follows: the offer and administration of company COVID-19 vaccinations (two-dose basic immunisation and third booster vaccination) as well as testing for neutralising antibodies. The focus of the free vaccination campaign for employees in 2020 was on flu and pneumococcal vaccinations to protect against additional infections.

Accidents in 2021

The calculation of occupational safety KPIs is based on the number of VERBUND employees under labour law, including employees in partial retirement, temporary staff and all employees of proportionately consolidated equity interests, regardless of the type of consolidation over which VERBUND exercises a controlling influence. On this basis for calculation, VERBUND had 3,801 employees at the end of 2021. This figure included 176 temporary workers, 173 semi-retired employees as well as the entire workforces of Ennskraftwerke Aktiengesellschaft, VUM Verfahren Umwelt Management GmbH, VERBUND Tourismus GmbH, Lestin & Co. Tauch-, Bergungs- und Sprengunternehmen Gesellschaft m.b.H, Energji Ashta Shpk and the newly consolidated companies Gas Connect Austria GmbH and SMATRICS GmbH & Co KG. All employees are covered by appropriate management systems for health and safety; 25% thereof are employees who work at companies with an externally certified management system in accordance with ISO 45001.

LTIF is used as an international KPI. This enables a 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 the number of accidents in the “Lost time injury frequency/LTIF (external contractors)” KPI.

Thus, the number of accidents among our own staff continued on a positive trend in 2021. The accident rate remained constant compared with 2020, in spite of an increasing number of projects. In terms of accident severity, values also fell significantly compared with 2020.

The rapidly increasing number of projects with a greater risk of accidents, such as efficiency improvement programmes and new power plant construction, was highly noticeable from an increase in the LTIF at external contractors, however. In order to be able to properly interpret the number of accidents, absolute accident figures must be considered in relation to the number of employees and lost days per accident. The accident frequency and injury severity can then be derived from this. 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 awarded work related to the construction of plants are responsible for managing their own work. However, they are also required to comply with the safety standards prescribed by VERBUND and are briefed in accordance with VERBUND’s rules.

In comparison with other electric utilities in Austria, the total accident frequency of 6.8 (LTIF including external contractors) in 2021 indicates that VERBUND remains on the right track. The medium-term corporate goal is an LTIF ≤ 5. Improvement measures are identified and implemented based on the analysis of accidents within the Group and involving external contractors. As in previous years, neither third-party fault nor organisational shortcomings were identified as the cause of any work-related injuries in 2021. This shows that safety standards within the Group are very high and that safeguards for employees are being implemented as best possible.

Serious injuries are counted as those injuries from which employees cannot recover within six months to the extent that their state of health prior to the injury is regained. These include, for example, complicated fractures right through to limb amputations. The following were identified at VERBUND as general work-related hazards with risks that could have very serious consequences or cause irreversible damage to health or result in death: hazardous work materials, atmospheres with oxygen deficiency, falls on level ground and from heights, electrocution and work on live parts, drowning, cut injuries from hand-held chainsaws, high-pressure jets, harmful noise and mechanical injuries. The most frequent causes of injury in serious accidents in recent years were trapping and crushing, falls on level ground, falls and falling objects. There were no workplace accidents resulting in serious injury in financial year 2021. In the reporting period, there were also 13 accidents involving VERBUND personnel on the way to or from work – one of which was a serious motorbike accident – as well as one commuting accident involving external staff.

The risks to the health and safety of employees are identified and assessed as part of the workplace evaluation. Based on this evaluation, measures are defined to prevent hazards and then the implementation of these measures and their effectiveness is monitored. A review and, if necessary, an adjustment of the evaluation shall take place if there are any changes in circumstances, but also after accidents at work in particular. Employees are briefed accordingly about frequently occurring accident risks.

Accident prevention

Preventive measures are based on the analyses of work-related injury statistics at VERBUND. As in 2020, the annual continuing education measures for 2021 were heavily influenced by COVID-19. The planned focus topic “Working on the water” was partially implemented depending on the region and partly postponed until 2021.

Every year, as was the case in financial year 2021, 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. COVID-19 likewise posed a considerable challenge for the individual events with respect to briefings. The maximum permitted number of participants had to be continuously adjusted in line with the current COVID-19 case numbers. Some of the briefings were also held as video conferences.

In the area of occupational safety, VERBUND has a large number of internal and national regulations in place that are continually updated and promptly amended as soon as changes in the law come into effect. These regulations relate to the following topics, for example: management of working materials, accident reporting and behaviour after an accident occurs, briefings and instruction, fire safety, personal protective equipment, 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 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 stagnated at an average LTIF value of ten. This figure was reduced significantly to below seven when the “We Live Safety” project was launched. The aim of this project, in addition to protection of technical workers, is to invest in the further development of behaviour-based occupational safety.

Besides numerous workshops for executives, 36 safety coaches from all areas were trained, who have the task of conveying to their colleagues the idea of behaviour-based occupational safety as well as the importance of setting a good example.

This project has been continued as a permanent project since 2020. In addition to ongoing activities, core areas are increased safety communication, installation and use of a wide range of tools, such as a near miss database, safety walks by executives, the introduction of a safety award, a calendar of occupational safety issues for 2022, a sub-project entitled “five minutes for safety” or the new regulation for the evaluation of workplace accidents, and much more.

Promoting health among employees

The “Fit and Healthy at VERBUND” initiative is designed to promote a healthy lifestyle among employees. On the one hand, the aim is to increase general health awareness, while, on the other hand, specific measures are offered that enable everyone to become proactive about their own health. Ideally, these are free offers which employees can take advantage of directly at their workplace.

As in the previous year, another focus in 2021 was on medical check-ups. Together with a preventive medicine association, health roads consisting of a cardiovascular check-up, a physical check-up and a nutrition check were offered during working hours directly at external site locations in the federal provinces of Lower Austria and Carinthia. Another focus was mental health, as stress awareness and resilience are important, particularly during a pandemic. In cooperation with the training department, various webinars on the subject of mental health were offered to executives and employees.

Due to the COVID-19 pandemic, fitness programmes were only offered in an online format. A diverse range of online training sessions were held, including bodyweight exercises and spinal gymnastics, with video recordings for later use. The online offering was also expanded to include webinars on the subject of healthy eating, online visual training sessions and face-to-face workshops on correct lifting and carrying.

A new introduction in 2021 was an app-based motivation platform, which was used to run regular challenges to promote movement and health and to raise awareness for various sustainability issues. VERBUND participated in the Companies Challenge Austria 2021 via this platform, where minutes of exercise had to be collected, and took third place.

Accessibility

Breaking down barriers is an important aspect for the inclusion of people with disabilities. The accessibility management programme at VERBUND addresses the three main topics of structural accessibility, digital accessibility and everyday accessibility in the mind.

In addition, recommendations for accessible building at VERBUND, including an overview of the legal foundations and standards, as well as instructions for implementing structural accessibility beyond legal requirements were published internally in 2021.

The establishment of a Digital Accessibility Team (DAT) made accessible information and communication technologies another focal area in 2021. The aim of the exchange and cooperation between different specialist departments in the Digital Accessibility Team is to build appropriate expertise, identify needs for improvement, assist with the implementation and develop Group-wide standards.

