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Verbund
Power for the Future

VERBUND AG
Annual Report 2020

Contents

Three-year comparison 6
Board members 7
Report of the Supervisory Board 10

Management report 13
Report on business performance and economic position 14
Report on the environment, research, development and social aspects 30
Report on significant risks and uncertainties 55
Report on branch offices 59
Internal control and risk management system 60
Shareholder structure and capital information 62
Report on the expected performance of the Company 64

Annual financial statements 67
Balance sheet 68
Income statement 69
Statement of changes in fixed assets 70
Statement of changes in depreciation and amortisation of fixed assets 72
Maturity schedule 74
Notes 78

Disclosures of equity interests in accordance with Section 238 (1)(4) of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB) 97
Independent auditor's report 98

Glossary 103

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, %
	2018	2019	**2020**
Revenue	259.6	313.9	**350.9**
Earnings before interest and taxes (EBIT)	641.3	682.7	**476.3**
Earnings before taxes	564.7	622.4	**437.2**
Net income for the year	563.0	619.5	**420.5**
Net profit	145.9	239.7	**260.6**
Total assets	4,915.3	5,157.6	**5,202.3**
Fixed assets	4,676.3	4,907.8	**5,044.5**
Capital expenditure for property, plant and equipment	1.6	1.2	**3.5**
Depreciation of property, plant and equipment	1.4	1.6	**2.5**
Equity	2,614.5	3,088.1	**3,268.8**
Return on sales (ROS)	247.1%	217.5%	**135.8%**
Return on equity (ROE)	25.7%	23.8%	**14.2%**
Return on investment (ROI)	13.7%	13.9%	**9.2%**
Return on capital employed (ROCE)	10.4%	10.4%	**7.2%**
Equity ratio	53.2%	59.9%	**62.8%**
Debt repayment period	8.5	7.3	**4.6**
Cash flow from operating activities	217.8	293.4	**564.3**
Gearing	84.0%	61.7%	**51.2%**
Working capital	–915.8	–742.0	**–870.1**
Net debt	2,196.8	1,905.5	**1,673.7**
Current liabilities	1,091.1	1,085.7	**981.9**
Current assets	175.2	343.7	**111.8**
Share price high	44.8	55.3	**69.9**
Share price low	20.0	38.0	**29.0**
Closing price	37.2	44.7	**69.9**
(Proposed) dividend per share	0.42	0.69	**0.75**
Dividend yield	1.13%	1.54%	**1.07%**
Average number of employees	115	132	**148**
Group electricity sales volume (GWh)[1]	63,195	66,292	**66,989**

[1] including system requirements

Board members

Executive Board

Name	Year of birth	Date of initial appointment	End of current term of office
Dipl.-Ing. Wolfgang Anzengruber CEO and Chairman of the Executive Board (until 31/12/2020)	1956	1/1/2009	31/12/2020
Mag. Dr. Michael Strugl MBA CEO and Chairman of the Executive Board (since 1/1/2021)	1963	1/1/2009	31/12/2023
Dr. Peter F. Kollmann CFO and Member of the Executive Board	1962	1/1/2014	31/12/2023
Mag. Dr. Achim Kaspar Member of the Executive Board	1965	1/1/2009	31/12/2023

Supervisory Board

Name	Year of birth	Date of initial appointment	End of current term of office
MMag. Thomas Schmid Chairman Member of the board of directors of Österreichische Beteiligungs AG; Member of the supervisory boards of OMV AG (vice-chairman), Telekom Austria AG (member), Bundesimmobiliengesellschaft m.b.H. (chairman), ARE Austrian Real Estate GmbH (chairman) and Österreichische Lotterien GmbH (member)	1975	30/4/2019	AGM 2024
Mag. Martin Ohneberg 1st Vice-Chairman Managing partner of HENN Industrial Group GmbH & Co KG, HENN GmbH and HENN GmbH & Co KG; Member of the supervisory boards of Aluflexpack AG, Switzerland (president of the board of directors) and ASTA Energy Transmission Components GmbH (member)	1971	30/4/2019	AGM 2024
Mag. Dr. Christine Catasta 2nd Vice-Chairwoman (since 16/6/2020) Director (authorised representative) of Österreichische Beteiligungs AG; Member of the supervisory boards of Erste Bank der oesterreichischen Sparkassen AG, Austrian Airlines AG, ÖLH Österreichische Luftverkehrs-Holding-GmbH and Casinos Austria AG	1958	16/6/2020	AGM 2024
Mag. Elisabeth Engelbrechtsmüller-Strauß 2nd Vice-Chairwoman (until 16/6/2020)	1970	22/4/2015	16/6/2020
Dr. Susan Hennersdorf (since 16/6/2020) CEO of cresc. gmbh., Member of the supervisory board of Tele Columbus AG	1967	16/6/2020	AGM 2022

Name	Year of birth	Date of initial appointment	End of current term of office
Mag. Harald Kaszanits (until 16/6/2020)	1963	7/4/2010	16/6/2020
Mag. Werner Muhm (until 16/6/2020)	1950	22/4/2015	16/6/2020
Prof. Dr. Barbara Praetorius (since 16/6/2020) Professor at HTW Berlin	1964	16/6/2020	AGM 2022
Dr. Susanne Riess (until 16/6/2020)	1961	22/4/2015	16/6/2020
Mag. Jürgen Roth Managing partner at Tank Roth GmbH; Member of the supervisory boards of ICS Internationalisierungscenter Steiermark GmbH (chairman) and ELG (Erdöl-Lagergesellschaft m.b.H.)	1973	22/4/2015	AGM 2023
Dipl.-Ing. Eckhardt Rümmler (since 16/6/2020) Member of the supervisory board of PreussenElektra GmbH, Germany	1960	16/6/2020	AGM 2024
Mag. Christa Schlager (since 16/6/2020) Head of the economic policy department at the Vienna Chamber of Labour; Member of the supervisory board of Forschungsförderungsgesellschaft mbH	1969	16/6/2020	AGM 2023
Mag. Stefan Szyszkowitz Spokesman of the managing board of EVN AG; Chairman of the supervisory boards of Burgenland Holding AG, EVN Macedonia AD, RAG-Beteiligungs-Aktiengesellschaft and RAG Austria AG; Member of the supervisory board of Energie Burgenland AG (vice-chairman), Netz Niederösterreich GmbH (vice-chairman), Österreichische Post AG and Wiener Börse AG/CEESEG AG	1964	23/4/2018	AGM 2023
Christa Wagner (until 16/6/2020)	1960	7/4/2010	16/6/2020
Dipl.-Ing. Peter Weinelt Managing director of Wiener Stadtwerke GmbH and Wiener Stadtwerke Planvermögen GmbH; Member of the supervisory boards of Wien Energie GmbH (chairman), Wiener Netze GmbH (chairman) and Burgenland Holding Aktiengesellschaft	1966	5/4/2017	AGM 2023

Supervisory Board appointments or comparable roles in publicly traded companies and other significant companies have been listed in relation to (ancillary) functions. Full-time functions are listed where appropriate.

Employee representatives

Name	Year of birth	Date of initial appointment	
Kurt Christof Chairman of the Central Works Council Member of the supervisory boards of Stadtwerke Voitsberg GmbH and Sparkasse Voitsberg/Köflach Bankaktiengesellschaft	1964	since 8/3/2004	appointed by the employee representatives
Doris Dangl Chairwoman of the Group's employee representatives	1963	since 5/4/2018	appointed by the employee representatives
Dr. Isabella Hönlinger Chairwoman of the Works Council	1971	since 1/9/2016	appointed by the employee representatives
Ing. Wolfgang Liebscher Chairman of the Central Works Council	1966	since 1/11/2013	appointed by the employee representatives
Veronika Neugeboren Chairwoman of the Works Council	1967	since 30/4/2019	appointed by the employee representatives

The appointment of employee representatives by the Group's employee representatives is for an unlimited period and can be revoked at any time.

Report of the Supervisory Board

VERBUND, Austria's leading energy utility, took advantage of the improvement in the energy market climate in the course of the year and generated very good results once again in financial year 2020 in spite of negative impacts caused by the COVID-19 pandemic. The Group succeeded in strengthening its profitability and successfully continuing its sustainable development. The Supervisory Board actively monitored and supported this strong performance.

Performance of duties. In financial year 2020, the Supervisory Board discharged the responsibilities and exercised the powers incumbent upon it by virtue of the law and the Articles of Association at six plenary meetings, which due to the preventive measures against COVID-19 were held as video or teleconferences. The overall attendance rate for all Supervisory Board members was 93%. The Chairman additionally kept in regular contact with the Board members to discuss matters of importance as they arose. The Executive Board provided the Supervisory Board with regular and comprehensive real-time information, both verbally and in writing, on all relevant matters relating to the performance as well as the position and strategy of the Group and all significant Group companies; information was also provided on the Group's risk position and its risk management activities.

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 (here, the acquisition of the stake in Gas Connect Austria GmbH deserves particular mention). 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 2020 Consolidated Corporate Governance Report. Between meetings, the Chairman of the Supervisory Board conversed regularly with the Chairman of the Executive Board and also held a number of discussions with individual members of the Executive Board.

Changes in the Executive and Supervisory Boards. The contractual period of office of Dipl.-Ing. Wolfgang Anzengruber, CEO, who had headed up the VERBUND Group as Chairman of the Executive Board for twelve years, ended on 31 December 2020. The Supervisory Board would like to thank Dipl.-Ing. Wolfgang Anzengruber for his many years of successful service for the Company.

The Supervisory Board appointed the former Vice-Chairman Mag. Dr. Michael Strugl MBA as Chairman of the Executive Board with effect from 1 January 2021.

The following changes were made to the composition of the Supervisory Board in the reporting year: in the course of the election of the new Supervisory Board at the Annual General Meeting on 16 June 2020, Mag. Dr. Christine Catasta, Dr. Susan Hennersdorf, Prof. Dr. Barbara Praetorius, DI Eckhardt Rümmler and Mag. Christa Schlager were elected to replace Mag. Elisabeth Engelbrechtsmüller-Strauß, Mag. Harald Kaszanits, Mag. Werner Muhm, Dr. Susanne Riess and Christa Wagner as capital representatives.

The criteria set out in the diversity concept were taken into account to a considerable extent in the election of the new Supervisory Board. In particular, the Supervisory Board has succeeded in becoming more international, increasing the representation of women and attracting a broad range of experts in their respective fields.

The Supervisory Board would like to thank the departing members for their many years of service on the Supervisory Board and its committees.

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. VERBUND's Supervisory Board views compliance with the Code as obligatory and endeavours to consistently conform to the provisions relating to the Supervisory Board. In this spirit, we have achieved essential compliance with the rules relating to the Supervisory Board's collaboration with the Executive Board and within the Supervisory Board itself.

Pursuant to the requirements of the Code (Rule 36), the Supervisory Board again conducted a self-evaluation of its activities, particularly of its organisation and work procedures. The evaluation was carried out in the reporting period by means of qualitative and quantitative interviews with all Supervisory Board members and Executive Board members conducted by an external consultant. The results of the evaluation and the suggestions for measures derived on this basis were discussed in detail at the Supervisory Board meeting in December 2020. In addition, the Supervisory Board again discussed at length possible conflicts of interest when dealing with the approval of contracts with companies where individual Supervisory Board members are related parties. No conflicts of interest were identified that would require any action to be undertaken beyond that taken at the meetings.

With the amendment to its rules of procedure resolved on 16 June 2020, the Supervisory Board permanently established its own Sustainability Committee for the first time. This committee addresses in particular the topics of sustainability, the New Green Deal, decarbonisation, the energy transition, climate action and environmental protection. It is responsible for the development of appropriate strategies and implementation measures as well as for the annual review of the sustainability strategy and goals. The new Sustainability Committee held one meeting during financial year 2020.

The Supervisory Board's Audit Committee met three times during the financial year now ended. It dealt above all with the quarterly financial statements, the budget and preparation of the resolution to approve the annual financial statements, as well as with the appointment of the auditor and examination of the auditor's work. In addition, the Audit Committee concentrated on opportunity and risk management as well as the Group's internal control and audit procedures and on the audits performed by Internal Audit.

The Strategy Committee of the Supervisory Board is responsible above all for coordinating corporate strategy with the Executive Board, conducting the annual strategy review and supervising any modifications to be made. During the reporting period, the Strategy Committee held three meetings for the purpose of voting on the implementation of the Group's strategy and to discuss individual topics of strategic relevance. The Project Committee formed as a sub-committee of the Strategy Committee also met on one occasion. The number of committee members was increased from six to eight in the rules of procedure.

In accordance with the Code of Corporate Governance and the rules of procedure, three other committees – an Emergencies Committee, a Nomination Committee and a Remuneration Committee – were again formed in 2020. The Remuneration Committee held two meetings, which dealt in particular with the agreements on targets and the Executive Board's variable remuneration components as well as the termination agreement with Dipl.-Ing. Wolfgang Anzengruber and an amendment of the Executive Board contract of Mag. Dr. Michael Strugl MBA. The Nomination Committee also held two meetings, at which it dealt with preparations for election of the new Supervisory Board as well as with the appointment of the Chairman of the Executive Board and the extension of the Board contracts. 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 2020. 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 2021 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 2020 were audited by Deloitte Audit Wirtschaftsprüfungs GmbH and issued with an unqualified auditor's report. The auditor prepared the additional report required to be made to the Audit Committee under Article 11 of the Regulation on the statutory audit of public-interest entities and reported its findings in writing. The auditor found that the Executive Board had provided the explanations and evidence requested and that the book-keeping, annual financial statements and consolidated financial statements fulfilled the legal requirements and, in conformity with generally accepted accounting principles, gave a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group. The auditor also confirmed that the management report and the Group management report were consistent with the annual financial statements and the consolidated financial statements.

Following in-depth examination and discussion by the Audit Committee and the Supervisory Board, the Supervisory Board approved the annual financial statements for financial year 2020 as presented by the Executive Board. As a result, they are final for the purposes of Section 96(4) AktG. The management report prepared by the Executive Board was approved, as was the proposal for the appropriation of profit. The Supervisory Board also approved the consolidated financial statements and the Group management report along with the consolidated corporate governance report submitted by the Executive Board and the separate non-financial report. There were no grounds for any material objections.

In conclusion, the Supervisory Board would like to thank the Executive Board and all of the Group's employees for their successful work in 2020. 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 2021

MMag. Thomas Schmid
Chairman of the Supervisory Board

Management report

Report on business performance and economic position

General conditions

In 2020, commodity prices for oil, gas and coal decreased year-on-year, mainly due to the gloomy economic prospects produced by COVID-19. The tightening of EU climate targets led to a jump in prices for CO_2 emission rights again following the sharp slump in spring 2020. Prices for electrical energy fell on both the spot and the futures markets as a consequence of the COVID-19 crisis.

Overall demand for electricity in Austria decreased significantly in 2020 due to weaker economic output. In spite of higher generation volumes from hydropower, overall generation of electricity in Austria in 2020 was also lower than in the preceding year.

General economic environment

A subdued global economy in 2020

The global economy experienced a severe downturn in 2020 as a result of the COVID-19 pandemic. Reports by the International Monetary Fund (IMF) show that all major economies with the exception of China exhibited negative growth rates. The IMF projects a decline of 3.4% in economic output in the United States and of as much as 7.2% in the euro area in 2020. According to IMF forecasts, France, Italy and Spain have been hit particularly hard by the economic crisis, with economic output falling by 10%. For Germany the IMF anticipates a contraction of 5.4% in 2020. Worldwide, the IMF estimates that economic output will be down by 3.5%. China was the only economy to record positive growth rates (+2.3%), recovering significantly at the end of 2020. The rapid upswing in China in late 2020 also remains largely unaffected by the restrictions imposed by the US government on many Chinese companies.

The IMF expects global growth rates to rise again in the coming years, though the forecasts for next year are lower than those made in autumn 2020. The weaker prognosis stems from the continuing rise in infections due in part to mutations of the original virus and high intensive care use, which could lead to further, longer lockdowns in Europe.

The development of vaccines and drugs to contain COVID-19 provides hope that the economic situation will improve. Until the use of vaccines and medicines has a corresponding effect, economic activities will continue to be impacted for a few more quarters by the reduction in direct contact and partially closed borders. This is why the OECD also predicted at the end of 2020 that the global economy would have to live with the pandemic for another six to nine months at least.

Besides the effects of the pandemic, the ongoing trade disputes between the USA and China and the still incalculable effects of Brexit are causing uncertainty.

The COVID-19 pandemic also caused sharply negative economic growth in Austria, though in summer 2020 it was possible to recoup some of the losses caused by the COVID-19 crisis. Overall, the Austrian Institute of Economic Research (Österreichisches Institut für Wirtschaftsforschung, WIFO) expects the economy to contract by 7.3% in 2020 versus the previous year. Growth of 4.5% is expected for 2021, though the third lockdown could push growth down to 2.5%. The financial measures introduced to prop up the domestic economy caused the Austrian federal government to fall short of its original projection of a balanced budget by a large margin. A balanced national budget is also not expected for another couple of years.

Energy market environment

Decrease in electricity consumption due to COVID-19

Austria's electricity consumption (less pumped storage consumption) in 2020 amounted to 68.7 TWh, down substantially on the prior-year figure. The decrease of around 2.5 TWh (approximately 3.5%) is due in particular to the negative economic impact of the COVID-19 pandemic. Even in January 2020, i.e. before the onset of the crisis, demand for electricity was below the January 2019 level (–3.3%). The biggest month-on-month drop was in April 2020, when consumption fell by 13%. In October 2020, consumption was up slightly on the same month in 2019.

Generation of electricity from hydropower was up 2.0% on the prior-year figure. The significant drop in generation volumes due to lower precipitation in the first half of 2020 (down 2.3 TWh on the first six months of 2019) was more than compensated for in the second half of the year (an increase of 3.1 TWh compared with the same period in 2019).

Generation from thermal power plants in Austria in 2020 was a substantial 12.5% (2.3 TWh) lower than in 2019. Generation volumes only exceeded 2019 levels in the months of January and March and in December 2020.

Electricity generation from wind power plants likewise registered a marked decrease owing to lower wind supply. In 2020, generation volumes were 8.5% lower. By contrast, other generation rose by as much as 8.6% (0.5 TWh) in 2020. 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. Among other things, this was attributable to the expansion of photovoltaic installations in 2020. Overall, at 71.3 TWh, electricity production in Austria in 2020 was down 2.2% on the prior-year figure.

Impacted by the low electricity consumption, net imports improved in 2020 compared with the previous year. Compared with 2019, electricity imports fell by 5.9% and electricity exports by 2.6%, giving net imports of –2.2 TWh.

Oil prices down compared with 2019

The price for one barrel of Brent crude oil (front month) was around $43/bbl in 2020 compared with approximately $64/bbl in 2019. This represents a decrease of 33%.

The oil market in 2020 was heavily impacted by the COVID-19 crisis and the resulting decline in demand caused by the economic disruption. This weighed on oil prices in the first half of 2020 in particular. Oil prices virtually collapsed in March and April 2020 owing to a dispute between Saudi Arabia and Russia about production cuts, whereupon the two countries stepped up production – and this at a time when global demand for oil began to collapse in response to the COVID-19 pandemic. From trading at well over $60/bbl at the beginning of the year, oil prices fell to a low for the year of slightly below $20/bbl in April 2020. A recovery then set in, and from June 2020 onwards oil was trading at $40/bbl or higher once more. Until October, there was not very much movement to report in the oil market, which only began to see some momentum again in November. The economic recovery in parts of Asia and good news on the COVID vaccine development front pushed oil prices up to marginally above $50/bbl by year-end 2020.

Decrease in gas prices

Prices on the well-supplied spot market at the European NCG trading point decreased by over €4/MWh (32%) year-on-year to significantly below €10/MWh on average in 2020. In futures trading, invoiced amounts for supplier contracts for the coming year (NCG front year) were around €14/MWh in 2020. This is nearly €5/MWh or 26% lower than prices for NCG front year in 2019. In particular, the gloomy economic prospects as a consequence of the COVID-19 crisis put pressure on gas prices in Europe and worldwide in 2020.

Decrease in steam coal prices

Steam coal prices also witnessed a decline in 2020 compared with the previous year. Coal prices on the futures market (ARA front year) were down $12/t (17%) on the prior year at an average of $58/t.

