

Smart Power. Sustainable solutions for the future of energy.

VERBUND Integrated Annual Report

This report combines our annual financial report and our sustainability report.

How should this report be used?

The information in this integrated report focuses on the main aspects of economic, environmental and social performance.

Additional information about the content presented here can be found

- in the Disclosures on Management Approach (DMA) at www.verbund.com > Investor Relations > Financial reports,
- in the GRI content index at www.verbund.com > About VERBUND > Responsibility > Non-financial Information,
- in the NFI download at www.verbund.com > About VERBUND > Responsibility > Non-financial Information and
- on other web pages referred to separately.

GRI indicators in the margin notes refer to the corresponding content in the text.

The integrated annual report is also available online at www.verbund.com > Investor Relations > Financial reports.

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

Design concept for charts and tables

Column/bar width

 Wide columns or bars represent measurement parameters that can be physically counted.
Examples: MW, GWh, employees

 Medium columns or bars represent aggregate amounts.
Examples: €k, €m, €bn

 Narrow columns or bars represent amounts in euros per unit.
Examples: €/share, €/MWh

 Lines or dotted lines represent shares, quotients or indices.
Examples: dividend yield in %, indexed share price, GDP growth in %

Colours

-  Current year
-  Neutral
-  Previous years
-  Budgeted figures
-  VERBUND
-  Emphasis

Five-year comparison

	Unit	2013 ⁵	2014 ⁵	2015	2016	2017
Revenue ¹	€m	3,266.5	2,880.4	2,969.6	2,795.9	2,913.2
EBITDA	€m	1,301.4	808.8	888.7	1,044.2	922.3
Adjusted EBITDA ²	€m	1,159.6	889.6	838.8	894.5	899.7
Operating result (EBIT)	€m	148.3	384.4	410.6	615.1	400.1
Operating result before effects from impairment tests	€m	932.7	423.5	528.6	704.9	581.0
Profit/loss after tax from discontinued operations ³	€m	-364.2	25.1	-	-	-
Group result	€m	579.6	126.1	207.7	424.4	301.4
Adjusted Group result ²	€m	384.2	216.0	268.9	325.9	354.5
Total assets	€m	12,883.4	12,247.3	11,763.0	11,538.2	11,283.6
Equity	€m	5,552.9	5,280.5	5,433.3	5,529.5	5,690.8
Net debt	€m	3,706.3	4,059.6	3,685.4	3,221.7	2,843.8
Additions to property, plant and equipment (without business acquisition)	€m	579.1	412.3	269.3	255.3	231.0
Cash flow from operating activities	€m	841.4	717.6	674.0	804.3	640.6
Free cash flow before dividends	€m	852.2	284.7	551.4	580.7	416.1
EBITDA margin ¹	%	39.8	28.1	29.9	37.3	31.7
EBIT margin ¹	%	4.5	13.3	13.8	22.0	13.7
Return on capital employed (ROCE)	%	4.8	3.2	3.9	5.7	4.2
Return on equity (ROE)	%	12.1	3.3	4.7	8.4	5.4
Equity ratio (adjusted)	%	44.5	44.7	48.2	50.0	52.4
Gearing	%	66.7	76.9	67.8	58.3	50.0
Net debt/EBITDA	X	2.8	5.0	4.1	3.1	3.1
FFO/Net debt (Net Debt Coverage)	%	33.6	18.2	23.9	32.1	30.0
Gross debt coverage (FFO)	%	26.0	16.1	22.8	30.4	28.1
Gross interest cover (FFO) ⁴	X	5.5	2.8	5.2	8.7	8.1
Closing price	€	15.52	15.30	11.86	15.18	20.15
Market capitalisation	€m	5,390.2	5,313.7	4,120.4	5,272.0	6,998.7
Earnings per share	€	1.67	0.36	0.60	1.22	0.87
Cash flow per share	€	2.42	2.07	1.94	2.32	1.84
Carrying amount per share ⁶	€	14.00	13.26	13.75	14.05	14.58
Price/earnings ratio (last trading day)	X	9.30	42.14	19.83	12.42	23.22
Price/cash flow ratio	X	6.41	7.41	6.11	6.55	10.93
Price/book value ratio ⁶	X	1.11	1.15	0.86	1.08	1.38
(Proposed) dividend per share	€	0.55	0.29	0.35	0.29	0.42
(Proposed) special dividend per share	€	0.45	-	-	-	-
Dividend yield	%	6.4	1.9	3.0	1.9	2.1
Payout ratio from Group result	%	59.9	79.9	58.5	23.7	48.4
Entity Value/EBITDA	X	7.0	11.6	8.8	8.1	10.7
Average number of employees		3,351	3,245	3,089	2,923	2,819
Electricity sales volume	GWh	50,276	50,823	51,375	55,189	58,518
Hydro coefficient		1.07	1.02	0.93	1.00	0.99

¹ The calculation was adjusted retrospectively in accordance with IAS 8 in financial year 2015 with effect from 1 January 2014. // ² adjusted for extraordinary effects. // ³ Profit/loss after tax from discontinued operations corresponds to the profit/loss after tax attributable to the French equity interests Pont-sur-Sambre Power S.A.S. and Toul Power S.A.S. that were classified as held for sale until their deconsolidation on 13 October 2014. // ⁴ interest expenses without profit/loss attributable to limited partners. // ⁵ The calculation of the key performance indicators includes profit/loss after tax from discontinued operations. // ⁶ The calculation was adjusted retrospectively in accordance with IAS 8 in financial year 2017.

Environmental performance

	Unit	2013	2014	2015	2016	2017
Hydropower generation ¹	GWh	30,943	31,188	28,098	29,809	29,687
Wind power generation	GWh	565 ²	811 ²	882 ²	835 ²	952
Thermal power generation	GWh	4,031	2,031	2,259	1,351	2,227
Share of generation from renewables	%	89	94	93	96	93
Specific GHG emissions (Scope 1/total electricity generated) ³	g CO ₂ e/kWh	78	52	56	31	41
Emissions avoided through renewable generation ⁴	kt CO ₂	25,523	25,921	24,167	25,457	23,666
Percentage of sites certified to ISO 14001 and EMAS ⁵	%	90	92	93	93	100

Social performance

	Unit	2013	2014	2015	2016	2017
Number of employees under labour law ⁶	Number	3,435	3,265	3,098	2,952	2,819
Training per employee ⁷	Hours	38.4	29.6	33.6	35.2	36.0
Lost time injury frequency (LTIF) ⁸	Number	9.3	11.5	11.9	8.9	10.1
Proportion of women	%	18.4	17.8	17.8	17.5	17.5
Average duration of employment ⁹	Years	17.7	17.0	19.2	18.9	18.8
Employee turnover rate ¹⁰	%	2.6	2.7	2.7	2.7	2.8

¹ incl. purchase rights // ² incl. the solar power generated in Spain that was available until the sale of our Spanish activities in mid-December 2016 // ³ total electricity generated incl. purchase rights excluding generation of district heating; preliminary data prior to audit // ⁴ calculation using the share of thermal generation based on ENTSO-E mix // ⁵ sites of consolidated companies, excluding wind power plants if the operating company is certified and sites in which VERBUND has a share of < 51% and where another co-owner is responsible for management; position as at 31 December // ⁶ as at 31 December, excl. members of the Executive Board and employees in early retirement // ⁷ incl. executives and long-term agency staff, excl. apprentices, apprentices in post qualification retention period (Behaltfristen), employees seconded to third parties and those on long-term leave; excluding safety instruction // ⁸ ratio of workplace injuries from the first day of leave to million working hours; excl. injuries only requiring first aid measures. Beginning in 2017, the basis for calculating the working hours is defined for the industry at 1,740 (previously 1,618). // ⁹ Change in calculation method in 2016: personnel from acquired and newly consolidated companies are included in the duration of employment with the acquired/consolidated company and no longer in the duration of employment with the VERBUND Group. // ¹⁰ excl. retirements, including employees leaving during their probationary period

GRI 102-7

Basic information

Share capital (€)	347,415,686
Shares (number)	347,415,686
Official quotation	
Vienna	VER
Information systems	
Bloomberg	VER AV
Reuters	VERB.VI
ISIN	AT0000746409

Capital market calendar 2018

Event	Date
Annual result 2017	14/3/2018
Publication of integrated annual report	14/3/2018
Record date for Annual General Meeting	13/4/2018
Annual General Meeting	23/4/2018
Ex-dividend date	30/4/2018
Record date for dividends	2/5/2018
Dividend payment date	11/5/2018
Interim report quarter 1/2018	9/5/2018
Interim report quarters 1–2/2018	26/7/2018
Interim report quarters 1–3/2018	7/11/2018

VERBUND
Integrated Annual Report 2017

Contents

Information about the integrated report	7
Report of the Executive Board	9
Report of the Supervisory Board	12
The VERBUND Group and its strategy	16
VERBUND's integrated corporate strategy	18
Corporate objectives	19
Investor relations	20
Consolidated Corporate Governance Report	23
Group management report	43
General conditions	44
Finance	53
Segment report	68
Renewable generation	68
Sales	75
Grid	84
All other segments	92
Opportunity and risk management	100
Internal control and risk management system	103
Shareholder structure and capital information	104
Innovation, research and development	106
Outlook	110
Events after the reporting date	112
Report on Non-financial Information (NFI Report)	113
Materiality and stakeholder engagement	115
Compliance	124
Environmental performance	127
Human resources and social responsibility	134
Human rights	148
Supply chain	149
Independent Statement	152
Consolidated financial statements	156
Income statement	157
Statement of comprehensive income	158
Balance sheet	159
Statement of changes in equity	160
Cash flow statement	162
Notes	164
Auditor's report	278
VERBUND power plants and APG grid facilities	285
Glossary	289

Information about the integrated report

This integrated annual report contains the Group management report published by VERBUND for financial year 2017, the Group report on non-financial information (NFI Report) and the Group's consolidated financial statements, including the notes to the consolidated financial statements. We have laid out the principles of fair enterprise management that we follow in our corporate governance report. This integrated annual report thus not only presents the Group's financial and legal information but also deals with further aspects of sustainability and proper conduct of business operations.

GRI 102-46, GRI 102-48

The report covers the activities of all of the companies included in the Group's consolidated financial statements. It also includes sustainability reporting. Changes in reporting from the prior-year period are noted in the respective sections. Significant events occurring at unconsolidated companies are also presented to provide a complete picture of the Group.

The reporting period comprises the 2017 calendar year. The most current preceding report for the 2016 financial year was published on 8 March 2017. To ensure that our report is up to date, we also report on any major events occurring at VERBUND between the end of the reporting period and approval of the annual report for issue on 15 February 2018. Supplementary information on sustainability topics is available in our Disclosures on Management Approach (DMA) document and on our website at www.verbund.com > About VERBUND > Responsibility > Non-financial Information.

GRI 102-50, GRI 102-51, GRI 102-52

Integrated report focuses on stakeholder interests

Investors, owners, customers, employees and other interest groups all require different types of information. The VERBUND materiality matrix summarises the relevant information. The sustainability-related contributions to VERBUND's integrated annual report are updated annually on the basis of the materiality analysis conducted in accordance with the Global Reporting Initiative (GRI), media analyses and material topics relating to stakeholder engagement.

The materiality analysis is presented in the section entitled Materiality and stakeholder engagement

Reporting pursuant to the Austrian Sustainability and Diversity Improvement Act (NaDiVeG)

Our Non-Financial Report, which is included in this integrated annual report, compiles the disclosures required by the Austrian Sustainability and Diversity Improvement Act (Nachhaltigkeits- und Diversitätsverbesserungsgesetz, or NaDiVeG), which implements Directive 2014/95/EU regarding the disclosure of non-financial and diversity information (Non-Financial Reporting (NFR) Directive). Such disclosures relate in particular to environmental matters, social and employee-related matters, respect for human rights and anti-corruption matters. Our auditor reviews the Non-Financial Report for completeness and records the outcome in an independent statement that is presented to the Supervisory Board.

The Supervisory Board reviews the Non-Financial Report and then reports on its findings to the General Meeting.

GRI 102-32

Standards and guidelines

All data and calculations taken for this integrated annual report are based on national and international standards as well as on guidelines for financial reporting (including the International Financial Reporting Standards (IFRSs)) and sustainability reporting (the 2016 Global Reporting Initiative Standards and the G4 Electric Utilities Sector Disclosures). This report was prepared in accordance with the "Core" option of the GRI Standards. The current GRI table of contents is published on the VERBUND website.

GRI 102-54, GRI 102-55

Information about the methods, standards and factors used and the assumptions made in the calculation of key performance indicators (KPIs) is available from the Group's Investor Relations and Sustainability departments at any time upon request.

External audit

The consolidated financial statements, the Group management report, the NFI Report and key GRI indicators in this report were audited by independent auditor Deloitte Audit Wirtschaftsprüfungs GmbH.

GRI 102-56
Please refer to the
Auditor's Report and the
Independent Statement

Report of the Executive Board

Ladies and Gentlemen,

In financial year 2017, VERBUND again succeeded in building on its position as a profitable, almost exclusively carbon-free European energy producer and service provider thanks to the clear strategic approach pursued by the Group in past financial years, coupled with consistent implementation of sustainable restructuring and efficiency improvement measures. We strengthened our strategic positioning along all stages of the value chain and refined our business model to reflect new developments, particularly the trend towards digitalisation.

GRI 102-14

In our core business, we at VERBUND focus on the generation from hydropower, trading with and sale of power and other energy sources, in addition to operation of the high-voltage grid. Four strategic priorities guide us in this. Firstly, we focus on our core markets in Austria and Germany and generate almost exclusively carbon-free electricity from low-cost hydropower. In addition, as an environmentally friendly supplier of green electricity and flexible products, we play an important part in balancing out increasing grid volatility with our flexible power plant portfolio, which includes pumped storage power plants, storage power plants and our Mellach combined cycle gas turbine power plant. Thirdly, our transmission grid ensures a secure supply of electricity in Austria, in support of which we are advocating implementation of the network development plan. And, finally, we have positioned ourselves as a solutions-focused provider to industrial and household customers and a driver of e-mobility.

To strengthen our free cash flow for the long term and advance the Group's debt reduction efforts, we have continued to implement our programmes to reduce costs and increase efficiency. We also lowered capital expenditure, without putting our asset base at risk, and are focusing on implementing projects that generate regulated income. We have also adjusted our dividend policy by reducing the payout ratio. Our focus on free cash flow has enabled us to decrease debt levels by around one billion euros in recent years and stabilise the Group's earnings situation, despite the difficult market climate.

Improved energy market environment. The changes occurring in the energy market during the past financial year have proven to be quite favourable for our Group. For one thing, wholesale electricity prices – which are a key value driver for the economic performance of our Group – began rising sharply at the start of the second half of 2017 due to higher prices for primary energy sources, especially hard coal. Prices for CO₂ emission rights were also higher. The European electricity market remains challenging, however. Reorganising the electricity market involves incorporating a growing number of renewable technologies and an increasingly decentralised generation structure in addition to meeting the new requirements for power grids and storage capacity.

Hydropower – the backbone of our success. We focus on cost-effective carbon-free electricity generation from hydropower. Our run-of-river power plants are able to easily cover the steadily increasing demand for renewable base load energy. We deploy our pumped storage power plants at times of high volatility, which allows us to meet the growing demand for flexible electricity generation. Investments in maintenance and growth capex keep our plant and equipment in good working order. We also invest in projects relating to water rights and our strategic goals, always adhering to strict profitability criteria. In recent years, we have been working to advance decarbonisation at VERBUND. We decommissioned our Neudorf-Werndorf and Dürnrrohr thermal power plants, for example, and settled various outstanding issues with EconGas GmbH relating to gas deliveries. The Mellach combined cycle

gas turbine power plant supports our pumped storage power plants in providing flexible products, especially congestion management and control power, for stabilising the grid both in and outside of Austria.

Successful positioning in the market. In addition to optimally marketing its supply of own generation from nearly 100% renewable resources, VERBUND positioned itself early on as a supplier of green electricity and flexibility options to third parties. Our product portfolio ranges from the supply of green electricity and the bundling and marketing of energy generated from renewable sources to the provision of virtual pumped storage capacities and demand response services. This has made VERBUND one of the leading suppliers in Austria and Germany. Thus we again succeeded in 2017 in either maintaining or expanding our market share in all customer segments and in making important additional earnings contributions in a highly competitive environment. A major milestone for our business and industrial customers is our digitalisation campaign. “VISION” is a business customer portal developed in-house at VERBUND. The portal successfully demonstrates how a buzzword such as “digitalisation” can be taken and transformed into a real-life, innovative application of immediate benefit to customers. “VISION” provides a single platform for all of our sales and trading activities. It includes market data, an order placement function and an interactive invoicing centre. In the standard load profile (SLP) segment – household, agriculture and commercial customers – we increased our gas and electricity customer base at year-end from 392,000 customers in financial year 2016 to 447,000 in 2017. Our steadily growing customer numbers are evidence that our broad range of products and our marketing campaign have been well received. A testament to this is the Service Champions 2017 study in which VERBUND was again awarded first place as the sector winner in the area of energy supply.

The transmission grid as a stabilising factor. The regulated grid represents an important, stable pillar of both the Austrian and the European energy systems. Grid expansion is taking on a central role due to the development of renewable energy sources, and more measures than ever had to be taken in 2017 to maintain grid stability given the difficult situation as regards grid operation. The network development plan provides for targeted measures to expand the transmission grid in preparation for future challenges. Capital expenditure of around €2.5bn has been budgeted to adhere to the expansion programme for the next ten years.

VERBUND stands for marketable energy innovations. In 2017, we pushed ahead with the development of new lines of business and services along with our e-mobility projects. With a project entitled H2FUTURE, we also launched a far-reaching industrial alliance with voestalpine, Siemens and APG to construct one of the world’s largest hydrogen plants. A research and development partnership directed at the energy market was also initiated with OMV, which acquired an interest in e-mobility provider SMATRICS in connection with the project. In addition, May 2017 saw the kick-off of the SYNERG-E project, which focuses on the challenges related to ultra-fast charging stations and the associated high system costs.

VERBUND is creating a liveable energy future. Our contributions to the environment, which include numerous nature restoration projects, are given high priority at our Company – as is our responsibility not only for the environment, but also to our numerous stakeholders. Our 2016 Integrated Annual Report won second place in the ASRA awards in the category of “Integrated annual report and

sustainability report of large enterprises”, and we also received positive feedback across the board from the IR and the sustainability communities. The CDP has again rated VERBUND as one of the world’s leading enterprises in the area of climate protection.

Income trend. VERBUND’s EBITDA in financial year 2017 was down by 11.7% year-on-year to €922.3m, and the Group result declined by 29.0% to €301.4m. In both the current and the previous reporting periods, however, earnings were impacted by non-recurring effects. Adjusted for those non-recurring effects, EBITDA rose by 0.6% to €899.7m and the Group result was up by 8.8% to €354.5m. The income trend is due in particular to considerably higher revenue from flexible products, particularly congestion management products, and successful restructuring of our thermal operations as well as the effects of the programmes implemented in recent years to reduce costs and increase efficiency. In addition, the financial result improved greatly. Negative factors were the somewhat lower water supply (hydro coefficient in 2017: 0.99; 2016: 1.00), a slight decline in average prices obtained for our own generation from hydropower and considerably lower earnings in the Grid segment.

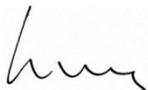
Dividend and outlook. We plan to propose a dividend of €0.42 per share for financial year 2017 at the Annual General Meeting to be held on 23 April 2018. The payout ratio for 2017 will thus amount to 41.2% based on the adjusted Group result (reported: 48.4%). On the basis of average own generation from hydropower and wind, we expect EBITDA to amount to around €850m and the Group result to around €300m for financial year 2018.

We would like to express our great appreciation to all of our customers as well as all employees, investors, suppliers and business partners – without whom it would have been impossible for us to implement our strategic objectives.

Let us work together again in 2018 to shape the future of energy!



Dipl.-Ing. Wolfgang Anzengruber



Dr. Johann Sereinig



Dr. Peter F. Kollmann



Dr. Günther Rabensteiner

Report of the Supervisory Board

As Austria's leading utility, VERBUND succeeded in remaining on a profitable and sustainable performance in financial year 2017, generating good results once again in a market climate that remains volatile. The Supervisory Board actively monitored and supported this strong performance.

GRI 102-26

Performance of duties. In financial year 2017, the Supervisory Board discharged the responsibilities and exercised the powers incumbent upon it by virtue of the law and the Articles of Association at five plenary meetings. The overall attendance rate for all Supervisory Board members was 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.

In particular, the Supervisory Board analysed the Group's structure along with its business processes and strategy and ordered the initiation of a strategy process as well as revision of the Executive Board's rules of procedure. With respect to corporate governance, the Board ordered evaluations of certain processes. The Supervisory Board also monitored the Executive Board's management of the Company based on the reports received from the Executive Board. Supervision took place in the context of open and constructive discussions between the Executive Board and the Supervisory Board. In addition, the Chairman of the Supervisory Board conversed regularly with the members of the Executive Board, particularly the Chairman.

In addition to approving the annual financial statements and the Group budget, the main decisions made by the Supervisory Board in the past financial year involved approving the decommissioning of the Mellach coal-fired power plant and the sale of shares in E-Mobility Provider Austria GmbH and SMATRICS GmbH & Co KG. The Board also dealt comprehensively with succession planning, particularly in the context of the upcoming call for applicants to the Executive Board.

New Chairman of the Supervisory Board. Dr. Gilbert Frizberg has left the Supervisory Board after 17 years, ten of which as Chairman. Dr. Gerhard Roiss was elected to the Supervisory Board at the General Meeting held on 5 April 2017 and was unanimously elected as Chairman of the Supervisory Board afterwards.. Dr. Martin Krajcsir also left the Board and was replaced by Dipl.-Ing. Peter Weinelt.

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

Pursuant to the requirements of the Code (Rule 36), the Supervisory Board again conducted a self-evaluation of its activities, particularly of its organisation and work procedures. The evaluation was undertaken in the form of a comprehensive written questionnaire that was completed by the Board members, and the results were discussed by the Supervisory Board at the next meeting. In addition, the

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

The Supervisory Board's Working Committee met twice during the year under review, especially to prepare plenary meetings. The Audit Committee held three meetings. It dealt above all with the semi-annual financial statements and preparation of the resolution to approve the annual financial statements, as well as with the appointment of the auditor and examination of the auditor's work. In addition, it concentrated on opportunity and risk management as well as the Group's internal control and audit procedures and on the audits performed by the internal audit function. In accordance with the Code of Corporate Governance and the rules of procedure, two other Supervisory Board committees – a Nomination Committee and a Remuneration Committee – were again formed in the past financial year. The General and Remuneration Committee convened three times to discuss the agreements on targets and the variable remuneration paid to the Executive Board in particular. The Nomination Committee held two meetings to prepare for the Supervisory Board elections and the call for applicants to the Executive Board in 2018. The Supervisory Board also formed its own temporary Strategy Committee to oversee the revision of the Group's corporate strategy; that committee met four times during the reporting period.

Further information on the composition, work procedures and meetings of the Supervisory Board and its committees as well as on the remuneration paid to its members is contained in the Group's consolidated corporate governance report for 2017.

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 2017 were audited by Deloitte Audit Wirtschaftsprüfungs GmbH and issued with an unqualified auditor's report. The auditor prepared the additional report required to be made to the Audit Committee under Article 11 of the Regulation on the statutory audit of public-interest entities and reported its findings in writing. The auditor found that the Executive Board had provided the explanations and evidence requested, that the book-keeping, annual financial statements and consolidated financial statements fulfilled the legal requirements and, in conformity with the principles of proper accounting, 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 2017 as presented by the Executive Board. As a result, they are final for the purposes of Section 96(4) of the Austrian Stock Corporation Act (Aktiengesetz, AktG). The management report prepared by the Executive Board was approved, as was the proposal for the appropriation of profit. The Supervisory Board also approved the consolidated financial statements and the Group management report along with the consolidated

corporate governance report submitted by the Executive Board and the separate Non-Financial Report. There were no grounds for any material objections.

In conclusion, the Supervisory Board would like to thank the Executive Board and all employees for their high level of dedication and their successful work during financial year 2017. The Supervisory Board would also like to thank the Group's shareholders, customers and business partners for their trust.

Vienna, March 2018

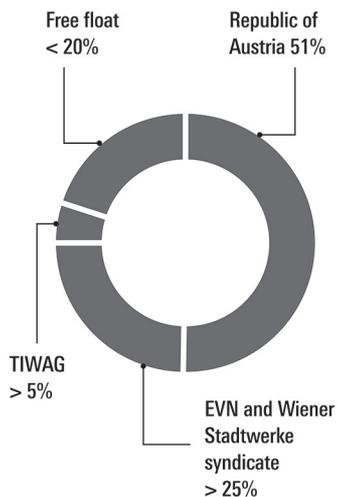
A handwritten signature in black ink, consisting of a large, stylized 'G' followed by a long, sweeping horizontal line that ends in a small hook.

Dr. Gerhard Roiss
Chairman of the Supervisory Board

OUR BRAND

At VERBUND, we use our expertise in regional hydropower to create a liveable energy future by providing reliable, customised energy solutions.

SHAREHOLDER STRUCTURE



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GRI 102-3, GRI 102-4,
GRI 102-5, GRI 102-6

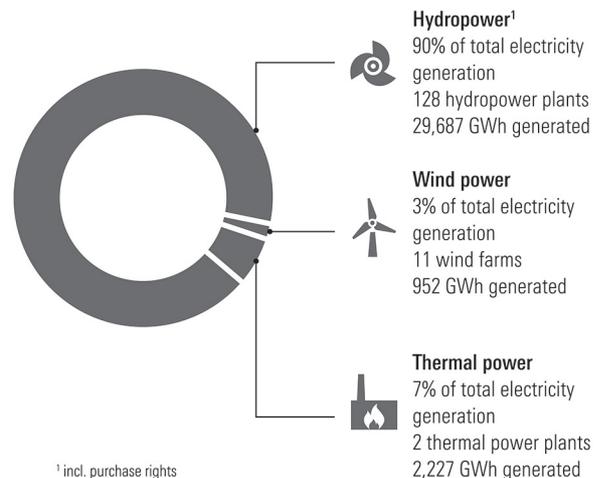
VERBUND at a glance. Power for the future.

Our mission is to energise the future with clean electricity and innovative solutions. We are one of the largest producers of hydroelectricity in Europe. VERBUND's value chain comprises generation, transportation, trading with and sales of electrical energy and other energy sources, as well as energy services. In 2017, the Group generated annual revenue of around €2.9bn with approximately 2,800 employees. VERBUND has been listed on the Vienna Stock Exchange since 1988, with 51% of the share capital held by the Republic of Austria.

GENERATION

All amounts are for 2017

VERBUND is Austria's leading utility and one of the largest producers of hydroelectricity in Europe. Our most important energy generation technologies are hydropower and wind power – renewable resources that account for some 93% of all energy produced by VERBUND. Making the generation of 100% carbon-free electricity a long-term reality is our goal.





TRADING AND SALES

100% of the electricity sold to retail customers comes from hydropower and climate-neutral natural gas. Retail customers are also provided with a range of innovative solutions for the smart home. For industrial and commercial customers, VERBUND develops customised energy efficiency solutions along with solutions for flexible energy management, among other things. In Austria, VERBUND holds a market share of 8% in electricity in the retail customer segment and 20% in the corporate customer segment. In Germany, VERBUND is the leading provider of green electricity to resellers and corporate customers. VERBUND's trading activities span twelve countries.

TRANSPORTATION

Austrian Power Grid (APG) is the wholly owned grid subsidiary of VERBUND AG. APG operates the Austrian transmission grid, which extends over approx. 3,500 km and includes 63 substations and switching stations. Operating from the heart of Europe, APG feeds electricity from renewable sources into the electricity supply for Austria and the rest of Europe and is moreover playing a crucial role in bringing about the energy transition. APG's high-performance grid ensures security of supply and forms the basis for the development of a liberalised electricity market throughout the EU.

ENERGY-RELATED SERVICES

By providing new energy services and smart products, VERBUND is already taking an active part in shaping the future of energy. We are working to develop technical and cost-effective solutions for a secure, affordable and environmentally friendly supply of energy. The products offered range from convenience services and decentralised plants for generating and storing energy to energy optimisation services for household customers as well as commercial and industrial customers.

VERBUND's integrated corporate strategy

The existing strategy of VERBUND lays the foundations for a sustained rise in enterprise value and is divided into three areas of activity: generation; transmission; and trading, sales & energy-related solutions.

Pillars of VERBUND's integrated corporate strategy

CO₂-free, low-cost producer

Hydropower and wind power are our most important energy generation technologies. They form the basis for positioning the VERBUND brand as a carbon-free, low-cost producer. In addition, our generation portfolio contains attractive flexible products that we have designed to optimally reflect the needs of a modern energy market.

Our long-term objective is for our electricity generation to be 100% CO₂-free.

Reliable grid operator

As a reliable and stable grid operator, we secure the electricity supply in Austria with our high-performance transmission grid. We are also committed to the national network development plan.

The geographically favourable location of our transmission grid in the centre of the European domestic market supports our strategic positioning as a competent partner when entering into international alliances.

Provider of customer-focused solutions

Our electricity trading activities serve primarily to optimise the marketing of our own generation, with innovative green electricity and flexible products enhancing the value of our electricity. We are also developing new, customer-focused commercial products and work consistently on expanding our services. Our customers are provided with clean electricity and gas together with other energy-related products and innovative solutions to promote the efficient use of energy.

Markets

Austria and Germany are our core geographical markets.

Investment focus

In support of dealing with energy responsibly, our business model centres on investing in profitable assets in the regulated sector and improving generation efficiency as well as fulfilling our customers' needs in the best possible manner.

VERBUND's current strategy is based on the existing asset and value chain structure. In the summer of 2017, we initiated a Group-wide strategy project with the goal of analysing the Group's current direction in light of the rapid developments in the world of energy and making changes where necessary.

Corporate objectives

VERBUND management has defined the following medium-term corporate objectives based on the materiality analysis performed and the VERBUND strategy:

Material topics	Corporate objectives
Increasing enterprise value ¹	Financial stability: net debt/EBITDA < 3.0
	Return on capital: ROCE > 7.0%
	Profitable growth in all segments
	Position VERBUND as most efficient electricity producer in the peer group
Secure supply of electricity	A-level rating targeted
	System security in the Austrian transmission grid
	Implement network development plan
	Provide flexible products to support energy transition
Customer relations	Implement and continuously develop Group-wide systems for managing IT and data protection
	Optimise marketing of own generation
	Significantly expand energy-related services
Innovation	Provide innovative solutions for B2C and B2B customers
	Put new, sustainable products and business models in place
	Increase competitive standing in the new Utility 2.0
Environmental protection and conservation, climate protection	Manage digital transformation in the e-economy
	Generate climate- and eco-friendly electricity with a focus on hydropower and wind power
	Discontinue coal-fired electricity generation by 2020
	Reduce specific emissions to < 10 g CO ₂ e/kWh (Scope 1)
Engaging with the relevant stakeholders	Certification of all VERBUND sites to ISO 14001
	Active and open communication with all relevant stakeholder groups
Responsibility to employees	Lost time injury frequency (LTIF): ambitious reduction ²
	Provide attractive, secure jobs: employee turnover rate < 5%
	Implement programme to increase efficiency
	40 hours of training per employee/year
	35 new apprentices each year
Advancement of diversity and inclusion in the Group	Percentage of women > 20%
	Balanced employee age structure (benchmark: employed wage and salary earners by age group in Austria)
	Statutory quotas for the employment of disabled persons exceeded (currently 4% in Austria and 5% in Germany)
Compliance and transparency	Continue to exercise fair business practices in all segments
Commitment to society	Long-term commitment to social and education-related activities
Procurement practices	Steadily reduce sustainability risk in the supply chain (working conditions, environment, corruption, human rights)

¹ Based on existing asset and value chain structure

² Final figure will be established in connection with our Safety Culture project in 2018.

Investor relations

Upcoming dates:

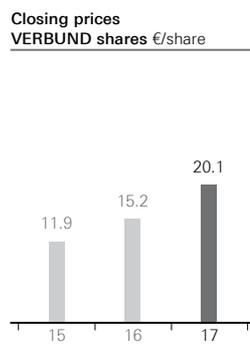
Annual General Meeting record date:	13 April 2018
Annual General Meeting:	23 April 2018
Ex-dividend date:	30 April 2018
Dividend record date:	2 May 2018
Dividend payment date:	11 May 2018
Results for quarter 1/2018:	9 May 2018

International capital market environment

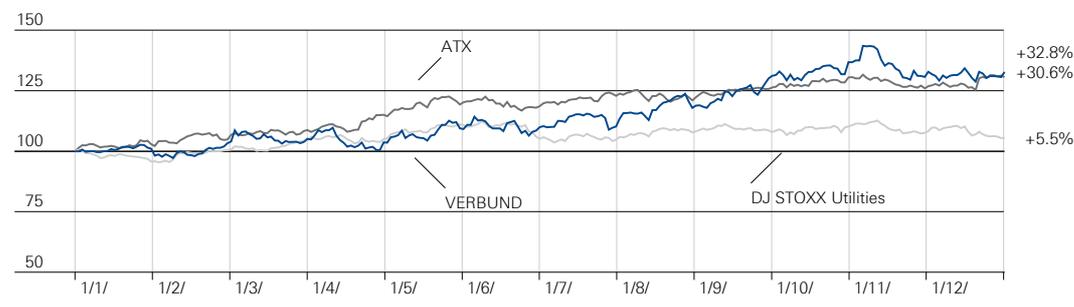
Global equity markets had a good development in 2017 thanks to strong growth of the world economy and international trade. Corporate profits were up as a result. Sustained low interest rates and optimistic economic forecasts also had a positive impact. In the United States, quarter 1/2017 was notably marked by hopes of tax cuts and increased capital spending, especially for investments in the infrastructure. The market trend in the US in the subsequent two quarters was impacted by improved macroeconomic data and positive corporate earnings announcements. In quarter 4/2017, the robust economic situation and the headway made in US tax reforms had a supportive effect. The US stock index Dow Jones Industrial ended 2017 up 25.1% over the prior-year closing value as a result of the favourable climate. European stock indices also performed well in 2017, albeit somewhat less so than those in the US owing to concerns about a loss of competitiveness compared with the US given the strong euro. The Eurostoxx 50 gained 6.5% over the course of 2017. In Japan, the Nikkei 225 saw considerable price gains on the back of the good performance of the Japanese economy and the central bank's continued expansionary monetary policy to end the year up 19.1%. Price trends were even more impressive in the emerging markets. The MSCI Emerging Markets Index rose by 34.3% in 2017, and the ATX reported strong gains as well. Healthy corporate profits resulting from the strong economy were the crucial factor here, with higher international demand and growing investment demand in Austria being the main contributing factors. The leading Austrian index closed full-year 2017 up 30.6% to 3,420.1 points to take its place among the ranks of the top price barometers worldwide.

VERBUND shares

VERBUND shares performed very well in 2017. After experiencing volatile upward movement in the first half of 2017, prices climbed at a steady pace until the start of November. A brief dip lasting until the end of November was followed by a period of stabilisation and sideways movement until the end of the year. VERBUND shares ended the year at a closing price of €20.1, up 32.8% on the figure for 31 December 2016. The Group's good strategic positioning combined with a generally positive environment on the capital markets and a considerably improved market climate for power generators were responsible for the encouraging performance. In comparison, the DJ STOXX Utilities sector index registered an increase of just 5.5% in the reporting period.



VERBUND share price: relative performance 2017



KPIs – shares

	Unit	2016	2017	Change
Share price high	€	15.8	21.8	38.0%
Share price low	€	10.0	14.7	46.9%
Closing price	€	15.2	20.1	32.8%
Performance	%	28.0	32.8	–
Market capitalisation	€m	5,272.0	6,998.7	32.8%
ATX weighting	%	2.7	2.5	–
Value of shares traded	€m	997.8	1,032.5	3.5%
Shares traded per day	Shares	314,328	242,541	–22.8%

Investor relations team activities in 2017

Active, open communication with investors, analysts and individual shareholders during road shows, conference calls and in one-on-one conversations is important to us. VERBUND's investor relations team conducted road shows in Europe and the US in 2017 and participated in several major investor conferences. Together with the Executive Board, the team met with investors from all over the world and provided them with information on VERBUND's key performance indicators and operational and strategic performance.

Comprehensive information is available on the “Investor Relations” pages of our website at www.verbund.com, including our annual and interim reports, financial calendar and events, current press releases, presentations and Excel spreadsheets as well as documents relating to Annual General Meetings held by VERBUND in past years.

VERBUND shares are covered by 14 renowned Austrian and international investment banks, thus ensuring their visibility in the capital market. The following investment banks covered our Group as at 31 December 2017:

Berenberg Bank (<i>Lawson Steele</i>)	Kepler Cheuvreux (<i>Ingo Becker</i>)
Commerzbank (<i>Tanja Markloff</i>)	Macquarie Research (<i>Peter Crampton</i>)
Concorde Securities (<i>Gellert Gád</i>)	Morgan Stanley (<i>Dominik P. Olszewski</i>)
Credit Suisse (<i>Vincent Gilles</i>)	Oddo BHF (<i>Louis Boujard</i>)
Deutsche Bank (<i>Martin Brough</i>)	Raiffeisen Centrobank
Erste Group (<i>Petr Bartek</i>)	(<i>Teresa Schinwald</i>)
Exane BNP Paribas (<i>Olivier van Doosselaere</i>)	Société Générale
HSBC (<i>Adam Dickens</i>)	(<i>Lueder Schumacher</i>)

Current ratings

As at 31 December 2017, VERBUND's ratings were as follows:

- Standard & Poor's: BBB+/stable outlook
- Moody's: Baa2/positive outlook

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 M&A and Investor
 Relations
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investor-relations@verbund.com

For more information on our rating, please refer to the Financing section

VERBUND in sustainability indices and sustainability rankings

Institutional investors devoted increased attention to the topic of portfolio decarbonisation in 2017. More and more investment portfolios and mutual funds are being carbon footprinted as well. For VERBUND, with its sustainable business model, this is a welcome trend.

In its most recent company ratings, oekom research again gave VERBUND a good overall rating of “B”. This confirms oekom’s recommendation of VERBUND as a prime investment for investors interested in sustainability. The comprehensive report made special mention of VERBUND’s climate protection policy and the Group’s comprehensive reporting of its environmental KPIs.

In 2017, VERBUND was among the top five companies in the CDP climate performance rankings for the energy sector both in Austria and in the Germany-Austria-Switzerland region.

VERBUND’s investor relations team maintains very close contact with investors and analysts.

VERBUND attained GOLD status in a ranking of corporate social responsibility (CSR) conducted by EcoVadis, a supplier evaluation platform. This puts the Company among the top 5% of the more than 20,000 enterprises surveyed.

Each year, the Chamber of Public Accountants and Tax Advisors presents the Austrian Sustainability Reporting Award (ASRA) to the Austrian companies publishing the best sustainability reports. In the category of “Integrated Annual Reports”, VERBUND achieved an outstanding second place. The jury acknowledged the VERBUND report for its comprehensive presentation of non-financial indicators and the strategies and concepts described therein. Special mention was made of the Company’s description of its corporate governance and compliance organisation.

Please refer to:
www.voenix.at
www.ftse.com

VERBUND was included in the following sustainability indices as at 31 December 2017:

- VÖNIX (VBV Austrian sustainability index)
- FTSE4Good Europe Index and Global Index

Consolidated
Corporate Governance Report

Consolidated Corporate Governance Report

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

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

The Austrian Code of Corporate Governance as amended in January 2018 is available from the website of the Austrian Working Group for Corporate Governance at www.corporate-governance.at

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 of 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 2017 and was adhered to in accordance with the explanatory notes in this report. 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 as amended in January 2018 during financial year 2018. 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.

Evaluation

In accordance with C Rule 62 of the Austrian Code of Corporate Governance, compliance with the Code and the accuracy of the related reporting is evaluated externally by an independent auditor at regular intervals. The last such evaluation was carried out for 2016 by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H and resulted in a positive report. The next evaluation is planned for financial year 2019.

Additional reporting

A consolidated corporate governance report is presented as required under statutory provisions. 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 > 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 2017 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 only two C Rules which are to some extent the result of legislative circumstances. 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 2017, the Executive Board was once again composed of four members.

GRI 102-18, GRI 405-1

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

GRI 102-25

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 Solutions GmbH	General Meeting	Chairman
	SMATRICS GmbH & Co KG	Shareholders' Meeting	Chairman
	E-Mobility Provider Austria 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 Trading GmbH	Supervisory Board, General Meeting	Chairman Chairman
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	Supervisory Board	Vice-Chairman
	VERBUND Trading GmbH	Superv. Board, Gen. Mtg.	Vice-Chairman
Dipl.-Ing. Dr. Günther Rabensteiner	Ennskraftwerke AG	Supervisory Board	Vice-Chairman
	VERBUND Hydro Power GmbH	Supervisory Board	Vice-Chairman
	VERBUND Innkraftwerke GmbH	Supervisory Board, Shareholders' Meeting	Chairman 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	Supervisory Board	Chairman

Supervisory Board mandates of Executive Board members outside the Group

Name	Company	Function
Dr. Johann Sereinig	KELAG-Kärntner Elektrizitäts-AG	Member
	FK Austria Wien AG	Member
	APK Pensionskasse AG	Member
Dr. Peter F. Kollmann	Telekom Austria 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. The measures requiring approval 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 and legal affairs (including legal, audit ¹ and compliance), communications 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, mergers & acquisitions and investor relations, Management accounting, corporate accounting and risk management Grid
Dipl.-Ing. Dr. Günther Rabensteiner	Generation from hydropower, thermal power, wind power/photovoltaics (Austria and international) Tourism

¹ 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 €4,485,156 in 2017 (previous year: €4,293,724) including benefits in kind of €59,858 (previous year: €150,381).

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

in €

	Current remuneration	2016 (of which variable)	Current remuneration	2017 (of which variable)
Dipl.-Ing. Wolfgang Anzengruber	1,219,954	(402,505)	1,327,347	(499,972)
Dr. Johann Sereinig	1,167,133	(385,702)	1,133,133	(342,214)
Dipl.-Ing. Dr. Günther Rabensteiner	752,796	(172,002)	842,193	(254,348)
Dr. Peter F. Kollmann	1,003,460	(229,275)	1,122,625	(339,040)

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 includes variable remuneration components granted to members of the Executive Board in the 2017 reporting period for the 2016 reporting period.

