

# Consolidated Corporate Governance Report 2016

in accordance with Section 267a of the Austrian Commercial Code  
(Unternehmensgesetzbuch, UGB)

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## Corporate governance – framework

VERBUND AG is a listed stock corporation domiciled in Austria. Its corporate governance framework is derived from Austrian and European law, including, in particular, stock corporation and capital market law, the Austrian Commercial Code (UGB) and the regulations governing employee co-determination, the Company's Articles of Association, the rules of procedure for the Company's Boards and, finally, the Austrian Code of Corporate Governance (Österreichischer Corporate Governance Kodex, ÖCGK).

## Declaration of commitment to the Austrian Code of Corporate Governance

### Declaration of conformity

VERBUND declares its unconditional commitment to the Austrian Code of Corporate Governance. The Executive Board and Supervisory Board see it as their primary duty to comply with all the rules of the Code as fully as possible and to maintain and continue to develop the Group's high internal standards. The Code was applied during financial year 2016 and was adhered to in accordance with the explanatory notes in this report. There were only two rules in the Code from which partial deviations occurred. These were to some extent the result of legislative circumstances and were explained and justified accordingly. Active implementation of the requirements of the Code is intended to ensure responsible management and control of the Group directed at sustainable, long-term value creation and to create a high level of transparency for all stakeholders. VERBUND will continue to actively adhere to the Code during financial year 2017. Applying it as fully as possible is an essential building block for strengthening the trust placed in the Group by shareholders, business partners, employees and the general public.

The Austrian Code of Corporate Governance as amended in January 2015 is available from the website of the Austrian Working Group for Corporate Governance at [www.corporate-governance.at](http://www.corporate-governance.at)

### Evaluation

In accordance with C Rule 62 of the Austrian Code of Corporate Governance, compliance with the Code and the accuracy of the related public reporting is evaluated externally by an independent auditor at regular intervals. The last such evaluation was carried out for 2013 by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H and resulted in a positive report. Another evaluation took place for 2016.

### Additional reporting

In accordance with the new laws, a consolidated corporate governance report is presented for the first time this year. Key items of this report are expanded beyond the listed parent company to include the entire Group. Opinion 22 of the Austrian Financial Reporting and Auditing Committee (AFRAC) has been followed with respect to the requirements on content.

This Consolidated Corporate Governance Report includes not only the disclosures required by law but also the additional content as intended by the Code of Corporate Governance. In addition, further information is provided on the relevant indicators under the Global Reporting Initiative (GRI), the global standard on sustainability reporting.

Detailed information on the composition and work procedures of the Executive Board, the Supervisory Board and the Supervisory Board's committees is provided in the sections entitled Executive Board and Supervisory Board.

Further information on the bodies Executive Board, Supervisory Board and Annual General Meeting and on their interactions is available in the document entitled Disclosures on Management Approach (DMA) at [www.verbund.com](http://www.verbund.com) > Investor Relations > Financial reports.

### Deviations

VERBUND complies with almost all the rules in the Austrian Code of Corporate Governance, including the R Rules. The deviations applied in financial year 2016 are the same as those applied in the previous year. From a total of 83 rules in the Code, there are slight deviations in the application of two C rules. In accordance with the "comply or explain" principle, these deviations are explained below:

#### **C Rule 2:**

The principle of "one share - one vote" is generally adhered to with respect to VERBUND shares. The sole exception is based on a restriction on voting rights embodied in the "federal constitutional act regulating the ownership structure of enterprises in the Austrian electricity industry" and in the provision of the Articles of Association based upon this. The exception is as follows: "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."

#### **C Rule 45:**

The rule according to which Supervisory Board members may not assume any functions on the boards of other companies that are competitors of the Group was adhered to by all the members of the Supervisory Board, with two exceptions.

The two Supervisory Board members in question each carry out leading functions on boards in companies which are shareholders of VERBUND AG. If there is a conflict of interest with them in a specific case, then the chairperson will institute appropriate measures (e.g. withholding of certain information or documents, abstention from voting or departure from the meeting). This was required once for one agenda item in the reporting period.

## Executive Board

### Composition of the Executive Board

In financial year 2016, the Executive Board was once again composed of four members.

**Executive Board**

Name	Year of birth	Date of initial appointment	End of current term of office
CEO Dipl.-Ing. Wolfgang Anzengruber, Chairman	1956	1/1/2009	31/12/2018
Deputy CEO Dr. Johann Sereinig, Vice-Chairman	1952	1/1/1994	31/12/2018
Dr. Peter F. Kollmann, Member of the Executive Board	1962	1/1/2014	31/12/2018
Dipl.-Ing. Dr. Günther Rabensteiner, Member of the Executive Board	1953	1/4/2011	31/12/2018