Coal prices on the spot market likewise took a nosedive. Averaging $50/t in 2020, these were 18% lower than the average listing in the previous year. Coal-fired electricity generation in Europe declined for a number of reasons, starting with weak demand for electricity as a consequence of the COVID-19 crisis. However, higher generation from renewables and the relatively cheaper electricity generation from gas due to more expensive CO_2 emission rights also had an adverse effect on coal-fired generation. No stimulus for the coal market came from other parts of the world either. The COVID-19 crisis curbed demand worldwide and filled coal stores. Commodities across the board suffered from oversupply in 2020.

Stagnating carbon prices

The COVID-19 crisis also impacted negatively on the carbon market: after a period of relatively stable prices of around €25/t (futures market front year) early on in 2020, a short but sharp crash came in mid-March. During this period of weakness, carbon prices slipped below €16/t. However, prices recovered rapidly to top €20/t at the beginning of April and were back trading above €25/t around mid-year. The €30/t mark was also exceeded at the end of financial year 2020. Factors behind this price increase were the EU's tightening of climate targets and the positive signals regarding the approval of COVID-19 vaccines. Averaging €25.1/t, carbon prices in 2020 were therefore only marginally below the 2019 average of €25.2/t.

Falling prices on the market for wholesale electricity

In 2020, the market for wholesale electricity was shaped by a significant decline in prices, both on the spot market and on the futures market. These two markets were impacted by the COVID-19 crisis, with falling prices for primary energy and the lockdown in most countries in Europe plus the associated drop in demand for electricity having a negative effect.

The average price for base load electricity deliveries in the Austrian bidding zone on EPEX Spot, the European electricity exchange spot market, decreased by 17% year-on-year to €33.1/MWh in 2020. At €39.9/MWh, peak-load prices were 14% lower than average prices for 2019. The average price for immediate base load electricity deliveries in the German market area in 2020 was €30.5/MWh (down 19% on the previous year), and the price for peak-load energy was €37.5/MWh (down 16%). In the months of April and May 2020, the average base spot price in the German market area fell to below €18/MWh. This constituted a historic low. Prices in Austria during this period were not much higher.

In the futures market at the European Energy Exchange (EEX), base load for 2021 (front year base) was traded at an average price of €42.8/MWh in 2020 in the Austrian market area and peak load (front

year peak) was traded at €52.0/MWh. This constitutes a decrease of 16% year-on-year. In the German market area, front year base traded at an average of €40.2/MWh and front year peak at €49.0/MWh in 2020. This corresponds to a decrease of 16% and 15%, respectively.

VERBUND sells most of the electricity it generates in advance on the futures markets so as to reduce short-term selling and price risks. The price trend in the futures market in 2020 had only a minor influence on revenue in the reporting period.

Political and regulatory framework

The Austrian federal government under Chancellor Kurz (ÖVP) and Vice Chancellor Kogler (Green Party) was sworn in at the beginning of January 2020. The basis for the government's work is the Government Programme, which comprises numerous energy and climate policy objectives, notably the goal of achieving climate neutrality by 2040, as well as initiatives and measures related to carbon pricing. For example, Austria aims to meet 100% of its electricity demand (annual balance) from renewable sources by 2030. As a consequence of the global spread of COVID-19, from quarter 2/2020 onwards the federal government's work was focused on COVID-19 pandemic response activities.

EU energy policy

European Green Deal

European energy policy in 2020 was shaped to a significant degree by the European Green Deal that had been presented in December 2019. The Green Deal is a comprehensive strategy document that coherently consolidates the European Commission's measures in relation to climate action, the energy transition, the circular economy and protection of biodiversity. One of the core points of the Green Deal was possibly raising climate change targets for 2050, and for 2030, as proposed during the year now ended in the form of the European Climate Law.

European Climate Law

The European Commission published the European Climate Law in March 2020 in connection with the European Green Deal. The Climate Law proposes to strengthen the European greenhouse gas reduction target for 2050 from the current 80–95% compared with 1990 levels to a (net) 100% in order to achieve climate neutrality. Accordingly, the Commission also proposed an increase in the 2030 climate target to reduce greenhouse gas emissions by at least 55% compared with 1990 levels. The current target is 40%. The final targets will be determined in the course of the trilogue negotiations between the Council and the Parliament that had not been concluded at the time this report was being prepared. However, the Commission assumes that the targets will be raised and has started to adapt sectoral legislation accordingly, e.g. in relation to the EU Emissions Trading System (ETS) and the Renewable Energy Directive.

EU recovery plan

EU member states took a serious economic hit in 2020 as a consequence of the COVID-19 pandemic. To support the reconstruction and initiate the necessary economic reforms at the same time in an effort to achieve greater climate compatibility and digitalisation, the Commission adopted the EU recovery plan in May 2020. Comprising the regular EU budget plus an extraordinary economic stimulus package, the recovery plan has a total volume of around €1.8tn. If approved by the European Council and the

European Parliament, the extraordinary funds will be earmarked in particular for government measures to combat climate change, advance digitalisation and promote biodiversity in 2021 and 2022.

Sustainable finance

After the Taxonomy Regulation entered into force in June 2020, the Commission published the draft delegated act setting out technical screening criteria for the environmental objectives of climate change mitigation and adaptation in November 2020. The fundamental classification of hydropower as a transitional technology ultimately did not find its way into the Commission's draft, which means that hydropower is now considered sustainable subject to specific limits. Until 18 December 2020, there was an opportunity for stakeholders to participate in a consultation on the draft, in which VERBUND also participated.

Hydrogen, IPCEIs & Clean Hydrogen Alliance

In summer 2020, the European Commission adopted the European Hydrogen Strategy as well as the EU Energy Systems Integration Strategy, which addresses sector coupling and sector integration. The core objective of the EU hydrogen strategy, which focuses on renewable hydrogen, is to implement 6 GW of electrolysis capacity in Europe by 2024. These two strategic projects are complemented by the European Commission's industrial policy IPCEI (Important Projects of Common European Interest) initiative, which provides for preferential treatment under state aid law for projects with IPCEI status. On the corporate side, implementation of the strategy will be supported and advanced by the Clean Hydrogen Alliance.

New legal framework for the energy sector in Austria

2021 legislative package on renewable energy expansion – 2020 grid reserve

The Austrian Federal Ministry for Climate Action, Environment, Energy, Mobility, Innovation and Technology (BMK) submitted the legislative package on renewable energy expansion for review on 16 September 2020. This legislative package will transpose large sections of the EU's Renewable Energy Directive (REDII) and initial sections of the EU's Internal Electricity Market Directive into national law. The BMK's primary goals are to fundamentally update the Austrian support system for green electricity, to meet 100% (national balance) of domestic electricity demand from renewable energy sources by 2030 and to create new opportunities for participation in renewable energy projects through energy communities. The topics of renewable hydrogen and renewable gases have been largely excluded for the time being, though talks are continuing in parallel. A parliamentary decision on the overall package will not be possible until the beginning of 2021 at the earliest.

A decision on the revision of the grid reserve was urgently needed, firstly for reasons of EU law and secondly to ensure planning security for the control area manager APG and the grid reserve providers (especially thermal power plant operators in Austria). This aspect was therefore removed from the overall package and unanimously adopted by means of a parliamentary decision on 10 December 2020.

New Energy Efficiency Act from 2021

A new Energy Efficiency Act (Energieeffizienzgesetz, EEffG), which will serve in particular to implement the requirements of the EU Energy Efficiency Directive for the years 2021 to 2030, was not presented in 2020 and is now expected for 2021. While the original assumption was 500 PJ (1 PJ = 0.28 TWh) of cumulative final energy savings for Austria, it seems that the national targets will actually exceed this

already ambitious European target. Currently, it looks as if the targets will be achieved with a mix of strategic measures and a supplier obligation in combination with an energy efficiency fund.

Reform of grid usage fees – E-Control's "Tarife 2.1" paper

At the beginning of 2016, E-Control[1] (ECA) published a consultation document in German entitled "Tarife 2.0" on the further development of the grid charge structure. The ECA thoroughly revised its position paper again in June 2020. Entitled "Tarife 2.1", this document was open for consultation in summer 2020. A central point in the paper is that with a nationwide smart meter roll-out, the capacity component of the grid tariffs should also be increased at the lowest grid level 7. The ECA's position is expected to be taken into account within the framework of the major amendment to the Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG) planned for 2021 to implement the requirements set forth in the EU's Internal Electricity Market Directive and Regulation.

[1] refers to Energie-Control Austria für die Regulierung der Elektrizitäts- und Erdgaswirtschaft, the public agency regulating the Austrian electricity and natural gas market

Important projects of common European interest (IPCEIs): call for expressions of interest

In quarter 4/2020, the Austrian Federal Ministry for Climate Action, Environment, Energy, Mobility, Innovation and Technology (BMK) launched a call for expressions of interest in participation in IPCEI projects. Interested project applicants had the opportunity to submit projects to obtain IPCEI status, which grants preferential treatment under state aid law. VERBUND participated in the call for expression of interest with four projects.

New legal framework for the energy sector in Germany

Amendment to the Renewable Energy Sources Act (EEG)

The German Renewable Energy Sources Act (Erneuerbare-Energien-Gesetz, EEG) of 2017 is being replaced by a substantially amended EEG that came into force on 1 January 2021. EEG 2021 sets the path for making all electricity in Germany greenhouse gas neutral by 2050. This applies both to electricity produced domestically and to imports. The Act does not specify that 100% of the electricity must be generated from renewable energy sources. The interim goal, to be achieved by 2030, is to meet 65% of electricity demand from renewable energy. Expansion paths are envisaged for the individual technologies. Onshore wind energy is to grow from currently 54 GW to 71 GW in 2030, installed photovoltaic capacity from 52 GW to 100 GW. Due to the agreement of the European Council in mid-December 2020 to reduce greenhouse gas emissions by 55% by the end of 2030 compared with 1990 levels instead of 40%, a significantly higher expansion path for renewable electricity generation is needed than that laid out in EEG 2021. The governing parties therefore agreed on higher expansion targets for renewables. Detailed regulations on this matter were excluded from the EEG process, however. Instead, the federal government will make a proposal on the precise expansion paths during quarter 1/2021.

Germany's hydrogen strategy

The German government unveiled its hydrogen strategy in June 2020. This provides for the creation of a hydrogen economy and focuses primarily on green hydrogen. By 2030, 5 GW of electrolysis capacity with annual capacity of 14 TWh is to be established throughout Germany (to be doubled by 2040). Demand for hydrogen is forecast to reach 90–110 TWh by 2030. The steel industry and refineries as well as transportation with a focus on heavy goods, shipping and air transport have been identified as

customers. The gap is to be closed with imports. The gas infrastructure in particular has an important role to play in hydrogen transportation. Other possibilities, such as transportation using a transport medium, are mentioned in the strategy.

Finance

Factors affecting the result

Wholesale electricity prices

VERBUND contracted for most of its own generation for 2020 on the futures market back in 2018 and 2019. Ever since the split of the joint German-Austrian price zone in October 2018, separate, higher prices have prevailed in Austria. Prices for AT 2020 front-year base load contracts (traded in 2019) averaged €51.2/MWh, and prices for DE 2020 front-year base load contracts averaged €47.8/MWh. Futures market prices thus increased year-on-year by 9.9% (AT) and 9.0% (DE), respectively. Front-year peak load (AT) contracts traded at an average of €62.1/MWh and front-year peak load (DE) contracts traded at an average of €57.7/MWh. This represents a year-on-year increase of 9.3% and 6.9%, respectively. These increases were primarily due to the sharp rise in the price of CO_2 emission rights on the market. The COVID-19 pandemic pushed down wholesale trading prices for electricity on both the Austrian and German spot markets in quarters 1–4/2020 to well below the prior-year level. Prices for base load electricity decreased by an average of 17.3% to €33.1/MWh in Austria and by 19.1% to €30.5/MWh in Germany. Prices for peak load fell by 13.9% to €39.9/MWh in Austria and by 15.7% to €37.5/MWh in Germany.

Water supply

The water supply in rivers is of particular significance for VERBUND since around 94% of its electricity is produced using hydropower. Water supply is measured by means of a hydro coefficient, with the value of 1.00 representing the long-term average. In the 2020 reporting period, the hydro coefficient for run-of-river and pondage power plants was 1.01, which is slightly above the long-term average and on a level with the previous year. The hydro coefficients for the individual quarters differed substantially as follows: quarter 1: 1.09 (previous year: 1.21); quarter 2: 0.86 (1.05), quarter 3: 1.05 (0.85) and quarter 4: 1.11 (0.99).

Electricity supply and sales volumes

VERBUND's own generation rose by 323 GWh to 33,482 GWh in quarters 1–4/2020. This represents an increase of 1.0% compared with 2019. Generation from hydropower increased by 864 GWh compared with the previous reporting period. The hydro coefficient for the run-of-river power plants came to 1.01, matching the prior-year level and exceeding the long-term average by 1 percentage point. Generation from VERBUND's annual storage power plants increased substantially by 14.8% year-on-year in quarters 1–4/2020 due to greater water inflows, increased generation from turbining and lowering of reservoir levels.

The volume of electricity generated by VERBUND's wind power installations in quarters 1–4/2020 was 5 GWh lower than the comparative prior-year figure, with increased volumes in Germany and Romania and reduced volumes in Austria. Electricity generated by PV installations stood at 0.6 GWh in 2020.

Generation from thermal power plants decreased by 536 GWh in quarters 1–4/2020. The Mellach combined cycle gas turbine power plant produced 201 GWh less electricity in the reporting period due to reduced use for congestion management compared with the prior year. The Mellach district heating power plant, which since the end of quarter 1/2020 has been used solely in gas operation, generated 335 GWh less electricity.

Purchases of electricity from third parties for trading and sales rose by 862 GWh. By contrast, electricity purchased from third parties for grid losses and control power decreased by 488 GWh.

Group electricity supply GWh

	2019	**2020**	Change
Hydropower[1]	30,660	31,525	2.8%
Wind power	929	924	–0.6%
Photovoltaic systems	–	1	–
Thermal power	1,570	1,033	–34.2%
Own generation	33,159	**33,482**	1.0%
Electricity purchased from third parties (trading/sales)	29,056	29,918	3.0%
Electricity purchased for grid loss and control power volumes	4,077	3,588	–12.0%
Electricity supply	66,292	**66,989**	1.1%

[1] incl. purchase rights

VERBUND's electricity sales volume increased by 563 GWh in quarters 1–4/2020. Electricity volumes delivered to consumers declined by 910 GWh. The decrease, which is mainly due to COVID-19, can be seen among Austrian and international customers alike. As at 31 December 2020, our residential customer base comprised approximately 519,000 electricity and gas customers. By contrast, sales to resellers rose by 1,203 GWh year-on-year, an increase mainly attributable to higher delivery volumes to international customers. Electricity deliveries to trading firms increased by 270 GWh due to higher spot trading volumes. Own use of electricity rose by 149 GWh. This increase is attributable above all to increased operation of the Group's power plants in turbining mode.

Group electricity sales volume and own use GWh

	2019	**2020**	Change
Consumers	14,478	13,568	–6.3%
Resellers	27,806	29,009	4.3%
Retailers	19,894	20,164	1.4%
Electricity sales volume	62,179	**62,741**	0.9%
Own use	3,178	3,327	4.7%
Control power volume	935	921	–1.5%
Total electricity sales volume and own use	66,292	**66,989**	1.1%

Approximately 55% of the electricity sold by VERBUND in quarters 1–4/2020 went to the Austrian market, which corresponds to the level of the previous year. International trading and sales activities focused on the German market, which accounted for around 82% of all volumes sold abroad in 2020.

Electricity sales volume by country GWh

	2019	**2020**	Change
Austria	34,475	34,469	0.0%
Germany	23,511	23,098	–1.8%
France	3,301	4,284	29.8%
Romania	865	875	1.2%
Other	26	15	–39.9%
Electricity sales volume	62,179	**62,741**	0.9%

Financial performance

Revenue and result

	Unit	2019	**2020**
Revenue	€k	313,905.8	350,880.6
Earnings before interest and taxes (EBIT)	€k	682,719.5	476,339.3
Earnings before taxes	€k	622,387.6	437,188.5
Net income for the year	€k	619,537.0	420,453.1
Net profit	€k	239,716.8	260,561.8
Return on equity (ROE)	%	23.8	14.2
Return on investment (ROI)	%	13.9	9.2
Return on capital employed (ROCE)	%	10.4	7.2
Return on sales (ROS)	%	217.5	135.8

Revenue

Revenue from electricity deliveries increased by 11.0% or €30,547.0k, due mainly to higher average futures market prices obtained for the 2020 supply year for volumes hedged for the long term. Lower spot market prices diminish this effect. In the 2020 reporting period, the hydro coefficient for run-of-river power plants was slightly above the long-term average and at the same level as the previous year. This resulted in higher electricity revenue from purchase rights of €28,130.8k. Invoicing for two partners authorised to purchase electricity was changed at the beginning of financial year 2020 to be directly through VERBUND Hydro Power GmbH (VHP). The previous year's electricity revenue still included €10,450.4k in connection with these partners. The increase in the consumer segment amounted to €14,697.2k or 14.5% and is primarily attributable to the favourable sales trend.

With regard to revenue from gas deliveries, the customer base grew, resulting in higher deliveries. As a consequence, revenue from gas deliveries increased by 10.3%, from €32,027.2k to €35,708.9k.

Total revenue thus increased by €36,974.8k or 11.8%.

Expenses for electricity purchases

Expenses for the purchase of electricity increased by 5.2%, from €149,185.2k to €156,905.6k. Electricity purchases from purchase rights are based on reimbursement of costs and therefore slightly below the levels of the previous year (€1,450.7k) despite fluctuating volumes. Electricity purchased for the consumer business is procured at market prices and therefore increased by 24.26% in financial year 2020 as a result of higher sales volumes and higher purchase prices. Similar to electricity revenue, the change made to invoice partners authorised to purchase electricity directly through VHP also resulted in a reduction of electricity purchases. The previous year's electricity purchases still included €10,450.4k in connection with these partners.

Expenses for gas purchases

Despite the increase in consumer business volume, expenses for the purchase of gas fell by 7.1% from €24,983.4k to €23,213.7k as a result of the lower prices.

Personnel expenses

Personnel expenses decreased by €4,415.8k, or 13.3%, to €28,820.7k. Factors contributing to an increase in personnel expenses were the 2.6% increase in salaries and ancillary expenses under the collective agreement and the biennial pay rises stipulated by the collective agreement as well as the hiring of additional employees for implementation of strategic growth projects. The number of employees increased by 16 to 148 employees. Employee benefit expenses fell by €6,660.7k, primarily as a result of the decreased negative impact of the change in underlying calculation parameters in the amount of €467.9k (previous year: €5,927.7k).

Other operating expenses

Other operating expenses rose by €8,713.1k, or 22.7%, to €47,247.4k. This increase is primarily attributable to higher legal, audit and consulting expenses (€3,959.0k) and higher IT expenses (€1,683.4k) in connection with digitalisation activities.

Earnings before taxes

Earnings before taxes decreased from €622,387.6k to €437,188.5k as a result of the influencing factors described above and the lower year-on-year financial result of €376,093.3k (previous year: €588,830.5k).

The financial result changed primarily due to lower impairment loss reversals of equity interests in the amount of €36,101.9k (previous year: €384,905.7k). In contrast to that, investment income increased by €106,224.1k from €231,591.5k to €337,815.5k. Transfers of losses in the amount of €4,214.5k (previous year: €6,347.3k) had a counteracting effect. Interest expenses fell by €20,574.9k from €56,676.7k to €36,101.9k primarily as a result of lower interest for loans and credit facilities (reduction: €19,851.8k). The financial result includes income from the disposal of equity interests of €4,692.3k (previous year: €0.0k).

Financial position

Financial position

	Unit	2019	**2020**
Fixed assets	€k	4,907,778.8	5,044,498.0
Current assets	€k	120,785.9	62,830.2
Working capital	€k	–742,013.4	–870,142.6
Net debt	€k	1,905,488.3	1,673,709.3
Equity	€k	3,088,108.8	3,268,845.0
Current liabilities	€k	1,085,681.4	981,938.4
Current assets	€k	343,668.0	111,795.8
Average capital employed	€k	4,902,441.1	4,967,150.0
Equity ratio	%	59.9	62.8

Fixed assets

Intangible assets and property, plant and equipment increased by €964.7k. Additions primarily related to intangible assets (software) of €377.8k, to office and plant equipment and electrical installations of €1,803.76k and to investments in buildings of €1,725.5k. Amortisation of intangible assets and depreciation of property, plant and equipment amounted to €2,925.7k in the financial year.

