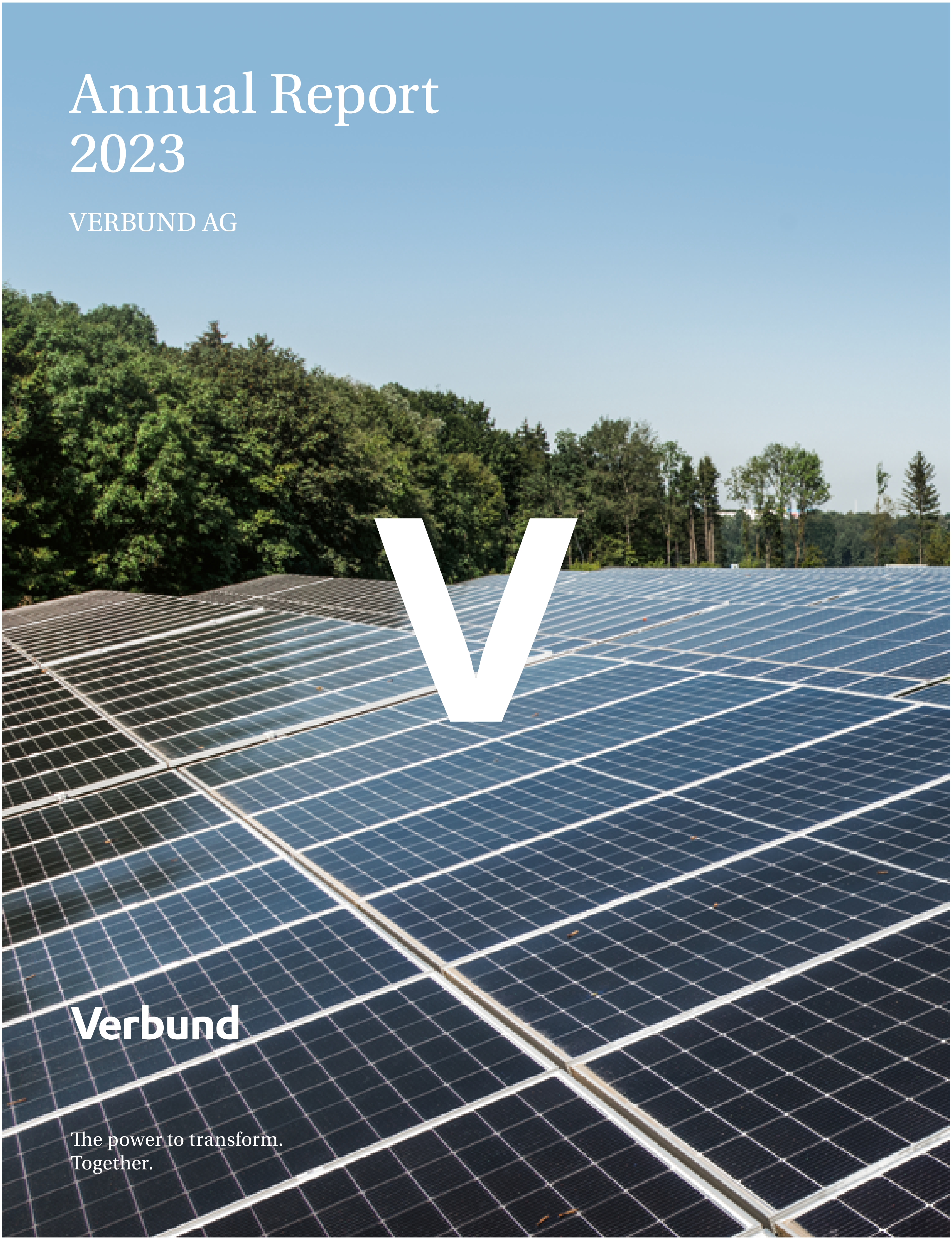
Annual Report 2023

VERBUND AG



Verbund

The power to transform.
Together.

VERBUND AG

Annual Report 2023

Contents

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

Three-year comparison

			€m, %
	2021	2022	**2023**
Revenue	392.6	615.3	997.3
Earnings before interest and taxes (EBIT)	689.4	593.9	1,193.5
Earnings before taxes	649.3	551.2	1,108.8
Net income for the year	610.6	563.3	1,202.4
Net profit	364.8	1,250.7	1,441.8
Total assets	6,020.0	6,901.2	7,387.5
Fixed assets	5,809.9	6,557.8	6,998.7
Capital expenditure for property, plant and equipment	2.9	2.3	12.9
Depreciation of property, plant and equipment	2.2	2.0	1.9
Equity	3,618.9	3,817.4	3,769.2
Return on sales (ROS)	175.6%	96.5%	119.7%
Return on equity (ROE)	19.9%	15.2%	29.0%
Return on investment (ROI)	13.3%	9.9%	17.3%
Return on capital employed (ROCE)	9.7%	7.4%	14.0%
Equity ratio	60.1%	55.3%	51.0%
Notional debt repayment period	4.7	5.6	2.6
Cash flow from operating activities	473.6	721.2	1,572.7
Gearing	58.4%	66.5%	76.0%
Working capital	–756.3	–870.5	–1,830.0
Net debt	2,112.8	2,538.0	2,864.9
Current liabilities	978.9	1,116.7	2,684.4
Current assets	222.6	246.2	854.4
Share price high	106.2	113.6	89.25
Share price low	59.6	75.8	68.05
Closing price	98.9	78.7	75.65
(Proposed) dividend per share	1.05	2.44	3.40
(Proposed) special dividend per share	0.00	1.16	0.75
Dividend yield	1.06%	4.57%	5.49%
Average number of employees	156.8	181.7	208.7
Group electricity sales volume (GWh)[1]	63,274	68,398	**68,398**

[1] incl. system requirements

Governing bodies

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	1963	1/1/2019	31/12/2028
Dr. Peter F. Kollmann CFO and Vice Chairman of the Executive Board	1962	1/1/2014	31/12/2027
Mag. Dr. Achim Kaspar Member of the Executive Board	1965	1/1/2019	31/12/2026

Supervisory Board

Name	Year of birth	Date of initial appointment	End of current term of office
Mag. Martin Ohneberg Chairman 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
Dr. Edith Hlawati 1st Vice-Chairwoman Member of the management board of Österreichische Beteiligungs AG Member of the supervisory boards of Österreichische Post AG (chairwoman), Telekom Austria AG (chairwoman) and OMV AG (vice-chairwoman)	1957	25/4/2022	AGM 2026
Mag. Dr. Christine Catasta 2nd Vice-Chairwoman (from 25/4/2022) Member of the supervisory boards of Telekom Austria AG (member), Erste Bank der oesterreichischen Sparkassen AG and Erste Group Bank AG (member), Bundesimmobiliengesellschaft m.b.H. (chairwoman), Austrian Airlines AG (member) and ÖLH Österreichische Luftverkehrs-Holding-GmbH (member)	1958	16/6/2020	AGM 2024
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 2024
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 2026

Name	Year of birth	Date of initial appointment	End of current term of office
Dipl.-Ing. Eckhardt Rümmler Member of the supervisory board and management consultant Member of the supervisory board of PreussenElektra GmbH, Germany (member) Member of the board of directors of Northland Power Inc., Toronto (member)	1960	16/6/2020	AGM 2024
Mag. Christa Schlager Head of the economic policy department at the Vienna Chamber of Labour; member of the supervisory board of Forschungsförderungsgesellschaft mbH (member) and Austria Wirtschaftsservice Gesellschaft mbH (aws) (member)	1969	16/6/2020	AGM 2026
Dipl. Ing. Robert Stajic MBA Executive director of Österreichische Beteiligungs AG Member of the supervisory board of OMV AG (member)	1979	25/4/2022	AGM 2025
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), Burgenland Energie 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 2026
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); chairman of Fachverband Gas Wärme of WKÖ	1966	5/4/2017	AGM 2026

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 Group's employee representatives 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 Group's employee representatives (until 18/4/2023)	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
Ing. Hans Peter Schweighofer Chairman of the Central Works Council	1970	since 18/4/2023	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 generated outstanding results once again in financial year 2023 despite the challenges and the considerable uncertainty. The Group succeeded in strengthening its profitability and continuing its sustainable development with the aim of making a substantial contribution to the energy transition. The Supervisory Board actively monitored and supported this strong performance.

Performance of duties

In financial year 2023, 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, some of which were held as video or teleconferences due to the preventive measures against COVID-19. The overall attendance rate for all Supervisory Board members was 92%. 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, with which the growth strategy was implemented, 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 2023 Consolidated Corporate Governance Report. Between meetings, the Chairman of the Supervisory Board conversed regularly with the Chairman of the Executive Board.

Appointment of the Executive Board and composition of the Supervisory Board

One of the most important decisions to be taken related to the appointment of the Executive Board, as the term of office of all members was due to expire at the end of the year. At its meeting on 27 March 2023, the Supervisory Board resolved to re-elect Mag. Dr. Michael Strugl MBA as Chairman, Dr. Peter F. Kollmann as Vice-Chairman and Mag. Dr. Achim Kaspar. At the same time, it appointed Dr. Susanna Zapreva-Hennerbichler as a new Executive Board member with effect from 1 January 2024. The criteria set out in the diversity concept were taken into account to a considerable extent in these resolutions.

At the Annual General Meeting held on 25 April 2023, Mag. Jürgen Roth, Mag. Christa Schlager, Mag. Stefan Szyszkowitz and Dipl.-Ing. Peter Weinelt were re-elected to the Supervisory Board for three more years. At the constituent meeting of the Supervisory Board following the election, Dr. Edith Hlawati was again appointed as 1st vice-chairperson and Dr. Christine Catasta as 2nd vice-chairperson of the Supervisory Board. The employee representatives appointed Hans Peter Schweighofer to the Supervisory Board to replace Doris Dangl. There were no other changes in 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, essential compliance with the rules relating to the Supervisory Board's collaboration with the Executive Board and within the Supervisory Board itself has been achieved.

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 corresponding action to be undertaken.

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 four meetings for the purpose of voting on the implementation of the Group's strategy and to discuss individual specific strategic topics.

The Supervisory Board's Audit Committee met three times during the financial year now ended. It dealt above all with the semi-annual financial statements, 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 the Group's internal control and audit procedures.

The Sustainability Committee established in 2020 addresses in particular the topics of sustainability, the New Green Deal, decarbonisation, the energy transition, climate action and environmental protection. It focuses on the development of suitable strategies and measures for implementation and performs an annual review of the sustainability strategy and targets. The Sustainability Committee met three times in financial year 2023. In addition to ongoing reporting on sustainability topics, the meetings dealt in particular with important specific areas of emphasis such as the Group's stakeholder management for hydropower, wind power and photovoltaic generation, diversity and inclusion, and sustainability reporting (EU taxonomy, CSRD, ESRS).

In accordance with the Austrian Code of Corporate Governance (ÖKCG) 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 three meetings to discuss in particular the contracts with members of the Executive Board, target agreements and the achievement of targets for the variable remuneration for the Executive Board as well as the 2022 remuneration report. The Nomination Committee held four meetings at which it discussed preparations for the appointment of Executive Board members and preparations for the election of Supervisory Board members. The Emergencies Committee did not meet during 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 2023. 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 2024 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 2023 were audited by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H. 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 2023 as presented by the Executive Board. As a result, they are final for the purposes of Section 96(4) of the Austrian Stock Corporation Act (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 2023. 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 2024

Mag. Martin Ohneberg
Chairman of the Supervisory Board

Management report

Report on business performance and economic position

General conditions

Commodity prices tumbled in financial year 2023 as compared with 2022, bringing electricity prices down with them. Despite energy costing less, the global economy lost momentum as inflation remained comparatively high. Austria and Germany both recorded a slight recession, their economies each contracting by 0.8%.

Overall demand for electricity in Austria decreased once again in 2023 (–5.1%). With demand down and hydropower, wind power and photovoltaic output up, imports and exports of electricity were nearly balanced.

General economic environment

Slower growth amid record inflation

According to the International Monetary Fund (IMF), global economic output increased by 3.1% in 2023, falling significantly short of the 2021 and 2022 growth rates and below the long-term average. The IMF also expects comparatively low growth of 3.19% for 2024. In addition to the impact of the war in Ukraine, the effects of the COVID-19 pandemic continued to hamper the recovery of the global economy.

The rigid monetary policy also acted as a drag on growth. The geopolitical tensions, especially in the Middle East, pose a further risk. Particularly the attacks by the militant Islamist Houthi militia on merchant and commercial ships in the Red Sea have already driven up prices for freight shipments between Asia and Europe.

The effects of high energy prices and the energy crisis in Europe on the economy and the downturn in the global economy with the associated decline in domestic goods exports are casting a shadow over economic growth. High inflation is hitting real income, which in turn is holding back consumer spending.

Under these conditions, the IMF put global inflation at 6.9% for 2023 (the Austrian Institute of Economic Research (WIFO) calculated a rate of 7.9% for Austria). According to the experts from the IMF, economic output rose by 2.5% in the United States and by just 0.5% in the euro area. Germany even registered a slight recession with growth of –0.3%, according to the IMF.

Softer purchasing power due to reduced real incomes, the weakness of industry worldwide and interest rate hikes led to a recession in Austria in 2023. Austrian gross domestic product contracted by 0.8% in 2023. Unemployment was up slightly due to the larger labour supply, among other factors.

Energy market environment

Decrease in electricity consumption and higher generation

Austria’s electricity consumption (less pumped storage consumption, including grid loss and own use of electricity by power plants) in 2023 was down 5.1% year-on-year at 65.6 TWh. In all months of 2023 apart from November, consumption was down on the previous year’s level, falling by as much as 8.2% in June.

Electricity generation from hydropower was up by a significant 14.2% on the prior-year period due to higher water supply in February to September as well as in November and December 2023. By contrast, generation from thermal power plants in Austria fell substantially by 20.2% in 2023 compared with 2022 (–3.4 TWh).

Electricity generation from wind power plants rose by around 10.8% on account of the higher wind supply. “Other generation” also recorded an increase of 27.5% due in particular to the expansion of photovoltaic installations. 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 71.2 TWh, electricity production in Austria in 2023 was up 6.4% on the prior-year figure.

Net imports improved in 2023 compared with the previous year on the back of higher generation volumes and a further decline in demand. In this period, electricity exports rose by 8.7%, while imports fell by 24.6%, giving low net exports for 2023.

Declining oil prices

The price of Brent crude oil (front month) was marginally above $80/bbl in 2023 compared with approximately $100/bbl in 2022. This represents a decrease of 17%.

After plummeting during the COVID-19 crisis in 2020 (–33%) and rebounding in 2021 (+64%), oil prices continued their upward trend in 2022. The Ukraine crisis in particular drove up prices in 2022. Oil prices stabilised further in 2023; in particular, the economic slowdown and the related decline in demand put oil prices under increased pressure.

Plummeting gas prices

Prices on the spot market at the European THE trading point (formerly NCG) averaged around €41/MWh in 2023, which was €84/MWh or 67% lower year-on-year.

In futures trading, invoiced amounts for supplier contracts for the coming year (THE front year) were around €54/MWh in 2023. This is nearly €65/MWh or 55% lower than front year prices in 2022. Particularly the conflict between Russia and Ukraine and the resulting sharp drop in gas deliveries from Russia to Europe had led to unprecedented price increases in 2022. Reduced consumption levels and plentiful supplies of LNG caused prices to plummet in 2023.

Decrease in steam coal prices

Steam coal prices also fell sharply in 2023 compared with the previous year. Coal prices on the futures market (ARA front year) were down $96/t (43%) on the prior year at an average of $126/t.

Coal prices on the spot market likewise decreased substantially. Averaging roughly $128/t in 2023, these were 56% lower than the average listing in the previous year.

Like gas prices, coal prices had jumped in 2022 as a consequence of the Ukraine crisis. As could be seen for the other primary energy sources, the markets then stabilised in 2023.

Rising carbon prices

In the wake of 2020, a year that was dominated by the COVID-19 crisis, a significant recovery could be observed on the carbon market in 2021. A further surge was then seen in 2022, when prices increased to around €84/t (futures market front year). In 2023, prices then rose to just shy of €90/t, an increase of 7%.

Factors behind this price increase were the EU’s tightening of climate targets and the increase in carbon emissions resulting from greater use of coal to generate electricity. This was countered by fears of an economic slowdown, which curbed demand for emission allowances.

Sharp decline in prices in the market for wholesale electricity

In 2023, the market for wholesale electricity was affected by plunging prices on the spot market as well as the futures market. Both of these markets were impacted by the sharp decline in prices for gas and coal.

The average price for base load electricity deliveries in the Austrian market area on EPEX Spot, the European electricity exchange spot market, was down by 61% year-on-year to €102/MWh in 2023. The average price for immediate base load electricity deliveries in the German market area in 2023 was €95/MWh (down 60% on the previous year). The base price in Austria in 2023 was therefore €7/MWh higher than in Germany.

In the futures market at the European Energy Exchange (EEX), base load for 2024 (front year base) was traded at an average price of €148/MWh in 2023 in the Austrian market area, a decrease of 53% year-on-year. In the German market area, front year base traded at an average of €138/MWh in 2023, a drop of 54% on the prior-year figure.

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 2022 had only a minor influence on revenue in the reporting period.

Political and regulatory framework

EU energy policy

Completion of Fit for 55 legislation

2023 saw the completion of the Fit for 55 legislation proposed in 2021 comprising important packages of measures for implementing the Green Deal. A key component of this legislation is the update of the Renewable Energy Directive (RED III), which entered into force at the end of November 2023. This seeks to raise the share of renewables in the EU’s final energy consumption from 32% to 42.5%, with an additional 2.5% indicative top-up to allow the target of 45% to be achieved by 2030. In the transport sector, renewables deployment is to be increased from 14% to 29%. The new rules also establish a binding sub-target of 5.5% for advanced biofuels and 1% for renewable fuels of non-biological origin (RFNBOs, for example hydrogen). The directive states that industry will need to increase the use of renewable energy within the final consumption of energy annually by 1.6%. Member states will also have to meet the targets for renewable hydrogen amounting to 42% of the fossil-based hydrogen currently used in industry by 2030 and 60% by 2035. In addition, the new rules will allow member states to design renewables acceleration areas where renewable energy projects will undergo simplified and fast permit-granting processes. National authorities should take no longer than twelve months to approve new renewable energy installations, if located in so-called “renewables go-to areas”. Outside such areas, the process should not exceed 24 months. Renewable energy deployment will also be presumed to be of ‘overriding public interest’, which will accelerate permit-granting processes. RED III is required to be transposed into national law by May 2025.

Furthermore, several packages of measures were adopted as part of Fit for 55 that will help reduce greenhouse gas emissions and achieve the EU’s climate targets. The EU’s Emissions Trading Directive has been revised and raises the target for overall emissions reductions by 2030 in the sectors covered by the EU ETS (industry, energy, aviation, shipping) to 62% below 2005 levels. Shipping companies must also start using allowances to cover their emissions: 40% of emissions reported for 2024, 70% of emissions reported for 2025 and 100% of emissions reported for 2026 and beyond must be covered by emission allowances.