Variable remuneration depends upon performance and is limited to a specific percentage of the respective fixed remuneration. For reporting period 2016 (and for the current reporting period 2017), this percentage rate was 50% or 70% (chairman). The level of performance-based remuneration components depends on the extent to which the targets agreed for the financial year are achieved. In the 2016 reporting period, the agreed goals were based 50% on the attainment of the Group result, 30% on achievement of the free cash flow (three-year target) and 20% on other medium-term (two-year, qualitative) targets such as conclusion of old business (e.g. successfully ending disputes such as pending actions and arbitration proceedings) and the optimisation and adaptation of structures, processes and business models to reflect technological advancement (digitalisation) and changes in the competitive landscape in the energy market. 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 2017 reporting period, contributions to the pension fund were paid for the Executive Board in the amount of €219,681 (previous year: €217,045).

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 2017 reporting period, €361,817 (previous year: €361,210) 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 €37,715 (previous year: €46,002). 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 €50,769 (previous year: €68,322).

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

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 (Aktiengesetz, 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.

GRI 102-18, GRI 102-22,
GRI 102-23

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.

GRI 102-24

Personal details, chairpersons and other Board functions

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

As at 31 December 2017, 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.

There was one change to the composition of the Supervisory Board among the shareholder representatives which took place during the AGM on 5 April 2017: Dr. Gerhard Roiss and Dipl.-Ing. Peter Weinelt were elected as members of the Supervisory Board in place of Dr. Gilbert Frizberg and Mag. Dr. Martin Krajcsir. Dr. Roiss was then unanimously elected as Chairman of the Supervisory Board. Among the employee representatives, there were no changes in the reporting period.

Name	Year of birth	Date of initial appointment	End of current term of office
Dr. Gilbert Frizberg Chairman	1956	16/3/2000	5/4/2017
Dr. Gerhard Roiss Chairman (from 5 April 2017) Superv. Board of SULZER AG Switzerland (board of directors)	1952	5/4/2017	AGM 2020
Prof. Dr. Michael Süß 1st Vice-Chairman / Member of the supervisory boards of Herrenknecht AG and Oerlikon AG (chairman of the board of directors); Renova AG (asset director); 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; Supervisory board of Wels Betriebsansiedelungs-GmbH (Chairwoman)	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 (until 30 September 2017); Austrian Economic Chambers (from 1 October 2017)	1963	7/4/2010	AGM 2020
Mag. Dr. Martin Krajcsir	1963	9/4/2014	5/4/2017
Dipl.-Ing. Dr. Peter Layr Spokesman of the managing board of EVN AG (until 30 September 2017); chairman of the supervisory boards of Netz Niederösterreich GmbH, Rohöl-Aufsuchungs AG and RAG-Beteiligungs-AG (until 30 September 2017)	1953	13/4/2011	AGM 2020
Mag. Werner Muhm Member of the supervisory boards of Wiener Städtische Versicherung, AWH Beteiligungsges.m.b.H. and KA Finanz AG; member of the General Council of OeNB; member of the managing board of Leopold Museum Privatstiftung, vice-chairman of the board of trustees of the Austrian National Library	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-Lakáskassa 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 Internationalisierungszentrum Steiermark GmbH (chairman) and ELG (Erdöl-Lagergesellschaft m.b.H.)	1973	22/4/2015	AGM 2020

Name	Year of birth	Date of initial appointment	End of current term of office
Christa Wagner Managing partner at Josko Immobilien GmbH; member of the supervisory board of Eurosun a.s., partner in Josko Holding Gesellschaft m.b.H.	1960	7/4/2010	AGM 2020
Dipl.-Ing. Peter Weinelt Deputy CEO of Wiener Stadtwerke GmbH; member of the supervisory boards of Wien Energie GmbH (chairman) and Wiener Netze GmbH (chairman)	1966	5/4/2017	AGM 2020

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 empl. reps.
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 empl. reps.
Dr. Isabella Hönlinger Chairwoman of the Works Council	1971	since 1/9/2016	appointed by the empl. reps.
Ing. Wolfgang Liebscher Chairman of the Central Works Council	1966	since 1/11/2013	appointed by the empl. reps.
Dipl.-Ing. Hans Pfau Chairman of the Works Council	1953	since 1/9/2016	appointed by the empl. reps.

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

20% of the Supervisory Board members are between the ages of 30 and 50; 80% are over 50.

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. Eight of them have declared their independence, and two members of the Supervisory Board have classified themselves as not being independent (in each case with respect to only 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%): Roiss, 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

Five plenary meetings of the Supervisory Board were held during financial year 2017. The overall attendance rate for all Supervisory Board members was 93%. 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 2016;
- 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;
- formation of a Strategy Committee;
- sale of shares in E-Mobility Provider Austria GmbH and SMATRICS GmbH & Co KG;
- decommissioning of the Mellach coal-fired power plant;
- approval of agreements with entities that are related parties of Supervisory Board members; and
- approval of the Group’s budget for 2018.

(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. The report from the auditor details sustainability risks in the same manner as in the written quarterly reports on operating risk management that 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 and several discussions were held 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 approve the actions of the Supervisory Board. At the 70th Annual General Meeting on 5 April 2017, 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 2017 on the basis of an extensive questionnaire. The results of the evaluation were presented and discussed by the Supervisory Board at its next meeting.

GRI 102-28

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. The Supervisory Board also formed its own temporary Strategy Committee in May of this year.

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 (until 5/4/2017)	Chairman
Dr. Gerhard Roiss (from 5/4/2017)	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. Hans Pfau	Employee representative

The Supervisory Board's Working Committee met two times during financial year 2017. The activities of the Working Committee focused on:

- preparing for Supervisory Board meetings and
- reports by the Executive Board pursuant to rules of procedure.

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 (until 5/4/2017)	1st Vice-Chairman
Dr. Gerhard Roiss (from 5/4/2017)	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 Christof	Employee representative
Dipl.-Ing. Hans Pfau	Employee representative

The Supervisory Board's Audit Committee met three times during financial year 2017. The activities of the Audit Committee focused on:

- preparing the resolution on the annual financial statements for 2016, including appropriation of profit;
- selection process for the auditor for 2017 and later (tender process);
- preparing the approval of the consolidated financial statements and annual financial statements of VERBUND AG for 2016;
- proposal for the election of the auditor;
- acknowledgement of the semi-annual financial statements for 2017;
- monitoring financial reporting processes;
- monitoring the internal control system and the audit and risk management systems;
- discussion of areas of emphasis for the 2017 audit (auditor);
- audit and non-audit services and
- acknowledgement of the audit programme and audit reports of the Internal Audit department.

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 (until 5/4/2017)	Chairman
Dr. Gerhard Roiss (from 5/4/2017)	Chairman
Prof. Dr. Michael Sülß	1st Vice-Chairman
Mag. Elisabeth Engelbrechtmüller-Strauß	2nd Vice-Chairwoman

With Dr. Roiss, 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 three times during financial year 2017. The meetings dealt with the agreements on targets and the variable remuneration components of the members of the Executive Board as well as the approval of an external supervisory board mandate for one member 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 new 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 (until 5/4/2017)	Chairman
Dr. Gerhard Roiss (from 5/4/2017)	Chairman
Prof. Dr. Michael Süß	1st Vice-Chairman
Mag. Elisabeth Engelbrechtsmüller-Strauß	2nd Vice-Chairwoman
Anton Aichinger	Employee representative
Ing. Wolfgang Liebscher	Employee representative

The Nomination Committee met twice during financial year 2017 to deal with the preparations for elections to the Supervisory Board at the 2017 Annual General Meeting and the preparation of the call for applicants to the Executive Board in 2018.

Strategy Committee

In accordance with its rules of procedure, the Supervisory Board resolved in May 2017 to form its own temporary Strategy Committee for no longer than the end of 2018. The primary responsibility of this committee is to support the revision of the corporate strategy. The Strategy Committee met four times during the reporting period.

Members of the Strategy Committee

Name	Function
Dr. Gerhard Roiss	Chairman
Prof. Dr. Michael Süß	1st Vice-Chairman
Mag. Elisabeth Engelbrechtsmüller-Strauß	2nd Vice-Chairwoman
Mag. Harald Kaszanits	Member
Anton Aichinger	Employee representative
Dipl.-Ing. Hans Pfau	Employee representative

Contracts requiring consent – conflicts of interest

GRI 102-25

In financial year 2017, 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 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 2017. In 2017, Fronius and VERBUND Trading GmbH also entered into a licence agreement for performance data for a fee of €12k. Elisabeth Engelbrechtsmüller-Strauß is CEO of the Fronius Group.

Supervisory Board members Mag. Dr. Martin Krajcsir (until 5 April 2017) and Dipl.-Ing. Peter Weinelt (from 5 April 2017)

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 and Dipl.-Ing. Peter Weinelt is deputy chairman. Some of these had already been entered into before Mag. Dr. Krajcsir and Dipl.-Ing. Peter Weinelt became members 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 2017, an order volume totalling €830k 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 the EVN Group, of which Dr. Peter Layr was spokesman of the managing board until 30 September 2017. Some of these relationships 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 2017, 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 2017, the Supervisory Board also granted its approval to the planned settlement agreement between VERBUND AG, VTP and EVN in connection with the decommissioning of the Dürnröhr and Korneuburg power plants. The sale already approved in 2016 of a main transformer from the Dürnröhr power plant by VTP to EVN at a price of €4m was completed in autumn 2017.

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 2017 was significantly below the level agreed. Mag. Jürgen Roth is managing partner at Tank Roth GmbH.

In financial year 2017, the Supervisory Board also looked in detail at possible (other) conflicts of interest involving Supervisory Board members that could have resulted in particular from activities or equity interests in the energy sector or in companies competing with the VERBUND Group. All 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, there are no fundamental conflicts 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 €380,800.64 in 2017 (previous year: €387,329).

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).

Remuneration scheme for the Supervisory Board	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, merely an attendance fee for the Strategy Committee.

Specifically, the following remuneration was paid to the members of the Supervisory Board for financial year 2017:

Remuneration of Supervisory Board members			in €
Name (without title)	Annual remuneration	Attendance fees	
Gilbert Frizberg, Chairman (until 5/4/2017)	16,250	1,000	
Gerhard Roiss, Chairman (from 5/4/2017)	48,750	5,500	
Michael Süß, Vice-Chairman	45,000	5,500	
Elisabeth Engelbrechtsmüller-Strauß, Vice-Chairwoman	55,000	6,500	
Harald Kaszanits	30,000	7,000	
Martin Krajcsir (until 5/4/2017)	2,500	0	
Peter Weinelt (from 5/4/2017)	7,500	2,000	
Peter Layr	10,000	2,000	
Werner Muhm	30,000	5,000	
Susanne Riess	10,000	2,500	
Jürgen Roth	10,000	2,000	
Christa Wagner	30,000	4,500	
<i>Employee representatives</i>			
Anton Aichinger	–	7,000	
Kurt Christof	–	5,000	
Isabella Hönlinger	–	2,500	
Wolfgang Liebscher	–	2,500	
Hans Pfau	–	7,000	

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 70th Annual General Meeting held on 5 April 2017, the resolutions adopted and the voting results can be viewed on the website at 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 > Investor Relations > Financial reports

Diversity concept for appointments to the Executive Board and Supervisory Board

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

Studies indicate that mixed teams achieve better results and are more effective and innovative than homogeneous groups. This is also true for a company's boards. When appointing members of the Executive Board and the Supervisory Board, in order to get maximum benefit from different perspectives for entrepreneurial decisions, the following principles must therefore also be applied in addition to the general and company-specific requirements for specialised and personal qualifications:

Supervisory Board

The relevant aspects of a diverse composition of the Supervisory Board include the age of its members and the duration of their membership in the Supervisory Board, balanced representation of men and women, internationality and a balance in the education and career backgrounds of its members.

Age: The aim is to achieve a balanced age structure among members in which the difference between the oldest and the youngest member must be a minimum of 20 years in order to allow input from the different views of the generations.

No Supervisory Board member may remain on the Supervisory Board for more than 15 years.

Gender representation: The Supervisory Board of VERBUND AG (overall) is not yet in compliance with the statutory quota applicable from January 2018 requiring 30% of the less-represented gender on the supervisory board (women in the case of VERBUND). In any case, this figure is expected to be achieved from the next elections and appointments to the Supervisory Board (in 2018).

GRI 405-1

The objective is to comply with the federal government's decision from 2011: by 2018, women will make up at least 35% of the shareholder representatives on supervisory boards of state-owned companies.

Internationality: The Supervisory Board shall have an appropriate number of members (at least three) who spent a significant part of their professional career abroad or have many years of experience in international business.

Educational and career background: The goal is a Supervisory Board made up of members with the widest possible range of educational backgrounds and experiences from different professional careers. On the Supervisory Board, at least one member of the Supervisory Board shall contribute proven skills and expertise in each of the following areas:

- economics/management/finance/human resources/risk management;
- legal expertise;
- market/customers;
- technical skills/innovation and
- sustainability/environment/stakeholder management.

The Supervisory Board will consider these diversity criteria in its recommendations for the next elections to the Supervisory Board. The term of office of all current Supervisory Board members expires as at the Annual General Meeting in 2020.

Executive Board

The relevant aspects of a diverse composition of the Executive Board include a balance in the educational and career backgrounds, internationality and the duration of its unchanged composition.

Educational and career background: In addition to extensive managerial experience and comprehensive industry knowledge, members of the Executive Board shall have a sound education and relevant professional experience in either the technical or the commercial/administrative area.

Gender representation: For the medium term, the Executive Board shall have one female member.

Internationality: Some members of the Executive Board shall have spent a significant part of their professional career abroad or have many years of experience in international business.

Duration of the composition: The composition and division of responsibilities of the Executive Board shall not remain unchanged for more than ten years.

Measures for the advancement of women

(Section 243c(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 2017, nine women held management positions within the Group (first and second levels of management). The percentage of women in management positions is therefore 11.1%. The percentage of women among employees throughout the Group is 17.5%. One female executive has worked part time since 2012.

In order to ensure that the company diversity management system is permanently integrated into and further developed 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:

- Under the VERBUND diversity strategy, particular emphasis is placed on the dimension of gender, for which targets and measures are defined and implemented.
- Executives from the first level of management are also measured against targets set to promote the equal treatment of women.
- 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.
- VERBUND takes part in the annual 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.

GRI 405-1
Detailed information on measures to advance women can be found in the annual report in the section entitled Human resources and social responsibility

Vienna, 15 February 2018

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

Group management report

The Group management report relates to the consolidated financial statements of VERBUND. These were prepared in accordance with Section 245a(1) of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB) in compliance with the International Financial Reporting Standards (IFRSs) as endorsed by the European Union. We assume no liability for any links or references to external sources contained in the Group management report.

In lieu of including a non-financial statement in the management report, VERBUND has opted to prepare a separate non-financial report. This report on non-financial information (NFI Report) is presented as a separate chapter after the management report.

General conditions

In financial year 2017, higher prices for oil, gas and coal kept electricity wholesale prices on the rise. However, the recovery in electricity prices that set in during 2017 must not obscure the fact that wholesale prices for electricity remain well below the full cost for new power plants.

In VERBUND's core markets of Austria and Germany, freezing temperatures across Europe at the start of 2017 and another spurt in economic growth led to higher electricity consumption. Supply volumes increased substantially once again due to the sustained, heavily subsidised expansion of new renewable energy sources in 2017.

CO₂ prices persisted at a low level until mid-2017, when hopes of effective reform of the EU's emissions trading system (ETS) and discussions of introducing minimum CO₂ prices began pushing prices gradually upwards.

In combination with market liberalisation and unbundling, subsidised decentralised generation of electricity is turning the usual market logic on its head. Business models and processes are undergoing fundamental change once again due to digitalisation, increasing automation of the value chain, intelligent control systems and smart metering, network components capable of bi-directional communications, data analytics and big data.

VERBUND is shaping the future of energy and pioneering CO₂-free energy solutions.

VERBUND began making preparations early on for operating in an environment that has undergone fundamental change in the context of transitioning to new forms of energy. We have thus created the basis for sustainable, profitable corporate development based on our clear strategic positioning coupled with systematic implementation in recent years of the measures defined in the Group's restructuring programme. This foundation will enable VERBUND to take active advantage of the opportunities arising in the energy sector and look to the developments of the future with optimism.

General economic environment

Global economy in stable growth phase

Global economic output rose by 3.7% in 2017, up from 3.2% a year earlier. According to the January 2018 projection by the International Monetary Fund (IMF), total economic output once again increased at a faster rate in 2017 than in the prior year not only in the United States (+2.3%) but also in Japan (+1.8%) and in the eurozone (+2.4%).

The Chinese economy posted a respectable result again in 2017 with growth of 6.8% thanks to expansionary economic policies. In combination with higher commodities prices, the upswing in these major economies also gave a boost to the emerging markets on the whole. Russia and Brazil likewise appear to have come out of deep recession as the economies in both countries returned to growth in 2017.

The global economic revival fuelled an acceleration in international trade.

According to IMF projections, total economic output in the eurozone increased by 2.4% in 2017, up from 1.8% in 2016. Exports were driven by increasing momentum in world trade and an easing of the economic problems in the emerging markets. Companies also benefitted from solid domestic demand. Low interest rates and more favourable lending terms stimulated capital spending. However, potential trade barriers pose a considerable risk of downward movement. Heavyweights Germany, France, Italy and the Netherlands saw accelerated growth, and the Spanish economy was almost able to maintain its rapid pace of growth.

In Austria, real gross domestic product increased by 3.0% in 2017, up from 1.5% in the prior year according to the December 2017 forecast by the Austrian Institute of Economic Research (WIFO). Strong momentum came from the recovery in world trade. The export business continued to drive the acceleration in economic growth in 2017. The positive economic trend in the eurozone, with momentum coming from both the core and the periphery, brought considerable additional support. Strong export demand led Austrian companies to heavily expand investments in machinery and equipment. Construction spending also made much stronger gains in 2017 than in the prior year.

Private consumption was another factor driving robust domestic demand in 2017. The improved situation on the labour market had a positive impact on incomes in all sectors of the economy and offset the gradually diminishing effects of the 2016 tax reforms.

Energy market environment

Higher electricity consumption in Austria

According to initial data from E-Control, electricity consumption in Austria rose by 1.4% to 71,121 GWh in 2017 (total supply of electricity, domestic electricity consumption less pumped storage consumption). The higher consumption was due to the much colder winter and faster economic growth. In terms of generation, electricity produced from hydropower decreased by 1.9% in 2017 due to the lower water supply compared with the previous year. The run-of-river power plants generated 1.2% less electricity, and generation was down by 3.2% at the storage power plants.

By contrast, production in thermal power plants was up markedly with a rise of 13.6% in 2017. Natural gas power plants in particular generated substantially more electricity in 2017 than in 2016. Electricity production from run-of-river power plants dropped by nearly 13% in January 2017 alone due to the below-average water supply. At the same time, the cold weather led to an increase of 7.5% in Austrian electricity demand. Generation was ramped up at thermal power plants to make up the difference.

Greater use of renewable energy in the German/Austrian bidding zone also resulted in increased use of gas power plants for grid stabilisation and congestion management.

“Other generation” increased by 11.1%. Other generation includes electricity produced from other renewable energy sources (excluding biomass, which comes under the category of thermal generation) and from power plants that cannot yet be allocated for statistical purposes. All in all, electricity generation increased by 4.1% in Austria in 2017.

Increases were seen in both imports (+11.4%) and exports (+18.8%) of electricity in 2017. Net imports came to approximately 6,500 GWh, or around 600 GWh less (-8.6%) than in the prior year. Therefore, the figure representing the dependence of the Austrian power supply on imports amounted to just under 9% in 2017 after just under 10% in 2016.

Oil prices well over \$60/bbl at year end

The average price for one barrel of Brent crude oil (front month) was \$54.7/bbl in 2017 compared with \$45.1/bbl in 2016. This represents an increase of 21.3%.

Brent crude oil (front month) traded at between \$54/bbl and \$57/bbl during the first two months of 2017, after which expectations of a sustained oversupply of crude oil in the global market pushed prices down to \$44.8/bbl at the end of June 2017. Crude oil prices subsequently made a gradual recovery based on the combination of somewhat higher demand and a slight decline in supplies. Apart from the reduction in oil output in the United States, OPEC was able to improve its rate of implementation of the agreed production cuts. Iraq additionally experienced production shortfalls. Prices received an added boost around the end of the reporting period based on smouldering geopolitical hotspots and the decision reached on 30 November 2017 to extend production cuts. Oil producers agreed to extend the output cuts beyond the originally agreed March 2018 until the end of 2018. At the end of 2017, one barrel of Brent crude (front month) was trading at around \$67/bbl. This is the highest price seen for crude oil in the past two-and-a-half years.

Increase in gas prices

The spot price at the European NCG trading point increased by €3.3/MWh compared with the previous year to €17.5/MWh on average in 2017. In futures trading, supplier contracts for the coming year (NCG front year) were invoiced at €17.3/MWh, or €1.6/MWh more than had to be paid for the NCG front year in 2016.

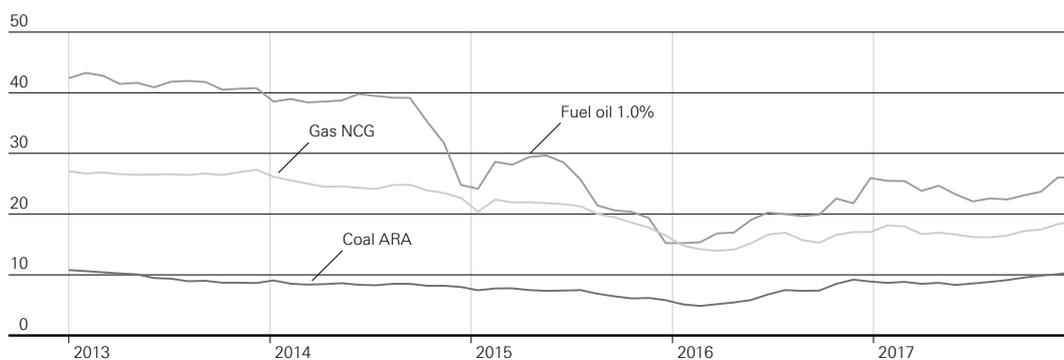
Gas prices rose in line with the higher oil prices and stronger demand. Prices for liquefied natural gas (LNG) were driven higher by growing demand and rising oil prices. Despite the higher prices in Asia, the influx of LNG to Europe increased.

Coal: strong recovery after low in 2016

Production of hard coal declined by 3.8% worldwide to 6.7 billion tonnes in 2016, mainly due to lower output in China (-185 million tonnes) and in the United States (-147 million tonnes). In the US, the boom in shale gas was a contributing factor. In China, the central government began closing mines that are both unsafe and expensive. Chinese imports therefore rose to 124 million tonnes. The imported coal was used above all to make up for the production cuts due to reduced working hours. This also ended the downward spiral in coal prices.

Prices for thermal coal more than doubled between their February 2016 low and the end of 2017. On average, hard coal was 33.1% more expensive on the futures market (ARA front year, euro basis) in 2017 than in the previous year. Coal prices in the spot market were up 39.1% in 2017 compared with the average listing in 2016 (euro basis).

Coal, oil and gas price performance €/MWh thermal



Average monthly prices, futures market (front year)

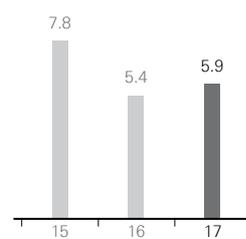
Source: ICE, EEX

EU implements emissions trading reforms

Certificate prices for EUA (European Union Allowance) emission rights (EUAs with a December 2018 delivery date) were initially trading at between €5/t CO₂ and €6/t CO₂ at the start of 2017. Prices fluctuated at around that level until falling back below €5/t CO₂ amidst concerns about reform of the European Union’s emissions trading system (EU ETS), the “trilogue” negotiations having commenced on 4 April 2017. CO₂ prices then began rising again thanks to increasingly optimistic sentiment regarding the EU ETS reforms. The EUA Dec18 emissions rights benchmark contract closed 2017 at a price of at €8.2/t.

Following lengthy negotiations, on 9 November 2017 the European Council and the European Parliament reached agreement on a joint text for a new emissions trading directive. The directive will stipulate much stricter climate targets for installations in the power sector and energy intensive industry that are subject to the EU ETS. Greenhouse gas emission allowances will be lowered by 2.2% per year – more than ever before – between 2021 and 2030. At the same time, pollution allowances are being taken off the market in order to lower the supply. These activities will help to reduce emissions of CO₂ and other greenhouse gases produced by the around 11,000 installations in Europe by at least 43% by 2030 compared with 2005 levels.

CO₂ emission rights prices €/t CO₂



EUA Front-Year-Future; Average yearly prices Source: ICE

The past fiscal year also saw intensification of the debate on the implementation of an EU-wide minimum price on pollution rights. A “carbon price floor” along these lines was introduced in the UK a number of years ago. France has been contemplating implementation of a price floor in cooperation with other member states, or alternatively at a national level for the French coal-fired power plants. In the Netherlands, the administration has proposed introduction of a carbon price floor of €18/t from 2020, rising to €43/t by 2030.

Wholesale electricity prices on the rise again

The average price for immediate base load electricity deliveries in the German/Austrian bidding zone on EPEX SPOT, the European electricity exchange spot market, increased by 17.8% in 2017 compared with the previous year to €34.2/MWh. Peak-load prices were at €42.7/MWh, or 21.2% higher than the average 2016 price.

The sharp rise was attributable to the cold snap occurring at the start of 2017, when low wind yields in Germany and low temperatures across Europe drove up spot market prices in the German-Austrian electricity market to a high level. The day-ahead figures in euros even briefly reached the triple digits in the second half of January 2017. Low wind supply and cold temperatures at the start of February 2017 also propelled prices higher, with rising fuel and CO₂ prices sustaining the upward trend.

Spot market electricity price performance in €/MWh



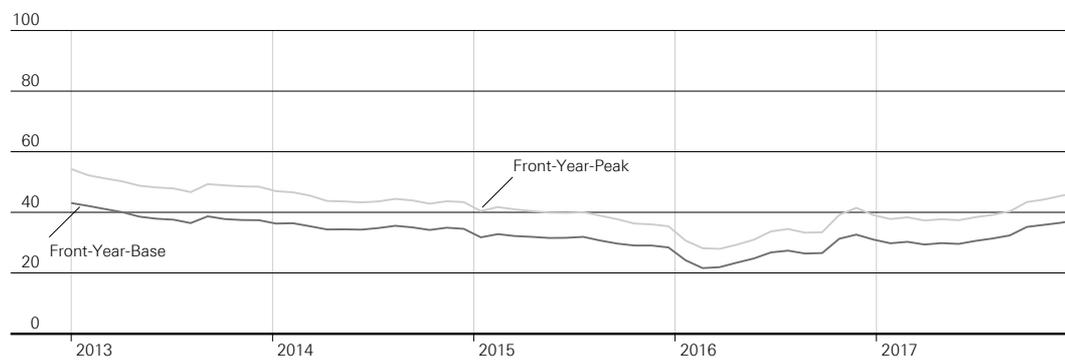
Market region Germany/Austria; monthly average prices

Source: EPEX Spot

In the futures market at the European Energy Exchange (EEX), base load for 2018 (front year base) was traded at an average price of €32.4/MWh in 2017 for the German/Austrian bidding zone, and peak-load (front year peak) was traded at €40.5/MWh. In 2016, front year base contracts paid €26.6/MWh on average and front year peak contracts still paid €33.5/MWh. The higher prices were due to the rise in CO₂, gas and coal prices.

Against the backdrop of a possible split in the German-Austrian price zone, the European Energy Exchange (EEX) added futures products for Germany (Phelix-DE Future) and Austria (Phelix-AT Future) to its existing Phelix range of products in the first half of 2017.

Futures market electricity price performance in €/MWh



Market region Germany/Austria; the axis refers to the period of trading, delivery in the following year; monthly average prices

Source: EEX

VERBUND sells most of the electricity it generates in advance on the futures markets so as to reduce short-term selling and price risks. In 2017, the price trend in the futures market had only a minor influence on revenue during the reporting period. The trend will affect the results of subsequent periods, however.

Political and regulatory framework

At the end of 2016, the European Commission presented a comprehensive legislative package for the electricity sector called “Clean Energy for All Europeans”. The legislation was heatedly debated throughout 2017. An agreement on reforming the emissions trading system was reached in November 2017. In Austria, discussions focused on splitting up the joint German-Austrian price zone, the drafting of an energy and climate strategy, a reform of the tariff system and of the adoption of a green electricity package.

EU energy policy

“Clean Energy for All Europeans”: commencement of negotiations on a comprehensive legislative package

On 30 November 2016, the European Commission presented a comprehensive legislative package for the energy sector. The package covered the following: introduction of a governance framework, reorganisation of the provisions applicable to renewable energy (subsidies, market integration), improving the energy trading markets (control power market, intraday/day-ahead/futures markets), removing market barriers (price caps, regulated consumer prices), regulations for capacity mechanisms, strengthening regional cooperation (especially between transmission system operators), regulations for distribution system operators, strengthening ACER (Agency for the Cooperation of Energy Regulators), new rules for determining price zones, promotion of electromobility, provisions for new market participants (aggregators, local energy communities), the legal framework for demand response, clarification of the legal framework for storage, improving consumer services in relation to offers and billing, and regulations for own generation. Proposals were also presented for revised energy efficiency and building efficiency directives.

The year 2017 was dominated by the legislative process concerning the Clean Energy Package. Progress was made in negotiations on the Energy Efficiency Directive (EED), the Energy Market Directive and the Energy Market Regulation as well as on the Renewable Energy Directive (RES Directive). Due to the complexity of the issues at hand, both in terms of context as well as the political considerations involved, a number of the above dossiers are not expected to be completed until the second half of 2018, when Austria will hold the EU presidency.

Reform of EU emissions trading system

In November 2017, an agreement was reached on reforming the EU emissions trading system (ETS). The ETS reform aims firstly to strengthen EU emissions trading and, secondly, to reduce the current oversupply of certificates. This will mainly be achieved by increasing the rate of reduction in the number of certificates issued each year, from the current -1.7% to -2.2%. The reform also calls for removing twice as many excess certificates from the market as originally envisaged (24% per year instead of 12%) by the end of 2023 and transferring them to the market stability reserve. On the other hand, comprehensive carbon leakage protection legislation will remain in place and a modernisation fund for lower-income member states will be launched with the goal of protecting energy-intensive European industry from competitive disadvantages arising from the EU's ambitious climate regime.

German-Austrian electricity price zone

The German (DE) and Austrian (AT) regulators – the German Federal Network Agency (Bundesnetzagentur, BNetzA) and E-Control Austria – have agreed to implement congestion management at the DE/AT border from 1 October 2018. The objective of the agreement is to link the DE/AT border to the Central West European (CWE) region for the purpose of installing a system of flow-based market-coupling. Electricity is traded via a day-ahead market coupling process on the respective exchanges, with the long-term capacity allocation set at 4,900 MW. It remains to be seen whether the bilateral agreement will hold up in the ongoing European legislative processes (including the ACER and bidding zone review process).

VERBUND will continue to work vigorously at both national and European level towards maintaining the German-Austrian electricity price zone, as in the past, while taking precautions to prepare for a possible split of the price zone (adapting the trading systems, modifying agreements/procurement and preparing systems and resources for trading at the border).

New legal framework for the energy sector in Germany

2017 Renewable Energy Sources Act takes effect

On 1 January 2017, the 2017 Renewable Energy Sources Act (2017 Erneuerbare-Energien-Gesetz, 2017 EEG) entered into force. The revised legislation contains numerous changes compared to the 2014 Renewable Energy Sources Act, including significant subsidy levels and the EEG allocation obligation. The main changes introduced in the 2017 EEG relating to the promotion of renewable energy sources include the following:

- Details of the EEG tendering process and provisions concerning governing exceptions
- Changes to sanctions imposed for failing to register EEG installations with the German Federal Network Agency (BNetzA)

- Modification of wind farm subsidies under the 2017 EEG
- Changed definition of “solar installations” in the EEG and effects of the 4 November 2015 ruling by the German Federal Court of Justice
- Effects of the amended provisions concerning deviations on both existing and new feed-in agreements
- Changes in direct marketing and feed-in tariffs in “exceptional cases”
- Effects of taking advantage of EEG subsidies and electricity tax benefits at the same time
- Changes relating to reduced payment claims in the event of negative prices on electricity exchanges
- Changes in support levels for existing biomass and wind power installations
- Repowering of hydropower plants in accordance with the 2017 EEG
- Changes in the EEG allocation obligation, notably relating to own use
- Introduction of regional green electricity marketing

German Federal Network Agency (BNetzA) reduces reserve requirement

On 31 May 2017, the German Federal Network Agency (BNetzA) presented its report on reserve generation capacity requirements pursuant to Section 13k of the Energy Industry Act (Energiewirtschaftsgesetz, EnWG). The report by the Federal Network Agency confirms the validity of the original determination made in the transmission systems operators’ safety analysis conducted in February 2017 of a need for 2 GW in reserve generation capacity. However, the Agency has now reduced the amount to 1.2 GW in response to criticism from the European Commission.

Green Paper on Energy Efficiency – consultation evaluation report published

In autumn 2016, the German government initiated a broad consultation process concerning its Green Paper on Energy Efficiency. The evaluation report on the public consultation was published in early June 2017.

The main topics addressed in the responses to the consultation were sector coupling, the necessity of further developing the set of instruments used for energy efficiency policy, and “Efficiency First”. Going forward, it is planned to place increased focus on the traditional benchmarks of profitability, security of supply and cost-effectiveness rather than giving priority to purely efficiency-related aspects.

The topic of carbon pricing was addressed, as was the possibility of expanding the emissions trading system to additional sectors. Some statements also called for regulatory measures to address both existing and new buildings.

Amendment to the German Electricity Grid Access Regulation (Stromnetzzugangsverordnung, StromNZV)

The German bidding zone evolved organically over time rather than being determined by law. The existence of one uniform bidding zone ensures equal conditions for network access, electricity generation and electricity purchasing throughout Germany.

The 23 December 2017 amendment to the Electricity Grid Access Regulation (StromNZV) now legally requires transmission grid operators to enable electricity to be traded throughout the entire territory of

the Federal Republic of Germany, with no capacity allocation, such that the entire Federal Republic makes up a single bidding zone.

The amendment should be viewed as a reaction to the relevant draft EU regulation, which provides for a transfer of responsibility to the European Commission and thus permits the Commission to split up bidding zones on its own authority.

New legal framework for the energy sector in Austria

Integrated energy and climate strategy

The consultation process on the “green book for an integrated energy and climate strategy” conducted by the Austrian government in 2016 represented the first key step in moving towards 2030 in terms of energy policy. In 2017, the ministries in charge continued working on the energy and climate strategy. Due to the elections held in October 2017, however, no report has been published given that input from the new administration is needed with respect to issues of key significance for the direction of Austria’s energy and climate policy.

2017 Green Electricity Package

After intense political debate, the Austrian government adopted a Green Electricity Package in mid-2017. The package centres on a green electricity amendment known as the “Kleine Ökostromnovelle”, which provides for additional subsidies to reduce project backlog, especially for wind power. In addition, subsidy volumes and subsidy levels were raised for small hydropower plants. An amendment to the Austrian Electricity Industry and Organisation Act (EIWOG) will enable the joint use of generation facilities, particularly solar installations, in multi-unit dwellings in the future.

“Tariffs 2.0” – adaptation of the fee structure for the power grid

In April 2017, Energie-Control Austria (ECA) published a position paper in which it discussed new challenges for the electricity system such as increasingly decentralised and volatile generation and rapidly advancing digitalisation. The main points made by the ECA paper are that greater emphasis should be placed on the capacity component of the fees charged, and that flexibility options should be considered with respect to the grid and system stabilisation. In ECA’s opinion, grid fees will need to be restructured as of 2019.

Amendment to data protection law

The 2018 Austrian Data Protection Amendment Act (Datenschutz-Anpassungsgesetz 2018, DSAG 2018) was adopted in summer 2017. The amendment not only implements EU law, but also takes account of changes based on experience with the current data protection provisions. The Data Protection Amendment Act builds upon the EU’s directly applicable General Data Protection Regulation (GDPR) and is intended to take effect simultaneously with the GDPR on 25 May 2018.

Finance

Factors affecting the result

Wholesale prices for electricity

In 2016, VERBUND entered into contracts in the futures market for most of its own generation for 2017. Prices for front-year base load contracts averaged €26.6/MWh in 2016, and front-year peak load was traded at an average of €33.5/MWh. In both cases, this represented a drop of 14.2% in futures market prices compared with the prior year. Price levels on the electricity futures market largely mirrored the trend in fuel and CO₂ prices. Commodity prices for oil, gas and coal on the futures market in 2016 declined again compared with 2015, and CO₂ prices virtually collapsed. Excess capacities in the European electricity market and construction of additional renewable energy plants have exerted additional pressure on the futures market.

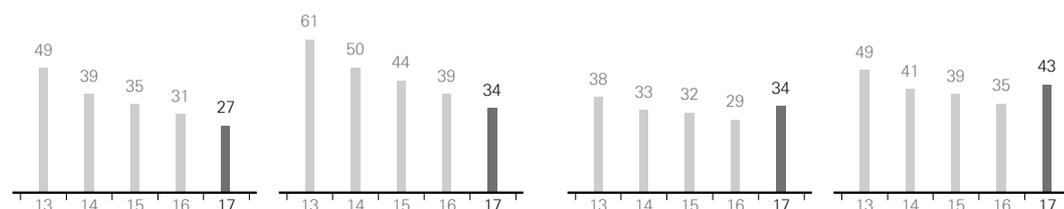
In the spot market, wholesale trading prices for electricity in 2017 were well above the prior-year level. Prices for base load electricity increased by an average of 17.8% to €34.2/MWh, and prices for peak load rose by 21.2% to €42.7/MWh. The sharp rise is mainly attributable to the cold snap occurring at the start of 2017, when low wind yields in Germany and low temperatures across Europe drove up spot market prices in the German-Austrian electricity market to a high level. The day-ahead price in euros reached the triple digits in the second half of January 2017. Low wind supply and cold temperatures at the start of February 2017 also led to sustained high prices, with rising fuel and CO₂ prices supporting the upward trend.

Futures prices €/MWh

Front Year Base Front Year Peak

Spot market prices €/MWh

Spot Base Spot Peak



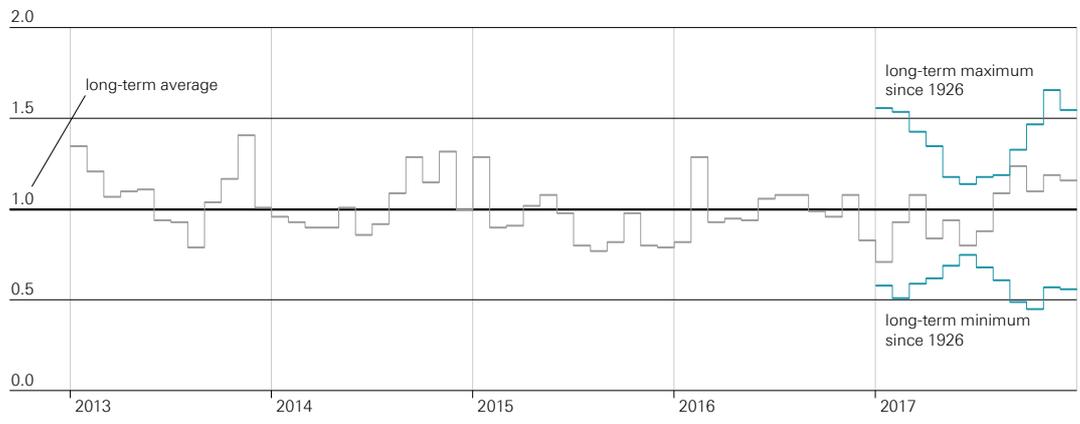
Futures prices traded in the year before supply. The years stated are the respective years of supply. Average prices.

Source: EEX, EPEX Spot

Water supply

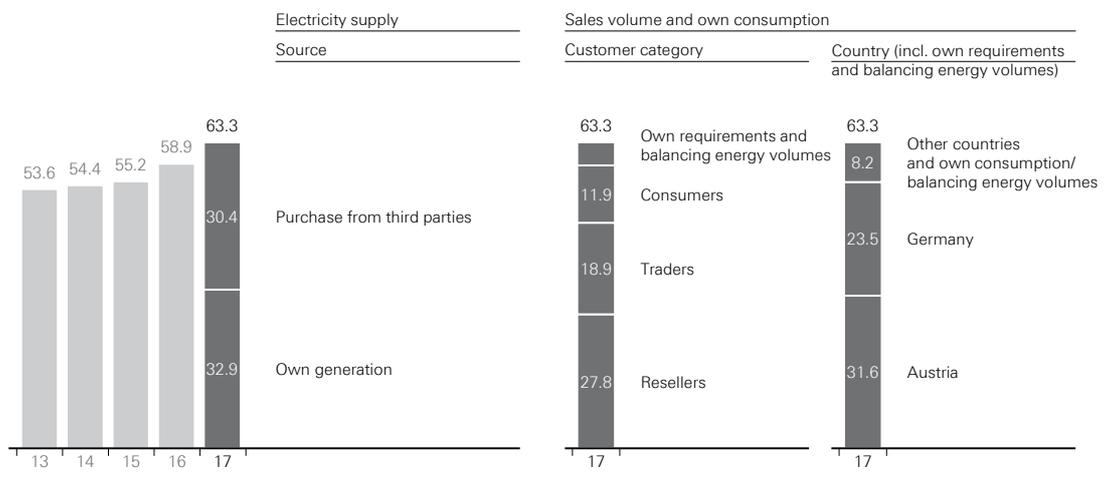
The water supply in rivers is of particular significance to VERBUND since around 90% of its electricity is produced using hydropower. Water supply is measured by means of a hydro coefficient. The value of 1.00 stands for the long-term average. In the 2017 reporting period, the hydro coefficient for run-of-river and pondage power plants was 0.99, which is slightly below the long-term average and 1 percentage point below the prior-year level. The hydro coefficients for the individual quarters were as follows: quarter 1: 0.92; quarter 2: 0.86; quarter 3: 1.07; quarter 4: 1.15.

Hydro coefficient (monthly averages)



Electricity supply and sales volumes

Electricity supply and sales volumes TWh



In 2012 there was a change of accounting method.

VERBUND's own generation rose by 871 GWh to 32,866 GWh in quarters 1-4/2017. This represents a year-on-year increase of 2.7%. Generation from hydropower decreased by 122 GWh compared with the prior-year period. At 0.99, the hydro coefficient for the run-of-river power plants was 1% below both the prior-year figure and the long-term average. Generation from annual storage power plants increased by 1.1%, primarily because of the significant increase in generation from turbinning, despite lower water inflows and water impoundment.

VERBUND's wind power and photovoltaic installations generated 117 GWh more electricity in quarters 1-4/2017 than in the prior-year period, mainly due to the windier conditions. The photovoltaic farms in Spain were sold effective 12 December 2016.

Generation from thermal power plants increased by 876 GWh in quarters 1-4/2017. The Mellach combined cycle gas turbine power plant produced 825 GWh more electricity in 2017 due to greater use of congestion management than in the previous year. Generation at the Mellach hard coal-fired power plant increased by 51 GWh.