Investments relating to equity interests rose by €85,729.7k, due on the one hand to impairment loss reversals of foreign equity interests of €31,638.0k and the impairment loss reversal of a domestic equity interest of €7,624.7k and on the other hand to additions to domestic equity interests amounting to €37,000.0k and one foreign equity interest amounting to €10,000.0k, along with the disposal of domestic equity interests amounting to €533.k.

Other investments increased in total by €50,024.7k. Loans were granted in the amount of €201,555.5k, while loans of €218,702.7k were repaid. The carrying amount of securities under fixed assets increased by €67,171.9k due to the purchase of securities amounting to €74,208.7k and impairment loss reversals amounting to €100.91k, which were partly offset by disposals totalling €7,137.7k.

Current assets

The decrease of €58,113.9k in current assets resulted mainly from the reduction in other receivables from affiliated companies by the amount of €70,193.3k, of which €69,522.8k concern the decrease in corporate income tax allocations which are not yet due. This decrease is partly offset by an increase in trade receivables totalling €4,798.4k, a subsequent receivable from the disposal of an equity interest in the amount of €4,336.3k and a short-term loan granted for €2,600.0k.

Equity

Due to the net income for the year in the amount of €420,453.1k, reduced by the distribution for financial year 2019 of €239,716.8k, equity increased to €3,268,845.0k. The equity ratio rose from 59.9% to 62.8%, mainly as a result of this.

Liabilities

Non-current and current liabilities decreased by €228,385.0k to €1,680,304.6k. In financial year 2020, repayments to banks amounted to €233,902.8k. No new loans were taken out in financial year 2020 (previous year: €0.0k). Liabilities to affiliated companies rose by €10,544.6k due to intra-Group invoicing. Trade payables rose by €3,932.4k to €41,692.5k. Other liabilities fell by €3,294.6k primarily as a result of the reduction in liabilities to tax authorities.

Financing

Financing strategy

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

Safeguarding liquidity and ensuring suitable liquidity reserves

For VERBUND, ensuring that liquidity is available at all times has the highest priority. As at 31 December 2020, VERBUND had an ESG-linked syndicated loan in the amount of €500.0m at its disposal that had not been drawn down. The loan, which was taken out with twelve domestic and international banks with good credit ratings, matures in 2023 with two additional extension options of one year in each case. VERBUND also had access to uncommitted lines of credit amounting to approximately €600.0m at the end of 2020. At 31 December 2020, €50m of these credit lines had been drawn down.

Securing a solid, long-term credit rating

The better a company's credit rating, the easier and more inexpensive it is to benefit from full access to international capital markets. Having a solid credit rating gives VERBUND access to various financing instruments, including those in the capital market. As at 31 December 2020, VERBUND had a long-term rating of A with a stable outlook from Standard & Poor's (S&P) and a rating of A3 with a stable outlook from Moody's. S&P last reconfirmed its rating in December 2020. Moody's most recently raised its rating in January 2020 from Baa1/positive outlook to A3/stable outlook and confirmed the rating in January 2021. 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.

Financing measures

In 2020, VERBUND was again able to take advantage of its strong internal financing capability to finance its ongoing investment programme and to continue to reduce Group debt. As at 31 December 2020, VERBUND's cash flow from operating activities amounted to €1,191.0m and free cash flow before dividends amounted to €590.9m. As part of active liquidity management, VERBUND subjects its financial liabilities to ongoing monitoring to ensure that opportunities to optimise interest expenses are taken advantage of (e.g. by making early principal repayments).

VERBUND AG will continue to pursue green finance activities in the future. Following a number of innovative transactions in recent years such as the issuance of the first green bond in the German-speaking region, the world's first green Schuldschein over a digital platform and the first green syndicated loan whose margin structure is linked exclusively to VERBUND's ESG rating (sustainability rating) over the term of the loan, no new funds were raised in the capital market in 2020 due to VERBUND's outstanding liquidity situation.

KPIs – finance

	Unit	2019	**2020**
Cash flow from operating activities	€k	293,366.6	564,286.7
Cash flow from investing activities	€k	189,738.0	–61,719.0
Cash flow from financing activities	€k	–483,104.7	–502,567.7
Financial result	€k	588,830.5	376,093.3
Gearing	%	61.7	51.2
Debt repayment period	years	7.3	4.6

Compared with the previous year, the financial result decreased by €212,737.2k to €376,093.3k. The main reason for this were the high impairment loss reversals recognised on equity interests in financial year 2019 amounting to €384,905.7k, whereas in financial year 2020 impairment loss reversals were recognised on equity interests in the amount of €39,262.7k. Investment income increased by €106,224.1k to €337,815.5k. Losses amounting to €4,214.5k were transferred in 2020 (previous year: €6,347.3k). Interest income improved by €21,334.8k. Income from loans fell by €669.8k to €35,136.9k. Income from

the disposal of equity interests of €4,692.3k (previous year: €0.0k) was recognised during the financial year. No dividend distributions from securities were received in 2020 (previous year: €1,832.2k). Impairment losses on securities were reversed in the amount of €100.9k (previous year: impairment losses of €784.9k).

A sharp decline of €231,779.1k in interest-bearing net debt and the simultaneous increase of €180,736.2k in equity reduced the gearing by 10.5 percentage points to 51.2%. The cash inflow from earnings before taxes of €417,638.3k (previous year: €281,841.7k) accompanied by a more significant reduction in debt of 6.6% (reduction in previous year: 10.0%) lowered the debt repayment period from 7.3 years in the previous year to 4.6 years.

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

Cash flow statement

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

(1) Cash flow from operating activities

Cash flow from operating activities is determined using the indirect method and resulted in a cash inflow of €564,286.7k (previous year: cash inflow of €293,366.6k).

Profit or loss for the period includes investment income impacting the cash flow net of losses transferred amounting to €333,584.1k (previous year: €225,244.1k).

The change in trade receivables and other receivables is primarily attributable to the increase in trade receivables in the amount of €4,798.4k and the increase in other receivables in the amount of €2,954.9k, effects which are partially offset by a decrease in other accruals and deferrals of €3,020.8k.

The change in trade payables and other liabilities is mainly the result of the increase in liabilities from the electricity and gas business of €4,140.7k. Trade payables, excluding the electricity and gas business, fell by €208.3k. Under other liabilities, there was a decrease of €544.9k. Liabilities to the tax authorities, mainly comprising value-added tax, fell by €2,219.1k. Liabilities to affiliated companies increased by €1,625.0k.

The change in current provisions is mainly attributable to higher provisions for the consumer business in the amount of €5,191.6k, provisions for outstanding purchase invoices in the amount of €2,981.1k and provisions for personnel expenses of €1,774.4k.

Of the net asset position arising from income tax payments in the amount of €166,956.7k (previous year: €41,569.0k), €13,176.7k is attributable to assessments from previous years and €222,024.3k to the credit of tax allocations from Group members. These contrast with prepayments to the tax authorities in the amount of €67,493.3k. Other income taxes such as capital gains tax resulted in a cash outflow of €750.9k.

(2) Cash flow from investing activities

Net cash flow from investing activities consisted of an outflow of €61,719.0k (previous year: inflow of €189,738.0k), resulting primarily from the granting of loans in the amount of €201,555.5k (of which €201,538.0k to affiliated companies). These contrast with the repayment of loans in the amount of

€218,702.7k (of which €215,196.8k in loans to affiliated companies), investments in affiliated companies in the amount of €47,000.0k and the balance of purchases and disposals of securities in the amount of €67,083.7k. In addition, an investment was sold in the Group for €889.0k.

Capital expenditure for intangible assets and property, plant and equipment comprised capital expenditure relating to buildings in the amount of €1,725.5k and to office and plant equipment in the amount of €1,516.6k, and investments in software in the amount of €377.8k and electrical equipment in the amount of €119.5k.

Cash inflow from interest mainly for loans granted in the amount of €38,040.0k remained at nearly the same level as the previous year.

(3) Cash flow from financing activities

As part of the dividend distribution approved for financial year 2019, €239,716.8k was paid out to shareholders. This was equivalent to a dividend of €0.69 per share. Group clearing resulted in a cash inflow of €9,731.8k (previous year: cash inflow of €441,178.6k).

Through the continued reduction of debt, VERBUND AG reduced cash outflows for interest and similar expenses by €20,854.3k to €38,679.9k.

Repayments at maturity in the amount of €205,000.0k, scheduled payments by instalment in the amount of €28,902.8k and early payments of instalments of €0.0k took place in financial year 2020. No loans were taken out (previous year: €0.0k).

Cash flow statement

€k

	Notes	2019	**2020**
Earnings before taxes		622,387.6	437,188.5
Amortisation of intangible assets and depreciation of property, plant and equipment		2,056.3	2,925.7
Amortisation and reversal of impairment of investments		–383,995.8	–39,363.6
Result from disposal of non-current assets		52.0	–11.3
Income from investments, other interest and similar income, and interest and similar expenses		19,711.4	–3,473.8
Change in non-current provisions		4,820.6	–1,913.5
Income from the reversal of contributions to building costs		–35.1	–35.1
Other non-cash expenses and income		–17,703.1	–4,881.5
Change in inventories		–18.2	–158.2
Change in trade receivables and other receivables[1]		2,183.0	–5,277.2
Change in trade payables and other liabilities[2]		–2,684.0	2,382.2
Change in current provisions		5,023.0	9,947.8
Payments for income taxes		41,569.0	166,956.7
Cash flow from operating activities	(1)	293,366.6	**564,286.7**
Cash outflow from capital expenditure on intangible assets and property, plant and equipment		–2,923.8	–3,739.4
Cash inflow from the disposal of intangible assets and property, plant and equipment		9.6	28.0
Cash outflow from capital expenditure on investments		–63,916.4	–322,764.3
Cash inflow from the disposal of investments		216,080.4	226,716.7
Cash inflow from investments and securities		1,832.2	0.0
Cash inflow from interest		38,656.0	38,040.0
Cash flow from investing activities	(2)	189,738.0	**–61,719.0**
Cash outflow from the repayment of financial liabilities (excluding money market transactions)		–718,834.4	–233,902.8
Cash inflow (outflow) from increases (decreases) in Group clearing balances		441,178.6	9,731.8
Dividends paid		–145,914.6	–239,716.8
Cash outflow for interest and similar expenses		–59,534.2	–38,679.9
Cash flow from financing activities	(3)	–483,104.7	**–502,567.7**
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/[3]		0.0	**0.0**

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

Report on the environment, research, development and social aspects

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

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

This report covers the activities of all of the companies included in the Group's consolidated financial statements. Significant events occurring at unconsolidated companies are also reported to provide a complete picture of the Group. The reporting period comprises the 2020 calendar year.

Sustainable topics and projects in 2020

VERBUND Climate Report

In 2020 VERBUND published its first-ever report on the risks and opportunities of climate change from the Group's perspective. Entitled "Climate action requires decarbonisation", this Climate Report was created in cooperation with VERBUND experts from the fields of hydrology, meteorology, the environment, legal affairs, the energy market, strategy and innovation. It describes the legal framework for climate change, looks at the effects of extreme weather events on VERBUND plants and addresses the reduction of greenhouse gas emissions by VERBUND. In addition to these challenges, the report also considers the opportunities arising from VERBUND's 2030 strategy. Both the research into green hydrogen and the expansion of the power grid and renewable generation (hydropower, wind power and solar power) have huge potential, for instance.

VERBUND Sustainability Committee

In 2020 a Sustainability Committee was set up within the Supervisory Board. Among other things, this committee addresses topics such as decarbonisation, the energy transition, environmental protection and climate action, and regularly reviews VERBUND's sustainability strategy and objectives. The committee convened for the first time in September 2020 and will continue to meet on a regular basis in the future.

Impact assessment

In 2020 VERBUND developed a quantitative valuation model in accordance with the international Natural Capital Protocol to assess the main environmental impacts of electricity generation. The ecological footprint of the individual generation technologies was determined by means of a life cycle analysis, using recognised approaches and databases such as Ecoinvent and ReCiPe. The various impact categories can be put in relation to each other by monetising the external effects based on the factors

published by the renowned CE Delft organisation. This enables the biggest influencing factors on the environment to be identified and conclusions to be drawn in order to reduce the adverse effects over the entire life cycle of generation facilities. It is planned to continuously develop the valuation model and integrate additional impact categories – including social impacts in particular.

Creating internal awareness

In 2020 VERBUND also continued to raise employee awareness of sustainability issues. The focus of these efforts was on understanding the SDGs and their relevance for VERBUND as a company and for each individual employee. On the one hand, corporate initiatives were introduced, such as the internal health schemes (SDG 3) or the VERBUND Electricity Relief Fund run by Caritas (SDG 1, SDG 7), which contribute to the achievement of the SDGs. On the other hand, VERBUND increased employee awareness of how each individual can make their own personal contribution to the achievement of the SDGs (e.g. by buying local products or using Austrian portals when shopping online). The content was made available to employees on the intranet. Additionally, a short explanatory video was created that presents the complex issue of sustainability to employees in a concise and simple way.

Environmental performance

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

The Environment executive order and additional environmental provisions define the framework for the systematic planning, execution and measurement of and reporting on 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. To ensure this, VERBUND has established a decision-making body at the highest management level and a working team made up of in-house environmental experts.

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

Impacts on the environment

The impacts, both positive and negative, that the VERBUND generation portfolio has on the environment are a key topic in VERBUND's environmental management systems. There are two primary ways in which normal operation of VERBUND's plants has a detrimental impact on the environment: through the effect of hydropower plants on habitats in relation to river morphology and biodiversity and through the effect of thermal power plants in relation to airborne emissions. The VERBUND plants themselves present no significant risks with potentially negative effects for the environment. By operating the facilities in compliance with the laws, VERBUND further minimises the likelihood that these risks will arise. For extreme events (severe flooding, earthquakes, etc.) VERBUND has specific emergency plans and a crisis management team.

Certification of environmental management systems

VERBUND engages external auditors to audit and certify its environmental management systems at generation and grid facilities and at major administrative sites in accordance with ISO 14001. The Mellach thermal generation facilities are also validated in accordance with the EMAS Directive. A separate environmental statement is published annually on the VERBUND website for these facilities. New facilities, e.g. the Graz power plant in 2020, are incorporated into the environmental management system as quickly as possible after commissioning and included in the scope of the certificate for the next audit.

Generation and use of power

In 2020, 97% of electricity generated at VERBUND originated from hydropower, wind power and solar power, and 3% from thermal generation. VERBUND's total energy consumption decreased to 19.5 million gigajoules (GJ) in 2020 from 24.2 million GJ in 2019, despite higher total generation.

Fuels made up 47% of total use of power at 9.2 million GJ. Mainly the fossil fuels natural gas and hard coal and, to a lesser degree, the renewable fuel sewage sludge were used for thermal generation in order to generate electricity for grid support for congestion management purposes as well as for district heating. The Mellach district heating power plant ceased using coal at the end of March 2020. Coal consumption declined by 47% in 2020 to around 3.9 million GJ (2019: 7.3 million GJ) and will be completely eliminated in 2021. In addition, 5.2 million GJ of energy from natural gas was used, 24% less than in 2019 (2019: 6.9 million GJ). The volume of fuels used for the vehicle fleet and equipment amounted to 0.06 million GJ (2019: 0.07 million GJ), corresponding to around 0.7% of the total use of power from fossil fuels.

Electricity purchases by VERBUND comprise grid purchases for administration, power plants, pumps and grid facilities. In 2020, the share of electricity purchased was 53% of total use of power. At around 10 million GJ of electricity mainly for pumping and turbining and for compensating grid losses, approximately the same volume of electricity was drawn from the grid as in financial year 2019. Around 70% of this electricity came from renewable energy sources.

The KPI energy intensity, which is expressed as the ratio of the Group's power use to the volume of electricity and district heating generated, improved to 0.16 GWh/GWh in 2020 (2019: 0.20 GWh/GWh). VERBUND's target of a 25% reduction in energy intensity by 2021 (2015 baseline) was achieved in 2019 and 2020, largely thanks to the rapid phase-out of generation from hard coal and the increase in renewable generation.

Use of materials

Materials VERBUND uses include additives and consumables for flue gas and effluent treatment and for energy generation in the power plants and for the grid facilities. Most of these are produced using non-renewable materials. A small portion (mainly copying paper in administrative areas) is from renewable materials. Copying paper consumption decreased by around half in 2020 compared with the previous year due to the increased use of the home office.

Total material requirements fell by 62% year-on-year. This decrease is primarily attributable to reduced use of additives and consumables in the Mellach district heating plant in 2020. The material intensity for thermal generation has already been reduced by 81% since 2015. VERBUND therefore achieved its goal of an 80% drop in this figure by 2021 (2015 baseline) as early as 2020, by switching from generation from hard coal to natural gas and through the use of the new waste water treatment system.

Greenhouse gas emissions

The Group's focus on electricity generation from renewable energy is a crucial factor for VERBUND in terms of both reducing and avoiding greenhouse gas emissions. Of the electricity generated at VERBUND in 2020, as much as 97% was generated from hydropower and wind power. As it is still necessary to use thermal power plants to provide grid support and district heating, the remaining 3% share of generation came from thermal power plants.

Since April 2020, VERBUND no longer uses hard coal to generate power. Operating the thermal power plants exclusively with natural gas will also further reduce specific greenhouse gas emissions.

The Greenhouse Gas Protocol (GHG Protocol) is the standard for reporting greenhouse gases. Pursuant to this standard, greenhouse gas emissions are broken down into three scopes with certain distinctions made between them. Scope 1 emissions are all direct emissions generated from internal company activities and activities at VERBUND. Scope 2 emissions are generated indirectly from electricity purchased and from grid losses, and Scope 3 emissions are other indirect greenhouse gas emissions arising from the value chain.

One of VERBUND's goals is to reduce the VERBUND-specific direct greenhouse gas emissions (Scope 1) to below 10 g CO_2e per kWh of total electricity generated. This original target from 2015 was based on the liquidation of VERBUND Thermal Power, which was planned at the time but not carried out, making an adjustment necessary: the associated targets will be revised in financial year 2021, taking the acquisition of the stake in Gas Connect into account as well as the continued need to use thermal power plants to maintain the domestic security of supply. VERBUND has succeeded in reducing carbon emissions from the thermal power plants by around 70% since 2005 and therefore contributes to the avoidance and reduction of emissions and to the achievement of SDG 13 "Climate action".

The Paris Agreement on climate change drafted in 2015 aims to reduce worldwide greenhouse gas emissions to a level intended to limit a rise in global temperatures to below 2 degrees or, better still, to below 1.5 degrees. VERBUND's target of reducing greenhouse gas emissions by 90% starting from the basis year 2011 until 2021 includes Scope 1, Scope 2 market-based and parts of Scope 3 emissions calculated for energy and air travel (2011: 5 million t CO_2e). The Science Based Targets Initiative validated this target as science-based in October 2016, and the target for Scope 1 and 2 was categorised in 2020 as consistent with the 1.5-degree target of the Paris Agreement.

The outputs of the thermal power plants are essential for maintaining security of supply in Austria. The necessary activation of congestion management services to ensure safe grid operation and the

district heating supply for the greater Graz area and the resulting emissions depends on external factors and cannot be influenced by VERBUND.

Conservation and biodiversity

Some VERBUND power plants and grid facilities are located in nature conservation areas or other protected areas. Information on the geographical location of the power plants is published on the VERBUND website. The locations of the protected areas can be found on the Austrian and Bavarian geodata portals.

Current examples of investments in ecology and biodiversity can be found in the Hydro section and in wind and solar power projects in the New renewables section. The wide range of measures that VERBUND has already implemented and those that are still at the planning stage in the areas of conservation and biodiversity are described on the web pages of the respective LIFE projects, on the APG website and on the VERBUND website.

Rehabilitation measures implemented at water bodies and the construction of fish passes to re-establish river continuity are making an important contribution to the preservation and promotion of biodiversity in hydropower plants. Additional fish passes were completed in 2020, including the Annabrücke power plant on the Drau River, the Abwinden-Asten power plant on the Danube and the Garsten power plant on the Enns. The fish passes at the Ferlach power plant on the Drau, Nußdorf on the Inn and at the Altenwörth power plant on the Danube are already under construction.