In addition, the free emissions allowances for the aviation sector will be scrapped and allowances will be fully auctioned from 2026. A separate emissions trading system was also created in 2023 for fuel combustion in buildings, road transport and additional sectors (mainly small industry). The new system will become operational in 2027. In case of exceptionally high gas or oil prices before the new system is introduced, the start could be postponed to 2028. Finally, in 2023 agreement was also reached on a Carbon Border Adjustment Mechanism (CBAM) regulating emissions from the production of carbon-intensive goods imported into the EU. Until the end of 2025, only reporting obligations under the CBAM shall apply. The phasing-in of the CBAM will take place in parallel with the phasing-out of free allocation. The free allocations for sectors that fall under the CBAM (cement, aluminium, fertilisers, electricity generation, hydrogen, iron and steel as well as selected precursors and a limited number of downstream products) will be phased out over a nine-year period between 2026 and 2034.

Hydrogen and Decarbonised Gas Market Package

The Hydrogen and Decarbonised Gas Market Package (Gas Package) was intensively negotiated, with political agreement being reached in the trilogue negotiations in December 2023. The European Gas Market Directive and the Gas Market Regulation now provide the legal basis for the regulation of hydrogen and decarbonised gases as well as the related infrastructure. The political agreements reached focused on the financing of hydrogen networks, agreements on tariffs for the use of hydrogen networks, a timetable for introducing a market design for hydrogen, blending caps at interconnection points, as well as reductions of tariffs for the injection of renewable gases (100%) and low-carbon gases (75%) into the grid. The package is expected to be formally adopted in spring 2024.

Political agreement on the reform of the EU’s electricity market design

The reform of the EU’s electricity market design brought about by the energy crisis was completed in December 2023 when political agreement was reached in the trilogue negotiations.

The intensively discussed merit order remains a fundamental element of the electricity market design. Along with power purchase agreements (PPAs), two-way contracts for difference (CfDs) have been introduced to provide public funding for investments in new power-generating facilities based on wind energy, solar energy, geothermal energy, hydropower without reservoir and nuclear energy. In addition, the importance of PPAs was increased by giving member states the possibility to support the purchase of new renewable generation, where conditions allow. Capacity mechanisms will be made a structural element of the electricity market. Exceptional derogations from the application of the CO_2 emissions limit for already authorised capacity mechanisms for the period up to 2028 are also permitted under certain conditions. With regard to the occurrence of price crises, the market design now gives the Council the power to declare a price crisis on the basis of a Commission proposal provided certain criteria are met, to further reduce the electricity prices for vulnerable and disadvantaged customers.

Publication of the delegated act establishing electricity purchase criteria for renewable hydrogen production

The delegated act relating to electricity purchase criteria for electrolysis entered into force in June 2023. This specifies the conditions under which renewable hydrogen can qualify as renewable and count towards a member state’s renewable energy targets.

The principle applies that the electricity purchased for electrolysis may only come from additionally constructed installations generating renewable electricity (additionality); the date on which the two installations came into operation is taken as the basis (no later than 36 months after the electrolyser and the electricity generation facility came into operation). Subsidised facilities (CapEx/OpEx) may not be used.

Other criteria to be considered are temporal (monthly correlation initially; from 2030 hourly) and geographical correlation of the electricity generation and hydrogen production facilities. There are many exceptions from these principles and transitional provisions. If the electrolyser comes into operation before 1 January 2028, electricity from existing installations may be used until 2038.

Pilot auction by the European Hydrogen Bank

To support the production of renewable hydrogen in Europe, the European Commission created the European Hydrogen Bank, the objective of which is to unlock private investments for hydrogen projects within the EU and projects for importing hydrogen from third countries.

In November 2023, the Commission launched the first auction under the domestic leg of the European Hydrogen Bank to fund European projects, with an initial €800m of emissions trading revenues, channelled through the Innovation Fund.

Political agreement on the Corporate Sustainability Due Diligence Directive

In December 2023, the European Council and Parliament reached agreement on the Corporate Sustainability Due Diligence Directive (CSDDD).

This sets obligations for European companies to ensure compliance with applicable human rights and environmental standards throughout their supply chains. The agreement fixes the scope of the directive on EU companies that have more than 500 employees and net revenue of over €150m. The duty of care extends to the business chain of activities, which covers the upstream business partners of the company and partially the downstream activities, such as distribution or recycling. In view of the EU’s climate targets, the directive requires companies to adopt a plan ensuring that their business model and strategy are compatible with the Paris agreement on climate change. The directive also lays down rules on penalties and civil liability for infringing those obligations.

Negotiations on the Net Zero Industry Act (NZIA)

In response to the US Inflation Reduction Act, the European Commission proposed the Net Zero Industry Act in March 2023 that will help strengthen the European manufacturing capacity of net-zero technologies and support industry.

The legislative initiative contains measures to reduce the bureaucracy for certain “strategic technologies” (including improvements to permit-granting processes and access to funding). This net-zero technology will help Europe to reduce emissions and transition to carbon-free energy generation.

New legal framework for the energy sector in Austria

Actions to overcome the energy crisis were mainly behind policy-making and legislative activities in Austria in 2023.

At the same time, work was carried out on the submission and adoption of legislative projects to implement the government programme.

Energy Efficiency Act updated

After the original government bill for an Energy Efficiency Reform Act failed to clear the two-thirds hurdle, an amendment to the law was ultimately passed with a simple majority. This provides that cumulative final energy savings of 650 petajoules (PJ) must be achieved by 2030 exclusively through strategic measures and that the supplier obligation (which expired at the end of 2020) will not be continued.

Overall, final energy consumption is to be reduced to 920 PJ by 2030 (2022 level: 1,059 PJ). Under this act, energy suppliers will be required to set up information points and report to the newly created monitoring authority (E-Control).

ElWOG amendment to improve customer information

An amendment to the Austrian Electricity Industry and Organisation Act (*Elektrizitätswirtschafts- und Organisationsgesetz*, ElWOG) designed to improve provision of information to customers was adopted in summer 2023.

The amendment included improvements to E-Control's tariff calculator and also created the possibility to take discounts into account by adjusting the instalments (instead of only the annual statement, as before).

Renewable Energy Heat Act

Parliament passed the Renewable Energy Heat Act (*Erneuerbare-Wärme-Gesetz,* EWG) at the end of 2023. An existing ban on fossil oil and coal in new buildings has thus been extended to all central and non-central heating systems that can be operated with fossil fuels, meaning that gas heating systems are now also banned.

A broader and improved range of subsidies will provide incentives to replace fossil-based existing systems and switch to climate-friendly fuels.

Subsidies for renewables

At the government meeting in January 2023, a decision was taken to increase the funding available for photovoltaic installations for 2023 to €600m (2022: €240m). To make funding for operators of small-scale photovoltaic systems simpler and more efficient, an amendment to the Austrian VAT Act (*Umsatzsteuergesetz*, UStG) was adopted during the budget consultations in November 2023. VAT on photovoltaic systems below 35 kW will now be abolished for two years. Amendments to the Renewable Energy Development Act (*Erneuerbaren-Ausbau-Gesetz*, EAG) and the Green Electricity Act (*Ökostromgesetz*, ÖSG) resulted in the flat-rate renewables subsidy being further suspended for 2024 at the last National Council session of the year. The possibility to extend commissioning deadlines for wind power plants was also resolved, as were subsidy caps on investment costs for photovoltaic systems. The Green Electricity Act provides more detailed provisions on payment for green electricity at market price to reduce the financial risk for the green power settlement agent.

Implementation of the European Union Emissions Trading Directive and the European Carbon Border Adjustment Mechanism (CBAM)

The amended European Union Emissions Trading Directive was legally implemented with a notice of motion at the last National Council session of 2023. As a result, an additional European Emissions Trading System will be launched for the buildings and road transport sectors. The CBAM Enforcement

Act 2023 (*CBAM-Vollzugsgesetz 2023*, CBAM-VG) was enacted at the same time. The EU's CBAM will apply to imports of certain industrial products from third countries whose production is carbon intensive. The aim of the mechanism is to avoid carbon leakage.

UVP-G amendment

An amendment of the Environmental Impact Assessment Act (*Umweltverträglichkeitsprüfungsgesetz*, UVP-G) was adopted in March 2023. Key content includes measures to improve procedural efficiency in general and simplifications for energy transition projects, such as avoidance of double assessments, no rejection solely on the basis of landscape, incentives for spatial energy planning. Photovoltaic installations will not be subject to an EIA obligation, but a new EIA position has been introduced for construction of new hydropower plants in protected areas. Acceleration measures for installations that are not subject to the EIA Renewable Energy Development Acceleration Act (*Erneuerbaren-Ausbau-Beschleunigungsgesetz*, EABG) were announced at the beginning of 2023. No specific proposals or resolutions were adopted in 2023.

ÖNIP

The draft for the first Austrian Network Infrastructure Plan (ÖNIP) was published for comment in July 2023. This plan is a map for a climate-neutral energy system and presents the integrated infrastructure required for electricity and gaseous energy sources. Besides the ÖNIP, the draft for the Environmental Report was published in August 2023. This includes the strategic environmental assessment for the ÖNIP and, in two appendices, the spatial categories and the corridors required for transportation of electricity and gas.

NECP

With their respective National Energy and Climate Plan (NECP) submitted for review in July 2023, all EU member states are required to demonstrate how they intend to meet the EU energy and climate targets. The Austrian plan shows that based on existing and additional measures (WAM scenario) Austria can achieve a greenhouse gas (GHG) reduction of 35% by 2030 compared with 2005 in the non-ETS sectors. This is 13 percentage points shy of the EU's 48% target.

Further reduction of the electricity revenue cap at national level

In May 2023, the price cap for the period from 1 June 2023 to 31 December 2023 provided for in the Act on the Energy Crisis Contribution for Electricity (*Energiekrisenbeitrag-Strom-Gesetz*, EKBSG) was lowered from €140/MWh to €120/MWh. Revenues above the price cap will be levied at 90%, with deductibles for subsidised investments in renewables, storage facilities, charging points and energy efficiency.

Energy cost subsidy and electricity price cap

The Enterprise Energy Cost Subsidy Act (*Unternehmensenergiekostenzuschuss-Gesetz*, UEZG) was passed back in quarter 4/2022. At the end of 2022, the federal government then presented an adapted "energy cost subsidy 2" for 2023, which was adopted in quarter 1/2023. Energy cost subsidy 2 is valid from 1 January 2023 until 31 December 2023. Enterprises could submit applications at the end of 2023. The budget for 2024 provides for a total of €1.88bn for energy cost subsidies for enterprises comprising €1.45bn for energy cost subsidy 2 and €0.43bn for the energy relief package 2, which is aimed at microenterprises and small businesses. An electricity price cap had been adopted back in October 2022 to provide relief to households. In December 2023, its validity was extended by six months until 31 December 2024.

Electricity costs compensation

In June 2023, the Electricity Costs Compensation Act (*Strompreiskosten-Ausgleichsgesetz*, SAG) was passed to compensate industrial companies that are particularly affected by significantly increased electricity prices. Companies in eligible sectors or sub-sectors receive funding in the form of direct subsidies comprising compensation for the indirect CO_2 costs for calendar year 2022. The package compensates companies for a maximum of 75% of the indirect CO_2 costs actually incurred.

Grid loss costs

The huge increase in wholesale prices in the electricity market also affected grid loss fees for 2023. However, the additional costs for households and companies were cushioned from budget funds in 2023, which covered around 80% of the additional costs incurred. At the end of 2023, the regulator E-Control presented a change to the system for bearing grid loss costs that will impose an added burden on electricity suppliers (i.e. generation companies).

New developments regarding natural gas

The validity of the strategic gas reserve in Austria was extended in 2023 until 1 April 2026. Changes were also introduced with regard to storage obligations for suppliers of protected customers and for gas-fired power plants (45 days of physical storage if the gas comes from Russia) as well as better information for customers similar to the regulations for the electricity sector.

Report on branch offices

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

Finance

Financial performance

Revenue and result

	Unit	2022	2023
Revenue	€k	615,254.9	997,300.9
Earnings before interest and taxes (EBIT)	€k	593,915.7	1,193,459.5
Earnings before taxes	€k	551,222.3	1,108,788.4
Net income for the year	€k	563,341.8	1,202,441.6
Net profit	€k	1,250,696.5	1,441,775.1
Return on equity (ROE)	%	15.2	29.0
Return on investment (ROI)	%	9.9	17.3
Return on capital employed (ROCE)	%	7.4	14.0
Return on sales (ROS)	%	96.5	119.7

Revenue

Revenue from electricity deliveries increased by 83.7% or €398,559.7k. The average futures market prices achieved for the 2023 supply year for volumes hedged for the long term were significantly above the prior-year level (for Austria, the average increase was 246%), while the average spot market prices fell (by 61%). In financial year 2023, the hydro coefficient for run-of-river power plants was 2 percentage points below the long-term average and 12 percentage points above the previous year. Overall, this resulted in higher electricity revenue from the marketing of purchase rights of approximately €114,242.1k. The increase in the consumer segment amounted to €85,113.6k or 43.7% and is primarily attributable to higher electricity prices. Revenue from marketing free volumes from the consumer segment climbed by €195,047.5k, or 287.5%, to €262,902.3k.

There was a reduction of €91,081.1k in revenue from gas deliveries to €69,359.3k. This is primarily attributable to lower sales quantities in the consumer segment and provisions for customer loyalty.

Total revenue thus rose by €382,046.0k, or 62.1%.

Expenses for electricity purchases

Expenses for the purchase of electricity increased by 143.9%, from €380,686.7k to €928,629.8k. Electricity purchases from purchase rights are based on reimbursement of costs and are therefore above the levels of the previous year (+€11,316.6k) despite fluctuating volumes. Electricity purchased for the consumer business is procured at market prices and therefore increased by €532,869.9k, or 167.3%, in financial year 2023.

Expenses for gas purchases

Amid stable price levels in the gas market, management of the supply levels required by law led to a 20.0% increase in the expenses for gas purchases, from €99,929.0k to €119,940.2k.

Personnel expenses

Personnel expenses increased by €13,387.5k, or 48.6%, to €40,911.0k. Factors contributing to higher personnel expenses were the increase in salaries and ancillary expenses under the collective agreement ranging from 8.6% to 9.6% and the biennial pay rises stipulated by the collective agreement. Other factors included the 14.9% increase in personnel from 181.7 average employees to 208.7 employees. Employee benefit expenses rose by €9,292.2k, primarily as a result of the negative effect of the change in underlying calculation parameters in the amount of €1,846.8k (previous year: positive effect of €7,306.9k).

Other operating expenses

Other operating expenses increased by €49,912.9k, or 59.3%, to €134,019.5k. The increase is primarily attributable to the expense for the statutory tax on windfall profits in the amount of €40,637.9k and to measures to increase customer loyalty in the amount of €20,607.3k reported under advertising expenses. The share of donations related among other things to the Ukraine, coronavirus and inflation crises as well as for donations to research institutions (previous year: €17,068.4k) was no longer included. A higher amount of €2,586.6k was spent on the write-down of receivables from the consumer segment. The remaining other operating expenses remained nearly unchanged.

Earnings before taxes

Earnings before taxes rose by €557,566.1k from €551,222.3k to €1,108,788.4k as a result of the influencing factors described above and the sharply higher year-on-year financial result of €1,379,696.0k (previous year: €566,793.1k).

The financial result changed primarily due to higher impairment losses on equity interests amounting to €256,672.9k (previous year: €119,995.2k), which were offset by lower reversals of impairment losses of equity interests in the amount of €67,041.0k (previous year: €92,563.8k). Reduced by transfers of losses, investment income increased by €995,385.6k, from €588,764.3k to €1,584,149.9k. Interest expenses rose by €40,933.0k, from €36,094.9k to €77,027.9k. This is due to a significantly higher average Group financing balance with VERBUND Finanzierungsservice GmbH as well as to the interest on a loan taken out in November of financial year 2022 at a higher interest rate. The financial result includes income from disposals of investments of €3.0k (previous year: €1,078.3k). The cost of procuring credit amounted to €7,643.2k, thus remaining at nearly the same level as in 2022 (previous year: €6,598.5k).

Financial position

Financial position

	Unit	2022	2023
Fixed assets	€k	6,557,834.0	6,998,709.7
Current assets	€k	213,669.5	270,045.5
Working capital	€k	–870,484.9	–1,829,976.1
Net debt	€k	2,537,975.3	2,864,880.0
Equity	€k	3,817,408.2	3,769,153.3
Current liabilities	€k	1,116,715.2	2,684,408.7
Current assets	€k	246,230.3	854,432.6
Average capital employed	€k	6,043,229.1	6,489,114.6
Equity ratio	%	55.3	51.0

Fixed assets

Intangible assets and property, plant and equipment increased by €9,074.5k. Additions primarily related to intangible assets (rights and software) of €726.8k, to office and plant equipment and electrical installations of €3,956.1k and to investments in buildings of €9,911.16k. Amortisation of intangible assets and depreciation of property, plant and equipment amounted to €2,520.9k in the financial year. Carrying amounts of €25.4k were written off in the financial year.

In accounting for investees, the investments item increased by €73,517.0k. There were additions to domestic equity interests of €173,114.28k. Additions amounting to €90,659.6k increased the carrying amount of foreign equity interests in Spain. In addition, impairment losses on foreign equity interests were reversed in the amount of €67,041.0k. Foreign equity interests were written down in the amount of €199,044.0k. Domestic equity interests were written down in the amount of €57,628.8k. €625.0k was recognised for the disposal of one domestic equity interest.

Other investments increased by €356,310.9k in total. Loans were granted in the amount of €405,558.2k, while loans of €49,445.8k were repaid. Measurement of securities under fixed assets increased by €198.4k due to reversals of impairment losses amounting to €280.9k and disposals totalling €82.5k. VERBUND Green Power GmbH (VGP) was granted a loan of €338,118.1k, Ennskraftwerke Aktiengesellschaft a loan of €25,000.0k, VERBUND Services GmbH (VSE) a loan of €20,000.0k, and VERBUND Hydro Power GmbH (VHP) a loan of €1,930.6k. Loans in the amount of €20,499.1k were granted to Spanish subsidiaries. In contrast, repayments were made for loans of €17,125.0k from Austrian Power Grid AG by VERBUND Green Power GmbH (€16,890.9k), VERBUND Hydrogen Power GmbH (€7,000.0k), Spanish subsidiaries (€5,000.2k) and Energji Ashta Shpk (€3,500.0k).

Current assets

The increase of €56,376.0k in current assets resulted mainly from the rise in other receivables from affiliated companies by €35,190.7k, of which €39,704.5k concerns the increase in corporate income tax allocations which are not yet due and deferred interest of €3,651.9k, which is reduced by the decrease in other taxes and duties by the amount of €8,047.5k. Receivables from the consumer segment increased by €41,353.6k. Inventories decreased by €21,174.4k, of which €22,500.9k related to the legal requirement to maintain gas supplies for the consumer segment.

Equity

Due to the net income for the year in the amount of €1,202,441.6k, reduced by the distribution for financial year 2022 of €1,250,696.5k, equity decreased to €3,769,153.3k. The equity ratio fell from 55.3% to 51.0% mainly on account of higher liabilities from Group financing in the amount of €1,000,561.2k, the increase in other provisions in the amount of €143,379.5k and the increase in the corporate income tax provision of €133,762.6k, which is offset by decreases in liabilities to banks by €677,648.5k and in trade liabilities by €68,018.3k.