**Board functions of Executive Board members within the Group**

Name	Group company		Function
Dipl.-Ing. Wolfgang Anzengruber	VERBUND Hydro Power GmbH	Superv. Board, Gen. Mtg.	Chairman
	VERBUND Sales GmbH	General Meeting	Vice-Chairman
	VERBUND Sales Deutschland GmbH	General Meeting	Vice-Chairman
	VERBUND Solutions GmbH	General Meeting	Chairman
Dr. Johann Sereinig	Austrian Power Grid AG	Supervisory Board	Member
	VERBUND Hydro Power GmbH	Supervisory Board	Member
	VERBUND Sales GmbH	General Meeting	Chairman
	VERBUND Sales Deutschland GmbH	General Meeting	Chairman
	VERBUND Services GmbH	General Meeting	Chairman
	VERBUND Solutions GmbH	General Meeting	Vice-Chairman
	VERBUND Trading GmbH	Superv. Board, Gen. Mtg.	Chairman
KELAG-Kärntner Elektrizitäts-AG	Supervisory Board	Member	
Dr. Peter F. Kollmann	Austrian Power Grid AG	Supervisory Board	Chairman
	VERBUND Hydro Power GmbH	Supervisory Board	Member
	VERBUND Services GmbH	General Meeting	Vice-Chairman
	VERBUND Thermal Power GmbH	Superv. Board, Gen. Mtg.	Vice-Chairman
	VERBUND Trading GmbH	Superv. Board, Gen. Mtg.	Vice-Chairman
	SMATRICS GmbH & Co KG	General Meeting	Chairman
	E-Mobility Provider Austria GmbH	General Meeting	Vice-Chairman
Dipl.-Ing. Dr. Günther Rabensteiner	Ennskraftwerke AG	Supervisory Board	Vice-Chairman
	VERBUND Hydro Power GmbH	Supervisory Board	Vice-Chairman
	Innkraftwerke GmbH	Superv. Board, Gen. Mtg.	Chairman
	Grenzkraftwerke GmbH	Superv. Board, Gen. Mtg.	Chairman
	Innwerk AG	Supervisory Board	Chairman
	Donaukraftwerk Jochenstein AG	Supervisory Board	Chairman
	Österreichisch-Bayerische Kraftwerke AG	Supervisory Board	Chairman
	VERBUND Thermal Power GmbH	Superv. Board, Gen. Mtg.	Chairman

### Supervisory board mandates of Executive Board members outside the Group

Name	Company	Function
Dr. Johann Sereinig	FK Austria Wien AG	Member
	APK Pensionskasse AG	Member

### Work procedures and allocation of responsibilities

The Executive Board conducts the Group's business activities and represents it externally.

The rules of procedure govern the allocation of responsibilities and how the members of the Executive Board must work together. In addition, they lay down the Executive Board's duties to notify and report, and contain a list of measures that require approval by the Supervisory Board or its Working Committee. These also include material business transactions executed by the Group's main subsidiaries.

The allocation of responsibilities within the Executive Board is part of the rules of procedure and defines the range of duties of the Executive Board members without prejudice to the overall responsibility of the Executive Board.

### Allocation of responsibilities

Dipl.-Ing. Wolfgang Anzengruber	Chairman; corporate development (strategy, innovation), corporate office (including audit <sup>1</sup> and compliance), communications, legal New business solutions
Dr. Johann Sereinig	Vice-Chairman; energy market and business management, Strategic human resources management Trading, sales, services
Dr. Peter F. Kollmann	Financial management and investor relations Management accounting, corporate accounting and risk management, Mergers & acquisitions Grid
Dipl.-Ing. Dr. Günther Rabensteiner	Generation from hydropower, thermal power, wind power/photovoltaics (Austria and international) Tourism

<sup>1</sup> Audit and the Human Resources Committee are the joint responsibility of the chairman and the vice-chairman.

### Remuneration of members of the Executive Board

Remuneration of the members of the Executive Board totalled €4,293,724 in 2016 (previous year: €4,143,855) including benefits in kind of €150,381 (previous year: €105,924).

### Current remuneration of the Executive Board (incl. variable remuneration)

	in €			
	2015	(of which variable)	2016	(of which variable)
Dipl.-Ing. Wolfgang Anzengruber	1,187,058	(381,175)	1,219,954	(402,505)
Dr. Johann Sereinig	1,135,638	(365,262)	1,167,133	(385,702)
Dipl.-Ing. Dr. Günther Rabensteiner	734,879	(162,887)	752,796	(172,002)
Dr. Peter F. Kollmann	980,357	(217,125)	1,003,460	(229,275)

Because it is only possible to ascertain at the end of the year whether targets have been achieved, variable remuneration components are paid out in the following year. Therefore, the total amount for

2016 includes variable remuneration components granted to members of the Executive Board in the 2016 reporting period for the 2015 reporting period.