Water and effluents

Water withdrawal at VERBUND sites totalled 117 million m^3 in 2020, 28% less than in 2019.

Approximately 92% of this total volume of water was used as cooling water in our thermal power plants. For this purpose, surface water is withdrawn, used for cooling and returned chemically unchanged. Only 8% of this water volume is actually consumed. Details on treatment methods used and the water quality, including the review of the main substances of concern and compliance with limits, are published for the thermal power plants in the annual environmental statement.

Compliance with the limits for effluent treatment plants at all other sites is also monitored. The excess determined in 2019 was eliminated. In 2020 limits were found to have been exceeded to a minor extent at three sites. The causes were analysed and appropriate countermeasures have already been put in place to ensure compliance again.

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

The KPI water intensity as a percentage of total electricity generated has already decreased by 62% compared with 2015. As a result, VERBUND came in below the target reduction of 50% by 2021 this year for the first time.

Please refer to the 2020 Group Integrated Annual Report for detailed environmental information as well as further information on generation, use of materials, energy consumption, waste and by-products, and other environmental KPIs.

Innovation, research and development

KPIs – IR&D

	Unit	2018	2019	**2020**
Number of IR&D projects	Number	74	80	91
Total project volume[1]	€m	177.9	192.6	257.0
of which EU projects[1]	€m	104.5	118.2	152.2
VERBUND's total share[1]	€m	61.6	58.7	77.6
Annual VERBUND expenses[2]	€m	8.5	10.7	9.5
Annual VERBUND investments[2]	€m	2.0	6.8	4.1

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

International climate protection agreements, the European Commission's Green Deal, national strategies and programmes and the commitment of civil society are indications that the energy transition away from fossil fuels to renewable energy sources is gaining momentum – even in spite of the COVID-19 crisis. Research, development and innovation contribute significantly to reducing climate-damaging emissions and limiting the impact of climate change. With its commitment to innovative technologies and business models, VERBUND assumes responsibility for the decarbonisation of various sectors and, in doing so, relies on cooperation with universities, businesses and start-up companies in Austria and the international arena. VERBUND's innovation strategy provides the direction in terms of content and organisation for working with partners on innovative solutions that contribute to the long-term success of the Group.

Focus on electromobility: electrification of the transportation sector

Together with its subsidiary SMATRICS and European partners, VERBUND is working on implementing high-performance charging infrastructure for the latest generation of electric cars. This will enable electric mobility over long distances. In conjunction with partners from Italy and Germany, interoperable charging networks are being built to be able to provide cross-border mobility solutions. At the same time, work on analysing charging procedures is continuing in order to improve both the technical implementation and services for the customers. These projects are co-sponsored by the European Commission using funds from the Connecting Europe Facility. In the field of research and development, VERBUND is a partner in a European consortium formed with the goal of advancing developments in relation to charging solutions. The eCharge4Drivers project is subsidised with funds from the European research programme Horizon 2020. Under the Megawatt Logistics project sponsored by the Austrian Climate and Energy Fund, VERBUND is working with Austrian research and business partners to convert fleets of heavy-duty commercial vehicles from diesel to electric fleets, along with the accompanying infrastructure solutions.

Focus on new storage systems: use of batteries in various applications

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

In 2020, the Blue Battery project was implemented at the VERBUND site in Wallsee-Mitterkirchen where Austria's largest battery storage unit with a Frequency Containment Reserve (FCR) of 8 MW and 2 MW for charge management as well as a storage capacity of 14.2 MWh was built and put into operation. Prequalification regarding the supply of FCR was concluded at APG in September 2020 with positive results after extensive testing, which means that the power system now has 16 MW of grid support available as a combination of industrial-scale battery (8 MW) and hydropower (8 MW).

In the Blue Battery research project, an industrial-scale battery storage unit was integrated into an existing hydropower plant with the objective of being able to create an FCR which is available within a matter of seconds. The efficiency and availability of the power plant will be significantly improved by the corresponding longer useful life of the turbines.

The SYNERG-E innovation project is focused on a cross-sector approach between mobility and energy: sites with high-performance charging infrastructure for electric vehicles require high charging output power of up to 1 MW, representing a challenge for the power grid infrastructure. Implementing local battery storage systems and smart management of batteries and infrastructure at the site make it possible to balance out the load peaks generated by the charging process for electric cars. In addition, the local storage batteries are bundled virtually in order to provide grid services. Seven local storage batteries with capacity from 0.3 to 0.5 MW have been set up since the project began. Three others are planned in Austria and Germany. The SYNERG-E project is co-funded from the Connecting Europe Facility.

In the VERBUND X Accelerator programme, VERBUND is working with a start-up company to develop solutions in the field of a flexible, combined electrolyser battery system for storing green hydrogen at the Mellach site.

Focus on green hydrogen: decarbonisation of the industrial sector

Green hydrogen, generated from renewable electricity, is a key driver in decarbonising the industrial and mobility sector. Working together with partners from research and industry, VERBUND is involved in several research and innovation projects representing a step towards lengthening the value chain to extend from green electricity to green hydrogen.

The aim of the H2FUTURE project that was launched in 2017 and is supported by the Fuel Cells and Hydrogen Joint Undertaking (FCH JU) is to construct a proton exchange membrane electrolyser with a capacity of 6 MW at the voestalpine site in Linz in cooperation with European partners from industry and research. Currently one of the largest proton exchange membrane electrolysers, this has been in operation and generating green hydrogen since late 2019. The main focus of the work in 2020 was on converting various applications to assess the performance of the plant. Green hydrogen is produced primarily for use in steelmaking. The plant will also be used for services to support the grid. H2FUTURE, a research project co-financed by the European Commission, is also looking into other options for using green hydrogen in additional sectors such as the chemical industry.

At a national level, VERBUND is a partner of WIVA Power & Gas, the hydrogen initiative of the Austrian model region, subsidised by the Austrian Climate and Energy Fund. Working together with Austrian

partners from industry and research, this initiative is implementing hydrogen projects and thus reinforcing Austria's reputation as a centre of research and innovation.

VERBUND is involved in two WIVA projects, and additional projects are planned with partners from industry and research. The focus of the WIVA projects is on production and use of green hydrogen in various industrial companies or for storage in storage facilities. In the Carbon to Product Austria (C2PAT) project developed in 2020, VERBUND is collaborating with partners from the industrial sector – Lafarge, Borealis and OMV – to identify uses of green hydrogen in industrial processes.

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

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

In the Green Hydrogen @ Blue Danube innovation project launched in 2020, VERBUND is taking a major step towards bringing the hydrogen activities to the international stage. The aim of the project is to create a trans-European green hydrogen value chain (production from renewables – transportation – delivery to hydrogen users) in conjunction with international partners.

Focus on biodiversity: fish protection and flow at low-pressure hydropower plants

As part of the research project FINI – Fish Protection and Flow at Low-Pressure Hydropower Plants, completed in 2020, VERBUND developed effective fish protection designs for hydropower plants with low heads using numerical and experimental methods and researched an optimised flow into the turbines. The central aspects were fish protection and fish bypasses. The two-year project was implemented as part of the energy research of the Austrian Climate and Energy Fund.

Focus on new renewables: preventive maintenance of photovoltaic installations

As part of the strategic restructuring and focus on solar power, VERBUND is researching new opportunities to increase and secure the long-term return and profitability of photovoltaic installations under the OptPV4.0 research project, sponsored by the Austrian Climate and Energy Fund. The project's central objective is optimised operation achieved through research into and application of system-wide data analysis and modelling concepts for early identification of errors and gradual degradation. For this, VERBUND built a 1.3 MWp photovoltaic installation at the Feistritz-Ludmannsdorf hydropower plant site in Carinthia and equipped it with extensive sensor technology in order to verify the model. An innovative sensor upgrade kit was also developed which reliably records additional operating data from existing installations and subsequently sends it to a central operating database. This additional data subsequently serves as input variables for the algorithms developed and makes it possible to detect abnormal operating conditions at the photovoltaic installations early on. An automated notification system then sends all necessary information on the operating status directly and without delay to the

responsible service technicians who can begin planning countermeasures. In the future, the models developed will be used in other solar farms and will contribute to more efficient operations.

In the field of floating solar, VERBUND is working on a proof of concept with a start-up company. The focus is on a feasibility analysis and planning of a potential testing site to develop additional potential areas in Austria.

Focus on digitalisation: digital hydropower – Hydropower 4.0

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

Electricity trading: SNOWPOWER improves inflow forecasting

The snow conditions and annual melt water inflows to the Alpine reservoirs and rivers are of great significance in planning and managing energy production in VERBUND's hydropower plants. Drones and digital cameras are an efficient method of evaluating snow cover in high Alpine regions and for determining the potential for run-off. The snow cover in spring varies each year due to the meteorological conditions in the preceding winter. Using new methods such as drone technology, the snow cover in Alpine regions can be recorded in order to forecast the potential for run-off and the melt water inflow as precisely as possible and further optimise the use of reservoirs. The SNOWPOWER project is being implemented with the University of Natural Resources and Life Sciences in Vienna (BOKU). Measurements are being taken in the trial catchment area at the Kölnbrein Dam which will then be used to develop a model. The objective is to expand the method to other areas.

Innovations in the power grid: FlexHub – vertical market integration

By 2030 at the latest, 100% of Austria's electricity is to be generated from renewable resources. As the control area manager, APG is responsible for ensuring Austria's security of supply and simultaneously managing the energy transition. Integration of flexible resources into Austria's electricity grid is one of the critical factors for its success. One of the ways in which this will be achieved is through vertical integration of the electricity markets. APG therefore takes innovative measures to implement a standardised interface (FlexHub) for transparent and non-discriminatory inclusion of flexibility options and small-scale providers for the provision of aFRR. In a collaborative effort with interested stakeholders, APG is working to establish standards for how industrial, commercial, household and small-scale producers, among others, can participate in the electricity market. For this to be successful, intensive coordination between the transmission system operators (TSOs) and distribution system operators (DSOs) is necessary. New digital technologies form the basis for this vertical market integration.

In 2020, APG drafted the initial prototype of a FlexHub and successfully tested it during a public demonstration (Demo Day). New technologies such as blockchain and other decentralised IT approaches are being analysed to determine to what extent they are suited to such applications. An improved version of the prototype – the minimal viable product (MVP) – is expected to be put into

operation as early as 2021. For this, initial activation of aFRR from decentralised plants will take place with selected partners from the industrial sector, with distribution system operators and, if applicable, with decentralised generation facilities. This would constitute an absolute trailblazing achievement in Europe and would underscore APG's position as one of Europe's most innovative transmission system operators (TSOs).

ABS for the power grid (ABS4TSO)

The European power grid is a very sensitive system influenced by many factors. Due to the massive expansion of renewable energy sources, the entire energy system needs to be restructured to be able to address the new requirements. New grid elements and new mechanisms with stabilising properties are urgently needed in our power grid. One thing is already clear: systems that can be regulated rapidly will become significantly more attractive in the future. Under the leadership of APG, VERBUND has been collaborating with the Austrian Institute of Technology (AIT) and the Vienna University of Technology on a project entitled ABS for the Power Grid (ABS4TSO) since May 2018. The core element of the project is a battery storage system with a capacity of 1 MW/500 kWh. The battery cell technology consists of conventional lithium-ion batteries. For trials in the highly dynamic area, however, the inverter must provide sufficient flexibility for conducting research with specific parameterisation options and is therefore a custom design. The storage system was first thoroughly tested in the AIT laboratory. Next, the experimental system was installed in APG's Southeast Vienna substation, where it is currently in the final stages of being set up for field testing to begin. ABS4TSO is a national project of European significance.

BVLOS drone flights for rapid outage inspections

Time and time again, disruptions occur on high and ultra-high voltage lines which cannot be clearly attributed to a specific cause. Rapid outage inspection using drones can be helpful here as, after power is interrupted briefly, it is often only a matter of ruling out disruptive factors such as damage or foreign objects in the line before the line can be put back into service again.

After an intensive preparation phase and extensive risk analysis, APG received a green light from Austro Control for the first long-distance drone flight beyond visual line of sight (BVLOS). The first civil long-distance drone flight was subsequently conducted in October 2020 over a 100-kilometre-long line route.

In the future, this will mean that predefined flight routes can be fully automated in accordance with the legal framework for long-distance drones set out by Austro Control. The data collected will be provided to APG immediately and for the long term so that experts can assess the condition of the line. In the near future, APG aims to build up further expertise and use the latest technical options for routine inspections as well.

Please refer to the 2020 Group Integrated Annual Report for further information as well as additional details on innovation, research and development.

Digitalisation, information security and data protection

Digitalisation

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

In financial year 2020, the new function of Chief Digital Officer (CDO) was introduced and staffed by the Information Security and Digitalisation division at the holding company. The CDO sub-division Digitalisation is responsible for the digitalisation strategy and for enabling digital innovation and transformation at VERBUND.

In financial year 2020, the Technology master plan created in 2019, which describes portfolio and performance management with regard to the secondary focus areas in Digitalisation, Information Security and IT, was expanded to include the Digitalisation master plan. This encompasses all strategically relevant digitalisation projects in the Group and is designed to help plan and coordinate digital innovations. It also enables a close exchange between project managers to help achieve optimum networking within the Group to maximise efficiency in digitalisation. The Digitalisation master plan will have further digital projects added to it over the next few years and includes projects from the categories of digitalisation, auto machine learning, big data, digital workforce management, digitalisation in power plants and modern working practices.

Financial year 2020 also saw the start of the Digital Deep Dive initiative. The goal of this initiative is to continuously identify further potential for digitalisation within VERBUND using new approaches and dynamic methods. Initial results were achieved in November 2020 in collaboration with the Group companies and new digitalisation ideas were identified, which are now being worked out in more detail and transferred to the Digitalisation master plan.

Projects within the scope of Hydropower 4.0, such as the Digital Hydro Power Plant and the Digital Workforce Management projects, have allowed additional technologies for the digitalisation of energy generation (including a diving robot for status checks) to be tested and implemented. The digital pilot power plant at Rabenstein on the Mur River is currently using virtual reality (VR) to enter the digital world of work. A large number of other digital technologies will also be integrated into business processes in the future.

In quarter 4/2020, the first projects on the use of auto machine learning for automation were successfully completed.

The first big data platform was established at VERBUND in December 2020. The combination of both technologies will enable VERBUND to achieve a higher degree of automation of business processes in the future. Building on these initial findings, selected business processes will be further automated in 2021.

Even before COVID-19, the digitalisation of collaborative work processes was being advanced. The ModernWork@VERBUND optimisation project aims to digitally network employees and optimise the geographically independent effectiveness of the collaboration.

The projects already underway in the strategic focus areas of digital trading and sales, the management of the digital transformation, new technological services, efficient generation, safe and performance-enhancing operation and management of information security risks were successfully continued.

Information security

Information security is a high priority at VERBUND and extends through all areas of the Group. The exacting requirements for the availability of the electricity supply are a constant incentive and motivation to invest in the continuous development of information security and thereby support new and existing projects in digitalisation and operations. A key role in this is also played by the obligations arising for critical infrastructure companies under the Network and Information Security Act (NISG). In summer 2020, individual companies of VERBUND were identified by official notices as "operators of an essential service".

Digitalisation projects at VERBUND are only carried out with information security in mind. Information security is therefore a key enabler for progress and makes an essential contribution to achieving the objectives of the Group strategy.

The Information Security department established in 2019 was expanded further in 2020. In addition to safeguarding infrastructure operations, this department also ensures the implementation of the Information Security master plan adopted by VERBUND's Executive Board in 2019. As a result, a number of projects were already completed in the reporting period and the master plan was expanded to include additional targeted projects. These include both quick wins, which provide for a short-term increase in information security, and larger projects, which will ensure information security in the medium term in accordance with the current state of the art. As part of the master plan, the central information management system was once again certified to ISO 27001 and ISO 27019. The aim of the entire programme is to maintain but also continuously increase the degree of maturity of information security in all areas of the maturity model.

The Security Operation Center (SOC) plays a central role in achieving this objective and in countering the significant increase in cyber criminality. The SOC is expanded on an ongoing basis. This continuously increases the visibility of cyberattack attempts on VERBUND. The sphere of activity encompasses not only the entire IT landscape, but also the systems for electricity generation. In the event of a possible security incident, the SOC enables a targeted, fast and efficient response and, with the help of qualified experts, the potential threat can be averted.

Due to the rapid establishment of the Information Security department since 2019 and the speedy progress with the master plan projects, VERBUND was well prepared for the COVID-19 pandemic. New and state-of-the art working methods such as working from home were already being used in project implementation – irrespective of COVID-19. Although the majority of employees made the switch to working remotely very quickly, information security was not compromised at any time. In order to be able to respond in an emergency, at least two members of staff from the Information Security department were always present at corporate headquarters from the start of the pandemic. As an increase in cyberattacks on employees was to be expected in the new and unusual working environment, the internal security awareness programme was quickly aligned with this and technical monitoring was also adapted for this purpose.

Data protection

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

An integrated data protection management system has been established internally and includes all Group companies. The Group Data Protection Officer manages and coordinates all of the Group's data

protection-related matters and is supported in this by the data protection officers at the individual companies.

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

In financial year 2020, 27 enquiries from data subjects were processed and responded to. There were no cases of personal data breaches that had to be reported to the supervisory authority and no cases of data leaks, data theft or data loss in connection with customer data.

Due to COVID-19, the training programme focused on or was switched to online channels. To ensure the awareness and training of all employees, the e-training already being offered on the intranet was supplemented by proprietary online courses entitled "Stories of TOM&PIA".

Human resources

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

Financial year 2020, in particular, which was dominated by the global COVID-19 pandemic, highlighted how the dedication of VERBUND's employees contributes to the Group's success. Thanks to their commitment, flexibility and entrepreneurial action, VERBUND has coped well with the crisis to date. In spite of the restrictions due to the pandemic, the majority of VERBUND's projects have gone ahead, enabling VERBUND to continue to consistently pursue its strategy.

Crisis management

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

Aside from protecting the health of all of its employees, VERBUND's priority is to safeguard the electricity supply and the necessary business processes, such as the full capacity to act in dispatching and trading. Employees are aware of their responsibility as part of critical infrastructure and therefore act with the appropriate focus. Although the current pandemic is an exceptional situation worldwide, the challenges brought by COVID-19 in the past financial year have been successfully overcome with a professional and flexible crisis management system. The Group crisis team and the crisis teams of the individual companies were activated at an early stage and, on 13 March 2020, VERBUND moved to its highest internal red alert status. The crisis teams met on a regular basis, with the intervals between meetings being adjusted to the risk situation over the course of the year, depending on the internal alert level. In order to prepare for the necessary measures and identify other action areas early on, a wide range of factors (such as the development of infection rates and legal conditions) were closely monitored. The measures were implemented in close cooperation with the relevant stakeholders and were accompanied by transparent communication.

Securing the electricity supply with consistent and flexible measures

In order to maintain a secure supply of electricity in Austria, it has been and continues to be necessary to ensure the smooth running of all related processes at all times and to provide the necessary personnel for this to happen.

Although teams were split and key personnel were segregated to ensure undisrupted power plant and grid operations in financial year 2020, most administrative staff had already started working remotely on 12 March 2020 to minimise risk. Face-to-face contact between employees was kept to an absolute minimum throughout the entire crisis situation. Only essential staff came to work in person at the office locations during the lockdown. The almost seamless shift to the home office was achieved through an outstanding use of IT, without interrupting processes. All business-critical processes were secured several times. In order to optimise online meetings, additional video conferencing tools and extended online training were provided via the extensive Learning Management System (LMS).

As a result of these measures, personnel resources were also very well utilised during the lockdown in 2020. The additional tasks (crisis management, IT requirements, etc.) led to an increased workload for many areas. As a precaution, however, a Group-wide regulation pertaining to increased annual leave consumption in the first half of 2020 was put in place early on, due to concerns about a decline in resource utilisation at the beginning of the crisis. Based on this regulation, 20% of remaining leave entitlements were used up by employees in quarter 2/2020.

In spite of this, operational resources were ensured throughout to maintain a secure electricity supply, for crisis management and for essential projects. At no time, therefore, were reduced working hours necessary and VERBUND did not make use of this option in financial year 2020.

Personnel planning and management

VERBUND has been using a modern, user-friendly planning and reporting tool for personnel data which was upgraded in 2020 to include additional features. 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.