Liabilities

Non-current and current liabilities increased by €256,954.7k to €2,889,511.1k. In financial year 2023, new loans were taken out in the amount of €300.0k (previous year: €650,000.0k). Repayments of instalments to banks in financial year 2023 amounted to €175,125.0k and early repayments to banks amounted to €500,000k. Under bonds, two bonds of €500,000.0k each are green finance products, one planned for redemption next year and the other in 2044. Liabilities to affiliated companies increased by €995,622.6k due to intra-Group invoicing. Trade payables fell by €68,018.3k to €20,763.6k. Other liabilities increased by a total of €7,010.5k.

Cash flows

Financing strategy

In a highly volatile energy market environment marked by considerable uncertainty, 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 green finance transactions.

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 2023, VERBUND had an Environmental, Social, Governance (ESG)-linked syndicated loan in the amount of €1,000.0m at its disposal that had not been drawn down. The loan, which was taken out with 15 domestic and international banks with good credit ratings, matures in December 2028 with two additional extension options of one year in each case. VERBUND also had access to committed lines of credit amounting to approximately €2,050.0m at the end of 2023. As at 31 December 2023, these credit lines had not been drawn down.

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 continuous access to various financing instruments in the capital market and safeguards the Group's business model. As at 31 December 2023, 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 positive outlook from Moody's. VERBUND is thus among Europe's most creditworthy energy suppliers. 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 green finance transactions

Green finance has very high priority for VERBUND because the entire strategy is focused on sustainability and green finance 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.

In recent years, VERBUND has issued the following innovative green transactions:

1) the first corporate green bond in the DACH region;
2) the first green *Schuldschein* issued over a digital platform;
3) first ESG-linked syndicated loan whose margin structure is linked exclusively to VERBUND's ESG rating (sustainability ranking) over the term of the loan; and
4) the first Green & Sustainability-linked Bond, which combines all four available sustainable components in green finance in a single transaction:

- Use of proceeds (conventional project-specific green bond)
- EU taxonomy aligned (the projects must be aligned with the EU Taxonomy Regulation as at the date of issue)
- Sustainable link (margin dependency relating to achievement of the Group's sustainability goals)

- UN Principles for Responsible Investments (strong preference for sustainable investors, who are selected in accordance with a transparency criterion in bookbuilding).

5) ESG-linked Schuldschein whose margin structure is linked to the ESG Risk Management Score of VERBUND AG, as determined annually by the Sustainalytics ESG rating agency.

In the case of the Green & Sustainability-linked Bond (2021) issued, the figures for the KPIs increased as follows in the period from 1 January to 31 December 2023:

- KPI 1 (Newly installed production capacity for hydropower, wind power and photovoltaic energy) increased by 99 MW to a total capacity of 9,178 MW (basis: 31 December 2020: 8,692 MW)
- KPI 2 (Additional transformer capacity) increased by 1,723 MVA to a total of 35,353 MVA (basis: 31 December 2020: 30,810 MVA).

The ESG-linked syndicated loan expired in December 2023 after a five-year term. This was refinanced and the volume increased. VERBUND augmented its renewable financing portfolio by taking out a €1,000.0m sustainability-linked syndicated loan with a term of five years (with two additional extension options of one year in each case) which had not been drawn down by 31 December 2023. The banking syndicate comprises 15 domestic and international banks with good and very good credit ratings. The annual margin is tied to achievement of two of the Group’s sustainability targets (the same two KPIs as for the Green & Sustainability-linked Bond, see above).

KPIs – finance

	Unit	2022	**2023**
Cash flow from operating activities	€k	721,175.2	1,572,680.1
Cash flow from investing activities	€k	–670,874.4	–563,305.3
Cash flow from financing activities	€k	–50,300.8	–1,009,374.8
Financial result	€k	566,793.1	1,379,696.0
Gearing	%	66.5	76.0
Notional debt repayment period	years	5.6	2.6

Compared with the previous year, the financial result increased by €812,902.0k to €1,379,696.0k. This was primarily driven by the increase in investment income reduced by transfers of losses by €995,385.6k to €1,584,149.2k. Impairment losses recognised on equity interests in financial year 2023 amounted to €256,672.8k, whereas in financial year 2022 impairment losses recognised on equity interests had amounted to only €119,995.2k. Reversals of impairment losses on equity interests amounted to €67,041.0k in financial year 2023. In financial year 2022, reversals of impairment losses on equity interests had amounted to €92,563.8k. Net interest expense rose by €36,211.4k. The increase is due, on one hand, to higher interest rate levels and, on the other hand, to interest on a loan taken out in November 2022 and repaid in November 2023. Income from loans increased by €16,140.9 to €56,756.8k. Losses (net of income) on the disposal of investments of €282.0k (previous year: income of €563.9k) were recognised during the financial year.

The sharp increase of €326,904.7k in interest-bearing net debt along with the decrease in adjusted equity of €48,254.8k increased the gearing by 9.5 percentage points to 76.0%. The notional debt repayment period decreased by three years from 5.6 to 2.6 years due to the higher cash inflow from ordinary activities of €1,375,406.7k (previous year: €550,729.4k) accompanied by a rise in debt of 17.4% (previous year: 28.4%).

Cash flow statement

The cash flow statement is prepared in accordance with AFRAC Opinion 36 (Cash Flow Statement (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 was determined using the indirect method and resulted in a cash inflow of €1,572,680.1k (previous year: cash inflow of €721,175.2k).

Profit or loss for the period includes investment income impacting the cash flow net of losses transferred amounting to €1,586,149.9k (previous year: €588,764.3k).

The change in trade receivables and other receivables is primarily attributable to the increase in receivables from the electricity business of €41,353.6k, which is offset by the decrease in receivables from affiliated companies in the amount of €8,165.7k and the decrease in other accruals and deferrals of €2,988.7k.

The change in trade payables and other liabilities is mainly the result of the decrease in liabilities from the electricity and gas business of €64,016.0k and the increase in the liability from the electricity price cap in the amount of €19,118.1k. Trade payables, excluding the electricity and gas business, fell by €3,925.8k. Liabilities to tax authorities and other authorities rose by €12,903.3k. Other liabilities to affiliated companies decreased by €6,231.2k.

The change in current provisions is mainly attributable to provisions for the consumer segment of €104,267.6k and the provision for windfall tax in the amount of €35,154.5k. The provision for outstanding purchase invoices remained virtually stable. Provisions for personnel expenses rose by €757.9k. Non-current provisions in the amount of €7,854.1k were also reclassified as current.

The net asset position arising from income tax payments in the amount of €196,834.3k (previous year: cash inflow of €134,967.9k) is attributable to the credit from tax allocations from Group members of €651,185.0k and the cash inflow from investments from previous years in the amount of €2,110.3k. Prepayments to the tax authorities of €455,580.2k had a counteracting effect. Other taxes on income such as the capital gains tax resulted in an outflow of €881.3k.

(2) Cash flow from investing activities

Cash flow from investing activities consisted of a cash outflow of €563,305.3k (previous year: cash outflow of €670,874.4k), resulting primarily from investments in affiliated companies of €263,773.8k and the granting of loans in the amount of €405,558.2k (of which €380,556.7k in loans to affiliated companies). These contrast mainly with the repayments of loans in the amount of €49,445.8k (of which €45,943.9k pertained to loans to affiliated companies). Sales of securities resulted in a cash inflow of €85.5k.

Capital expenditure for intangible assets and property, plant and equipment comprised capital expenditures for buildings in the amount of €8,911.2k, capital expenditures for office and plant equipment in the amount of €2,188.7k, capital expenditures for electrical equipment in the amount of €1,767.4k, capital expenditures for software in the amount of €459.5k and capital expenditures for rights in the amount of €267.3k, whereby a balance of €4,519.7k has to be deducted from the payments. The disposal of office and plant equipment gave rise to a cash inflow of €11.9k.

(3) Cash flow from financing activities

As part of the dividend distribution approved for financial year 2022, €1,250,696.5k was paid out to shareholders. This was equivalent to a dividend of €3.60 per share (including a special dividend of €1.16 per share). Group clearing resulted in a cash inflow of €1,000,561.2k (previous year: cash outflow of €268,694.7k).

Cash outflows for interest and similar expenses totalling €84,514.6k (previous year: €41,694.7k) rose sharply compared with the previous year.

In financial year 2023, a new loan was taken out in the amount of €300.0k (previous year: €650,000.0k). Financial liabilities of €175,125.0k were repaid on schedule, while financial liabilities of €500,000.0k were repaid ahead of schedule.

Cash flow statement

€k

	Notes	2022	**2023**
Earnings before taxes		551,222.3	1,108,788.4
Amortisation of intangible assets and depreciation of property, plant and equipment		2,539.4	2,520.9
Amortisation and reversal of impairment of investments		27,785.0	189,351.0
Result from disposal of non-current assets		– 13.4	13.5
Other interest and similar income, and interest and similar expenses		– 6,144.4	16,979.8
Change in non-current provisions		– 50.4	– 7,918.3
Income from the reversal of contributions to building costs		– 35.1	– 35.1
Other non-cash expenses and income		5,281.6	– 2,886.2
Change in inventories		– 35,461.1	21,174.4
Change in trade receivables and other receivables[1]		– 23,703.7	– 29,765.0
Change in trade payables and other liabilities[2]		59,335.5	– 67,195.2
Change in current provisions		5,451.7	147,603.5
Payments for income taxes		134,967.9	194,048.4
Cash flow from operating activities	(1)	721,175.2	**1,572,680.1**
Cash outflow from capital expenditure on intangible assets and property, plant and equipment		– 3,780.9	– 9,074.5
Cash inflow from the disposal of intangible assets and property, plant and equipment		251.9	11.9
Cash outflow from capital expenditure on investments		– 967,786.6	– 669,332.1
Cash inflow from the disposal of investments		266,942.2	49,871.2
Cash inflow from investments and securities		4.9	8.6
Cash inflow from interest		33,494.1	65,209.5
Cash flow from investing activities	(2)	– 670,874.4	**– 563,305.3**
New non-current loans		650,000.0	300.0
Cash outflow from the repayment of financial liabilities (excluding money market transactions)		– 25,125.0	– 525,125.0
Cash inflow (outflow) from increases (decreases) in Group clearing balances		– 268,694.7	1,000,561.2
Dividends paid		– 364,786.5	– 1,250,696.5
Cash outflow for interest and similar expenses		– 41,694.7	– 84,414.6
Cash flow from financing activities	(3)	– 50,300.8	**– 1,009,374.8**
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 research, development, the environment 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 on, a sustainability report was published annually as a supplement to the annual report up until 2014. 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".

From 2022, VERBUND is also required to disclose information on environmentally sustainable revenues, capital expenditures (CapEx) and operating expenditures (OpEx) pursuant to the EU Taxonomy Regulation. This reporting requirement is complied with through the EU taxonomy section of the Non-Financial Report (NFI 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, if required, to provide a complete picture of the Group. Where unconsolidated companies are included in the disclosures, a note to this effect will be added. The reporting period comprises the 2023 calendar year just ended.

Sustainability information has been subjected to an external review in the scope specified by the Independent Assurance. The GRI and TCFD Index indicate where information on sustainability at VERBUND can be found. As provided for in the GRI guidelines, we have refrained from including information on topics of minor relevance in the Integrated Annual Report. Supplementary information on sustainability topics is available in our Disclosures on Management Approach (DMA) document and on the VERBUND website.

Sustainable topics and projects in 2023

Group project Fitfor24

In April 2023, the Group project Fitfor24 was launched with the objective to implement the new EU reporting requirements for sustainability reporting in accordance with the CSRD and ESRS. VERBUND is obliged to prepare its reporting in accordance with the new requirements from financial year 2024. To implement these requirements, VERBUND has put together an interdisciplinary team of experts from Strategy, Risk Management, Process Management, Environmental Management, Human Resources, Procurement, Internal Audit and other areas. The aim, in addition to producing an ESRS-compliant sustainability report, is to ensure greater integration of sustainability topics into existing corporate structures such as the internal control system, or strategy and risk management. The goal is to promote true integration into all core processes and avoid the creation of parallel structures.

Bottom-up approach to ESG integration in shared services

In spring 2023, VERBUND Services GmbH started a project to consider the topic of sustainability at VERBUND from a different perspective. Building on the existing sustainability measures within the Group, the ESG Roadmap 2025 project – along with employees – identified sustainability measures (e.g. in the green office or social sector) and integrated these into everyday working life. Using a bottom-up approach, the topic of sustainability was made more tangible for employees; a design thinking workshop was also used to develop new ideas for everyday work at VERBUND.

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.

Please refer to the 2022 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	2021	2022	**2023**
Number of IR&D projects	Number	127	105	**103**
Total project volume[1]	€m	266.4	245.1	**272.6**
of which EU projects[1]	€m	103.5	65.9	**100.1**
VERBUND's total share[1]	€m	110.4	102.0	**105.1**
Annual VERBUND expenses	€m	11.3	10.2	**12.7**
Annual VERBUND investments	€m	2.4	10.2	**3.1**

[1] over the entire duration of the projects

The economic and energy system is currently undergoing radical transformation, because generating 100% of electricity from renewable energy by 2030 means that the energy system will have to be completely restructured. As an energy transition leader, VERBUND has taken on the task of driving transformation that will help mitigate the climate crisis.

Innovation, research and development contribute significantly to implementing climate action projects and initiatives. With its strategic commitment to innovative technologies and business models, VERBUND has demonstrated its responsibility for decarbonisation – in which it relies on cooperation with universities and research institutes, businesses and start-up companies in Austria and the international arena.

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

VERBUND is focused on the integration and intelligent monitoring of new photovoltaic (PV) and wind power assets. As part of this, we are carrying out research and development projects on early fault detection and automated reporting for photovoltaic installations and wind power plants.

As part of the VERBUND X Accelerator programme, a proof of concept (PoC) for advanced data analytics PV was set up with the start-up SmartHelio to evaluate the data analysis software provided by SmartHelio and its usefulness for VERBUND. Historical data sets from Austrian photovoltaic systems were used to test the software's error detection rates. The results were promising, and the project is being rolled out in 2024 and tested in detail on a significantly larger Spanish plant.

In the Enterprise Reporting project, automated reporting of all wind power plants and open-field solar installations is being developed. The reporting is based on analysis algorithms that calculate the required KPIs on a daily and monthly basis and implement them in the database information system (DBIS). The corresponding results are automatically read out and provided to the technical team in an application that uses Power BI visualisation software.

Reports are currently generated at country and plant level. A wider rollout of the service with a higher level of technical detail is planned for 2024.

Focus on digitalisation: Project Zerberus – smart technology for energy generation

Zerberus is a digital assistant that serves as a support platform for personnel at critical infrastructure facilities. Since the implementation phase finished in 2023, Zerberus the robot dog has consistently been collecting data, which is analysed and visualised using artificial intelligence (AI) and machine learning (ML). Thanks to AI and ML, VERBUND can now schedule plant maintenance intervals more effectively and even more efficiently. The project has expanded VERBUND's internal expertise in computer vision and so enabled us to consolidate our knowledge. This support means that power plant employees can focus on other strategically important tasks that contribute to the 2030 energy transition.

VERBUND X Ventures: investing in energy transition at VERBUND

VERBUND Ventures GmbH was founded in 2022 to boost the impact and added value of our activities in the start-up environment. VERBUND X Ventures is VERBUND's corporate venture unit. Through its investments, it is building a targeted portfolio of innovative energy and climate tech start-ups.

In addition to its first portfolio company – HalloSonne, which supplies innovative photovoltaic systems – the team set itself the goal of investing in promising business models for accelerating the energy transition. X Ventures' investment in UBIQ represents a new stake in electromobility.

UBIQ offers AI-supported services for fleet management in the shared (e-)mobility sector, including demand prediction, timely charging and efficiency optimisation. The Austrian start-up is already doing business in over twelve countries in Europe and North America and almost 12,000 cars are managed by its software-as-a-service products.

Another investment, in Austrian energy trading and energy sharing start-up eFriends, was completed at the end of 2023. This up-and-coming company is focusing on its revolutionary sharing technology, which allows producers of photovoltaic electricity to share it with other consumers. The eFriends community already includes several hundred Austrian households, making an important contribution to the energy transition.

Please refer to the 2023 Group Integrated Annual Report for further information as well as additional details on innovation, research and development.

Green hydrogen

VERBUND – a decarbonisation partner

VERBUND's positioning as a player in the European hydrogen economy constitutes one of its three strategic pillars. We therefore set up the Hydrogen division in 2022 to implement a focused hydrogen strategy. In 2023, we made further strides towards putting our hydrogen strategy into operation, by establishing VERBUND Green Hydrogen GmbH and VERBUND Green Hydrogen Sales GmbH to forge ahead with our hydrogen activities. All activities and operations were transferred to the two companies on 1 December 2023.

Green hydrogen generated from renewable electricity is central to VERBUND's hydrogen activities and extends the value chain from sustainable electricity production right through to the production of green molecules. Both short-term and long-term demand for green hydrogen to aid in decarbonisation will be met by two key approaches: implementing local hydrogen generation projects and developing diversified import routes.

Developing a green hydrogen economy through focused implementation

VERBUND is pursuing a two-pronged approach to positioning the Group as a player in the European hydrogen sector. When carrying out hydrogen projects together with industrial partners, the focus is on generating green hydrogen in the vicinity of major buyers. These partners and buyers are mainly from hard-to-abate sectors including the chemical industry, the fertiliser industry, the steel industry and refineries.

Our research and innovation projects provide an initial basis for targeted knowledge development. They include the 6 MW H2FUTURE plant with voestalpine in Linz, which has been in operation since 2019, and HOTFLEX, using a highly innovative, reversible solid oxide electrolysis and fuel cell at the Mellach power plants site. In the Underground Sun Storage 2030 (USS2030) project, the world's first geological (underground pore storage) hydrogen storage facility came on stream in 2023. In this research project, solar power from the grid is converted into green hydrogen using a climate-neutral electrolysis process and stored in pure form in former natural gas reservoirs. Together with our project partners, we are conducting interdisciplinary technical and scientific analyses under real-life conditions. VERBUND is also involved in the ZEUS (Zero Emission through Sector Coupling) flagship project. This is one of the largest Austrian research projects on the grid-friendly production of green hydrogen for methanisation processes. The aim is to gain further insights into the circular carbon economy and sector coupling.

Using our know-how as an integrated energy company along with hydrogen expertise, we are developing projects for the production of green hydrogen on an industrial scale. These include the Green Ammonia Linz project with LAT Nitrogen, which has been notified in the IPCEI (Important Projects of Common European Interest) hydrogen initiative and is subsidised by the European Union's Innovation Fund. The aim of the project is to replace some of the grey hydrogen required for the production of fertilisers, melamine and technical nitrogen with green hydrogen from a 60 MW PEM (proton exchange membrane) electrolysis plant. This will set the course for climate-friendly production at the Linz site.

The Pannonian Green Hydrogen project for the construction of a large-volume electrolysis plant with Burgenland Energie is pursuing a step-by-step approach to the production of green hydrogen – primarily from wind and solar power. Renewable electricity generated in northern Burgenland is a key component of the project, the centrepiece of which will be an electrolyser with a capacity of up to 300 MW. The first expansion stage with a capacity of 60 MW is already set to supply large offtakers in eastern Austria with green hydrogen. Additional electrolysis projects are currently in development in VERBUND's core markets, each of them with the goal of using green hydrogen to meet short-term demand and thus laying an important foundation for decarbonisation.