Variable remuneration depends upon performance and is limited to a specific percentage of the respective fixed remuneration. For reporting period 2015, this percentage rate ranged between 30% and 50%; the percentage rate ranges between 50% and 70% for the current 2016 reporting period. The level of performance-based remuneration components depends on the extent to which the targets agreed for the financial year are achieved. 50% of the target agreement for the 2015 reporting period related to the attainment of the Group result, 15% to the attainment of free cash flow and 35% to medium-term (two-year and, in some cases, qualitative) targets, such as the attainment of specific cost targets in connection with the VERBUND 2015 project and the marketing campaign (e.g. increasing market share, new products and services, expanding B2B activities). The principles underlying the Executive Board's share of profit were unchanged from the previous year.

A company pension plan has been set up for members of the Executive Board in the form of a defined contribution pension fund agreement. In the 2016 reporting period, contributions to the pension fund were paid for the Executive Board in the amount of €217,045 (previous year: €213,975).

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 the 2016 reporting period, €361,210 (previous year: €384,644) was paid out for pensions and €0 (previous year: €0) for termination benefits in favour of beneficiaries.

Profit or loss for the period included expenses for termination benefits and pensions and similar obligations - i.e. post-employment benefits - in the amount of €46,002 (previous year: €68,313). Expenses for pensions and similar obligations for former members of the Executive Board and their surviving dependants included in the profit or loss for the period amounted to a total of €68,322 (previous year: €100,629).

As in the previous year, no loans or advances were paid out to members of the Group's or subsidiaries' Boards. As in the previous year, neither the members of the Executive Board nor senior management staff of VERBUND have stock options.

#### **Remuneration policy in the subsidiaries**

In essence, the same principles as those described above for the Executive Board apply to the remuneration for the management (managing directors) of the Group's subsidiaries. In addition to the fixed remuneration, variable remuneration is used up to a limited amount; the amount of this variable component depends on attainment of defined targets (Group targets and individual targets). A company pension plan has also been set up in the subsidiaries in the form of a pension fund agreement.

#### **D&O insurance**

VERBUND has taken out pecuniary loss liability insurance in favour of its Boards. This insurance covers the members of the Executive Board and Supervisory Board and the senior management staff of VERBUND AG, as well as all the members of the managing boards, supervisory boards, advisory boards and management, and the authorised signatories and other senior management staff of subsidiaries. The costs are borne by the Group.

## Supervisory Board

The Supervisory Board has also explicitly affirmed its commitment to the Austrian Code of Corporate Governance. Consequently, the Code, together with the Austrian Stock Corporation Act (Aktengesetz, AktG) and the Austrian Commercial Code (UGB), the Austrian Labour Constitutional Act (Arbeitsverfassungsgesetz, ArbVG), the Company's Articles of Association and the rules of procedure for the Executive Board and Supervisory Board, has become the basis for the Supervisory Board's actions.

The statutory provisions specify that the Supervisory Board is comprised of members elected by the Annual General Meeting in accordance with the requirements of the Austrian Stock Corporation Act (shareholder representatives) and members appointed by the employee representatives.

### Personal details, chairpersons and other Board functions

The Supervisory Board is led by a chairperson elected each year by the Supervisory Board from among its members, along with its two vice-chairpersons.

As at 31 December 2016, the Supervisory Board had a total of 15 members. Ten were shareholder representatives elected by the Annual General Meeting and five were employee representatives appointed by the Works Council.

Among the shareholder representatives, there were no changes to the composition of the Supervisory Board in the reporting period. There was one change to the employee representatives as at 1 September 2016: Dr. Isabella Hönlinger and Dipl.-Ing. Hans Pfau were appointed to the Supervisory Board in the place of Dipl.-Ing. Ingeborg Oberreiner and Ing. Joachim Salamon.

Name	Year of birth	Date of initial appointment	End of current term of office
Dr. Gilbert Frizberg Chairman Managing director of FI Beteiligungs- und Finanzierungs GmbH, managing director of Transfer Industries GmbH, managing director of Hereschwerke GmbH, managing partner of Franz Heresch & Co GmbH	1956	16/3/2000	AGM 2020
Prof. Dr. Michael Süß 1st Vice-Chairman CEO of Georgsmarienhütte Holding GmbH; member of the supervisory boards of Herrenknecht AG and Oerlikon AG (chairman of the board of directors); Renova AG (manager); Süß Management Systems and Süß Film (shareholder)	1963	22/4/2015	AGM 2020
Mag. Elisabeth Engelbrechtsmüller-Strauß 2nd Vice-Chairwoman CEO of Fronius International GmbH; member of the board of trustees of the Institute of Science and Technology	1970	22/4/2015	AGM 2020
Mag. Harald Kaszanits Head of Cabinet of the Vice-Chancellor and Federal Minister; Secretary-General for the Federal Ministry of Science, Research and Economy	1963	7/4/2010	AGM 2020