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

VERBUND uses a variety of methods such as external audits, internal reviews and analyses of KPIs including the observation of internal and external benchmarks to assess the effectiveness of these management approaches. Based on the results of these feedback and performance review processes, compliance with the guidelines is regularly reviewed and adapted as needed.

Types of employment and benefits offered

VERBUND operates almost exclusively in Central Europe, a region which has high standards in terms of labour law and social welfare. VERBUND generally offers permanent contracts to all of its employees. Temporary employment contracts are only entered into when there are objective reasons for doing so (e.g. to replace employees on parental leave). VERBUND generally seeks to retain employees for the long term. Apart from probationary periods, fixed-term employment contracts are only used in exceptional

cases. The majority of employment contracts at VERBUND are therefore open-ended. Various working-time models, including full-time, part-time and part-time during parental leave, accommodate the different phases of an employee's life while meeting the requirements of the labour market. Around 25% of part-time employees are men. Temporary workers are also hired to cover capacity peaks, during project work and for temporary leave replacements.

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

Employment of highly and very highly qualified employees entails corresponding personnel costs. VERBUND therefore offers remuneration in line with the market and according to employees' performance. To meet this commitment, we have had a performance-based remuneration model in place since 2010. This model uses targets based on both individual performance and the Group's profitability and ensures fair pay at all levels.

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. This measure is an ideal addition and a logical conclusion with regard to VERBUND's brand essence process.

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

Developing clear communication messages for the main target groups of students (apprentices), graduates and experts achieved an even better response. The implementation was geared to the current COVID-19 situation and tailored primarily to digital media.

VERBUND is therefore pursuing its objectives to secure the Group's medium-term and long-term success and to improve its positioning as a desirable employer among its target groups in the long term, in order to gain a competitive advantage with the best personnel.

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 adapted and developed further in 2020. COVID-19 made it more difficult to hold events such as Take Your Daughter to Work Day in Vienna, the Women in Technology ("Frauen in die Technik," FIT) initiative and Girls! Tech up in 2020. 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 2020.

Recruitment – virtual, but not impersonal

Developments in connection with COVID-19 also made it more difficult to follow the usual recruitment process at VERBUND. As normal face-to-face contact was not possible, other measures were taken to continue interviewing applicants and select them for VERBUND. Dealing with the challenges of COVID-19

made it even clearer that the recruitment process needs to be flexible and that digital solutions offer crucial advantages, particularly in times of crisis.

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

A large number of the careers fairs were also held virtually. The new online-only framework offered virtual trade fair booths, video presentations and many different networking possibilities. A lively exchange between interested applicants and VERBUND was therefore also possible in a digital setting.

The continuous efforts to maintain the high level of professionalism of the recruiting quality, even at this challenging time, were validated in 2020, when VERBUND was once again awarded the gold seal in the Careers Best Recruiters study. This award with a special focus on crisis resilience demonstrated that VERBUND overcame the challenges of 2020 professionally.

Personnel development

The area of personnel development also required many flexible solutions in 2020 due to the COVID-19 crisis. In 2020 each VERBUND employee nevertheless took part in 20 hours of training on average.

Personnel development in financial year 2020 focused on training in the areas of safety, technology and mandatory compliance training. Although many training courses were quickly moved online to e-learning and webinars, it was not possible to fully compensate for the decline in classroom training as a result of the pandemic. This meant that the average number of training hours also decreased to 19.2 hours for men, and 21.6 hours for women.

Digital learning

The consistent digitalisation of learning in recent years created the ideal basis for being able to respond quickly and efficiently to the new challenges presented by the COVID-19 virus. The Learning Management System (LMS), which went online at the start of 2020, laid the foundations for digital learning formats and created a platform for virtual training and continuing education. Digital continuing education formats have already been offered before now in the form of e-training courses. Employees were already familiar with digital learning, which has made the transition easier. Numerous e-training courses were added during the COVID-19 crisis, which were available to employees free of charge. Around 800 digital courses were offered in the form of courses developed in house, bought in or obtained through collaborations with providers, on topics including software programmes, personal development, the energy market and health.

Numerous events that would have been attended in person were also held virtually as webinars. In a webinar – similar to a seminar – knowledge is shared or there is interaction with participants. The only difference is that no one is physically present. Regardless of whether it is new software that is being introduced, a team workshop or a health topic, VERBUND can design and host webinars. The great advantage of this is that it is possible to prepare content and make it available to employees a lot faster (than is the case for classroom training).

New environmental conditions require a variety of new methods. Therefore, even more formats of content delivery are available, and these are also continuously growing. For example, complex content is presented in short and simple explanatory videos in a cartoon style. Information can be turned into an educational video with the help of a mobile film studio – that can even be set up directly from one of the

VERBUND dams. Sites that VERBUND employees and other stakeholders were unable to visit in 2020 due to the COVID-19 situation were experienced through virtual reality.

New employees were onboarded entirely via webinars in 2020, to give them that "special" start to their everyday working life at VERBUND and make it as smooth as possible. In particular to encourage social interaction with these employees, there was a webinar for everyone to get to know each other. Executives were provided with guidelines for this virtual onboarding. It worked well, as shown by the positive feedback from the new employees, who felt good about their virtual welcome to the Group.

The global COVID-19 pandemic restricted personnel development, executives and employees in their daily lives in 2020 and presented them with new challenges. As a company, VERBUND found new ways, and the people within the Group grew together on both a personal and a professional level during this time and are well prepared to face the challenges ahead.

Apprenticeship training

Particularly in times of crisis, the safe operation and continuous maintenance of VERBUND's plants are among our core tasks. In order to optimally manage the ongoing generational shift in power plant operations, VERBUND has trained new apprentices every year since 1983. Apprentices at VERBUND learn two professions at once – electrical engineering and metalworking – over a period of four years, with excellent prospects for the future. In the first year of their apprenticeship, apprentices are trained in apprentice workshops. From the second year on, their training continues at one of VERBUND's power plants as well as at APG in the substations and on the team of overhead power line technicians. During this time the necessary knowledge about the plants is passed on to them, ensuring the transfer of expertise in the technical/skilled trade area. The high quality of our apprenticeship training is most evident in the outstanding achievements seen in the final apprenticeship examinations. In 2020, six girls and 45 boys began their apprenticeship training at VERBUND in Austria and Germany.

The apprenticeship at VERBUND is equally attractive to girls as it is to boys, which is reflected by the fact that it has once again received the amaZone Award for outstanding performance in training girls and women in technology. Every year, the best businesses demonstrate that women apprentices are an enrichment to every workplace and embracing their presence wholeheartedly can serve the common good. This sets an example of modern, innovative worlds of work beyond traditional gender stereotypes.

Trainee programme

Digital and mobile skills are becoming increasingly important and are a high priority at VERBUND. In order to be able to keep pace with the rapidly changing technologies, VERBUND started the second round of the VERBUND trainee programme back in April and October 2019, which focuses on information technology. A total of five trainees were accepted onto the programme for a period of 24 months and were trained on an ongoing basis. In addition, the first round of the VERBUND trainee programme with a focus on SAP commenced in quarter 1/2020 as part of the Transformation to S/4 HANA project, which has strategic relevance for the Group. A total of four trainees were successfully recruited for a period of 18 months. Important business processes are therefore given the best possible support.

Further development of the corporate culture

Employee survey

The employee survey in 2019 revealed areas for action in the development of the corporate culture towards the abolition of hierarchies, the reduction of bureaucracy, the acceleration of decision-making processes as well as more transparent communication. Many employees voluntarily gave constructive input at a number of company workshops and developed recommendations for action. These are helping to improve the working atmosphere and employee satisfaction. The proposals were agreed with the managing directors and measures were specified for each company and for the Group as a whole, which were being implemented as at the reporting date.

Trust Index© employee survey by Great Place to Work® 2020

In addition to the employee survey in 2019, the Great Place to Work® Trust Index© employee survey was also carried out in October 2020. The Trust Index© employee survey provides a comprehensive site assessment of the perceived quality and attractiveness of the workplace culture. The aim is to increase the positive working experiences of employees and to strengthen VERBUND's economic performance. Furthermore, the certification process provides the opportunity, if the specified criteria are met, to qualify for the competition for Austria's Best Employer.

Nearly 74% of the workforce took part in the survey. Apart from the information collected on general employee satisfaction, this survey also provides important insights into the current state of the workplace culture. A total of 89% of the workforce rated VERBUND as a good workplace; the Trust Index© rating was 74%. The top two performance indicators in the Trust Index© employee survey are therefore high for VERBUND and enable it to start the certification process for Austria's Best Employer in 2021.

Cooperation and communication

The VERBUND-wide cultural process was continued in order to advance cultural development. A cross-departmental culture project had been initiated in 2019 to promote changes in behaviour towards more personal responsibility, capacity for innovation, collaboration and the exchange of information and cooperation across departments. New approaches such as iceberg sessions or a boot camp for leaders in transformation are being applied with the aim of changing mindsets and ways of thinking. New meeting and co-creating formats (for example for the management conference or first-level management meetings) were driven forward to promote cross-departmental and cross-company exchange between executives and employees. As part of the ModernWork@VERBUND initiative, kick-off and lessons learned meetings are planned so as to improve the feedback culture. The aim is to promote an open, transparent and trusting culture of cooperation. One aspect of this is to also allow younger employees to contribute and discuss their points of view as members of the Millennial generation, both at the management conference and at executive closed-door sessions.

Regular management feedback sessions are also held to further develop management behaviour and the management culture. In 2020 such feedback sessions were held, for example, at the subsidiaries VERBUND Energy4Business and VERBUND Services. Based on the results of these sessions, management objectives were agreed with the executives in 2020. The focal points are conflict management and the coaching approach to leadership.

Maintaining a work-life balance

VERBUND places great emphasis on maintaining a work-life balance at all times. In order to support employees in this respect during the particularly challenging phase of the first Austrian lockdown from March until May 2020, VERBUND allowed employees to take special care leave with no red tape, within the scope of legal requirements. This special care leave continued to be available during the further course of the pandemic to allow for the necessary care of children or other vulnerable individuals within the legal parameters, and thus helped employees to better manage the multiple demands arising due to added care obligations.

Diversity management

The diversity strategy defined in 2016 was endorsed in 2018 with the ZukunftVIELFALT® certification and in 2019 with the implementation of planned measures placing particular emphasis on the dimensions of age, gender and disability. In 2020 the focus was on gender balance to ensure a more balanced gender distribution.

Focus on age

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

The demographic trend observed for many years continued during the reporting period. Around 7% of VERBUND employees will retire in the next five years. Over the next ten years, around 25% will retire.

It remains important to VERBUND to manage the generation change well and thus retain and expand the knowledge within the Group. As part of its strategic human resources planning, VERBUND identified the critical areas in 2020 and defined cover strategies for these areas. To this end, quantitative and qualitative needs for change were considered and specific measures were derived, the majority of which are already being implemented.

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

Focus on gender

Although the proportion of women in a technology-focused company like VERBUND is traditionally low, VERBUND has been advocating for more gender balance in recent years and has been successful in this endeavour. The development of the KPIs, however, shows only a small increase in the percentage of women in the various divisions. The Executive Board thus resolved to assign this topic strategic relevance and engaged renowned consulting firm Beekhuis Performance Culture to start the Gender Balance project in 2020. To begin with, a multi-dimensional corporate analysis was carried out in the financial year now ended. This analysis consisted of four parts. As part of the process analysis, VERBUND's processes were reviewed with respect to equality. The KPI analysis showed how gender balance is reflected in the KPIs. In an online survey all employees were able to give their opinion on equality at VERBUND – more than 1,100 employees took part. In the focus group surveys (which had more than 170 participants), the VERBUND culture was examined more specifically with regard to gender balance. The 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. The target to increase the current proportion of women from 18.3% to a total of 20% by 2025 is expected to be achieved by 2025. The proportion of women at management level is also 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 20% by 2025, and forms the basis for the annual targets for the individual operating segments. The actual development will be continuously monitored. Based on the status quo in 2020, the Group is currently on course to achieve its targets.

A change in the corporate culture can only be achieved by developing different approaches. Specifically, several working groups are developing measures on key issues for the entire Group. A clear objective and the stipulation of results criteria will ensure efficient implementation. The Gender Balance project is thus making a contribution to overcoming demographic change and to recruiting the best employees for the future, and to recognising, retaining and developing their potential.

Focus on disabled persons

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

VERBUND exceeds the statutory quotas stipulated in Austria and Germany for the employment of disabled people. For VERBUND, the mandatory quota for Austria is 107. As at 31 December 2020, VERBUND employed 130 people who qualify under the Disabled Persons Employment Act (BEinstG). In Germany, the corresponding mandatory quota for VERBUND is 14 and, in 2020, 36 mandatory jobs were filled in accordance with the German Social Code (Sozialgesetzbuch, SGB).

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

Occupational health and safety

Healthy and motivated employees are very important to the Group's success. Occupational health and safety are therefore also key pillars of VERBUND. Work-related injuries, occupational diseases and work-related illnesses are counteracted with targeted measures to protect employees. VERBUND applies high occupational health and safety standards to protect its own employees and staff employed by external contractors. In addition to complying with the prevailing legal requirements and obligations, high priority is given to providing safe and healthy working conditions, eliminating hazards, and mitigating risks. The year 2020 underlined – not least due to the global COVID-19 pandemic – the importance of the Group's responsibility for the health and safety of its employees in the workplace.

Health protection during the COVID-19 pandemic

In accordance with VERBUND's protection targets formulated in connection with its continuity, emergency and crisis management plans, protecting the health of employees and maintaining orderly business operations during the COVID-19 pandemic have utmost priority.

Along with the regulations based on prevailing legal requirements, additional, appropriate protective measures were also defined in accordance with the principles of hazard prevention, in order to reduce the risk of infection from SARS-CoV-2. When being defined, the protective measures were ranked by order of importance based on the STOP (Stop, Think, Observe, Plan) principle. The hazards are countered by substitution or risk avoidance, as well as by technical, organisational and personal measures. In addition to preventing contact among staff by staggering shifts, splitting teams and having administrative staff work remotely, as well as by installing Plexiglas partitions and ensuring compliance with social distancing rules and hygiene measures, VERBUND also required staff to wear personal protective equipment such as mouth and nose coverings or filter masks, safety glasses or goggles, disposable gloves and hazmat suits (which the Group provided to employees).

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

To prevent infection and the further spread of the virus, a comprehensive testing strategy was developed in collaboration with the occupational health service, with various test procedures such as swab tests in testing lanes and screening tests through to personal saliva tests. These COVID-19 rapid antigen tests have been carried out at VERBUND since November 2020 as a support measure to mitigate risks. The focus of the free vaccination campaign for employees in 2020 was on flu and pneumococcal vaccinations to protect against additional infections.

Accidents in 2020

The calculation of occupational safety KPIs is based on the number of VERBUND employees under labour law, including employees in partial retirement, temporary staff and all employees of proportionately consolidated equity interests, regardless of the type of consolidation over which VERBUND exercises a controlling influence. On this basis for calculation, VERBUND had 3,496 employees at the end of 2020. This figure includes 187 temporary staff, 195 employees in partial retirement and the entire workforce of Ennskraftwerke Aktiengesellschaft, VUM Verfahren Umwelt Management GmbH, VERBUND Tourismus GmbH, Lestin & Co. Tauch-, Bergungs- und Sprengunternehmen Gesellschaft m.b.H and Energji Ashta Shpk.

The number of accidents continued on a positive trend in financial year 2020. Both accident frequency and injury severity fell compared with 2019, and in spite of the increasing number of projects it was actually the second-best result since records began.

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. The LTIF is used as an international KPI, which 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.

VERBUND engages external contractors for clearly defined construction, overhaul and maintenance contracts in particular. The employees at these firms are subject to the same safety regulations as VERBUND personnel. These persons therefore receive the same safety briefings. Contractors

commissioned for the construction of plant subsections are responsible for managing their own work. However, they are also required to comply with the safety standards prescribed by VERBUND and are briefed in accordance with VERBUND's rules.

In comparison with other electric utilities in Austria, the total accident frequency of 5.6 (LTIF including external contractors) in 2020 indicates that VERBUND is on the right track. The medium-term corporate goal is an LTIF $\leqslant$ 5. Improvement measures are identified and implemented based on the analysis of accidents within the Group and by external contractors. As in previous years, neither third-party fault nor organisational shortcomings were identified as the cause of any work-related injuries in 2020. This shows that safety standards within the Group are very high and that safeguards for employees are being implemented as best possible.

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

Accident prevention

Preventive measures are based on the analyses of work-related injury statistics at VERBUND. The annual continuing education measures for 2020 were heavily influenced by COVID-19. The planned focus topic "Working on the water" had to be postponed until 2021.

Every year, as was the case in financial year 2020, legally mandated safety briefings are successfully completed by close to 100% of the workforce, either in person or via an e-learning programme that includes a final test. COVID–19 also posed a huge challenge to the individual events with respect to briefings. The maximum permitted number of participants had to be continuously adjusted in line with the current COVID-19 case numbers.

In the area of occupational safety, VERBUND has a large number of internal regulations in place that are continually updated and promptly amended as soon as changes in the law come into effect. These regulations relate to the following topics, for example: management of working materials, accident reporting and behaviour after an accident occurs, briefings and instruction, fire safety, personal protective equipment, coordination on construction sites and in projects and dealing with external contractors, occupational health and safety documentation as well as coordination and responsibilities of the occupational health service. These regulations are intended to guarantee that the same standards are available and applied throughout the Group.

Safety culture

Occupational health and safety has reached a very high technical level at VERBUND thanks to the great efforts made and extensive measures implemented in recent years. The accident KPIs for the last five years until 2017 stagnated at an average LTIF value of ten. This figure was reduced significantly to below seven when the "We Live Safety" project was launched. The aim of this project, in addition to protection of technical workers, is to invest in the further development of behaviour-based occupational safety.

Besides numerous workshops for executives, 36 safety coaches from all areas were trained, who have the task of conveying to their colleagues the idea of behaviour-based occupational safety as well as the importance of setting a good example. After completion of the core project at the end of 2019, this

project was continued as a permanent project. In addition to ongoing activities, core areas are increased safety communication, the installation and use of a wide range of tools, such as an incident database, safety walks by executives and the new regulation for the evaluation of workplace accidents.

The Safety Culture project was also affected by the COVID-19 pandemic. Numerous planned events for executives and safety coaches had to be cancelled or postponed until 2021.

Promoting health among employees

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

To be able to ensure the Group-wide implementation of this initiative, it is imperative to have an extensive network of health contacts within the companies – something that was reactivated in 2020 and expanded to include additional regionally distributed health contacts. A two-day online workshop in October 2020 marked the official launch of the network, which is headed up by the Group Health Officer.

There was also a focus on medical check-ups in 2020, which differed greatly from the existing preventive medical services on offer from the Austrian health insurance fund (Österreichische Gesundheitskasse, ÖGK) or as part of various supplementary insurance packages. Together with a preventive medicine association, an offer was developed for a "Health Road" (central occupational health assessment unit), which was held directly at external site locations during working hours. In spite of the COVID-19 pandemic, medical check-ups were carried out at two sites (Mellach and Kaprun).

Another focus was mental health, as stress awareness and resilience are important, particularly during a pandemic. In cooperation with the training department, various webinars on the subject of mental health were offered to executives and employees.

Due to the COVID-19 pandemic, existing fitness courses (for example, the back fitness class held in Vienna) had to switch to online formats. By moving to the virtual space, it was possible to overcome the regional limitations of on-site events and thus broaden the target group significantly. The online offering was also supplemented by videos for short physical activity breaks and live training, as well as webinars on the topic of healthy eating.

Accessibility

Once again in 2020, VERBUND found a variety of ways to include people with disabilities. One milestone was the creation and Group-wide adoption of a policy for ensuring building accessibility as far as possible. A particular focus was the accessible office, as this is a basic requirement for recruiting people with disabilities.

Due to the COVID-19 pandemic and the increasing digitalisation of services in everyday working life, the gulf between employees with and without disabilities has widened further, because many digital offerings are still not accessible. Just as in the construction industry, making retroactive modifications to provide accessible digital offerings (e.g. websites, contracts and reports) is often very costly and time-consuming. Most accessible solutions are not very elegant and can disrupt other functionalities, such as performance. VERBUND has therefore established a Digital Accessibility Team (DAT) whose members are from those areas that are responsible for the Group's digital offerings. Under the leadership of the Accessibility Manager, DAT aims to develop awareness for digital accessibility, build topic-specific

knowledge and implement a standard Group-wide procedure for digital accessibility. The general framework for this was created in 2020; work on the content begins in 2021.