Importing hydrogen as a long-term strategy

Along with developing local projects, VERBUND is pursuing the development of diversified import routes in order to cover rapidly growing demand for hydrogen that cannot be generated locally. The goal is also to strengthen Austria's standing as a business location by securing a long-term supply of green hydrogen at competitive conditions. Efforts are focused on import regions that offer cost-efficient generation conditions for renewable electricity and green hydrogen as well as an existing or future infrastructure connection to core markets. Against this backdrop, VERBUND has identified specific import corridors across various neighbouring regions that it is steadily developing.

VERBUND is active along the entire value chain and is driving the development of the hydrogen economy from the demand side. This is reflected in particular in our work within the hydrogen alliances founded by VERBUND in Austria and Bavaria. The Hydrogen Import Alliance Austria (HIAA) includes Austrian energy companies as well as infrastructure operators (grid, storage facilities) and hydrogen buyers – which account for the bulk of Austrian demand. Together, we are working on a synchronised ramp-up of Austria's hydrogen import economy to ensure a reliable hydrogen supply for Austrian industry by 2030 and beyond. The aim of the Hydrogen Import Consortium Bavaria (HIBB) is to drive the growth of hydrogen imports to Bavaria by 2030 and secure the supply of large quantities of green hydrogen for local industry.

For large-scale hydrogen production, VERBUND has signed a memorandum of understanding with Masdar and ACWA Power, two leading companies in the hydrogen industry, to explore the development of joint hydrogen import projects. To diversify supply, VERBUND has entered into further partnerships for the development of hydrogen projects, e.g. in northern Europe. In addition, in 2023 we took the first steps to position ourselves in the Spanish hydrogen market. We are currently pursuing specific projects for hydrogen production to meet local demand and for long-term exports to our core markets of Austria and southern Germany.

Infrastructure as the backbone for a green hydrogen economy

Project Fit4HyT – Fit for H2 Transportation was initiated with the objective of getting all of Gas Connect Austria's pipelines ready for hydrogen transport and ultimately becoming part of the European hydrogen network. The project involves creating a detailed conversion roadmap and calculating the cost of conversion for two existing pipelines, one new and one older. Gas Connect Austria has taken a role in numerous committees and initiatives with the aim of ensuring that the timeline for its conversion roadmap lines up with planning at the European level, especially planning by Austria's neighbouring countries. Those committees and initiatives include Hydrogen Europe, Clean Hydrogen Alliance, HyPA, NetZeroAlliance and the European Hydrogen Backbone. In the committees, GCA is part of numerous working groups that focus on jointly planning the future hydrogen network and evaluating and developing potential hydrogen import routes to Austria based on domestic demand.

Gas Connect Austria has developed a hydrogen project (H2EART – Hydrogen to Europe – Austrian Regional Turntable) as part of the IPCEI initiative. That project focuses on the conversion of the pipeline network for hydrogen, the construction of hydrogen pipelines to major industrial buyers and establishment of the Baumgarten station as a European hydrogen hub (Central European Hydrogen Hub, CEH2). Since 2021, the project has been a key element in numerous other European hydrogen initiatives and has thus helped to drive development of a European hydrogen infrastructure. Due to political framework conditions, however, there will be no IPCEI H2 infrastructure (Hy2Infra) in Austria. Nevertheless, H2EART and CEH2 are still part of the Gas Connect Austria hydrogen strategy.

Together with partners from the WIVA Power & Gas Model Energy Region, Gas Connect Austria is working to make an integrated hydrogen economy feasible in a joint research project called "H2REAL – East Austria Hydrogen Region Goes Live". The project involves developing an integrated hydrogen network (a "Hydrogen Valley") as the key to hydrogen technologies and hydrogen applications in eastern Austria.

In addition to activities aimed at the conversion of pipelines for hydrogen transport, the preliminary study for the Power2Gas4Austria project was completed in 2022. The study focused on large-scale sector coupling between transmission system operators Gas Connect Austria and Austrian Power Grid.

Digital transformation, information security and data protection

Digital transformation

The ongoing digital transformation is an essential component of VERBUND's strategic focus, a major driver and promoter of the Group strategy and a regular companion in the everyday lives of VERBUND employees. A future-proof digitalisation function plus a professional and technical development perspective are therefore critical success factors throughout the Group. In financial year 2023, digital projects in the Digital Transformation Master Plan continued to be pursued and new ones were started. These include projects from the categories digital transformation, automated machine learning, big data, smart charging, digitisation of power plants and modern working practices. This master plan thus encompasses all strategically relevant digital transformation projects in the Group and serves to help plan and coordinate digital innovations.

An ideas workshop held as part of the Digital Hydro Power Plant project kicked off the systematic review of digital innovations at the pilot power plant in Rabenstein in January 2018. The Digital Hydro Power Plant was completed on schedule in December 2022. The results and findings of this project formed the basis for the development of the follow-up programme Digital Hydropower Generation, which now offers a framework for the further development and, in particular, the rollout of digital innovations in hydropower until 2030. The results and findings of the Digital Hydro Power Plant project and possible further development potential within the Digital Hydropower Generation programme were presented in mid-2023.

AI applications and machine learning

In the Establishing a Drone Strategy project, special maintenance applications using drones and robots in the power plant area were tested. An important point in testing the applications is the automated AI analysis, which builds additional knowledge within the Group. Another project in the area of digitalisation is the Zerberus project. Here, applications are modelled and piloted so that potentially hazardous activities and processes currently being performed by humans can be carried out by a robotic dog instead. The anomalies identified by the robot are analysed in the background using computer vision and displayed on a dashboard. Internal data scientists are continuously developing the required AI models.

Automated machine learning (AutoML) was also successfully applied at the Group companies in 2023. This will make VERBUND’s customer support even more customer-focused and efficient in the near future through the use of AI. One example of this is the E-mail Classification project. Using natural language processing, incoming customer service e-mails are automatically categorised, thus easing the burden on customer service staff.

Another focus is the use and efficient management of data. The Data Driven Company Master Plan provides, among other things, for VERBUND to be transformed into a data-driven company. To achieve this, it is essential to develop a vision and ambition for handling data, specific applications with associated benefits, as well as requirements for the IT infrastructure and data governance. Consistent use of data brings significant advantages: on the generation side, system efficiency and availability are increased, margins in retail are optimised and customer loyalty in sales is strengthened. New, innovative business models can be developed. Quantifying the specific added values is part of the ongoing initiative.

Information security

Information security is a matter of high priority at VERBUND and extends through all areas of the Group. With the identification of VERBUND and some of its subsidiaries as operators of essential services, the obligations arising for critical infrastructure companies under the Network and Information Systems Security Act (NIS Act in Austria and the NIS Directive EU-wide) play an important role. In the 2023 reporting period, the central information security management system was once again certified to ISO 27001 and ISO 27019. In addition, the evidence required by the NIS Act regarding the required security measures was reviewed by an external “qualified body” and submitted to the authority within the prescribed deadline.

IT and 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 set forth in the Group's strategy.
The Information Security department was further expanded in 2023 and the Information Security Master Plan was continued. The aim of the entire programme is to maintain but also continuously increase the degree of maturity in all areas of information security.

Cyber security

The Security Operation Center (SOC) plays a central role in ensuring cybersecurity. To counteract the significant increase in cybercrime, the SOC is being continuously expanded, detection of attempted attacks on VERBUND is being shored up and contingency plans are being improved in drills. The sphere of action encompasses not only the entire IT landscape, but also the systems for managing electricity generation.

A large number of measures and projects have also been implemented to safeguard the operating infrastructure. These include, for example, the medium-term planning and implementation of penetration tests and red teaming activities as well as the establishment of an efficient vulnerability management system across the entire Group landscape. Technical vulnerabilities are therefore identified from an internal and external perspective and addressed and processed according to their criticality.

In order to raise employee awareness, the security awareness programme was also accelerated in 2023. This provides for security training for new staff as part of the onboarding process. However, it also obliges existing personnel to complete an innovative online training course on the topic of cybersecurity once per year. Employees in the plants, in particular, are also offered classroom training sessions. These training courses are supported, among other things, by targeted phishing simulations and by the offering of presentations in the form of webinars on various key topics relating to information security. One focus in 2023 was the intensive awareness campaign as part of the international Cyber Security Month in October, which included webinars, videos, posters and intranet posts.

The activities were rounded off by domestic and national networking in relevant communities, for instance by active membership in the Austria-wide working group Energy CERT (Computer Emergency Response Team), in which around 20 companies from the energy sector take part.

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 (DPMS) 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.

In financial year 2022, the DPMS underwent a legal compliance check by a law firm, whose recommendations were implemented in the 2023 reporting period. The data protection tool TOM&PIA developed by VERBUND, which supports the data protection officers in updating the records of processing activities, protecting the rights of data subjects and managing the notifications to the data protection agencies, was thus expanded. An additional focus was the integration of new companies into the DPMS. The online training offering was also expanded.

In financial year 2023, a total of 28 enquiries from data subjects were processed and responded to, compared with 18 enquiries in 2022. Two complaints were made to the data protection agencies. In one case, the matter was a delayed response to an enquiry from a data subject; in another case, an annual statement had been issued incorrectly. Both these matters were dealt with in accordance with the regulations and did not result in any penalties for VERBUND.

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, which was newly defined in 2022.

It was clearly evident once again in financial year 2023 how the dedication and flexibility of VERBUND's employees contributes to the Group's success. In spite of various crises and the tense political situation, all of VERBUND's projects went ahead and VERBUND continued to consistently pursue its strategy.

New works agreements to position the Group as an attractive employer

In 2023, in cooperation with VERBUND's employee representatives, further works agreements and measures were drafted and implemented alongside the existing works agreements and benefits. The existing and newly established works agreements position VERBUND as an attractive employer.

Works agreement on the emergency services organisation: There is awareness within VERBUND of the importance for the Group of the voluntary work of its own employees within emergency services organisations. The new works agreement will help to create a balance between volunteering and professional activities at VERBUND.

Works agreement on anniversary leave: Many people would like to have more time to spend with their family or to pursue their hobbies or travel. From 2023, employees who are entitled to receive an anniversary bonus under a collective agreement will have the option to convert this to time in lieu.

Job bike: To counter the effects of climate change, VERBUND also works to enhance employee mobility. Leasing a "job bike" is an environmentally friendly way for VERBUND employees to travel to and from work. They can also use this in their free time and enjoy tax advantages through deferred compensation (salary components above the collective agreement such as the LOG performance-based remuneration scheme).

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 the optimal use of resources.

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 where there are objective reasons for doing so (e.g. to cover for 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. Leased staff 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. Compensation is based on minimum salaries stipulated in collective agreements, which cover 98.7% of VERBUND's employees. The salary of those employees who are not subject to a collective agreement is higher than comparable minimum entitlements under collective agreements. 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. The regulation on the performance-based remuneration scheme was renegotiated in 2022. A new Performance & Goals tool was introduced, among other things. The continuation of the performance- and results-based remuneration is in line with VERBUND's commitment to rewarding employees' individual achievements.

Hiring of leased staff

The effects of demographic change within the Group and in the external market are also noticeable for VERBUND. In light of the strained situation on the labour market, the proven measures of apprenticeship training and succession planning will be continued. We also decided to accelerate the hiring of leased staff. Leased staff who have a core function, whose expertise should be preserved and whose retention is beneficial due to labour market policy considerations shall be hired in two-year increments.

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.

VERBUND's brand essence had already been 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 suitable applicants.

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

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

New career websites were also produced for all VERBUND companies and holding company divisions with the intensive involvement of employees. Potential applicants will therefore be able to obtain differentiated information and gain authentic insights into the variety of jobs available at VERBUND in future. Regional careers pages and advertising materials for the power plant groups in Austria and Germany were produced for the apprentices and skilled workers to address those target groups more effectively. In order to give young people a better insight into the job profile of a power plant operator, the VERBUND POWER:GAME was developed. This is an online learning game that gives interested users the opportunity to test their skills as a power plant operators in a fun way and to get to know the VERBUND working environment. 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. To support Mission V and VERBUND's resolute determination with regard to the climate crisis, job stories featuring employees who are making a contribution to the energy transition were published.

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 also continued in 2023. 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 were possible again in 2023. As in the previous year, 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 2023.

Personnel development

Numerous flexible solutions were necessary in personnel development in 2022 as well due to the COVID-19 crisis. In 2022, each VERBUND employee nevertheless completed more than 34 hours of training. This means sustainable development at the pre-crisis level of 2019. Personnel development in financial year 2022 focused on training in the areas of safety and technology as well as in IT. In addition, after the COVID-19 restrictions had been lifted, numerous team and organisational development workshops were held.

The year 2022 was characterised by a mix of different types of events. Further training courses were held both online and in person, as well as the first courses held in a hybrid format – as deemed appropriate and useful. The courses requiring attendance postponed from 2021 (e.g. first aid courses, working from height, etc.) were made up for in the financial year under review. To ensure employee safety, antigen tests were used at all attended events.

Digital learning

Overall, the Learning Management System (LMS) remains a key component of VERBUND's training concept, which supports the efficient transfer of knowledge and skills while meeting the changing demands of the modern learning landscape. Classroom and online training (webinars) and e-training are still routinely managed on the platform that went online at the start of 2020 and laid the foundations for digital learning formats for virtual training and continuing education. The LMS is characterised by continuous feedback from users and is adapted according to the needs of the learners.

The digital learning era has caused a dynamic shift in the training landscape, particularly due to the integration of hybrid events. The hybrid setting has been promoted in practically all areas of training and continuing education, and the necessary technology has been developed. In spite of the possibility to hold classroom or hybrid events, many events continue to be held in the virtual format of webinars, as this is now an established, flexible and, above all, highly sustainable training format. Virtual and hybrid formats enable learners to attend not only traditional classroom events, but also offer in particular the flexibility to attend or access digital learning content from the comfort of their home office if necessary. The home office situation has influenced not only the way in which we learn, but has also highlighted the need to increasingly create digital training opportunities.

More e-training courses with specific content and produced in-house were added in 2023. These are increasingly designed as explanatory videos and, in some cases, have been made with the aid of artificial intelligence (AI). In addition, VERBUND-specific content was developed together with external providers and offered to employees as e-training courses. These included selected parts of the Energy Market Basic course. Content purchased in previous years (e.g. LinkedIn Learning, getAbstract, etc.) was enriched by the providers with courses on current topics and increasingly advertised within the Group. The usage rate of this external content reflected a steady increase in acceptance and greater demand from VERBUND employees.

Due to VERBUND's increasing internationalisation, there was a stronger focus on offering multilingual content. Digital learning makes it possible to offer content in different languages, which is advantageous given the necessity to offer legally mandatory training courses in multiple languages. All legally mandatory training courses were produced in English and made available to the employees in the relevant countries – above all in Spain. The multilingual and accessibility aspect is taken into consideration right from the time new e-training courses are being produced.

This international focus was reinforced by the targeted investments in Babbel licences, which aim to sustainably enhance the language skills of the learners, facilitate professional communication and promote intercultural exchange.

At the same time, training content is increasingly designed to be barrier-free to ensure equal opportunities for all learners. Integration of accessible elements into digital learning platforms allows inclusive access, irrespective of individual requirements.

In parallel to the sustainability initiatives already in place within the Group, VERBUND's internal training programme also focuses on sustainability. To create a basic understanding and promote knowledge, e-trainings provided basic know-how on the topic of sustainability. In addition, there are expert presentations on various specialist topics (climate change and sustainability, sustainable nutrition, circular economy, etc.) that delve deeper into the subject of sustainability and provide practical insights.

Further development of the corporate culture

To advance cultural development, the Group-wide cultural process was continued at VERBUND in 2023 with the aim of instigating changes in behaviour and changing mindsets and ways of thinking. The Mindset Project 2.0 was thus also successfully continued in the financial year under review by both first- and second-tier management.

The introduction and application of useful methods and tools such as co-creation, peer coaching, supportive dialogue, systematic exchange of best practices and regular meetings enhanced the way these teams work in a targeted manner and strengthened team cohesion.

Leadership call

The leadership call successfully launched in 2022 was continued in the tried and tested manner in financial year 2023. The aim is to strengthen exchange and dialogue between the Executive Board and all executives and thus create transparency and trust.

This one-hour format takes place virtually at regular intervals, in order to also reach out to and include executives from the regions.

The ModernWork@VERBUND initiative is a further measure to achieve an open, transparent and trusting culture of cooperation. By the end of 2023, the #gernperDu initiative started in 2022 had already enjoyed popularity with more than 1,000 colleagues, who have expressed their preference to be addressed by all their colleagues using German's informal "Du" rather than the more formal "Sie".

Great Place to Work

Great Place to Work® has been recognising the best employers for 30 years. VERBUND would like to remain an attractive employer, which is why in 2023 it took part in the Group-wide Trust Index© employee survey conducted by Great Place to Work® for the second time. The Trust Index© employee survey provides a comprehensive site assessment of the perceived quality and attractiveness of the workplace culture. The questionnaire is used in more than 50 countries around the world to find the best employers in each country. Questions include topics that are highly relevant for employees worldwide, such as credibility, respect, fairness, pride, team spirit and trust.

Due to the high participation rate of 72% and a Trust Index© rating of 76% in the Group-wide Trust Index© employee survey by Great Place to Work®, VERBUND was once again certified as a Great Place to Work® – and for the first time in four countries: Austria, Germany, Spain and Romania. This accolade shows that a lot has happened at VERBUND over the past months and years – not least with the transformation due to Mission V and the corporate culture project.

If VERBUND also receives a positive cultural evaluation of its human resources and cultural work measures based on the Culture Audit©, it will also have the opportunity to qualify for the two national awards Austria's Best Employers (*Österreichs Beste Arbeitgeber*) and Germany's Best Employers (*Deutschlands Beste Arbeitgeber*) and for the European award Europe's Best Workplaces.

In the last survey, employees perceived VERBUND as a very good employer with a consistently high level of 89% overall satisfaction.

The perception of the experienced culture of trust, the Trust Index©, increased by 2% to 76% in comparison with the previous survey.

Employee loyalty to the Group and team spirit are also highly pronounced. The highest increases compared with the last survey were recorded for "team spirit" (+ 4%) and "fairness in promotions" (+ 10%).

VERBUND's strengths include that its employees feel that they are treated as full members regardless of their position and that their managers trust them to do good work, without constantly checking up on them. In addition, the employees would recommend VERBUND as a very good employer to their friends and family.

In spite of slightly positive changes since 2020, there is generally still potential for development in the management-related dimensions of credibility, respect and fairness – particularly in the areas of cooperation, balance and neutrality.

The greatest potential of all lies in the celebration of special events, appropriate participation in the Group's success, fairness in promotions and the design of the working environment.

VERBUND corporate culture project KraftWert

VERBUND's corporate culture is nothing other than how we at VERBUND act on a daily basis, work together and lead – in accordance with our three core values: commit, connect and change. VERBUND aims to create a working environment in which an appreciative, trust-based approach is practiced, new ideas are valued and implemented and the exchange of ideas and cooperation are promoted and encouraged. This goes hand in hand with embedding the values in the Group's DNA as guidelines for daily activity and actions at VERBUND. After all, global changes start with us. VERBUND wants to set the right course so that we collectively spearhead the energy transition. Its credo is: "The best strategy will only work if it is implemented together – across all areas, functions and hierarchies". Particularly due to the entry into new areas of business, new markets, accompanied by the shortage of skilled staff and the impending wave of retirements, corporate culture is the crucial success factor and anchor for the success of Mission V and the success of VERBUND.