Mag. Dr. Martin Krajcsir CEO of Wiener Stadtwerke Holding AG; member of the supervisory boards of Wiener Stadtwerke Finanzierungs-Services GmbH (chairman), IWS TownTown AG (chairman), B&F Wien – Bestattung und Friedhöfe GmbH (chairman), Wien Energie GmbH (member) and Wiener Netze GmbH (vice-chairman), member of the supervisory board of Burgenland Holding AG	1963	9/4/2014	AGM 2020
Dipl.-Ing. Dr. Peter Layr Spokesman of the managing board of EVN AG; chairman of the supervisory boards of Netz Niederösterreich GmbH, Rohöl-Aufsuchungs AG and RAG-Beteiligungs-AG	1953	13/4/2011	AGM 2020
Mag. Werner Muhm Director of the Vienna Chamber of Labour and the Federal Chamber of Labour (until 30 June 2016); member of the supervisory boards of Wiener Städtische Versicherung, AWH Beteiligungsges.m.b.H., Kommunalkredit Austria AG and KA Finanz AG; member of the General Council of OeNB; member of the managing board of Leopold Museum Privatstiftung	1950	22/4/2015	AGM 2020
Dr. Susanne Riess CEO of Bausparkasse Wüstenrot AG; member of the supervisory boards of Wüstenrot Versicherungs-AG (chairwoman), Wüstenrot stambena štedionica d.d., Croatia (chairwoman), Wüstenrot životno osiguranje d.d., Croatia (chairwoman), Wüstenrot Fundamenta-Lakáskassza Zrt., Hungary (vice- chairwoman), Wüstenrot stavebná sporiteľňa a.s., Slovakia (vice-chairwoman), Wüstenrot poisťovňa a.s., Slovakia (vice- chairwoman) and IHAG Privatbank Zürich (member of the board of directors)	1961	22/4/2015	AGM 2020
Mag. Jürgen Roth Managing partner at Tank Roth GmbH; member of the supervisory boards of ICS Internationalisierungcenter Steiermark GmbH (chairman) and ELG (Erdöl-Lagergesellschaft m.b.H.)	1973	22/4/2015	AGM 2020
Christa Wagner Managing partner at Josko Immobilien GmbH; member of the supervisory board of Eurosun a.s., shareholder in Josko Holding Gesellschaft m.b.H.	1960	7/4/2010	AGM 2020

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

### Employee representatives

Name	Year of birth	Date of initial appointment	
Anton Aichinger Chairman of the Group's employee representatives	1955	since 25/10/2006	appointed by the employee representatives
Kurt Christof Chairman of the Central Works Council Member of the supervisory boards of Stadtwerke Voitsberg GmbH (vice-chairman) and of Sparkasse Voitsberg/Köflach Bankaktiengesellschaft	1964	since 8/3/2004	appointed by the employee representatives
Dr. Isabella Hönlinger Chairwoman of the Works Council	1971	since 1/9/2016	appointed by the employee representatives
Ing. Wolfgang Liebscher Chairman of the Central Works Council	1966	since 1/11/2013	appointed by the employee representatives
Dipl.-Ing. Ingeborg Oberreiner Chairwoman of the Works Council	1951	from 29/8/2006 until 1/9/2016	appointed by the employee representatives
Dipl.-Ing. Hans Pfau Chairman of the Works Council	1953	since 1/9/2016	appointed by the employee representatives
Ing. Joachim Salamon Member of the Central Works Council	1956	from 25/10/2006 until 1/9/2016	appointed by the employee representatives

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

### Independence

In 2010, the Supervisory Board of VERBUND AG defined the following criteria for its independence (pursuant to C Rule 53 of the Austrian Code of Corporate Governance):

- “The Supervisory Board member shall not have served as a member of the Executive Board or as a member of the senior management staff of the Company or one of its subsidiaries in the past five years.
- The Supervisory Board member shall not maintain or have maintained in the past year any business relationships with the Company or one of its subsidiaries to an extent that would be significant to the member of the Supervisory Board. This shall also apply to relationships with companies in which the member of the Supervisory Board has a considerable economic interest, but not to exercising functions on the boards of the Group. The approval of individual transactions by the Supervisory Board pursuant to L Rule 48 shall not automatically mean that the person is deemed not to be independent.
- The Supervisory Board member shall not have acted as auditor of the Company or have owned a share in the audit firm or have worked there as an employee in the past three years.
- The Supervisory Board member shall not be a member of the managing board of another company in which a member of the Executive Board of the Company is a supervisory board member.

- The Supervisory Board member may not remain on the Supervisory Board for more than 15 years. This shall not apply to Supervisory Board members who are shareholders with a direct equity interest in the Company or who represent the interests of such a shareholder.
- The Supervisory Board member shall not be a close relative (direct descendant, spouse, life partner, parent, uncle, aunt, sibling, niece, nephew) of a member of the Executive Board or of persons who hold one of the aforementioned positions.”

Based upon these guidelines for independence (Annex to the Austrian Code of Corporate Governance), all ten shareholder representatives have issued a written statement on their independence. Seven of them have declared their independence, and three members of the Supervisory Board have classified themselves as not being independent (in each case with respect to only one criterion; Frizberg with respect to length of membership of the Supervisory Board, Krajcsir and Layr with respect to the “relationships with related parties” criterion).