There was also the annual Purple Light Up Day, the international day raising awareness for people with disabilities, which was held on 3 December 2021. On this day, parts of VERBUND's corporate headquarters at "Am Hof" in Vienna and the Nußdorf joint power plant in Vienna were lit up purple in support of the global campaign and as a visible sign of the inclusion of people with disabilities. For further information on the focus on people with disabilities, please refer to the Human resources section.

Human rights

VERBUND is aware of its responsibility to protect human rights in all Group divisions and in any other areas within its sphere of influence. This holistic responsibility is defined in the internal guideline on respect for human rights. As a result, VERBUND respects all types of civil, political, economic, social and cultural rights. VERBUND also considers human rights to include adherence to laws and standards pertaining to the environment, occupational safety, health and compliance. Information on the topic of human rights can therefore also be found in other sections of this Integrated Annual Report.

All executives and all employees at VERBUND are responsible for respecting human rights and reporting any violations to the Chief Compliance Officer. One case of suspected discrimination was reported in 2021. Any significant incidents of environmental pollution and severe deficiencies in occupational health and safety must be reported to the head of the Corporate Responsibility department. There were no such reports in 2021.

Human rights at VERBUND

VERBUND is committed to ensuring 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 background, sexual orientation or nationality. For VERBUND, protection of the environment is also an important part 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.

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. Human rights are therefore an important aspect of the Supplier Code of Conduct. However, due to VERBUND's 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 2021 Group Integrated Annual Report (NFI Report) for further information as well as additional details on employees, occupational health and safety and human rights.

Report on significant risks and uncertainties

Opportunity and risk management

The risk management system in place at VERBUND is based on international standards such as COSO II and ISO 31000. VERBUND's risk management system is structured to ensure comprehensive coverage of potential areas of risk and opportunity, while uniform, Group-wide principles form the basis for standardised treatment of risks and opportunities.

Due in particular to the energy transition, which poses challenges for the energy industry as a whole, both processes and products of the Group-wide risk management system are regularly adapted to changes in internal and external requirements. Each year, VERBUND's auditor reviews and confirms the effectiveness and maturity level of the Enterprise Risk Management based on the recommendations contained in the ISO 31000 reference model.

Further development

In financial year 2021, VERBUND's risk management activities focused, among other things, on further developing the risk-return approach for the Group (mainly in connection with planned projects and investments) and the multi-year risk horizon for risk inherent in current business operations, as well as on identifying and evaluating strategic risks and expanding the risk-bearing capacity concept. A stress test analysis was also introduced, which in future will be carried out once a year or as required. Our risk reporting processes have also been revised and expanded as part of this process.

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 2021

The material drivers of opportunities and risks in the 2021 financial year are in the following risk categories: volume risk, price risk, project risk, financial risk and operational risk.

Volume opportunities/volume 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 and solar farms as well as APG's high-voltage lines.

Hydropower generation is subject to the seasonally fluctuating water supply of the catchment areas. Options to compensate for these effects by means of the (annual) storage power plants of VERBUND Hydro Power (VHP) are very limited. Little rainfall and a resulting poor water supply characterised quarter 4/2021 in particular. As a result, the generation volume was below the long-term average in the months of October to December 2021. Throughout all of 2021, generation from wind power was also below the long-term average due to the low wind supply.

Over the long term, changes in the climate can have a lasting effect on the water/wind supply and photovoltaic output, which may cause greater seasonal or annual deviations in generation to occur in the future. In order to counter this trend and to diversify potential risks, VERBUND relies on maintaining the value of existing hydropower plants and expanding promising new ones in tandem with increasing generation from wind and solar farms.

Electricity price opportunities/electricity price risks

In addition to the risks of fluctuations in output, electricity price trends also represent a significant risk and opportunity factor for VERBUND. In order to reduce the risk potential, long-term agreements were entered into with customers in some cases. However, changing conditions can influence the profitability of some of these agreements, particularly in the long term, and necessitate adaptations.

Electricity prices generally rose in 2021, while a significant increase in volatility was observable on the electricity markets particularly in the second half of the year. Higher electricity prices more than offset the negative effects of lower generation volumes.

In addition to other factors, rising carbon prices had a significant effect on electricity prices in financial year 2021. Around 96% of VERBUND’s output was generated from carbon-free renewable energy sources which are thus not part of the European Union’s Emissions Trading System (ETS). Accordingly, rising/falling ETS prices also have a positive/negative impact on VERBUND’s financial performance.

Project opportunities/project risks

The ongoing construction boom, scarcity of raw materials, supply chain problems and inflation resulted in price increases in 2021, which for VERBUND also meant rising costs for various construction projects. Previously concluded fixed price contracts provided a partial buffer to these negative effects. Supply chain problems also caused delays in the implementation of various other projects, such as in the area of IT infrastructure.

Financial opportunities/financial risks

Expiring government support measures related to COVID-19, other measures aimed at containing the pandemic such as lockdowns and restrictions, and higher prices for consumer goods and energy resulted in a slight increase in the default and counterparty risk in 2021. In order to minimise the risk potential, VERBUND relies on an established system of credit limits and a strict scoring of business partners based on a system for evaluating credit ratings and regular monitoring of credit risk.

Operational opportunities/operational risks

In many sectors and areas, the COVID-19 crisis resulted in a shift to increased remote working arrangements. Cyber criminals are increasingly attempting to capitalise on this situation, which also raised this potential threat in 2021. VERBUND responds to the heightened challenges (mainly from the perspective of critical infrastructure) by continually improving the existing security mechanisms. VERBUND counteracts risks from cyber space by implementing preventive security strategies, internal projects to increase the security of IT systems and IT infrastructure, as well as internal guidelines and correspondingly defined and secured processes.

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 (as described above to some extent). 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

One success factor is secure access to the capital market. The concept for the risk-bearing capacity is focused on two areas: on one hand, identifying the effects of organic and inorganic projects on the Group's credit rating and, on the other hand, determining whether future medium- to long-term scenarios jeopardise the Group's target credit 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 2021 Group Integrated Annual Report for further information as well as additional details on significant risks and opportunities as well as measures.

As at 17 February 2022, no risks were foreseeable for 2022, 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 (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 2021 entitled Opportunity and risk management.

Organisational framework

VERBUND's 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. The Supervisory Board's Audit Committee monitors its effectiveness.

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 process for technical processing of transactions. Compliance with and the effectiveness of these checks is reviewed on a periodic basis. Based on 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 ARIS (the process modelling tool) and published on the intranet (including risk control matrix). VERBUND's organisational structure is continually adapted to address changing internal and external conditions.

Reporting in compliance with unbundling provisions

VERBUND's quarterly 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 on 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 Austrian Power Grid (APG) has therefore been operating in the electricity market since 2012 as an independent transmission system operator. An external equal treatment officer monitors compliance with the unbundling provisions specified in the contract. VERBUND AG acquired a 51% stake in Gas Connect Austria GmbH (GCA) effective 31 May 2021. VERBUND subsidiary GCA performs the duties of an independent transmission system operator in the gas market and continues to be subject to the statutory unbundling provisions. Compliance is monitored by an external equal treatment officer.

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. APG, as an independent transmission system operator for electricity, and GCA, as an independent transmission system operator for gas, have each had their own internal audit function since March 2012 and February 2012, respectively.