The KraftWert corporate culture project was therefore launched at the end of 2022 to develop the corporate culture with a focus on implementing the values. From October 2022 until the end of 2023, measures were implemented that make the corporate values at all levels of VERBUND visible and tangible.

A hybrid, Group-wide kick-off event marked the start of the KraftWert corporate culture project. The project was presented on a broad scale across VERBUND at this event, which featured both external speakers as well as internal perspectives from experienced managers and representatives from the younger generation. All three members of the Executive Board used this forum to highlight the fundamental importance of the corporate culture as a driving force for change and encouraged all employees to actively participate.

Building on the corporate values developed in 2022, leadership principles across hierarchies and departments were developed in a participatory process. This was done in several iterations and feedback loops, in which the Executive Board members were also closely involved. Due to this participatory approach, a high level of commitment and identification with the results was achieved from the start.

To give executives a better understanding of the new leadership principles, more than 20 cross-departmental and cross-hierarchical management training sessions were held at various VERBUND sites. In addition to presentations on the KraftWert corporate culture project and the new leadership principles, participants were also given a set of methods and tools for implementing the principles in practice. The format of the training promoted dialogue and the exchange of ideas among the participants, reducing both vertical and horizontal distances. Successes and potential for development with respect to the leadership principles were reviewed together six months later in cross-hierarchical retrospectives for leaders. This format promotes learning from each other, reduces vertical and horizontal distances and thus exemplifies the new culture in real time. The tools and methods regarding the leadership principles will be repeated, deepened and developed further.

The training sessions and workshops held in 2023 also served to provide a better understanding of the challenges, problems and resources within the organisation as a whole. In meetings with over 250 people, findings were documented, summarised and then presented to top-level management and all three members of the Executive Board during a meeting in June 2023. A catalogue of measures was drawn up together and possible solutions were worked on.

To reinforce the cultural change, employees were called upon to act as multipliers for cultural change as so-called eVi pioneers. At a one-day training course, the eVi pioneers gained knowledge about cultural transformation, moderation and team dynamics. This network consisting of over 50 multipliers extends across hierarchies and business areas and its purpose is to give employees a better understanding of the corporate values, work on cultural issues together and lead by example.

The eVi app was developed as a digital support for implementing the values. In the app, employees engage with the corporate values, the VERBUND transformation as well as current developments within the Group. The app also introduces practical tools and methods for implementing the values and leadership principles. Regular pulse checks used as a diagnostic tool are likewise conducted via the app and the results are made transparent for everyone.

Teams were given the opportunity to experience the corporate values first hand by participating in gamification-based challenges. By performing tasks that were tailored to the values, they were able to experience the new corporate culture in the form of a game. Reflection workshops afterwards, which were moderated by the eVi pioneers, ensured that the findings were transferred in the context of the new corporate culture.

In a further step, principles of cooperation at VERBUND were developed and defined at the end of 2023 together with employees from across all levels of the Group and the individual companies as part of the KraftWert corporate culture project, based on the VERBUND values of the BlueCode. The BlueCode presents specific instructions for action and defines the pillars on which cooperation at VERBUND should be based.

Internationalisation

VERBUND's activities now extend to several European countries. Strategic Personnel Development at VERBUND takes this into account by expanding the learning opportunities in the area of digital learning and languages and consistently taking them into consideration. This corporate function has also standardised relevant processes to be able to offer high-quality development services across the various countries. Strategic Personnel Development acts as the central contact for the HR business partners from the different countries and provides support and advice on the conceptualisation and selection of relevant development opportunities for employees. This also includes supporting the development and running of (team) workshops within the scope of Group-wide cultural initiatives.

High potential programme

With its new high potential programme VERBUND provides a development space for its forward-thinking employees who like to work on themselves and lead collaboratively. The programme, which was developed as a measure from the Great Place to Work survey in 2020 and as part of the Gender Balance project, started at the beginning of 2023, will run for two years and will subsequently be offered every two years. The aim is to provide motivated employees with an individual development programme, including mentoring, that will strengthen their ability to change and enhance their expertise. This is intended to keep VERBUND fit for the future and provide interested employees with exciting development opportunities.

The high potential programme gives participants the opportunity to network across the Group, work on their own personal development and engage in intensive dialogue with executives through mentoring. The programme provides support for individual development, but does not pre-empt any future application processes.

In the first round, 40 high potentials were selected. The application process started in June 2022. A total of 79 people from different companies applied by way of self-nomination via the specially developed high potential platform. In the self-nomination phase, applicants had to answer questions about recruitment and working methods and upload a one-minute video about themselves.

The 79 applications were then evaluated by around 35 voluntary adjudicators (first- and second-tier managers). This was done based on predefined criteria such as collaboration, commitment, willingness to learn, forward thinking, willingness to change and persuasiveness.

The top 54 participants based on the final feedback from the assessment board were invited to audit interviews, which were held in October 2022. In these audits, the assessment board, observers and Personnel Development assessed how the applicants solved tasks in a group and individually. At the end of the audit, the 40 participants in VERBUND's high potential programme were determined and the high potential programme started in February 2023. The ratio of male to female participants was an exact 50%/50% split. The high potentials go through three phases in the high potential programme. While the first phase focuses on strengthening self-efficacy and prioritises the participants' own goals and development paths, the second phase is about commitment to VERBUND and participation in pioneering projects. The third phase completes the path from the individual to the macro level, and the high potentials consider trends as well as social and developments that influence VERBUND's work and activities in the energy sector. The selection process for the second round of the programme is scheduled for the first half of 2024.

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 2022 to another sub-sector of diversity management: people with disabilities. It is not just the social responsibility that VERBUND clearly sees 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 the Group more accessible (barrier free) and creating further incentives for VERBUND employees who have a disability.

In 2023 the focus was on communication and implementation of the measures developed in the projects. Due to the extensive information and communication campaign, inequality and sexism are recognised earlier. This is also reflected by the increase in the number of reported suspected cases of discrimination to ten reports (see also the Compliance section). The consistent processing of reported cases enables us to better protect those affected, find solutions and impose the necessary sanctions in the event of violations. Three of the reported cases relate to the same issue – sexism and a disrespectful tone in a specific department. Two further cases also relate to this. Owing to the rise in the number of reports from one department, a review process has been started. All employees in the department were interviewed by an external consultant based on a questionnaire on the reported issues. This inquiry has shown that there are challenges relating to sexism and discrimination. An awareness programme has therefore been initiated for all managers and employees in the department that serves to better recognise sexism and to address it and avoid it in future to improve cooperation. The measures taken in specific cases also strengthen awareness of the importance of a respectful, appreciative and nondiscriminatory corporate culture. This enables us as a company to intervene at an earlier stage and minimise more serious cases. We do not tolerate any form of discrimination. Fairness towards others is an important part of our corporate culture.

In addition, executives continued to be set diversity targets so as to ensure continuous implementation. The aim of this is to expand the circle of diversity bit by bit and to make it a better reflection of the reality of our society, because as a company VERBUND in no way wishes to neglect the success factors of diversity and inclusion.

Focus on gender

Although the proportion of women in a technology-focused company like VERBUND is traditionally low, the impact of the measures implemented as part of the Gender Balance project has been evident since 2021. In 2020 and 2021, a multi-dimensional corporate analysis identified the key issues for change in the corporate culture that bring the greatest and fastest added value in achievement of gender balance. The first of these is the development of the KPIs and the second is the development of the corporate culture. Thanks to the measures taken, the target set for 2025 to increase the proportion of women to a total of 20% was already exceeded ahead of schedule in financial year 2022, with 20.5%. The proportion of women among apprentices has also shown a very positive trend.

The proportion of women at management level is to be increased to 20%. A detailed quota calculation showed, based on strategic personnel planning and labour market data, how the proportion of women can be increased to the target quota by 2025 and forms the basis for the annual targets of the individual operating segments. The actual development will be continuously monitored.

The successful developments were coupled with a new ambitious objective in 2023. The newly defined target for the proportion of women overall and the proportion of female executives is 25% by 2030.

A sustainable change in corporate culture can only be achieved by continuously developing new approaches and maintaining supporting processes. A clear objective and the stipulation of results criteria will ensure efficient implementation. Measures developed in previous years were thus continued and implemented in 2023: fixed quotas for new hires, projects and committees, expansion of flexibility with respect to working hours and working from home, increased communication on all dimensions of diversity, increased focus on women and people with disabilities in job advertisements, tools and internal processes, offering of a female empowerment app for our female employees, webinars for executives and employees, new gender rules that include all genders, as well as a gender-equitable high potential programme. By firmly anchoring these main focus areas, VERBUND aims to bring about a lasting change in its corporate culture and hence appeal to people of different talents in the labour market. This will ensure that we can continue to recruit qualified personnel in the long term.

Fair compensation of women and men is a matter of priority for VERBUND. The basis for fair compensation is strict compliance with the classifications of the collective agreement as well as standardised payment based on the SmartLOG performance-based remuneration scheme launched in 2022. In addition, every two years VERBUND analyses the salaries of men and women in the Group, as part of the preparation of an income report. A detailed salary analysis reviewing the average salaries of men and women also started in 2022 – taking more extensive parameters into account than the income report. All employment relations (excluding APG) covered by VERBUND's model job system are examined, with a review of the wages and salaries actually paid to men and women based on their specific activities within comparable groups. The discrepancies shown that cannot be objectively justified were adjusted as part of the 2023 reclassification round.

Focus on people with disabilities/accessibility management

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. In 2023, VERBUND had 93 employees with disabilities, irrespective of the degree of disability, which equates to 2.3% of the workforce.

The measures developed in 2022 as part of the inklusiv@verbund project were implemented in 2023 – including an information campaign on all dimensions of diversity based on a series of articles on the intranet, factsheets on infoscreens at VERBUND power plants and a series of presentations, a reference to the Group's inclusive attitude on all VERBUND job advertisements, participation in the myAbility talent programme (which connects companies with students with disabilities), the collaboration with the Austrian Disabled Sports Association (*Österreichischer Behindertensportverband*), the specific search for apprentices with a disability and the successive subtitling of VERBUND videos. In 2023, VERBUND was proud to take on an apprentice with a disability.

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.

Structural barriers are being addressed by the individual companies or in the respective projects. This was the case in 2023 in the New World of Work project; with the support of MyAbility Social Enterprise GmbH, attention was paid to the availability of accessible workplaces.

Digital barriers were also reduced in 2023. An internal accessibility check is currently underway for IT applications purchased and the topic of accessibility is also an important part of the work on the website relaunch.

There was also the annual Purple Light Up Day, the international day raising awareness for people with disabilities, which was held on 3 December 2023. VERBUND's headquarters were illuminated in purple for this occasion.

Focus on age

The demographic trend observed for many years continued during the reporting period. Around 6% of VERBUND employees will retire in the next five years. Over the next ten years, around 16% will retire. The objectives in managing the demographic change are keeping knowledge in the Group and maintaining the loyalty of VERBUND's top performers.

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, a major focus is providing safe and healthy working conditions, eliminating hazards, and mitigating risks.

Occupational health and safety

In the 2023 reporting period there was a central reorganisation of occupational safety at VERBUND, with a thematic focus and bundling of specialist expertise in order to rise to the existing and future challenges in a targeted way and be able to support the achievement of the Group's occupational safety goals as best possible. The new organisational unit named the Occupational Safety Centre is responsible for Group-wide support in all matters of occupational health and safety, work materials, hazardous goods and waste management (with the exception of Austrian Power Grid AG and Gas Connect Austria GmbH), as well as Group-wide, task-specific reporting within the VERBUND Group.

Accidents in 2023

The calculation of occupational safety KPIs is based on the number of VERBUND employees under labour law, including employees in partial retirement, leased staff and all employees of proportionately consolidated equity interests, regardless of the type of consolidation over which VERBUND exercises a controlling influence. On this calculation basis, VERBUND had 4,534 employees at the end of 2023. This number included 150 leased staff, 127 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 MSP Solarpower GmbH, iFix Solar GmbH and VERBUND Green Hydrogen GmbH.

Lost Time Incident Frequency (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.

The incidence of accidents improved overall compared with 2022; there were 23% fewer LTIF-related accidents in the reporting period, and the total accident frequency LTIF (total) declined by 27%. Injury severity increased slightly in financial year 2023. In spite of the increasing number of projects with a greater risk of accidents, such as efficiency improvement programmes and new power plant construction, the LTIF at external contractors decreased significantly. 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.

The total accident frequency of 6.5 (LTIF including external contractors) fell by 2.4 compared with 2022. 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 2023. This shows that safety standards at VERBUND 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 as follows: trapping and crushing, falls on level ground, falls and falling objects. There was one workplace accident resulting in serious injury in financial year 2023. In the reporting period there were also eleven accidents involving VERBUND personnel on the way to or from work.

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. The evaluation was reviewed and, if necessary, adjusted if there were 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 analysis of work-related injury statistics at VERBUND. The focus topic of the safety briefings in 2023 was "Human senses – Effects of loss".

Every year, as was the case in financial year 2023, legally mandated safety briefings are successfully completed by close to 100% of the workforce, either in person or via an e-learning programme that includes a final test.

In the area of occupational safety, VERBUND has a large number of internal 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.

In addition to the revision and expansion in the previous year of the occupational health and safety and environmental protection guidelines for the provision of services by contractors at VERBUND sites and/or construction sites in Austria, versions of the guideline were also developed for Germany and Spain in the 2023 reporting period. These guidelines, which are binding for all deliveries and services, include additional safety requirements for contractors for extensive work and work with particular hazards in order to promote accident prevention, especially on construction sites In the event of non-compliance with or infringement of the provisions of the occupational health and safety and environmental protection guidelines, a four-step escalation scenario comes into play.

With regard to personal protective equipment, multi-norm compatible workwear with increased wearer comfort and improved freedom of movement for operational work was developed in VERBUND

Design based on extensive test and wearer trials. Particular attention was paid to introducing ergonomic and gender-appropriate styles. The rollout of the new VERBUND protective workwear began in quarter 4/2023.

Work materials, hazardous goods and waste management strategy

The Work Materials, Hazardous Goods and Waste Management strategy project launched in financial year 2023. As part of the project, a Group-wide analysis of the existing processes, organisation and systems used for the entire work material cycle (procurement, transport, storage, usage, disposal) is to be carried out in addition to development of an effective and efficient process for a uniform approach throughout the Group and determination of specific improvement measures. The project also aims to support the Group objective of reducing work materials in use by 10% by 2025.

Certification of management system for health and safety at the workplace

All VERBUND employees are covered by appropriate occupational health and safety management systems. As many as 32% of the employees work in companies with externally certified management systems according to ISO 45001.

As a medium-term corporate objective, VERBUND is striving to achieve ISO 45001 certification of all VERBUND core companies by the end of 2025. Initial preparatory work was carried out in this regard in 2020 in addition to ISO readiness audits of one hydropower plant group and one administrative location, before construction of a pilot management system in accordance with ISO 45001 began in 2021 for the VERBUND AG sites in Vienna. After processing of all standard points and creation of the necessary documentation, including a management handbook, this pilot management system was subjected to an internal pre-audit in autumn 2022. In June 2023, VERBUND AG's management system was successfully externally certified to ISO 45001. The first steps towards the Group-wide rollout were also taken in the reporting period.

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 the 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, a sub-project entitled "five minutes for safety" and the new regulation for the evaluation of workplace accidents. In 2023, additional appropriate measures were implemented in the "We Live Safety" project to improve contractor safety. In addition to production of an instructional film for the occupational health and safety and environmental protection guidelines for contractors, development of an internal rating system for assessing the safety performance of contractors was started.

Promoting health among employees

The Fit and Healthy at VERBUND initiative is designed to promote a healthy lifestyle among employees. Its aims are twofold: to increase general health awareness and offer specific measures that enable everyone to become proactive about their own health. Ideally, these offers are free of charge for employees and they can take advantage of them directly at their place of work.

As in previous years, there was a focus on health checks in 2023. 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 at various external site locations. Another focus was the topic of cancer prevention. In this connection, all employees were offered online presentations on this key topic, some of which could be viewed during working hours.

Webinars on the topic of healthy eating, online vision training as well as presentations on brain-friendly work were also offered at four locations, as were physiotherapy training days with a focus on a healthy back.

An app-based motivation platform launched in 2021 was used to run various challenges to promote physical activity and health in 2023.

In addition, a strategic process aiming to effect a comprehensive reorganisation of health management from 2024 was started in 2023.

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 the 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. Four cases of suspected discrimination were reported in 2022. 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 2022.

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 2023 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 the Company's 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, the processes used in the Group-wide risk management system as well as the analyses and reports produced are regularly adapted to changes in internal and external requirements. VERBUND's risk management agendas encompass the management of current operations and project management as well as activities aimed at supporting strategic decision-making processes. Each year, VERBUND's auditor reviews and confirms the effectiveness and maturity level of Enterprise Risk Management based on the recommendations contained in the ISO 31000 reference model.

Priorities and progress

The focus of VERBUND's risk management activities in financial year 2023 was based, among other things, on the ongoing evaluation and assessment of the opportunity and risk position at VERBUND, early warning indicators and risk analyses in connection with planned projects and investments. In addition, we conducted a multi-year analysis of the risks of ongoing business, identified and (re)assessed strategic risks, and prepared a risk-bearing capacity analysis and a stress test analysis. We also expanded our existing approaches and considerations around ESG-related risks to include more detailed tools and processes.

Significant opportunities and risks as well as measures

Current opportunity and risk position in 2023

The material drivers of opportunities and risks in financial year 2023 were in the following risk categories: volume risk, price risk, financial risk, regulatory risk, investment and impairment risk, operational risk, strategic risks and risks in connection with climate change.

Hydropower generation is subject to seasonal and regional fluctuations in water supply at the catchment areas. Options to compensate for these effects by means of the (annual) storage power plants and by diversification through investment in other renewable generation and storage technologies (flexibility) are very limited. In 2023, regional and seasonal fluctuations in the water supply almost balanced out over the year as a whole and the average output was slightly below the long-term average. A similar picture emerged for generation from wind and solar power, where regional and seasonal fluctuations likewise balanced each other out and output was slightly above the long-term average (new renewables coefficient: 1.06).

Electricity price opportunities/electricity price risks

Along with the risks of fluctuations in output, electricity price trends represent a significant risk and opportunity factor for VERBUND. In order to reduce risk potential, VERBUND pursues a forward-looking pricing strategy in which output is traded on forward and futures markets. In addition, we entered into long-term contracts with some customers to hedge the price level. The electricity market has increasingly stabilised compared with 2022; prices are now far less volatile.

Financial opportunities/financial risks

Although inflation, rising interest rates and energy prices largely eased in 2023 compared with 2022, macroeconomic conditions remain tight, which means that default and counterparty risk are still high. In order to minimise risk potential, VERBUND relies on an established system of credit limits and a strict scoring of business partners based on a system for evaluating creditworthiness. VERBUND also monitors credit risk on a regular basis.

Electricity price volatility influences the measurement of forward contracts concluded in the electricity market, which can lead to short-term liquidity inflows or outflows depending on whether the effect is positive or negative. All positions are therefore monitored on an ongoing basis and the necessary liquid funds and credit lines are kept in reserve or increased as a precaution.