Purchases of electricity from third parties for trading and sales rose by 2,761 GWh. Electricity purchased from third parties for grid losses and control power increased by 777 GWh in the reporting period.

Group electricity supply

	GWh		
	2016	2017	Change
Hydropower ¹	29,809	29,687	-0.4%
Wind power	835	952	14.0%
Thermal power	1,351	2,227	64.8%
Own generation	31,995	32,866	2.7%
Electricity purchased for trading and sales	22,875	25,635	12.1%
Electricity purchased for grid loss and control power volumes	3,986	4,763	19.5%
Electricity supply	58,855	63,264	7.5%

¹ incl. purchase rights

VERBUND's electricity sales volume increased by 3,330 GWh in quarters 1-4/2017. Electricity volumes delivered to consumers rose by 639 GWh. Here, a sharp rise in sales to domestic customers more than compensated for the slight decline in the Group's international business. As at 31 December 2017, our private customer base comprised approximately 447,000 electricity and gas customers. Sales to resellers rose by 1,851 GWh year-on-year due to a significant rise in congestion management services supplied by APG and higher sales volumes to German municipal utilities.

Electricity deliveries to trading firms increased by 840 GWh, with decreases in deliveries to France compensated by increases in Germany and Austria. Own use of electricity rose by 1,012 GWh. The increase was due to a significant rise in generation from turbinning.

Group electricity sales volume and own use

	GWh		
	2016	2017	Change
Consumers	11,255	11,894	5.7%
Resellers	25,906	27,757	7.1%
Traders	18,028	18,867	4.7%
Electricity sales volume	55,189	58,518	6.0%
Own use	2,639	3,651	38.4%
Control power volume	1,028	1,095	6.5%
Total electricity sales volume and own use	58,855	63,264	7.5%

In 2017, approximately 54% of the electricity sold by VERBUND went to the Austrian market. International trading and sales activities focused on the German market, which accounted for around 87% of all volumes sold abroad. The German and Austrian markets accounted for most of the Group's growth.

Electricity sales by country			GWh
	2016	2017	Change
Austria	29,107	31,559	8.4%
Germany	21,394	23,485	9.8%
France	3,847	2,599	-32.4%
Romania	437	719	64.7%
Switzerland	236	0	-
Other	169	156	-7.6%
Electricity sales volume	55,189	58,518	6.0%

Financial performance

Result			€m
	2016	2017	Change
EBITDA	1,044.2	922.3	-11.7%
Adjusted EBITDA	894.5	899.7	0.6%
Operating result	615.1	400.1	-35.0%
Group result	424.4	301.4	-29.0%
Adjusted Group result	325.9	354.5	8.8%
Earnings per share	1.22	0.87	-29.0%
(Proposed) dividend per share in €	0.29	0.42	44.8%

Income trend

VERBUND's EBITDA for financial year 2017 was down by 11.7% year-on-year to €922.3m, and the Group result declined by 29.0% to €301.4m. In both the current and the previous reporting periods, however, earnings were impacted by non-recurring effects. In 2017, these effects related above-all to impairment losses and reversals of impairment losses in the power plant portfolio as well as the sale of shares in SMATRICS GmbH & Co KG and measurement of an obligation to return an interest. In total, EBITDA contained non-recurring income of €22.7m in 2017 (2016: €149.7m), and the Group result included non-recurring expenses of €53.1m (2016: non-recurring income of €98.5m). Adjusted for these non-recurring effects, EBITDA rose by 0.6% to €899.7m and the Group result by 8.8% to €354.5m. The income trend is due in particular to significantly higher revenue from flexible products, particularly congestion management, and successful restructuring of our thermal operations as well as the effects of the programmes implemented in recent years to reduce costs and increase efficiency. In addition, the financial result improved measurably. Negative factors were the somewhat lower water supply (hydro coefficient in 2017: 0.99; 2016: 1.00), a slight decline in average prices obtained for our own generation

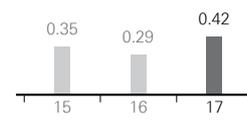
from hydropower (2017: €30.4/MWh; 2016: €31.0/MWh) and considerably lower earnings in the Grid segment.

Dividend

A dividend of €0.42 per share for financial year 2017 will be proposed to the Annual General Meeting on 23 April 2018. The payout ratio calculated on the basis of the reported Group result amounts to 48.4% for 2017, and the payout ratio calculated on the basis of the Group result after adjusting for non-recurring effects is 41.2%. In 2016, a dividend of €0.29 per share was paid out to shareholders; the payout ratio amounted to 23.7% of the reported Group result or 30.9% of the adjusted Group result.

Dividend per share €

Revenue	€m		
	2016	2017	Change
Electricity revenue	2,213.9	2,370.2	7.1%
Grid revenue	395.0	416.4	5.4%
Other revenue	187.0	126.6	-32.3%
Revenue	2,795.9	2,913.2	4.2%



Electricity revenue

VERBUND's electricity revenue rose by €156.3m to €2,370.2m in 2017. In terms of quantities, electricity sales volumes increased by 3,330 GWh, or 6.0%, year-on-year. The higher quarterly and monthly forward prices and the higher spot market prices had a positive impact, whereas the front-year prices for financial year 2017 declined. The entry into force of the so-called reimbursement model led to a decline in electricity revenue (please see the notes to the consolidated financial statements for details on the reimbursement model). Electricity revenue of €172.6m was thus reported after offsetting with the corresponding expenses for grid purchases.

Grid revenue

Grid revenue increased by €21.4m year-on-year to €416.4m in 2017, primarily as a result of higher international grid revenue from the auctioning off of cross-border capacities along with higher national grid revenue resulting from increased tariff revenue. With respect to control power, the negative impact of reducing rates for system services was offset by the positive trend in balancing energy as well as additional control power components in grid revenue.

Other revenue and other operating income

Other revenue decreased by €60.3m to €126.6m. The decline was due in particular to lower revenue from gas and district heating deliveries as well as from the sale of green electricity certificates and emission rights. Other operating income fell by €100.7m to €78.4m. In the 2016 reporting period, VERBUND and EconGas GmbH settled various outstanding issues relating to gas deliveries for the Mellach combined cycle gas turbine power plant. The resulting income amounted to €118.0m. A counteracting effect came from the income of €22.7m recognised in 2017 from the disposal of shares in SMATRICS GmbH & Co KG (further details are presented in the notes to the consolidated financial statements).

Expenses	€m		
	2016	2017	Change
Expenses for electricity, grid, gas and certificate purchases	1,328.1	1,428.2	7.5%
Fuel expenses and other usage-dependent expenses	61.7	114.2	85.0%
Personnel expenses	313.6	313.6	0.0%
Other operating expenses	227.2	213.2	-6.2%

Expenses for electricity, grid, gas and certificate purchases

Expenses for electricity, grid, gas and certificate purchases increased by €100.1m to €1,428.2m. Purchases of electricity from third parties for trading and sales as well as for grid losses and control power rose by a total of 3,538 GWh. Average purchase prices also rose compared with the prior-year period. Expenses for electricity purchases thus increased by €314.1m compared with 2016. Expenses for grid purchases decreased by €158.7m, mainly due to the entry into force of the reimbursement model (please refer to the notes for details on the reimbursement model), and expenses for gas purchases fell by €51.0m.

Fuel expenses

Fuel and other usage-dependent expenses rose by €52.5m to €114.2m. The increase is mainly attributable to greater use of the Mellach combined cycle gas turbine power plant for congestion management (for details please refer to the section entitled Electricity supply and sales volumes). Expenses also increased due to higher generation at the Mellach coal-fired plant and higher expenses for emission rights.

Personnel expenses

Personnel expenses were unchanged from the prior year in 2017. Despite a rise of 1.55% in pay rates under the collective bargaining agreement, expenses for current employees were down by €7.0m due to systematic implementation of the programmes to reduce costs and increase efficiency. The updated calculation of provisions for partial retirement in the previous year had an opposite effect on employee benefit expenses.

Other operating expenses

Other operating expenses declined by €14.0m to €213.2m. The decrease was due in particular to changes in the provisions recognised for legal disputes, in addition to lower legal fees and auditing and consulting expenses.

EBITDA

As a consequence of the above-mentioned factors, EBITDA declined by €121.9m, or 11.7%, to €922.3m.

Depreciation and amortisation

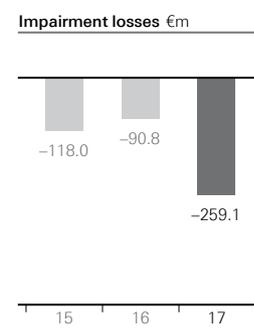
Amortisation of intangible assets and depreciation of property, plant and equipment rose by €2.0m to €341.3m. The increase was due in particular to the commissioning of the Reißbeck II pumped storage power plant in October 2016.

Impairment losses

Impairment losses amounted to €259.1m (2016: €90.8m) and resulted primarily from impairment losses recognized on the goodwill of the Inn River power plant group (€153.8m), the power plants of the Grenzkraftwerke power plant group (€57.7m), the Mittlere Salzach power plant group (€21.4m) and the Mellach district heating plant (€10.5m). The impairment losses recognised in financial year 2016 resulted predominantly from the losses recognised on the Romanian wind farms, the Gössendorf and Kalsdorf run-of-river power plants and the Mellach combined cycle gas turbine power plant. Further details on impairment testing are presented in the notes to the consolidated financial statements.

Reversals of impairment losses

Reversals of impairment losses amounted to €78.2m (2016: €1.0m) and were due entirely to the reversal of the impairment losses on the Mellach combined cycle gas turbine power plant. Further details on impairment testing are presented in the notes to the consolidated financial statements.



Financial result	€m		
	2016	2017	Change
Result from interests accounted for using the equity method	30.5	27.9	-8.4%
Other result from equity interests	6.0	11.2	84.9%
Interest income	31.1	36.0	16.0%
Interest expenses	-135.2	-129.6	-4.1%
Other financial result	4.3	38.2	-
Impairment losses	0.0	-5.2	-
Reversals of impairment losses	5.0	0.0	-100.0%
Financial result	-58.4	-21.6	-63.0%

Result from interests accounted for using the equity method

The result from interests accounted for using the equity method decreased by €2.6m to €27.9m. The decrease was mainly due to the earnings contributions from KELAG in the amount of €28.2m (2016: €30.9m).

Interest income and expenses

Interest income increased by €5.0m to €36.0m compared with 2016. Interest expenses decreased by €5.6m to €129.6m, due in particular to lower interest on credit facilities and bonds as a result of scheduled principal repayments. A decrease in capitalised interest costs under IAS 23 had a counteracting effect.

Other financial result

Other financial result improved by €33.9m to €38.2m. The increase was mainly due to income realised from the measurement of an obligation to return an interest (€+12.3m), from the measurement of a long position relating to VERBUND's share in Gemeinschaftskraftwerk Inn GmbH (+€9.4m) and from the positive measurement of interest rate hedges (€+4.0m).

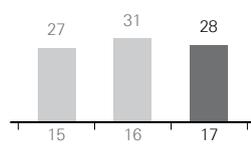
Impairment losses in the financial result

Impairment losses amounted to €5.2m (2016: €0.0m) and resulted mainly from the impairment loss of €4.1m recognised on Ashta Beteiligungsverwaltung GmbH. Further details on impairment testing are presented in the notes to the consolidated financial statements.

Financial result

The financial result consequently improved by €36.8m, from €-58.4m to €-21.6m.

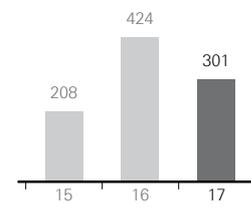
Equity result - domestic €m



Group result

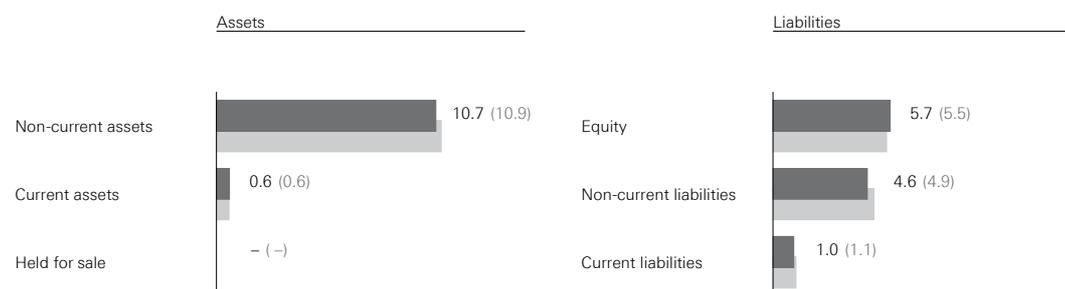
After taking account of an effective tax rate of 20.3% and non-controlling interests in the amount of €0.1m, the Group result amounted to €301.4m. This represents a decrease of 29.0% compared with the previous year. Earnings per share amounted to €0.87 (2016: €1.22) for 347,415,686 shares. The Group result after adjustment for non-recurring effects was €354.5m, an increase of 8.8% on the prior-year period.

Group result €m



Net assets

Balance sheet €bn



Figures in brackets are previous year's figures.

Consolidated balance sheet (short version)

	2016		2017		Change
		Percent		Percent	
Non-current assets	10,933.6	95%	10,661.5	94%	-2.5%
Current assets	604.6	5%	622.1	6%	2.9%
Non-current assets held for sale	0.0	-	0.0	-	-
Total assets	11,538.2	100%	11,283.6	100%	-2.2%
Equity	5,529.5	48%	5,690.8	50%	2.9%
Non-current liabilities	4,908.2	43%	4,584.7	41%	-6.6%
Current liabilities	1,100.5	10%	1,008.1	9%	-8.4%
Total liabilities	11,538.2	100%	11,283.6	100%	-2.2%

Assets

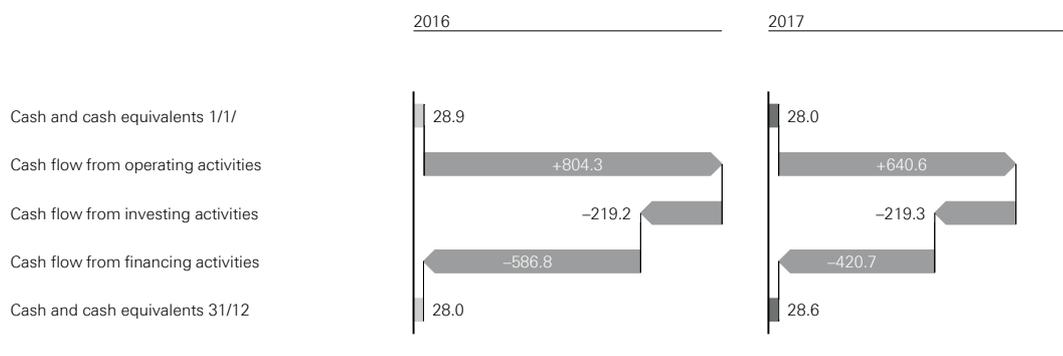
VERBUND's assets decreased by 2.2% in 2017. With respect to property, plant and equipment, additions of €231.0m were offset by depreciation of €335.0m. Moreover, impairment losses totalling €91.8m were recognised on several Austrian and German run-of-river power plants. The items of property, plant and equipment were tested for impairment before deducting any contributions to building costs directly attributable to the relevant installations. With respect to the Mellach CCGT, the impairment test – performed before deducting the investment grants received for the plant – resulted in a reversal of the impairment losses previously recognised in the amount of €80.3m. The main additions to property, plant and equipment related to replacement investments at Austrian hydropower plants and investments in the Austrian transmission grid. In addition, impairment losses of €153.8m had to be recognised on the goodwill accounted for on acquisition of the run-of-river power plants of the Inn River power plant group in 2009.

Equity and liabilities

Equity increased by 2.9% compared with 31 December 2016. Profit for the period in 2017 was reduced mainly by dividend distributions, which lowered equity. The decrease in current and non-current liabilities is mainly attributable to lower current and non-current financial liabilities due to scheduled repayments of principal and measurement effects.

Cash flows

Cash flow statement €m



Cash flow statement (short version)

	2016	2017	Change
Cash flow from operating activities	804.3	640.6	-20.4%
Cash flow from investing activities	-219.2	-219.3	0.1%
Cash flow from financing activities	-586.8	-420.7	-28.3%
Change in cash and cash equivalents	-1.7	0.6	-138.2%
Cash and cash equivalents at the end of the period	28.0	28.6	2.3%

Cash flow from operating activities

Cash flow from operating activities amounted to €640.6m in the reporting period, representing a decline of €163.7m. The year-on-year decrease was mainly the result of changes in working capital (due in particular to cash inflows in the Grid segment related to the settlement of congestion management receivables from 2015 that were contained in the prior-year figure), lower water supply and higher tax payments. Conversely, cash flow from operating activities was positively impacted by the measures already implemented under the programmes to reduce costs and increase efficiency.

Cash flow from investing activities

Cash flow from investing activities amounted to €-219.3m in the reporting period (previous year: €-219.2m) and consisted mainly of capital expenditure for intangible assets and property, plant and equipment (€243.5m) at approximately the same level as in the prior year. Cash inflow from the disposal of subsidiaries as well as interests accounted for using the equity method and other equity interests in the reporting period resulted primarily from the sale of shares in SMATRICS GmbH & Co KG in connection with our alliance with OMV Aktiengesellschaft and Siemens Aktiengesellschaft Österreich (previous year: sale of VERBUND Photovoltaics Ibérica S.L.).

Cash flow from financing activities

Cash flow from financing activities amounted to €-420.7m in the reporting period and thus increased by €166.1m. The main reason for the change was a reduction in payments from money market transactions (€+305.8m) and lower dividend payments (€+42.4m) combined with higher repayments on financial liabilities (€-183.0m).

Key performance indicators and financial governance

The key performance indicators used to measure VERBUND's business activities are net debt/EBITDA and the related KPIs of free cash flow and specific costs. VERBUND uses ROCE to measure value creation.

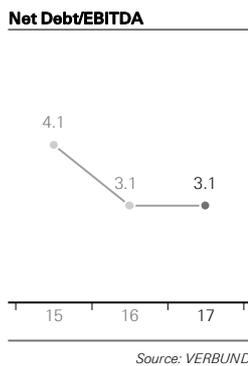
Net debt/EBITDA, free cash flow and specific costs

Based on the existing asset and value creation structure, VERBUND has made debt reduction a priority and aims to reach a ratio of net debt/EBITDA of <3.0. To achieve this goal, particular focus is being placed on improving free cash flow.

The ratio of net debt to EBITDA was 3.1 at the end of 2017 (2016: 3.1). Despite the lower EBITDA, the ratio persisted at the prior-year level given the concurrent decline in net debt. The decrease in EBITDA to €922.3m (2016: €1,044.2m) was due above all to the fact that the non-recurring income recognised in 2016 in connection with the settlement of outstanding issues between VERBUND and both EconGas GmbH (now OMV Gas Marketing & Trading GmbH) and Energie Steiermark Wärme GmbH no longer applied in the year under review. The reduction in net debt resulted primarily from a decrease in liabilities due to the positive free cash flow.

Free cash flow before dividends amounted to €416.1m at the end of the reporting period (31 December 2016: €580.7m). The decrease in free cash flow was mainly the result of changes in working capital (due in particular to cash inflows in the Grid segment relating to the settlement of congestion management receivables from 2015 that were contained in the prior-year figure), lower water supply and higher tax payments. Conversely, the measures already implemented under the programmes to reduce costs and increase efficiency had a positive effect.

"Specific electricity generation costs of VERBUND" is the KPI used to monitor the long-term costs of electricity generation. In financial year 2017, specific costs increased compared with the prior-year reporting period. The increase was the result of impairment losses, which are included in specific costs as non-recurring effects. The rise in specific costs was offset by lower fixed costs thanks to our programmes to reduce costs and increase efficiency as well as lower costs of capital due to a reduction in interest expenses.



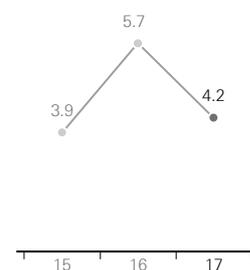
ROCE

ROCE is an indicator of the profitability of the Group's operating assets. At the end of 2017, ROCE amounted to 4.2% (31 December 2016: 5.7%). The long-term objective is to raise ROCE to over 7.0% based on the Group's existing asset and value creation structure. ROCE is calculated by dividing net operating profit after taxes (NOPAT) by average capital employed.

NOPAT equates to operating profit before financing costs, including the result from equity interests net of income tax. At the end of financial year 2017, NOPAT stood at €368.7m (31 December 2016: €500.0m). Most of the decline was attributable to the EBITDA effects described above, as well as to higher impairment losses in the operating divisions than in the prior year.

Capital employed corresponds to average total assets, net of those assets that do not contribute to performance or commercialisation, and less non-interest-bearing debt. Average capital employed totalled €8,758.8m at the end of 2017 (31 December 2016: €8,780.9m). The Group return was below the weighted average cost of capital (WACC) in 2017, which is currently at 4.75%.

ROCE



Source: VERBUND

Gearing

Gearing is determined as follows:

Interest-bearing net debt (short version)	2016	2017	Change
			€m
Current and non-current financial liabilities	2,226.8	1,928.4	-13.4%
Current and non-current financial liabilities – closed items on the balance sheet	489.2	424.3	-13.3%
Capital attributable to limited partners	3.7	2.8	-24.5%
Other interest-bearing debts	1,166.6	1,095.9	-6.1%
Financial assets - closed items on the balance sheet	-489.2	-424.4	-13.2%
Interest-bearing gross debt	3,397.1	3,027.1	-10.9%
Cash and cash equivalents	-27.8	-28.5	2.4%
Short-term money market transactions	0.0	0.0	-
Securities and loans	-142.7	-152.0	6.5%
Non-current assets held for sale	0.0	0.0	-
Other	-5.0	-2.9	-42.4%
Interest-bearing net debt	3,221.7	2,843.8	-11.7%
Equity	5,529.5	5,690.8	2.9%
Gearing	58.3%	50.0%	-

Financing

Financing strategy

In today's volatile energy market environment in which planning is difficult, VERBUND bases its financing strategy on three pillars: 1. securing liquidity and ensuring suitable liquidity reserves; 2. securing a solid credit rating over the long term; and 3. optimising the capital structure.

Securing liquidity and ensuring suitable liquidity reserves

VERBUND gives top priority to ensuring that liquidity is secure at all times, especially in today's difficult market environment. As at 31 December 2017, VERBUND had a syndicated credit line in the amount of €500.0m at its disposal that had not been drawn down. The facility runs until 2019 with two extension options of one year in each case. It was taken out on 15 October 2014 with twelve domestic and international banks with good credit ratings. VERBUND also had uncommitted lines of credit amounting to approximately €546.0m at the end of 2017. None of the credit lines had been drawn down as at 31 December 2017.

VERBUND also makes use of innovative financing options such as green bonds.

Securing a solid, long-term credit rating

The better a company's credit rating, the easier and more inexpensive it is to gain 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 2017, VERBUND had a long-term rating of BBB+ with a stable outlook from Standard & Poor's (S&P) and a rating of Baa2 with a positive outlook from Moody's. S&P raised its rating from BBB to BBB+ with a stable outlook in December 2017. Moody's left its rating at Baa2 in 2017, but did raise its outlook from "stable" to "positive". For the long term, VERBUND is aiming for a solid "A" category rating. VERBUND is therefore focusing its management of the Group on optimising free cash flow and improving the two key rating-related performance indicators of FFO/net debt and RCF/net debt.

Financing measures

In 2017, VERBUND was again able to take advantage of its strong internal funding options to finance its ongoing investment programme and to continue to reduce Group debt. As at 31 December 2017, cash flow from operating activities amounted to €640.6m and free cash flow before dividends was €416.1m. No long-term borrowings were taken out in 2017. 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).

As at 31/12/2017:
S&P: BBB+/
stable outlook
Moody's: Baa2/
positive outlook

In 2017, we again voluntarily opted to have the green bond we launched in 2014 evaluated by oekom research AG, one of the top independent rating agencies worldwide in the sustainable investment segment. The bond, which was issued in the amount of €500m, carries a coupon of 1.5% p.a. and matures in 2024, received very good results. This is the first green bond issue by a company in the German-speaking region.

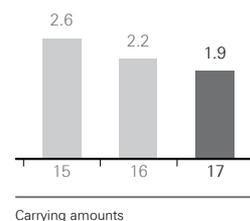
As at 31 December 2017, VERBUND’s borrowing portfolio was composed as follows: 72.3% bonds and 27.7% loans.

The following key performance indicators refer to purely external financial liabilities, excluding former cross-border leasing transactions, exclusive financial guarantees and exclusive limited partnership interests. The carrying amount of VERBUND’s financial liabilities was €1,928.4m as at 31 December 2017, 100% of which was denominated in euros. A total of 93.4% of these financial liabilities had fixed interest rates and 6.6% had variable interest rates. As at 31 December 2017, the duration of all liabilities was 3.6 years and the average term to maturity was 3.7 years. The effective interest rate was 3.6%.

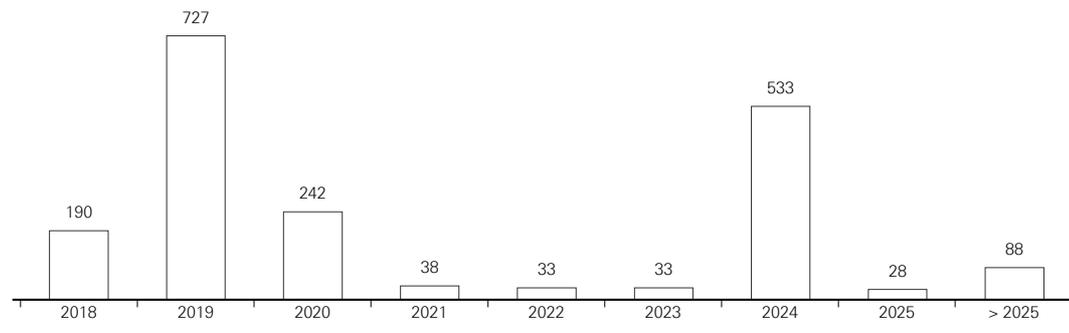
Repayments of principal and repayment structure

In financial year 2017, principal payments of €298.4m were made on long-term borrowings. A total of €189.7m will fall due in 2018, and €727.2m is scheduled to be repaid in 2019.

Financial liabilities €bn



Repayments €m



Segment report

Renewable generation

Hydropower and wind generation technologies are brought together under the Renewable generation segment. Around 93% of the electricity VERBUND generated in financial year 2017 came from renewable sources.

VERBUND is already one of the largest producers of hydropower in Europe. Hydropower, the foundation of our renewable generation portfolio, has many advantages: it is renewable, clean, reliable and flexible and delivers high-value peak load and base load power. Hydropower also represents a cost-effective form of electricity generation from renewable energy. In the challenging market environment that prevails today, VERBUND's strong hydropower base constitutes an absolute competitive advantage. In addition, the Group's hydropower generation portfolio contains attractive flexible products that VERBUND has designed to optimally reflect the needs of a modern energy market.

VERBUND rounds off its renewable production portfolio with wind power and makes optimum use of the potential of wind power with a flexible power plant portfolio.

Hydropower is a valuable natural resource, a “green” battery capable of load balancing without harmful emissions.

Business performance

KPIs – Renewable generation segment

	Unit	2016	2017	Change
Total revenue	€m	935.8	965.9	3.2%
EBITDA	€m	542.8	565.0	4.1%
Result from interests accounted for using the equity method	€m	1.5	0.5	-69.6%
Capital employed	€m	7,107.6	6,769.7	-4.8%

EBITDA of the Renewable generation segment rose by €22.2m to €565.0m. Reductions in fixed costs within other operating expenses and higher revenue from avoided fees for grid usage had a positive impact on EBITDA. In addition, the prior-year EBITDA figure had been reduced by expenses for issuing credit notes as a result of an arbitration award. Generation from hydropower was lower year-on-year, which had an opposing effect. The hydro coefficient was 0.99 in the reporting period (previous year: 1.00). The result from interests accounted for using the equity method of the Renewable generation segment consisted mainly of the earnings contribution from Ashta Beteiligungsverwaltung GmbH.

Capital employed in the Renewable generation segment fell by €337.9m to €6,769.7m, due in particular to the impairment losses recognised in the reporting period on goodwill and on the run-of-river plants.

Energy supply

Energy generation overview

GRI EU1, GRI EU2

Electricity generation

	Number ¹	Maximum electrical capacity in MW ¹	Mean energy capability in GWh	2015 Generation in GWh	2016 Generation in GWh	2017 Generation in GWh
Hydropower ²	128	8,215	29,039	28,098	29,809	29,687
Wind power	11 ³	418		882 ⁴	835 ⁴	952
Total	139	8,633	29,039	28,980	30,644	30,639

¹ as at 31 December 2017 // ² incl. purchase rights // ³ refers to the number of wind farms // ⁴ incl. the solar power generated in Spain that was available until the sale of the Spanish activities in mid-December 2016

VERBUND generated 30,639 GWh from renewable energy sources in 2017, approximately the same as the previous year's level of 30,644 GWh. Generation from hydropower plants dropped slightly to 29,687 GWh (-0.4%). The hydro coefficient – the measure for generation from run-of-river and pondage power plants – came to 0.99 in 2017, or 1% below both the long-term average and the previous year's figure. Generation from run-of-river, pondage and daily storage power plants was therefore down 0.7% year-on-year.

In spite of lower natural water inflows and increased water impoundment, generation from annual storage power plants increased by 1.1% due to greater use of pumping/turbining in response to market prices.

At VERBUND's wind power plants, 14.0% more electricity was generated in 2017 (952 GWh) than in the previous year¹. Better wind conditions led to higher generation from wind power in all three countries. The German wind farms delivered 21.2% more electrical power. In Romania, VERBUND reported an increase in generation from wind power of 14.8%. VERBUND's Austrian wind farm installations also supplied 10.2% more electricity in 2017 than in the prior year.

VERBUND's hydropower plants had a capacity of 8,215 MW (maximum electrical capacity = maximum capacity for sustained operations) as at 31 December 2017. The increase in capacity over the prior year is mainly attributable to the power plant expansion/conversion undertaken by Ennskraftwerke AG, in which VERBUND holds purchase rights. A total of 418 MW was installed at VERBUND's wind farm installations as at 31 December 2017. The following table shows past and planned changes to VERBUND's power plant portfolio until 2019:

GRI EU10, GRI EU1

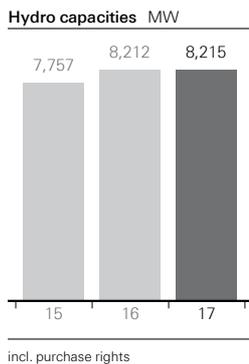
Capacity changes 2016–2019¹

	2016	2017	2018	2019
Hydropower ²	8,212	8,215	8,219	8,223
Wind power	418	418	418	418
Total	8,630	8,633	8,637	8,641

¹ as at 31 December of each year // ² incl. purchase rights

¹ The data for generation from wind power and the percentage change relate to the "Electricity generation" table. The figures for "wind power" in the table also include the solar power generated from our Spanish activities until their disposal in mid-December 2016.

GRI EU30



The planned changes in VERBUND's power plant portfolio until 2019 are based on the current investment plan and include the Group's current new construction projects and projects to increase efficiency that will have been completed by then.

Hydropower

Hydropower – our strong foundation

In 2017, VERBUND generated hydroelectricity from 92 run-of-river power plants and 22 storage power plants. We also held purchase rights to 14 run-of-river power plants owned by Ennskraftwerke AG. As at 31 December 2017, the maximum electrical capacity (maximum capacity for sustained operations) of electricity generation from hydropower was 8,215 MW. The mean energy capability – i.e. annual generation potential assuming an average water supply (standard year) – was 29,039 GWh.

The Austrian power plants of VERBUND Hydro Power GmbH (run-of-river and storage power plants) had a high level of average availability of 94.3% in 2017. This represents a significant improvement on the average availability level of 90.8% for the period from 2012 to 2016. In 2016, a figure of 93.8% was recorded. Plant availability has increased steadily in recent years. This is attributable to optimised maintenance cycles for run-of-river plants (from six to nine years) from autumn 2014 and a change in the inspection strategy for storage power plants from mid-2015.

The run-of-river power plants (Inn and Danube) of binational company Grenzkraftwerke GmbH (Bavaria/Austria) achieved an availability level of just 92.5% in 2017 as a result of renovations (principally renewing control systems). This figure was below the average for the last five years (93.1%). In 2016 – another year of frequent renovation activities – availability of 92.1% was recorded.

The Bavarian run-of-river power plants of VERBUND Innkraftwerke GmbH had a comparatively low availability level of 90.0% in 2017. Here, too, our intent focus on the project to modernise control system technologies had a considerable impact, as was already the case in 2016. The figure for 2017 was thus significantly lower than the average for 2012–2016 (91.8%). In 2016, availability was 90.4%.

New power plant projects

VERBUND was able to continue and complete the following key projects in 2017:

Gries run-of-river power plant

VERBUND and Salzburg AG are carrying out a project to build a new Gries power plant on the Salzach in cooperation with the Austrian state and the municipality of Bruck. Work on the plant, which has been under construction since summer 2016, is progressing on schedule and within budget. The project reached the halfway mark in November 2017 when the Salzach was diverted via the first of two completed weir fields.

Most of the accompanying infrastructure work (“traffic” and “structures to protect against natural hazards”) has also been completed. In addition, the new Gries bridge over the Salzach was opened in 2017, and four structures to protect against torrents were finished. All challenges have been overcome to date, despite the difficult subsurface conditions, and no accidents have occurred during the construction work.

The public relations activities accompanying the construction project place special emphasis on “regionality” and “proximity to the local population”. Several platforms have been established to enable an exchange of information with local residents. In addition to the information made available on the project website and newsletters sent by post, a well-received “citizens’ forum” has met each month since the start of construction. An ombudsman is also available as a contact person. Special information is announced in the local newspaper and the project’s stage of completion is explained at town meetings. The high level of interest in the power plant site can be seen in the large numbers of visitors who attend the plant tours (for example from technical high schools and universities in Austria and Germany).

GRI 413-1

The Gries power plant on the Salzach River will commence electricity generation in autumn 2018. Starting in 2019, the plant will supply more than 10,000 households with clean electricity from hydropower based on an annual generation of 42 GWh and a maximum electrical capacity of 8.8 MW.

Graz power plant on the Mur River

In February 2017, VERBUND finalised its stake of 12.5% in the Graz project to construct a power plant on the Mur with a mean energy capability of 78.9 GWh and a maximum electrical capacity of 17.7 MW. VERBUND Hydro Power GmbH will assume responsibility for operating the plant – at least for 20 years – after its planned completion in 2019. Energie Steiermark Green Power GmbH is responsible for end-to-end project execution under the agreement concluded.

Projects to expand and increase efficiency

Ybbs-Persenbeug hits the halfway mark

Austria’s oldest Danube power plant at Ybbs-Persenbeug has been undergoing progressive modernisation since 2012. Work on the North power plant was completed in spring 2017 after overhaul of the third main generator. One of the dismantled impellers was unveiled for exhibition – after having racked up more than 400,000 hours of operation – in a festive ceremony held on 24 March 2017 to mark 700 years of existence of the Ybbs municipality. The last main transformer remaining from the original construction of the power plant was also replaced in 2017. Once the project is completed (presumably in 2022), the plant will have an additional mean energy capability of approximately 77 GWh and an additional maximum electrical capacity of approximately 18 MW.

Lower Tuxbach

In September 2016, it was decided to implement the Lower Tuxbach expansion project. With additional turbine capacity of 1.7 MW at the Stillup small power plant and an additional mean energy capability of around 74 GWh, the planned measures represent an energy upgrade of the existing power plant portfolio in Zillertal from 2019. Excavation using a tunnel boring machine equipped with disc cutters began in 2017, meaning that commissioning is expected to occur on schedule in 2019.

Planned supporting ecological measures are also being carried out, such as constructing nest boxes and limiting the time window for traffic between the construction site and the Tux Valley landfill.

Public relations activities were stepped up on issuance of the approval notice and on the signing of the second Zillertal agreement and the partnership agreements with the communities and the tourist board as well as on the signing of a partnership agreement between VERBUND and Stadtwerke Schwaz

GRI 413-1

(which receives an annual electricity purchase right). As part of the project, informational events are held, press releases issued and project consultations held as needed.

Töging

The project to upgrade and increase efficiency at the existing Inn power plant in Töging, Germany, and the Jettenbach weir in Germany has been in the official approval process since October 2015. The public hearing is expected to be held in spring 2018. Planning for the tendering process and initial preparations for the construction phase commenced in 2017 while the approval process was ongoing.

According to the current schedule, the proposed project – the main elements of which are construction of the new power plant and weir, raising the sealing capacity of the Inn channel and flood protection at the Jettenbach reservoir – is expected to increase total generation by 120 GWh to 677 GWh in 2022. This will raise the installed power plant capacity by 25 MW to a total of 110 MW.

The project is accompanied by a variety of protective, preventative and compensatory environmental measures (0.2 km²), in particular relating to beavers, otters, yellow-bellied toads, European tree frogs, agile frogs and corn crakes. Project measures include standing water bodies used as spawning habitats and fish habitats, grassland development along the embankments to promote biodiversity, establishment of reptile habitats and structural and hydromorphological improvements, among other things. Measures to permanently maintain the environmental function have already been implemented for smooth snakes, sand lizards and the dusty large blue butterfly.

Based on the agreement with the Free State of Bavaria, environmental measures in the diversion channel are being developed in parallel to the project in cooperation with the water management authorities.

GRI 413-1

To promote a continuous exchange of information on the project, regular consultations are offered. Most of the questions posed thus far have related to the further course of the project. The project is expected to receive increased media coverage once the public hearing starts.

Environmental measures: excellent track record in restoration maintained

Implementing the requirements of the European Water Framework Directive is expected to incur total costs of around €280m by 2027 for VERBUND's run-of-river power plants alone. This is in addition to the ongoing expenses of operation and maintenance. Selected nature conservation activities are presented on the VERBUND website.

The single most extensive project in 2017 involved establishing fish passability at the Greifenstein plant on the Danube as part of the LIFE+ Network Danube project. The fish ladders were constructed as semi-natural bypass streams and are used to overcome a water level difference of 12 meters over a distance of 4 kilometres. Work is also focusing on planning additional fish ladders on the Danube, Mur and Drau rivers and on monitoring the fish ladders already constructed.

Another initiative in the reporting period was Danube Day 2017, held at the City Park of Vienna. Children were introduced to the role of power plants and learned about how fish passability is being created and the Danube habitat improved. In addition, regular neighbourhood meetings are held to discuss the planned environmental measures, among other things. The last such meeting took place in November 2017 at the Abwinden-Asten power plant.

GRI EU13
A description of
conservation measures
at VERBUND can be
found at
www.verbund.com >
About VERBUND >
Responsibility >
Environment

Sustainable planning and stakeholder management

In all of its projects, VERBUND considers its responsibility to society and the environment right from the start. Great importance is placed during all stages of planning and implementation on executing construction work with the utmost consideration and ensuring that the effects of plant operation on the environment are minimal.

In executing its projects, VERBUND also relies heavily on dialogue with citizens. The community is updated regularly and local council information sessions are held, as are meetings with mayors and tourism associations.

“Neighbourhood meetings” are a new event format that was tested in 2017 at six selected power plant sites across Austria.

Compliance with the highest environmental standards is reviewed regularly by internal and external auditors during regular operations.

GRI 102-43

For more information, please refer to section entitled Materiality and stakeholder engagement

Examination of the flooding on the Danube and the Drau

Four actions under civil law are still pending in Lower Austria in connection with the flooding on the Danube in 2013. Examination of the report prepared by the court-appointed expert has not yet been completed due to the plaintiffs having submitted extensive follow-up questions. The final expert report – which will quantify the proportion of the sediment deposits leading to the flood damage against which the action has been filed for which the power plants are responsible – is not yet available. For that reason, the other judicial proceedings remain suspended.

The criminal investigation proceedings brought have been dismissed pursuant to the notification from the Klagenfurt public prosecutor dated 12 January 2018. Some of the proceedings had been brought against employees of VERBUND Hydro Power GmbH as a result of the flooding on the Drau in November 2012. A total of 95 civil proceedings are also pending – 11 in Austria and 84 in Slovenia. The Austrian proceedings have been suspended until a decision has been reached in the criminal proceedings. In the Slovenian proceedings, the evidence collection process has been initiated.

Constructive measures to reduce noise emissions at the Malta-Hauptstufe power plant

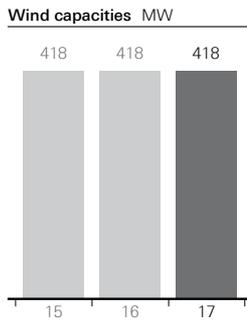
VERBUND has operated Austria’s most powerful hydropower plant in Mölltal/Carinthia since 1979, the Malta-Hauptstufe pumped storage power plant. In addition to four turbines, this power plant also has two pumps whose operation generates a low-frequency sound in certain constellations. The local community increasingly finds this extremely disturbing.

Although there is general consensus that all official approvals have been obtained for the power plant’s operation, VERBUND took on board and discussed the concerns raised by a citizens’ initiative set up in 2015 from the outset in the form of constructive dialogue. In 2016, independent readings of noise levels at certain residential properties identified by the citizens’ initiative were taken in close cooperation with the initiative and the two mayors of the neighbouring municipalities. VERBUND subsequently commissioned an expert report on environmental health, in which it was found that noise levels should be reduced in the medium term to avoid potential adverse effects on residents.

Implementation of specific measures to reduce noise emissions from the pumps began in 2017. To this end, a resonator was installed in one of the two pumps. The resonator uses interference to mute much of the offending frequency emitted by the pressure pulses (which is what causes the noise

GRI 102-44, GRI 413-1

GRI EU30, GRI EU1



emissions). After the effectiveness of the resonator was confirmed through readings of noise levels at the affected homes, VERBUND equipped the second pump with a resonator as well around the end of 2017.

Once the system has been fine-tuned, tests of noise levels and environmental health will be carried out in 2018 and the results provided to both the authorities and the residents concerned. The residents, who have formed a citizens' initiative, will be kept informed of the progress of the work and the interim results on an ongoing basis.

Wind

The perfect complement to hydropower

With wind power plants in Austria, Germany and Romania, VERBUND has 418 MW of installed capacity from wind power at its disposal in three countries. The wind power plants had an average availability of 97.9% in 2017.

Projects to increase efficiency

A new laser distance meter enables simple and efficient measurement, and subsequent correction, of the rotor blade angle of all wind turbines in operation. Reducing imbalances can extend the lifetime of the turbines, and placing the rotor blades at the best angle minimises wake losses.