Purple Light Up Day, the international day celebrating people with disabilities, was held on 3 December 2020. Parts of corporate headquarters at "Am Hof" in Vienna and the Nußdorf joint power plant in Vienna were lit up purple on this date in support of the global campaign and as a visible sign of the inclusion of people with disabilities.

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. Discussion of human rights issues is therefore not confined to this section.

All executives and all employees at VERBUND are responsible for respecting human rights and reporting any violations to the Chief Compliance Officer. Two cases of suspected discrimination were reported in 2020. From 2020 all 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 2020.

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 origin, 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, among others, 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 2020 Group Integrated Annual Report for further information as well as additional details on human resources and social responsibility.

Report on significant risks and uncertainties

Opportunity and risk management

VERBUND pursues proactive, timely and transparent risk management based on existing international norms (primarily COSO II and ISO 31000). VERBUND's risk management system is structured to ensure comprehensive coverage of potential areas of risk and opportunity, while uniform, Group-wide principles form the basis for standardised treatment of risks and opportunities.

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

Further development

In financial year 2020, VERBUND's risk management activities focused in particular on further developing the risk-return approach for the Group (mainly in connection with planned projects and investments) and the multi-year risk horizon for risk inherent in current business operations, as well as on identifying and evaluating strategic risks and expanding the risk-bearing capacity concept. The reporting processes have also been revised and expanded as part of this process.

Under this approach, VERBUND's risk management agendas currently extend to activities aimed at supporting strategic decision-making processes as well as to project management and the management of current operations.

COVID-19 opportunity and risk position

In addition to the opportunities and risks arising from normal business operations, the year 2020 was characterised mainly by the global COVID-19 pandemic. The risks resulting from this pandemic and their impacts (both short- and long-term) on VERBUND have been evaluated continually since the lockdown in March 2020, with COVID-19 effects being primarily reflected in the following risk categories.

Operational risk

Maintaining a secure supply of electricity in Austria – with respect to both production and transmission – has been VERBUND's overriding objective during the COVID-19 crisis. Within the framework of VERBUND's tried-and-tested crisis management organisation, crisis units at the Group and company levels were continually at work in order to safeguard this objective. Elaborated emergency response strategies and contingency plans ensured unrestricted operations even in an emergency situation.

Beginning in March 2020, VERBUND employees mostly worked from home (where possible). This protective measure was implemented on a large scale, especially during the first, second and third lockdown periods. Extensive on-site protective and hygiene measures were put in place for employees whose jobs required their presence in plants and office buildings (for more information, please refer to the sections entitled Occupational health and safety and Human resources).

Price risk

Especially at the beginning of the lockdown in March 2020, a sharp decline in short-term electricity prices was particularly apparent, reducing electricity revenue. However, VERBUND's hedging strategy kept

the negative effects in check. In addition, the long-term electricity prices, which had also fallen at the beginning of the crisis, largely recovered and stabilised in the second half of 2020.

Volume risk

A reduction in electricity consumption caused by COVID–19 was also reflected in the transmission grid, with a decline in revenue from grid usage fees.

Financial risk

Particularly at the onset of the COVID-19 crisis, uncertainty about the further progression of the pandemic generated volatility in the capital market environment, causing – among other things – price losses during the year on securities held, which were recouped to some extent by the end of the year.

Over the course of 2020, default rates of business partners (counterparty risk) did not rise as a result of the economic downturn precipitated by COVID-19. It is not yet possible to gauge other potential negative economic effects of the stricter measures introduced in November 2020 to contain the renewed rise in infection rates. Furthermore, the government aid packages aimed at supporting the economy (e.g. fixed cost subsidies, short-time work, loan guarantees) can potentially postpone insolvencies to later years. Therefore, a subsequent increase in default rates for 2021–2022 cannot be ruled out. Measures introduced by VERBUND – such as a clearly defined system of limits with centrally assigned and monitored counterparty limits, along with an intensive audit of business partners receiving deliveries on credit – serve to minimise the likelihood that payment defaults will occur and any negative financial consequences for VERBUND.

Current opportunities and risks arising from normal business operations

Opportunities and risks arising from the business model

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

The future energy world requires electric utilities to radically change their business models and modify investment decisions. These could give rise to significant value adjustments (i.e. erratic changes in the assets and liabilities on the balance sheet). While the business model of energy-related services is opening up new opportunities for VERBUND, it also presents new risks.

Weather- and climate-related opportunities and risks

VERBUND's plants are highly exposed to weather events which cannot be influenced. This is particularly true for VERBUND's hydropower plants and wind farms as well as APG's high-voltage lines. Output from run-of-river plants is subject to seasonal fluctuations in the water supply of rivers and can be controlled only to a minor extent (hydropeaking).

Climate change can impact different operating segments of VERBUND. It is possible that geological conditions may change significantly, and natural events such as floods, storms, avalanches and mudslides may cause an unscheduled outage of electricity generation or transmission in the future along with consequential damage.

Over the long term, changes in the climate can affect water and wind supply, which may cause greater seasonal or annual fluctuations in generation to occur in the future at both run-of-river plants and

storage power plants. In 2019, VERBUND worked with the University of Natural Resources and Life Sciences in Vienna (BOKU) to conduct a study of the long-term development (until 2100) of generation potential from hydropower as impacted by climate change in areas of Austria relevant for VERBUND.

VERBUND relies on maintaining the value of and expanding hydropower plants in conjunction with increasing generation from wind farms and photovoltaic installations, for the purpose of diversification and to contribute to the goal set by the Republic of Austria of covering 100% of the electricity supply with renewable energy by 2030. Successful realisation of new investments is necessary to drive this expansion forward. In order to take full advantage of the opportunity potential of new projects and to minimise possible risks, it is essential that all stakeholders are involved at an early stage, regulatory conditions are met and project management is effective.

Coverage of short-term electricity requirements due to volatile wind and solar power generation is also providing new revenue opportunities for VERBUND. In other words, excess energy amounts can be "parked" in pumped storage power plants and the grids stabilised with flexible power plant output. These flexible earnings contributions depend largely on the frequency and absolute extent of short-term price fluctuations in the electricity markets. Yet the expansion of wind farms and photovoltaic installations still faces great challenges, mainly those concerning grid stability at an international level.

Opportunities and risks arising from economic and regulatory developments

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

The European Union's Emissions Trading System (ETS) is opening up new possibilities, but also creating impediments. Among other things, this is giving rise to a transformation of the European energy system and is therefore bringing about a major change in the risk factors arising from politics, the economy, the energy market and the larger society that cannot be directly influenced.

Around 97% of VERBUND's output is generated from carbon-free renewable energy sources which are thus not part of the ETS. As the ETS prices have an enormous impact on electricity prices, rising/falling ETS prices also have a positive/negative impact on VERBUND's financial performance. In addition to expanding its generation capacity from renewable energy sources, VERBUND is also relying on increased collaboration and the exchange with national and international interest groups, associations and authorities in order to benefit from the opportunities this presents.

Opportunities and risks arising from technological development

The very dynamic developments in the fields of technology and innovation affect VERBUND's business environment in both the short and long term. Digitalisation is proving to be a particular challenge but also an opportunity for VERBUND. State-of-the-art information and communication systems increasingly support the Company's business activities. VERBUND addresses the growing risks from cyber space for critical infrastructure by implementing preventive security strategies, internal projects to increase the security of IT systems and IT infrastructure, as well as internal guidelines and correspondingly defined and secured processes. In doing so, VERBUND pays particular attention to the safety of the control technology in its power plants and in APG's ultra-high voltage grid.

Technological developments and innovations also influence customers' behaviour and needs. VERBUND therefore endeavours to unlock the potential opportunities this creates through agile adaptation to technological advancement, by investing in its own research and development and, in the long term, by adapting the business model to these new demands.

Strategic opportunities and risks

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

Risk-bearing capacity

One success factor is secure access to the capital market. The concept for the risk-bearing capacity is focused on two areas: on one hand, identifying the effects of organic and inorganic projects on the Group's credit rating and, on the other hand, determining whether future medium- to long-term scenarios jeopardise the Group's target credit rating.

Financial instruments

Primary financial instruments include, in particular, investments such as securities, loans and equity interests, trade receivables, cash at banks, securitised and non-securitised financial liabilities and trade payables.

Derivative financial instruments serve exclusively as hedges against existing currency and interest rate risks. The fluctuations in value of these hedging instruments are balanced out by the fluctuations in value of the hedged items. The change in value of those transactions to which hedge accounting is not applied is always recognised in profit or loss.

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

Please refer to the 2020 Group Integrated Annual Report for further information as well as additional details on significant risks and opportunities as well as measures.

As at 11 February 2021, no risks were foreseeable for 2021, the effects of which – either individually or in interaction with other risks – could pose a threat to the continued existence of VERBUND AG.

Report on branch offices

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

Internal control and risk management system

in accordance with Section 243a(2) of the Austrian Commercial Code (UGB)

Internal control and risk management system

In accordance with Section 243a(2) of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB), the internal control and risk management systems for the accounting process must be described. VERBUND's internal control system includes all measures for ensuring the reliability, effectiveness and profitability of this process, as well as compliance with external regulations. The structure of the risk management system is explained in detail in the Disclosures on Management Approach (DMA) and the risk position in the section of the 2020 Integrated Annual Report 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 (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 interim reports and the VERBUND integrated annual report consolidate information from the management accounting, corporate accounting, financial management and risk management functions as well as from the area of corporate responsibility. All reports are based on uniform Group-wide rules for preparation and measurement. The liberalised European energy market requires an unbundling of the grid from the generation, trading and sales of formerly integrated electric utilities. VERBUND subsidiary APG has therefore been operating in the market since 2012 as an independent transmission system operator. An external equal opportunities officer monitors compliance with the unbundling provisions specified in the contract.

Periodic monitoring

Internal Audit reviews the handling of business processes and the internal control and risk management system. The individual audits are performed according to the audit schedule approved by the VERBUND Executive Board and are supplemented by special audits. The audit reports include recommendations and measures. A periodic follow-up ensures implementation of the proposed improvements. As an independent transmission system operator, APG has had its own internal audit function since March 2012.

Shareholder structure and capital information

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

1. At the reporting date of 31 December 2020, the called and paid-in share capital of VERBUND AG comprised:
   170,233,686 no-par value shares (bearer shares category A), equivalent to 49% of share capital; 177,182,000 no-par value shares (registered shares category B), equivalent to 51% of share capital, authenticated by an interim certificate deposited with the Federal Ministry of Finance and made out in the name of the Republic of Austria. A total of 347,415,686 shares were in circulation at the reporting date. With the exception of the voting restriction described under point 2, all shares bear the same rights and obligations.

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

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

4. There are no shares with special control rights.

5. VERBUND does not offer any employee participation programmes.

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

8. The Company is not involved in any significant agreements that contain provisions referring to the stipulations under Section 243a(1)(8) 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) UGB.

The Consolidated Corporate Governance Report, which is included in the 2020 Integrated Annual Report, is available on the VERBUND website.

Report on the expected performance of the Company

Outlook

The International Monetary Fund (IMF) expects the global economy to contract by 3.5% in 2020 due to the COVID-19 pandemic. With the exception of China, all of the leading economies exhibit negative growth rates. Growth rates around the world are expected to rise again in 2021. The economic recovery depends to some extent on infection rates and vaccination coverage rates, though the IMF forecasts at least another six to nine months of severe restrictions in 2021 as a consequence of the COVID-19 pandemic. Continuing trade disputes between the US and China and the implications of Brexit are also causing uncertainty.

The COVID-19 pandemic likewise cast a long shadow over Austria's economic performance in 2020. The Austrian Institute of Economic Research (Österreichisches Institut für Wirtschaftsforschung, WIFO) expects economic output to improve again in 2021, although not yet to pre-crisis levels.

The negative economic performance is also reflected in commodity price trends. Prices for oil, natural gas and steam coal fell significantly. As an exception, the price of CO_2 emission rights in 2020 remained at a similar level to the previous year, even though prices had dropped sharply at the beginning of the crisis. Prices for CO_2 emission rights recovered to near the prior-year level as the EU climate targets were tightened and COVID-19 vaccines approved.

The planned expansion of volatile, new renewables generation is making VERBUND's generation portfolio more significant. VERBUND's generation portfolio is rounded off by base load power plants (run-of-river hydropower), flexibly accessible storage and pumped storage power plants and a highly efficient combined cycle gas turbine power plant (Mellach CCGT), which serves as a bridge technology for maintaining domestic security of supply in a lower-carbon energy future. In addition, VERBUND plans to expand new renewable energy sources both with its own plants and together with its customers and partners. APG, VERBUND's wholly owned subsidiary, owns and operates the transmission grid in Austria and therefore plays a major role in connection with grid security in Austria and in the European electricity network. VERBUND's innovative products and services for consumers provide solutions for the future of energy today.

Given the still precarious COVID-19 situation in many countries with continuing waves of infection and the cautious vaccine rollout, the outlook remains highly uncertain.

Investment plan 2021–2023

VERBUND's updated investment plan for the period 2021–2023 provides for capital expenditure in the amount of €2,257m. Of that total, around €1,373m will be spent on growth CAPEX and around €884m on maintenance CAPEX. Most of the growth CAPEX (approximately €728m) will go towards expanding the regulated Austrian high-voltage grid. In addition, VERBUND will be investing mainly in projects related to new renewables, in selected hydropower plant projects as well as in increasing the efficiency of existing power plants. The investments will involve VERBUND's domestic markets of Austria and Germany. In financial year 2021, VERBUND plans to invest a total of approximately €699m, around €397m of which will be invested in growth and around €301m in maintenance.

Dividend

VERBUND plans to distribute a dividend of €0.75 per share for financial year 2020. The payout ratio for 2020 will thus amount to 42.7% based on the adjusted Group result.

Earnings projection for 2021

VERBUND's earnings performance is significantly influenced by the following factors: wholesale prices for electricity, the Group's own generation from hydropower and wind power, the contribution to earnings from flexibility products and ongoing developments in the energy market. Around 66% of the planned own generation for 2021 was already contracted as at 31 December 2020. The price obtained for this was approximately €0.5/MWh below the sales price achieved in 2020. For those volumes not yet hedged, VERBUND has based its calculations on current market prices.

Hereafter, the acquisition of the 51% stake in Gas Connect Austria GmbH will also influence the earnings projection. Contracts were signed on 23 September 2020 and the transaction is expected to close in the first six months of 2021, subject to regulatory approvals.

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

Vienna, 11 February 2021
Executive Board

Mag. Dr. Michael Strugl **Chairman of the Executive Board**	Dr. Peter F. Kollmann **Member of the Executive Board**	Mag. Dr. Achim Kaspar **Member of the Executive Board**

Annual financial statements

Balance sheet

Assets

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	Notes	2019	**2020**
A. Fixed assets			
I. Intangible assets	(1)	891.1	857.8
II. Property, plant and equipment		22,594.1	23,592.2
III. Investments	(2)	4,884,293.6	5,020,048.0
		4,907,778.8	**5,044,498.0**
B. Current assets			
I. Inventories	(3)	43.8	202.0
II. Receivables and other assets	(4)	120,742.1	62,628.2
of which due in more than one year		6.5	97.8
		120,785.9	**62,830.2**
C. Prepayments and accrued income	(5)	64,481.6	**60,525.1**
D. Deferred tax assets	(6)	64,586.3	**34,466.7**
		5,157,632.5	**5,202,319.9**
Rights of recourse	(7)	963,514.9	866,440.1
less counter-guarantees from cross-border leasing		–379,833.5	–324,079.5
		583,681.4	**542,360.6**

Liabilities

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	Notes	2019	**2020**
A. Equity			
I. Called and paid-in share capital	(8)	347,415.7	347,415.7
II. Capital reserves	(9)	971,720.3	971,720.3
III. Revenue reserves	(10)	1,529,256.0	1,689,147.3
IV. Net profit	(11)	239,716.8	260,561.8
of which profit carried forward		0.0	0.0
		3,088,108.8	**3,268,845.0**
B. Provisions	(12)	160,171.0	**252,422.7**
C. Liabilities	(13)	1,908,689.6	**1,680,304.6**
of which due within one year		972,490.9	774,072.2
of which due in more than one year		936,198.7	906,232.4
D. Accruals and deferred income	(14)	663.1	**747.6**
		5,157,632.5	**5,202,319.9**
Contingent liabilities	(15)	963,514.9	866,440.1
less counter-guarantees from cross-border leasing		–379,833.5	–324,079.5
		583,681.4	**542,360.6**

Income statement

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	Notes	2019	**2020**
1. Revenue	(16)	313,905.8	350,880.6
2. Change in total services not yet billable		0.0	52.6
3. Other operating income	(17)	694.4	912.7
4. Operating income (subtotal of lines 1 to 3)		314,600.2	**351,845.9**
5. Expenses for electricity, grid/gas purchases and purchases of emission rights and other purchased production services and other services		–207,251.8	–211,757.0
6. Personnel expenses	(18)	–33,236.6	–28,820.7
7. Depreciation and amortisation	(19)	–2,056.3	–2,925.7
8. Other operating expenses	(20)	–38,498.4	–47,247.4
9. Operating result (subtotal of lines 4 to 8)		33,557.1	**61,095.2**
10. Income from equity interests		231,591.5	337,815.5
11. Income from other securities and loans classified as financial assets		37,638.2	35,136.1
12. Other interest and similar income		2,337.0	2,490.8
13. Income from the disposal and reversal of impairment losses on investments		384,905.7	44,055.9
14. Expenses from investments		–7,309.9	–4,254.2
15. Interest and similar expenses		–60,331.9	–39,150.9
16. Financial result (subtotal of lines 10 to 15)	(21)	588,830.5	**376,093.3**
17. Earnings before taxes (subtotal of lines 9 and 16)		622,387.6	**437,188.5**
18. Taxes on income and profit	(22)	–2,850.6	–16,735.4
19. Net income for the year		619,537.0	**420,453.1**
20. Allocation to revenue reserves		–379,820.2	–159,891.3
21. Net profit		239,716.8	**260,561.8**

Statement of changes in fixed assets

	As at 1/1/2020	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	8,062.1	340.1	53.3	0.0	
2. Prepayments	0.0	37.7	0.0	0.0	
	8,062.1	377.8	53.3	0.0	
II. Property, plant and equipment					
1. Land, land rights and buildings, including buildings on third-party land					
a. with residential buildings	77.6	0.0	0.0	0.0	
b. with plant and other plant facilities	28,361.9	68.7	3.4	0.0	
2. Electrical installations	6,296.5	61.3	2.1	0.0	
3. Office and plant equipment	21,711.7	1,616.1	319.8	0.0	
4. Prepayments and assets under construction	0.0	1,783.1	0.0	0.0	
	56,447.7	3,529.3	325.3	0.0	
Property, plant and equipment and intangible assets	64,509.8	3,907.1	378.7	0.0	
III. Investments					
1. Shares in affiliated companies	3,588,483.6	47,000.0	4,646.4	0.0	
2. Loans to affiliated companies	1,280,277.4	201,538.0	215,196.8	0.0	
3. Equity interests	282,643.0	0.0	0.0	0.0	
4. Loans to equity interests	70,000.0	0.0	0.0	0.0	
5. Securities (loan stock rights) under fixed assets	8,022.1	74,208.7	7,310.4	0.0	
6. Other loans	54,134.3	17.5	3,505.9	0.0	
	5,283,560.4	322,764.3	230,659.5	0.0	
Fixed assets	5,348,070.1	326,671.4	231,038.1	0.0	

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	As at 31/12/2020	Accumulated amortisation as at 31/12/2020	**Net carrying amount as at 31/12/2020**	Accumulated amortisation as at 31/12/2019	Net carrying amount as at 31/12/2019
	8,348.9	7,528.8	820.1	7,171.0	891.1
	37.7	0.0	37.7	0.0	0.0
	8,386.6	7,528.8	**857.8**	7,171.0	891.1
	77.6	77.6	0.0	77.6	0.0
	28,427.2	20,139.3	8,287.9	19,658.3	8,703.5
	6,355.7	4,793.0	1,562.7	4,371.1	1,925.5
	23,008.0	11,049.6	11,958.5	9,746.5	11,965.1
	1,783.1	0.0	1,783.1	0.0	0.0
	59,651.6	36,059.4	**23,592.2**	33,853.5	22,594.1
	68,038.2	43,588.2	**24,450.0**	41,024.5	23,485.2
	3,630,837.2	344,947.6	3,285,889.6	380,699.0	3,207,784.5
	1,266,618.6	0.0	1,266,618.6	0.0	1,280,277.4
	282,643.0	9,222.4	273,420.6	16,847.1	265,795.9
	70,000.0	0.0	70,000.0	0.0	70,000.0
	74,920.4	1,447.2	73,473.2	1,720.7	6,301.4
	50,646.0	0.0	50,646.0	0.0	54,134.3
	5,375,665.2	355,617.2	**5,020,048.0**	399,266.8	4,884,293.6
	5,443,703.4	399,205.4	**5,044,498.0**	440,291.3	4,907,778.8