Shareholder structure and capital information

in accordance with Section 243a(1) of the Austrian Commercial Code (UGB)

1. At the reporting date of 31 December 2021, 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; and 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. There were 347,415,686 shares 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 Annual General Meeting are restricted to 5% of the share capital." VERBUND AG is unaware of any other restrictions that affect voting rights or the transfer of shares.

3. The shareholder structure of VERBUND AG is largely defined by the majority holding of the Republic of Austria. In accordance with constitutional law, 51% of the share capital is owned by the Republic of Austria. A syndicate of the state energy companies Wiener Stadtwerke 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 (ÖCGK), 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 also 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, which is included in the VERBUND Integrated Annual Report 2021, is available on the VERBUND website.

Report on the expected performance of the Company

Outlook

According to the International Monetary Fund (IMF), the global economy showed a strong recovery in 2021 with growth of around 5.9% despite the ongoing COVID-19 pandemic. The IMF likewise forecasts strong growth for 2022 of 4.4%, which is also significantly above the growth rates for 2018 and 2019. Because of the difficulty of forecasting the further progression of the pandemic and the challenges from supply chain problems combined with high commodity prices and the associated higher inflation rates, these strong growth rates are also to be considered with a high degree of uncertainty.

In 2021, the economy (+4.1%) and the labour market recovered significantly in Austria as well, and the Austrian Institute of Economic Research (Österreichisches Institut für Wirtschaftsforschung, WIFO) expects even stronger growth in 2022 at +5.2%, although the uncertainty referenced above applies here, too.

Along with the economic recovery and slower growth in supplies, commodity prices rose significantly. This particularly impacted the price of gas with an increase of +390% over the previous year. Average carbon prices for 2021 doubled compared with the previous year due to the EU's more stringent climate targets, the economic recovery and higher carbon emissions as a result of the sharp rise in coal-fired electricity generation. These trends were reflected in significant price increases on both the spot and futures markets.

The planned expansion of volatile new renewables generation is making VERBUND's generation portfolio in the core markets more significant. Base load power plants (run-of-river hydropower), flexibly accessible storage and pumped storage power plants and a highly efficient combined cycle gas turbine power plant (Mellach CCGT), which serves as a bridge technology for maintaining domestic security of supply, are helping to make it possible to expand new renewables and to support the target of 100% renewable energy by 2030. VERBUND also plays a role in achieving the target of carbon-free electricity generation through organic and inorganic growth in new renewables in new markets. APG, VERBUND's wholly owned subsidiary, owns and operates the transmission network in Austria and therefore plays a major role in connection with grid security in Austria and in the European electricity network. Gas Connect Austria GmbH (GCA), in which VERBUND has held a 51% stake since 31 May 2021, is an independent Austrian gas transmission and distribution system operator and, as such, plays a key role in the Austrian and Central European energy supply. As an integrated energy company, VERBUND's innovative products and services provide consumers with solutions for the future of energy.

Investment plan 2022–2024

VERBUND's updated investment plan for the period 2022–2024 provides for capital expenditure in the amount of €3,059m. Of that total, around €2,075m will be spent on growth CAPEX and around €985m on maintenance CAPEX. Most of the growth CAPEX (approximately €831m) will go towards expanding the regulated Austrian high-voltage grid. In addition, VERBUND will be investing mainly in projects related to new renewables, in selected hydropower plant projects as well as in increasing the efficiency of existing power plants. The investments will mostly involve VERBUND's domestic markets of Austria and Germany. In financial year 2022, VERBUND plans to invest a total of approximately €877m, around €507m of which will be invested in growth and around €370m in maintenance.

Dividend

VERBUND plans to distribute a dividend of €1.05 per share for financial year 2021. The payout ratio for 2021 will thus amount to 45.7% based on the adjusted Group result.

Earnings projection for 2022

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 69% of the planned own generation for 2022 was already contracted as at 31 December 2021. The price obtained for this was approximately €24.2/MWh above the sales price achieved in 2021.

Given the still precarious COVID-19 situation in many countries, geopolitical uncertainties and high volatility in the key factors influencing VERBUND's results, the outlook remains highly uncertain.

Based on the forecast at the beginning of the year, VERBUND AG expects clearly positive earnings before taxes for financial year 2021.

Vienna, 17 February 2022

Executive Board

Mag. Dr. Michael Strugl
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

	Notes	2020	2021
			€k
A. Fixed assets			
I. Intangible assets	(1)	857.8	534.9
II. Property, plant and equipment		23,592.2	24,246.5
III. Investments	(2)	5,020,048.0	5,785,166.0
		5,044,498.0	**5,809,947.4**
B. Current assets			
I. Inventories	(3)	202.0	534.2
II. Receivables and other assets	(4)	62,628.2	119,207.9
of which due in more than one year		97.8	929.8
		62,830.2	**119,742.1**
C. Prepayments and accrued income	(5)	60,525.1	**64,181.3**
D. Deferred tax assets	(6)	34,466.7	**26,130.2**
		5,202,319.9	**6,020,000.9**
Rights of recourse	(7)	1,116,440.1	641,007.6
less counter-guarantees from cross-border leasing		–324,079.5	–68,884.7
		792,360.6	**572,122.9**

Liabilities

	Notes	2020	2021
			€k
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)	1,689,147.3	1,934,930.4
IV. Net profit	(11)	260,561.8	364,786.5
of which profit carried forward		0.0	0.0
		3,268,845.0	**3,618,852.9**
B. Provisions	(12)	252,422.7	**250,361.2**
C. Liabilities	(13)	1,680,304.6	**2,150,220.6**
of which due within one year		774,072.2	769,056.9
of which due in more than one year		906,232.4	1,381,163.7
D. Accruals and deferred income	(14)	747.6	**566.3**
		5,202,319.9	**6,020,000.9**
Contingent liabilities	(15)	1,116,440.1	641,007.6
less counter-guarantees from cross-border leasing		–324,079.5	–68,884.7
		792,360.6	**572,122.9**

Income statement

€k

	Notes	2020	2021
1. Revenue	(16)	350,880.6	392,639.9
2. Change in total services not yet billable		52.6	75.1
3. Other operating income	(17)	912.7	5,324.3
4. Operating income (subtotal of lines 1 to 3)		351,845.9	**398,039.4**
5. Expenses for electricity, grid/gas purchases and purchases of emission allowances and other purchased production services and other services		–211,757.0	–264,416.4
6. Personnel expenses	(18)	–28,820.7	–27,310.5
7. Depreciation and amortisation	(19)	–2,925.7	–2,710.4
8. Other operating expenses	(20)	–47,247.4	–50,338.5
9. Operating result (subtotal of lines 4 to 8)		61,095.2	**53,263.6**
10. Income from equity interests		337,815.5	486,851.5
11. Income from other securities and loans classified as financial assets		35,136.1	37,183.8
12. Other interest and similar income		2,490.8	3,351.7
13. Income from the disposal and reversal of impairment losses on investments		44,055.9	137,007.3
14. Expenses from investments		–4,254.2	–28,276.5
15. Interest and similar expenses		–39,150.9	–40,033.1
16. Financial result (subtotal of lines 10 to 15)	(21)	376,093.3	**596,084.7**
17. Earnings before taxes (subtotal of lines 9 and 16)		437,188.5	**649,348.3**
18. Taxes on income and profit	(22)	–16,735.4	–38,778.7
19. Net income for the year		420,453.1	**610,569.6**
20. Allocation to revenue reserves		–159,891.3	–245,783.1
21. Net profit		260,561.8	**364,786.5**