In addition, the following shareholder representatives meet the criteria for independence contained in C Rule 54 (not representing the interests of a shareholder with a stake of more than 10%): Frizberg, Süß, Engelbrechtsmüller-Strauß, Muhm, Riess, Roth and Wagner. Both quotas required for independence by Rule 53 and Rule 54 of the Code are thus met.

### Meetings of the Supervisory Board

Seven plenary meetings of the Supervisory Board were held during financial year 2016. The overall attendance rate of all Supervisory Board members was 89%. No member of the Supervisory Board attended fewer than half of the meetings in person.

In addition to coordinating the ongoing strategic direction of the Company with the Executive Board, the Supervisory Board focused on decisions relating to the following topics in particular during the reporting period:

- consolidated financial statements and annual financial statements of VERBUND AG for 2015;
- motions for the Annual General Meeting;
- proposal for profit appropriation in accordance with Section 96(1) of the Stock Corporation Act (AktG);
- election of the General Committee of the Supervisory Board and constitution of the committees;
- appointment of the auditor;
- policy decision to review all options for the Mellach power plant;
- approval of the investment plan for the Lower Tuxbach transfer line project;
- approval for the sale of the photovoltaic farms in Spain;
- approval for capital measures in the Romanian VERBUND wind power companies;
- approval of the granting of signatory authority;
- resolution on tender for auditor;
- approval of agreements with entities that are related parties of Supervisory Board members; and
- approval of the Group’s budget for 2017.

(Please also refer to the activities focused upon by the Supervisory Board’s committees.)

Each year during the audit of the financial statements, the auditor provides the Supervisory Board with a separate report on the reliability of the risk management system. This includes sustainability risks

as well as the written quarterly reports on operating risk management which the Supervisory Board discusses at each of its meetings.

In addition to the meetings of the Supervisory Board and its committees (see below), weekly discussions or teleconferences took place between the chairman of the Supervisory Board and the Chairman of the Executive Board as well as individual discussions with individual members of the Executive Board.

#### **Evaluation of Supervisory Board activity**

The performance of the Supervisory Board is evaluated annually during the Annual General Meeting, at which the shareholders vote to formally approve the actions of the Supervisory Board. At the 69th Annual General Meeting on 13 April 2016, the actions of all Supervisory Board members were formally approved.

As required by the Austrian Code of Corporate Governance (Rule 36), the Supervisory Board also evaluates its activities, in particular its organisation and work procedures, itself. This self-evaluation was conducted in 2016 on the basis of an extensive questionnaire. The results of the evaluation were presented and discussed by the Supervisory Board at its next meeting. As part of this, the Supervisory Board considered the implementation of some suggestions for further improvements.

#### **Composition and work procedures of the Committees**

According to the Supervisory Board's rules of procedure, the Supervisory Board shall, following the Annual General Meeting, annually elect a Working Committee that will simultaneously function as the Emergencies Committee, an Audit Committee, a General and Remuneration Committee and a Nomination Committee.

Each chairperson of a committee is required to report to the Supervisory Board on the work of the committee he or she chairs and on its decisions. In urgent cases, the chairperson of a committee is required to report in advance to the Chairman of the Supervisory Board.

#### **Working Committee/Emergencies Committee**

The Working Committee consists of the chairperson, the two vice-chairpersons and three additional members of the Supervisory Board, elected by the Supervisory Board. The membership of employee representatives is governed by Section 92(4) of the Austrian Stock Corporation Act (AktG).

The Working Committee

- is required to prepare the meetings of the Supervisory Board and to assist the Supervisory Board in the continuous monitoring of the Company's management without prejudice to the rights of the Supervisory Board pursuant to Section 95 of the Austrian Stock Corporation Act (AktG); and
- acts as the Emergencies Committee (Rule 39 of the Austrian Code of Corporate Governance).

The Supervisory Board has permanently assigned to the Working Committee responsibility for the matters that are subject to approval as laid down in Annex 2 of the Executive Board's rules of procedure.

The chairperson is required to make the necessary preparations for rapid decision-making on matters that fall within the remit of the Emergencies Committee or are referred to that committee for a decision (convening a meeting at short notice, video conferences). The grounds for urgency must be stated. If necessary, the Working Committee can assign decision-making authority to its chairperson in a specific instance.

The Emergencies Committee makes decisions on all matters for which an immediate Supervisory Board decision is needed to gain economic advantages or to avoid impending financial losses.

The Chairman of the Supervisory Board chairs the Working Committee, and in the event that he or she is unable to attend, the vice-chairpersons chair the Committee in the selected sequence.