Environmental measures

At the Petronell-Carnuntum, Hollern II and Bruck-Göttlesbrunn wind farms, an expert conducts ornithological monitoring either annually or biennially in order to examine the effects on the habitat and the breeding behaviour of various bird species. Noise emission and noise pollution readings at the wind power plants after commissioning ensured that the surrounding area is not adversely impacted to a significant degree.

Our power plants represent a symbiosis of nature and technology.

Introduction of an environmental management system certified to ISO 14001 and environmental certification of the Austrian wind farm operation ensure that the most stringent environmental standards are maintained over the entire life cycle of the wind power plants.

Stakeholder management

GRI 413-1

In operating its wind farms, VERBUND relies heavily on engaging with the local population. At the Bruck/Leitha wind farm, guided tours are offered of a wind turbine with an observation platform. This offers interested individuals a unique opportunity to gain an alternate perspective on wind power.

Sales

The Sales segment combines all of VERBUND's trading and sales activities. Through its trading in electricity, gas, guarantees of origin, CO₂ emission rights and transport capacity as well as in innovative green electricity and flexible products, VERBUND has gained a strong presence in the most important OTC markets and in the exchange markets in Europe. This also gives VERBUND a decisive competitive advantage in optimally marketing its products. The expertise VERBUND has acquired strengthens its position in the electricity market and enables the Group to respond directly to changes in the market. VERBUND is the leading provider of flexible and green electricity products as well as comprehensive services for the energy markets in Austria and Germany.

The focus of VERBUND's electricity trading is on optimising utilisation of its own power plants, achieving the best possible results from marketing the Group's own generation, optimising electricity purchasing, and securing sales. In addition, VERBUND makes use of the opportunities for growth resulting from the energy transition and furnishes customers with energy market expertise in the form of new products and services. Thus, VERBUND assists customers with marketing their renewable energy facilities and offers them flexible products, for example, to reduce their risk exposure arising from balancing energy.

When selling electricity and natural gas to consumers, VERBUND's main focus is on innovative products, fair business practices and sustainability principles. The core markets of VERBUND's sales activities are Austria and Germany. In Austria, VERBUND supplies the household/agriculture and commercial segments – which include the Group's standard load profile customers – with electricity generated exclusively from hydropower. In Germany, VERBUND delivers to industrial enterprises and resellers that appreciate the level of competency that VERBUND provides.

Business performance

KPIs – Sales segment

	Unit	2016	2017	Change
Total revenue	€m	2,199.1	2,283.5	3.8%
EBITDA	€m	120.4	108.0	-10.3%
Result from interests accounted for using the equity method	€m	0.0	0.0	–
Capital employed	€m	203.5	182.5	-10.3%

EBITDA of the Sales segment decreased by €12.3m to €108.0m. The reduction is primarily the result of the recognition of forward contracts in profit or loss in the amount of €-6.1m after a figure of €15.9m had been recognised in the previous year. Lower personnel expenses and other operating expenses had a counteracting effect on EBITDA.

Capital employed of the Sales segment was down €20.9m on the prior-year figure, mainly due to a market price-related decrease in the positive fair values of derivative hedging transactions with a simultaneous increase in the negative fair values.

Energy trading and sales

Electricity trading

Economic hub for the Group

Electricity trading is gaining in significance with the progressive integration of European electricity markets and the expansion of renewable energy. The energy market is changing constantly and is becoming more dynamic. In the first half of 2017, the grid and supply situation was especially tense in Europe. The resulting challenges mean that both short-term, flexible marketing and optimal management of power plant capacities are becoming increasingly important.

In electricity trading, VERBUND serves as an asset optimiser, offering a comprehensive range of customised products and services in the energy market which are being adapted continuously to meet changing market requirements. The range extends from plant use optimisation and market access to flexible marketing and hedging offers, as well as forecasting and regulatory services. Supplying innovative products designed to meet individual customer requirements is of particular importance to VERBUND.

Leading provider of green electricity and flexible products in the European energy market

VERBUND's customers primarily include European wholesale partners, other energy trading companies, resellers and municipal utilities. The Group's customer portfolio also comprises grid and power plant operators and producers of electricity from renewable sources – particularly in the wind, solar power and small-scale hydropower fields.

VERBUND Trading GmbH is a top player in European energy markets and is considered a reliable trading partner with considerable expertise in asset marketing and in marketing flexible products and green electricity. All trading activities take place within the framework of a comprehensive, strict, regularly updated set of risk rules and regulations.

Optimal marketing of VERBUND's own generation

In view of the dynamic changes in the energy markets, VERBUND has further optimised its marketing activities so as to secure and market its own generation as cost-effectively as possible. Its diversified sales strategy is continuously refined and improved. In its marketing strategy, VERBUND focuses among other things on the quantity of its own generation and follows the seasonal fluctuations in the water supply.

The proximity of VERBUND Trading GmbH to the market allows this company to continuously analyse changes in the underlying data and in the climate on the energy market. This makes it possible to identify market signals at an early stage and respond quickly to market trends for optimal marketing purposes. The trend in the energy markets and on the stock exchanges towards increasingly shorter-term transactions and the increasing volatility of prices confirm the accuracy of this strategy.

VERBUND Trading GmbH ensures market-driven management and optimisation of the use of all VERBUND power plants. The precise inflow and weather forecasts required for this are prepared using models developed within the Group in some cases, with highly qualified staff contributing their knowledge of the energy market and of meteorology. Optimisation models using the appropriate electricity pricing models round off the system landscape to enable the best possible marketing of assets.

VERBUND uses its expertise to market renewables

VERBUND also enables third parties to benefit from its long-standing expertise in the use and the marketing of renewable energy. The marketing portfolio of VERBUND Trading GmbH includes power generated from wind farms, small hydropower systems, solar power plants and biomass installations from customers. VERBUND is actively expanding these successful products for marketing third-party facilities in line with the needs of its customers. The Group moreover expanded its marketing portfolio in Austria and Germany in the past financial year, despite massive pressure on prices and tough competition. In 2017, VERBUND already marketed more than 1,100 MW of electricity generated from new renewable energy sources, with operators benefiting from VERBUND's expertise in the energy market.

Marketing green electricity

VERBUND's product portfolio also includes conventional trading in emission rights and guarantees of origin (green electricity). VERBUND thus takes account of increased awareness of energy production types and energy sources. This approach is in line with the trend towards renewable energy and sustainable generation technologies.

In Austria and Germany, VERBUND is one of the leading providers of certified renewable generation (hydropower from Austria and Germany) and supplies over 100 public utilities and resellers in these markets with its premium product – H2Ö electricity. In spite of rising pressure on prices in the green electricity segment, the level of sales remained almost stable in 2017 compared with the prior year.

Dynamic markets call for flexible products

In the Germany/Austria joint price zone, VERBUND is the leading provider of production flexibility and flexible products. Highly flexible storage and pumped storage power plants allow near-term capacity adjustments to be made. Market-based marketing is performed on the day-ahead and intraday spot markets. In addition, system services such as primary, secondary and tertiary control are offered when demanded by APG, the control area manager, to ensure short-term balancing between generation and consumption. VERBUND also supplies power plant output for grid services such as provision of reactive power, fault management and black-start capability.

Together with the Mellach combined cycle gas turbine power plant (Mellach CCGT), VERBUND also uses its pumped storage power plants for congestion management. To this end, the control area manager APG ensures congruent modes of operation among the different power plant operators to prevent or balance out unfavourable/critical load flows in the European ultra-high voltage grid.

VERBUND also offers its customers a “virtual power plant” product to enable them to close gaps in flexibility in their portfolios and to hedge portfolios against fluctuations in electricity prices. Virtual pumped storage is offered in line with customers' needs, with defined pumping and turbinning capacities and different lead times in product nomination.

Given the massive increase in volatility in the intraday electricity market and the necessity of reacting faster and faster to market developments, VERBUND decided at the start of the year to take another major step in digitalising its trading model – in addition to the reinforcements already made to its intraday trading team. The Autotrader software package uses automatic trading algorithms to support traders in responding more quickly to the requirements of intraday trading, especially its rapid pace. This makes it possible to achieve the best possible prices in an ever more complex market. After thoroughly testing

the software, VERBUND started actively implementing the Autotrader solution in intraday trading last June. Here as well, VERBUND is among the leaders in European energy trading.

Innovative services and products

VERBUND provides its partners with first-class, solid energy market expertise in the form of different products and services. These include stock market access to the intraday, spot and futures markets, forecasting services, management of balancing groups, integrated portfolio management, regulatory services (e.g. REMIT) or entire packages for supplying rail operators with traction current.

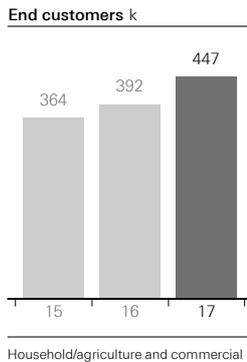
Current activities will lay the foundation for developing a comprehensive strategy along with the requisite implementation plan for increasing digitalisation in electricity trading. Here, particular emphasis is placed on working out customised solutions to automatically map the entire life cycle of a supply of electricity, from the enquiry to pricing and purchase on the stock market all the way to reporting and online invoicing. In 2017, VERBUND added a key strategic pillar by launching the VISION project. VISION is a central communication and service portal for VERBUND's wholesale customers, which include municipal utilities, industrial undertakings and local generators of wind and solar power. The first customers began using the portal in May 2017. VISION allows VERBUND customers to market electricity and gas products online and track their order status in real time up to fulfilment. Taking an approach of "one face to the customer", VISION offers VERBUND customers a user-friendly portal enabling them to access the Group's entire sales and trading portfolio, including all processes and settlement procedures, in a single tool.

Electricity sales

Customer base recently expanded

The business and industrial customer segment remained highly competitive in financial year 2017. VERBUND nonetheless succeeded in strengthening its long-standing, good relationships with customers and building further on its leading market position in the Austrian industrial customer segment. By offering new services and innovative products, VERBUND has positioned itself in the business and industrial customer segment as an experienced and reliable service provider.

In the household/agriculture and commercial segment, VERBUND achieved "Gold" status in the 2017 "Service Champions" study. A Service Experience Score measures performance from the perspective of the customer. Approximately 71,000 opinions were obtained in a broadly based survey of customer experience. In an industry comparison of "utilities", 17 companies were tested. VERBUND again took first place and was named "industry winner". This award confirms the quality of VERBUND's services. Our goal for the future is to secure these highly favourable results and to achieve further improvements.



GRI EU3

VERBUND increased its customer base by 10% in financial year 2017. At the end of the year, around 391,000 customers in the household/agriculture and commercial segments were already receiving

VERBUND electricity generated exclusively from Austrian hydropower. Market share in the household segment amounted to around 8% in 2017. Climate-neutral natural gas from VERBUND was supplied to approximately 56,000 customers in the household/agriculture and commercial segments in 2017.

The advertising campaign conducted in the spring and autumn of 2017 was responsible for this success. Along with new customer acquisition, the campaign focused on continuing to expand direct sales by adding attractive new offers for customers. Increased customer loyalty also played a role in the success achieved. In addition to increasing our appreciation for loyal segments, we targeted special offers at customers who are at risk of switching providers.

Certifying the origin of electricity from VERBUND power plants

VERBUND is a pioneer in certifying the origin of electricity. In 1999, VERBUND became the first Austrian utility to have all of the hydroelectricity it generated certified by the TÜV SÜD inspection authority. VERBUND thus played a key role in developing the guarantee of origin scheme for electricity in Austria. As a neutral institution, TÜV SÜD uses its seal of approval to certify that VERBUND hydropower plants generate green electricity and feed it into the grid in appropriate quantities and in the quality required by consumers.

GRI 417-1

VERBUND generates green electricity from local sources.

TÜV SÜD's guarantee of origin certification refers to specific generation sources. It provides a guarantee to customers that the electricity comes from renewable sources. A total of 128 hydropower plants in Austria and Bavaria meet the EE and EE+ criteria. The Generation EE standard ("EE+" and "EE new" modules) is divided into "general requirements" and "optional requirements" for the organisation to be certified and "special requirements" relating to the sources of energy and to the verification/accounting system. Optional requirements are defined for electrical work and power guarantees ("Generation EE+" module: Simultaneous delivery) and for the certification of new plants ("Generation EE new" module: New plants).

In 2017, 22,483 GWh of TÜV SÜD-certified hydroelectricity was available to VERBUND².

TÜV SÜD's generation and origin certification is a guarantee of origin commonly used in many countries and also recognised by E-Control for electricity labelling. Since 2004, TÜV SÜD has additionally certified the VERBUND thermal power plants in Austria with regard to issuing guarantees of origin.

² Preliminary figure based on the 2017 fast close data. TÜV SÜD always performs its calculations retrospectively (quarter 2 of the subsequent year). Figure using TÜV SÜD net calculations (essentially gross hydropower output less own use less easement agreements less supply to plant shareholders less power for pumping and turbinning).

Energy certification at VERBUND

Certification	Type of facility	Number of facilities	Maximum electrical capacity in MW	Generation available for sale in 2017 in GWh
TÜV SÜD 100% hydropower	Hydropower plants	128		22,483 ¹
TÜV SÜD guarantee of origin	Thermal power plants	2	1,094	

¹ Preliminary figure based on the 2017 fast close data. TÜV SÜD always performs its calculations retrospectively (quarter 2 of the subsequent year). Figure using TÜV SÜD net calculations (essentially gross hydropower output less own use less easement agreements less supply to plant shareholders less power for pumping and turbinning).

Clean electricity “Thank You Hydropower!”

Clean electricity products:

- H₂O electricity from Austrian hydropower plants certified by TÜV SÜD and
- electricity from VERBUND’s German hydropower plants certified by TÜV SÜD

are successfully positioned in the market. VERBUND geared up early for the energy transition by introducing these products, from which commercial and household customers are already benefiting today. In addition, VERBUND intends to continue to expand its leading role as a supplier of green electricity in Austria and Germany in the future.

Electricity labelling in Austria

GRI 417-1

Electricity labelling for Austria is specified on the consumer’s electricity bill. The electricity VERBUND supplies to the household/agriculture and commercial segment has always come exclusively from hydropower.

In 2016, all of the electricity supplied to the business and industry segment came from renewable energy sources (the legislation stipulates that electricity labelling be issued no later than four months after the end of the calendar year or business year). Of the guarantees of origin used, 80.27% originate from hydropower plants, 10.57% from wind power plants and 9.16% from solid or liquid biomass, biogas or other renewable energy sources.

In Austria, the 2010 Electricity Act (Elektrizitätswirtschafts- und organisationsgesetz, ElWOG 2010) and the Electricity Labelling Regulation (Stromkennzeichnungsverordnung, SKV) form the legal basis for electricity labelling. The Austrian electricity labelling model is an evidence-based system via guarantees of origin (GoO). All electricity volumes delivered to consumers in a calendar year must be assigned guarantees (“grey electricity ban”). Electricity supplied to pumped storage power plants must also be labelled.

Electricity labelling in Germany

In Germany, 100% of the electricity that VERBUND supplies to standard load profile customers (household/agriculture and commercial segment) also comes from hydropower.

The origin of the electricity volumes that VERBUND delivered to business and industrial customers in Germany in 2016 was broken down as follows: 19.5% renewable energy (subsidised in accordance with the Renewable Energy Sources Act), 2.8% other renewable energy sources, 2.9% other fossil fuels, 16.6% natural gas, 43.6% coal and 14.6% nuclear energy. That particular mix reflects the fact that demand for certified electricity is low among the majority of Germany's industrial customers. Therefore, the electricity supplied to those customers reflects the overall German generation mix, which includes electricity from coal-fired and nuclear power plants in addition to electricity from wind and solar power.

In Germany, the following laws form the legal framework governing electricity labelling: Section 42 of the Energy Industry Act (Energiewirtschaftsgesetz, EnWG) for electricity delivered and Section 78 of the Renewable Energy Sources Act (EEG) for the mandatory disclosure of electricity subsidised in accordance with the EEG.

Climate-neutral natural gas

VERBUND added climate-neutral gas to its household customer portfolio back in 2014. In doing so, VERBUND became one of the first energy service providers in Austria to offer its household customers climate-neutral natural gas and electricity exclusively from Austrian hydropower from a single source.

In the case of climate-neutral natural gas products, the emissions resulting from the use of natural gas are offset by the development and expansion of subsidised renewable energy at the Ashta hydropower plant in Albania. This has been officially confirmed by TÜV NORD, a reputable, independent technical inspection authority in Germany.

A total of 697 GWh of natural gas was sold in the reporting period. The amount of CO₂ compensation for natural gas sales was 127 kt CO₂e.

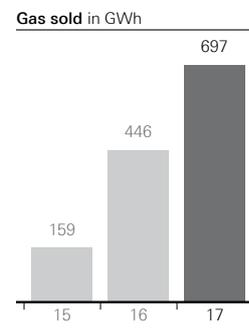
The Energy Efficiency Act and its implementation

Under the Austrian Energy Efficiency Act (Energieeffizienzgesetz, EEffG), VERBUND is required to reduce electricity by 0.6% of prior-year sales each year. This translated into a target of around 37 GWh for 2017. Thanks to having taken action early on, VERBUND exceeded that target by a wide margin.

VERBUND reached the prescribed proportion of household measures (at least 40% of all measures) through collaborative ventures with different partners. For instance, financial assistance was provided to customers who were prepared to exchange a refrigerator and/or freezer that was at least ten years old for a high-efficiency one. In the area of lighting, VERBUND made it easy for households to switch to energy-efficient LED light bulbs with its "1+1 free" campaign, in which customers who bought one LED bulb received a second one from VERBUND at no charge.

VERBUND's industrial customers passed on the industrial measures required to be implemented under the Energy Efficiency Act (EEffG) – at least 60% of all measures – at an early stage. The vast majority of the measures were implemented on site at the industrial or commercial companies.

GRI 417-1



GRI EU-DMA
(formerly EU7)

GRI 102-44

Customer satisfaction and customer relationships

High level of customer satisfaction and customer loyalty confirmed

Ever since 2008, VERBUND has conducted an annual survey of customer satisfaction and customer loyalty among its private and commercial customers. The survey covers overarching aspects such as brand and image, overall satisfaction and loyalty as well as topics relating to services, products and sustainability. VERBUND takes the results as a basis for optimising internal processes and providing a high level of service quality to its customers.

As in past years, VERBUND achieved very good results in 2017 with respect to overall customer satisfaction. On a scale ranging from 1 (highly satisfied) to 5 (not at all satisfied), private customers gave VERBUND a rating of 1.76, and the rating from commercial customers was 1.70. This represented a slight improvement on the prior year (2016: private customer rating of 1.83 and commercial customer rating of 1.71). The customer loyalty index, which is the most important indicator for VERBUND, improved slightly to 75 points in 2017 (2016: 74 points). The index ranges from 0 to 100 points. This outcome confirms that VERBUND is on the right track with its measures to steadily improve on the Group's already-high quality standards, and also motivates us to continue placing our valuable customer relationships at the centre of our daily activities going forward.

Customer relationships

VERBUND's 2017 summer campaign focused on "Heroes of the Energy Future". Aimed at promoting long-term customer loyalty, the main message of the campaign was "We present our heroes of the energy future". The idea was to assure customers that they had made the right choice in switching to VERBUND as their utility provider.

Customer support

VERBUND's freephone customer service number (+43(0)0800 210 210) is available to our existing customers in Austria to answer all of their questions and to advise potential customers on switching their electricity and natural gas supplier.

The VERBUND website at www.verbund.com provides an overview of the Group's product portfolio and details on facilitating the switch to VERBUND as well as answers to frequently asked questions. Concise, easily understandable explanatory videos are made available to customers on the website to assist in answering their questions.

Energy consulting

In connection with the VERBUND Electricity Relief Fund run by Caritas (a Catholic charity), certified energy consultants are available free of charge in all federal states of Austria to clients of Caritas. The consultants provide advice on how and where energy can be saved. More on this topic can be found in the section entitled Human resources and social responsibility.

Data security

Under the 2000 Austrian Data Protection Act (Datenschutzgesetz 2000, DSG 2000), personal data may only be processed in accordance with the 2004 Regulation on Standard and Model Data Processing (Standard- und Muster-Verordnung 2004, StMV 2004) and the SA001 accounting and logistics standard application contained therein. Likewise, more extensive processing steps (e.g. archiving or storage) are carried out solely on a legal basis (e.g. Section 212 of the Austrian Commercial Code (UGB)).

In 2017, no complaints were made by third parties in relation to the protection of VERBUND customers' privacy that were recognised as being legitimate. Requests for information on data protection in accordance with Section 26 of the 2000 Austrian Data Protection Act (DSG 2000) were answered in five cases.

GRI 418-1

Late payment

Anyone can encounter difficulties in paying their bills. VERBUND assists by offering payment by instalments, calculated without adding default interest. Customers who are in payment arrears are given notice via a three-step reminder system before the energy supply agreement is terminated due to late payment. The supply continues if the customer meets the payment request from one of the steps.

In 2017, the electricity supply to 2,566 households had to be disconnected. This represents an increase of 653 disconnections compared with 2016. The gas supply to 732 households was disconnected in 2017, an increase of 351 disconnections over 2016.

GRI EU27

Grid

Austrian Power Grid AG (APG) is VERBUND's independent grid subsidiary. It operates the supraregional electricity transmission network in Austria. One of APG's main tasks is system balancing, with the ultimate goal of ensuring security of supply for Austria as a business location. The expansion of renewables is placing completely new demands on the performance and flexibility of the power grid. APG is therefore pushing for the necessary further development of its grid – as presented in its Network Development Plan – to be implemented as quickly as possible. In the case of infrastructure projects such as new power grid projects, involving the relevant stakeholders is essential. Raising awareness in the community of the need for a power grid infrastructure is therefore of great importance to APG. The company supports this awareness-raising initiative with its information centre located at the APG control centre in Vienna's tenth district. Ever since an interactive multimedia exhibition was installed there in 2012, the APG info centre has attracted some 3,000 visitors per year, who learn about the importance of electricity supply and recent developments in this field. Around three-quarters of visitors are students from Austrian secondary schools who visit the APG control centre within the framework of a partnership between APG and the Austrian Federal Ministry of Science, Research and Economy.

Business performance

KPIs – Grid segment

	Unit	2016	2017	Change
Total revenue	€m	712.1	787.9	10.6%
EBITDA	€m	248.3	158.6	-36.1%
Result from interests accounted for using the equity method	€m	0.1	0.3	-
Capital employed	€m	1,239.1	1,257.1	1.5%

EBITDA of the Grid segment fell by €89.7m to €158.6m, due primarily to a lower contribution to earnings from the control power, grid loss and congestion management businesses. Capital employed increased slightly to €1,257.1m, primarily as a result of net capital expenditure for intangible assets and property, plant and equipment.

Technical developments

Power grid data APG

Voltage level	Power lines	Power lines	Substations/
	Route length/km	System length/km	Switching stations
Overhead power lines			
380-kV	1,153	2,577	
220-kV	1,615	3,212	
110-kV	660	1,175	
Cable			
110-kV	3	6	
Total	3,431	6,970	63

GRI EU4

Operational developments

APG is responsible for the safe operation of the Austrian transmission grid. In order to be able to fulfil this legal mandate, APG implemented numerous measures in coordinated grid operations in 2017. To eliminate congestions and guarantee grid security in Austria and in the European transmission grid, large-scale redispatch measures were required at the power plants in the past financial year.

Congestions in APG's grid were caused by intense north-south, west-east and east-west load flows, some related to necessary, maintenance-related power line shut-downs. These long-range load flows mostly occurred in connection with increasingly volatile wind and solar power generation in Germany and Northern Europe. Other contributory factors were lower generation from hydropower in Austria and South-Eastern Europe in summer 2017 as well as changes in European load flows triggered by regulated network elements (phase-shifting transformers) north and south of Austria's national border. Furthermore, in 2017 power plants in the APG control area had to be frequently used for managing grid congestions outside of Austria, mainly in Germany.

In summer 2017, the short-term availability of thermal power plants for redispatch measures was agreed in return for the payment of costs. The grid reserve in 2017 was 2,400 MW. This grid reserve was necessary to ensure secure grid operation during the summer months and was frequently utilised in full.

The volume of the total redispatch quantities used (grid reserve plus additional power plants) amounted to 4,628 GWh in the reporting period.

Critical grid situation

During the period from 17 to 26 January 2017, difficult supply situations occurred at the same time in several countries in Europe. The most critical situation of these was in France. Forecast temperatures were as much as 9°C below the average daily temperature. France therefore initially faced a possible increase of demand for electricity of almost 22 GW. The grid load for France already stood at around 92 GW, with forecasts of up to around 100 GW. In parallel, five nuclear power plant units were in review due to a number of safety concerns. This meant that around 10 GW of production capacity was unavailable. Some relief was provided by substantial imports from abroad, which also reduced the load on the corresponding transmission grids up to the safety limits. France thus made full use of all measures available in normal operations to cover the load. However, a further load increase was expected for which no more reserves were available. It was the first time ever that France had to prepare

for emergency measures on this scale. APG also preventively activated its internal crisis management and during this period was in close contact with the regulatory authorities (E-Control) and the cognisant ministry (Federal Ministry of Science, Research and Economy) to keep them abreast of developments. France did not need to implement the emergency measures in the end because the temperatures were ultimately not as low as forecast. The strained situation in Austria in this period resulted in the maximum thermal generation available having to be fully utilised (up to over 4 GW). Low generation at the run-of-river power plants, very little wind feed-in and low filling levels in the storage systems posed considerable challenges for grid operation.

The following trend was seen in other countries in Europe, where critical situations likewise arose:

- Belgium: non-availability of nuclear power plants with a capacity of 1 GW, significant imports of up to 2 GW.
- Switzerland: historical 20-year low in storage levels at this time of year, imports of up to 5 GW, reduction in trade capacity on the transmission lines to the neighbouring countries to prevent congestion.
- Italy: initially 3.5 GW exported (mainly to France), line failures in Central Italy due to earthquakes, then no further exports.
- Balkans: significant imports due to low water supply.

The trend in Austria shows that, contrary to expectations, the load cover can likewise be jeopardised under particularly unfavourable conditions (a particularly high grid load caused by very low temperatures, very low or no feed-in from hydropower, hardly any feed-in from solar and wind power, low filling levels in the reservoirs, etc.). The situation will become particularly critical when thermal power plants are no longer available in the near future. In the case described, the required capacity of several GW could only have been met with additional imports. However, particularly in such critical situations, this capacity might also no longer be available abroad due to simultaneity effects.

Intraday stops and redispatch quantities

	2015	2016	2017
Intraday stops (in hours)	3,150	4,112	5,678
Redispatch quantities (in GWh)	2,266.5	1,727.2	4,628.0¹

¹ only volumes from increased production

Interruptions to supply

One interruption to supply occurred in the APG grid in 2017 which affected consumers for 23 minutes. The effects on consumers of a component failure in APG's transmission grid are quantified using the "MWh not supplied" indicator. Counting starts from the time supply to consumers is interrupted if this can be clearly attributed to a preceding fault in the transmission grid.

In 2017, APG transmitted around 49,446 GWh at grid level 1; 51 MWh, i.e. 0.0001% of the volume transmitted, was not supplied (2016: two interruptions; 2015 and 2014: no interruptions).

GRI EU28, GRI EU29

Electricity transmission and grid loss

In financial year 2017, the transmission volume at grid level 1 (380-kV and 220-kV grid) increased by 9.8% over the previous year; domestic delivery came to 49,446 GWh. Based upon the reported transmission schedules of the Austrian and international market participants, the APG control area imported 45,384 GWh and exported 36,005 GWh in 2017. On balance, this resulted in an import surplus of 9,379 GWh.

GRI EU12
For further information
on the transmission grid
visit www.apg.at

Electricity transmission TWh

	Abroad	Austria
Feed-in	22.3	27.9
Delivery	18.7	30.7
	Grid loss (0.8)	

Compared with the previous year, grid losses rose by 19.5%, primarily as a result of the 9.8% increase in the transmission volume. Grid loss as a percentage of electricity transmitted came to 1.5%.

Transmission losses

	Unit	2015	2016	2017
Electricity transmitted ¹	GWh	46,164	45,031	49,446
Grid loss ¹	GWh	638	636	760
Grid loss as a percentage of electricity transmitted	%	1.38	1.41	1.54

¹ grid level 1

Projects and stakeholder management

The transmission system operator APG is required by law to design the power grid infrastructure in a forward-looking manner in line with the requirements of the electricity market.

Since 2011, APG has also been legally required to prepare an updated Network Development Plan each year that provides information on "which important transmission infrastructures will have to be built or expanded in the next ten years" (Section 37 of the Austrian Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG) of 2010). However, due to the long implementation periods for line construction projects, the accelerating challenges arising from the

GRI 413-1

large-scale expansion of renewable energy and the European electricity market, APG needs to plan far beyond the ten-year horizon.

APG's target grid concept provides for the closure of the 380-kV ring, a highly efficient 380-kV axis in western Austria as well as strong interconnections to neighbouring countries. This will create important prerequisites for future grid and system security, grid integration of renewables and market integration.

Several APG line projects have been classified by the European Commission as TEN (Trans-European Networks for Energy) projects and within the scope of the European Energy Infrastructure Regulation as projects of common interest, which makes them priority projects. In addition, the grid expansion and reinforcement projects defined in APG's long-term planning have been coordinated on a pan-European basis as part of the Ten-Year Network Development Plan of the European Network of Transmission System Operators for Electricity (ENTSO-E). APG's current 2017 Network Development Plan is based on APG's strategic long-term planning and the 2016 Ten-Year Network Development Plan.

Rapid expansion of the power grid is a critical success factor for facilitating the energy transition and achieving an integrated internal energy market in Europe. APG's 2017 Network Development Plan provides for investments of around €2.5bn in the next ten years. These investments will serve to develop the grid infrastructure such that it will provide a secure and sustainable supply of electricity in Austria.

In 2017, a total of €115.3m was invested in intangible assets and property, plant and equipment (2016: €147.3m). Most of the capital expenditure was for:

Investments for grid expansion	€m
Obersielach substation: third 380-/220-kV transformer	7.8
Kaprun grid area	6.7
Jochenstein substation: 220-/110-kV grid support	5.2
Maintenance CAPEX	€m
New construction of substation replacements	20.6
General line renovations	14.7
Modernisation of secondary technology	12.8

APG's top-priority line construction projects at present include the Salzburg line, the Germany line and the Weinviertel line as well as the general overhaul of the 220-kV St. Peter-Ernsthofen line.

380-kV Salzburg line

Construction of the 114 kilometre-long 380-kV Salzburg line between the Salzburg and Tauern substations represents a major step in the highly efficient connection of load centres with the major power plant sites in Austria and the integration of renewable energy sources (such as wind power) into the grid.

When the line was being planned, great importance was attached to the incorporation of all of the residents, municipalities and stakeholders impacted by the project. In addition to establishing personal contact with all landowners and municipalities, a total of 13 stakeholder workshops were held in the past financial year in the districts affected. Furthermore, the project managers and project communication staff regularly answered enquiries submitted in writing.

For the 380-kV Salzburg line project, a positive, legally valid assessment already exists for the section of the project that falls within Upper Austria. For the Salzburg part of the project, the state government of Salzburg granted the approval notice (following an environmental impact assessment in the first instance) on 14 December 2015. However, the environmental impact assessment (EIA) notice was appealed. As a result, the proceedings have been pending with the Federal Administrative Court since February 2016. The hearing took place in Vienna from 17 to 27 July 2017.

380-kV Germany line

The planned 380-kV Germany line between St. Peter and the national border will entail a further increase in interconnection capacity to Germany. An efficient connection of the renewable energy sources in Germany and Northern Europe to the pumped storage power plants in the Alps is an important component of (European) energy transition implementation. In its legally effective approval notice from December 2015, the responsible authority in Upper Austria determined the environmental compatibility of the Germany line. Based on early, transparent notification of all of the parties involved (land owners, municipal representatives and the community), APG was granted a positive, legally effective approval notice in the first instance.

Construction is due to start in the second half of 2018 in agreement with the project partner in Germany, TenneT TSO GmbH. The line is scheduled to be put into operation in 2021.

380-kV Weinviertel line

It is necessary to secure the grid integration of wind power and the power supply to the north-eastern Weinviertel region. For this, the 220-kV line originally built in the 1950s from the Bisamberg substation in the direction of the areas with strong wind conditions in the northern Weinviertel region to the new Zaya substation is to be replaced by a highly efficient 380-kV connection on an optimised route. A 220-kV line will be used to connect the new Zaya substation to the existing line. The old 220-kV line, which was in need of renovation, will then be dismantled, easing the burden on the residential areas and important nature reserves in the long term. The hearing in the environmental impact proceedings was held in mid-September 2017.

General overhaul of the 220-kV St. Peter–Ernstthofen line

The line was built in 1941 and due to its age is in urgent need of renovation. In recent years, APG designed a project for the general overhaul of the line and submitted this for approval in March 2016. The approval processes have been completed. Construction is scheduled to start in spring 2018.

In this project as well, APG is thoroughly analysing the varied demands of different groups of stakeholders. In keeping with the current stage of the project, project communication activities in 2017 focused on direct dialogue with the municipalities and landowners affected. During some 1,200 discussions, landowners were briefed on the planned supporting measures ahead of the negotiations with the authorities. Moreover, developments in the energy industry were explained and the need to implement the project communicated. Based on intensive communication with the stakeholders about the project, the negotiations with the authorities were conducted in an exceedingly constructive manner.

Additional information
on the topic of
conservation is available
at www.apg.at

For more information on
route management
please also refer to the
DMA

Sustainable route management

In addition to focusing on the technical and economic criteria, APG increasingly concentrates on environmental protection in its planning, execution and maintenance of overhead power lines. The varied expectations and requirements of the authorities, the landowners, the community, different stakeholders (e.g. agriculture and forestry, environmental protection, hunting, tourism) and those of APG itself must be taken into account to find flexible, integrative approaches for needs-based, optimised solutions.

Back in 1997, the APG initiated the research project for environmental and economic route maintenance. In this project, four model routes were analysed by different disciplines to determine their environmental and socio-economic value as well as their ecological integration into the landscape. With the “sustainable route management” project, the content of this work was developed further, expanded to APG’s entire transmission grid and integrated into route management. Consequently, APG already has 20 years of experience with sustainable route management and makes a significant contribution to the use of line routes as habitats for (endangered) species of plants and animals.

Developments in the European electricity market

European directives and regulations stipulate a range of measures for market integration. These include implementation of collaborations across control areas for procurement and activation of balancing reserves, introduction of market coupling processes (optimisation of international electricity trading in cooperation with power exchanges), optimisations in intraday trading and increased, improved transparency. To be able to derive maximum benefit from the advancing market integration, the greatest possible integration of Austria into the European electricity market is a key prerequisite.

Optimising balancing services procurement and opening up the balancing services market

For a number of years, APG has been working on opening up the balancing services markets internationally. The international Frequency Containment Reserve (FCR) collaboration that was initiated in 2013 on APG’s initiative has been steadily expanded in recent years. The collaboration now consists of ten transmission system operators from seven countries.

The collaboration on automatic Frequency Restoration Reserves (aFRR) with Germany was implemented in 2016 and serves as cross-border optimisation of activation of aFRR energy. So far, this is still one of a kind in Europe.

Both of these collaborations go a long way to reducing costs in the APG control area, increasing the sales potential for Austrian market participants at the same time. Through these and a large number of other optimisation measures, the costs for balancing services were reduced from €203m per year in 2014 to €94m in 2017.

Based on the insights from the aFRR collaboration with Germany, a project for implementing a platform for aFRR energy was launched in 2017 with the participation of APG in conjunction with the transmission system operators from Belgium, Germany, France and the Netherlands. At EU level, this project was accorded the status “implementation project for a future, European platform for the exchange of aFRR energy”.

Following extensive preparations in the previous years, implementation of coordinated activation of manual Frequency Restoration Reserves (mFRR) between Austria and Germany was also started in

2017. As the first collaboration of its kind in Europe, it delivered valuable insights for the organisation of the European tertiary balancing energy market even before commissioning (scheduled for mid-2018).

Congestion management on the border between Germany and Austria

In November 2016, ACER published its decision for the determination of the capacity calculation regions which, among other things, provides for the implementation of a bidding zone border between Germany and Austria.

APG contested this decision before the ACER Board of Appeal. However, the complaint was rejected in March 2017, confirming the decision by ACER.

In May 2017, APG again brought an action for annulment of this decision before the European Court in the first instance. The proceedings are still pending with this court. Several parties on both sides requested to join the proceedings as interveners – VERBUND among others on the side of the plaintiffs.

On 15 May 2017, the regulatory authorities from Germany (BNetzA) and Austria (E-Control) agreed to introduce congestion management effective 1 October 2018 through capacity allocation on the joint border.

Green energy clearing and settlement and wind marketing

In April 2015, APG started to market volumes arising from the deviations from the forecast of green energy on the intraday market. The differences between the day-ahead forecasts of wind power feed-in and the refined intraday forecasts on the current day are calculated and then marketed in the best possible manner on the EPEX Spot Intraday market. Since mid-2016, this process has been conducted around the clock, reducing misbalancing in the green energy balancing group and thus also in the entire control area. As the prices on the power exchange are lower on average, this generates cost savings for the green energy balancing group and improves the control quality for APG.

All other segments

“All other segments” is a combined heading under which the Energy services, Thermal generation, Services and Equity interests segments are brought together because they are below the quantitative thresholds. VERBUND’s new services for the electricity market of the future are reported under the Energy services segment. Electricity and heat generation from coal and gas are reported under the Thermal generation segment. The primarily intragroup business activities of VERBUND Services GmbH are reported under the Services segment. Interests accounted for using the equity method which have not been allocated to any other segment are reported under the Equity interests segment. As at the reporting date of 31 December 2017, this only comprised the equity interest in KELAG-Kärntner Elektrizitäts-Aktiengesellschaft.

Business performance

KPIs – All other segments

	Unit	2016	2017	Change
Total revenue	€m	197.0	272.4	38.2%
EBITDA	€m	165.2	120.7	-26.9%
Result from interests accounted for using the equity method	€m	28.9	27.2	-5.9%
Capital employed	€m	355.8	513.7	44.4%

EBITDA of the other segments fell by €44.5m to €120.7m, mainly as a result of the lower EBITDA (€-68.4m) recorded in the Thermal generation segment. Although the contribution margin from the use of the Mellach combined cycle gas turbine power plant for congestion management was higher in the reporting period, EBITDA was nevertheless lower overall than in the previous year because EBITDA in 2016 had been lifted by other operating income from the settlement of outstanding issues between VERBUND and EconGas GmbH as well as Energie Steiermark Wärme GmbH. The higher EBITDA of the Energy services segment, which was boosted in particular by the income from the sale of (some of the) shares in SMATRICS GmbH & Co KG as part of a cooperation between OMV Aktiengesellschaft, Siemens Aktiengesellschaft Österreich and VERBUND, had an offsetting effect (€+22.7m). The other segments’ result from interests accounted for using the equity method nearly matched the prior-year level and related primarily to KELAG-Kärntner Elektrizitäts-Aktiengesellschaft. Compared with the previous year, capital employed rose by €157.9m to €513.7m. This was due mainly to the reversal of the impairment loss on the Mellach combined cycle gas turbine power plant, an increase in the carrying amount of the equity interest in KELAG-Kärntner Elektrizitäts-Aktiengesellschaft as a result of equity method accounting and a rise in intragroup receivables.

The future of energy will be green, flexible and smart

Smart living, e-mobility, green industry

Founded in mid-2014, VERBUND Solutions (VSO) develops products tailored to retail, commercial and industrial customers based on its expertise in the energy market and in continuous dialogue with customers. The range of services extends from convenience services across decentralised plants for generating and storing energy to energy optimisation, participation in the control reserve market and new solutions for a green energy future.

Smart living

Telephones, cars, domestic appliances and garden tools are becoming increasingly smart. It is only houses and apartments that generally still cannot keep up with this trend. The “smart living” concept VERBUND has developed proves the contrary. Users generate solar power with their own photovoltaic installation and use this simply and efficiently themselves through the combination of battery storage, electric car and VERBUND-Eco-Home. The charm of VERBUND’s range of smart living products stems from the connectivity of all these systems. They are also beneficial for household finances and the environment.

Individual generation, storage and use of solar power

SOLAVOLTA, a VERBUND subsidiary and the leading full-service provider for own-use photovoltaic installations, recorded growth in sold capacity in 2017. The combination of a photovoltaic installation with a storage system and an e-car connection makes it possible to use self-generated energy in an efficient and cost-effective manner. In 2017, around 20% of photovoltaic installations were installed in combination with storage solutions.

Heating and light now follow instructions

VERBUND-Eco-Home, the comprehensive, user-friendly smart home system, bridges the gap between the world of energy and users’ own four walls. VERBUND-Eco-Home is becoming increasingly smart, which is why VERBUND-Eco-Home now also uses Amazon Alexa to communicate. With Alexa, voice command devices are finding their way into households. This allows lamps to be switched on/off or dimmed, blinds to be controlled and even predefined scenarios to take place – without use of a remote control or a mobile phone.

More and more companies are focusing on green mobility

Strong partnerships are part of the success concept of SMATRICS, VERBUND’s electromobility equity interest. Numerous projects were implemented with business customers in 2017. Well-known companies use turnkey solutions for the SMATRICS charging infrastructure – either for their own fleet or for their customers. Turnkey means that all services from planning and installation to operation to billing are implemented by SMATRICS. This concept is received very well by customers. SMATRICS has a dense nationwide network of charging stations with 400 charging points. Over 200 of these are fast charging stations with charging times of 20 minutes for 100 kilometres.

Energy services:
www.verbund.com >
 Business customers

OMV acquires a stake in VERBUND equity interest SMATRICS

In 2017, OMV acquired a 40% stake in Austria's leading full-service electromobility provider, VERBUND equity interest SMATRICS. In addition to Austria's two largest energy companies holding interests, Siemens also holds a 20% stake in SMATRICS. This will allow electromobility to pick up more speed – in Austria and Europe.

Energy services for industrial customers

Marketing of industrial customers' flexibility options

Industrial customers and green electricity suppliers market their flexible energy options in the control power market using the VERBUND-Power-Pool. VERBUND combines the expertise from existing markets with continuous honing of the processes and visions for the markets of the future, such as the intraday, spot or day ahead market. All participants in the pool benefit from this unique combination. On the basis of VERBUND's involvement in research and development products such as SYNERG-E and H2FUTURE, new applications and business models and energy market processes for the future of energy are continuously tested and refined. This not only benefits the participants in the pool but also increases the stability of the power grid.

Side-by-side for success

The learning energy efficiency network VERBUND-Eco-Net, which was initiated in 2014, moved into the final phase in 2017 and will be completed in quarter 1/2018. All of the set targets will be reached or even exceeded. The target set for increasing energy efficiency was 10%, but 12% will be achieved. Ambitious targets were also set for CO₂ emissions. The network will succeed in reducing CO₂ emissions by 9%. Consequently, Eco-Net participants are much more efficient and environmentally friendly than comparable industrial enterprises. Working side-by-side, the companies have considerably reduced their energy footprint and environmental impact and made this success story possible. The outcome has clear cost benefits and thus competitive advantages for the companies.