Statement of changes in fixed assets

	As at 1/1/2021	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	8,348.9	216.1	21.5	0.0
2. Prepayments	37.7	0.0	0.0	– 37.7
	8,386.6	216.1	21.5	– 37.7
II. Property, plant and equipment				
1. Land, land rights and buildings, including buildings on third-party land				
a. with residential buildings	77.6	0.0	0.0	0.0
b. with plant and other plant facilities	28,427.2	797.7	33.2	1,280.2
2. Electrical installations	6,355.7	478.5	35.0	434.8
3. Office and plant equipment	23,008.0	1,518.3	936.8	105.8
4. Prepayments and assets under construction	1,783.1	63.8	0.0	– 1,783.1
	59,651.6	2,858.2	1,005.0	37.7
Property, plant and equipment and intangible assets	68,038.2	3,074.4	1,026.5	0.0
III. Investments				
1. Shares in affiliated companies	3,630,837.2	503,563.1	316,231.8	0.0
2. Loans to affiliated companies	1,266,618.6	430,327.9	83,438.3	0.0
3. Equity interests	282,643.0	0.0	0.0	0.0
4. Loans to equity interests	70,000.0	0.0	0.0	0.0
5. Securities (loan stock rights) under fixed assets	74,920.4	0.0	110.8	0.0
6. Other loans	50,646.0	10.7	3,500.8	0.0
	5,375,665.2	933,901.7	403,281.6	0.0
Fixed assets	5,443,703.4	936,976.1	404,308.1	0.0

€k

As at 31/12/2021	Accumulated amortisation and depreciation as at 31/12/2021	**Net carrying amount as at 31/12/2021**	Accumulated amortisation and depreciation as at 31/12/2020	Net carrying amount as at 31/12/2020
8,543.6	8,008.7	534.9	7,528.8	820.1
0.0	0.0	0.0	0.0	37.7
8,543.6	8,008.7	**534.9**	7,528.8	857.8
77.6	77.6	0.0	77.6	0.0
30,471.8	20,758.1	9,713.8	20,139.3	8,287.9
7,234.1	5,227.5	2,006.6	4,793.0	1,562.7
23,695.3	11,232.9	12,462.4	11,049.6	11,958.5
63.8	0.0	63.8	0.0	1,783.1
61,542.5	37,296.0	**24,246.5**	36,059.4	23,592.2
70,086.1	45,304.7	**24,781.4**	43,588.2	24,450.0
3,818,168.5	121,119.3	3,697,049.2	344,947.6	3,285,889.6
1,613,508.3	0.0	1,613,508.3	0.0	1,266,618.6
282,643.0	0.0	282,643.0	9,222.4	273,420.6
70,000.0	0.0	70,000.0	0.0	70,000.0
74,809.6	0.0	74,809.6	1,447.2	73,473.2
47,155.9	0.0	47,155.9	0.0	50,646.0
5,906,285.3	121,119.3	**5,785,166.0**	355,617.2	5,020,048.0
5,976,371.4	166,424.0	**5,809,947.4**	399,205.4	5,044,498.0

Statement of changes in amortisation and depreciation of fixed assets

	Accumulated amortisation and depreciation as at 1/1/2021	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	7,528.8	497.1
2. Prepayments	0.0	0.0
	7,528.8	**497.1**
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	20,139.3	625.7
2. Electrical installations	4,793.0	469.1
3. Office and plant equipment	11,049.6	1,118.4
4. Prepayments and assets under construction	0.0	0.0
	36,059.4	**2,213.3**
Property, plant and equipment and intangible assets	43,588.2	2,710.4
III. Investments		
1. Shares in affiliated companies	344,947.6	0.0
2. Loans to affiliated companies	0.0	0.0
3. Equity interests	9,222.4	0.0
4. Loans to equity interests	0.0	0.0
5. Securities (loan stock rights) under fixed assets	1,447.2	0.0
6. Other loans	0.0	0.0
	355,617.2	**0.0**
Fixed assets	399,205.4	2,710.4

	Disposals	Reversal of impairment	**Accumulated amortisation and depreciation as at 31/12/2021**
			€k
	17.2	0.0	8,008.7
	0.0	0.0	0.0
	17.2	0.0	**8,008.7**
	0.0	0.0	77.6
	6.9	0.0	20,758.1
	34.6	0.0	5,227.5
	935.1	0.0	11,232.9
	0.0	0.0	0.0
	976.7	0.0	**37,296.0**
	993.9	0.0	**45,304.7**
	126,047.6	126,336.2	121,119.3
	0.0	0.0	0.0
	0.0	9,222.4	0.0
	0.0	0.0	0.0
	3.0	1,444.2	0.0
	0.0	0.0	0.0
	126,050.6	137,002.8	**121,119.3**
	127,044.5	137,002.8	**166,424.0**

Maturity schedule 2021

€k

	Residual term to maturity as at 31/12/2021			
	< 1 year	> 1 year	> 5 years	Total
Loans				
1. Loans to affiliated companies	37,804.2	595,690.8	980,013.3	1,613,508.3
2. Loans to equity interests	20,000.0	50,000.0	0.0	70,000.0
3. Other loans	41,466.9	1,844.4	3,844.6	47,155.9
	99,271.1	647,535.2	983,857.9	1,730,664.2
Receivables and other assets				
1. Trade receivables	45,639.4	929.8	0.0	46,569.1
2. Receivables from affiliated companies	71,776.3	0.0	0.0	71,776.3
3. Receivables from investees	124.0	0.0	0.0	124.0
4. Other receivables and assets	738.5	0.0	0.0	738.5
	118,278.1	929.8	0.0	119,207.9
Liabilities				
1. Bonds	4,253.4	500,000.0	627,823.0	1,132,076.4
2. Liabilities to banks	27,939.4	82,529.2	170,750.0	281,218.6
3. Trade payables	48,406.4	0.0	0.0	48,406.4
4. Liabilities to affiliated companies	662,242.2	0.0	0.0	662,242.2
5. Other liabilities	26,215.4	61.6	0.0	26,277.0
	769,056.9	582,590.8	798,573.0	2,150,220.6

Maturity schedule 2020

€k

	< 1 year	> 1 year	> 5 years	Residual term to maturity as at 31/12/2020 Total
Loans				
1. Loans to affiliated companies	41,438.3	461,455.1	763,725.3	1,266,618.6
2. Loans to equity interests	0.0	70,000.0	0.0	70,000.0
3. Other loans	3,500.0	42,847.4	4,298.5	50,646.0
	44,938.3	574,302.5	768,023.8	1,387,264.6
Receivables and other assets				
1. Trade receivables	38,362.0	97.8	0.0	38,459.8
2. Receivables from affiliated companies	16,247.5	0.0	0.0	16,247.5
3. Receivables from investees	123.7	0.0	0.0	123.7
4. Other receivables and assets	7,797.1	0.0	0.0	7,797.1
	62,530.4	97.8	0.0	62,628.2
Liabilities				
1. Bonds	863.0	500,000.0	127,823.0	628,686.0
2. Liabilities to banks	33,129.5	95,255.1	183,056.6	311,441.3
3. Trade payables	41,642.1	50.4	0.0	41,692.5
4. Liabilities to affiliated companies	693,593.3	0.0	0.0	693,593.3
5. Other liabilities	4,844.2	47.3	0.0	4,891.6
	774,072.2	595,352.9	310,879.6	1,680,304.6

Notes
to the annual financial statements

Notes

I. General notes

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

In the interest of clear presentation, individual line items in the balance sheet and the income statement have been aggregated. These line items are explained separately in the notes to the annual financial statements. The individual line items of the balance sheet and income statement are presented in accordance with VERBUND's Group-wide requirements with respect to form and 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 situation in question, the fair values are determined based on market quotations, comparable recent transactions, measurement using the discounted cash flow method or measurement using the multiples method. Using the discounted cash flow (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.