#### Members of the Working Committee

Name	Function
Dr. Gilbert Frizberg	Chairman
Prof. Dr. Michael Süß	1st Vice-Chairman
Mag. Elisabeth Engelbrechtsmüller-Strauß	2nd Vice-Chairwoman
Mag. Harald Kaszanits	Member
Mag. Werner Muhm	Member
Christa Wagner	Member
Anton Aichinger	Employee representative
Kurt Christof	Employee representative
Dipl.-Ing. Ingeborg Oberreiner (until 1/9/2016)	Employee representative
Dipl.-Ing. Hans Pfau (from 1/9/2016)	Employee representative

The Supervisory Board's Working Committee met four times during financial year 2016. The activities of the Working Committee focused on:

- preparing for Supervisory Board meetings;
- reports by the Executive Board pursuant to rules of procedure;
- application concerning acquisition of shares in two wind power companies (Romania); and
- subsidiary reporting.

#### Audit Committee

The Audit Committee was established pursuant to Section 92(4a) of the Austrian Stock Corporation Act (AktG) and was included in the Supervisory Board's rules of procedure in 2013 as an independent committee within the Supervisory Board (an offshoot of the Working Committee). It consists of the chairperson, the two vice-chairpersons and three additional members of the Supervisory Board, elected by the Supervisory Board.

The membership of employee representatives is governed by Section 92(4) of the Austrian Stock Corporation Act (AktG).

The Audit Committee performs the tasks under Section 92(4a) of the Austrian Stock Corporation Act (AktG) and Rule 40 of the Austrian Code of Corporate Governance. It has the financial expert required by law and by the Code at its disposal, who is also the chairperson of the committee.

### Members of the Audit Committee

Name	Function
Mag. Elisabeth Engelbrechtsmüller-Strauß	Chairwoman
Dr. Gilbert Frizberg	1st Vice-Chairman
Prof. Dr. Michael Süß	2nd Vice-Chairman
Mag. Harald Kaszanits	Member
Mag. Werner Muhm	Member
Christa Wagner	Member
Anton Aichinger	Employee representative
Kurt Christoph	Employee representative
Dipl.-Ing. Ingeborg Oberreiner (until 1/9/2016)	Employee representative
Dipl.-Ing. Hans Pfau (from 1/9/2016)	Employee representative

The Supervisory Board's Audit Committee met three times during financial year 2016. The activities of the Audit Committee focused on:

- preparing the resolution on the annual financial statements for 2015, including appropriation of profit;
- making a proposal for the election of the auditor;
- the semi-annual financial statements for 2016;
- monitoring financial reporting processes;
- internal control, audit and risk management systems;
- impairment losses as at 30 June 2016 and areas of emphasis for the 2016 audit (auditor);
- internal audit's audit programme and audit reports; and
- tender for auditor for 2017 and later.

### General and Remuneration Committee

According to its rules of procedure, the Supervisory Board is required to appoint a General and Remuneration Committee made up of the chairperson and the two vice-chairpersons. The Supervisory Board has permanently assigned responsibility for the following matters to this committee:

- entering into and amendment of contracts with members of the Executive Board;
- determination of Executive Board member remuneration; and
- decisions on management bonuses and premiums for members of the Executive Board.

### Members of the General and Remuneration Committee

Name	Function
Dr. Gilbert Frizberg	Chairman
Prof. Dr. Michael Süß	1st Vice-Chairman
Mag. Elisabeth Engelbrechtsmüller-Strauß	2nd Vice-Chairwoman

With Dr. Frizberg, the Remuneration Committee has the expert required by Rule 43 of the Austrian Code of Corporate Governance at its disposal. The General and Remuneration Committee met two times during financial year 2016. The meetings dealt with the agreements on target and the variable remuneration components of the members of the Executive Board.

### Nomination Committee

According to its rules of procedure, the Supervisory Board is required to appoint a Nomination Committee consisting of the chairperson and two vice-chairpersons. Employee co-determination is governed by Section 92(4) of the Austrian Stock Corporation Act (AktG).

The Nomination Committee submits proposals to the Supervisory Board on appointments to the Executive Board and is responsible for preparing the election of Supervisory Board members. The Nomination Committee is required to take account of the fact that a candidate's final nomination for the Executive Board must take place before the nominee's 65th birthday.

### Members of the Nomination Committee

Name	Function
Dr. Gilbert Frizberg	Chairman
Prof. Dr. Michael Süß	1st Vice-Chairman
Mag. Elisabeth Engelbrechtsmüller-Strauß	2nd Vice-Chairwoman
Anton Aichinger	Employee representative
Ing. Wolfgang Liebscher (from 1/9/2016)	Employee representative
Dipl.-Ing. Ingeborg Oberreiner (until 1/9/2016)	Employee representative

The Nomination Committee did not meet during financial year 2016.

### Contracts requiring consent – conflicts of interest

In financial year 2016, the following contracts and/or transactions approved by the Supervisory Board of VERBUND AG in accordance with the Austrian Stock Corporation Act (AktG) and the Austrian Code of Corporate Governance (Rule 49) existed between the VERBUND Group and individual Supervisory Board members or companies with which Supervisory Board members have close relationships:

#### Supervisory Board member Dr. Gilbert Frizberg

In the reporting period, the Supervisory Board issued a general consent for Global Hydro Energy GmbH, of which Dr. Gilbert Frizberg holds a controlling interest, to participate in tenders of VHP concerning supplies of electromechanical power plant equipment. Actual contract awards must be reported to the Supervisory Board. No contracts were awarded to Global Hydro Energy GmbH in financial year 2016.