Green hydrogen and battery storage systems for the future of energy

VERBUND is a leading player in the field of "green hydrogen" in Austria. This leadership is being advanced within the scope of various collaborations.

In the battery segment, the solutions offered range from local battery storage systems and ultra-fast charging stations to the pairing of battery storage systems with flexible services.

Here, VERBUND covers the technological innovation as well as innovative business models such as the contracting packages from VERBUND GETEC Energiecontracting GmbH. Customised energy supply concepts from development to planning and financing to construction and operation – tailored to customers' individual needs – leverage energy efficiency potential and facilitate cost reductions. Customers benefit from smart all-in-one packages that are gentle on the environment and on their pocket.

Green electricity solutions for Germany

AQUANTO, originally a 50% joint venture of VERBUND and EnBW, sells green electricity solutions for B2B customers in Germany. Effective 6 October 2017, VERBUND acquired EnBW's 50% stake and now holds all interests in this company.

The goal is to manage the AQUANTO customers within the framework of VERBUND's existing structures and further expand the customer base in Germany in the coming years. So that maximum benefit is derived from the synergy effects, AQUANTO will cease operating on 1 January 2018 and will be subsequently liquidated. This will also necessitate job losses at AQUANTO. In fulfilling its responsibility as a social employer, AQUANTO reached socially acceptable solutions with its employees.

Thermal generation

VERBUND has been faced with very challenging conditions in the markets and its industry for a number of years. This is why VERBUND initiated the rapid restructuring of its thermal power plant portfolio early on, selling and closing thermal power plants. VERBUND currently operates two thermal power plants at the Mellach site.

Energy supply

Energy generation overview

Electricity generation

	Number ¹	Maximum electrical capacity in MW ¹	2015 Generation in GWh	2016 Generation in GWh	2017 Generation in GWh
Mellach CCGT (natural gas)	1	848	768	641	1,465
Mellach district heating power plant (hard coal)	1	246	825	710	761
Other	-	-	666	-	-
Total	2	1,094	2,259	1,351	2,227

¹ as at 31 December 2017

Generation from thermal power rose by 64.8% to 2,227 GWh in 2017. The Mellach combined cycle gas turbine power plant alone produced nearly 130% more electricity in 2017 due to its far greater use for congestion management compared with the prior year. Generation at the Mellach coal-fired power plant increased by 7.2%. At 943 GWh, generation of district heating was 3.7% higher in 2017 than in the year before.

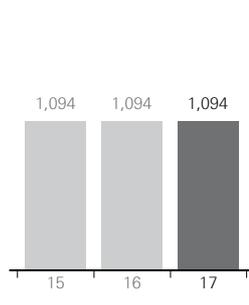
GRI EU2

Capacity changes

The maximum electrical capacity of the thermal power plants VERBUND was operating as at 31 December 2017 – the Mellach combined cycle gas turbine power plant and the Mellach hard coal power plant – totalled 1,094 MW. Since the beginning of 2017, the Mellach CCGT has been operated with both lines exclusively in connection with congestion management, underscoring the necessity of the thermal power plants for grid support.

GRI EU1

Thermal capacities MW



Restructuring the thermal segment

The restructuring of the thermal segment, a path embarked on in 2014, continued in 2017. After all utilisation options had been analysed for the Mellach site, the selling process was discontinued in March 2017 because the offers made by the potential buyers did not meet expectations. The dismantling of sections of the Neudorf-Werndorf power plant was commenced in 2017. The 175 metre chimney and tank farm 1 have already been dismantled.

The decommissioning of the Dürnrrohr hard coal power plant had been reported to the authorities in 2015, and the authorities were notified of the decommissioning of the Korneuburg power plant, which had not been in operation for a long time, in 2016. Work on the decommissioning and recycling of the two power plant sites is being performed.

One plot in Korneuburg spanning around 94,000 m² had been sold to an investor in 2016. However, the contract of sale contains a number of conditions precedent, including a change in land use. Delays in and objections to the proceedings led to the date for fulfilment of the conditions precedent being postponed until 2018. Utilisation of the land still owned at the Pernegg and St. Andrä sites is continuing.

Now that the outstanding issues in connection with the district heating supply commitment between VERBUND and Energie Steiermark have been settled, VERBUND will build a gas boiler plant at the Mellach/Werndorf site that will serve to fulfil the district heating supply agreement. This would enable the Mellach hard coal power plant to be closed even before 2020. After all official permits had been obtained, the construction and plant engineering lots were awarded in September 2017. Construction began in early October 2017 and the project is progressing according to plan, so commissioning can be expected for 2018.

Socially responsible solutions were found for VERBUND employees working at all plant sites currently in the process of being decommissioned or that have already been shut down.

Proceedings relating to the restructuring of the thermal segment

With the closure of the Dürnrrohr power plant, VERBUND terminated the management provisions from the construction, operation and management agreement for the Dürnrrohr power plant entered into with EVN in 1980. The termination took effect on 30 June 2015. After plant operations were discontinued, EVN brought an action against VERBUND Thermal Power GmbH & Co KG in Liqu. (VTP) aimed at establishing that the termination was invalid and the management agreement will remain in force unchanged. In the action, which was brought after the decommissioning of the Dürnrrohr power plant had been reported to the offices of the state government of Lower Austria, EVN contests VERBUND's right to decommission the plant unilaterally. Talks on a possible out-of-court settlement were held during the 2017 reporting period.

The cases pending in the past between VERBUND and Energie Steiermark concerning the outage reserve and between VERBUND and EconGas concerning the natural gas supply agreement were settled in 2016.

Availability of existing thermal power plants

The average time availability of the thermal power plants (Mellach district heating power plant, Mellach combined cycle gas turbine power plant) was 89.0% in 2017. At 86.5%, this was again slightly higher than the prior-year figure. The level of reliability averaged 99.0% (2016: 98.4%).

GRI EU30

Other project topics

Generator 20 of the Mellach combined cycle gas turbine power plant³ was expanded to include a pressure reducing station in 2015. The goal is to capture the maximum district heating capacity of 230 MW with minimal use of combustible fuels. In this way, the steam turbine is bypassed. In this particular mode of operation, the plant's fuel utilisation factor increases to almost 91%. The causes of the pipe vibrations determined during commissioning upwards of a district heating capacity of around 210 MW were investigated in 2017. Reconstruction of the main valve did not bring about the desired improvement. A suggestion for how to remedy this situation was implemented in November 2017 in conjunction with the supplier. Following an observation phase over the 2017/2018 heating period, the project will be brought to a conclusion in quarter 2/2018.

Large-scale implementation and metrological verification of an innovative process to regenerate denitrification catalysts was conducted during the 2016 review period at the Mellach district heating power plant (coal-fired block) in its installed state, generating positive results. Long-term findings are currently being recorded.

In accordance with a notice issued in March 2017 by the District Administrative Authority for Graz and the surrounding area, the residue quantities of fly ash, coarse ash and gypsum from the flue gas desulphurisation system accumulated were classified as by-products within the meaning of the Austrian Waste Management Act (Abfallwirtschaftsgesetz, AWG) and are therefore no longer considered waste. All "substances" accumulated at the site (fly ash, coarse ash, gypsum, calcareous mud from the cooling tower makeup water treatment system at the Mellach combined cycle gas turbine power plant, generator 20) will continue to be fully recycled.

The filter press cakes from the waste water treatment plant at the Mellach district heating power plant continue to be classified as non-hazardous waste for the purpose of land-filling.

In July 2017, following a comprehensive review by the authorities, the Mellach district heating power plant (coal-fired block) was once again granted water rights to operate waste water treatment plants I and II for a limited period up to 22 December 2027 in a decision by the authorities.

Data was collected, sampling conducted and evidence preserved from the decommissioned sites in connection with the dismantling of tanks (Korneuburg site, Neudorf/Werndorf site), with enquiries from parties interested in the property (St. Andrä site) and after-care at the former coal store, block 1 (Dümrrohr site).

The revision of the Large Combustion Plant Directive was published in the EU Official Journal dated 17 August 2017. A qualified statement on maintaining the state of the art in accordance with the new requirements must be submitted within a year. Any necessary amendments must be implemented by mid-2021 at the latest.

³ Mellach combined cycle gas turbine power plant: the plant comprises two power plant generators situated side-by-side and fundamentally identical in construction. Generator 10 is cooled by fresh water while generator 20 has a closed circuit cooling system with cooling towers.

Statements on legal issues, for example concerning the future recognition of measurement uncertainties (emission measurements), have been made through Austrian energy policymakers “Österreichs Energie”.

Detailed yearly reports, including environmentally relevant reports, are required to be submitted via the national electronic Internet portal (EDM = electronic data management) to an increasing extent. These include emission declarations, reports on water discharge and waste data and data on cofiring sewage sludge at the Mellach district heating plant as well as on the annual loads of fossil and biogenic carbon dioxide.

Modification of the environment management system for the thermal power plants in line with ISO 14001:2015 and in accordance with Appendices I to III of the EMAS Directive, which have also been revised, was begun in 2017. The revised Appendix IV (Requirements for the environmental statement) is expected for quarter 1/2018.

Emission rights for thermal power plants

VERBUND’s thermal power plants resulted in emissions of 1,353 kt CO₂ in 2017. The majority of the emissions rights needed were acquired through auctions or in the market. Free emission rights allocations amounted to just 76 kt CO₂ in 2017, as only a small portion of the free allocations went to combined cycle power plants in the third phase of European emissions trading.

GRI EU5
Additional information
on CO₂ emissions can be
found in the
Environmental
performance section

KPIs – CO₂ emissions rights¹

	Unit	2015	2016	2017
Total CO ₂ emissions	kt CO ₂	1,715	1,001	1,353
of which free allocations	kt CO ₂	101	88	76

¹ For thermal power plants of VERBUND Thermal Power GmbH & Co KG in Liqu., preliminary figures before audit.

Services

Three major Group projects implemented in the Services segment

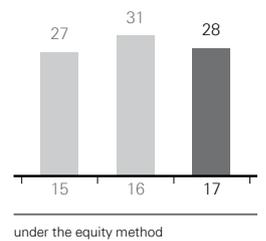
In financial year 2017, three major Group projects were implemented at VERBUND Services GmbH in conjunction with the other Group companies involved and external advisors. In the Waste Management project, VERBUND’s waste management was restructured from a legal and organisational perspective. Additional IT instruments purchased in 2017 also allow waste disposal operations at all Group sites to be recorded on a daily basis. In the Digital Future project, the opportunities for innovative digital processes were recorded and a number of pilot projects were identified that have already been implemented. Moreover, a new Digital Center of Excellence department was set up at VERBUND Services GmbH. Its responsibilities include optimisation of digital processes and also development of innovative digital business models. To meet the growing challenges and new regulatory requirements in the fields of information security, cyber security and data protection, a separate Group project was set up in 2017 that will run until May 2018.

Equity interests

KELAG – Kärntner Elektrizitäts-Aktiengesellschaft

Owing to the slight deterioration in performance, the contribution from KELAG to the result from interests accounted for using the equity method was down marginally on the prior-year figure (2016: €30.9m) in 2017 at €28.2m. The dividend attributable to VERBUND for 2017 was €14.1m. As at 31 December 2017, VERBUND held a 35.17% equity interest in KELAG.

Equity result - KELAG €m



Opportunity and risk management

GRI 102-11

Ever since efforts to liberalise the Austrian electricity market began in financial year 2000, opportunity and risk management at VERBUND has been a separate component of its comprehensive management system. VERBUND's structures, processes and products have been subject to ongoing development as part of what is referred to as Enterprise Risk Management. Risk management activities in recent years have focused mainly on refining the risk-return approach in the Group. Under this approach, the risk management agendas extend to strategic decision-making, project management and the management of current operations.

Due in particular to the energy transition, which poses challenges for the energy industry as a whole and also for VERBUND, the risk management system is continuously adapted to changes in internal and external requirements. Each year, VERBUND's auditor also confirms the effectiveness of the ERM system based on the recommendations contained in the ISO 31000:2009 reference model.

As the business activities of VERBUND are focused on the long term on account of its investment structure, they tie up significant financial resources. Plant availability in the grid is a key factor. Furthermore, VERBUND plants are required to meet the most stringent environmental standards. Only early inclusion of all stakeholders, compliance with regulatory conditions and effective project management can ensure the success of VERBUND's projects. Operation and maintenance of these assets, which are used over many years, require highly qualified employees.

A crucial success factor in this context is secure access to the capital market. The Republic of Austria as the majority owner of VERBUND, as well as low-cost, environmentally friendly hydropower generation and the regulated grid are considered by rating agencies to be significant, stabilising elements.

Safeguarding systems-related responsibility is important to VERBUND.

GRI 201-2

The growing trend towards digitalisation is proving to be a particular challenge but also an opportunity for VERBUND. In the context of the energy transition, VERBUND is confronted with issues such as the possible auctioning of line capacity at the German-Austrian border. At the same time, security of supply must be guaranteed continuously. In this connection, the Mellach CCGT, for example, provides crucial support in stabilising the power grid. Decentralised generation is becoming increasingly important, and topics like electromobility represent new potential areas of business for VERBUND. The strengthening of the ETS system by the European Union is opening up new possibilities, but also creating impediments. For example, this transformation of the European energy system is bringing about a major change in the risk factors arising from politics, the economy, the energy market and the larger society that cannot be directly influenced. The future energy world requires electric utilities to radically change their business models and modify investment decisions. These could give rise to significant value adjustments (i.e. erratic changes in the assets and liabilities on the balance sheet). The

highly regulated environment and excess capacities in Europe have overridden market pricing rules (variable production cost-based use). On the other hand, the business model of energy-related services is opening up new opportunities for VERBUND, though it also presents new risks. Issues relating to data protection legislation such as the implementation of the EU General Data Protection Regulation must also be considered in this context.

As the leading renewable energy producer, VERBUND is very much at the mercy of weather events like rain and wind, which cannot be influenced. This is particularly true for the VERBUND storage power plants as well as some of APG's ultra-high voltage lines located in high Alpine regions. Over the long term, climate change can affect both the seasonal and the annual water and wind supply. Geological conditions can also change significantly. Natural events such as floods, storms or avalanches may cause an unscheduled outage of electricity generation or transmission facilities in the future as well as consequential damage. 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). Storage power plants are operated on a daily, monthly or yearly basis to optimise grid usage. Owing to volatility, the marketable flexible products have emerged as a new business model. Coverage of short-term electricity requirements due to volatile wind and solar power generation is also providing revenue opportunities. In other words, energy amounts can be additionally generated or "stored" in pumped storage power plants and the grids stabilised with flexible power plant output (congestion management). These flexible earnings contributions depend largely upon the frequency and absolute extent of short-term price fluctuations in the electricity markets; however, they are unable to fully compensate for a decline in wholesale electricity prices.

GRI 201-2

State-of-the-art information and communication systems increasingly support VERBUND's business activities. VERBUND addresses the growing risks from cyber space for critical infrastructure by implementing preventive security strategies, internal guidelines and correspondingly secure processes. In doing so, VERBUND pays particular attention to the safety of the control technology in power plants and in the ultra-high voltage grid. VERBUND's administrative buildings and decentralised plants are protected by structural measures and electronic monitoring systems.

VERBUND manages counterparty risk in the form of possible defaults in performance or payment by its business partners with effective financial management. Adhering to the principle of dual control, counterparty limits are awarded and managed centrally. In addition to cash flows from the operating business, VERBUND possesses sufficiently high credit lines to be able to access liquid funds at short notice. Long-term agreements have been concluded with customers, suppliers, co-owners and co-users of individual power plants. However, the changing conditions have affected the profitability of some of these agreements, leading them to be adapted accordingly. VERBUND has optimised its internal structures in several projects to increase efficiency. This has led to the shutting down of sites, termination of purchase or supply agreements as well as implementation of personnel measures in a socially responsible manner. In accordance with the International Financial Reporting Standards (IFRS), VERBUND recognises provisions for contractually agreed expenses from ongoing reorganisation programmes, for pensions and termination benefits and for the post-use phase of generation facilities (e.g. dismantling costs). Any deviations in the current situation from the assumptions used when recognising these provisions may produce fluctuations in the result. Ongoing measures are taken to

counter the potential crystallisation of collateral provided. These also include possible effects of a change in the rating of VERBUND AG on an off-balance-sheet cross-border leasing transaction that remains valid.

All else remaining equal, a change in the factors shown below would be reflected in the planned Group result for 2018 as follows (based on the hedging status as at 31 December 2017 for generation and interest rate):

- +/-1% generation from hydropower plants: €+/-5.8m
- +/-1% generation from wind power: €+/-0.3m
- +/-1€/MWh wholesale electricity prices (renewable generation): €+/-3.9m
- +/- 1 percentage point in interest rate: €-/+1.0m

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 entitled Opportunity and risk management of this integrated annual report.

GRI 102-11

Organisational framework

VERBUND has responsibilities towards many stakeholders as well as towards the environment. 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 system and the risk management system, whose effectiveness is monitored by the Supervisory Board's Audit Committee.

Basic principles of the internal control and risk management system

VERBUND's extensive financial reporting process is governed by Group-wide guidelines and requirements. The performance, monitoring and supervision of business transactions are segregated from each other. This ensures that no single employee can act alone in performing all the process steps of a transaction from beginning to end. A review of authorisations is integrated into the technical processing of transactions. Compliance with and the effectiveness of these checks is reviewed on a periodic basis. Based upon VERBUND's process map, business processes and the risks they entail are systematically analysed and documented, as are checks of the financial reporting process. Documentation of the checks, the operational structure and the process map takes place in the process manual, which is updated regularly. VERBUND's organisational structure is continually adapted to address changing internal and external conditions.

GRI 103-3

Reporting in compliance with unbundling provisions

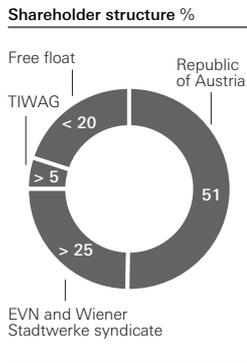
VERBUND's interim reports and the VERBUND integrated annual report consolidate information from management accounting, corporate accounting, financial management and risk management. All reports are based upon uniform Group-wide rules for preparation and measurement. The liberalised European energy market requires an unbundling of the grid from generation, trading and sales of formerly integrated electric utilities. VERBUND subsidiary APG has been operating in the market since 2012 as an independent transmission system operator. An external equal opportunities officer monitors compliance with the unbundling provisions specified in the contract.

Periodic monitoring

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

Shareholder structure and capital information

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



1. At the reporting date of 31 December 2017, the called and paid-in share capital of VERBUND AG comprised:

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

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

GRI 102-25

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 makes arrangements for the appointment of Executive Board members on behalf of the Supervisory Board. The rules of the Code with respect to the appointment and dismissal of the members of the Executive Board and the Supervisory Board are complied with. Apart from the above, there are no other regulations 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. As part of an authorisation to buy back shares (which expired on 17 October 2015), the Annual General Meeting held on 17 April 2013 resolved to also authorise the Executive Board for a period of five years (i.e. until 17 April 2018), with the approval of the Supervisory Board, to decide upon a different type of sale of treasury shares other than in an exchange market or through a public offering, also with exclusion of the right of repurchase (reverse purchase right) of the shareholders, and to determine the terms of sale. Furthermore, the Executive Board is authorised, with the approval of the Supervisory Board, to reduce the share capital if necessary by retiring these treasury shares without an additional resolution by the General Meeting. Where there are no treasury shares, this authorisation becomes irrelevant. Apart from the above, there are no authorisations of the Executive Board within the meaning of Section 243a(7) of the Austrian Commercial Code (UGB).
8. The Company is not involved in any significant agreements that contain provisions referring to the stipulations under Section 243a(1)(8) of the Austrian Commercial Code (UGB). Furthermore, a public takeover bid is improbable under constitutional law.
9. There are no compensation agreements within the meaning of Section 243a(1)(9) of the Austrian Commercial Code (UGB).

The consolidated corporate governance report, which is included in this integrated annual report, is available on the VERBUND website.

Consolidated Corporate
Governance Report
available at
www.verbund.com >
Investor Relations >
Financial reports

Innovation, research and development

KPIs – IR&D

	Unit	2015	2016	2017
Number of IR&D projects	Number	65	68	85
Total project volume ¹	€m	144.5 ²	139.1	179.8
of which EU projects ¹	€m	92.2	93.6	111.7
Total VERBUND share ¹	€m	16.2	22.1	53.5
Annual VERBUND expenses	€m	4.2	5.5	9.0

¹ over the entire duration of the projects // ² incl. earnings contributions from the unconsolidated company SMATRICS

GRI EU-DMA,
formerly EU8

The energy transition is in full swing in Europe, and the mobility transition is gaining traction. Our society is systematically moving towards a more electrified world. One of VERBUND's primary objectives is to be actively involved in shaping a climate-friendly, efficient future for energy. Innovation, research and development play a crucial role in this endeavour.

Opportunities provided by blockchain technology

Blockchain technology provides opportunities, also for the electricity sector. In 2017, VERBUND successfully built up expertise on the areas of application in the energy markets by conducting an initial pilot project. Several more pilot projects are now being implemented.

For example, within the framework of the ENERCHAIN consortium a technology standard is being developed for processing OTC transactions in wholesale trading of electricity in Europe. In conjunction with Salzburg AG, VERBUND also initiated two blockchain pilot projects for private photovoltaic installations on multi-unit dwellings (tenants' electricity supply) and local storage optimisation. Last but not least, VERBUND is analysing several energy-related blockchain applications in a Eurelectric working group.

Further milestones for electromobility

VERBUND is involved in European and Austrian research and development projects for electrifying the mobility sector. It is also developing new services for trade and industry. Through sector coupling, potential for reorganising the energy system is tapped.

Two projects are following on the heels of successfully completed e-mobility projects. They will make a significant contribution to the rapid expansion of the fast-charging corridors for electric cars and tie in with international networks of charging stations in neighbouring countries. Under the EVA+ project, 20 more fast charging stations will be installed in Austria by the end of 2018 and connected to the Italian rapid charging network. Climate-friendly alternatives in the mobility sector are also becoming increasingly attractive for private customers. For this reason, the Ultra-E project is setting completely new standards in parallel and is facilitating charging for long-distance journeys for the next generation of electric vehicles. To this end, 25 ultra-fast charging stations with a charging capacity of up to 350 kW will be installed by the end of 2018, including 21 stations in Germany, Belgium and the Netherlands, as well as four in Austria. This high-performance charging network will be set up in parallel to the 50 kW network of charging stations.

Smart storage solutions for the future of energy

As the range of e-cars grows, so too does the charging capacity required. This makes e-car drivers happy but presents huge challenges for the power grid. Smart solutions are required.

VERBUND solutions make electromobility “grid-compatible”.

In the SYNERG-E project, VERBUND is installing and operating a total of ten local buffer storage units at ultra-fast charging sites across Austria and Germany that will supply the required charging capacity of 0.5 MW in each case. This will significantly weaken the peaks in the grid load and substantially reduce grid costs. As a result, sector coupling of energy and mobility will be achieved in the SYNERG-E project.

Green hydrogen has vast potential for the industry

In the H2FUTURE project, VERBUND together with voestalpine, Siemens and three more partners are taking important first steps to decarbonise large-scale industrial processes in the steel sector. To this end, a proton exchange membrane electrolyser with a capacity of 6 MW is being constructed at the voestalpine site in Linz. This will generate “green” hydrogen with power from renewable sources. Initiated at the beginning of 2017, the project is being coordinated by VERBUND. The plant will not only produce green hydrogen, but also market it in the control reserve market. Whether the results are also applicable in other sectors such as in refineries or in the fertilizer or food industry will likewise be examined in the course of the project.

Smart home services at European level

In the FLEXICIENCY project, new services for consumers are being developed and tested and the market for these services throughout Europe is being planned. VERBUND is proactively working on this European research project, which was initiated in 2015. Demonstration operations in Austria were successfully started in 2017.

Research into hydropower

Through its research activities in relation to the implementation of the EU Water Framework Directive, VERBUND has already helped to shape the state of the art in the hydropower sector. At the present time, VERBUND is focusing on details of the comprehensive protection of fish, especially the migration behaviour of domestic fish species: the migration behaviour of fish in a branched flow system is being analysed using special antennas. The results will allow VERBUND to implement targeted measures aimed at improving habitats in order to maintain and protect fish populations. VERBUND is also investigating incentives for the discoverability and passability of fish passes for organisms, for example by increasing the volume of water.

In addition to the effects of pressure surges and drops at its storage power plants, VERBUND is also examining sediment management. This primarily covers basic research into erosion, transport, sedimentation and remobilisation.

To find potential for the flexibility of power plant use increasingly needed by the electricity market, VERBUND is analysing battery storage with different requirements at two sites.

Digitalisation of hydropower and wind power

Two digitalisation initiatives are currently running in VERBUND's hydropower operations. The Digital Workforce Management project involves digital support of the administrative and operational work processes for implementing potential improvements in the existing systems and for making new, mobile working methods possible. In the Digital Hydro Power Plant project, new digital technologies that are suited to hydropower will be identified through testing in a pilot power plant; these will be able to be used profitably for support during operations and ultimately to increase efficiency. In the area of wind power, VERBUND geared up for the digitalisation of maintenance in 2017: for this, workflows were optimised from the planning of service assignments to the performance of troubleshooting and integrated into the existing management software. Going forward, service technicians will be able to access detailed information for troubleshooting directly at the wind power plant using their smartphone or a tablet. Inspection protocols including documentation of defects will be processed digitally.

Improved forecasts in electricity trading

In 2017, VERBUND continued to work on the further development of the inflow forecasting and optimisation of storage management. High spatial resolution in the forecast values and state-of-the-art stochastic optimisation methods now allow optimised management of the reservoirs. Numerous forecasts developed previously – and in particular the statistical distributions – provide a better basis for estimating forecast uncertainties and their effects on power plant use. Moreover, VERBUND is now even better equipped to cope with flooding. In addition, VERBUND is driving forward the development of new products with renewable sources of energy and certificates as well as new opportunities for marketing virtual pumped storage power plants and flexibility options in electricity generation.

Analysis of big data in the power grid

Our independent grid subsidiary APG was involved in 25 research projects, including three international projects, in 2017. A system for further improvement of the photovoltaic capacity forecast was developed as part of WEDDA-S (Weather Driven Demand and Supply Analysis). By dividing Austria into different regions, the forecasts for the individual clusters of photovoltaic installations can be prepared far more exactly and correlations analysed better.

The EN2VA (Visual Analytics for Energy and Engineering Applications) project developed a tool for visualising large volumes of data (big data) better and depicting their interdependencies more precisely. This method is applied, for example, in data analysis in the areas of control power, TYNDP (Ten-Year Network Development Plan) and in energy market issues.

Last but not least, the “Wolke-Erde-Blitze” (cloud-to-ground strikes) project was launched in the Alpine Region. This is being used for early detection of lightning strikes and faster investigation of faults when line failures occur.

Outlook

According to the January 2018 forecast by the International Monetary Fund (IMF), economic growth in the eurozone is expected to weaken slightly, being 2.2% in 2018 after 2.4% in 2017. Monetary policy, the further reduction of debt in the public and private sectors and good labour market conditions will continue to sustain economic development in Europe. The stronger euro is expected to act as a damper on export growth. Brexit represents an additional risk to the development of the export-oriented economy in the eurozone.

Economic growth of 2.3% is forecast for Germany in 2018 (2017: +2.5%). Private consumption could lose some of its momentum. Investments in machinery and equipment, on the other hand, should rise. Construction continues to be sustained by the acute need for more housing and the increase in public spending.

In 2018, Austria's economy is expected to grow by 3.0% in real terms (2017: +3.0%; source: WIFO forecast from December 2017). Due to the solid income trend and the high level of consumer confidence, it is anticipated that the upswing in retail spending in Austria will continue. The excellent business expectations and the high capacity utilisation will give a further strong boost to investments in machinery and equipment again in 2018. Construction spending will also increase further, albeit at a weaker level than in 2017. Goods exports could rise by 5.0% in 2018 (after growth of +5.5% in 2017).

The oil market will be strengthened by the extension of the agreement to cut oil production. On 30 November 2017, oil producers agreed to extend oil output cuts until the end of 2018. The agreement between the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC producers led by Russia was originally applicable until March 2018. In addition, the constant resurgence of geopolitical tensions increases the danger of new conflicts.

The NCG front year and the coal front year were significantly more expensive in 2017. The price at the European gas hub NCG followed the specifications of the oil market. The correlation between the oil and gas price increased further as LNG gained in importance. Policy interventions in China were particularly responsible for the spike in coal prices, which underscores the importance of this country for the international coal trade. CO₂ prices also trended sharply upwards. An agreement on the reform of the EU ETS was reached on 9 November 2017.

The expansion of subsidised electricity generation from new renewable energy sources will continue in 2018 and electricity consumption will stagnate as a result of improvements in energy efficiency.

At an average of €32.4/MWh in 2017, the average price for base load electricity deliveries in the German/Austrian bidding zone in the coming year (front-year base) was 21.8% higher than that for the previous year. Front-year peak increased by 20.9% in 2017 to €40.5/MWh.

With regard to the debate about possibly splitting up the German–Austrian price zone, a bilateral compromise was reached in May 2017 by the two countries' energy regulators – the Federal Network Agency in Germany and E-Control in Austria: trading in the German–Austrian electricity market, which is currently unrestricted, will be limited to 4.9 GW (Net Transfer Capacity – NTC) effective 1 October 2018. A final decision has not yet been made on whether the German–Austrian price zone will actually be split up. The European processes, especially the bidding zone review process, are expected to continue until the end of March 2018.

Based on the plans to split up the German–Austrian electricity market, the EEX issued futures for the German and the Austrian supply area during 2017. Notwithstanding the measures to fight the splitting-

up of the price zone, VERBUND made preparations for a possible splitting up of the price zone as a precautionary measure (by adjusting the trading systems, amending the contracts/modifying procurement practices, preparing systems and resources for cross-border trade).

As a low-cost, environmentally friendly supplier of green electricity with flexible products based on a flexible power plant fleet with pumped storage power plants and the Mellach CCGT, VERBUND considers itself to be optimally positioned in light of the radical changes in conditions brought about by the energy transition. The importance of VERBUND's flexible power plant fleet is growing. APG, our wholly owned subsidiary, assumes a key role for the security of supply as owner and operator of one of Europe's most technically advanced transmission grids. VERBUND's innovative products and services already offer customers solutions for the future of energy.

The early and systematic implementation in recent years of the measures defined in the restructuring programmes makes our Group more resilient, allowing VERBUND to be optimistic about further developments in the energy sector.

Investment plan 2018–2020

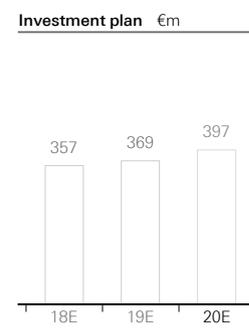
VERBUND's updated investment plan for the period 2018–2020 provides for capital expenditure in the amount of €1,123m. Of that total, around €528m will be spent on growth CAPEX and around €596m on maintenance CAPEX. Most of the growth CAPEX will go towards expanding the regulated Austrian high-voltage grid (approximately €338m). In addition, VERBUND will be investing mainly in selected hydropower plant projects as well as in increasing the efficiency of existing power plants. The Töging run-of-river power plant in Germany deserves particular mention here. The investments will involve VERBUND's domestic markets of Austria and Germany. In financial year 2018, VERBUND plans to invest a total of approximately €357m, around €149m of which will be invested in growth and around €208m in maintenance.

Dividend

VERBUND plans to distribute a dividend of €0.42 per share for financial year 2017. The payout ratio for 2017 will thus amount to 41.2% based on the adjusted Group result.

Earnings projection for 2018

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 flexible products and ongoing developments in the energy market. Around 73% of the planned own generation for 2018 was already contracted as at 31 December 2017. The price achieved was approximately €3.5/MWh below the sales price reached in 2017. For those volumes not yet hedged, VERBUND has based its calculations on current market prices. On the basis of average own generation from hydropower and wind power, VERBUND expects EBITDA of around €850m and a Group result of around €300m for financial year 2018.



Events after the reporting date

There were no events requiring disclosure between the reporting date of 31 December 2017 and approval for issue on 15 February 2018.

Vienna, 15 February 2018

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

Report on Non-Financial Information
(NFI Report)

Report on Non-Financial Information

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

- GRI 102-52** As Austria's leading utility and an important player in the European electricity market, VERBUND takes its social responsibility very seriously. Back in 1994, VERBUND was one of the first companies in Austria to prepare an environmental report, well in advance of the trend towards reporting on environmental factors. That annual publication was followed in 2002 by VERBUND's first sustainability report, which was likewise published annually until 2014 as a supplement to our 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.
- GRI 102-54** 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.
- GRI 102-45, GRI 102-50** 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 2017 calendar year.
- Sustainability information has been subjected to an external review in the scope specified by the Independent Statement. The GRI Content Index at www.verbund.com > About VERBUND > Responsibility > Non-financial Information indicates where information on sustainability at VERBUND can be found. As provided for in the GRI guidelines, we have refrained from including information on topics of minor relevance in this integrated annual report. Supplementary information on sustainability topics is available in our Disclosures on Management Approach (DMA) document and on our website at www.verbund.com > About VERBUND > Responsibility > Non-financial Information.
- VERBUND's business model**
- GRI 102-2** VERBUND is one of the largest producers of hydroelectricity in Europe. Its value chain comprises generation, transportation, trading with and sales of electrical energy and other energy sources as well as energy services. VERBUND's sustainable business model revolves around the generation of carbon-free electricity from hydropower and wind power. Details are provided in the Renewable generation section of the segment report. The Grid section of the segment report also supplies key information on sustainability. All ongoing projects and current events are presented in a condensed format and supplemented by a description of selected activities relating to the environment and society. For further details and background information, please refer to the additional sources referenced in the margins.
- GRI 102-46** Since VERBUND operates in Europe, we regard Europe as a single region/regulatory regime. VERBUND's significant locations of operation are Austria and Germany. Maps plotting the power plant sites and grid facilities are provided at the end of the report.

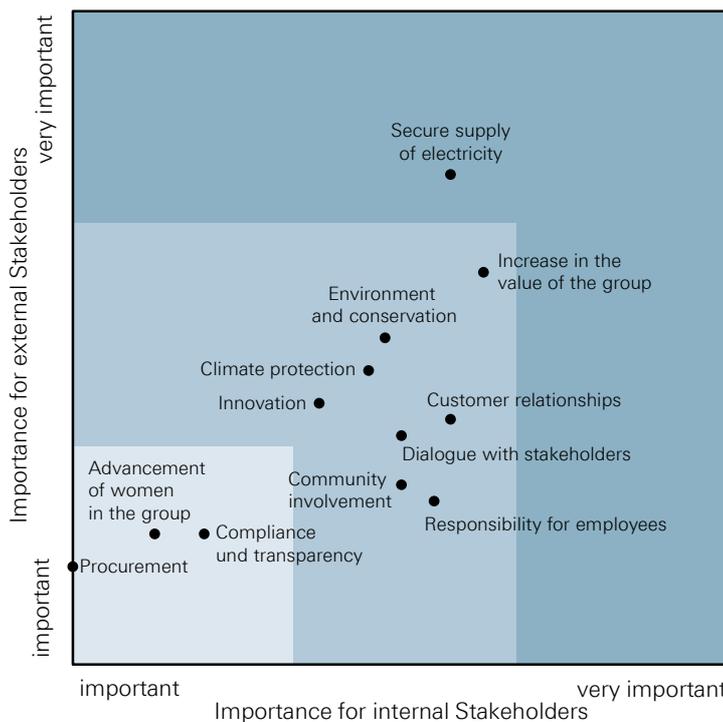
Materiality and stakeholder engagement

GRI materiality analysis

A survey of the relevant internal and external stakeholder groups in Austria and Bavaria was conducted in order to identify material topics at VERBUND. The questions related, firstly, to stakeholders' expectations of the engagement with VERBUND and, secondly, to the Group's activities in terms of sustainability.

GRI 102-46

The following materiality matrix resulted from a detailed analysis of all spheres of activity and a comparison of external and internal perspectives:



All topics depicted were rated “important” or “very important” by those surveyed. Thus the survey results identify not only key topics for VERBUND’s communications, but also core issues to be addressed and resolved internally.

The stakeholders surveyed were also asked to weight the objectives of the energy policy triangle on the basis of three focus areas: security of supply, profitability/affordability and climate and environmental protection. Security of supply was given the highest weighting compared to the other two focus areas. Profitability/affordability of the energy system took second place, closely followed by the energy policy objective of climate and environmental protection. The weightings by individual stakeholder groups showed significant differences – even between Austria and Bavaria. The focus areas described pose a constant challenge for responsible corporate governance at VERBUND. In this context, a

holistic view of the European energy system is also necessary for an assessment of sustainable options for action.

GRI 102-49

The materiality analysis is reviewed and looked at in more depth in an annual process by members of the sustainability team, who maintain close contact with different stakeholder groups. The changing conditions in the industry are also taken into account in this process.

In 2017, the Group gave greater priority to the topic of diversity, which was developed further as a management approach with strategic importance. VERBUND takes a holistic view of diversity management and therefore addresses all dimensions of diversity as a matter of principle. Following the principle of materiality, the measures being implemented focus on the dimensions of age, disability and gender.

The 17 sustainable development goals (SDGs) from Agenda 2030 were adopted by the United Nations in September 2015. These address the most important challenges of our time such as climate change, the fight against poverty and education. The corporate sector plays a key role in the achievement of these goals. By making a commitment to responsible, integrated action along their value chains, companies can make a vital contribution to the implementation of the SDGs. What is more, industry's power to innovate and investment strength will be of central importance for achieving the SDGs. For these reasons, VERBUND studied the 17 goals and the 169 related targets in depth. In financial year 2017, a working group evaluated the relevance of the targets for VERBUND, defining "relevance" as the combined positive and negative impact of the activity of VERBUND on the topic in question. The effect was evaluated within VERBUND's sphere of activity. On this basis, the SDGs were prioritised and discussed in the sustainability committees.

SDG 7 "Affordable and clean energy" in combination with SDG 13 "Climate action" and SDG 15 "Life on land" are the most relevant goals for VERBUND, followed by SDG 12 "Responsible consumption and production". The commitment to the implementation of target contributions was incorporated into the sustainability mission statement.

Each material topic at VERBUND also has strong ties to at least one SDG - like the topic of "customer relations" has to SDG 12 "Responsible consumption and production" or the topic of "responsibility to employees" has to SDG 8 "Decent work and economic growth".

Shown below are the material topics for VERBUND and the SDGs and GRI disclosures assigned to them:
All material topics are relevant within the organisation.

GRI 102-47, GRI 103-1,
GRI 103-2

Material topic at VERBUND/SDG	Sub-topics	GRI disclosures	Additional information
Secure supply of electricity (SDG 7, SDG 9, SDG 11)	Existing and planned generation capacities	EU1, EU2, EU10, EU30	Risk and crisis management
	Grid security and grid expansion	EU4, EU28, EU29	Risk and crisis management
Increase in enterprise value (SDG 7, SDG 8)	Economic performance	201-1	Financial governance
	Increase share of generation from renewables to 100%	EU10	
	Plant efficiency	EU11, EU12	
Environmental protection and conservation (SDG 6, SDG 15)	Biodiversity	304-1	Number of fish passes
	Certified environmental management systems		Percentage of sites certified to ISO 14001/EMAS, environmental costs
	Use of energy and resources	301-1, 302-1, 302-3	
	Water, effluents and waste	303-1, 306-1, 306-2	
Climate protection (SDG 13)	Emissions	201-2, EU5, 305-1, 305-2, 305-3, 305-4, 305-5, 305-7	Renewable generation to avoid emissions
Customer relations (SDG 12)	Customer satisfaction	102-43	
	Number of consumers	EU3	
	Customer health	416-1	
	Labelling requirements, data protection	417-1, 417-2, 418-1	
	Service disconnection	EU27	
Innovation (SDG 7, SDG 9, SDG 11)	Innovation, research and development		Number of R&D projects, VERBUND's annual expense
Stakeholder engagement (SDG 12, SDG 17)	Fostering good relations with neighbours	413-1, 413-2	
	Stakeholder involvement	102-40, 102-42, 102-43, 102-44	

Material topic at VERBUND/SDG	Sub-topics	GRI disclosures	Additional information
Responsibility to employees (SDG 3, SDG 4, SDG 8)	Occupational health and safety	403-1, 403-2, 403-4	
	Attractive, secure jobs	102-8, 201-3, 401-1, 401-2	Percentage of university graduates, employee survey
	Personnel management, training and continuing education	EU15, 404-1, 404-2, 404-3	
Procurement practices (SDG 12)	Local procurement	204-1	
	Ecological aspects	308-1	
	Social responsibility	414-1, EU18	
Compliance and transparency (SDG 16)	Anti-corruption	205-1, 205-2, 205-3, 415-1	
	Anti-competitive behaviour	206-1	
	Discrimination incidents	406-1	
	Fines	307-1, 419-1	
Advancement of diversity and inclusion (SDG 5)	Diversity	405-1	
	Wage equality ¹	405-2	
Commitment to society (SDG 1, SDG 4)	VERBUND Empowerment Fund run by Diakonie		Number of appliances purchased, number of consultations held
	VERBUND electricity relief fund run by Caritas		Number of households supported
	VERBUND climate school, VERBUND electricity school		Number of participants, number of guided tours

¹ Report only in the year in which the two-year income report was released

Impact of activity

VERBUND is committed to the precautionary principle aimed at preventing or mitigating possible risks to the environment and the health of people, animals or plants.

The tables below provide an overview of the significant impact of the activity of VERBUND as well as of how the related risks are managed within the meaning of the Austrian Sustainability and Diversity Improvement Act (NaDiVeG). The material VERBUND topics have been assigned to five categories: environmental matters, social matters, employee-related matters, respect for human rights and anti-corruption and bribery matters. The most significant impact and the risks and opportunities are regularly assessed by the sustainability team (at least every other year). The findings of the assessment are reported to the Sustainability Board. More detailed information can be found in the sections entitled Environment, Human resources and social responsibility, Human rights and Supply chain.