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

	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	2–25	4–50
Buildings		
Residential and office buildings	2 or 3	33.3 or 50
Plant(s)	3–5	20–33.3
Technical installations and machinery		
Machinery	3–10	10–33.3
Electrical installations	3–14.3	7–33.3
Telecommunications installations	4–33.3	3–25
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 (PUC) 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 PUC 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 2021 and 2020 have been based on the following assumptions:

		%
	2020	**2021**
Interest rate:		
Pensions	0.75	1.00
Obligations similar to pension obligations	0.75	1.25
Termination benefits	0.50	0.75
Trend:		
Pension increases	2.00	1.75
Salary increases	2.75	2.75
Contributions to obligations similar to pensions – old contracts	6.00	5.50
Contributions to obligations similar to pensions – new contracts	3.75	3.75
Employee turnover	0.00–4.10	0.00–4.10
Retirement age – women	56.5–65 y.	56.5–65 y.
Retirement age – men	61.5–69 y.	61.5–69 y.
Expected non-current return on plan assets	0.75	1.00

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.

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

The company shares in VERBUND Windpower Romania SRL were contributed to VERBUND Green Power GmbH on the basis of the contribution and transfer agreement dated 1 October 2021.

Notes on assets

A. Fixed assets

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

(1) I. Intangible assets

The net carrying amount of the rights of use with respect to plants acquired by affiliated companies is €0.0k (previous year: €0.0k).

(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

	2020	**2021**
Goods	34.3	**291.3**
Services not yet billable	167.7	**242.8**
	202.0	**534.2**

(4) II. Receivables and other assets

For details see separate "Maturity schedule".

Of the receivables from affiliated companies, €0.0k (previous year: €0.0k) related to trade receivables and €71,776.3k (previous year: €16,247.5k) to other receivables.

Of the receivables from investees, €15.3k (previous year: €15.0k) related to trade receivables and €108.7k (previous year: €108.7k) to other receivables.

€k

Other receivables and assets	2020	**2021**
Receivables from disposals of investments	4,336.3	0.0
Loans and accrued interest income from loans	2,941.7	315.1
Financing contributions	317.3	0.0
Prepayments	47.7	27.2
Tax authorities	33.0	301.8
Payroll	18.6	4.9
Other	102.6	89.4
	7,797.1	**738.5**

(5) C. Prepayments and accrued income

€k

	2020	**2021**
Prepayments for electricity purchases	17,680.7	16,347.5
Discounts, flotation costs and commitment fee relating to bonds and non-current loans	4,322.1	10,866.7
Other	38,522.3	36,967.1
	60,525.1	**64,181.3**

(6) D. Deferred tax assets

€k

	2020	**2021**
Social capital	6,501.0	5,410.3
Valuation of fixed assets	–25.2	–105.4
Special tax deductions	–233.4	–233.4
Other	28,224.3	21,058.7
Deferred tax receivables (+) respectively liabilities (–) balanced	34,466.7	**26,130.2**

Deferred tax assets are the result of differences between the financial and taxable result in respect of line items affected by expenses for tax purposes in income statements of future periods. The calculation was based on a tax rate of 25%.

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

(7) Rights of recourse

Rights of recourse amounted to a total of €641,007.6k (previous year: €1,116,440.1k). 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 €68,884.7k (previous year: €324,079.5k). See (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 (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

	2020	**2021**
Statutory reserves	19,884.0	**19,884.0**
Distributable reserves	1,669,263.3	**1,915,046.4**
	1,689,147.3	**1,934,930.4**

(11) IV. Net profit

	€k
As at 31/12/2020	260,561.8
Distribution of dividends	–260,561.8
Profit carried forward	0.0
Net profit for the year	610,569.6
Changes in reserves	–245,783.1
As at 31/12/2021	364,786.5

(12) B. Provisions

1. Provisions for termination benefits

€k

	2020	2021
Premium reserve based on actuarial calculations	6,430.4	6,063.2
Taxed proportion of provisions	6,430.4	6,063.2

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

2. Provisions for pensions

€k

	2020	2021
Provisions for pension obligations gross	40,778.7	37,033.4
Pension fund assets	–9,936.6	–10,216.8
Provisions for pension obligations net	30,842.0	**26,816.6**
of which obligations similar to pensions	7,401.1	6,437.4

3. Provisions for taxes

€k

	2020	2021
Corporate income tax domestic (including prior reporting periods)	182,682.1	194,558.0
Corporate income tax foreign (including prior reporting periods)	652.8	0.0
Other tax provisions	1,219.1	1,219.1
Deferred tax liabilities	3,611.1	3,209.9
	188,165.2	**198,987.1**

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

	2020	2021
Electricity/grid purchases	8,525.6	0.0
Trade receivables not yet billed	5,015.2	4,318.1
	13,540.8	**4,318.1**

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

Other personnel-related provisions	2020	2021
		€k
Bonuses	7,025.3	8,099.3
Unused holidays	3,477.5	3,066.4
Holiday allowance	1,049.3	1,055.0
Death grant	506.3	427.9
Compensatory time credit	221.0	254.4
Other	1,164.8	1,273.1
	13,444.2	**14,176.2**

(13) C. Liabilities

For details see separate “Maturity schedule”.

Of the liabilities to affiliated companies, €662,118.2k (previous year: €692,420.9k) related to financial liabilities, while €124.0k (previous year: €0.0k) related to trade liabilities and €0.0k (previous year: €1,172.4k) to other liabilities.

Other liabilities	2020	2021
		€k
From taxes	2,410.0	23,556.6
Related to social security	373.1	374.5
Payroll	86.4	226.3
From financing contributions	65.3	6.2
Other	1,956.8	2,113.3
	4,891.6	**26,277.0**

(14) D. Accruals and deferred income

	2020	2021
		€k
Contributions to building costs	561.3	526.2
From electricity business	53.4	40.0
Other	132.9	0.0
	747.6	**566.3**

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 €264,033.9k (previous year: €310,706.7k). Of this, €14,030.4k (previous year: €60,703.2k) is attributable to affiliated companies and €0.0k (previous year: €0.0k) to investees.

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

Beginning in 2009, and continuing during the 2010 reporting period, about 85% of the original volume of the transactions was terminated. Some of the transactions were terminated early in their entirety; that is, all associated liabilities were repaid. However, some of the transactions were only partially terminated, whereby the transactions with the investors and the associated A-loans were repaid, while VHP continued the existing B-loans and the corresponding investments.

In regard to the last remaining transaction (Freudenau), which had an off-balance sheet financing structure, the lessee purchase option granted under section 19 of the lease agreement was exercised in 2019 (early buy-out option). All of the contractual termination agreements required in connection with this had been signed by 11 December 2020. The transaction was terminated as at 4 January 2021, and final settlement took place on 15 December 2021.