#### Supervisory Board member Mag. Elisabeth Engelbrechtsmüller-Strauß

The general authorisation issued by the Supervisory Board in 2015 for the supply of inverters by the Fronius Group (through external intermediaries or SOLAVOLTA, in which VERBUND owns a 50% stake) in the amount of €600k per year and for the supply of small devices to VERBUND companies in the amount of €60k per year was only partially utilised in financial year 2016. Mag. Elisabeth Engelbrechtsmüller-Strauß is CEO of the Fronius Group.

#### Supervisory Board member Mag. Dr. Martin Krajcsir

A number of contractual relationships, some of many years standing, exist between VERBUND and the Wiener Stadtwerke Group, of which Mag. Dr. Martin Krajcsir is CEO. These had already been entered into before Mag. Dr. Krajcsir became a member of the Supervisory Board. The business transacted

under these contracts and their volume are reported to the Supervisory Board on an annual basis. In financial year 2016, an order volume totalling €1.5m was processed on the basis of existing contracts (excluding transactions with grid subsidiary APG). This primarily involved invoices for electricity and grid fees for VERBUND companies. In addition, contractual relationships for the supply of electricity exist with e&t Energie HandelsgmbH, in which Wiener Stadtwerke holds a 45% interest.

#### **Supervisory Board member Dipl.-Ing. Dr. Peter Layr**

A number of contractual relationships, some of which have been in existence for many years, exist between VERBUND and EVN, of which Dr. Peter Layr is spokesman of the managing board. These had already been entered into before Dr. Layr became a member of the Supervisory Board. The business transacted under these contracts and their volume are reported to the Supervisory Board on an annual basis. In financial year 2016, an order volume totalling €1.2m was processed on the basis of existing contracts (excluding transactions with grid subsidiary APG). These primarily involved electricity, gas or grid purchases, usage fees and other payments and recharging of costs for various VERBUND companies. In addition, contractual relationships for the supply of electricity exist with e&t Energie HandelsgmbH, in which EVN holds a 45% interest.

In 2016, the Supervisory Board also pre-approved the sale by VTP of a main transformer from the Dürnröhr power plant to EVN at a price of €4m. This sale was not completed by the end of the year.

#### **Supervisory Board member Mag. Jürgen Roth**

In 2015, the Supervisory Board approved a contract for the supply of electricity from VSA for filling stations of Tank Roth GmbH with an estimated order volume of €170k per year from 2016. The contract runs until the end of 2018. The actual supply in 2016 was below the level agreed. Mag. Jürgen Roth is managing partner at Tank Roth GmbH.

In financial year 2016, the Supervisory Board also looked in detail at possible (other) conflicts of interest involving Supervisory Board members that could have resulted from activities or equity interests in the energy sector in particular. During this process, individual members referred to involvements or equity interests already disclosed in the previous year, primarily in the small hydropower plant segment, none of which had changed. All other Supervisory Board members confirmed that no conflicts of interest existed on their parts which would indicate reporting or disclosure. According to the assessment of the Supervisory Board, none of the disclosed activities involve a fundamental conflict of interest that would require further measures. Should such conflicts arise in future, suitable measures, such as abstention from voting or from providing advice and voting on individual agenda items, will have to be implemented promptly.

#### **Remuneration of members of the Supervisory Board**

The remuneration of the members of the Supervisory Board (including reimbursement of costs/travel expenses recharged) amounted to a total of €387,329 in 2016 (previous year: €312,665).

At the Annual General Meeting held on 17 April 2013, the following remuneration scheme was adopted for members of the Supervisory Board. This establishes the annual remuneration for the members elected by the Annual General Meeting and the attendance fees (for all members).

<b>Remuneration scheme for the Supervisory Board</b>	in €
Annual remuneration	
Chairperson	25,000
Vice-chairperson	15,000
Member	10,000
Attendance fee	500

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

Specifically, the following remuneration was paid to the members of the Supervisory Board for financial year 2016:

<b>Remuneration of Supervisory Board members</b>	in €	
<b>Name (without title)</b>	<b>Annual remuneration</b>	<b>Attendance fees</b>
Gilbert Frizberg, Chairman	65,000	7,000
Michael Süß, Vice-Chairman	45,000	4,500
Elisabeth Engelbrechtsmüller-Strauß, Vice-Chairwoman	55,000	6,500
Harald Kaszanits	30,000	7,000
Martin Krajcsir	10,000	3,500
Peter Layr	10,000	3,000
Werner Muhm	30,000	6,500
Susanne Riess	10,000	3,500
Jürgen Roth	10,000	3,000
Christa Wagner	30,000	5,500
<i>Employee representatives</i>		
Anton Aichinger	–	7,000
Kurt Christof	–	7,000
Isabella Hönlinger	–	1,000
Wolfgang Liebscher	–	3,000
Ingeborg Oberreiner	–	5,000
Hans Pfau	–	2,000
Joachim Salamon	–	2,000

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.