Regulatory opportunities/regulatory risks

Changes in the legal framework at both EU and national level continue to pose an uncertain level of risk to the Group's long-term performance. Potential effects on the Group are therefore evaluated on an ongoing basis.

The Federal Act on the Energy Crisis Contribution for Electricity (*Bundesgesetz über den Energiekrisenbeitrag-Strom*, EKBSG), which was passed in December 2022 and provides for a cap on revenue/electricity prices and a resulting windfall tax on so-called surplus revenue, remained in force until 31 December 2023. In January 2024, it was announced that the tax on windfall profits will continue in Austria in 2024.

Investment and impairment risk

The value of VERBUND's power plants – both the existing plants and the planned new projects and acquisitions – depends on various factors such as changes in electricity prices and the cost of capital as well as regulatory developments. The effects of climate change on the measurement of VERBUND's assets are evaluated at regular intervals. The focus here is on climate models that map out meteorological and hydrological scenarios in VERBUND's management areas. No significant measurement effects as a result of changes in the quantities relevant for energy production have been identified to date in connection with the climate scenarios analysed. Further details can be found in the notes to VERBUND's consolidated financial statements (in the section entitled Effects of climate change).

Operational opportunities/operational risks

The threat of cyberattacks is still classified as high and potentially increasing. VERBUND responds to the heightened challenges (mainly from the perspective of critical infrastructure) by continually improving its existing technical and organisational measures. We counteract cyber risks by implementing preventive security strategies and projects to increase the security of network and information systems as well as internal guidelines and correspondingly defined and secured processes.

Heavy regional rainfall and storms led to a tense flood situation (HQ10 at peak) at the Drau power plant group in early November 2023. By lowering the large reservoirs in good time, we were able to control the runoff from the flood waves accordingly.

Strategic opportunities and risks

Climate change, changes in the legal/regulatory 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. So, in addition to the ongoing evaluation of short-term opportunities and risks as they arise during the year, VERBUND also pinpoints and assesses the relevant strategic risks on an annual basis. Dealing with these risks proactively enables us to limit their impact on the Group accordingly while consciously identifying opportunities for additional growth.

Effects of aspects of climate change

Due to the generation and transmission technologies used, VERBUND's plants are highly exposed to weather events that cannot be influenced. This applies in particular to VERBUND's partially exposed generation infrastructure (the VERBUND hydropower plants, wind power plants and photovoltaic installations) as well as its transmission infrastructure (in particular Austrian Power Grid's high-voltage lines).

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. To counteract this trend and spread potential risks, VERBUND is focusing on both regional and technological diversification in generation. In particular, we are investing in maintaining our assets, increasing the efficiency of existing plants, constructing promising hydropower plants and expanding generation from wind farms and photovoltaic installations. Each year, the long-term positive and negative impacts that climate change could have on the sustainability of VERBUND's business model and long-term strategy are analysed and discussed in the context of identifying and (re)assessing the strategic risk landscape. Among other things, the potential short- and medium-term effects of climate change are integrated into our internally defined stress scenarios as part of the annual stress test analysis, then evaluated and reported to VERBUND's management.

Risk-bearing capacity

One success factor in ensuring risk-bearing capacity is secure access to the capital market. The concept for risk-bearing capacity is focused on two areas: identifying the effects of organic and inorganic projects on the Group's credit rating, and 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 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.

As at 15 February 2024, no risks were foreseeable for 2024, the effects of which – either individually or in interaction with other risks – could pose a threat to the continued existence of VERBUND AG.

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

Please refer to the 2023 Group Integrated Annual Report for further information as well as additional details on significant risks and opportunities as well as measures.

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 (*Unternehmensgesetzbuch*, UGB), the internal control and risk management systems for the accounting process must be described. VERBUND's internal control system includes all measures for ensuring the reliability, effectiveness and profitability of this process, as well as compliance with external regulations. The structure of the risk management system is explained in detail in the Disclosures on Management Approach (DMA) and the risk position is described in the section of the VERBUND Integrated Annual Report 2023 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 the 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. Therefore, VERBUND subsidiary Austrian Power Grid (APG) has 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 effective 31 May 2021. VERBUND subsidiary Gas Connect Austria GmbH 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 likewise 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 2023, 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 the share capital; 177,182,000 no-par value shares (registered shares Category B), equivalent to 51% of the 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 carry the same rights and obligations.

2. In accordance with constitutional law, which regulates the ownership structure of companies in the Austrian electricity sector (Federal Law Gazette I (BGBl.) 1998/143(2)) and also forms the basis for the Company's Articles of Association, the following voting restriction applies: "With the exception of regional authorities and companies in which regional authorities hold an interest of at least 51%, the voting rights of each shareholder at the General Meeting are restricted to 5% of the share capital."
   VERBUND AG is unaware of any other restrictions that affect voting rights or the transfer of shares.

3. The shareholder structure of VERBUND AG is largely defined by the majority holding of the Republic of Austria. In accordance with constitutional law, 51% of the share capital is owned by the Republic of Austria. A syndicate of the state energy companies Wiener Stadtwerke GmbH and EVN AG owns more than 25% of the share capital. More than 5% of the share capital is owned by TIWAG-Tiroler Wasserkraft AG. Less than 20% of the share capital is in free float.

4. There are no shares with special control rights.

5. VERBUND does not offer any employee participation programmes.

6. In accordance with the rules of procedure for the Supervisory Board, the last nomination to the Executive Board must be prior to the nominee's 65th birthday. Pursuant to the Austrian Code of Corporate Governance (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).

VERBUND’s Consolidated Corporate Governance Report, which is included in the Integrated Annual Report 2023, is also available on the VERBUND website.

Report on the expected performance of the Company

Outlook

Despite difficult economic conditions, the global economy grew by 3.1% in 2023 according to the International Monetary Fund (IMF). However, this figure is significantly below that of 2021 and 2022 as well as the long-term average. The IMF is forecasting global economic growth of 3.1% for 2024. The main reasons for these trends are the slow recovery from the consequences of the COVID-19 pandemic, Russia's war against Ukraine and high inflation. At 6.9% for 2023 and a predicted 5.8% for 2024, global inflation remains relatively high. Factors such as softer purchasing power due to reduced real incomes, the global weakness of industry and interest rate hikes also led to a recession in Austria in 2023. Austrian gross domestic product contracted by 0.8% in the reporting period. For 2024, WIFO expects growth of 0.9% and a simultaneous fall in inflation to 4.0%, partly due to a delay in the recovery of industry.

Thanks to market stabilisation, commodity prices in 2023 were significantly lower than in the previous year. This was due to factors including reduced consumption by buyers, price pressure caused by the economic slowdown and plentiful supplies of natural gas. Falling commodity prices also led to a sharp reduction in prices on the wholesale electricity market.

The planned expansion of volatile new renewables generation is making VERBUND's generation portfolio more significant in the core markets. 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), which serves as a bridge technology for maintaining domestic security of supply, are crucial in helping to make it possible to expand new renewables and to support the target of 100% renewable electricity (national balance) by 2030. VERBUND also plays a role in achieving the target of emission-free electricity generation through both organic and inorganic growth in new renewables in new markets. Austrian Power Grid, VERBUND's wholly owned subsidiary, owns and operates the electricity 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, in which VERBUND holds a 51% equity interest, is an independent Austrian gas transmission and distribution system operator. It therefore 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 2024–2026

VERBUND's updated investment plan for the 2024–2026 period provides for capital expenditure in the amount of €5,535m. Of that total, around €3,809m will be spent on growth CAPEX and around €1,726m on maintenance CAPEX. Most of the capital expenditure (approximately €1,780m) will go towards expanding and maintaining the regulated Austrian power grid and gas network. In addition, VERBUND will be investing primarily in projects involving new renewables (approximately €1,708m) and hydropower plants (approximately €1,418m). The investments will mainly involve VERBUND's domestic markets of Austria and Germany (approximately €4,115m) and the Spanish market (approximately €960m). In financial year 2024, VERBUND plans to invest a total of approximately €1,671m, around €1,134m of which will be invested in growth and around €537m in maintenance.

Dividend

VERBUND plans to distribute a dividend of €4.15 per share for financial year 2023. This dividend breaks down into a regular dividend of €3.40 per share plus a special dividend of €0.75 per share. The one-off special dividend will allow shareholders to participate in the Group's extraordinarily positive business performance for financial year 2023 by means of a higher payout. Distribution of the dividends must be approved by the Supervisory Board at the meeting at which the annual financial statements are to be approved and also requires the approval of the shareholders of VERBUND AG at the 2024 Annual General Meeting.

Earnings projection for 2024

VERBUND's earnings performance is significantly influenced by the following factors: wholesale prices for electricity, the Group's own generation from hydropower, wind power and solar power, the contribution to earnings from flexibility products and ongoing developments in the energy market. In addition, the measures enacted to extend the tax on windfall profits may impact the earnings trend in financial year 2024.

Around 66% of the planned own generation for 2024 was already contracted as at 31 December 2023. The price achieved for this was approximately €24/MWh below the sales price achieved in 2023.

The outlook for VERBUND remains highly uncertain given the still precarious energy situation in many countries, geopolitical uncertainties, the risk of regulatory interventions and high volatility of the key factors influencing VERBUND's results.

Events after the reporting date

There were no events requiring disclosure between the reporting date of 31 December 2023 and authorisation for issue on 15 February 2024.

Vienna, 15 February 2024

Executive Board

Mag. Dr. Michael Strugl MBA
Chairman of the Executive Board

Dr. Peter F. Kollmann
Vice-Chairman of the Executive Board

Mag. Dr. Achim Kaspar
Member of the Executive Board

Mag. Dr. Susanna Zapreva-Hennerbichler
Member of the Executive Board

Annual financial statements

Balance sheet

Assets

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	Notes	2022	2023
A. Fixed assets			
I. Intangible assets	(1)	1,186.2	1,280.2
II. Property, plant and equipment	(2)	24,331.8	35,285.7
III. Investments	(3)	6,532,315.9	6,962,143.8
		6,557,834.0	**6,998,709.7**
B. Current assets			
I. Inventories	(4)	35,995.3	14,820.8
II. Receivables and other assets	(5)	177,674.2	255,224.7
of which due in more than one year		4,556.8	8,184.1
		213,669.5	**270,045.5**
C. Prepayments and accrued income	(6)	60,098.0	**57,885.2**
D. Deferred tax assets	(7)	69,558.3	**60,895.4**
		6,901,159.7	**7,387,535.8**
Rights of recourse	(8)	666,838.9	780,264.6
less counter-guarantees from cross-border leasing		–74,583.4	–74,389.1
		592,255.5	**705,875.5**

Liabilities

€k

	Notes	2022	2023
A. Equity			
I. Called and paid-in share capital	(9)	347,415.7	347,415.7
II. Capital reserves	(10)	971,720.3	971,720.3
III. Revenue reserves	(11)	1,247,575.7	1,008,242.2
IV. Net profit	(12)	1,250,696.5	1,441,775.1
of which profit carried forward		0.0	0.0
		3,817,408.2	**3,769,153.3**
B. Provisions	(13)	450,363.8	**728,331.2**
C. Liabilities	(14)	2,632,556.4	**2,889,511.1**
of which due within one year		703,322.0	1,985,386.0
of which due in more than one year		1,929,234.4	904,125.2
D. Accruals and deferred income	(15)	831.4	**540.1**
		6,901,159.7	**7,387,535.8**
Contingent liabilities	(16)	666,838.9	780,264.6
less counter-guarantees from cross-border leasing		–74,583.4	–74,389.1
		592,255.5	**705,875.5**

Income statement

	Notes	2022	2023
			€k
1. Revenue	(17)	615,254.9	997,300.9
2. Change in total services not yet billable		–43.2	1,814.0
3. Other operating income	(18)	1,456.8	1,285.1
4. Operating income (subtotal of lines 1 to 3)		616,668.6	**1,000,399.9**
5. Expenses for electricity, grid/gas purchases and purchases of emission allowances and other purchased production services and other services		–518,069.8	–1,093,856.2
6. Personnel expenses	(19)	–27,523.5	–40,911.0
7. Depreciation and amortisation	(20)	–2,539.4	–2,520.9
8. Other operating expenses	(21)	–84,106.7	–134,019.5
9. Operating result (subtotal of lines 4 to 8)		–15,570.8	**–270,907.6**
10. Income from equity interests		589,093.2	1,586,935.8
11. Income from other securities and loans classified as financial assets		40,620.7	56,765.4
12. Other interest and similar income		7,318.4	13,084.8
13. Income from the disposal and reversal of impairment losses on investments		93,642.1	67,324.8
14. Expenses from investments		–121,188.0	–259,743.7
15. Interest and similar expenses		–42,693.4	–84,671.1
16. Financial result (subtotal of lines 10 to 15)	(22)	566,793.1	**1,379,696.0**
17. Earnings before taxes (subtotal of lines 9 and 16)		551,222.3	**1,108,788.4**
18. Taxes on income and profit	(23)	12,119.5	93,653.3
19. Net income for the year		563,341.8	**1,202,441.6**
20. Disposal of revenue reserves		687,354.7	239,333.5
22. Net profit		1,250,696.5	**1,441,775.1**

Statement of changes in fixed assets

	As at 1/1/2023	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	8,632.9	726.8	606.5	0.0	
	8,632.9	**726.8**	**606.5**	**0.0**	
II. Property, plant and equipment					
1. Land, land rights and buildings, including buildings on third-party land					
a. with residential buildings	77.6	0.0	39.7	0.0	
b. with plant and other plant facilities	30,743.9	1,153.7	0.0	0.0	
2. Machinery	0.0	4.4	0.0	11.6	
3. Electrical installations	7,451.1	118.8	374.7	0.0	
4. Office and plant equipment	24,389.9	1,427.7	606.2	0.0	
5. Prepayments and assets under construction	518.2	10,162.6	0.0	– 11.6	
	63,180.7	**12,867.3**	**1,020.6**	**0.0**	
Property, plant and equipment and intangible assets	**71,813.6**	**13,594.1**	**1,627.1**	**0.0**	
III. Investments					
1. Shares in affiliated companies	4,485,567.5	263,773.8	0.0	0.0	
2. Loans to affiliated companies	1,810,543.0	380,556.7	45,943.9	0.0	
3. Equity interests	283,277.0	0.0	625.0	0.0	
4. Loans to equity interests	50,000.0	25,000.0	0.0	0.0	
5. Securities (loan stock rights) under fixed assets	8,169.8	0.0	89.2	0.0	
6. Other loans	43,662.8	1.5	3,501.9	0.0	
	6,681,220.2	**669,332.1**	**50,160.0**	**0.0**	
Fixed assets	**6,753,033.7**	**682,926.2**	**51,787.1**	**0.0**	

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	As at 31/12/2023	Accumulated amortisation and depreciation as at 31/12/2023	**Net carrying amount as at 31/12/2023**	Accumulated amortisation and depreciation as at 31/12/2022	Net carrying amount as at 31/12/2022
	8,753.2	7,473.0	1,280.2	7,446.7	1,186.2
	8,753.2	7,473.0	**1,280.2**	7,446.7	1,186.2
	37.8	37.8	0.0	77.6	0.0
	31,897.6	21,882.1	10,015.5	21,229.2	9,514.7
	16.0	0.4	15.6	0.0	0.0
	7,195.3	5,561.9	1,633.4	5,536.2	1,915.0
	25,211.4	12,259.5	12,951.9	12,006.0	12,383.9
	10,669.2	0.0	10,669.2	0.0	518.2
	75,027.4	39,741.7	**35,285.7**	38,848.9	24,331.8
	83,780.6	47,214.7	**36,565.9**	46,295.6	25,518.0
	4,749,341.3	338,182.5	4,411,158.8	148,550.7	4,337,016.8
	2,145,155.8	0.0	2,145,155.8	0.0	1,810,543.0
	282,652.0	0.0	282,652.0	0.0	283,277.0
	75,000.0	0.0	75,000.0	0.0	50,000.0
	8,080.7	66.0	8,014.7	353.6	7,816.3
	40,162.5	0.0	40,162.5	0.0	43,662.8
	7,300,392.2	338,248.5	**6,962,143.8**	148,904.2	6,532,315.9
	7,384,172.8	385,463.1	**6,998,709.7**	195,199.8	6,557,834.0

Statement of changes in amortisation and depreciation of fixed assets

	Accumulated amortisation and depreciation as at 1/1/2023	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	7,446.7	625.1	
	7,446.7	625.1	
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	21,229.2	652.9	
2. Machinery	0.0	0.4	
3. Electrical installations	5,536.2	400.4	
4. Office and plant equipment	12,006.0	842.0	
5. Prepayments and assets under construction	0.0	0.0	
	38,848.9	1,895.7	
Property, plant and equipment and intangible assets	46,295.6	2,520.9	
III. Investments			
1. Shares in affiliated companies	148,550.7	0.0	
2. Loans to affiliated companies	0.0	0.0	
3. Equity interests	0.0	0.0	
4. Loans to equity interests	0.0	0.0	
5. Securities (loan stock rights) under fixed assets	353.6	0.0	
6. Other loans	0.0	0.0	
	148,904.2	0.0	
Fixed assets	195,199.8	2,520.9	

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	Additions from impairment losses	Disposals	Reversal of impairment	Reclassificatio ns	**Accumulated amortisation and depreciation as at 31/12/2023**
	0.0	598.8	0.0	0.0	7,473.0
	0.0	598.8	0.0	0.0	**7,473.0**
	0.0	39.7	0.0	0.0	37.8
	0.0	0.0	0.0	0.0	21,882.1
	0.0	0.0	0.0	0.0	0.4
	0.0	374.7	0.0	0.0	5,561.9
	0.0	588.5	0.0	0.0	12,259.5
	0.0	0.0	0.0	0.0	0.0
	0.0	1,002.9	0.0	0.0	**39,741.7**
	0.0	1,601.8	0.0	0.0	**47,214.7**
	256,672.8	0.0	67,041.0	0.0	338,182.5
	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0
	0.0	0.0	0.0	0.0	0.0
	0.0	6.7	280.9	0.0	66.0
	0.0	0.0	0.0	0.0	0.0
	256,672.8	6.7	67,321.8	0.0	**338,248.5**
	256,672.8	1,608.5	67,321.8	0.0	**385,463.1**

Maturity schedule 2023

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	< 1 year	> 1 year	> 5 years	Residual term to maturity as at 31/12/2023 Total
Loans				
1. Loans to affiliated companies	534,355.7	550,330.1	1,060,470.0	2,145,155.8
2. Loans to equity interests	50,000.0	25,000.0	0.0	75,000.0
3. Other loans	3,505.3	14,029.7	22,627.5	40,162.5
	587,861.0	589,359.8	1,083,097.5	2,260,318.3
Receivables and other assets				
1. Trade receivables	80,915.0	8,184.1	0.0	89,099.1
2. Receivables from affiliated companies	164,103.0	0.0	0.0	164,103.0
3. Receivables from investees	1,677.3	0.0	0.0	1,677.3
4. Other receivables and assets	345.3	0.0	0.0	345.3
	247,040.6	8,184.1	0.0	255,224.7
Liabilities				
1. Bonds	504,241.8	0.0	627,823.0	1,132,064.8
2. Liabilities to banks	27,737.4	151,702.5	51,750.0	231,189.9
3. Trade payables	20,763.6	0.0	0.0	20,763.6
4. Liabilities to affiliated companies	1,399,531.3	0.0	71,649.7	1,471,181.0
5. Other liabilities	33,111.8	1,200.0	0.0	34,311.8
	1,985,386.0	152,902.5	751,222.7	2,889,511.1

Maturity schedule 2022

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	< 1 year	> 1 year	> 5 years	Residual term to maturity as at 31/12/2022 Total
Loans				
1. Loans to affiliated companies	29,053.0	548,476.7	1,233,013.3	1,810,543.0
2. Loans to equity interests	0.0	50,000.0	0.0	50,000.0
3. Other loans	3,505.3	14,029.5	26,128.1	43,662.8
	32,558.3	612,506.2	1,259,141.3	1,904,205.9
Receivables and other assets				
1. Trade receivables	42,098.2	4,556.8	0.0	46,655.0
2. Receivables from affiliated companies	128,912.3	0.0	0.0	128,912.3
3. Receivables from investees	348.6	0.0	0.0	348.6
4. Other receivables and assets	1,758.3	0.0	0.0	1,758.3
	173,117.4	4,556.8	0.0	177,674.2
Liabilities				
1. Bonds	4,253.4	500,000.0	627,823.0	1,132,076.4
2. Liabilities to banks	180,612.1	566,976.3	161,250.0	908,838.4
3. Trade payables	88,746.5	19.6	15.9	88,781.9
4. Liabilities to affiliated companies	403,908.7	0.0	71,649.7	475,558.4
5. Other liabilities	25,801.3	1,200.0	300.0	27,301.3
	703,322.0	1,068,195.9	861,038.5	2,632,556.4

Notes to the annual financial statements

Notes

I. General notes

VERBUND AG, which is headquartered in Vienna, Austria, is entered in the commercial register of the Commercial Court of Vienna under number FN 76023 z.