GRI 102-11, GRI 102-15
For more information,
please refer to the
section entitled
Opportunity and risk
management

Environmental matters:	Environmental protection and conservation, climate protection
Impact of activity	Significant environmental impact under normal operations, principally 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
Significant risks	Under normal operations, no significant risks to the plants with potentially negative effects for the environment; the likelihood that these risks will arise is minimised by operating the facilities in compliance with the laws
Management of the risks	Certified environmental management systems; for extreme events (severe flooding, earthquakes, etc.) there are specific emergency plans and a crisis management team
Social matters:	Secure supply of electricity, increase in enterprise value, customer relations, innovation, stakeholder engagement, commitment to society
Impact of activity	System security in the Austrian transmission grid; direct economic value generated and distributed (wages and salaries, taxes, dividends, interest, capital expenditure); safe, affordable products and services for customers; consideration of concerns of stakeholders; long-term participation in social and education-related activities
Significant risks	Failure of critical infrastructure; risks involving information security, cyber security and data protection
Management of the risks	Group-wide organisational structures for opportunity and risk management as well as crisis management; implementation and refinement of Group-wide information security and data protection management systems (ISMS, DPMS)

Employee-related matters:	Responsibility to employees, advancement of diversity and inclusion in the Group
Impact of activity	Performance-based, productive corporate actions for securing the core business over the long term and exploiting new business opportunities with the goal of safeguarding and ideally creating skilled employment
Significant risks	Risks can be minimised through extensive personnel management and continuous further development of the high safety standards as well as through the development of socially acceptable solutions (in the case of job cuts) in conjunction with the employee representatives
Management of the risks	Group-wide management systems for occupational safety and occupational health management; incorporation of the employee representatives; personnel development; diversity strategy and concept; demographic and knowledge management; employer branding
Respect for human rights:	Procurement practices, responsibility to employees, advancement of diversity and inclusion in the Group
Impact of activity	No negative impact on respect for human rights arising from the activity as an employer based on the legal standards in effect in Europe
Significant risks	The aspects of "equal treatment" and "freedom of association" have been identified as human rights issues in the direct sphere of influence; there are no significant risks here However, risks in the upstream supply chain cannot be ruled out entirely, which is why due diligence must be exercised in procurement
Management of the risks	Code of Conduct prescribes equal opportunity; sanctions will be imposed for violations of the Code of Conduct; diversity management encourages equal opportunities for all people; workplace training in the corporate values; hot spot analysis of the supply chain; regular evaluation of corporate policies and instructions for the Procurement division
Anti-corruption and bribery matters:	Compliance and transparency
Impact of activity	No negative impact through use of fair business practices
Significant risks	The annual Group-wide compliance risk survey does not indicate any significant compliance risks
Management of the risks	Group-wide management system for compliance, reviews of the integrity of business partners

Media analysis

We supplement our own reporting with the main topics addressed in media reports on VERBUND. The relevance of a specific topic is measured by the number of articles appearing on the matter, with the following picture emerging for 2017:

Production and infrastructure:

- H2FUTURE
- Reißeck mountain railway to cease operation
- 380-kV Salzburg line
- VERBUND lowers level at Drau power plants to prevent flooding
- VERBUND becomes involved in the Mur power plant project
- VERBUND retains the Mellach power plant for grid stabilisation purposes

Regulation and legal affairs:

- Federal Administrative Court considers the 380-kV Salzburg line
- VERBUND, voestalpine and Siemens receive EU contract for generation of “green” hydrogen
- Former OMV CEO Roiss appointed as new Chairman of VERBUND’s Supervisory Board
- VERBUND to be subsumed under ÖBIB (Austrian State and Industrial Holding Limited)

Organisation and equity interests:

- OMV buys stake in VERBUND equity interest SMATRICS – network of charging stations for e-cars to be expanded further

Definition of report content

Based on the material topics relating to sustainability that have been defined with the help of relevant stakeholder groups and supplemented by the topics discussed in the public arena through the media, once per year we compile the non-financial content to be reported in the integrated annual report. We also review the completeness of the topics selected based on the issues and standard disclosures specified in the Sustainability and Diversity Improvement Act (NaDiVeG) and the GRI Standards.

GRI 102-46

Stakeholder engagement

VERBUND’s commercial success is thanks to its good relationships with its customers, employees, neighbours, business partners and owners, as well as with NGOs and authorities.

VERBUND strives to achieve regular engagement with as broad-based stakeholder groups as possible. In the process, VERBUND supplies information via various channels on developments in energy and climate policy, engages in discourse on current and future challenges in the energy market and proposes constructive solutions. In VERBUND’s experience, suggestions from stakeholders provide valuable impetus. Corporate decisions can more easily generate good results if the needs and expectations of internal and external stakeholders are identified and understood.

GRI 102-43, GRI 102-44
Please refer to the DMA for fundamentals of stakeholder management

On the other hand, VERBUND can also provide know-how for processes that are important for society as a whole. In 2017, for instance, VERBUND was involved in developing the package of Clean Energy for all Europeans legislation for future EU energy policy and in drafting an energy and climate strategy for Austria.

Please refer to the DMA: “Endorsement of external initiatives”

Planning and management of relationships with VERBUND's stakeholders occurs centrally at the holding company. Operational implementation of our public relations work is handled by the respective departments and by our subsidiaries, depending on the group of stakeholders in question.

GRI 102-43, GRI 103-2,
GRI 103-3

Infrastructure projects that directly affect the space where people live are a particularly sensitive matter. In order to guarantee the quality of communications in these projects, VERBUND's basic principles are laid down in the form of a guideline. This guideline must be adhered to with respect to all investment and construction plans and projects implemented by VERBUND in Austria and abroad that impact the public, as well as in joint projects. Key elements are the provision of early and detailed information to those affected, along with an invitation to engage in open dialogue.

VERBUND places great value on keeping all parties concerned informed, promptly and throughout all phases of a project (the planning phase, the environmental impact assessment and the construction phase). For each project, a communication plan sets out all activities for the communication measures ranging from identification of the parties concerned to the time schedule and the responsibilities to the budget. Major suppliers and general contractors involved in the project are also included in the project communications.

The contact at the project site for all kinds of information, from tour requests to suggestions and complaints, is either the responsible regional communications manager or the responsible project head, whose contact data is provided in all of our media.

Selected stakeholder activities in 2017

GRI 413-1

On 21 April 2017, a delegation from the Water Management section of the Austrian Federal Ministry of Agriculture, Forestry, Environment and Water Management (Bundesministerium für Land- und Forstwirtschaft, Umwelt und Wasserwirtschaft) visited VERBUND's headquarters and the Freudenu power plant in connection with "One day at VERBUND". On this occasion, there was an exchange of views on current energy policy and hydropower-related topics.

In addition, the stakeholder formats VERBUND had already established were successfully continued in 2017. These included the VERBUND Energy Breakfast, the Munich Energy Club, the Hydropower Dialogue and the Parliamentary Evenings as well as dialogue with environmental organisations and the EU energy forums.

Every two years, energy2050, an energy conference held by VERBUND in Fuschl near Salzburg, provides a forum for top decision-makers from all fields of business, politics and science on the topic of energy. In September 2017, over 220 high-ranking representatives from the European energy industry discussed global energy trends and the future of energy in Europe.

Furthermore, in November 2017 VERBUND organised the International Energy Agency's World Energy Outlook 2017, which attracted around 300 representatives from business, politics and the energy industry.

*When building power plants, VERBUND sees itself
as a partner from the neighbourhood.*

VERBUND maintains constant contact with affected stakeholder groups at its sites. The dialogue process during past years has entailed deliberately setting aside the formal, legal perspective in favour of developing solutions to improve the situation. Constructive dialogue was also held at joint press meetings and at several citizen information events.

In the case of the Gries power plant joint venture on the Salzach River, the project management team regularly reported on construction progress in financial year 2017 via direct mail. There were also regular consultation hours with the project manager and a website providing up-to-date information as standard. Among the topics addressed were traffic at the construction site and the dirt generated by the construction. Whenever incidents occurred, the project management team were able to react quickly and in a targeted manner with suppliers and subcontractors and remove dirt, for example.

At the Malta pumped storage power plant in Mölltal, increased pump operation gave rise to complaints from residents about noise. Noise measurements were conducted together with external experts and technical silencers (resonators) were tested in several series of tests. These were presented to the local residents group after several meetings at the power plant. The head of the power plant group is also the direct contact for the residents. In addition, the immediate feedback allows the success of the measures to be monitored directly.

In 2017, communications activities were focused on the new event format called “Neighbourhood meetings”, held at six selected VERBUND power plant sites across Austria. Residents were invited to visit the power plant on a Friday afternoon and, at a presentation, discuss current issues relating to the power plant with the responsible parties. Due to the surprisingly good take-up, this series of events is being continued in the current financial year.

Every year, VERBUND organises an average of two open days at power plant sites. On 16 May 2017, VERBUND welcomed some 1,500 visitors at its Stammham site on the Inn River. Around 3,200 guests accepted the invitation to attend the open day in Ering-Frauenstein on 23 September 2017.

Advocacy of interests

VERBUND also conducted a thorough review of regulatory conditions at EU level as well as in Austria and Germany in 2017.

Alongside efforts to maintain the German-Austrian price zone, key topics in the year under review were the negotiations for the European Commission’s Clean Energy Package, the proposals for decarbonising transport and promoting electromobility, reform of the emissions trading system, creating an Austrian climate and energy strategy, the topic of sector coupling and incentives for using green hydrogen.

Please refer to the Disclosures on Management Approach (DMA) for more information on advocacy of interests, memberships and support for external initiatives by VERBUND.

For information on
VERBUND’s position on
important topics, please
refer to
www.verbund.com >
[About VERBUND](#) >
[Company](#) >
[Advocacy of interests](#)

Compliance

Compliance management system, Code of Conduct

GRI 102-17, GRI 103-1,
GRI 103-2

The VERBUND Code of
Conduct can be viewed
at www.verbund.com >
[About VERBUND](#) >
[Company](#) >
[Corporate philosophy](#)

As an expression of our business ethics, we at VERBUND aim to employ fair, transparent and sustainable business practices. This is why we established a Group-wide compliance management system (CMS) a number of years ago. The system is based on VERBUND's Code of Conduct and is intended to assist in implementing the Code and complying with its provisions.

The Code of Conduct is outlined in more detail in our compliance guidelines, which provide for a compliance organisation that incorporates the entire VERBUND Group. This organisation is run by a Group-wide compliance team under the leadership of a full-time Chief Compliance Officer. The Executive and Supervisory Boards receive written compliance reports at regular intervals.

For further information
on the compliance
management system,
please refer to the DMA

We continued to actively refine the compliance management system in financial year 2017. This process was underpinned in particular by ongoing exchanges of information as well as external consultations and expert appraisals.

Compliance risk survey

GRI 205-1

A systematic Group-wide compliance risk survey was conducted again in 2017. All divisions at the holding company and the consolidated subsidiaries were involved in the survey in their capacity as risk owners. Using an updated, standardised questionnaire, they carried out a qualitative compliance risk assessment based on three criteria: materiality, probability of occurrence and maturity of existing measures.

Following the evaluation of the results of these risk analyses, an overall appraisal was carried out using a risk-based approach. This provided the basis for the definition of the areas of risk for which the specific targeted compliance measures being focused on are developed and implemented to prevent potential damage to the Group. The findings of the compliance risk survey were incorporated into the Group's risk management. It is planned to update the risk surveys each year.

In this way, corruption risks in particular in all parts of the Group were examined and documented. The findings indicated no significant risk of corruption for VERBUND.

Training, consulting and provision of information

GRI 205-2

VERBUND's compliance management system focuses on preventive measures. In this vein, conducting training sessions and presentations, providing one-on-one consulting on numerous occasions and disseminating information on specific matters were important focal points of VERBUND's compliance work again in 2017. The Chief Compliance Officer and the compliance officers of the Group companies provided information on correct conduct in person, by phone or by e-mail in response to all of the approximately 340 queries received. The most common topics were invitations, participation in events, gifts and other benefits and questions regarding conflicts of interest. This is an indication of the cautious manner in which both executives and employees handle compliance topics at VERBUND.

In order to further improve the ability to deal with compliance matters, the compliance rules were addressed in a tailored training programme throughout the Group. The Chief Compliance Officer conducted 16 classroom training sessions in the reporting period. In addition to standard compliance training (especially for new executives and new staff, but also for employees of subsidiaries), the

sessions involved special workshops (e.g. on conducting house searches) and a number of events on the topic of new market abuse law. The compliance officers at the subsidiaries also held 44 classroom training sessions.

Another key pillar of the training programme in the reporting period was the intranet-based e-learning programme comprising two compliance courses on anti-corruption training and financial market compliance. All Group executives and all employees at the holding company as well as those in departments that are particularly affected (e.g. key account management, trading, purchasing) are required to complete the relevant online surveys on an annual basis.

VERBUND provides information on its website on anti-corruption strategies and measures. Compliance and anti-corruption topics are also communicated to suppliers over the electronic supplier platform ASTRAS as well as in the General Order Terms and Conditions.

Business partner integrity checks

VERBUND actively manages integrity risk by performing standardised checks of the integrity of its business partners on a Group-wide basis. Aside from the fulfilment of legal requirements, VERBUND's primary aim is to safeguard the Group's reputation. When performing such checks, VERBUND systematically and effectively collects relevant information. The results of the analysis underpin the more extensive assessment of business partners.

The procedure for the business partner integrity checks is continuously refined. In the reporting period, the focus was on making adjustments to work processes through further improvements and efficiency enhancements in the workflow and on revising the internal regulations. Moreover, the model criteria to be applied were updated and the software package used was adapted.

Prevention of corruption, compliance incidents

Our objective is to avoid any compliance incidents. Corruption prevention therefore plays a key role in the Group's compliance management system and was once again the subject of extensive internal communication and a whole series of training measures in the past financial year. A total of around 55% of all Group employees and approximately 85% of executives took part in anti-corruption training in the reporting period.

When implementing the anti-corruption guidelines, the Chief Compliance Officer ensures strict compliance with the rules relating to giving and receiving benefits, gifts and invitations in particular. He monitors whether mandatory value limits and authorisations are being observed and whether the documentation requirements are met. He is supported in this by the officers at the individual Group companies. In 2017, the Chief Compliance Officer approved more than 50 cases involving the giving or receiving of invitations or participation in events and nearly 20 were denied.

GRI 205-3 Three suspected compliance cases from subsidiaries were reported in 2017 and thoroughly investigated. In two cases, the potentially criminal offences were reported to the authorities. The proceedings are still underway and employment was terminated. In the third case, violations of internal regulations were identified, leading to disciplinary action being taken against the individual concerned and organisational changes being implemented. In one of these cases, the business relationships with two business partners were ended due to infringements in connection with corruption.

GRI 406-1 No cases of discrimination were reported or other reports made to the Diversity and Inclusion manager in 2017.

GRI 415-1, GRI 102-25
Further information is
provided in the
Corporate Governance
Report

VERBUND encourages dialogue with all political parties and their organisations. This does not extend to support for political parties and their delegates or election candidates, however. VERBUND gives no financial donations to political parties, grass-roots political organisations or holders of political office.

Financial market compliance, market abuse law

VERBUND has developed a comprehensive set of regulations along with an internal organisational structure – both in place for many years now – that are designed to prevent the abuse of inside information in order to comply with the EU market abuse regulations and the Austrian regulations, especially provisions of stock corporation and stock exchange law and the Regulation on Compliance for Issuers (Emittenten-Compliance-Verordnung), which was still applicable in the reporting period.

In the wake of the comprehensive changes in market abuse and insider trading law that entered into force in 2016, the vigorous training and information campaign was continued in the past financial year.

In November 2017, VERBUND received the Austrian Compliance Award in the “Best Compliance Management System of the Year” category for successful implementation of these new requirements in the Group.

Legal compliance

The following legal proceedings relate to the GRI indicators:

In an action filed by the Financial Market Authority (FMA) against four members (some of them former members) of VERBUND’s Executive Board for failing to make ad-hoc disclosures in June 2012, a fine of €52,000 (including court costs) in each instance was imposed in a legally binding ruling on 20 July 2016. The decisions were appealed to Austria’s Supreme Administrative Court (VwGH). These were dismissed as unfounded in May 2017. The proceedings were thus finally disposed of.

GRI 419-1 VERBUND Trading GmbH was part of a joint venture in Greece from 2006 to 2010. In a tax audit conducted in 2015, the Greek authorities found that the joint venture had committed tax transgressions. An objection was filed disputing the merit of all of the tax authorities’ claims. The proceedings are pending in the second instance. To prevent provisional prosecution of the VERBUND representatives occupying seats on the board of the joint venture at the time, in 2016 and 2017 VERBUND paid the additional value-added tax and corporate income tax demanded by the tax authorities plus the related penalties and interest.

There were no proceedings in the reporting period concerning the indicators GRI 416-2 (Incidents of non-compliance concerning the health and safety impacts of products and services), GRI 417-2 (Incidents of non-compliance concerning product and service information and labeling), GRI 417-3 (Incidents of non-compliance concerning marketing communications) and GRI 418-1 (Substantiated

complaints regarding concerning breaches of customer privacy and losses of customer data). There were also no legal actions for anti-trust or anti-competitive behaviour.

Other proceedings relating to the restructuring of the thermal power plant segment are reported on in the section entitled All other segments. For information on the investigation of the flooding on the Danube and the Drau rivers and the associated proceedings, please refer to the Renewable generation section.

GRI 416-2, GRI 417-2,
GRI 417-3, GRI 418-1,
GRI 206-1

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 Environmental executive order and additional environmental provisions define the framework for the systematic planning, execution and measurement of and reporting on the environmental achievements of VERBUND. Existing structures, processes and responsibilities in environmental management ensure compliance with legal requirements, nationally and internationally accepted regulations and the Group's own, more stringent 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 standard 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 upon request.

GRI 103-2
For further information
on the management
approach, please refer to
the DMA and
information provided at
www.verbund.com >
[About VERBUND >](#)
[Responsibility >](#)
[Environment](#)

Impacts on the environment

One key topic in environmental management has always been the potential impacts our activities have on the environment. Along with the currently ongoing transition to ISO 14001 revision 2015, the focus of the standard is turning to analysis of the organisation's context and risk-based thinking as additional aspects. One-third of our certified generation facilities and sites already completed the transition to the new standard in 2017. The entire Group will have completed the alignment by September 2018.

There are two primary ways that VERBUND's normal operations have a significant 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.

GRI 103-1, GRI 103-3

VERBUND generates clean energy from renewable hydropower.

Please refer to the DMA section entitled Crisis management

Under normal operations, VERBUND plants present no significant risks with potentially negative effects for the environment. By operating the facilities in compliance with the laws, VERBUND minimises the likelihood that these risks will arise. There are specific emergency plans and a crisis management team in place for extreme events (severe flooding, earthquakes, etc.).

Certification of environmental management systems

All ISO 14001 certificates and environmental statements available at www.verbund.com > About VERBUND > Responsibility > Environment > Certifications

VERBUND has implemented environmental management systems in accordance with ISO 14001 at generation and grid facilities and at major administrative sites. Due to the audits successfully conducted at the Grenzkraftwerke power plant group, all of the hydropower plants operated by VERBUND have been externally certified to the ISO 14001 standard since 2017.

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 will be incorporated into the environmental management system as quickly as possible after commissioning and included in the scope of the certificate for the next audit.

Sites with environmental management systems certified to ISO 14001 or EMAS

	Unit	2015	2016	2017
Percentage of certified sites ¹	%	93	93	100
Total certified sites	Number	188	187	198

¹ Sites of consolidated companies, excluding wind power plants if the operating company is certified and sites in which VERBUND has a share of <51% and where another co-owner is responsible for management; as at 31 December of the year

Use of power

GRI 302-1, GRI 302-3
For further information on use of power, please refer to the DMA and NFI download

Compared with 2016, VERBUND's use of power from fuels increased by 47% in 2017 as a result of increased use of the thermal power plants to support the grid. At around 9 million gigajoules (GJ) – equivalent to some 320,000 tonnes – hard coal use at VERBUND's thermal power plants remained on a level with the previous year and below the 2015 level (15.3 million GJ). In contrast, over twice as much natural gas was used in 2017 than in 2016 (2017: 9.9 million GJ versus 2016: 4.5 million GJ). However, use of power from fuels accounted for just 0.3% of all fuels used.

Electricity purchases at VERBUND comprise grid purchases for administration, power plants, pumps and grid facilities. Due in particular to increased use for pumping and turbining and higher grid losses, 32% more electricity was purchased in financial year 2017 than in 2016.

In 2017, total energy consumption within VERBUND amounted to 30.3 million GJ. Energy intensity – the power use within the Group per amount of electricity and district heating generated – amounted to 0.25 (2016: 0.18) in 2017 and was therefore below the 2015 figure.

Use of materials

Materials VERBUND uses include additives and consumables for flue gas treatment and for energy generation in power plants and grid facilities. Paper used in the administrative areas makes up a small share of materials. Total material requirements increased only slightly in 2017 by 4% despite more generation from thermal power. This is primarily made possible by switching thermal generation from hard coal to natural gas, as the Mellach combined cycle gas turbine power plant uses only a negligible amount of additives and consumables compared to the hard coal power plant.

GRI 301-1
For further information on the use of materials, please refer to the DMA and NFI download

KPIs – generation, use of power and materials

	Unit	2015	2016	2017
Generation				
Electricity generation (net, total) ¹	GWh	31,239	31,995	32,866
Share of generation from renewables	%	93	96	93
Generation of district heating (net)	GWh	979	910	943
Direct power use²				
Total fuels from non-renewable sources				
Hard coal	GJ	20,482,222	12,627,730	18,589,109
Oil	GJ	0	0	0
Natural gas	GJ	5,144,378	4,463,574	9,869,333
Fuels (diesel and petrol)	GJ	47,820	50,565	53,912
Total fuels from renewable sources	GJ	18,759	16,509	18,121
Electricity (grid purchase) ³	GWh	2,947	2,459	3,247
Total energy consumption within the Group	GJ	31,114,535	21,501,062	30,301,786
Energy intensity – power use per amount of electricity and district heating generated⁴				
	GWh/GWh	0.27	0.18	0.25
Use of materials				
Use of additives and consumables	t	9,249	5,658	5,874
Use of copying paper	t	9,223	5,634	5,851
	t	26	24	23

¹ incl. purchase rights // ² Own power used in all operating segments. The amounts stated relate to the condition at the time of delivery, i.e. damp material in the case of biomass. Fuels calculated based on heat units. Fuels from renewable sources mainly include sewage sludge and biodiesel // ³ Volume used from grid for operating power plants, pumping, administration and grid losses, i.e. electricity purchased by Austrian Power Grid (APG) for the entire transmission grid operated by APG (all grid levels); 1 gigawatt hour [GWh] corresponds to 3,600 gigajoules [GJ] // ⁴ 2016: adjustment of rounding differences

GRI 305-1, GRI 305-2,
GRI 305-3, GRI 305-4
For additional
information on
greenhouse gas
emissions, please refer
to the DMA and
NFI download and to the
CDP climate
performance score

Greenhouse gas emissions

Due to the high proportion of renewable energy sources representing 93% of its generation, VERBUND is one of Europe's most environmentally friendly energy companies. The Group's focus on electricity generation from renewable energy is a crucial factor in reducing and avoiding greenhouse gas emissions. In accordance with the Paris Agreement on climate change from 2015, VERBUND commits to reduce its worldwide emissions of greenhouse gases 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% measured beginning from the basis year (2011: 5 million tonnes CO₂e) until 2021 includes Scope 1, Scope 2 market-based and Scope 3 energy-related activities and air travel. The Science Based Targets Initiative validated this goal as science-based in October 2016, i.e. it meets global standards.

In 2017, VERBUND continued its long-term trend of declining greenhouse gas emissions, although higher emissions were generated than in the previous year. This is due to the fact that emissions were very low in 2016, rebounding in 2017 as a result of the significantly higher volumes from thermal generation for congestion management.

KPIs – emissions

	Unit	2015	2016	2017
Greenhouse gas emissions (absolute)¹				
Total greenhouse gas emissions (Scope 1, 2 market-based, 3)	kt CO ₂ e	2,350	1,553	2,090
Scope 1 direct emissions	kt CO ₂ e	1,737	1,007	1,358
Scope 2 indirect emissions (market-based)	kt CO ₂ e	300	291	354
Scope 2 indirect emissions (location-based)	kt CO ₂ e	410	342	452
Scope 3 other indirect emissions ²	kt CO ₂ e	314	255	378
Greenhouse gas emissions (specific)^{1,3}				
Scope 1 emissions, relative to total electricity generated	g/kWh	56	31	41
Emissions avoided through generation from renewable energy⁴				
	kt CO ₂	24,168	25,457	23,666
Airborne emissions (absolute)				
CO	t	50	41	84
SO ₂	t	270	142	129
NO _x	t	829	495	605
Dust	t	50	6	12

¹ preliminary data prior to ETS audit // ² 2017: changed to include business travel by personal car and train // ³ total electricity generated incl. purchase rights excluding generation of district heating // ⁴ calculation using the share of thermal generation based on ENTSO-E mix

All CO₂ and SF₆ emissions are included in the direct emissions in Scope 1 of 1.4 million tonnes. In 2017, this amount increased by 35% year-on-year; a comparison with 2015, however, shows a reduction of 22% despite nearly identical volumes of thermal production, though with additional generation of

more than 800 GWh from natural gas. At over 99%, CO₂ emissions from the use of fuels in thermal power plants made up the largest share of Scope 1 emissions. The use of fuels by the VERBUND vehicle fleet and SF₆ emissions at grid facilities accounted for less than 1%. These quantities of direct emissions from fuels and SF₆ emissions will continue to occur even without operating thermal power plants. Co-incineration of sewage sludge also generates small amounts of direct emissions, which are therefore considered as biogenic. These biogenic emissions are not reported. In contrast, no direct emissions arise from the generation of electricity using renewable energy sources.

From 2017, the GRI standards require that two different figures be used to report indirect emissions in Scope 2 from electricity purchases: a location-based figure and a market-based figure.

The location-based figure is calculated using the carbon emission factor of the local electricity grid. This figure therefore changes only if there are modifications in the quantities of electricity purchased or in the European generation landscape. VERBUND's location-based figure amounted to 0.45 million tonnes in 2017.

The market-based figure, however, can be reduced through strategic procurement of electricity generated from sources with low emissions per kWh purchased. For several years, VERBUND has been promoting the use of pumped storage power plants operated exclusively using electricity with guarantees of origin from 100% hydropower and had thus sharply reduced the Group's market-based emission levels by 2017. The figure is consistently low compared to 2016. For the full year 2017, this market-based figure was 0.35 million tonnes.

Further indirect emissions in Scope 3 (0.38 million tonnes CO₂e) relate to upstream and downstream activities in VERBUND's supply chain. VERBUND reports upstream emissions in Scope 3 in the relevant categories of fuel and energy-related activities (including upstream emissions from the production and transportation of fuels) and business travel. The downstream emissions from the combustion of natural gas by customers who are compensated by VERBUND are reported under downstream activities.

Total greenhouse gas emissions (Scope 1-3, with Scope 2 market-based) increased by 35% in 2017 to around 2.1 million tonnes CO₂e compared with the previous year (2016: 1.6 million tonnes CO₂e), but remained below the level of 2.3 million tonnes CO₂e from 2015. Of this amount, 65% (1.4 million tonnes CO₂e) is attributable to greenhouse gas emissions in Scope 1, 17% (0.35 million tonnes CO₂e) to Scope 2 market-based and 18% to Scope 3 (0.38 million tonnes CO₂e).

VERBUND's strategic goal is to reduce the VERBUND-specific direct greenhouse gas emissions (Scope 1) to below 10 g CO₂e per kWh of total electricity generated by 2020. In 2017, this figure amounted to just 41 g CO₂e/kWh. VERBUND is thus already well below the specific figure for the 2016 Austrian production mix at 139 g CO₂/kWh and even further below the German figure at 513 g CO₂e/kWh. These figures demonstrate VERBUND's success in its drive to decarbonise electricity generation.

Emissions avoided through generation from renewable energy

By generating electricity from renewable energy sources rather than from thermal generation, VERBUND avoided 23.7 million tonnes CO₂ during the reporting period. This is calculated based on average thermal generation emissions based on ENTSO-E.

Airborne emissions

The "KPIs - emissions" table also shows airborne emissions from our thermal power plants as absolute amounts. The increase in emissions of carbon monoxide (CO) by a factor of two and in emissions of

GRI 305-7
For further information,
please refer to the DMA

nitrogen oxides (NO_x) by around 22% was attributable mainly to the use of the Mellach combined cycle gas turbine power plant for congestion management (grid stabilisation) requiring frequent powering up and down and changes of load. Dust emissions from operation of the Mellach hard coal power plant increased to 12 tonnes (2016: 6 tonnes). They remained well under the total of 50 tonnes in 2015, which still included the dust emissions of the last year of operation for the Dürnrrohr hard coal power plant.

Conservation and biodiversity

Current examples of capital expenditure for the environment and biodiversity such as the construction of fish passes to re-establish the river continuity and restoration measures implemented at water bodies can be found in the Renewable generation section. The wide range of measures that VERBUND has already implemented and those that are at the planning stage in the areas of conservation and biodiversity are described on the websites of the LIFE projects and on the VERBUND website.

In 2017, a total of five fish passes were completed at power plants on the Danube River in Austria and on the Inn River in Bavaria, bringing the total of fish passes in operation to 56.

For more on the topic of biodiversity, please refer to the DMA and information provided at www.verbund.com; www.life-traisen.at; www.life-netzwerk-donau.at

GRI 304-1

Conservation and biodiversity

	Unit	2015	2016	2017
Sites in protected areas				
Sites in Natura 2000 areas	ha	2,746	2,746	2,793
Sites in Ramsar areas	ha	620	620	646
Sites in national parks	ha	68	68	68
Sites in conservation areas	ha	1,403	1,403	1,378
Fish passes	Number	44	51	56

Water input and output

Compared with the previous year, water withdrawal at our sites increased by 37% in 2017, although it remained below the 2015 volume. Over 95% of the total water volume was used as cooling water at VERBUND's thermal power plants. Surface water is used for this purpose and returned chemically unchanged.

Details on other water discharge from thermal power plants – such as the treatment methods used and the water quality including compliance with limits – are published in the annual environmental statements. The decommissioning of thermal power plants is the main reason for the lower volumes of water withdrawal and discharge in recent years.

GRI 303-1,
GRI 303-1 EU-ADD,
GRI 306-1

KPIs – water input and output

	Unit	2015	2016	2017
Total water withdrawal by source	1,000 m³	289,214	153,822	211,374
from surface water	1,000 m ³	277,470	143,423	201,973
from groundwater and well water	1,000 m ³	11,630	10,294	9,299
from public water supply	1,000 m ³	114	106	102
Total water discharge	1,000 m³	289,214	153,822	211,374
of which cooling water from thermal power plants into surface water	1,000 m ³	275,879	141,645	200,331
other water discharge	1,000 m ³	13,335	12,177	11,043

Waste and by-products

Approximately 84,000 tonnes of waste were handed over for treatment or disposal in 2017. At almost 60%, non-hazardous waste from projects makes up the largest share of this amount and is mainly attributable to the disposal of waste associated with construction activities in 2017. Around 10% is non-hazardous waste from ongoing operations. Hazardous waste makes up only 2% of the total waste volume. Screened debris accounted for a share of 28% in the financial year. This volume of waste depends primarily on water supply and on the occurrence of flooding in the reporting period. It is not caused by power plant operations and therefore cannot be influenced or prevented by VERBUND.

VERBUND's thermal power plants produce by-products such as ash and gypsum which qualify as by-products in accordance with the Austrian Waste Management Act (AWG) and are used as secondary raw materials. At approximately 51,000 tonnes, the volume of by-products in 2017 was close to that of the previous year.

GRI 306-2,
GRI 306-2 EU-ADD

KPIs – waste and by-products

	Unit	2015	2016	2017
Total waste¹	t	94,137	103,083	84,073
Total hazardous waste	t	1,601	2,313	1,783
from ongoing operations	t	957	823	590
from projects	t	645	1,490	1,193
Total non-hazardous waste	t	84,732	75,296	58,630
from ongoing operations	t	79,668	17,461	9,761
from projects	t	5,064	57,835	48,869
Screened debris – hydropower plants	t	15,500	25,475	23,660
By-products				
by-products – thermal power plants	t	8,323	49,653	50,794

¹ 2016: adjustment of waste and screened goods volumes

Other environmental KPIs

As in the previous years, no environmental fines were imposed in 2017. Additional details on environmental KPIs are available in the NFI download in the Environment section of the VERBUND website.

GRI 307-1

Other environmental KPIs

	Unit	2015	2016	2017
Environmental costs (total) ¹	€m	67.3	66.5	61.9
of which for environmental management and provisions	€m	5.5	5.3	5.0
of which for plants and projects	€m	82.7	76.5	77.0
of which environmental revenue	€m	-20.9	-15.3	-20.1

¹ 2016: adjustment of the total breakdown

Human resources and social responsibility

Sustainable cost management

The noticeable improvements in the cost structure confirm the validity of the measures to improve efficiency adopted by the Group Executive Board and implemented since 2013. Restructuring efforts and investments in the thermal power plant segment both in Austria and abroad, the reductions in investments and the significant job cuts under the programmes to increase efficiency constitute necessary steps in improving the Group's cost structure and keep its competitiveness.

The overall reduction potential identified under the programmes to increase efficiency and the corresponding measures defined are being taken on in an orderly fashion. With the support of the steps agreed upon with the employee representatives, socially responsible solutions have been found for the affected employees. The trend in the number of employees reflects the results of the workforce reduction programmes. Compared with financial year 2016, the number of employees fell by 133 to 2,819 as at 31 December 2017. Around 730 jobs have been cut since the programmes to improve efficiency took effect.

In actual fact, VERBUND operates nearly exclusively in Central Europe, a region which has high standards in terms of labour law and social welfare. Employment of highly and very highly qualified employees entails corresponding personnel costs. It is worth noting that VERBUND is among the top European electric utilities in terms of productivity. Therefore, alongside the programmes to increase efficiency that have been mentioned, it is essential for VERBUND that the existing remuneration structures at Group and industry levels are being modernised and adapted to market conditions. In addition to adapting internal guidelines on salary determination, the Group is taking a leading role at industry level in redesigning the collective agreement for electricity companies in Austria. The objective is to design a collective agreement for the energy sector that is fair and, at the same time, suited to modern working life. Agency staff are used for a certain length of time as temporary leave replacements and to cover capacity peaks as well as specifically for positions with particularly flexible work requirements. This primarily concerns the implementation of new business models, sales and APG's project business for grid construction projects. Agency staff receive salaries in line with the market and, in accordance with the statutory provisions, are regarded as equals to the other VERBUND employees in terms of their remuneration structures.

For information on labour management relations, including minimum notice periods regarding operational changes, please refer to the DMA

Similar to the current VERBUND Group pension plan model in Austria, a defined contributions pension plan model was introduced in 2017 also for new employees joining the companies in Germany. The model is funded by the ongoing contributions by the company, making the operating expense predictable and keeping obligations off the balance sheet.

Personnel planning and management

VERBUND has been using a modern, user-friendly planning and reporting tool for personnel data, for which it received the “Bronze Winner – Large Implementations” SAP quality award in 2013. This integrated personnel and expense planning system makes the personnel planning process simple and transparent. Consistent and strict personnel planning promotes the optimal use of resources.

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

GRI 103-2

We use a variety of methods such as audits, internal reviews and analyses of KPIs including internal and external benchmarks to assess the effectiveness of these management approaches. Based on the results of these feedback and performance review processes, the guidelines are regularly evaluated and adapted as needed.

GRI 103-3

When all employees behave in a performance-oriented, productive and entrepreneurial manner, this safeguards the core business in the long term and makes it possible to take advantage of new business opportunities. Generation and skills management programmes help VERBUND employees to sustain their level of performance. VERBUND implements measures throughout the year as part of its occupational health management and personnel development endeavours. In an effort to simplify processes, digitalisation measures are employed for some individual services, always in compliance with data protection aspects.

The protection of employees and safety of the employees have been of great importance to VERBUND for decades. We have made it our objective at VERBUND to continually improve the accident rate.

VERBUND attaches great importance to a corporate culture that serves as the foundation for working together constructively and successfully. Consideration is given to maintaining a balance between work and personal life, open communication and a culture of discussion in which appreciation is shown for others. In connection with this, the topics of leadership culture and diversity in the Group are also of particular significance.

GRI 102-8, GRI 401-1
For information on age
and gender, see the
Diversity management
section

KPIs – employees

	Unit	2015	2016	2017
Average operational headcount	Number	3,089	2,923	2,819
Number of employees ¹	Number	3,098	2,952	2,819
of which in Austria	Number	2,711	2,582	2,464
of which in Germany	Number	376	359	344
of which in other European countries	Number	11	11	11
Full-time employees	Number	2,934	2,788	2,657
Part-time employees	Number	164	164	162
New employee hires	Number	93	104	117
Employee turnover excluding retirements	Number	85	79	79
Employee turnover rate excluding retirements	Percent	2.7	2.7	2.8
Employee turnover including retirements	Number	260	227	227
Employee turnover rate including retirements	Percent	8.4	7.7	8.1
Average duration of employment ²	Years	19.2	18.9	18.8
Percentage of university graduates	Percent	21.9	22.6	23.2

¹ as at 31 December, excl. members of the Executive Board and employees in partial retirement // ² Change in calculation method in 2016: personnel from acquired and newly consolidated companies are included in the duration of employment with the acquired/consolidated company and no longer in the duration of employment with the VERBUND Group.

Types of employment and benefits offered

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 or in relation to future issues such as digitalisation). VERBUND aims to achieve long-lasting employment relationships and gives opportunity for employees to work under various working-time models, including full-time, part-time and part-time during parental leave. Temporary workers are also hired to cover capacity peaks and for project work. 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 and therefore receive the same safety briefings.

VERBUND offers all of its employees a number of voluntary benefits and benefits under collective bargaining agreements. These include a pension fund, supplementary health insurance, discounted lunches, dependent child benefits and health checks.

Furthermore, VERBUND has declared its commitment to paying its employees 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 both targets based on individual performance and the Group's profitability and ensures fair pay for employees at all levels.

Strengthening the competitive position of VERBUND in the labour market is paramount to ensure that VERBUND continues to be able to hire the best employees. At the same time, the intention

GRI 102-8, GRI 401-2

GRI 102-41 and
EU-DMA: Freedom of
association and
collective bargaining, as
well as the Human rights
section
GRI 401-2

is to improve the skill level of existing employees by means of targeted personnel development programmes – also through e-learning solutions.

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

By making specific investments in select employer branding measures, VERBUND took further steps in 2017 to mitigate the risk of losing its standing in the labour market as a highly attractive employer. With the use of even fewer funds, VERBUND continued to demonstrate a clear presence in the labour market – for example at education and job fairs and in print and online media, as well as on social media, focusing on IT experts and apprentices as target groups.

In 2017, the strategic focus in the area of employer branding was on maintaining long-term contact with top-performing students from the Vienna University of Technology (TU) and on measures for the advancement of women. In connection with this, existing measures were also continued. These included the annual award of the VERBUND women's scholarship, participation in Take Your Daughter to Work Day in Vienna, the Women in Technology ("Frauen in die Technik," FIT) initiative and Girls! Tech up, as well as organising an alumnae event for all recipients of the women's scholarships.

In 2017, VERBUND again took part as a service learning partner in the Sustainability Challenge, in which around 60 students from the four largest universities in Vienna (Vienna University of Economics and Business, Vienna University of Technology, University of Natural Resources and Life Sciences, Vienna, and University of Vienna) researched interdisciplinary aspects of the topic "Sustainability and the city" from the perspective of the UN Sustainable Development Goals viewed as an opportunity for urban transformation. This strengthens our position as an attractive employer for graduates of the participating universities.

Recruiting

To continue to remain attractive for internal and external candidates, VERBUND's career opportunities were continually updated yet again in 2017. The recruiting platform implemented for applicants in 2016 complements this perfectly. VERBUND continually strives to maintain its high degree of professionalism in recruitment quality and to reflect the state of the art even in the digital world.

This was rewarded in the reporting period by the Golden Seal from the 2017 Career's Best Recruiters study, with VERBUND being awarded first place in the "Energy" category.

Personnel development

VERBUND puts emphasis on the development of its employees. In 2017, each employee took part in 36 hours of training on average. Personnel development focussed on training in the areas of safety, technology and organisational and team development. The majority of employees in the fields of technology and safety are men. This is also reflected in the average training hours, which are slightly higher for men (36.7 hours) than for women (34.6 hours).

As part of the internal programme to increase efficiency, continuing education is also crucial in ensuring that measures are implemented in a socially responsible manner. Among other things, targeted retraining creates new prospects for existing employees.

For management's approach to recruiting, please refer to the DMA

GRI 404-2
For management's approach to training and continuing education, please refer to the DMA

GRI 404-1, GRI 404-3

KPIs – skills development

	Unit	2015	2016	2017
Continuing education per employee (total workforce) ¹	Hours	33.6	35.2	36.0
Continuing education per employee (without executive function)	Hours	31.8	33.6	34.4
Continuing education per executive	Hours	74.4	71.2	79.2
Performance review ratio	Percent	96.4	96.2	96.3
Apprentices, total	Number	175	165	150
of which, new apprentices taken on	Number	40	43	37

¹ incl. executives and long-term agency staff, excl. apprentices, employees in retention periods, employees loaned to third parties and employees on long-term leave; excluding safety briefings

e-training – digitalising learning solutions

More and more, learning is designed to help employees improve their own skills and often takes place embedded into the work process. To take account of this, VERBUND is therefore creating learning spaces and opportunities to allow individualised and organisational learning. The training for standard client roll-out to Windows 10 and Office 2016 was held using digital learning media.

The e-training sessions specific to VERBUND and the intranet community support and accompany the employees during this transition process. The Resilienz4Business e-training session guides the employee step by step through the most important areas of mental health and shows ways to recognise critical factors related to mental stress and to reinforce and improve the individual's own resilience. A module for executives offers them a set of tools to use in recognising, addressing and reacting early to the first signs of mental stress among employees.

By purchasing licenses for the Lynda learning platform offering a range of over 2,500 courses, VERBUND is also offering its employees the option to learn flexibly under the motto "what, when and where you want." Removing limitations to when and where the courses can be accessed makes the platform suitable for a wide range of learning types. The learning style and speed of learning can be adjusted individually.

Apprentice training

Maintenance and operation of our plants are key functions in our Group. To ensure reliable operations, in 1983 VERBUND became one of the first companies in Austria to provide its apprentices with a four-year programme of dual vocational training (electrical engineering and metalworking technician). These dual professional qualifications are in high demand and offer excellent opportunities for the future. From the second year onwards, the VERBUND apprentices work at one of VERBUND's power plants, where they are able to acquire the necessary knowledge about the plant. This ensures the transfer of expertise in the technical/skilled trade area.

In 2017, 37 new apprentices were recruited in Austria and Germany. The high quality of the apprenticeship training is evident not only in the outstanding achievements in the final apprenticeship examinations but also in the recognition of VERBUND by the Austrian Federal Ministry of Science, Research and Economy as a nationally certified training company.

Trainee programme

In order to meet current and future needs in the field of digitalisation, VERBUND launched a trainee programme for young IT professionals in 2017. Over the course of 24 months, eight trainees (four women and four men – including one deaf person) each complete three stations in the Group's various IT fields (IT requirements management, agile software development, network technology, etc.).