## Annual General Meeting

At the Annual General Meeting, which is held at least once a year, shareholders exercise their rights and their voting power. Under their right to request information and propose motions, all shareholders have the opportunity to engage in dialogue with the Executive Board and the Supervisory Board and to express their opinions and state their concerns.

The main tasks and responsibilities of the Annual General Meeting include deciding on the appropriation of profit, electing the Supervisory Board, electing the auditor, formally approving the actions of the Executive Board and the Supervisory Board and making amendments to the Articles of Association.

The agenda for the 69th Annual General Meeting held on 13 April 2016, the resolutions adopted and the voting results can be viewed on the website at [www.verbund.com](http://www.verbund.com) > Investor Relations > General Meeting.

Further information on the Annual General Meeting is available in the Disclosures on Management Approach (DMA) at [www.verbund.com](http://www.verbund.com) > Investor Relations > Financial reports

## Measures for the advancement of women

(Section 243b(2)(2) of the Austrian Commercial Code, UGB)

In accordance with its commitment to sustainable management, VERBUND addresses issues of social relevance such as equal opportunity in the workplace. VERBUND treats all its employees equally, regardless of their gender, age, religious beliefs, disability, culture, skin colour, social origins, sexual orientation or nationality. Decisive action is taken against any form of discrimination or harassment.

Since the selection of Supervisory Board members is solely the responsibility of the Annual General Meeting, the Executive Board has little influence on whether there are any women on the Supervisory Board of VERBUND AG. With Elisabeth Engelbrechtsmüller-Strauß, Susanne Riess, Christa Wagner and Isabella Hönlinger (as employee representative), the Supervisory Board of VERBUND AG has four women members, which equates to a female membership of 26.7%.

As at 31 December 2016, seven women held management positions within the Group (first and second levels of management). The percentage of women in management positions is therefore 8.3%. The percentage of women among employees throughout the Group is 17.5%. Since 2012, one female executive has been afforded the opportunity to perform her duties on a part-time basis.

In order to ensure that the company diversity management system is permanently integrated into and established within the Group, all equal opportunity agendas will be fully executed by the Diversity & Inclusion manager.

VERBUND promotes women through a variety of measures, listed here as examples:

- The VERBUND women's network addresses the ongoing development of a sustainable strategy for the advancement of women within VERBUND.
- Each year, VERBUND awards a scholarship to highly qualified women studying technical subjects.
- In 2015, VERBUND received the amaZone Award in the "Public and Quasi-Public Companies" category.
- Each year, VERBUND takes part in Take Your Daughter to Work Day to promote technical careers to girls while they are still at school and awaken their interest in the fascinating technical professions.
- In 2015, VERBUND received the Work and Family Audit certificate for the third time.
- On a regular basis, VERBUND prepares an income report comparing the salaries of men and women.

Detailed information on measures to advance women can be found in the annual report in the section entitled Human resources and social responsibility

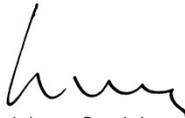
- Participation in the “Zukunft.Frauen” (Women.Future) executive personnel programme is another specific measure in this direction. This programme was initiated by the Austrian Federal Ministry of Science, Research and Economy, the Austrian Economic Chamber and the Federation of Austrian Industries. Its goal is to support women on their way to the top and to boost their confidence in their ability to hold management positions.

Vienna, 16 February 2017

The Executive Board



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



Dr. Johann Sereinig  
Vice-Chairman of the Executive Board



Dipl.-Ing. Dr. Günther Rabensteiner  
Member of the Executive Board



Dr. Peter F. Kollmann  
Member of the Executive Board

## External audit

VERBUND once again had an independent auditor carry out a voluntary external evaluation of compliance with the provisions of the Austrian Code of Corporate Governance and the accuracy of the reporting on it for financial year 2016.

### Audit opinion

In our opinion, based upon the results of our evaluation, the Executive Board's Declaration of Conformity correctly represents the implementation of the recommendations of the Austrian Code of Corporate Governance published by the Austrian Working Group for Corporate Governance at VERBUND AG during financial year 2016. Furthermore, the Consolidated Corporate Governance Report of VERBUND AG for the financial year ended 31 December 2016 complies with the legal requirements in Section 243b and Section 267a of the Austrian Commercial Code (UGB) as well as the requirements of the Austrian Code of Corporate Governance, and the statements made therein are accurate.

Vienna, 16 February 2017

Ernst & Young  
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Elfriede Baumann e.h.  
Certified Public Accountant

p.p.a. Mag. Gerald Steckbauer e.h.  
Certified Public Accountant