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 either 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 transparent.

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, fixed assets subject to wear and tear 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 subject to wear and tear – 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 due in 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 options relating to the inclusion of social security expenses and to capitalise borrowing costs (Section 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. Gas stocks are measured at sales market-based prices which were contractually agreed upon storage.

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 financial year 2004, 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, based on the eco-social tax reform approved in January 2022, amounts to 23% (previous year: tax rate between 23% and 24%).

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.

On the basis of works 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 2023 and 2022 have been based on the following assumptions:

%

	2022	2023
Interest rate		
Pensions	3.75	3.75
Obligations similar to pension obligations	3.75	3.75
Termination benefits	3.50	3.75
Trend		
Pension increases	1.75–5.75	2.00–6.75
Salary increases	2.75–6.75	2.75–7.25
Contributions to obligations similar to pensions – old contracts	5.50	6.00
Contributions to obligations similar to pensions – new contracts	3.75	4.00
Employee turnover	0.00–5.80	0.00–5.80
Retirement age – women	60–65 years	60–65 years
Retirement age – men	63–65 years	65 years
Expected non-current return on plan assets	3.75	3.75

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

The effects of the changes in parameters are presented in personnel expenses. The actuarial interest rate for measurement of employee benefit obligations as at 31 December 2023 was derived from an average of interest rate recommendations published by actuarial consulting firms as at the reporting date.

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 24%; previous year 25%) or, in the event of a loss, credits (tax allocation rate of 24%, 18% or 13% depending on the anticipated date of future profits of the Group member; previous year: 25%, 20% or 15%) 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 Austrian Minimum Taxation Act (*Mindestbesteuerungsgesetz*, MinBestG) came into force in Austria on 31 December 2023 to implement the global minimum taxation of multinational groups. The VERBUND Group falls within the scope of the law, as the ultimate parent company, VERBUND AG, is domiciled in Austria. The Austrian Minimum Taxation Act (MinBestG) transposed the Pillar Two EU Directive 2022/2523, which is based on the OECD Model Rules, into Austrian law to ensure global minimum taxation for multinational groups and large domestic groups in the EU.

As the newly enacted tax legislation in Austria is applicable to financial years beginning on or after 31 December 2023, there will be no ongoing tax effects for the financial year ending on 31 December 2023. VERBUND has applied the mandatory exception for the recognition of deferred tax assets and liabilities arising from income taxes from Pillar Two.

Furthermore, VERBUND is impacted by Pillar Two regulations in the following jurisdictions: Germany, Romania, Italy, Spain and Albania.

VERBUND AG assumes that no top-up tax is expected in these jurisdictions due to the application of temporary safe harbour regulations. The analysis is based on the most recently available data from the country-by-country reporting and the financial reporting, which is evaluated on an ongoing basis.

At the time the financial statements were being prepared, no draft legislation relating to Pillar Two had yet been presented in Spain or Albania. VERBUND assumes that a safe harbour regulation can also be applied to these jurisdictions, to the extent that one is enshrined in law.

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

Matters under corporate law

The hydrogen line of business was transferred from VERBUND AG to VERBUND Green Hydrogen GmbH by means of a transfer agreement dated 22 November 2023.

VERBUND Green Hydrogen GmbH took over the agendas of the hydrogen line of business as at 1 December 2023 and assumed responsibility for personnel management as at this date.

Assets

A. Fixed assets

For details see separate "Statement of changes in fixed assets".

(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) II. Property, plant and equipment

The base value of land amounts to €3,340.7k (previous year: €3,340.7k).

(3) 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, please refer to the separate "Maturity schedules".

Securities (loan stock rights) under fixed assets These consist primarily of Austrian investment fund units and bonds.

B. Current assets

(4) I. Inventories

€k

	2022	2023
Goods	35,795.6	13,117.2
Services not yet billable	199.6	1,703.6
	35,995.3	**14,820.8**

(5) II. Receivables and other assets

For details, please refer to the separate "Maturity schedules".

Of the receivables from affiliated companies, €0.0k (previous year: €1.1k) related to trade receivables and €164,103.0k (previous year: €128,911.2k) to other receivables.

Of the receivables from investees, €1,677.3k (previous year: €348.6k) related to other receivables.

€k

Other receivables and assets	2022	2023
Loans and accrued interest income from loans	126.3	117.7
Tax authorities	484.0	35.3
Payroll	63.0	27.6
Prepayments	11.6	5.0
Other	1,073.5	159.6
	1,758.3	**345.3**

(6) C. Prepayments and accrued income

€k

	2022	2023
Prepayments for electricity purchases	15,069.9	13,837.3
Discounts, flotation costs and commitment fee relating to bonds and non-current loans	9,545.2	10,321.2
Other	35,482.8	33,726.8
	60,098.0	**57,885.2**

(7) D. Deferred tax assets

€k	2022	2023
Social capital	3,237.6	**3,376.3**
Valuation of fixed assets	–131.6	**9.9**
Special tax deductions	–214.7	**–214.7**
Other	66,667.1	**57,724.0**
Deferred tax receivables (+) respectively liabilities (–) net	69,558.3	**60,895.4**

Deferred tax assets are the result of differences between the financial and taxable result in respect of line items affected by expenses for tax purposes in income statements of future periods. The underlying tax rate for taxes due in Austria, based on the eco-social tax reform approved in January 2022, is 23% (previous year: between 23% and 24%). In accordance with AFRAC Opinion 30 "Deferred Taxes in Financial Statements", the expected tax rate of 13% in accordance with the tax allocation agreement is applicable when calculating the group member's deferred taxes. The parent of the tax group is responsible for recognising a provision for the amount of the difference. Accordingly, this calculation was based on a tax rate of 10%.

Other deferred taxes primarily related to differences between the financial and tax treatment in accounting for investees amounting to €56,919.3k (previous year: €64,925.5k).

(8) Rights of recourse

Rights of recourse totalled €780,264.6k (previous year: €666,838.9k). 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 (VHP) in the amount of €74,389.1k (previous year: €74,583.4k). See (15) Contingent liabilities.

Equity and liabilities

A. Equity

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

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

Composition	Stock (shares)	Proportion
Bearer shares category A	170,233,686	49%
Registered shares category B	177,182,000	51%
Authenticated by an interim certificate made out in the name of the Republic of Austria (deposited with the Federal Ministry of Finance)		
	347,415,686	100%

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

(10) II. Capital reserves

Capital reserves are made up entirely of allocated capital reserves. The allocated capital reserves and the statutory reserves amount to a total of €991,604.3k, which is more than 10% of the share capital.

(11) III. Revenue reserves

€k

	2022	2023
Statutory reserves	19,884.0	19,884.0
Distributable reserves	1,227,691.7	988,358.2
	1,247,575.7	**1,008,242.2**

(12) IV. Net profit

€k

As at 31/12/2022	1,250,696.5
Distribution of dividends	– 1,250,696.5
Profit carried forward	0.0
Net profit for the year	1,202,441.6
Changes in reserves	239,333.5
As at 31/12/2023	1,441,775.1

(13) B. Provisions

1. Provisions for termination benefits

€k

	2022	2023
Premium reserve based on actuarial calculations	5,019.6	4,875.4
Taxed proportion of provisions	5,019.6	4,875.4

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

	2022	2023
Provisions for pension obligations gross	28,033.3	28,940.1
Pension fund assets	– 8,431.0	– 8,368.2
Provisions for pension obligations net	19,602.4	**20,572.0**
of which obligations similar to pensions	4,377.3	4,840.8

3. Provisions for taxes

€k

	2022	2023
Corporate income tax domestic (including prior reporting periods)	392,777.0	526,539.5
Other tax provisions	1,077.7	1,077.7
	393,854.7	**527,617.2**

4. Other provisions

€k

	2022	2023
Electricity/grid purchases	7,853.2	109,045.4
Trade receivables not yet billed	8,746.9	48,008.5
Anticipated losses	0.0	3,075.2
Other	17.9	0.0
	16,617.9	**160,129.2**

€k

Other personnel-related provisions	2022	2023
Bonuses	8,835.3	8,365.4
Unused holidays	3,369.4	3,577.6
Holiday allowance	1,243.8	1,236.3
Death grant	319.3	333.8
Compensatory time credit	305.8	296.4
Other	1,195.7	1,328.1
	15,269.3	**15,137.5**

(14) C. Liabilities

For details, please refer to the separate “Maturity schedules”.

Of the liabilities to affiliated companies, €1,396,037.5k (previous year: €393,423.6k) relates to financial liabilities, €1.0k (previous year: €5,843.8k) to trade payables and €75,142.5k (previous year: €76,291.1k) to other liabilities.

€k

Other liabilities	2022	2023
Electricity costs contribution	0.0	19,000.0
From taxes	23,131.3	10,623.7
Payroll	3.5	45.3
Related to social security	451.5	14.0
Other	3,574.3	4,628.8
	27,301.3	**34,311.8**

(15) D. Accruals and deferred income

€k

	2022	2023
Contributions to building costs	491.2	456.1
From electricity business	26.7	13.3
Other	313.5	70.7
	831.4	**540.1**

(16) Contingent liabilities

Contingent liabilities that are recognised below the line are primarily for letters of comfort and liabilities assumed for subsidiaries as part of the financing that VERBUND AG carries out centrally as well as other assumptions of liabilities, excluding the contingent liabilities in connection with cross-border leasing transactions in the total amount of €378,776.1k (previous year: €259,469.2k). Of this, €128,772.6k (previous year: €9,469.2k) is attributable to affiliated companies.

The subsidiary 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.

The last remaining transaction (Freudenau), which had an off-balance-sheet financing structure, 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 €401,488.5k (previous year: €407,369.7k). Of the rights of recourse against the primary debtors, €74,389.1k (previous year: €74,583.4k) 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 €327,099.4k (previous year: €332,786.3k) remains in contingent liabilities from cross-border leasing transactions after deducting these counter-guarantees. Minimum ratings for the guarantors are stipulated in the agreements with lenders and with equity investors.

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 2023. Thus, there is currently no need for VERBUND AG or VHP 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.

At the reporting date, VERBUND AG had issued guarantees for Group companies with an outstanding value in the amount of €106,518.3k and hard letters of comfort with an outstanding value in the amount of €22,257.8k.

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.

Notes to the income statement

(17) 1. Revenue

€k

		2022	2023
Revenue from electricity deliveries			
Domestic	Energy supply companies	4,556.9	8,361.7
	Consumers	194,344.4	278,678.0
	Other customers	277,069.4	587,490.8
		475,970.7	**874,530.5**
Invoicing of grid tariffs; user and management fees		3,178.5	3,563.4
Other revenue (including gas trading)		136,105.6	119,207.1
		615,254.9	**997,300.9**

(18) 3. Other operating income

€k

	2022	2023
a) Income from disposal of fixed assets with the exception of investments	13.4	1.8
b) Income from reversal of provisions	76.4	188.6
c) Other	1,367.1	1,094.7
	1,456.8	**1,285.1**

(19) 6. Personnel expenses

€k	2022	2023
a) Salaries	27,209.1	30,796.3
b) Expenses for termination benefits and payments to employee pension funds		
Termination benefits	405.0	416.2
Contributions to employee pension funds	325.6	499.1
Change in the provision for termination benefits	–1,087.9	–313.1
Expenses/income and takeovers/transfers within the Group	–134.3	95.2
	–491.6	**697.4**
c) Expenses for pensions and similar obligations		
Early retirement benefits and pension payments	2,044.3	2,053.7
Change in the provisions for pensions and similar obligations	–7,484.4	283.9
Expenses/income and takeovers/transfers within the Group	–83.9	24.8
Pension fund contributions	942.4	1,063.2
	–4,581.6	**3,425.6**
d) Expenses for social security contributions as required by law as well as income-based charges and compulsory contributions	5,028.1	5,510.7
e) Other social security expenses	359.5	481.1
	27,523.5	**40,911.0**

Interest rate changes for provisions related to termination benefits and pensions and similar obligations resulted in a positive effect of €1,849.8k in the financial year and a positive effect of €7,306.9k in the previous year. The effect of the changes in parameters was recognised in full in the financial year.

(20) 7. Depreciation and amortisation

€k	2022	2023
a) Amortisation of intangible assets and depreciation of property, plant and equipment		
Depreciation and amortisation	2,258.5	2,280.6
Immediate write-off of low-value assets in accordance with Section 13 of the Austrian Income Tax Act (EStG)	280.9	240.3
	2,539.4	**2,520.9**

(21) 8. Other operating expenses

€k

	2022	2023
a) Taxes other than taxes on income	706.7	41,461.4
b) Other		
Advertising costs and donations	32,135.0	37,145.0
Legal, audit and consulting expenses	13,652.7	14,494.8
IT expenses	6,262.2	6,707.6
Other administrative expenses	9,718.2	6,575.5
Operating costs for buildings, rent and leasing	5,587.7	6,253.5
Temporary personnel and provision of personnel	2,266.1	2,146.0
Training and further education	970.4	982.1
Membership fees	883.1	943.3
Telecommunications services, data services	587.9	635.2
Other	11,336.6	16,675.0
	83,399.9	**92,558.1**
	84,106.7	**134,019.5**

(22) 16. Financial result

€k

	2022	2023
Income from equity interests		
from affiliated companies	563,590.4	1,547,377.8
of which from profit pools	38,245.5	146,785.2
Income from other securities and loans in financial assets		
from affiliated companies	39,013.3	52,924.2
Other interest and similar income		
from affiliated companies	7,016.4	11,554.7
Income from disposals and impairment loss reversals of investments		
reversal of impairment of shares in affiliated companies	92,563.8	67,041.0
Expenses relating to investments		
impairments on affiliated companies	119,995.2	256,672.8
expenses from affiliated companies	329.4	2,785.9
of which from profit pools	328.9	2,785.9
Interest and similar expenses		
of which interest for long-term personnel provisions	330.7	909.0
from affiliated companies	14,646.7	37,984.4

(23) 18. Taxes on income and profit

€k	2022	2023
Consolidated taxes on income[1]	524,165.8	639,479.8
Taxes recharged to members of the Group[2]	–482,909.0	–690,919.5
Tax expense/income for subsequent taxation of losses from foreign members of the tax group	–10,957.2	–30,959.1
Additional amounts/credit notes from previous periods[1]	4,218.9	–19,917.5
Change in deferred taxes[3]	–46,638.0	8,662.9
	–12,119.5	**–93,653.3**

[1] tax rate of 24% (previous year: 25% // [2] tax allocation rate of 13% or 24% (previous year: 15% or 25%) // [3] tax rate of 23% (previous year: between 23% and 24%)

IV. Other disclosures

1. Total amount of other financial obligations

€k

Material items	Total commitment	2024	2024–2028
Rent, lease and insurance agreements	[1]	5,980.4	26,918.6
Purchase commitments	30,597.1	28,411.5	30,597.1
of which to affiliated companies	[1]	3.6	17.4

[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.

Under an electricity supply agreement, Innwerk AG is required 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 (VEB) in the Sales segment.

The electricity supply agreement between VERBUND AG and VEB governs how the electricity generation provided by VERBUND AG from the purchase rights of Ennskraftwerke Aktiengesellschaft and Grenzkraftwerke power plant group (Österreichisch-Bayerische Kraftwerke Aktiengesellschaft, Donaukraft Jochenstein Aktiengesellschaft, VERBUND Innkraftwerke GmbH) is transacted and settled. The agreement mainly addresses how the prices of electricity generation from the run-of-river power plants are determined. This requires a differentiation between long-term hedged volumes and short-term volumes. For the hedged volumes, price are determined by means of published futures market prices, while short-term volumes are defined by published spot market prices. Besides just addressing the settlement of electricity volumes, the agreement and its annexes also govern other revenue components from the sale of guarantees of origin. From an accounting perspective – in alignment with Section 238(2) of the Austrian Commercial Code (UGB) and AFRAC Opinion 15 “Derivatives and Hedging Instruments” marginal note (6) – closed commodity futures transactions of this type are treated like electricity deliveries within the scope of VERBUND AG’s expected sale requirement (own use exemption). For settling the marketing activities of VEB, the agreement stipulates that a handling fee will be applied to the generation volumes it manages. Furthermore, the agreement provides for a committee that meets on a regular basis to discuss ongoing questions on the management of VERBUND AG’s generation portfolio. The corresponding amendments (addenda) to the agreement are also being developed.

On the basis of works 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 2023, one employee had been issued with a letter of loyalty granting them a greater 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 €4,598.0k (previous year: €625.0k) under accounting for investees.

2. Disclosures regarding financial instruments

Finance area

Hedging relationships exist to hedge increases in interest rates for financial liabilities bearing variable interest with an outstanding principal amount of €27,562.5k (previous year: €42,187.5k) as at 31 December 2023. These interest rate hedges form a single accounting unit with 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 €127.3k (previous year: €138.4k). The future interest payments hedged by these hedging instruments will fall due in the following three years (2024 to 2026) and will be recognised accordingly in profit or loss.

To avoid fluctuations in future cash flows from interest payments on loans granted to Group companies at variable rates of interest, interest rate hedges with a notional amount of €37,275.0k and a positive fair value of €1,103.8k were in place as at 31 December 2022. These were terminated in February 2023.

3. Number of employees

Average	2022	2023
Salaried employees	181.7	208.7

4. Expenses for termination benefits and pensions

€k	2022	2023
Members of the Executive Board, former members of the Executive Board and their surviving dependants	–973.6	686.2
Other employees	–4,099.6	3,436.7
	–5,073.2	**4,123.0**

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 2023, contributions to the pension fund were paid for the Executive Board in the amount of €184,500 (previous year: €184,500).