Further improvement in corporate culture

Interdisciplinary work in the digital unit

The development of and changes in VERBUND's core operating segments require continuous enhancement of the corporate culture. To promote new forms of working, establishing a digital unit as a pilot project represents one step towards an agile corporate culture. An interdisciplinary team of 15 employees from many different business areas work together outside of the line organisation, across divisions and companies. The goal is to think outside of the box in terms of digitalisation and develop usable ideas for VERBUND out of the wide array of digitalisation options.

The use of new methods supports smart work and is growing in significance. VERBUND is employing novel methods to drive forward the necessary business model innovations. The project management method SCRUM, design thinking and prototyping with mock-ups are some of the methods being used. The range of training and continuing education opportunities at VERBUND therefore includes seminars teaching the methodology of agile product development and flexible project work.

Leadership culture

Continuous professional development of executives serves to further improve the quality of leadership and thus guarantee the Group's success. VERBUND defines measures to continually improve the leadership culture.

Regular feedback for executives is one such measure. As part of a feedback process that takes place every two years, the (leadership) behaviour from the perspective of the direct work environment (supervisors, employees and colleagues) is evaluated and compared with the executive's own appraisal. These structured and comprehensive feedback processes provide valuable information about developing executives' skills. Through an examination of the discrepancies between self-appraisals and appraisals by others and a comparison with the last feedback conducted, the goal is to highlight personal improvement in addition to identifying strengths and areas requiring attention. Targeted individual development measures adapted to each executive's needs are then defined based upon these analyses.

As yet another measure – based on the results of the last employee survey, the VERBUND executive feedback and the evaluation of mental stress – a compact format of the mandatory executive development customised to meet the individual's specific needs is carried out. The objective of this programme is to give executives new approaches, new ideas, techniques and tools for their everyday work. This is aimed at reinforcing their role as a decision-maker in the digital transformation and safeguarding the success of the Group in the long term.

Maintaining a work-life balance

Maintaining a balance between work and private life is a tradition at VERBUND. Since 2009, the Work and Family Audit has provided a way to better structure the measures so that more opportunities can be

More information
available at
www.verbund.com >
About VERBUND >
Responsibility >
Social issues >
Added benefits for
employees

created to meet specific needs and encourage a better work-life balance. VERBUND demonstrates its commitment to being a family-friendly company through its involvement in the Companies for Families network. In 2017, VERBUND also put into effect an internal regulation on a parental leave month for fathers.

The last employee survey conducted in 2015 also confirms that satisfaction with the compatibility of work and private life in our Group has been continuously growing since 2008.

*“With hearts and minds” is our motto
for a culture of respect.*

Diversity management

GRI 405-1, GRI 401-1

In 2017, VERBUND continued to work towards the diversity strategy defined in 2016. With the ZukunftVIELFALT® certification, VERBUND took another step towards continuous improvement in managing diversity. In addition to serving as a label for organisations with comprehensive diversity management systems, ZukunftVIELFALT® is a management concept for expanding an existing overarching diversity management system. VERBUND aims to firmly embrace diversity within the Group and to systematically expand on and update its diversity strategy. In this manner, VERBUND promotes diversity within the Group and guarantees equal opportunities. VERBUND earned this recognition for the first time in 2017.

Efforts to advance diversity and inclusion are ongoing. They began with initiatives such as enshrining equal opportunities in the corporate philosophy, appointment of an equal opportunities officer and a diversity and inclusion manager, Diversity Charter (“Charta der Vielfalt”) premium membership and appointment of an accessibility manager.

Particular emphasis has been placed on the dimensions of age, gender and disability, and planned measures were implemented mainly in these areas in 2017.

Focus on age

GRI 405-1

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.

KPIs – age dimension, total

	Unit	2015	2016	2017
Total average age	Years	44.2	43.9	43.8
< 30 years	Percent	19.7	20.7	19.0
30–50 years	Percent	39.4	38.3	38.6
> 50 years	Percent	41.0	40.9	42.5

KPIs – age dimension, executives

	Unit	2015	2016	2017
< 30 years	Percent	0	0	0
30–50 years	Percent	46.8	38.1	39.5
> 50 years	Percent	53.2	61.9	60.5

KPIs – age dimension, employees without executive function

	Unit	2015	2016	2017
< 30 years	Percent	20.3	21.3	19.5
30–50 years	Percent	39.1	38.4	38.5
> 50 years	Percent	40.6	40.3	41.9

The demographic trend which has already been observable for many years continued during the reporting period. Around 7% of VERBUND employees will retire over the next five years. Over the next ten years, 29% will retire. The programmes to increase efficiency mean that not all of these positions will again be filled. However, a significant percentage of these departures concern positions that are essential to operations, which are necessary for maintaining ongoing operations and therefore must be staffed.

For many years, VERBUND has relied on an occupational health management programme aimed at keeping its workforce healthy for an extended period of time and helping to achieve a smooth transition from generation to generation. VERBUND's "Fit and Healthy" initiative is designed to promote a healthy lifestyle. The initiative motivates employees to adopt a healthy lifestyle on a voluntary basis. Another benefit VERBUND provides to all employees is free counselling on work-related or personal problems under the Employee Assistance Programme.

Focus on gender

In connection with the gender dimension, the percentage of women overall is to be increased to 20% by 2020 – just as the percentage of women in the individual management levels is to rise as well.

KPIs – gender dimension

	Unit	2015	2016	2017
Men	Number	2,548	2,434	2,327
Women	Number	550	518	492
Total percentage of women	Percent	17.8	17.5	17.5
Percentage of women among new employee hires	Percent	12.9	14.4	15.4
Percentage of women among executives	Percent	7.4	8.3	11.1
Percentage of women among apprentices	Percent	9.7	6.7	5.3

GRI EU15
For disclosures on
pension obligations,
please refer to the notes

Traditionally, the percentage of women in predominantly technical companies such as VERBUND has been on the low side. That is why VERBUND has put measures in place to increase the current share of 17.5% by 2020. In 2017, the percentage of women among new employee hires was 15.4%.

Based on the results of the employee survey, specific activities for the advancement of women were also agreed. To increase the visibility of female employees, greater consideration will be given to women especially when filling vacancies in bodies or committees or project manager positions. Women at VERBUND can express their interest in a management position by putting themselves forward whenever the succession planning is being periodically updated. In 2017, around 11% of women stated their interest in assuming a management position. Around half of those had not yet been included in the succession planning. The goal of identifying previously unknown potential has thus been met. In 2017, objectives for the advancement of women were agreed with the executives at the top management level in order to further promote awareness of equal opportunities for women.

VERBUND is a trustworthy and stable partner for its employees.

GRI 405-2

VERBUND also takes care to ensure equal pay. This is based on strict compliance with the classifications of the collective agreement and on a performance-related remuneration scheme. In 2017, VERBUND also once again prepared an income overview containing information on average salaries for women and men. The ratio of the base salaries of women and men of 1:1.07 improved compared with the last reporting period. Nevertheless, socio-political and cultural aspects such as part-time work among women, a small number of women in technical professions, and the difficulty for women to advance to more highly paid (management) positions are still also reflected within VERBUND.

Inspiring women to enter technical professions is important to VERBUND. VERBUND therefore participates in several initiatives such as Take Your Daughter to Work Day in Vienna, Women in Technology ("Frauen in die Technik," or FIT) and the amaZone Award. Since 2009, our Group has awarded the VERBUND women's scholarship to talented female students who have completed a recognised technical education programme. Women at VERBUND receive support from the intragroup VERBUND women's network.

VERBUND has been participating in Take Your Daughter to Work Day in Vienna for 14 years. This campaign sponsored by the City of Vienna, the Vienna Economic Chamber and the Vienna School Board aims to awaken the interest of girls in the technical professions. In 2017, a total of 16 girls took part in a variety of workshops and became acquainted with the Greifenstein power plant.

FIT also aims to generate interest among young girls in pursuing technical professions, motivates female high school graduates to study technical subjects and presents successful women in technical professions as role models. In this way, we hope to break down inhibitions and anxieties about technical or scientific education among girls.

The apprentice training programme at VERBUND has been distinguished with the amaZone Award since 2014 and continues to participate each year. The Sprungbrett association uses this award to

recognise businesses with a particular commitment to training women in trades and technical professions.

By awarding the VERBUND women's scholarship, VERBUND has also supported talented female students during their technical training since 2009. Another aim for the Group is to generate enthusiasm for the company among technically qualified women and, ideally, to recruit them. The VERBUND women's scholarship was awarded for the ninth time in 2017. The three winners each received a scholarship worth €5,000 for one year of study. This award is a means of enabling the winners to supplement their university education with additional personal and professional training.

Focus on disabled persons

VERBUND assumes its social responsibility by ensuring equal opportunities as a Group. To send a visible signal, VERBUND's stated goal is to continue to fulfil the quotas stipulated in the Austrian Disabled Persons Employment Act (Behinderteneinstellungsgesetz, BEinstG) and to recruit and employ people with disabilities even beyond that.

In this way, VERBUND exceeds the statutory quotas stipulated in Austria and Germany for the employment of disabled people. For VERBUND, the mandatory quota for Austria is 105. However, VERBUND employs 139 people who qualify as disabled persons under the Disabled Persons Employment Act (BEinstG). The corresponding mandatory quota for Germany is 18, and 23 people with disabilities are employed.

Together with the accessibility management programme, the diversity management programme continually works towards improving the employment of people with disabilities. By implementing specific measures, VERBUND aims to alleviate inhibitions and make working together with disabled people a natural and established part of the corporate culture. As executives make a significant contribution to changing the corporate culture, Gregor Demblin (co-founder of the social enterprise MyAbility and himself a wheelchair user) provided information to the VERBUND executives at the top management level on employing people with disabilities. Training sessions for executives were also held in some subsidiaries.

In summer 2017, three people with disabilities completed their seasonal internships at VERBUND. One trainee with a disability began working at VERBUND in October 2017. As a member of the DisAbility business forum, VERBUND also exchanges experiences with other companies and continually increases its knowledge on the topic of employing people with disabilities.

Health and safety

GRI 403-2

The protection of employees and occupational health and safety are matters of great importance to VERBUND.

KPIs – occupational safety

	Unit	2015	2016	2017
Lost time injury frequency (LTIF) ¹	Number	11.9	8.9	10.1
Injuries ²	Number	59	44	53
Fatal injuries	Number	0	0	0
Injury severity ³		14.3	17.2	21.5
Total injury-related lost days ²	Days	846	758	1139

¹ Ratio of workplace injuries from the first day of leave to million working hours; excluding injuries requiring only first aid measures. Beginning in 2017, the basis for calculating the working hours is defined for the industry at 1,740 working hours per year (previously 1,618). // ² Related to lost time injury (LTI) // ³ average lost days per injury

Accidents in 2017

The number of employees plus agency staff and all employees of proportionately consolidated equity interests serve as the basis for calculating the occupational safety KPIs. This figure therefore amounted to 3,030 employees at the end of 2017 and includes 117 agency staff and the entire workforce of Ennskraftwerke Aktiengesellschaft, VUM Verfahren Umwelt Management GmbH and VERBUND Tourismus GmbH.

Unfortunately, there were more injuries in 2017 than in the previous year. The injury-related lost days also increased by approximately one-third due to some very severe accidents which will continue to impact 2018.

When interpreting accident statistics, absolute accident figures must be considered in relation to the number of employees (injury frequency) and days of sick leave per accident (injury severity). Starting in 2017, lost time injury (LTI) is used for assessing accident statistics. All work injuries will now be recorded and reported beginning from the first lost day. This makes it possible to measure performance against international benchmarks.

GRI EU25

A comparison of the VERBUND injury rate (reportable injuries beginning on the fourth day of leave) of 13.07 with the average workplace accident rate for the Austrian utilities of 13.45 per 1,000 employees shows the high technical standards applied in protecting employees both at VERBUND and in the entire sector (source: accident statistics published by Oesterreichs Energie).

Comparing VERBUND's lost time injury frequency (LTIF) of 10.1 workplace injuries per million working hours with other national and international groups, however, indicates that there is room for improvement. For this reason, VERBUND initiated the Safety Culture project.

GRI 403-2 ADD

The number of workplace injuries among staff from external contractors working at our sites is also recorded and amounted to seven such injuries in the reporting period. These unfortunately included the death of one person working for a subcontractor which occurred during road construction at a guardrail near the Malta high alpine road.

Improvement measures are identified and implemented based on an analysis of each individual accident within the Group and at external contractors. As in previous years, neither third-party fault nor organisational shortcomings were identified as the cause of any workplace injury in 2017. This shows

that safety standards within the Group are very high and that safeguards for employees are being implemented as well as possible.

Injury type

	Unit	2015	2016	2017
Impairment of sensory functions	Number	1	0	1
Unconsciousness, circulatory failure	Number	1	1	0
Electrification	Number	1	0	1
Foreign body injury	Number	4	3	1
Skin injury, wound	Number	14	11	10
Bone fracture	Number	5	2	5
Multiple types of injury	Number	0	0	2
Contusion, bruising	Number	20	14	14
Burn, scald, chemical burn, freezing	Number	1	1	0
Poisoning	Number	0	0	1
Loss of body part	Number	0	0	2
Sprain, pull, dislocation, ligament tear, meniscus injury, torn muscle	Number	12	12	16

Accident prevention

Preventive measures are based on the analysis of workplace injury statistics at VERBUND. In 2017, the annual continuing education measures focused on continuing the training sessions on “Working in the tank,” “Neophytes,” “Cell phones in the workplace” and “Working with emergency services organisations and authorities.” Particular attention was given to practical implementation in day-to-day work.

Every year, the legally mandated safety briefings are carried out – either in person or through an e-learning with a final test – for almost 100% of the workforce, as was the case in financial year 2017.

For the area of occupational safety, VERBUND has a large number of internal regulations in place that are continually updated and rapidly amended as soon as changes in the law come into effect. For instance, these regulations cover the following topics: management of working materials, accident reporting and behaviour after an accident occurs, briefings and instruction, fire safety, personal protective gear, coordination on construction sites and in projects and dealings with external contractors, as well as coordination and responsibilities of the occupational health service. These regulations are intended to guarantee that the same standards are available and employed throughout the Group.

Safety Culture project

Injury KPIs have been consistently low in recent years, although they have remained stagnant at this level for several years. As the situation currently stands, a further reduction in injury KPIs is not anticipated without implementing new measures, because the potential of technical measures to protect employees has been virtually exhausted. From 2018, the Safety Culture project with its focus on protecting employees and on occupational health and safety and a deeper awareness of safety are therefore aimed at achieving a revitalised corporate culture and should result in a further reduction in accidents.

This involves additional efforts towards shaping employees' mindsets. The ultimate goal is to develop and implement personal behaviours that allow employees to come to work healthy, work safely and go home healthy.

VERBUND – security of supply for customers and occupational safety for employees

Promoting health among employees

VERBUND's "Fit and Healthy" initiative is designed to promote a healthy lifestyle. The initiative motivates employees to do something for their health on a voluntary basis. Seminars on mental fitness again place emphasis on psychosocial health.

Other important points of focus on the health management front included nutrition and exercise, stress management and active muscle training. In this context, employees are made aware of the direct relationship between health and performance in a working environment that is constantly changing.

Social responsibility

VERBUND assumes responsibility for a society that perceives readily available electricity generated from clean sources as a quality-of-life factor. In fulfilling its shared responsibility to society, VERBUND supports a number of charitable organisations and reinforces children's awareness of using energy carefully.

For further information on health management, please refer to the DMA

Caritas and Diakonie

Energy poverty and its negative consequences occur most frequently when incomes and standards of living are very low.

The VERBUND Electricity Relief Fund in collaboration with Caritas provides assistance quickly, in an unbureaucratic manner and, above all, long-lasting by offering immediate financial assistance to pay outstanding electricity bills, professional on-site energy consulting and a free exchange service for old, inefficient electrical appliances. Since the project began in 2009, the VERBUND Electricity Relief Fund has offered assistance to a total of 3,700 households with a total of 8,700 people living in these households. In the eighth period from 1 January 2017 to 31 December 2017, 350 households (seeking assistance in the social advice centres run by Caritas) were referred to the VERBUND Electricity Relief Fund in collaboration with Caritas.

More information on VERBUND initiatives with Caritas and Diakonie is available at www.verbund.com > About VERBUND > Responsibility > Social issues > Corporate citizenship

KPIs – VERBUND Electricity Relief Fund run by Caritas

	Unit	2015	2016	2017
Interim financing	Number	540	362	350
	€	54,000	52,200	50,600
Energy consulting	Number	357	292	305
Appliances exchanged	Number	209	207	203

Also in 2017, 700 disabled people received direct support for communication and assistive technologies with funds from the VERBUND Empowerment Fund run by Diakonie. In total, 100 disabled people received direct financial assistance for the purchase of communication aids. The emergency aid fund spent around €60,000 on this, the same amount as in the previous year. The fund has been providing assistance since 2009.

KPIs – VERBUND Empowerment Fund run by Diakonie

	Unit	2015	2016	2017
Individual assistance	Number	84	105	100
Consulting	Number	460	725	700

VERBUND climate school in the Hohe Tauern National Park

Through the knowledge transmitted by rangers from the Hohe Tauern National Park, students become climate protection advocates. The aim is to reach an additional 9,000 pupils by the end of the 2018/2019 school year. Beginning in 2018, the lessons of the VERBUND climate school will also be available online in all German-speaking countries.

For additional information about the VERBUND climate school and the VERBUND electricity school, please refer to the DMA

The VERBUND electricity school kindles enthusiasm for technology

With updated learning materials, a state-of-the-art game and activities which focus on renewable energy, VERBUND provides an exciting and interactive physics lesson for the next generation. As part of the VERBUND electricity school, over 1,400 pupils visited the Ybbs-Persenbeug power plant in 2017. The tours are free of charge for students taking part in a school activity. For storage power plants, 2,600 pupils took advantage of the offer for a school tour.

VERBUND electricity school online: www.stromschule.at

Human rights

For details on equality, see the section entitled Human resources and social responsibility

For more information, please refer to the Supply chain section

No occurrence of discrimination – see the Compliance section

Principles

In assessing its responsibility concerning respect for human rights, VERBUND bases its actions on ISO 26000 Guidance on social responsibility:

“Human rights are the basic rights that every person should have. There are two main categories of human rights. The first category comprises civil and political rights; it includes rights such as the right to live and freedom, the right to equal treatment under the law and the right to free speech. The second comprises economic, social and cultural rights. This category includes rights like the right to work, the right to food, the right to the highest attainable standard of health, the right to education and the right to social security.”

In its materiality analysis, VERBUND identified the aspects of equal treatment and freedom of association as material human rights issues in its sphere of direct influence. In 2017, the upstream supply chain was checked for risks in a hot spot analysis.

Equality and non-discrimination

The VERBUND Code of Conduct stipulates equal treatment of all people, regardless of their gender, age, disability, religious beliefs, culture, skin colour, education, social origin, sexual orientation or nationality. In connection with this, VERBUND firmly rejects any form of discrimination, mobbing and sexual harassment. Executive development places high priority on teaching of these values.

VERBUND has had an equal opportunities officer since 2011, and diversity and inclusion management was introduced in financial year 2014. This function bundles all related activities within the Group. The responsible persons also carry out and document the development, implementation and realisation of equality targets and measures.

The diversity and inclusion strategy adopted in 2016 enables VERBUND to promote diversity in an even more structured manner. The ZukunftVIELFALT® certification confirms that VERBUND has implemented a sustainable diversity management system.

Profitable energy business and social responsibility are no contradiction.

Freedom of association and collective bargaining

Industrial relations in Austria are based on a tradition of cooperation between employers and employees (“Sozialpartnerschaft”). This involves cooperation between employers and employee representatives to jointly prepare and execute economic and socio-political measures. In so doing, taking an overall economic view is regarded as being of the utmost importance.

Trade unions enter into collective agreements with the respective employer associations. Due to the “outsider effect” anchored in labour law, all employees are subject to the collective agreements regardless of whether they themselves belong to the union or not. Collective agreements have a particular impact on labour-management relations within their scope of application. Company agreements and employment contracts must respect collective agreements and may not contain any provisions that are less advantageous than those contained in the relevant collective agreement. Some of the areas governed by collective agreements are minimum salaries, working hours and supplemental payments (holiday and Christmas bonuses). Under the provisions of Austrian labour law, companies with five or more employees must elect a works council to represent the interests of employees. The same applies to Germany, where employees are subject to the provisions of German collective agreements. The social benefits provided for in these agreements are similar to Austria, with the exception of VERBUND’s performance-based pay system.

GRI 102-41

Austrian labour law sets out a number of rights to which the works council is entitled in relation to information, participation and consent, as well as minimum notification periods for operational changes. VERBUND complies with these in full as a matter of course.

One of the ways in which cooperation takes place between management and the works council is through economic symposiums that are held each quarter and at which the Executive Board informs the staff representatives about the economic situation, all personnel management measures and other current developments in the Group. The economic symposiums give employees the opportunity to voice their suggestions, concerns and recommendations to the Executive Board via the works council.

Under the Austrian Labour Constitution Act, employees must be represented on the supervisory boards of stock corporations via the works council. At VERBUND as well, one-third of the Supervisory Board members are employee representatives who sit facing the Executive Board at the Supervisory Board meetings and are able to voice employee concerns in the Supervisory Board’s decision-making process.

Supply chain

The supply chain at VERBUND is characterised by management and maintenance measures for existing properties and technical facilities. Depending on the investment or maintenance programme planned, the main services involve construction and construction-related work as well as electromechanical technology. Services are also outsourced in the following areas: information and communications technology, customer service, communications and marketing and other maintenance-related services. Procurement of primary energy (coal, gas) for thermal generation is another link in the supply chain. However, due to the strategic orientation of VERBUND towards carbon-free generation, this product category is becoming less significant.

GRI 102-9, GRI 102-10
For details on the supply chain and supplier assessment, please refer to the DMA

GRI 308-1, GRI 414-1

Most of VERBUND's procurement volume is transacted using formal tenders via the electronic supplier and tendering portal ASTRAS. When registering on the portal, each potential supplier also completes a questionnaire on the topics of sustainability, compliance, environmental protection and occupational safety. There are currently around 4,400 potential suppliers registered on the supplier portal. Around 600 were added in 2017, of which 43% have already responded to the questionnaire. The questionnaire must be completed in full for participation in VERBUND's tendering process.

Procurement statistics

GRI 204-1

The number of suppliers commissioned by VERBUND amounted to around 4,500 in 2017. Based on order revenue, VERBUND placed 90% of its orders in its core markets of Austria and Germany (80% of those with Austrian suppliers and 10% with German suppliers). The remaining 10% was awarded to suppliers from other countries (mainly within Europe).

VERBUND brings the right partners together and searches for the best solutions from an economic perspective.

In 2017, total orders in the amount of approximately €305m were placed with suppliers in the following 30 countries: Austria, Germany, the Netherlands, Slovakia, the Czech Republic, Poland, Switzerland, France, the United States, Slovenia, the United Kingdom, Albania, Italy, Croatia, Ireland, Denmark, Finland, Spain, Belgium, Sweden, Liechtenstein, Luxembourg, Romania, Bulgaria, China, Hong Kong, Serbia, Norway, Greece and Israel.

Risks in the supply chain

GRI 103-2

A hot spot analysis of the supply chain involving external and internal experts was conducted in 2017. Around 60 sourcing groups were assessed in regard to sources of risk in work and safety conditions, corruption, human rights, legal compliance and environment to determine their relevance and potential impact (market influence, public profile and order volume) for VERBUND. Based on the risk assessment, most of the sourcing groups could be classified in the areas of low and medium risk. Only the sourcing groups "construction services," "corrosion protection/coatings" and "battery units, interruption-free electricity supply, inverters/rectifiers" were identified as requiring definition of additional specific measures beyond the standard measures for mitigating risk.

Vienna, 15 February 2018

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

Independent Statement

Courtesy translation of the Independent Statement on Specific Non-Financial Topics of the Integrated Annual Report 2017 of VERBUND AG *)

GRI 102-56

Introduction

We were requested to perform a limited assurance engagement on Specific Non-Financial Topics of the Integrated Annual Report 2017 of VERBUND AG (hereafter “the Report”) and if the reporting requirements regarding the NaDiVeG are met.

The Report and the underlying procedures, systems and structures including subject matters and criteria are the responsibility of the Board of Directors VERBUND AG. Our responsibility is to make an assessment based on our review.

We conducted our review in accordance with the International Standard on Assurance Engagements ISAE 3000 (Revised), “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and the “Fachgutachten des Fachsenats für Unternehmensrecht und Revision über die Durchführung von sonstigen Prüfungen (KFS/PG 13)” in order to obtain limited assurance on the subject matters. In a limited assurance engagement the evidence-gathering procedures are more limited than in a reasonable assurance engagement and therefore, less assurance can be obtained.

The basis for this engagement are the “General Conditions of Contract for the Public Accounting Professions”, as issued by the Chamber of Public Accountants and Tax Advisors in Austria as amended on February 21, 2011 (“AAB 2011”). In accordance with chapter 8 AAB 2011, our liability shall be limited to intent and gross negligence. In cases of gross negligence the maximum liability is limited to EUR 726.730. This amount constitutes a total maximum liability cap, which may only be utilized once up to this maximum amount, even if there is more than one claimant or more than one claim has been asserted.

Subject matters

Review of the procedures, systems and structures for collecting, gathering, aggregating and validating, of the following, in the Report disclosed Non-Financial Performance Indicators (as defined in the GRI Standards resp. in GRI G4 Sector Disclosures “Electric Utilities”):

- General Performance Indicators:
Disclosure 102-7, Disclosure 102-9, Disclosure 102-46, Disclosure 102-47, EU2
- Economic Performance Indicators:
Disclosure 205-3
- Environmental Performance Indicators:
Disclosure 301-1, Disclosure 302-1, Disclosure 303-1, Disclosure 305-1, Disclosure 305-2,
Disclosure 305-3, Disclosure 305-4, Disclosure 306-2
- Social Performance Indicators:
Disclosure 401-1, Disclosure 403-2

Furthermore, a review was carried out on the consolidated Non-Financial Report in regards to the disclosure requirements of the NaDiVeG. The contents thereof were not audited.

Criteria

Based on an assessment of materiality and risk, we have evaluated the obtained information and supporting documents concerning the conformity of the subject matters with the GRI Standards, issued by the Global Sustainability Standards Board (GSSB) and with the G4 Sector Disclosures “Electric Utilities”, issued by the Global Reporting Initiative (GRI).

The evaluation of whether the consolidated Non-Financial Report contains all NaDiVeG’s reporting requirements was carried out with reference to the NaDiVeG.

Proceedings

Our work included analytical procedures as well as interviews with employees from the headquarter in Vienna, who were notified by the board of directors of VERBUND AG.

Restriction in use

Our engagement is limited to the above mentioned Subject Matters. We did not review any other content in the Report. We have not tested comparative data from previous years. The scope of our review was limited to samples. Our work was performed on a sample basis as deemed necessary in the particular case, but did not include any substantial testing. Therefore, the assurance that we obtained, is limited.

Summarized Conclusions

Based on our work described above, nothing has come to our attention that causes us to believe that the procedures, systems and structures for collecting, gathering, aggregating and validating of the:

- General Performance Indicators:
Disclosure 102-7, Disclosure 102-9, Disclosure 102-46, Disclosure 102-47, EU2
- Economic Performance Indicators:
Disclosure 205-3
- Environmental Performance Indicators:
Disclosure 301-1, Disclosure 302-1, Disclosure 303-1, Disclosure 305-1, Disclosure 305-2,
Disclosure 305-3, Disclosure 305-4, Disclosure 306-2
- Social Performance Indicators:
Disclosure 401-1, Disclosure 403-2

were – unless disclosed as omission – not appropriate to a material extent.

Based on our work described above nothing has come to our attention that causes us to believe that the reporting requirements of the NaDiVeG were not met with the consolidated non-financial report.

Vienna, 15.2.2018

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Gerhard Marterbauer
Certified Public Accountant

Mag. Christof Wolf
Certified Public Accountant

*) The German text of the signed Statement, which refers to the German Version of the Report, is the only binding one. The English translation is not binding and shall not be used for the interpretation of the English Version of the Report.

Income statement

of VERBUND

		€k	
In accordance with IFRSs	Notes	2016	2017
Revenue		2,795,856	2,913,247
Electricity revenue	1	2,213,868	2,370,188
Grid revenue	2	394,999	416,409
Other revenue	3	186,988	126,650
Other operating income	4	179,019	78,350
Expenses for electricity, grid, gas and certificates purchases	5	-1,328,071	-1,428,220
Fuel expenses and other usage-/revenue-dependent expenses	6	-61,727	-114,200
Personnel expenses	7	-313,615	-313,624
Other operating expenses	8	-227,231	-213,209
EBITDA		1,044,232	922,345
Depreciation of property, plant and equipment and amortisation of intangible assets	9	-339,342	-341,325
Impairment losses ¹	10	-90,790	-259,125
Reversal of impairment loss ¹	10	1,039	78,212
Operating result		615,138	400,107
Result from interests accounted for using the equity method	11	30,454	27,900
Other result from equity interests	12	6,032	11,154
Interest income	13	31,055	36,035
Interest expenses	14	-135,187	-129,634
Other financial result	15	4,280	38,188
Impairment losses	16	0	-5,212
Reversals of impairment losses	16	5,004	0
Financial result		-58,362	-21,570
Profit before tax		556,776	378,537
Taxes on income	17	-97,225	-76,971
Profit for the period		459,551	301,566
Attributable to shareholders of VERBUND AG (Group result)		424,423	301,440
Attributable to non-controlling interests		35,127	127
Earnings per share in €²	18	1.22	0.87

¹ The impairment losses and reversals of impairment losses have been reduced by the amount of any change in related deferred contributions to building costs and government grants. // ² Diluted earnings per share correspond to basic earnings per share.

Statement of comprehensive income

of VERBUND

		€k	
In accordance with IFRSs	Notes	2016	2017
Profit for the period		459,551	301,566
Remeasurements of the net defined benefit liability	36	– 17,262	6,644
Other comprehensive income from interests accounted for using the equity method	23	– 2,161	4,986
Total of items that will not be reclassified subsequently to the income statement		– 19,424	11,629
Differences from currency translation	19	– 1,089	– 3,241
Measurements of available-for-sale financial instruments	19	8,794	30,971
Measurements of cash flow hedges	19	– 241,235	– 63,119
Other comprehensive income from interests accounted for using the equity method	19	265	213
Total of items that will be reclassified subsequently to the income statement		– 233,265	– 35,175
Other comprehensive income before tax		– 252,688	– 23,546
Taxes on income relating to items that will not be reclassified subsequently to the income statement	20	4,561	– 1,627
Taxes on income relating to items that will be reclassified subsequently to the income statement	20	58,058	7,966
Other comprehensive income after tax		– 190,069	– 17,207
Total comprehensive income for the period		269,482	284,359
Attributable to shareholders of VERBUND AG (Group result)		235,186	283,645
Attributable to non-controlling interests		34,296	715

Balance sheet

of VERBUND

€k				
In accordance with IFRSs	Notes	1/1/2016 ¹	31.12.2016 ¹	31/12/2017
Non-current assets		11,084,999	10,933,558	10,661,550
Intangible assets	21	804,729	811,276	675,587
Property, plant and equipment	22	9,201,878	9,010,643	8,871,326
Interests accounted for using the equity method	23	267,810	281,920	312,975
Other equity interests	24, 35	115,580	114,636	137,538
Investments and other receivables	25, 27, 35	695,002	715,082	664,124
Current assets		677,994	604,630	622,053
Inventories	26	19,075	9,087	10,487
Trade receivables and other receivables	27, 35	630,032	567,583	582,973
Cash and cash equivalents	28	28,888	27,960	28,593
Total assets		11,762,993	11,538,188	11,283,602

€k				
In accordance with IFRSs	Notes	1/1/2016 ¹	31/12/2016	31/12/2017
Equity		5,433,316	5,529,501	5,690,827
Attributable to shareholders of VERBUNDAG	29-32	4,776,963	4,881,597	5,064,051
Attributable to non-controlling interests	33	656,353	647,904	626,776
Non-current liabilities		5,349,787	4,908,180	4,584,668
Financial liabilities	34, 35	2,744,116	2,394,916	2,141,598
Provisions	36	868,132	839,636	821,802
Deferred tax liabilities	37	549,510	569,189	558,437
Contributions to building costs and grants	38	748,089	751,698	747,487
Deferred income – cross-border leasing	39	48,812	47,217	45,622
Other liabilities	35, 40	391,127	305,523	269,722
Current liabilities		979,890	1,100,507	1,008,108
Financial liabilities	34, 35	385,387	324,759	213,955
Provisions	36	126,939	78,620	53,602
Current tax liabilities	41	29,973	51,841	95,757
Trade payables and other liabilities	35, 42	437,592	645,287	644,794
Total liabilities		11,762,993	11,538,188	11,283,602

¹ The comparative figures were adjusted due to a change in an accounting policy.

Statement of changes in equity

of VERBUND

In accordance with IFRSs	Called and paid-in share capital	Capital reserves	Retained earnings	Remeasurements of net defined benefit liability
Notes	29	30	31	36
As at 1/1/2016	347,416	954,327	3,776,349	-259,133
Change in accounting policy	-	-	-82,654	-
Retrospectively adjusted balance as at 1/1/2016	347,416	954,327	3,693,696	-259,133
Profit for the period	-	-	424,423	-
Other comprehensive income	-	-	-	-13,933
Total comprehensive income for the period	-	-	424,423	-13,933
Change in the basis of consolidation	-	-	-7,151	104
Shift between shareholder groups	-	-	-1,706	0
Dividend	-	-	-121,595	-
Other changes in equity	-	-	-454	-316
As at 31/12/2016	347,416	954,327	3,987,214	-273,279
As at 1/1/2017	347,416	954,327	3,987,214	-273,279
Profit for the period	-	-	301,440	-
Other comprehensive income	-	-	0	9,599
Total comprehensive income for the period	-	-	301,440	9,599
Dividend	-	-	-100,751	-
Other changes in equity	-	-	-440	0
As at 31/12/2017	347,416	954,327	4,187,462	-263,680

							€k
Difference from currency translation	Measurement of available-for-sale financial instruments	Measurement of cash flow hedges	Other components of other comprehensive income	Equity attributable to the shareholders of VERBUND AG	Equity attributable to non-controlling interests	Total equity	
32	19-20, 23-25	19-20			33		
-2,764	23,836	20,436	-850	4,859,617	573,699	5,433,316	
-	-	-	-	-82,654	82,654	0	
-2,764	23,836	20,436	-850	4,776,963	656,353	5,433,316	
-	-	-	-	424,423	35,127	459,551	
-1,105	6,434	-180,879	246	-189,237	-832	-190,069	
-1,105	6,434	-180,879	246	235,186	34,296	269,482	
0	0	0	0	-7,047	-162	-7,209	
0	0	0	0	-1,706	806	-900	
-	-	-	-	-121,595	-43,388	-164,984	
-39	0	0	604	-204	0	-204	
-3,908	30,270	-160,443	0	4,881,597	647,904	5,529,501	
-3,908	30,270	-160,443	0	4,881,597	647,904	5,529,501	
-	-	-	-	301,440	127	301,566	
-3,246	22,983	-47,130	0	-17,795	588	-17,207	
-3,246	22,983	-47,130	0	283,645	715	284,359	
-	-	-	-	-100,751	-21,843	-122,593	
0	0	0	0	-440	0	-440	
-7,154	53,253	-207,573	0	5,064,051	626,776	5,690,827	

Cash flow statement

of VERBUND

		€k	
In accordance with IFRSs	Notes	2016	2017
Profit for the period		459,551	301,566
Depreciation of property, plant and equipment and amortisation of intangible assets (net of reversals of impairment losses)		430,552	521,622
Impairment losses on investments (net of reversals of impairment losses)		-3,356	5,189
Result from interests accounted for using the equity method (net of dividends received)		-16,297	-13,685
Result from the disposal of non-current assets		-792	-29,014
Change in non-current provisions and deferred tax liabilities		37,510	-31,517
Change in contributions to building costs and grants		2,075	-2,292
Other non-cash expenses and income		-87,493	-50,318
Subtotal		821,750	701,551
Change in inventories		10,005	-1,674
Change in trade receivables and other receivables		-8,563	-2,317
Change in trade payables and other liabilities		7,364	-76,333
Change in current provisions and current tax liabilities		-26,248	19,355
Cash flow from operating activities¹		804,307	640,582

¹ Cash flow from operating activities includes €34.2m in taxes paid on income (previous year: €-19.3), €68.9m in interest paid (previous year: €77m), €5.3m in interest received (previous year: €0.5m) and €20.2m in dividends received (previous year: €24.6m).

In accordance with IFRSs	Notes	2016	2017
			€k
Cash outflow from capital expenditure for intangible assets and property, plant and equipment		-248,146	-243,452
Cash inflow from the disposal of intangible assets and property, plant and equipment		11,476	4,670
Cash outflow from capital expenditure for investments		-129	-136
Cash inflow from the disposal of investments		4,556	5,369
Cash outflow from capital expenditure for interests accounted for using the equity method and other equity interests		-1,398	-2,946
Cash inflow from the disposal of subsidiaries and interests accounted for using the equity method and other equity interests	43	14,463	17,200
Cash outflow from capital expenditure for current investments		-40,042	0
Cash inflow from the disposal of current investments		40,042	0
Cash flow from investing activities		-219,178	-219,295
Cash outflow (previous year: inflow) from shifts between shareholder groups		-900	0
Cash inflow from money market transactions		0	336
Cash outflow from money market transactions		-305,493	0
Cash outflow from the repayment of financial liabilities (excluding money market transactions)		-115,412	-298,397
Dividends paid	44	-164,984	-122,593
Cash flow from financing activities		-586,788	-420,654
Change in cash and cash equivalents		-1,658	633
Cash and cash equivalents as at 1/1		28,888	27,960
Change in cash and cash equivalents		-1,658	633
Change in the basis of consolidation		731	0
Cash and cash equivalents as at 31/12		27,960	28,593

Notes

of VERBUND

VERBUND AG with its registered office at Am Hof 6a, 1010 Vienna, Austria, is the parent company of the VERBUND energy group, which operates in Austria and abroad. VERBUND AG is entered in the commercial register at the Commercial Court of Vienna under number FN 76023z.

VERBUND generates, trades and sells electricity to market participants from energy exchanges, traders, energy supply companies and industrial companies as well as household and commercial customers. In addition, VERBUND trades and sells gas to market participants from energy exchanges, traders and household customers and provides energy-related services. Furthermore, VERBUND operates the Austrian transmission grid through Austrian Power Grid AG and holds equity interests in foreign and domestic energy supply companies.

Financial reporting principles

Basic principles

VERBUND prepares its consolidated financial statements in accordance with Section 245a(1) of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB) in compliance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union. The additional requirements of Section 245a(1) UGB were also satisfied. The separate financial statements of the consolidated subsidiaries included in VERBUND's consolidated financial statements are based on uniform accounting policies. The reporting date is 31 December 2017 for all consolidated companies.

VERBUND's consolidated financial statements comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the notes. With the exception of the notes, in which amounts are generally indicated in millions of euros (€m), VERBUND's consolidated financial statements are prepared in thousands of euros (€k).

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

Consolidation methods

All material companies controlled by VERBUND AG (subsidiaries) are included in the consolidated financial statements of VERBUND by means of consolidation. The requirements for control are met if VERBUND AG is exposed to variable returns from its investment in the investee and/or is entitled to them and is capable of influencing these returns by means of its power of disposal over the investee. Inclusion in the consolidated financial statements begins when control is achieved and ends when it ceases.

Initial consolidation of a subsidiary is effected upon acquisition by employing the acquisition method. The identifiable intangible and tangible assets, liabilities and contingent liabilities belonging to the acquiree as well as any non-controlling interest in the acquiree are recognised and measured. Positive consolidation differences between the consideration transferred plus any non-controlling interest as well as – in the case of a business acquisition in stages – any equity interest in the acquiree previously held by VERBUND and the fair value of the net assets are recognised as goodwill. Negative consolidation differences are recognised immediately in profit or loss.

Investees controlled together with a partner and in which VERBUND has rights to the entity's net assets (joint venture) as well as investees in which VERBUND AG directly or indirectly exercises a significant influence (associates) are accounted for using the equity method. The equity method is a method of consolidation and/or measurement in which the equity interest is initially recognised at cost. The equity interest is subsequently adjusted for changes in VERBUND's share of the investee's net assets; the result is a "one-line consolidation". As a rule, significant influence is presumed if the share of voting

rights directly or indirectly attributable to VERBUND AG is at least 20%, but less than 50%. Investees accounted for using the equity method are recognised with their proportional IFRS profit or loss taken from (consolidated) interim or annual financial statements for which the reporting date is not more than three months prior to VERBUND's reporting date. Significant events or transactions at investees accounted for using the equity method occurring between this reporting date and VERBUND's reporting date result in corresponding adjustments.

Intragroup transactions, receivables, liabilities and intercompany profits are eliminated taking account of deferred taxes. The carrying amounts of the transferred company are carried forward in intragroup acquisitions and mergers of joint ventures – so-called transactions under common control.

In the case of investees that are controlled together with another joint operator, if VERBUND has rights to the assets attributable to the investee as well as obligations for its liabilities (joint operation), VERBUND recognises its share of the assets and liabilities and/or revenue and expenses.

A list of all of VERBUND's subsidiaries, joint ventures and associates is presented in the section entitled Group structure. The subsidiaries, joint ventures and associates included in VERBUND's consolidated financial statements changed as follows in the 2017 reporting period:

Basis of consolidation

Basis of consolidation

	Consolidation	Accounted for using the equity method	Accounted for as a joint operation
As at 31/12/2016	35	8	1
Change in status due to the sale of shares	-1	1	0
Change in consolidation method	0	-1	0
Disposals by means of merger	-2	0	0
As at 31/12/2017	32	8	1
of which domestic companies	11	8	1
of which foreign companies	21	0	0

The change in status due to the sale of shares relates to the previously consolidated 85.96% investment in SMATRICS GmbH & Co KG. As part of a cooperation between OMV Aktiengesellschaft, Siemens Aktiengesellschaft Österreich and VERBUND, the two partners acquired shares of SMATRICS GmbH & Co KG from VERBUND effective 6 December 2017 and carried out a unilateral capital increase for the company.

Since the transaction, OMV Aktiengesellschaft and VERBUND each hold 40% of the shares and Siemens Aktiengesellschaft Österreich holds 20% of the shares in SMATRICS GmbH & Co KG. SMATRICS GmbH & Co KG is jointly controlled by the joint venture partners and therefore included in the consolidated financial statements of VERBUND using equity method accounting since 6 December 2017. In accordance with VERBUND's accounting policies, the proportionate equity interest is adjusted no later than one quarter following the underlying changes.