In connection with these cross-border leasing transactions, VERBUND AG issued guarantee bonds for VHP, which for the most part still exist for the liabilities transferred to VHP totalling €376,973.7k (previous year: €805,733.4k). Of the rights of recourse against the primary debtors, €68,884.7k (previous year: €324,079.5k) 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 €308,089.0k (previous year: €481,653.9k) 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.

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 additional collateral may have to be provided if the rating of the investing banks or of VERBUND AG is 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 2021. 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 mitigated not least by the existence in some cases of guarantors' liabilities from regional authorities for individual contractual parties.

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.

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

		2020	2021
Revenue from electricity deliveries			
Domestic	Energy supply companies	9,418.9	4,997.5
	Consumers	115,544.4	132,144.2
	Other customers	152,494.5	168,358.9
		277,457.9	**305,500.6**
Invoicing of grid tariffs; user and management fees		3,030.7	3,054.4
Other revenue (including gas trading)		70,392.0	84,085.0
		350,880.6	**392,639.9**

(17) 3. Other operating income

€k

	2020	2021
a) Income from disposal of fixed assets with the exception of investments	17.2	8.5
b) Income from reversal of provisions	13.0	4,274.7
c) Other	882.5	1,041.2
	912.7	**5,324.3**

(18) 6. Personnel expenses

€k	2020	2021
a) Salaries	24,056.9	**23,755.4**
b) Expenses for termination benefits and payments to employee pension funds		
Termination benefits	285.3	542.9
Contributions to employee pension funds	254.0	272.4
Change in the provision for termination benefits	148.7	–397.8
Expenses/income and takeovers/transfers within the Group	–186.4	–149.1
	501.6	**268.4**
c) Expenses for pensions and similar obligations		
Early retirement benefits and pension payments	2,237.4	2,110.9
Change in the provisions for pensions and similar obligations	–3,189.5	–4,246.0
Expenses/income and takeovers/transfers within the Group	–63.0	–28.6
Change in the provisions for early retirement benefits	–30.7	0.0
Pension fund contributions	943.2	877.5
	–102.6	**–1,286.2**
d) Expenses for social security contributions as required by law as well as income-based charges and compulsory contributions	4,130.8	4,266.3
e) Other social security expenses	234.1	306.6
	28,820.7	**27,310.5**

Interest rate changes for provisions related to termination benefits and pensions and similar obligations resulted in a positive effect of €2,206.5k in the financial year and a negative effect of €467.9k in the previous year. The effect of the changes in parameters was recognised in full in the financial year.

(19) 7. Depreciation and amortisation

€k	2020	2021
a) Amortisation of intangible assets and depreciation of property, plant and equipment		
Depreciation and amortisation	1,993.0	2,341.4
Immediate write-off of low-value assets in accordance with Section 13 of the Austrian Income Tax Act (EStG)	932.7	368.9
	2,925.7	**2,710.4**

(20) 8. Other operating expenses

€k

	2020	2021
a) Taxes other than taxes on income	345.4	622.6
b) Other		
Advertising and market development costs	9,527.8	10,259.9
IT expenses	4,207.1	5,637.7
Other administrative expenses	5,403.2	5,628.8
Operating costs for buildings, rent and leasing	3,488.6	3,787.9
Legal, audit and consulting expenses	8,959.0	7,445.8
Temporary personnel and provision of personnel	1,658.5	1,783.3
Membership fees	843.4	882.2
Telecommunications services, data services	564.5	593.6
Training and further education	507.5	690.3
Other	11,742.5	13,006.5
	46,902.0	**49,715.9**
	47,247.4	**50,338.5**

(21) 16. Financial result

€k

	2020	2021
Income from equity interests		
from affiliated companies	316,032.0	464,068.9
of which from profit pools	30,749.7	99,977.2
Income from other securities and loans in financial assets		
from affiliated companies	32,881.1	34,136.5
Other interest and similar income		
from affiliated companies	2,386.4	3,203.7
Income from disposals and impairment loss reversals of investments		
disposal of shares in affiliated companies	356.0	0.0
reversal of impairment of shares in affiliated companies	31,638.0	126,336.2
Expenses relating to investments		
impairments on affiliated companies	0.0	28,555.5
expenses from affiliated companies	4,241.4	–279.0
of which from profit pools	4,241.4	–279.0
Interest and similar expenses		
of which interest for long-term personnel provisions	318.2	263.5
from affiliated companies	15,717.1	14,857.2

(22) 18. Taxes on income and profit

€k	2020	2021
Consolidated taxes on income[1]	132,672.6	**216,084.5**
Taxes recharged to members of the Group[2]	– 151,958.2	**– 192,948.1**
Future tax expense for subsequent taxation of losses from foreign members of the tax group	– 3,663.2	**7,553.2**
Additional amounts/credit notes from previous periods[1]	9,955.7	**153.8**
Change in deferred taxes[1]	29,728.5	**7,935.3**
	16,735.4	**38,778.7**

[1] tax rate of 15.83% or 25% // [2] tax allocation rate of 24.25% or 25%

IV. Other disclosures

1. Total amount of other financial obligations

Material items	Total commitment	2022	2022–2026
Rent, lease and insurance agreements	[1]	4,442.4	21,558.1
Purchase commitments	7,636.5	6,649.1	7,636.5
of which to affiliated companies	[1]	3.8	19.1

(€k)

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

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

There are electricity supply agreements with Österreichisch-Bayerische Kraftwerke Aktiengesellschaft and Donaukraftwerk Jochenstein Aktiengesellschaft according to which half of the energy generated in their power plants must be delivered to VERBUND AG in exchange for reimbursement of recognised expenses plus a reasonable return on equity.

In accordance with an electricity supply agreement, Innwerk AG is obligated to deliver half of the energy generated in the Ering and Obernberg power plants to VERBUND AG at total production costs plus an agreed mark-up.

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

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

There are contractor agreements with VERBUND Energy4Business 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: €0.0k) to cover defined benefit obligations.

As at 31 December 2021, one employee had a letter of loyalty granting a higher degree of employment protection. The prerequisite was 20 years of service at VERBUND and a minimum age of 45.

There are open contribution commitments in the amount of €8,394.0k (previous year: €0.0k) under accounting for investees.

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 €56,812.5k (previous year: €71,437.5k) as at 31 December 2021. 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 €3,579.9k (previous year: €5,991.1k). The future interest payments hedged by these hedging instruments will occur in the following five years (2022 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 €90,825.0k (previous year: €106,750.0k), 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 €2,293.2k (previous year: €4,740.6k) as at 31 December 2021.

3. Number of employees

Average	2020	2021
Salaried employees	148	156.8

4. Expenses for termination benefits and pensions

€k

	2020	2021
Members of the Executive Board, former members of the Executive Board and their surviving dependants	782.9	608.8
Other employees	–383.9	–1,626.6
	399.0	**–1,017.8**

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 2021, contributions to the pension fund were paid for the Executive Board in the amount of €184,500 (previous year: €253,000).

Statutory regulations apply, taking account of the requirements of Rule 27a of the Austrian Code of Corporate Governance (ÖCGK), with respect to the claims of members of the Executive Board upon termination of their position. In financial year 2021, €391,533 was paid out for pensions (previous year: €389,323).

In the financial year, expenses for pensions and similar obligations for former members of the Executive Board and their surviving dependants amounted to a total of €32,812 (previous year: €140,624).