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 2023, €189,807 was paid out for pensions (previous year: €296,379).

In financial year 2023, expenses from pensions and similar obligations for former members of the Executive Board and their surviving dependents totalled €311,909 (previous year: income of €1,454,447).

5. Governing bodies

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)

€	2022 Fixed remuneration	2022 Variable remuneration	2023 Fixed remuneration	2023 Variable remuneration
Mag. Dr. Michael Strugl	750,000	826,750	750,000	826,750
Mag. Dr. Achim Kaspar	475,000	546,250	475,000	546,250
Dr. Peter F. Kollmann	620,000	713,000	620,000	713,000

Remuneration for the current members of the Executive Board totalled €3,972,913 in 2023 (previous year: €3,969,703); this amount includes €41,913 in payments in kind (previous year: €38,703). Variable remuneration includes performance-related short-term and long-term remuneration components. In the 2023 reporting period, short-term variable remuneration of €1,107,000 (previous year: €1,107,000) and long-term variable remuneration of €979,000 (previous year: €979.000) was paid to active Executive Board members.

Since 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 active members of the Executive Board in the 2023 reporting period for the 2022 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 beginning in financial year 2021 is a standard 60% of the relevant fixed remuneration. In the 2022 reporting period, 70% of the agreement on targets was based on the achievement of the Group result and 30% on the non-financial goals (one-year): expansion of renewable generation (10%), share of female new hires (10%) and 100% of investment according to ESG criteria (10%). In the 2023 reporting period, 70% of the agreement on targets was based on the achievement of the Group result and 30% on the achievement of non-financial goals (one-year) related to the following topics: culture and transformation (10%), share of female new hires (10%) and occupational health and safety (10%).

For LTIP 2020 (assessment period ending in 2022), a maximum of 55% of the respective fixed remuneration (maximum target achievement of 100%, variable component of 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 2020 (assessment period ending 2022): total shareholder return (30%), FCF before dividends (35%) and net debt/EBITDA (35%).

Beginning with LTIP 2021, 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%). Total shareholder return (30%), FCF before dividends (35%) and expansion of new renewables (35%) are applied for LTIP 2022 (assessment period ending 2024). LTIP 2023 (assessment period ending 2025) is based on the following performance criteria: total shareholder return (30%), FCF before dividends (35%) and achievement of targets based on Mission V (35%). These include expanding renewables and the battery portfolio as well as implementation of the hydrogen strategy.

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 the 2023 reporting period, contributions to the pension fund were paid for the Executive Board in the amount of €184,500 (previous year: €184,500).

Pension payments of €189,807 (previous year: €296,379) were made to beneficiaries in the 2023 reporting period. Expenses for pensions and similar obligations for former members of the Executive Board and their surviving dependants included in the profit or loss for the period amounted to a total of €46,431 (previous year: €29,339). In addition, remeasurement expenses in the amount of €265,478 (previous year: income of €1,483,786) were recognised in other comprehensive income.

Remuneration for members of the Supervisory Board (including the reimbursement of recharged business/travel expenses) amounted to a total of €383,343 (previous year: €397,857). As in the previous year, no loans or advances were paid out to members of the Group's or subsidiaries' governing bodies.

At the Supervisory Board meeting on 27 March 2023, Mag. Dr. Susanna Zapreva-Hennerbichler was appointed as a member to the Executive Board effective 1 January 2024.

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

		€
	2022	**2023**
Chairperson	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 2023, 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, VERBUND Green Hydrogen GmbH, VERBUND Services GmbH and VERBUND Ventures GmbH.

8. Disclosures in accordance with Section 8(3) of the Austrian Electricity Industry and Organisation Act (ElWOG) and Section 8(3) of the Gas Industry Act 2011 (GWG 2011)

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) and Section 8(3) of the Gas Industry Act 2011 (*Gaswirtschaftsgesetz*, GWG 2011) 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, VERBUND Green Power GmbH, VERBUND Energy4Future GmbH
Electricity and natural gas sales VERBUND Energy4Business GmbH, VERBUND Energy4Customers GmbH
Telecommunications 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 in the amount of €4.15 per share on the 347,415,686 no-par value shares from the distributable profit of financial year 2023, i.e. a total of €1,441,775,096.90. This dividend comprises an ordinary dividend in the amount of €3.40 per share and a special dividend in the amount of €0.75 per share.

10. Events after the reporting date

There were no events requiring disclosure between the reporting date of 31 December 2023 and authorisation for issue on 15 February 2024.

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	2023 kWh
Hydropower	99.5%	1,660,703,112
Solar energy	0.5%	8,488,150
Wind power	0.0%	91,727
Total volume of electricity supplied in Austria to consumers for their own use	100.0%	1,669,282,989

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		2023
Radioactive waste (mg/kWh)		0.0
CO_2 emissions (g/kWh)		0.0

Vienna, 15 February 2024

Executive Board

Mag. Dr. Michael Strugl
Chairman of the Executive Board

Dr. Peter F. Kollmann
CFO, Vice-Chairman of the Executive Board

Mag. Dr. Achim Kaspar
Member of the Executive Board

Mag. Dr. Susanna Zapreva-Hennerbichler
Member of the Executive Board

Disclosures of equity interests

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

€k

	Head-quarters	% share-holding as at 31/12/2023	Most recent annual financial statements	(+) (–)	Net income/loss for the year	Equity[1]
Consolidated affiliated companies[2]						
Anselma Issuer, S.A.[3]	Madrid	100.00	2023	+	3,877.3	24,494.0
Austrian Power Grid AG	Vienna	100.00	2023	+	47,863.5	597,181.5
Catalpa Solar, S.L.U.[3]	Madrid	100.00	2023	–	25,996.5	27,024.2
Innwerk AG	Stammham	100.00	2023	+	204,911.8	332,477.4
Lusitania Renovables S.L.[3]	Madrid	100.00	2023	+	622.4	7,488.6
Parque Eólico Ayamonte S.L.[3]	Madrid	100.00	2023	–	450.6	23,949.2
Parque Eólico Buseco S.L.[3]	Madrid	100.00	2023	+	2,216.2	44,303.4
Parque Eólico El Barroso S.L.[3]	Madrid	100.00	2023	–	159.7	27,398.4
Parque Eólico Loma de los Pinos S.L.[3]	Madrid	100.00	2023	+	3,514.0	43,567.9
Tejo Solar, S.L.U.[3]	Madrid	100.00	2023	–	127,364.7	129,517.7
Topacio Energy, S.L.U.[3]	Madrid	100.00	2023	+	26,568.4	4,535.0
VERBUND Energy4Business GmbH	Vienna	100.00	2023	+	154,320.3	484,491.4
VERBUND Energy4Customers GmbH	Vienna	100.00	2023	+	1,972.5	1,766.6
VERBUND Finanzierungsservice GmbH	Vienna	100.00	2023	+	771.2	218.1
VERBUND Green Hydrogen GmbH	Vienna	100.00	2023	–	1,036.3	2,085.0
VERBUND Green Power GmbH	Vienna	100.00	2023	–	1,171.4	542,734.9
VERBUND Green Power Renewable Projects, S.L.U[3]	Madrid	100.00	2023	–	225.5	50,765.6
VERBUND Services GmbH	Vienna	100.00	2023	+	7,753.6	18,674.2
VERBUND Thermal Power GmbH	Fernitz-Mellach	100.00	2023	–	93.5	7,736.4
VERBUND Thermal Power GmbH & Co KG	Fernitz-Mellach	100.00	2023	-	11,069.8	137,506.7
VERBUND Ventures GmbH	Vienna	100.00	2023	–	16,141.4	12,521.7
WATT DEVELOPMENT SPV 5, S.L.U.[3]	Granada	100.00	2023	-	3,040.5	19,215.1
WATT DEVELOPMENT SPV 6, S.L.U.[3]	Granada	100.00	2023	-	3,065.5	18,720.1
WATT DEVELOPMENT SPV 7, S.L.U.[3]	Granada	100.00	2023	-	3,280.8	18,282.1
VERBUND Hydro Power GmbH	Vienna	80.54	2023	+	2,125,466.0	3,788,403.7
VERBUND Innkraftwerke GmbH	Töging	70.27	2023	+	272,945.0	710,665.8
Gas Connect Austria GmbH	Vienna	51.00	2023	+	119,277.9	315,755.7
Donaukraftwerk Jochenstein Aktiengesellschaft	Passau	50.00	2023	+	779.0	15,561.2
Grenzkraftwerke Gesellschaft mit beschränkter Haftung	Simbach	50.00	2023	+	1,624.1	24,185.5
Österreichisch-Bayerische Kraftwerke Aktiengesellschaft	Simbach	50.00	2023	+	2,974.8	56,750.6

	Head-quarters	% share-holding as at 31/12/2023	Most recent annual financial statements	(+) (–)	Net income/loss for the year	Equity[1]
Associates						
Ennskraftwerke Aktiengesellschaft[4]	Steyr	50.00	2023	+	791.9	26,106.2
KELAG-Kärntner Elektrizitäts-Aktiengesellschaft[5]	Klagenfurt	35.17	2022	+	100,000.0	1,029,922.0
C2PAT GmbH[6]	Vienna	25.00	2022	+	2.5	38.5

[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) // [6] unconsolidated

Independent Auditor's Report (Translation)

Report on the Financial Statements

Audit Opinion

We have audited the financial statements of **VERBUND AG, Vienna,** comprising the balance sheet as of 31 December 2023, the income statement for the fiscal year then ended and the notes.

In our opinion, the accompanying financial statements comply with the legal requirements and give a true and fair view of the assets and the financial position of the Company as of 31 December 2023 and its financial performance for the year then ended in accordance with Austrian Generally Accepted Accounting Principles.

Basis for Opinion

We conducted our audit in accordance with Regulation (EU) No 537/2014 (hereinafter referred to as the "EU Audit Regulation") and in accordance with Austrian Standards on Auditing. Those standards require that we comply with International Standards on Auditing (ISAs). Our responsibilities under those regulations and standards are further described in the "Auditor's Responsibility for the Audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the Austrian General Accepted Accounting Principles and professional requirements and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence obtained by us up to the date of this auditor's report is sufficient and appropriate to provide a basis for our opinion as of that date.

Key Audit Matters

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

From our perspective, the key audit matter is as follows:

Recoverability of the carrying amount of shares in and loans to affiliated companies

Description:

As of 31 December 2023, VERBUND AG carried shares in affiliated companies of €4,411m and loans to affiliated companies of €2,145m. In fiscal year 2023, impairment charges of €257m were recognised on shares in affiliated companies.

Assessing the impairment of shares in and loans to affiliated companies requires making judgements on whether there is an indication that a certain asset should be impaired and in measuring the corresponding impairment loss.

Numerous inputs flow into the valuation models based on net present value methods applied in the test for impairment, such as the electricity and primary energy price trends and assumptions regarding developments in the regulatory environment.

There is also a significant risk relating to management's estimate of future cash flows and discount rates, which are used to determine recoverability.

The disclosures made by the Company on shares in and loans to affiliated companies can be found in the note disclosures/details regarding the impairment tests in the sections "II. Accounting policies", "(21) 16. Financial result" and "IV. Other disclosures" of the notes to the annual financial statements, as well as in the statement of changes in fixed assets and the maturity schedules.

How our audit addressed the key audit matter:
We analysed and reviewed how management determines the recoverability of the carrying amount of shares in and loans to affiliated companies.

Our audit work included, but was not limited to the following procedures:

- Reviewing and evaluating management's assessment of the existence of impairment indicators;
- Corroborating the assumptions used in the valuation models with the operational budget data; reconciling the assumptions incorporated into these valuations with external market data as well as with the data from other external and internal sources;
- Reviewing the computational accuracy of valuation models;
- Involving our valuation specialists for analysing and assessing discount rates and the valuation models; and
- Assessing the adequacy of the disclosures in the financial statements.
-

Remark on Other Matters
The financial statements of VERBUND AG, Vienna, for the fiscal year ended 31 December 2022 were audited by another auditor, which issued an unmodified opinion on those financial statements dated 17 February 2023.

Other Information

The Company’s management is responsible for other information. Other information comprises all information included in the annual report, but does not include the financial statements, the management report and the auditor’s report. The annual report is expected to be provided to us after the date of this auditor’s report.

Our opinion on the financial statements does not extend to such other information, nor do we provide any form of assurance thereon.

Our responsibility in auditing the financial statements is to read the other information as soon as this is made available to us and thereby consider whether it is materially inconsistent with the information presented in the financial statements or with the information obtained by us in the course of our audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that this other information is materially misstated, we are required to report that fact. We have nothing to report in this regard.

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

The Company’s management is responsible for preparation of the financial statements and for ensuring that the financial statements present a true and fair view of the assets, financial position and financial performance of the Company in accordance with Austrian Generally Accepted Accounting Principles. The Company’s management is also responsible for such internal controls as it deems necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU Audit Regulation and in accordance with Austrian Standards on Auditing, which require the application of International Standards on Auditing (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 financial statements.

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

We also:

- identify and assess the risks of material misstatement in the 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 controls.
- 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 systems.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists in respect of events or conditions that could 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 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.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.
- We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate to the Audit Committee all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Of the matters discussed with the Audit Committee, we determine those matters that were of the most significance in our audit of the financial statements for the fiscal year and are therefore 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.

Comments on the Management Report

Pursuant to Austrian Generally Accepted Accounting Principles, the management report is to be audited as to whether it is consistent with the financial statements and whether it has been prepared in accordance with the applicable legal requirements.

The Company's management is responsible for the preparation of the management report in accordance with Austrian Generally Accepted Accounting Principles.

We conducted our audit in accordance with the Austrian Standards on Auditing applicable to the audit of the management report.

Opinion

In our opinion, the management report was prepared in accordance with the applicable legal requirements, includes the disclosures in accordance with Section 243a of the Austrian Commercial Code (UGB) and is consistent with the financial statements.

Statement

Based on the findings during the audit of the financial statements and due to the thus obtained understanding concerning the Company and its circumstances, no material misstatements in the management report came to our attention.

Additional information in accordance with Article 10 of the EU Audit Regulation

We were elected as auditor by the Annual General Meeting held on 15 April 2023.
We were engaged by the Supervisory Board on 20 July 2023.

We declare that the audit opinion included in the "Report on the financial statements" is consistent with the additional report to the Audit Committee referred to in Article 11 of the EU Audit Regulation.

We declare that no prohibited non-audit services (Article 5(1) of the EU Audit Regulation) were provided by us and that we remained independent of the audited company in conducting our audit.

Engagement Partner

The engagement partner responsible for the audit is Mag. Stefan Uher.

Vienna, 16 February 2024

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. (FH) Rosemarie König eh	Mag. Stefan Uher eh
Wirtschaftsprüferin/ Austrian Certified Public Accountant	Wirtschaftsprüfer/ Austrian Certified Public Accountant
Mag. (FH) Rosemarie König	Mag. Stefan Uher
Wirtschaftsprüferin/ Austrian Certified Public Accountant	Wirtschaftsprüfer/ Austrian Certified Public Accountant

*) This report is a translation of the original German report, which is the only legally binding version. The financial statements may only be published or reproduced together with our auditor's report in the version audited by us. This auditor's report relates exclusively to the German language version of the complete financial statements, including the management report. Section 281(2) of the Austrian Commercial Code (UGB) applies to versions differing from the version audited by us.

Glossary

Glossary

Cash flow

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

EBIT

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

Equity ratio

Ratio of equity to total capital.

Funds from operations (FFO)

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)

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

ROE (return on equity)

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

ROI (return on investment)

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

ROS (return on sales)

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

Working capital

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

EDITORIAL DETAILS

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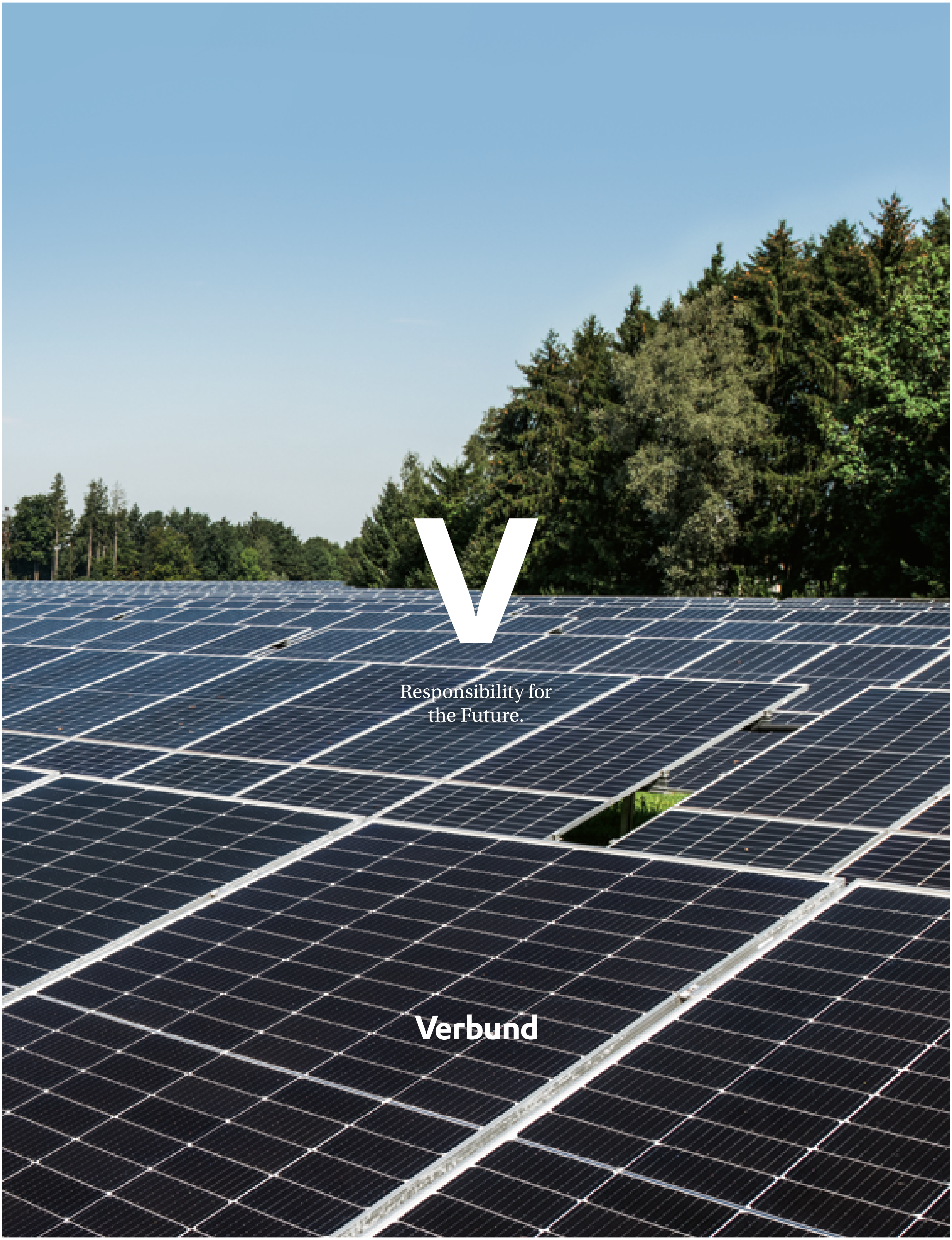
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