Statement of changes in depreciation and amortisation of fixed assets

	Accumulated amortisation as at 1/1/2020	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	7,171.0	411.2	
2. Prepayments	0.0	0.0	
	7,171.0	411.2	
II. Property, plant and equipment			
1. Land, land rights and buildings, including buildings on third-party land			
a. with residential buildings	77.6	0.0	
b. with plant and other plant facilities	19,658.3	481.4	
2. Electrical installations	4,371.1	423.2	
3. Office and plant equipment	9,746.5	1,609.9	
4. Prepayments and assets under construction	0.0	0.0	
	33,853.5	2,514.5	
Property, plant and equipment and intangible assets	41,024.5	2,925.7	
III. Investments			
1. Shares in affiliated companies	380,699.0	0.0	
2. Loans to affiliated companies	0.0	0.0	
3. Equity interests	16,847.1	0.0	
4. Loans to equity interests	0.0	0.0	
5. Securities (loan stock rights) under fixed assets	1,720.7	0.0	
6. Other loans	0.0	0.0	
	399,266.8	0.0	
Fixed assets	440,291.3	2,925.7	

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	Disposals	Reversal of impairment	Reclassifications	**Accumulated amortisation as at 31/12/2020**
	53.3	0.0	0.0	7,528.8
	0.0	0.0	0.0	0.0
	53.3	0.0	0.0	**7,528.8**
	0.0	0.0	0.0	77.6
	0.5	0.0	0.0	20,139.3
	1.3	0.0	0.0	4,793.0
	306.8	0.0	0.0	11,049.6
	0.0	0.0	0.0	0.0
	308.7	0.0	0.0	**36,059.4**
	362.0	0.0	0.0	**43,588.2**
	4,113.4	31,638.0	0.0	344,947.6
	0.0	0.0	0.0	0.0
	0.0	7,624.7	0.0	9,222.4
	0.0	0.0	0.0	0.0
	172.6	100.9	0.0	1,447.2
	0.0	0.0	0.0	0.0
	4,286.0	39,363.6	0.0	**355,617.2**
	4,648.0	39,363.6	0.0	**399,205.4**

Maturity schedule 2020

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

Maturity schedule 2019

€k

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

Notes
to the annual financial statements

Notes

I. General notes

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

In the interest of clear presentation, individual line items in the balance sheet and the income statement have been aggregated. These line items are explained separately in the notes to the annual financial statements. The individual line items of the balance sheet and income statement are presented in accordance with VERBUND's Group-wide requirements with respect to form and substance.

In accordance with Section 223(7) of the Austrian Commercial Code (UGB), balance sheet and income statement line items with a carrying amount of zero in both the financial year and the previous year are not reported. The designations of the items have been shortened or expanded to reflect their actual substance in accordance with Section 223(4) of the Austrian Commercial Code (UGB) to the extent that this appeared expedient in order to present annual financial statements that are clear and easy to understand.

If the presentation has changed year-on-year or if the prior-year amounts are not comparable, the prior-year amounts are adjusted in accordance with Section 223(2) of the Austrian Commercial Code (UGB) and explained in the corresponding item.

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

II. Accounting policies

The annual financial statements have been prepared in accordance with Austrian Generally Accepted Accounting Principles and the general requirement to present a true and fair view of the Company's assets, liabilities, financial position and financial performance.

In preparing these annual financial statements, the principle of completeness was adhered to and the principle of prudence was observed. Measurement was based on the assumption that the Company is a going concern.

Fixed assets

As a rule, depreciable fixed assets are measured at cost less depreciation and amortisation.

Property, plant and equipment and intangible assets used for longer than six months of the financial year are depreciated or amortised at the full annual rate, whereas those that are used for less than six months are depreciated or amortised at half the annual rate.

Purchased intangible assets are recognised at cost and – to the extent that they are amortisable – amortised over their standard useful life.

In addition to direct material and production costs, the cost of internally generated plant and equipment also includes directly attributable indirect material and production costs. The Company has chosen not to apply the measurement option relating to the inclusion of social security expenses, termination benefits or pensions and similar obligations within the meaning of Section 203(3) of the Austrian Commercial Code (UGB); it has also opted not to capitalise borrowing costs (Section 203(4) of the Austrian Commercial Code (UGB)). Low-value assets are fully written off in the year of acquisition and reported as an asset disposal in the subsequent year.

Shares in affiliated companies and equity interests are recognised at cost or at the lower fair value. Depending on the situation in question, the fair values are determined based on market quotations, comparable recent transactions, measurement using the discounted cash flow method or measurement using the multiples method. Using the discounted cash flow (DCF) method, the prices are determined by price quotations for energy futures and long-term electricity price forecasts. The discount rate is an after-tax interest rate which reflects current market estimates, the time value of money and the specific risks associated with the investment. Securities and loan stock rights under fixed assets are measured at cost or at the lower fair value.

Interest-bearing loans are recognised at their nominal amounts. Impairment losses are recognised if the impairment is expected to be permanent. Receivables with a maturity of more than one year – with the exception of instalment sales – are reported under financial assets as loans.

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

	Rate of depreciation/ amortisation in %	Useful life in years
Intangible assets		
Rights to telecommunications installations	10	10
Rights to software products	25	4
Other rights	2–25	4–50
Buildings		
Residential and office buildings	2 or 3	33.3 or 50
Plant(s)	3–5	20–33.3
Technical installations and machinery		
Machinery	3–10	10–33.3
Electrical installations	3–14.3	7–33.3
Telecommunications installations	4–33.3	3–25
Office and plant equipment	10–25	4–10

Current assets

Services not yet billable are recognised at production cost. Production cost includes direct material and production costs as well as directly attributable indirect material and production costs. The Company has chosen not to apply the measurement option concerning the inclusion of social security expenses and borrowing costs (Sections 203(3) and (4) of the Austrian Commercial Code (UGB)).

Inventories recognised using the moving average price method are measured at cost in accordance with the strict lower of cost or market value principle.

Receivables and other assets are measured at their principal amount, unless a lower fair value is required to be recognised in the case of specific identifiable risks. Receivables in foreign currencies are measured at the mean rate of exchange prevailing at the recognition date or the lower foreign exchange reference rate of the European Central Bank (ECB) prevailing at the reporting date (unless the exchange rate is otherwise hedged).

Cash at banks in foreign currency is also measured using the ECB foreign exchange reference rate in accordance with the strict lower of cost or market value principle.

Deferred tax assets

Since the 2004 financial year, if tax relief is expected in subsequent years, deferred tax assets are recognised in accordance with Section 198(9) of the Austrian Commercial Code (UGB) whereby the deferred taxes attributable to Group members based on tax allocation are presented under the current result in their balance sheets. The option to recognise deferred taxes for loss carryforwards is applied from financial year 2016.

This prepayment results from differences between the financial and tax accounts with respect to line items that can only be deducted as expenses for tax purposes in income statements of future periods. The underlying tax rate for taxes due in Austria amounts to 25% and for taxes due in Germany, 15.83%.

Provisions

Provisions take into account all identifiable risks that can be allocated to a financial year that has already ended and include those amounts that it was necessary to recognise based on the best estimate of the settlement amount. Provisions with a remaining maturity of more than one year are discounted using a market interest rate.

Provisions for termination benefits are allocated at the full actuarial amount based on the projected unit credit (PUC) method typically used in international financial reporting. The accumulation period for provisions for termination benefits is 25 years. Employees whose service began after 31 December 2002 are no longer entitled to a direct claim against their employer for statutory termination benefits. For those employment contracts, the employer pays 1.53% of salary monthly into an employee pension fund in which the contributions are deposited in an account of the employee. Collective bargaining agreement requirements for energy supply companies which exceed statutory claims are recognised in provisions for termination benefits.

Due to labour-management agreements and contracts, VERBUND is obligated under certain conditions to make pension payments to employees after they retire. These defined benefit obligations are partially covered by pension plan assets earmarked for this purpose by APK Pensionskasse AG. The provision determined in accordance with the PUC method typically used in international financial reporting is presented after offset with pension plan assets. The employer is obligated to provide additional funding to the extent that these defined benefit obligations are required to be fulfilled by APK Pensionskasse AG.

Provisions for current pensions, vested pension benefits and similar obligations are determined using the PUC method. The interest expense is shown in the financial result, in line with international practice.

The calculations are based on the updated "AVÖ 2018-P – Actuarial Assumptions for Pension Insurance".

The calculations as at 31 December 2020 and 2019 have been based on the following assumptions:

		%
	2019	**2020**
Interest rate		
Pensions and similar obligations	0.75 or 1.00	0.75
Termination benefits	0.75	0.50
Trend		
Pension increases	2.00	2.00
Salary increases	2.75	2.75
Contributions to obligations similar to pensions – old contracts	6.00	6.00
Contributions to obligations similar to pensions – new contracts	3.75	3.75
Employee turnover	0.00–4.10	0.00–4.10
Retirement age – women	56.5–65 y.	56.5–65 y.
Retirement age – men	61.5–65 y.	61.5–65 y.
Expected non-current return on plan assets	0.75	0.75

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

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

Liabilities

Liabilities are recognised at their settlement amount based on the principle of prudence. Trade payables denominated in foreign currency are measured at the ECB foreign exchange reference rate prevailing at the reporting date, provided that this rate is higher than the rate prevailing at the time of origination.

Liabilities from bonds and loans denominated in foreign currency are measured at the ECB foreign exchange reference rate prevailing at the reporting date, provided that this rate is higher than the rate prevailing at the time of origination. The result of this measurement is presented under the corresponding liabilities. Discounts, the capital procurement cost and loan commitment fees were capitalised in financial years 1994 and 2014 and are being repaid as scheduled. The discounts and capital procurement cost assumed in connection with the merger of VERBUND International Finance GmbH in 2014 are presented under financial liabilities and are being repaid.

Derivative financial instruments

In individual cases of external financing, interest rate swaps (variable for fixed rate) were entered into in order to hedge cash flows. Individual interest rate swaps (variable for fixed rate) were also entered into for intra-Group hedging of cash flows and underlying assets.

Taxes on income

VERBUND AG is the parent of the tax group as defined by Section 9(8) of the Austrian Corporate Income Tax Act (Körperschaftsteuergesetz, KStG) of 1988.

The tax group parent charges (tax allocation rate of 25%) or, in the event of a loss, credits (tax allocation rate of 25%, 20% or 15% depending on the anticipated date of future profits of the Group member) the Group members with the corporate income tax amounts attributable to them by means of a tax allocation. The recharging of the tax allocations results in an adjustment decreasing or increasing the tax expense in the parent's income statement.

The tax recharges to Group members are only adjusted for subsequent deviations if these are material.

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

Matters under corporate law

Windpark Dörrebach GmbH & Co. KG, Windpark Eichberg GmbH & Co. KG, Windpark Ellern GmbH & Co. KG, Windpark Hochfels GmbH & Co. KG, Windpark Rheinböllen GmbH & Co. KG, Windpark Schönborn GmbH & Co. KG, Windpark Seibersbach GmbH & Co. KG, Windpark Stetten I GmbH & Co. KG and Windpark Utschenwald GmbH & Co. KG were merged with the absorbing entity Windpark Dichtelbach GmbH & Co. KG under a merger agreement dated 7 April 2020. At the same time, the name of Windpark Dichtelbach GmbH & Co. KG was changed to VERBUND Green Power Hunsrück GmbH & Co. KG and the partnership agreement was amended in several places. The mergers took effect upon entry in the commercial register on 20 May 2020.

VERBUND Solutions GmbH and VERBUND Sales GmbH were merged with VERBUND Trading GmbH (VTR) under the merger agreements dated 2 March 2020. At the same time, the company name of VTR was changed to VERBUND Energy4Business GmbH (VEB) and the object of VEB was expanded.

Notes on assets

A. Fixed assets

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

(1) I. Intangible assets

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

(2) III. Investments

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

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

Loans For details see separate "Maturity schedule".

Securities (loan stock rights) under fixed assets These consist primarily of Austrian investment fund units and bonds. Securities under fixed assets in the amount of €0.0k (previous year: €0.0k) are pledged as collateral.

B. Current assets

(3) I. Inventories

		€k
	2019	**2020**
Goods	43.8	34.3
Services not yet billable	0.0	167.7
	43.8	202.0

(4) II. Receivables and other assets

For details see separate "Maturity schedule".

Of the receivables from affiliated companies, €0.0k (previous year: €816.9k) related to trade receivables and €16,247.5k (previous year: €85,624.0k) to other receivables.

Of the receivables from investees, €15.0k (previous year: €6.9k) related to trade receivables and €108.7k (previous year: €107.9k) to other receivables.

		€k
Other receivables and assets	2019	**2020**
Receivables from disposals of investments	0.0	4,336.3
Loans and accrued interest income from loans	358.6	2,941.7
Financing contributions	0.0	317.3
Prepayments	1.9	47.7
Tax authorities	33.9	33.0
Payroll	1.0	18.6
Other	129.6	102.6
	525.0	**7,797.1**

(5) C. Prepayments and accrued income

		€k
	2019	**2020**
Prepayments for electricity purchases	19,068.2	17,680.7
Discounts, flotation costs and commitment fee relating to bonds and non-current loans	5,257.9	4,322.1
Other	40,155.5	38,522.3
	64,481.6	**60,525.1**

(6) D. Deferred tax assets

		€k
	2019	**2020**
Social capital	7,205.2	6,501.0
Valuation of fixed assets	–15.1	–25.2
Special tax deductions	–239.2	–233.4
Other	57,635.3	28,224.3
Deferred tax receivables (+) respectively liabilities (–) balanced	64,586.3	**34,466.7**

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

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

(7) Rights of recourse

Rights of recourse amounted to a total of €866,440.1k (previous year: €963,514.9k). 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 in the amount of €324,079.5k (previous year: €379,833.5k). Please refer to note (15), "Contingent liabilities".

Notes on equity and liabilities

A. Equity

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

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

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

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

(9) II. Capital reserves

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

(10) III. Revenue reserves

€k

	2019	**2020**
Statutory reserves	19,884.0	19,884.0
Distributable reserves	1,509,372.0	1,669,263.3
	1,529,256.0	**1,689,147.3**

(11) IV. Net profit	€k
As at 31/12/2019	239,716.8
Distribution of dividends	–239,716.8
Profit carried forward	0.0
Net profit for the year	420,453.1
Changes in reserves	–159,891.3
As at 31/12/2020	260,561.8

(12) B. Provisions

1. Provisions for termination benefits		€k
	2019	**2020**
Premium reserve based on actuarial calculations	6,235.1	6,430.4
Taxed proportion of provisions	6,235.1	6,430.4

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
	2019	**2020**
Provisions for pension obligations	33,771.7	30,842.0
of which obligations similar to pensions	7,264.5	7,401.1

3. Provisions for taxes		€k
	2019	**2020**
Corporate income tax domestic (including prior reporting periods)	98,390.6	182,682.1
Corporate income tax foreign (including prior reporting periods)	699.6	652.8
Other tax provisions	1,023.0	1,219.1
Deferred tax liabilities	4,002.2	3,611.1
	104,115.5	**188,165.2**

Deferred tax liabilities are the result of differences between the financial and taxable result in respect of line items affected by expenses for tax purposes in income statements of future periods. The competent tax authorities are located in Germany and, as a result of this, a tax rate of 15.83% was used for calculation.

4. Other provisions		€k
	2019	**2020**
Electricity/grid purchases	3,334.0	8,525.6
Trade receivables not yet billed	1,866.5	5,015.2
Other	3.5	0.0
	5,204.0	**13,540.8**

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

		€k
Other personnel-related provisions	2019	**2020**
Bonuses	5,257.0	7,025.3
Unused holidays	2,921.9	3,477.5
Holiday allowance	911.2	1,049.3
Death grant	556.8	506.3
Compensatory time credit	147.8	221.0
Early retirement benefits	30.7	0.0
Other	1,019.4	1,164.8
	10,844.8	**13,444.2**

(13) C. Liabilities

For details see separate "Maturity schedule".

Of the liabilities to affiliated companies, €692,420.9k (previous year: €682,689.1k) related to financial liabilities and €1,172.4k (previous year: €359.6k) to other liabilities.

		€k
Other liabilities	2019	**2020**
From taxes	4,463.9	2,410.0
Related to social security	330.6	373.1
Payroll	45.2	86.4
From financing contributions	761.2	65.3
Other	2,585.4	1,956.8
	8,186.2	**4,891.6**

(14) D. Accruals and deferred income		€k
	2019	**2020**
Contributions to building costs	596.4	561.3
From electricity business	66.7	53.4
Other	0.0	132.9
	663.1	**747.6**

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

(15) Contingent liabilities

Contingent liabilities that are recognised below the line are primarily for letters of comfort and liabilities assumed for subsidiaries as part of the financing that VERBUND AG carries out centrally as well as other assumptions of liabilities, excluding the contingent liabilities in connection with cross-border leasing transactions in the total amount of €60,706.7k (previous year: €75,360.8k). Of this, €60,703.2k (previous year: €75,357.3k) is attributable to affiliated companies and €0.0k (previous year: €0.0k) to investees.

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

Beginning in 2009, and continuing during the 2010 reporting period, due also to the financial market crisis, about 85% of the original volume of the transactions was terminated. Some of the transactions were terminated early in their entirety; that is, all associated liabilities were repaid. However, some of the transactions were only partially terminated, whereby the transactions with the investors and the associated A-loans were repaid, while VERBUND Hydro Power GmbH continued the existing B-loans and the corresponding investments. The last remaining cross-border leasing transaction (Freudenau power plant) has an off-balance sheet financing structure. With respect to this transaction, the lessee purchase option granted in section 19 of the lease agreement (the early buy-out option) was exercised in the first half of 2019; final signing of all contractual agreements required in connection with this took place on 11 December 2020, whereby this transaction is terminated effective 4 January 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 transaction that has not been terminated as well as for the liabilities transferred to VHP totalling €805,733.4k (previous year: €888,154.1k). Of the rights of recourse against the primary debtors, €324,079.5k (previous year: €379,833.5k) were secured through counter-guarantees from financial institutions, state energy companies and regional authorities (from guarantors' liabilities). These counter-guarantees are presented under total rights of recourse (see note (8)). Thus, a total of €481,653.9k (previous year: €508,320.6k) remains in contingent liabilities from cross-border leasing transactions after deducting these counter-guarantees.

Minimum ratings for the guarantors are stipulated in the agreements with lenders and with equity investors.

As a result of the deteriorating energy market environment, VERBUND AG's credit rating was downgraded numerous times until 2016, in some cases falling below the required minimum rating. Corresponding provisions were recognised at VHP for the anticipated expenses. Most of these provisions could be reversed in subsequent years due to rating upgrades. The provisions remaining as at 31 December 2020 comprise only residual items for outstanding legal and consulting fees.

For two transactions which were terminated early and for which the financial liabilities were continued, there is still a risk that the investing banks might have to be replaced or VERBUND Hydro Power GmbH might have to provide additional collateral if the rating of the investing banks or of VERBUND AG 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 2020. Thus there is currently no need for VERBUND AG or VERBUND Hydro Power GmbH to exchange individual contractual parties or

investments. This risk is also reduced not least by the existence in some cases of guarantors' liabilities from regional authorities for individual contractual parties.

As part of the restructuring of VERBUND's telecommunications segment, liabilities were assumed for former tele.ring Telekom Service GmbH and KELAG-Kärntner Elektrizitäts-Aktiengesellschaft.