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 (including variable remuneration)

€

	2020 Fixed remuneration	2020 Variable remuneration	**2021 Fixed remuneration**	**2021 Variable remuneration**
Mag. Dr. Michael Strugl	685,000	444,935	750,000	480,910
Mag. Dr. Achim Kaspar	475,000	307,563	475,000	332,500
Dr. Peter F. Kollmann	620,000	403,233	620,000	435,813

Remuneration for the current members of the Executive Board totalled €3,128,810 in 2021 (previous year: €4,231,454); this amount includes €34,587 in payments in kind (previous year: €51,387). Furthermore, short-term variable remuneration in the amount of €525,000 (previous year: €494,336), long-term variable remuneration (LTIP; two-year duration) of €412,500 (previous year: €0) and compensation for unused holidays of €318,069 (previous year: €0) were paid out in 2021 for one former member of the Executive Board. These relate to claims for the period of active participation on the Executive Board for which final settlement only occurred in 2021.

Because it is only possible to ascertain at the end of the year whether targets have been achieved, short-term variable remuneration components are paid out in the following year. Therefore, the total amount includes the short-term variable remuneration components granted to the current members of the Executive Board in the 2021 reporting period for the 2020 reporting period.

The system of variable remuneration was revised beginning with the 2019 reporting period and a generally three-year Long Term Incentive Programme (LTIP) was agreed in addition to the short-term remuneration (one-year goals). For the one-year goals, the percentage rate for total achievement of the targets in financial year 2020 is a standard 70% of the relevant fixed remuneration. In the 2020 reporting period, 60% of the agreement on targets was based on the achievement of the Group result and 40% on non-financial goals (one-year): expansion of renewable generation (15%), reduction of specific greenhouse gas emissions (5%), strategic human resources planning and advancement of women, as well as employee satisfaction (10%) and hydropower plant availability (10%). The total achievement of targets for 2020 was determined to be 100%.

For the one-year goals, the percentage rate for total achievement of the targets beginning in financial year 2021 is a standard 60% of the relevant fixed remuneration. In the 2021 reporting period, 70% of the agreement on targets was based on the achievement of the Group result and 30% on non-financial goals (one-year): expansion of renewable generation (20%) and completion of the Culture Audit (10%).

With respect to the LTI plans for 2019–2021 and 2020–2022, a maximum of 55% of the respective fixed remuneration (maximum target achievement of 100%, variable component 55%) can be paid out as long-term remuneration on the basis of medium-term performance criteria. The actual amount depends not only on the target achievement 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 target achievement and the share price at the end of the three-year assessment period (average daily VERBUND share price in the first quarter after plan completion).

The following performance criteria were defined for LTIP 2019 (assessment period ending 2021): total shareholder return (25%), EBITDA from growth projects (25%), FCF before dividends (25%), productivity increase (25%); for LTIP 2020 (assessment period ending 2022), application of total shareholder return (30%), FCF before dividends (35%) and net debt/EBITDA (35%). As an exception to this policy, the LTI plans for the member of the Executive Board departing at the end of 2020 were concluded with durations of two years.

Beginning in the 2021 reporting period, a maximum of 78% of the respective fixed remuneration (maximum target achievement of 120%, variable component 65%) can be paid out as long-term remuneration on the basis of medium-term performance criteria. The actual amount depends not only on the target achievement 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 target achievement and the share price at the end of the three-year assessment period (average daily VERBUND share price for the three-year duration of the respective LTI plan). The following performance criteria were defined for LTIP 2021 (assessment period ending 2023): total shareholder return (30%), FCF before dividends (35%) and overhead costs (35%). 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 €391,778 (previous year: €320,010).

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

€	2020	**2021**
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 (ÖCGK):

During financial year 2021, 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 Energy4Business GmbH, VERBUND Energy4Customers GmbH, VERBUND Finanzierungsservice GmbH, VERBUND Green Power GmbH and VERBUND Services 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 and natural gas sales VERBUND Energy4Business GmbH,
VERBUND Energy4Customers GmbH
Telecommunication VERBUND Services GmbH
Services VERBUND Services GmbH
Financing VERBUND Finanzierungsservice GmbH
Provision of personnel VERBUND Hydro Power GmbH, VERBUND Energy4Business GmbH, VERBUND Services GmbH, VERBUND Energy4Customers 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 €1.05 per share to 347,415,686 no-par value shares from the distributable profit of financial year 2021, i.e. a total of €364,786,470.30.

10. Events after the reporting date

The Austrian National Council approved the Ecosocial tax reform in its third reading on 20 January 2022. This will give rise to income from deferred tax adjustments of an estimated €4.5 million.

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	**2021 kWh**
Hydropower	99.9%	1,919,464,099
Solar energy	0.1%	2,328,713
Wind power	0.0%	28,742
Total volume of electricity supplied in Austria to consumers for their own use	100.0%	1,921,821,554

100% of the certificates 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		**2021**
Radioactive waste (mg/kWh)		0.0
CO_2 emissions (g/kWh)		0.0

Vienna, 17 February 2022
Executive Board

Mag. Dr. Michael Strugl
Chairman of the Executive Board

Dr. Peter F. Kollmann
Member of the Executive Board

Mag. Dr. Achim Kaspar
Member of the Executive Board

Disclosures of equity interests

in accordance with Section 238 (1)(4) of the Austrian Commercial Code (UGB)

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	Head-quarters	% share-holding as at 31/12/2021	Most recent annual financial statements	(+) (–)	Net income/loss for the year	Equity[1]
Consolidated affiliated companies[2]						
Austrian Power Grid AG	Vienna	100.00	2021	+	73,922.7	540,826.7
Innwerk AG	Stammham	100.00	2021	+	63,494.6	191,060.1
VERBUND Energy4Business GmbH	Vienna	100.00	2021	+	53,291.4	330,772.7
VERBUND Energy4Customers GmbH	Vienna	100.00	2021	+	1,945.5	1,316.6
VERBUND Finanzierungsservice GmbH	Vienna	100.00	2021	+	1,160.4	218.1
VERBUND Green Power GmbH	Vienna	100.00	2021	+	66,785.2	229,017.7
VERBUND Green Power Hunsrück GmbH & Co. KG	Wörrstadt	100.00	2021	–	163.2	42,466.8
VERBUND Services GmbH	Vienna	100.00	2021	+	9,894.8	9,620.6
VERBUND Thermal Power GmbH	Fernitz-Mellach	100.00	2021	+	94.1	7,555.1
VERBUND Green Power Deutschland GmbH	Wörrstadt	100.00	2021	–	476.3	8,468.8
WATT DEVELOPMENT SPV 5, S.L.U.[3]	Granada	100.00	2021	–	3,764.5	19,739.9
WATT DEVELOPMENT SPV 6, S.L.U.[3]	Granada	100.00	2021	–	3,787.5	19,638.9
WATT DEVELOPMENT SPV 7, S.L.U.[3]	Granada	100.00	2021	–	3,658.7	19,427.2
VERBUND Thermal Power GmbH & Co KG	Fernitz-Mellach	99.99	2021	+	85,565.0	126,336.2
Infrastruktur Oberheimbach I GmbH & Co. KG	Wörrstadt	85.00	2021	+	0.0	48.6
VERBUND Hydro Power GmbH	Vienna	80.54	2021	+	564,815.7	2,127,046.0
VERBUND Innkraftwerke GmbH	Töging	70.27	2021	+	30,734.9	338,979.8
Infrastrukturgesellschaft Bischheim GmbH & Co. KG	Wörrstadt	65.29	2021	+	0.0	42.8
Gas Connect Austria GmbH	Vienna	51.00	2021	+	48,798.2	222,648.5
Donaukraftwerk Jochenstein Aktiengesellschaft	Passau	50.00	2021	+	858.7	15,670.8
Grenzkraftwerke Gesellschaft mit beschränkter Haftung	Simbach	50.00	2021	+	2,426.8	20,510.6
Österreichisch-Bayerische Kraftwerke Aktiengesellschaft	Simbach	50.00	2021	+	3,180.2	57,626.5
Associates						
Ennskraftwerke Aktiengesellschaft[4]	Steyr	50.00	2021	–	1,115.1	26,348.9
KELAG-Kärntner Elektrizitäts-Aktiengesellschaft[5]	Klagenfurt	35.17	2020	+	88,802.3	928,202.4