Notes to the income statement

(16) 1. Revenue

€k

		2019	**2020**
Revenue from electricity deliveries			
Domestic	Energy supply companies	19,678.5	9,418.9
	Consumers	100,898.7	115,544.4
	Other customers	126,333.7	152,494.5
		246,910.9	**277,457.9**
Invoicing of grid tariffs; user and management fees		3,091.7	3,030.7
Other revenue (including gas trading)		63,903.1	70,392.0
		313,905.8	**350,880.6**

(17) 3. Other operating income

€k

	2019	**2020**
a) Income from disposal of fixed assets with the exception of investments	2.1	17.2
b) Income from reversal of provisions	7.6	13.0
c) Other	684.7	882.5
	694.4	**912.7**

(18) 6. Personnel expenses

€k

	2019	**2020**
a) Salaries	22,522.6	24,056.9
b) Expenses for termination benefits and payments to employee pension funds		
Termination benefits	1,075.7	285.3
Contributions to employee pension funds	311.6	254.0
Change in the provision for termination benefits	343.8	148.7
Expenses/income and takeovers/transfers within the Group	–423.5	–186.4
	1,307.6	**501.6**
c) Expenses for pensions and similar obligations		
Early retirement benefits and pension payments	2,273.3	2,237.4
Change in the provisions for pensions and similar obligations	1,896.0	–3,189.5
Expenses/income and takeovers/transfers within the Group	–104.4	–63.0
Change in the provisions for early retirement benefits	–61.5	–30.7
Pension fund contributions	1,760.5	943.2
	5,763.9	**–102.6**
d) Expenses for social security contributions as required by law as well as income-based charges and compulsory contributions	3,422.1	4,130.8
e) Other social security expenses	220.4	234.1
	33,236.6	**28,820.7**

Interest rate changes for provisions related to termination benefits and pensions and similar obligations resulted in a negative effect of €467.9k in the financial year and a positive effect of €5,925.7k in the previous year. The effect of the changes in parameters was recognised in full in the financial year.

(19) 7. Depreciation and amortisation

€k

	2019	**2020**
a) Amortisation of intangible assets and depreciation of property, plant and equipment		
Depreciation and amortisation	1,996.5	1,993.0
Impairment losses	17.8	0.0
Immediate write-off of low-value assets in accordance with Section 13 of the Austrian Income Tax Act (EStG)	42.1	932.7
	2,056.3	**2,925.7**

(20) 8. Other operating expenses

€k

	2019	**2020**
a) Taxes other than taxes on income	309.5	345.4
b) Other		
Advertising and market development costs	9,683.8	9,527.8
Legal, audit and consulting expenses	5,100.0	8,959.0
Other administrative expenses	5,326.3	5,403.2
IT expenses	2,523.7	4,207.1
Operating costs for buildings, rent and leasing	3,256.9	3,488.6
Temporary personnel and provision of personnel	1,198.7	1,658.5
Membership fees	838.8	843.4
Telecommunications services, data services	579.0	564.5
Training and further education	644.7	507.5
Other	9,037.0	11,742.5
	38,188.9	**46,902.0**
	38,498.4	**47,247.4**

(21) 16. Financial result

€k

	2019	**2020**
Income from equity interests		
from affiliated companies	213,444.9	316,032.0
of which from profit pools	25,626.9	30,749.7
Income from other securities and loans in financial assets		
from affiliated companies	33,522.5	32,881.1
Other interest and similar income		
from affiliated companies	2,193.8	2,386.4
Income from disposals and impairment loss reversals of investments		
disposal of shares in affiliated companies	0.0	356.0
reversal of impairment of shares in affiliated companies	378,546.6	31,638.0
Expenses relating to investments		
impairments on affiliated companies	125.0	0.0
expenses from affiliated companies	6,347.3	4,241.4
of which from profit pools	6,347.3	4,241.4
Interest and similar expenses		
of which interest for long-term personnel provisions	645.4	318.2
from affiliated companies	16,110.7	15,717.1

(22) 18. Taxes on income and profit €k

	2019	**2020**
Consolidated taxes on income[1]	89,923.7	132,672.6
Taxes recharged to members of the Group[2]	–134,656.6	–151,958.2
Future tax expense for subsequent taxation of losses from foreign members of the tax group	7,979.9	–3,663.2
Additional amounts/credit notes from previous periods[1]	–5,612.5	9,955.7
Change in deferred taxes[1]	45,216.1	29,728.5
	2,850.6	**16,735.4**

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

IV. Other disclosures

1. Total amount of other financial obligations

€k

Material items	Total commitment	2021	2021–2025
Rent, lease and insurance agreements	[1]	4,145.3	20,136.1
Purchase commitments	6,180.6	5,314.1	6,061.0
of which to affiliated companies	[1]	3.8	19.1

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

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

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

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

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

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

There are contractor agreements with VERBUND Energy4Business GmbH in the sales segment.

Due to labour-management agreements and contracts, VERBUND is obligated under certain conditions to make pension payments to employees after they retire. The employer is obligated to provide additional funding to the extent that these pension obligations are required to be fulfilled by APK Pensionskasse AG. As a result of the trend on the financial markets, APK Pensionskasse AG

reported an obligation for additional funding in the amount of €0.0k (previous year: €0.0k) to cover defined benefit obligations.

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

As at 31 December 2020, one employee had a letter of loyalty granting a higher degree of employment protection. The prerequisite was 20 years of service at VERBUND and a minimum age of 45.

2. Disclosures regarding financial instruments

Finance area

There are interest rate swaps to hedge increases in interest rates for financial liabilities bearing variable interest with an outstanding principal amount of €71,437.5k (previous year: €86,062.5k) as at 31 December 2020. These interest rate hedges consist of the interest rate swaps and the underlying loans. As there is a documented hedge strategy and detailed hedge documentation, and ongoing measurements of effectiveness are conducted, it is not necessary to recognise a separate provision for onerous contracts for the negative fair values amounting to €5,991.1k (previous year: €7,604.2k). The future interest payments hedged by these hedging instruments will occur in the following six years (2021 to 2026) and will be recognised in profit or loss accordingly.

To avoid fluctuations in future cash flows from interest payments for loans granted to Group companies at variable rates of interest amounting to a total principal amount of €106,750.0k (previous year: €122,675.0k), interest rate hedges were entered into with banks in late 2012 and during the first half of 2013. At the same time, the outstanding credit agreements with the Group companies involved in this hedging transaction were converted to the fixed interest rate terms contractually agreed with the respective bank. As here, too, there is a documented hedge strategy and detailed hedge documentation, and ongoing measurements of effectiveness are conducted, recognition of a separate provision for onerous contracts for the negative fair values is not required. The reporting date measurement of these transactions resulted in a negative fair value totalling €4,740.6k (previous year: €6,152.9k) as at 31 December 2020.

3. Number of employees

Average	2019	**2020**
Salaried employees	132	148

4. Expenses for termination benefits and pensions

€k

	2019	**2020**
Members of the Executive Board, former members of the Executive Board and their surviving dependants	1,169.6	782.9
Other employees	5,901.9	6,288.5
	7,071.5	**7,071.5**

A company pension plan has been set up for members of the Executive Board in the form of a defined contribution pension fund agreement. In financial year 2020, contributions to the pension fund were paid for the Executive Board in the amount of €253,000 (previous year: €253,000).

Statutory regulations apply, taking account of the requirements of Rule 27a of the Austrian Code of Corporate Governance, with respect to the claims of members of the Executive Board upon termination of their position. In financial year 2020, €389,323 was paid out for pensions (previous year: €380,637).

The change in termination benefits and pensions and similar obligations (post-employment benefits) resulted in a positive effect of €6,813 in the financial year (previous year: negative effect of €703). Expenses for pensions and similar obligations for former members of the Executive Board and their surviving dependants amounted to a total of €147,437 (previous year: €535,265).

5. Board members

Disclosures regarding the Boards of the Company (members of the Executive Board and the Supervisory Board) are presented before the management report.

Remuneration of members of the Executive Board

€

Name	Fixed remuneration	Variable remuneration[1]	Other	Total
Dipl.-Ing. Wolfgang Anzengruber	750,000	494,336		1,244,336
Mag. Dr. Michael Strugl MBA	685,000	444,935		1,129,935
Mag. Dr. Achim Kaspar	475,000	307,563		782,563
Dr. Peter F. Kollmann	620,000	403,233		1,023,233

[1] Variable remuneration is always paid at the beginning of the following year, because whether or not goals have been achieved can only be determined at the end of the year. Consequently, the variable components paid to the members of the Executive Board in 2020 were paid in respect of the financial year 2019. The payment in lieu of unused leave to the retired member of the Executive Board existing as of December 31, 2020 will be taken into account in the corresponding final settlement in financial year 2021.

Remuneration for the four members of the Executive Board totalled €4,231,454 in 2020 (previous year: €3,549,980), which included €51,387 in payments in kind (previous year: €50,708).

Variable remuneration depends on performance and is limited to a specific percentage of the respective fixed remuneration. This percentage rate was 70% for financial year 2019. The level of performance-based remuneration components depends on the extent to which the targets agreed for the financial year are achieved. In financial year 2019, 70% of the agreement on targets was based on the achievement of the Group result and 30% on qualitative targets: occupational health and safety (10%), succession planning (5%), innovation (5%), innovation projects (5%) and digitalisation (5%). The total achievement of targets for 2019 was determined to be 92.50%.

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 is a standard 70% of the relevant fixed remuneration. In the 2020 reporting period, 60% of the agreement on targets is based on the achievement of the Group result and 40% on non-financial goals (one-year): expanding renewable generation (15%), reduction of specific greenhouse gas emissions (5%), strategic human resources planning and advancement of women as well as employee satisfaction (10%) and hydropower plant availability (10%).

With respect to the LTIP, a maximum of 55% of the respective fixed remuneration can be paid out as long-term remuneration on the basis of medium-term performance criteria. The actual amount depends not only on the 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. Therefore, no long-term variable remuneration was paid out in 2019 or 2020. The performance criteria defined for the LTIP 2019 (running until 2021) – total shareholder return (25%), EBITDA from growth projects (25%), FCF before dividends (25%), productivity improvement (25%); total shareholder return (30%), FCF before dividends (35%) and net debt/EBITDA (35%) – will be applied for the LTIP 2020 (running until 2022).

As in the previous year, no loans or advances were paid out to any Board members of the Group or its subsidiaries. As in the previous year, VERBUND does not have a stock option programme for either the members of the Executive Board or senior management staff.

Remuneration paid to members of the Supervisory Board (including reimbursement of costs/travel expenses recharged) amounted to a total of €320,010 (previous year: €316,262).

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

		€
	2019	**2020**
Chairman/Chairwomen	25,000	25,000
Vice-Chairpersons	15,000	15,000
Member	10,000	10,000
Attendance fee	500	500

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

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

6. Transactions with related parties

Agreements with members of the Supervisory Board, or with businesses that are closely associated with individual members of the Supervisory Board, which require consent under Rule 49 of the Austrian Code of Corporate Governance:

During financial year 2020, no agreements which were not at arm's length were entered into with members of the Supervisory Board or with enterprises with which a member of the Supervisory Board is associated. Services were rendered for various companies in the VERBUND Group; these contracts were approved by the Supervisory Board.

7. Intra-Group relationships

VERBUND AG is the parent company within the VERBUND Group and therefore required to prepare consolidated financial statements. In accordance with Section 238(1)(18) of the Austrian Commercial Code (UGB), the Company elects not to disclose the expenses for the auditor.

There are profit and loss transfer agreements with VERBUND Energy4Business GmbH, VERBUND Energy4Customers GmbH, VERBUND Finanzierungsservice GmbH, VERBUND Green Power GmbH and VERBUND Services GmbH.

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

In addition to the division into business areas (formal unbundling) that existed as early as financial year 1999, VERBUND also implemented legal unbundling by establishing independent companies under corporate law with separate managing entities and accounting departments.

Business transactions as defined by Section 8(3) of the Austrian Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG) were entered into specifically with the following companies:

Electricity deliveries Ennskraftwerke Aktiengesellschaft, Innwerk AG, Österreichisch-Bayerische Kraftwerke Aktiengesellschaft, Donaukraftwerk Jochenstein Aktiengesellschaft, KELAG-Kärntner Elektrizitäts-Aktiengesellschaft
Electricity and natural gas sales VERBUND Energy4Business GmbH, VERBUND Energy4Customers GmbH
Telecommunication VERBUND Services GmbH
Services VERBUND Services GmbH
Financing VERBUND Finanzierungsservice GmbH
Provision of personnel VERBUND Hydro Power GmbH, VERBUND Energy4Business GmbH, VERBUND Services GmbH, VERBUND Energy4Customers GmbH

9. Proposed appropriation of profits

The Executive Board proposes (in accordance with Section 96(1) of the Austrian Stock Corporation Act (AktG)) to distribute a dividend of €0.75 per share to 347,415,686 no-par value shares from the distributable profit of financial year 2020, i.e. a total of €260,561,764.50.

10. Events after the reporting date

There were no events requiring disclosure between the reporting date of 31 December 2020 and authorisation for issue on 11 February 2021.

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	2020 kWh
Hydropower	100.0%	1,803,033,779
Solar energy	0.0%	393,262
Total volume of electricity supplied in Austria to consumers for their own use	100.0%	1,803,427,041

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

Environmental impact of electricity generation for the volume of electricity supplied to consumers for their own use	2020
Radioactive waste (mg/kWh)	0.0
CO_2 emissions (g/kWh)	0.0

Vienna, 11 February 2021
Executive Board

Mag. Dr. Michael Strugl
Chairman of the Executive Board

Dr. Peter F. Kollmann
Member of the Executive Board

Mag. Dr. Achim Kaspar
Member of the Executive Board

Disclosures of equity interests

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

€k

	Head-quarters	% share-holding as at 31/12/2020	Most recent annual financial statements	(+) (–)	Net income/loss for the year	Equity[1]
Consolidated affiliated companies[2]						
Austrian Power Grid AG	Vienna	100.00	2020	+	35,526.0	485,067.5
Innwerk AG	Stammham	100.00	2020	+	24,976.1	152,541.7
VERBUND Energy4Business GmbH	Vienna	100.00	2020	+	31,999.5	300,772.7
VERBUND Energy4Customers GmbH	Vienna	100.00	2020	+	1,771.6	416.6
VERBUND Finanzierungsservice GmbH	Vienna	100.00	2020	+	834.3	218.1
VERBUND Green Power GmbH	Vienna	100.00	2020	–	4,241.4	38,839.5
VERBUND Green Power Hunsrück GmbH & Co. KG	Wörrstadt	100.00	2020	+	2,347.1	42,630.0
VERBUND Services GmbH	Vienna	100.00	2020	+	7,475.8	7,420.6
VERBUND Thermal Power GmbH	Fernitz-Mellach	100.00	2020	+	89.1	7,461.0
VERBUND Green Power Deutschland GmbH	Wörrstadt	100.00	2020	–	1,118.2	8,945.1
VERBUND Wind Power Romania S.R.L.[3, 4]	Bucharest	100.00	2020	+	53,175.1	199,094.7
VERBUND Thermal Power GmbH & Co KG	Fernitz-Mellach	99.99	2020	+	5,206.3	40,771.2
Infrastruktur Oberheimbach I GmbH & Co. KG	Wörrstadt	85.00	2020	–	0.7	48.6
VERBUND Hydro Power GmbH	Vienna	80.54	2020	+	417,300.8	1,912,230.3
VERBUND Innkraftwerke GmbH	Töging	70.27	2020	+	23,276.8	318,244.9
Infrastrukturgesellschaft Bischheim GmbH & Co. KG	Wörrstadt	65.29	2020	–	0.6	42.8
Donaukraftwerk Jochenstein Aktiengesellschaft	Passau	50.00	2020	+	647.2	15,630.2
Grenzkraftwerke Gesellschaft mit beschränkter Haftung	Simbach	50.00	2020	+	2,267.2	18,083.8
Österreichisch-Bayerische Kraftwerke Aktiengesellschaft	Simbach	50.00	2020	+	2,783.7	57,718.6
Associates						
Ennskraftwerke Aktiengesellschaft[5]	Steyr	50.00	2020	+	397.2	27,464.0
KELAG-Kärntner Elektrizitäts-Aktiengesellschaft[6]	Klagenfurt	35.17	2019	+	64,513.7	889,396.5

[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] figures translated using the exchange rate at the reporting date // [5] accounted for using the equity method in accordance with Sections 263–264 of the Austrian Commercial Code (UGB) // [6] proportionate consolidation in accordance with Section 262 of the Austrian Commercial Code (UGB)

Independent auditor's report (Translation)

Report on the audit of annual financial statements

Opinion

We have audited the annual financial statements of VERBUND AG, Vienna, which comprise the balance sheet as at 31 December 2020, the income statement for the financial year then ended and notes to the annual financial statements.

In our opinion, the accompanying annual financial statements comply with legal requirements and give a true and fair view of the company's financial position as at 31 December 2020 and its financial performance for the year then ended in accordance with Austrian Generally Accepted Accounting Principles and the special legislation of the Electricity Industry and Organisation Act (Elektrizitäts-wirtschafts- und -organisationsgesetz, ElWOG).

Basis for opinion

We conducted our audit in accordance with Regulation (EU) No. 537/2014 (hereinafter referred to as EU-VO) and Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the annual financial statements section of our report. We are independent of the company in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we obtained by the date of the auditor's report is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Carrying amounts of shares in affiliated companies

Description and issue

As at 31 December 2020, VERBUND AG reported shares in affiliated companies in the amount of around €3,285.9m (previous year: around €3,207.8m).

Due to the current financial and energy market environment, the company tested the carrying amounts of these companies. Please refer to section II "Accounting policies" of the notes to the annual financial statements for details regarding the impairment tests.

Numerous inputs flow into the valuation model based on net present value methods applied in the test for impairment in order to assess the market. These include in particular future electricity and primary energy price trends as well as price trends for CO_2 emission rights.

Due to the complexity of the valuation models, the dependence of results on the assessment of market developments by management and the sensitivity to the cost of capital and to the key assumptions regarding the medium- and long-term electricity price trends on the energy markets, this is a key audit matter.

Audit approach

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

We assessed the consistency of the future cash inflows used in the calculations by comparing the underlying planned volume data with the technical output data of the power plants, contractual bases, price quotations on the electricity exchanges up to 2023 and internal and external electricity price scenarios.

We consulted internal specialists in order to corroborate the capital costs by means of comparative analysis.

Other information

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

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

In connection with our audit of the annual financial statements, it is our responsibility to read the above-mentioned other information and thereby to evaluate whether it is materially inconsistent with the annual financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

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

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

The company's management is responsible for the preparation of the annual financial statements that give a fair and true view of the company's assets, liabilities, financial position and profit or loss in accordance with Austrian Generally Accepted Accounting Principles and the special legislation of the Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG). Furthermore, the responsibility of the management includes the internal controls management considers for the preparation of the annual financial statements that are free from misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the company's financial reporting process.

Auditor's responsibilities for the audit of the annual financial statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the EU-VO and Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

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

In addition:

- We identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that give a true and fair view.

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

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

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

Report on the audit of the management report

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

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

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

Opinion

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

Statement

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

Additional information required under Article 10 of the EU Audit Regulation

We were elected by the annual general meeting held on 16 June 2020 as the auditor for the financial year ended 31 December 2020 and engaged by the supervisory board on 16 June 2020 to audit the annual financial statements. We have been the company's auditor continuously since the financial year ending on 31 December 2007.

We declare that the audit opinion included in the "Report on the audit of annual financial statements" is in line with the additional report to the audit committee and complies with Article 11 of the EU Audit Regulation.

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

Engagement partner

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

Vienna, 18 February 2021
Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Gerhard Marterbauer
Wirtschaftsprüfer
(Austrian Certified Public Accountant)

p.p. MMag. Anna-Livia Massera
Wirtschaftsprüferin
(Austrian Certified Public Accountant)

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

Glossary

Glossary

Cash flow

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

Current assets

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

EBIT

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

Equity ratio

Ratio of equity to total capital.

FFO (funds from operations)

Operating result plus depreciation and amortisation, interest income and current taxes.

Gearing

Ratio of net debt to equity.

Net debt

Interest-bearing debt less cash and cash equivalents (including securities and shares held as current assets), adjusted for the asset and liability portions of closed items (e.g. in the case of cross-border leasing transactions).

Notional debt repayment period

Ratio of debt to surplus funds from earnings after tax.

RCF (retained cash flow)

Funds from operations (FFO) less dividends paid.

ROCE (return on capital employed)

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

ROE (return on equity)

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

ROI (return on investment)

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

ROS (return on sales)

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

EDITORIAL DETAILS

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Verbund

Power for the Future