[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] proportionate consolidation in accordance with Section 262 of the Austrian Commercial Code (UGB) // [5] accounted for using the equity method in accordance with Sections 263–264 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 2021, 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 2021 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 obtained by the date of the auditor’s report 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 2021, VERBUND AG reported shares in affiliated companies in the amount of €3,697.0m (previous year: €3,285.9m).

Due to the current financial and energy market environment, the company tested the carrying amounts of the shares in these affiliated companies. Please refer to sections “II. Accounting policies” and “(21) 16. Financial result” of the notes to the annual financial statements for details regarding the impairment tests.

Numerous inputs flow into the valuation model based on net present value methods applied in the test for impairment. These include in particular the future electricity and primary energy price trends, assumptions regarding developments in the regulatory environment and the effects of the expansion of renewable energy. Due to the complexity of the valuation models and the dependence of results on the assessment of market developments by management, this is a key audit matter.

Audit approach

We evaluated the valuations carried out in particular in the following areas:

- the company's assessment for the identification of potential impairment and reversals of impairment losses;
- corroboration of the cash flows used in connection with the valuation models with company-specific information, the contractual framework as well as the Group's relevant market data from external as well as internal sources;
- the mathematical accuracy of the valuation models; and
- assessment of the parameters used in determining the discount rate.

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). The annual report is expected to be made available to us after the date of the auditor's report.

Our opinion regarding the annual financial statements does not extend to the other information, for which we do not provide any assurance. 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, it is our responsibility to read the above-mentioned other information, as soon as it is available, and thereby to evaluate whether it is materially inconsistent with the annual financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Responsibilities of management and the audit committee for the annual financial statements

The company's management is responsible for the preparation of the annual financial statements 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 controls as management determines is necessary to prepare the 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 conducted 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 auditor's 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 accompanying management report is prepared in accordance with the applicable legal requirements, includes appropriate disclosures according to Section 243a of the Austrian Commercial Code (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 20 April 2021 as the auditor for the financial year ended 31 December 2021 and engaged by the supervisory board on 25 May 2021 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 annual financial statements" is in line with the additional report to the audit committee and complies with Article 11 of the EU Audit Regulation.

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

Engagement partner

The engagement partner responsible for the audit is Mag. Walter Müller.

I 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.

Vienna, 18 February 2022
Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Walter Müller
Wirtschaftsprüfer
(Austrian Certified Public Accountant)

Glossary

Glossary

Cash flow

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

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

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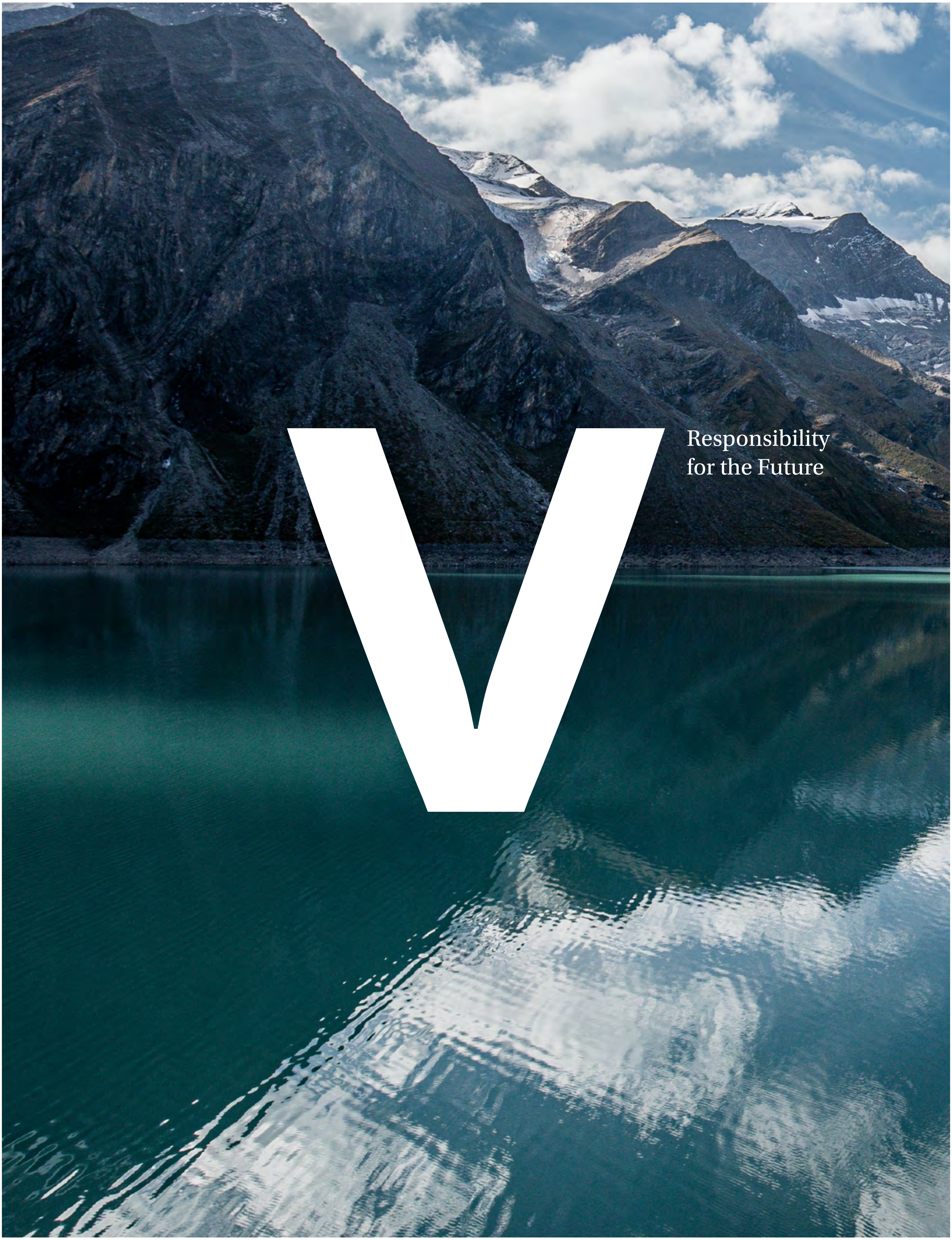

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Responsibility
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