Due to the change in status, the assets and liabilities of SMATRICS GmbH & Co KG were deconsolidated. The 40% interest remaining with VERBUND was included in the determination of the deconsolidation gain (taking into account the elimination of intercompany profits):

Gain on disposal	€m
Interest accounted for using the equity method ¹	12.3
Cash and cash equivalents	15.4
Trade payables and other liabilities	-2.8
Consideration received and/or remaining interest	24.9
Carrying amount of deconsolidated net assets ²	6.2
Carrying amount of deconsolidated liabilities	-4.0
Carrying amount of deconsolidated net assets	2.2
Gain on disposal³	22.7

¹ The interest accounted for using the equity method includes goodwill of €7.0m. // ² of which, €0.7m cash and cash equivalents // ³ The gain on disposal was recognised as other operating income.

The change in consolidation methods relates to the deconsolidation due to immateriality of the 50% equity interest in Aquanto GmbH i. L. accounted for using the equity method until 6 October 2017. VERBUND acquired the (other) 50% equity interest from EnBW Energy Baden-Württemberg AG when the collaboration between EnBW Energy Baden-Württemberg AG and VERBUND in the joint venture Aquanto GmbH i. L. was terminated. As consequence of this, the company was liquidated effective 30 November 2017.

The disposals from mergers relate to the merger of the consolidated 100% equity interests in CAS Regenerabile SRL and Ventus Renew Romania SRL with the 100% equity interest in Alpha Wind SRL (trading since then under the name VERBUND Wind Power Romania SRL).

Currency translation

In the separate financial statements of Group companies, all transactions denominated in foreign currency are measured at the spot exchange rate on the transaction date. Monetary balance sheet items are subsequently measured at the respective spot exchange rate at the reporting date. Exchange gains and losses are recognised through profit or loss under other financial result.

The functional currency of VERBUND AG and the presentation currency of the Group is the euro. With the exception of the Romanian subsidiaries (VERBUND Wind Power Romania SRL and VERBUND Trading Romania SRL), the functional currency of the consolidated subsidiaries is also the euro. For the consolidated financial statements of VERBUND, the annual financial statements of these foreign subsidiaries are translated into euros using the functional currency method.

The functional currency of all investees recognised using equity method accounting is the euro.

Assets and liabilities of foreign Group companies with a functional currency other than the euro are translated using the foreign exchange reference rate of the European Central Bank (ECB) prevailing at the reporting date. Expenses and income are translated at average monthly exchange rates. Translation differences at the reporting date are recognised in other comprehensive income and presented separately in equity.

The exchange rates underlying the currency translation changed as follows:

Foreign exchange rates used for currency translation

Country	Currency	31/12/2016 ECB foreign exchange reference rate	31/12/2017 ECB foreign exchange reference rate	2016 Average rate	2017 Average rate
Romania	€1 = RON	4.5390	4.6585	4.4957	4.5711

Accounting policies

When preparing the consolidated financial statements, all International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) as well as all interpretations by the Standing Interpretations Committee (SIC) and the IFRS Interpretations Committee (IFRS IC) that have been endorsed by the European Union and whose application was mandatory on 31 December 2017 have been applied.

In the 2017 reporting period, the following new or amended standards and interpretations had to be applied for the first time or were applied early by VERBUND:

Newly applicable or applied accounting standards

Standard or interpretation	Published by the IASB (endorsed by the EU)	Mandatory application for VERBUND	Material effects on the consolidated financial statements of VERBUND
IAS 7 Amendments: Disclosure Initiative	29/1/2016 (6/11/2017)	1/1/2017	Disclosures regarding changes in financial liabilities
IAS 12 Amendments: Recognition of Deferred Tax Assets for Unrealised Losses	19/1/2016 (6/11/2017)	1/1/2017	None
Various Annual Improvements to IFRS Standards 2014–2016 Cycle	8/12/2016 (7/2/2018)	1/1/2017 or 1/1/2018	None

Newly applicable or applied accounting standards

New accounting standards not yet applicable or applied

The IASB issued new standards that were not applied by VERBUND in the 2017 reporting period because they have either not yet been endorsed by the European Union or their application is not yet mandatory:

New accounting standards not yet applicable or applied

Standard or interpretation		Published by the IASB (endorsed by the EU) ¹	Mandatory application for VERBUND	Expected material effects on the consolidated financial statements of VERBUND
IAS 19	Amendments: Plan Amendment, Curtailment or Settlement	7/2/2018 (expected in 2018)	1/1/2019	None
IAS 28	Amendments: Long-term Interests in Associates and Joint Ventures	12/10/2017 (expected in 2018)	1/1/2019	None
IAS 40	Amendments: Transfers of Investment Property	8/12/2016 (expected Q1/2018)	1/1/2018	None
IFRS 2	Amendments: Classification and Measurement of Share-based Payment Transactions	20/6/2016 (expected Q1/2018)	1/1/2018	None
IFRS 4	Amendments: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	12/9/2016 (3/11/2017)	1/1/2018	None
IFRS 9	Financial Instruments	24/7/2014 (22/11/2016)	1/1/2018	See below
IFRS 9	Amendments: Prepayment Features with Negative Compensation	12/10/2017 (expected in Q1/2018)	1/1/2019	None
IFRS 15	Revenue from Contracts with Customers	28/5/2014 and 11/9/2015 (22/9/2016)	1/1/2018	See below
IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers	12/4/2016 (31/10/2017)	1/1/2018	See below
IFRS 16	Leases	13/1/2016 (31/10/2017)	1/1/2019	See below

New accounting standards not yet applicable or applied

Standard or interpretation		Published by the IASB (endorsed by the EU) ¹	Mandatory application for VERBUND	Expected material effects on the consolidated financial statements of VERBUND
IFRS 17	Insurance Contracts	18/5/2017 (open)	1/1/2021	None
IFRIC 22	Foreign Currency Transactions and Advance Consideration	8/12/2016 (expected Q1/2018)	1/1/2018	None
IFRIC 23	Uncertainty over Income Tax Treatments	7/6/2017 (expected in Q3/2018)	1/1/2019	None
Various	Annual Improvements to IFRS Standards 2015–2017 Cycle	12/12/2017 (expected in 2018)	1/1/2019	None

¹ Basis: EU Endorsement Status Report dated 8 February 2018

The IASB published the final version of IFRS 9 on 24 July 2014. This standard will replace IAS 39 in the future. IFRS 9 reforms the classification and measurement of financial instruments. The new categories specify recognition at cost or fair value (either through profit or loss for the period or through other comprehensive income) depending on the type of financial instrument or business model. The recognition of impairment losses on financial assets was also revised. In accordance with IFRS 9, impairment losses are to be recognised based on an expected credit loss model in the future. In comparison with the rules under IAS 39 (incurred loss model), provisions are to be recognised earlier under the new rules in the future. In the area of hedge accounting, many restrictions under IAS 39 were lifted with a stronger emphasis on the economic aspect of the hedging relationships. The new rules governing the classification and subsequent measurement of financial assets and liabilities will not have a material impact on VERBUND's consolidated financial statements, because the initial and subsequent measurements will be made based on principles that are comparable to the previous accounting policies for the majority of financial instruments. On the one hand, there are differences with respect to shares in investment funds that were previously accounted for as securities of the available-for-sale category. In the future, these are to be measured at fair value through the financial result, because the payments related to the funds are not comprised solely of interest and principal payments. In the 2017 reporting period, measurement through profit or loss would have led to an increase of €4.4m in the financial result. On the other hand, the option of classifying equity instruments as FVTOCI under IFRS 9 will be exercised. This will reduce the volatility of profit or loss for the period, because all measurement gains or losses and gains or losses on disposal will be recognised in other comprehensive income in the future. The recognition of impairment losses on financial assets according to the expected credit loss model would not have had a significant effect on the carrying amounts of the financial instruments shown as at 31 December 2017. The hedging relationships existing on 31 December 2017 may also be continued under the rules of IFRS 9.

The IASB published the final version of IFRS 15 on 28 May 2014. The mandatory date of initial application was shifted with the publication dated 11 September 2015 to financial years beginning on or after 1 January 2018. In addition, clarifications to the rules under IFRS 15 were provided on 12 April 2016. IFRS 15 replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31 in the future. The new standard provides for a five-step model for the recognition of revenue. First the contract(s) with a customer are to be identified followed by the company's own performance obligations. Afterwards, the transaction price is determined and allocated to the performance obligations in the contract. Revenue is recognised in the fifth step when the entity has satisfied its performance obligation. A large number of VERBUND's contracts formed with customers fall under the scope of IAS 39 or under IFRS 9 in the future, because they are not own-use contracts. As a general rule, these contracts are excluded from the scope of IFRS 15. However, they will be treated as revenue as defined under IFRS 15 upon physical settlement. There will be a change as a result of IFRS 15 with respect to own-use transactions for which VERBUND bears the risk of default for the grid fees and levies charged to the customers. Since VERBUND bears the risk of default associated with these payments, VERBUND is currently classified as the principal according to the risk and rewards approach under IAS 18; therefore, revenue is recognised and presented as a gross amount. In contrast, in accordance with IFRS 15 control over the goods or services before they are transferred to the customers is the crucial factor determining whether an entity is acting as a principal or as an agent. In this assessment, risk of default no longer plays a role. Therefore, VERBUND will more likely be considered an agent in the future with respect to these payments. That means that revenue will no longer be realised for these payments (net presentation). In the 2017 reporting period, this net presentation would have led to a decrease in electricity revenue and of electricity, grid, gas and certificate purchases in the amount of €256.2m. Beyond that, no significant effects on the scope or timing of revenue recognition are expected as a result of the application of IFRS 15. The initial application of IFRS 15 will be carried out retrospectively, whereby the cumulative adjustments as of the initial application date will be recognised.

The IASB published the final version of IFRS 16 on 13 January 2016. This standard replaces IAS 17, IFRIC 4, SIC-15 and SIC-27 in the future. The new standard specifies that all leases and the associated contractual rights and obligations are to be recognised on the lessee's balance sheet. Thus, the previous differentiated treatment of operating and finance leases no longer applies. The lessee capitalises a right to use the asset on which the lease is based and simultaneously recognises a lease liability in the amount of the present value of the lease payments. The right of use is to be subsequently amortised, and the lease liability is to be carried forward based on actuarial principles. There are exemptions for short-term leases and leased assets of low value. In connection with the Group-wide implementation of IFRS 16, a centralised database solution for the management and future recognition of leases is currently being integrated into VERBUND's IT landscape. Parallel to this, the agreements will be assessed based on the criteria of IFRS 16. The new rules of IFRS 16 will lead to an increase in total assets, lower other operating expenses and at the same time higher depreciation charges and interest expenses as well as to a shift of the expense from leases to the beginning of the respective lease term. An exact quantification of the effects on the consolidated financial statements of VERBUND is not possible at this time due to the current status of the implementation project. However, based on current information, it is assumed that the application of IFRS 16 will not have a significant effect on the reported net debt of VERBUND. The initial application of IFRS 16 will be carried out retrospectively, whereby the cumulative adjustments as of the initial application date will be recognised.

In order to improve the presentation of cash flows and the financial performance, the accounting policy was changed with respect to accounting for any goodwill when the ownership interest changes without resulting in a loss of control. Goodwill is always taken into consideration when accounting for the shift between shareholder groups if it is to be assigned to the subsidiary. As a result, this goodwill always relates also to any new non-controlling shareholders arising after a shift between shareholder groups. This ensures that expenses from an impairment loss or a loss of control can be allocated to the respective non-controlling shareholders also in proportion to their shareholding.

The change in accounting policy was carried out retrospectively in accordance with IAS 8 by adjusting all comparative figures. The following adjustments apply for the reporting and prior-year periods:

Adjustments for the line items of the balance sheet				€m
	1/1/2016	31/12/2016	31/12/2017	
Equity	0.0	0.0	0.0	
Attributable to shareholders of VERBUND AG	-82.7	-82.7	-49.8	
Attributable to non-controlling interests	82.7	82.7	49.8	

Adjustments to income statement items				€m
	2016	2017		
Profit for the period	0.0	0.0		
Attributable to shareholders of VERBUND AG (Group result)	0.0	32.9		
Attributable to non-controlling interests	0.0	-32.9		

When accounting for business combinations, the consideration transferred (plus any non-controlling interests and any equity interest previously held by VERBUND) must be compared with the fair value of net assets acquired in order to ascertain any consolidation difference arising from the business combination. If the consolidation difference is positive, it is treated as goodwill; if it is negative, the determination of the value of the influencing factors on the difference arising from the business combination must be reassessed. If the consolidation difference is still negative following the reassessment, a gain is recognised in profit or loss.

Under IFRS 3, goodwill is not subject to amortisation, but must be tested for impairment at least annually. For this purpose, goodwill is allocated to those cash-generating units expected to profit from the synergies resulting from a business combination. These cash-generating units correspond to the lowest organisational level at which VERBUND's management monitors goodwill for internal management purposes. If goodwill cannot be assigned rationally to individual cash-generating units, this lowest level can also comprise a group of cash-generating units. The impairment test of goodwill compares a cash-generating unit's recoverable amount with its carrying amount including goodwill. The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount falls below the carrying amount of the cash-generating unit, goodwill is impaired first; any remaining impairment losses reduce the carrying amounts of other assets proportionately. Impairments of goodwill may not be reversed in subsequent periods. As a rule, VERBUND conducts its annual impairment tests of goodwill at the level of the (group of) cash-generating units on the basis of medium-term planning in the fourth quarter of each reporting period. In addition to the annually

Amended accounting policy

Goodwill and other intangible assets

conducted impairment test, a qualitative analysis is conducted as at the reporting date of each of the consolidated interim financial statements (and also at the end of the reporting period, if necessary) to determine whether there is any indication of impairment. If there are indications of impairment, an (additional) impairment test is conducted.

Purchased intangible assets are measured in accordance with IAS 38 at cost, less straight-line amortisation and any impairment losses if their useful life is not classified as indefinite. The useful lives are mainly between 10 to 20 years; software is amortised over four years. Intangible assets with indefinite useful lives are recognised at cost and tested annually for impairment; however, they are not material in VERBUND's consolidated financial statements.

VERBUND's research and development costs in the 2017 reporting period amounted to €9.0m (previous year: €5.5m). Research costs are expensed as incurred. In contrast, development costs are to be recognised under certain conditions as internally generated intangible assets in accordance with IAS 38 and subsequently amortised over their useful lives. Development costs are expensed in the consolidated financial statements of VERBUND in the reporting period in which they are incurred as either the corresponding recognition criteria have not been met or the amounts are not material. Intangible assets must be tested annually for impairment as long as they are not yet available for use.

Property, plant and equipment

Property, plant and equipment used for more than one year in business operations is measured at cost (including dismantling and decommissioning costs that must be capitalised), net of straight-line depreciation charges and any impairment losses.

In addition to direct material and production costs, the cost of internally generated plant and equipment also includes appropriate indirect material and production costs. Borrowing costs are capitalised for qualifying assets. According to VERBUND's accounting policies, a project results in a qualifying asset only if the construction period for major projects lasts at least twelve months. The effective borrowing costs (less investment income from any temporary investments) are capitalised to the extent that the qualifying asset is financed by specific outside financing. In contrast, if the Group has arranged for general financing, the average borrowing costs are capitalised. VERBUND's average monthly borrowing costs in the 2017 reporting period were around 3.7% (previous year: around 3.7%).

Depreciation charges on finite-lived property, plant and equipment are based on the expected useful lives of its components. Specifically, the following useful lives are applied:

Useful life	In years
Residential, office, plant and other plant facilities	10–50
Hydroplant buildings	20–100
Machinery	10–80
Electrical installations	5–50
Power lines	50
Office and plant equipment	4–10

The expected useful life of hydropower plants is determined independently from the terms of water rights permits because it is presumed that these permits will be reissued when they expire. Based on experience, this also applies for those Bavarian run-of-river power plants with existing reversion rights for the benefit of the Free State of Bavaria. The expected useful life of the Jochenstein power plant on the Danube was also determined independently from the existing obligation to return 50% of the interest in Donaukraftwerk Jochenstein AG in 2050 (see: Other liabilities). That is to say it is expected that VERBUND will also continue to be the owner and operator of the Jochenstein power plant on the Danube beyond 2050.

If substantially all risks and rewards associated with a leased asset are borne by VERBUND, an asset is recognised under non-current assets at the present value of the minimum lease payments (or the lower fair value, if applicable). A lease liability is recognised in the same amount. The asset is depreciated over the shorter of its useful life or the lease term. The lease liability is carried forward in subsequent periods based on the effective interest method.

All other lease agreements for which VERBUND acts as the lessee are accounted for as operating leases. As a rule, the lease payments are recognised as income or expense proportionately over the term of the lease.

Under IAS 36, the carrying amounts, in particular, of property, plant and equipment and intangible assets are tested for impairment if there are indications thereof. Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually – regardless of whether there are indications of impairment (see: Goodwill and other intangible assets). An asset or cash-generating unit is impaired when the carrying amount exceeds the recoverable amount of the asset or the cash-generating unit.

The recoverable amount is the higher of fair value less costs to sell and value in use. Fair values are to be determined primarily based on market prices and can, for example, be based on existing binding offers, secondary price formation on active markets or comparable recent transactions within the industry according to the measurement hierarchy in IFRS 13. If fair value cannot be determined based on market prices, valuation techniques based on a net present value approach are used. If a net present value approach is applied, the discounted cash flow method (DCF method) is used. Future investments to enhance or improve performance and restructuring expenditure are taken into account when determining fair value. Price quotes for energy futures are used in pricing as long as there is a liquid market. Accordingly, the most recent price quotes are applied to the average price forecasts of two

Leased assets

Recoverability of non-financial assets

reputable information service providers in the energy market by means of linear interpolation. The excess financial return expected in the period after the end of the applicability of the price forecasts by the two reputable information service providers in the energy market (currently 2040) (= terminal value phase), is taken into account by way of terminal value calculation based on the assumed infinite existence of a power plant site (e.g. for hydropower plants); the calculation is based on an assumption that the excess financial return will grow at a rate of 2%.

As a rule, value in use is determined using net present value approaches. The discounted cash flow method (DCF) is used for determining these. The prices are determined using the VERBUND Energy Market Model (VEMM). The VEMM is an energy simulation tool for the development of medium and long-term electricity and natural gas price scenarios for energy markets. The cash flows are generally derived from the recent medium-term plans approved by management. Consistent with IAS 36, neither future investments to enhance or improve the performance nor restructuring expenditure (not including existing obligations) are included in the calculation of value in use. 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 asset (or cash-generating unit); the corresponding pre-tax interest rate is calculated iteratively.

If the reasons for impairment no longer apply in a subsequent period, a reversal is to be recognised in profit or loss. Both impairments as well as reversals of impairment losses are recognised in profit or loss, presented in the income statement and segment reporting as impairment losses and/or reversals of impairment losses and explained in the notes. If impairment losses or their reversal do not relate to continuing operations, they are presented in profit/loss after tax from discontinued operations and explained in the notes.

Equity interests

Equity interests in unconsolidated subsidiaries (due to a lack of materiality), associates and joint ventures not accounted for using the equity method, as well as other equity interests, are classified as financial assets available for sale and are measured at fair value with the effect in other comprehensive income in accordance with IAS 39.

Those interests for which fair value cannot be derived from market quotations or comparable recent transactions or for which fair value cannot be reliably determined using the discounted cash flow method (DCF) or the multiplier method for lack of available information, are recognised at cost, net of any impairment losses.

The carrying amounts of interests accounted for using the equity method are adjusted based on VERBUND's ownership interest to reflect changes in the investee's net assets in accordance with IAS 28. The proportionate net assets are adjusted no later than one quarter following the underlying changes (see: Financial reporting principles). The carrying amount of the interest is increased or decreased by the share in profit or loss for the period and other comprehensive income attributable to VERBUND, as well as by dividends, the elimination of material intercompany profits or losses and by carrying forward the fair value adjustments for hidden reserves and liabilities identified upon share acquisitions. Goodwill included in the carrying amount of the interest is not amortised (see: Goodwill and other intangible assets) and is neither presented separately in accordance with IAS 28 nor tested annually for impairment in accordance with IAS 36. If VERBUND's share of losses from an investee accounted for using the equity method corresponds to or exceeds the carrying amount of the investment, additional losses are only taken into account and recognised as a liability to the extent that legal or constructive obligations were undertaken or payments were made for the equity-

accounted interest. The carrying amount of the equity-accounted interest includes the share calculated based on equity method accounting plus all long-term equity interests that are to be allocated to the net investment in the equity-accounted interest based on their economic substance.

At the reporting date, net investments in associates and joint ventures as well as other equity interests are reviewed for indications of impairment as defined under IAS 39 (see: Recoverability of financial assets). If there are any such indications, an impairment test must be conducted for interests accounted for using the equity method in accordance with IAS 36.

Impairment is tested based on the recoverable amount, which represents the higher of fair value less costs to sell and value in use. The primary methods used to determine the fair value of an equity interest are based on market prices; as an alternative, approaches to determine the net present value are applied. If alternative methods are applied, VERBUND bases the determination of fair value on the best available information that a hypothetical buyer would apply in an arm's length transaction. As a rule, the proportionate present value of estimated cash flows to be generated in the future from associates or joint ventures attributable to VERBUND is used to determine the value in use.

Investments and non-current other receivables mainly include debt instruments and investment fund units as well as investments related to early terminated cross-border leasing transactions whose B-loans were nevertheless continued. Interest income calculated using the effective interest method is recognised in the financial result.

Debt instruments and investment fund units are classified as "available for sale". As a rule, financial instruments fall under this category if they do not represent loans and receivables and are neither held to maturity nor measured at fair value through profit or loss. Acquisitions and disposals of investments are recognised at the trade date. Balance sheet recognition is at fair value, which, as a rule, is determined on the basis of quoted prices. These are Level 1 measurements as defined under IFRS 13. If prices are not available from active markets, fair value is determined on the basis of either directly (on the basis of market prices) or indirectly (derived from market prices) observable input data using accepted valuation models (Level 2 measurements). Market-induced changes in value are recognised in accordance with IAS 39 without effect on profit or loss in other comprehensive income until disposal or an impairment occurs. In contrast, any impairment losses are recognised in profit or loss (see: Recoverability of financial assets).

Recoverability of equity interests

Investments and loans

Interest-bearing loans are classified as loans and receivables and measured at amortised cost, net of any impairment losses, using the effective interest method. In the case of impairment, measurement is based on the present value of expected payments using the original effective interest method. The medium-term notes once acquired in connection with cross-border leasing transactions are also classified as loans and receivables.

The securities and loans related to the early terminated cross-border leasing transactions – whose B-loans, however, were continued – are presented as closed items on the balance sheet together with the associated financial liabilities in the consolidated financial statements of VERBUND (see: Cross-border leasing transactions).

Trade receivables and other receivables

Trade receivables, receivables from unconsolidated subsidiaries and receivables from investees are classified as loans and receivables and recognised in accordance with IAS 39 at cost, net of any allowance for anticipated uncollectable amounts. As part of an impairment test, receivables which may need to be written down are tested collectively for impairment based on comparable default risk characteristics (in particular the ageing of accounts receivable), and any impairment losses are recognised in profit or loss. Impairment losses recognised in the form of specific valuation allowances via allowance accounts sufficiently reflect expected default risks; specific defaults result in the derecognition of the relevant receivables.

Current other receivables include derivatives and hedging instruments from the finance and energy area as well as temporary investments in the form of money market transactions. The latter are classified as loans and receivables. The other assets included in other current receivables are recognised at amortised cost. In addition, other current receivables include emission rights (see: Emission rights).

Recoverability of financial assets

At every reporting date, the carrying amounts of financial assets not classified as “at fair value through profit or loss” are reviewed for objective substantial indications of impairment as defined under IAS 39. Such indications would include significant financial difficulties on the part of the debtor or issuer, the high probability of insolvency proceedings initiated against the debtor or issuer, the loss of an active market for the financial asset, or a considerable detrimental change in the debtor’s or issuer’s technological, economical or legal environment and/or market environment.

In the case of equity instruments classified as “available for sale”, a significant (more than 20%) or prolonged (more than nine months) decrease in fair value below cost is to be regarded as an objective indication of impairment. Impairments are recognised in profit or loss.

Emission rights held by VERBUND in connection with CO₂ emissions at thermal power plants are accounted for in accordance with the accounting requirements in IAS 38, IAS 20 and IAS 37.

Emission rights are recognised on the allocation or acquisition date at fair value (in the case of emission rights allocated without exchange of consideration) or at cost (in the case of emission rights acquired for consideration). For emission rights allocated without exchange of consideration, an item of deferred income for the grant received is recognised at fair value (Level 1) – as a rule, based on the price quoted on the European Energy Exchange (EEX) – and reversed to profit or loss under fuel expenses as emission rights are consumed, amortised or sold. CO₂ emissions result in the “consumption” of emission rights, which is measured based on the weighted average price method and recognised in profit or loss under fuel expenses. The obligation to return is taken into account by recognising a corresponding amount in other liabilities. If cover is insufficient, VERBUND recognises an additional provision in the amount of the fair value of the missing emission rights.

Emission rights held for trading by VERBUND are measured through profit or loss under other revenue. According to the brokerage exemption for raw materials and commodity dealers, the measurement benchmark is fair value less costs to sell.

Emission rights

Inventories of primary energy sources such as natural gas, coal and heating oil as well as additives and consumables are measured at the lower of cost or net realisable value at the reporting date. Net realisable value is determined based on planned electricity revenue, net of production costs to be incurred. The use of primary energy sources and raw materials, additives and consumables is determined using the moving average price method.

Inventories of natural gas held for trading by VERBUND are measured through profit or loss under other revenue. According to the brokerage exemption for raw materials and commodity dealers, the measurement benchmark is fair value (Level 1) less costs to sell. The fair value corresponds to the quoted price for front-month gas forwards on the Central European Gas Hub (CEGH) or NetConnect Germany (NCG).

Inventories

Guarantees of origin and green electricity certificates that are held for sale by VERBUND in the normal course of business are recognised in accordance with accounting requirements set forth under IAS 2 and IAS 20. Guarantees of origin and green electricity certificates are recognised as inventories when the legally enforceable rights are acquired (as a rule, production of electricity in certified power plants). Income from the allocation of certificates is presented under other operating income offset with the change in inventories from the disposal of certificates. Subsequent measurements are carried out at the lower net realisable value if necessary. Proceeds from the sale of guarantees of origin or green electricity certificates are recognised under other revenue.

Guarantees of origin and green electricity certificates

Assets “held for sale” and discontinued operations

Non-current assets or disposal groups that include assets and liabilities are classified as “held for sale” if it is highly probable that their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The assets or components of a disposal group are remeasured immediately before classification as “held for sale” in accordance with the Group’s other accounting methods. Afterwards, the assets and/or disposal groups are recognised at the lower of their carrying amount and their fair value less costs to sell.

An operating segment of VERBUND that (including its cash flows) can be clearly separated from the Group and which represents a separate major line of business or geographical area of operation, that is part of an individual coordinated plan to sell a separate major line of business or geographical area of operation, or that represents a subsidiary acquired solely with the intention of resale, is designated as a discontinued operation. The activities are classified as a discontinued operation when they are sold or as soon as the operating segment meets the criteria for classification as “held for sale” if this is the case sooner. If an operating segment is classified as a discontinued operation, the comparative information is adjusted in the income statement and statement of comprehensive income as if the operating segment had been classified as a discontinued operation from the beginning of the prior period.

Financial liabilities

Financial liabilities are initially recognised at their fair value (including transaction costs directly attributable to their issue), which as a rule corresponds to the actual amount received. Any premiums, discounts or other differences between the amount received and the redemption amount are allocated over the financing term and presented in interest expenses on an accrual basis using the effective interest method.

Individual financial liabilities originally incurred in connection with cross-border leasing transactions (see: Cross-border leasing transactions) were classified “at fair value through profit or loss” upon initial recognition using the fair value option. As a result, measurement inconsistencies that would have otherwise arisen could be eliminated (see: Financial instruments and risk management).

Financial guarantee contracts

A financial guarantee as defined under IAS 39 is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

If VERBUND is the issuer, the receivable due from the debtor is recognised at fair value based on the guarantee payments due; a guarantee liability is also recognised in the same amount. Receivables from guarantee payments due are classified as loans and receivables and carried forward by means of the effective interest method. Guarantee liabilities are measured at the higher of the amount to be recognised based on the accounting requirements for provisions in IAS 37 and the initial measurement amount, net of accumulated amortisation already recognised in profit or loss in accordance with IAS 18 (amortised cost).

In contrast, if VERBUND is the holder, there is normally a contingent asset which may not be recognised.

If grid tariffs are determined by a regulator on the basis of estimates of costs and/or revenues and lower or higher costs and/or revenues in the past are taken into account when determining tariffs in the future, the grid operator is entitled to charge the grid users higher prices as compensation for higher costs and/or lower revenues in future years; the grid operator is also obligated to refund the grid users for lower costs and/or higher revenues by charging lower prices. Such entitlements and/or obligations are referred to as regulatory assets and liabilities. Regulatory assets and liabilities may not be recognised in most cases because they mostly do not meet the general criteria for recognition under IFRSs.

With its Grid segment, VERBUND is subject to such a tariff structure regulated by Energie-Control Austria für die Regulierung der Elektrizitäts- und Erdgaswirtschaft (E-Control). If the general criteria for recognition under IFRSs are not met, neither regulatory assets nor regulatory liabilities are recognised in the consolidated financial statements of VERBUND.

Due to labour-management agreements and contracts, VERBUND is obligated under certain conditions to make pension payments to (former) employees after they retire based on their final salary. These defined benefit obligations are partially covered by pension plan assets at APK Pensionskasse AG (pension fund) earmarked for this purpose. A contractual trust arrangement (CTA and pension fund) was set up in order to secure the entitlements from the company pension plan for the employees of VERBUND Innkraftwerke GmbH, Innwerk AG and Grenzkraftwerke GmbH. VERBUND is obligated to provide additional funding to the extent the obligations are to be fulfilled through the pension fund; there is no such obligation for the CTA. Both pension plan assets as well as the contractual trust arrangements are recognised as plan assets as defined under IAS 19 and offset with the provision for current pensions and vested pension benefits.

Provisions for current pensions, vested pension benefits and similar obligations are determined based on the projected unit credit method (PUC method) in accordance with IAS 19; remeasurements of the net liability – actuarial gains and losses and/or returns on plan assets, excluding expected interest income – are recognised under other comprehensive income in the year in which they arise.

With the exception of net interest expense, all expenses (and returns) related to these obligations are recognised under personnel expenses. Net interest expense is reported under interest expenses.

The pension obligations are determined on the basis of actuarial reports; the calculations are based on “AVÖ 2008 P – Actuarial Assumptions for Pension Insurance – Pagler & Pagler”.

Pension plan assets are invested in compliance with the provisions of the Austrian Pension Fund Act (Pensionskassengesetz, PKG) and the corresponding regulations of the Austrian Financial Market Authority (FMA).

Similar obligations relate to employer contributions for supplementary health insurance premiums to be paid after retirement. The provisions are determined in the same manner as provisions for pension obligations.

Employees whose service began on or before 31 December 2002 receive a lump sum termination benefit if their employment is terminated by the employer or when they retire, based on obligations under Austrian labour law. The amount of this payment depends on the number of years of service and the salary drawn at the time of termination or retirement. This obligation is measured in accordance with IAS 19 based on the PUC method with an accumulation period of 25 years, whereby remeasurements of the net liability are recognised immediately in other comprehensive income.

Employees whose service began in Austria after 31 December 2002 are no longer entitled to a direct claim against their employer for a statutory termination benefit. For those employment contracts, the

Regulatory assets and liabilities

Pensions and similar obligations, statutory termination benefits and partial retirement obligations

employer pays 1.53% of gross salary monthly into an employee pension fund in which the contributions are deposited in an account of the employee. The employer is only obligated to make regular contributions under this termination benefit model; therefore, it is recognised as a defined contribution plan in accordance with IAS 19.

In connection with partial retirement models, employees are offered the opportunity to retire from the Company before they are entitled to draw a pension under the Austrian General Social Security Act (Allgemeines Sozialversicherungsgesetz, ASVG) and continue receiving a salary until they reach the statutory retirement age. This obligation is measured in accordance with IAS 19 based on the PUC method, whereby remeasurements of the net liability are recognised immediately through profit or loss. The measurement parameters mainly correspond to those for obligations similar to pension obligations. The resulting expenses to be recognised are presented under pension expenses.

There are also contractual trust arrangements (CTAs) for the purpose of securing credit balances from partial retirement models of employees of VERBUND Innkraftwerke GmbH and Innwerk AG. There is no obligation to provide additional funding. The CTA is recognised as plan assets as defined under IAS 19 and offset against the provision for partial retirement.

Provisions

In accordance with IAS 37, provisions are recognised for legal and constructive obligations to external third parties resulting from past events whose settlement will probably lead to a future outflow of economic resources. It must be possible to reliably estimate the amount of the obligation. Otherwise, a provision is not recognised. Provisions are measured at the expected settlement amount. The settlement amount represents the best estimate of the expenditure with which a current obligation could be settled or transferred to a third party at the reporting date. Future cost increases that are foreseeable and probable on the reporting date are taken into account.

Provisions for dismantling costs are recognised at the discounted settlement amounts for obligations resulting from the dismantling or decommissioning of power plants in the reporting period in which they are incurred; at the same time, generally, the carrying amounts for the power plants are increased (see: Property, plant and equipment). In subsequent periods, the capitalised costs for dismantling or decommissioning are depreciated over the (remaining) useful life of the power plant facilities; interest is accrued on the provisions annually.

Provisions are recognised for expected losses from so-called onerous contracts in accordance with IAS 37 and measured in the amount of the unavoidable outflow of economic resources. This is the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil it. However, impairment losses on assets associated with the “onerous” contract are recognised before provisions for onerous contracts are recognised.

Non-current provisions are discounted if the present value of the expected settlement amount differs materially from the nominal value. In accordance with VERBUND’s accounting policies, all provisions to be utilised more than twelve months in the future are discounted as a general rule. The discount rate is a pre-tax interest rate adjusted to the specific risks of the liability. Accrued interest amounts are presented as interest expenses; any effects from changes in the interest rate are recognised in the operating result.

Other liabilities are measured at amortised cost. This also applies to the obligation to supply electricity under a 20-year electricity supply agreement that was incurred in connection with the acquisition of Kraftwerksgruppe Inn GmbH (now VERBUND Innkraftwerke GmbH) in the 2009 reporting period. This obligation is increased periodically by accrued interest and redeemed on an ongoing basis to the extent in which VERBUND is released from the commitment to supply electricity through delivery and/or passage of time. An unscheduled repayment of 60% of the obligation was made in 2013 as part of the acquisition of (additional) Bavarian hydropower plant capacities.

The obligation to transfer the 50% interest in Donaukraftwerk Jochenstein AG to the Free State of Bavaria without exchange of consideration assumed as part of the acquisition of (additional) Bavarian hydropower plant capacities is also measured at amortised cost.

The expected fair value of the interest at the transfer date (31 December 2050) is calculated periodically and discounted based on the original effective interest rate (corresponding to the weighted average cost of capital at the acquisition date). Changes in the expected fair value of the interest are recognised in other financial result.

Investment grants do not reduce the cost of assets for which they were granted, but instead lead to the recognition of an item of deferred income. They are recognised at fair value if it is sufficiently certain that VERBUND will meet the requirements for receiving the grant and that the grant will actually be provided. Amounts recognised as deferred income are reversed to profit or loss over the expected useful life of the respective asset.

Government grants related to income or expenses also lead to the recognition of a liability which is reversed to profit or loss in the periods in which the costs associated with the grant are incurred.

Contributions to building costs received by VERBUND (in particular from provincial energy companies), for example for power plant projects, are recognised in accordance with IFRIC 18. The rights to purchase electricity and the rights of use granted in return result in the recognition of an item of deferred income which is either reversed to profit or loss over the period of the agreement or (if no period is specified) over the useful life of the assets. The amounts reversed to profit or loss are presented under revenue.

VERBUND entered into several cross-border leasing transactions in the reporting periods from 1999 to 2001. Power plants were leased to US investors and simultaneously leased back under finance leases.

Obligations under these transactions were entirely covered, i.e. both the equity portions and the loan portions, by a corresponding acquisition of securities (zero coupons, medium-term notes) or through loans to financial institutions.

With the beginning of the financial market crisis during the 2008 reporting period, the risk profile of the cross-border leasing transactions changed – mainly as a result of the deterioration in the credit rating of contractual parties (banks and insurance companies). At the same time, the willingness of these investors to terminate individual transactions early increased due to the increased liquidity requirements of American cross-border leasing investors and the agreements between these investors and the American tax authorities regarding the tax benefits to be approved.

Other liabilities

Government grants

Contributions to building costs

Cross-border leasing transactions and/or closed items on the balance sheet

A total of around 85% of the original volume of cross-border leasing transactions was terminated in the 2009 and 2010 reporting periods. The last remaining transaction of VERBUND (Freudenau power plant) has an off-balance sheet financing structure (see: Other obligations and/or entitlements and risks). An item of deferred income was recognised for the present value of the economic benefit associated with this transaction and is reversed to profit or loss over the contractual term. Reversals are presented under other operating income.

Some of the cross-border leasing transactions were terminated early in their entirety; that is, all associated liabilities (A-loans and B-loans) and investments were repaid. Some of the cross-border leasing transactions were only partially terminated, whereby the transactions with investors and the associated A-loans were repaid, while VERBUND continued the existing B-loans. Consequently, the corresponding B-payment undertaking agreements and the corresponding investments were also continued. Therefore, balance sheet cover remains in place. The accounting balances denominated in foreign currency (exclusively US dollar) are measured at the exchange rate prevailing at the reporting date. Expenses and income from the measurement correspond to one another both in terms of value as well as with respect to the value date and are offset.

The financial investments and liabilities resulting from the cross-border leasing transactions that were terminated early continue to be presented separately in the notes to VERBUND's consolidated financial statements in order to improve clarity; all items are closed on the balance sheet.

Taxes on income

The income tax expense presented in the income statement for the reporting period includes current taxes on income calculated for consolidated subsidiaries based on their taxable income and the respective income tax rate as well as changes in deferred tax liabilities and deferred tax assets.

In accordance with the balance sheet-oriented liability method in IAS 12 for the determination of deferred taxes, deferred taxes are recognised for temporary differences between the carrying amounts of assets and liabilities in the IFRS consolidated financial statements and their tax bases at the level of the subsidiary. Deferred tax liabilities and deferred tax assets are recognised for temporary differences leading to taxable or deductible amounts in the determination of taxable income in future reporting periods. Tax benefits from unused loss carryforwards are included in the determination of deferred taxes. Goodwill recognised upon initial consolidation of subsidiaries does not result in deferred taxes; in contrast, temporary differences which arise or change as a result of the amortisation of goodwill for tax purposes in subsequent periods are deferred. Temporary differences with respect to the carrying amounts of equity interests represent another exception to this comprehensive tax deferral as long as they do not result from impairment losses under tax law.

The income tax rates expected to apply when the temporary differences are likely to reverse are applied in the determination of deferred taxes. The corporate income tax rate applying to VERBUND AG is 25%. The following income tax rates are applied by consolidated subsidiaries (depending on the country in which they are located):

Income tax rates applicable to subsidiaries	in %	
	2016	2017
Austria	25.0	25.0
Germany – partnerships ¹	12.25 – 12.95	12.37 – 12.95
Germany – limited companies ²	24.23 – 32.98	24.23 – 32.98
Romania	16.0	16.0

¹The trade tax depends on the local multiplier, which varies from one municipality to another. // ²The corporate income tax rate shown also includes the solidarity surcharge and municipal trade tax.

Beginning with the 2005 reporting period, VERBUND took advantage of the option to form a group of companies for tax purposes as granted by legislators with the 2005 Austrian Tax Reform Act (Steuerreformgesetz 2005); VERBUND AG is the tax group parent.

The tax group parent charges members of the tax group their attributable corporate tax amounts by means of tax allocation. In the event of a loss, domestic group members receive a tax credit. The allocated tax amounts are only adjusted subsequently if there are material differences. A liability from current tax liabilities is recognised in the amount of the expected future tax payment for the transfer of losses incurred by foreign group members if the requirements for subsequent taxation in the future are fulfilled. The expected future tax payment is not discounted.

The tax amortisation benefit resulting from the amortisation of goodwill (Section 9(7) of the 1988 Corporate Income Tax Act (Körperschaftsteuergesetz, KStG)) is treated as a temporary difference for shares in subsidiaries (outside basis difference).

Derivative financial instruments are recognised at fair value when the contract is entered into and are subsequently measured at fair value. As a rule, unrealised remeasurement gains or losses are recognised in the income statement if the requirements for the recognition of hedging relationships (hedge accounting) in accordance with IAS 39 are not met. In this case, these special accounting standards are applied. The requirements under IAS 39 for hedge accounting include, in particular, the documentation of the hedging relationship between the hedged item and hedging instrument and documentation of the hedging strategy as well as the regular measurement of both prospective and retrospective effectiveness. A hedging relationship qualifies as highly effective if the fair value changes of the hedging instrument fluctuate within a range of 80% to 125% of the opposite changes in fair value of the hedged item.

In the case of the accounting treatment of so-called fair value hedges, the derivative hedging instrument and the hedged item with respect to the hedged risk are measured at fair value through profit or loss. However, if a derivative financial instrument is used as a hedging instrument in a cash flow hedge, the unrealised gains or losses from the hedging instrument are initially recognised in other comprehensive income. They are only reclassified (“recycled”) to the income statement when the hedged item affects profit or loss. If highly probable future transactions are hedged and these transactions lead to the recognition of a financial asset or a financial liability in subsequent periods, the amounts previously recognised in other comprehensive income are reclassified to the income statement in accordance with IAS 39 in the same period in which the asset or liability affects profit or loss for the period. If the transaction leads to the recognition of non-financial assets or liabilities, the amounts recognised in other comprehensive income are included in the initial measurement of the asset or liability (basis adjustment), which does not affect profit or loss at the initial recognition date.

Derivative financial instruments

Hedging relationships in the finance area

Derivative financial instruments with positive fair values are recognised under trade receivables and other receivables; those with negative fair values are recognised under other financial liabilities or trade payables and other liabilities.

Own-use contracts entered into and held by VERBUND for the purpose of receiving or delivering non-financial items based on expected purchase, sales or usage requirements are not recognised as derivative financial instruments, but instead as executory contracts (own-use exemption). If the unavoidable costs of fulfilling such an own-use contract are higher than the economic benefits expected therefrom, a provision must be recognised for the own-use contract in accordance with IAS 37. If, however, supplier contracts that previously represented own-use contracts lead to a net settlement within the meaning of IAS 39, the exemptions for own-use contracts no longer apply and the supplier contracts must be qualified as freestanding derivatives and recognised at fair value through profit or loss.

In order to limit and control existing foreign exchange and interest rate risks, individual derivative financial instruments are used in the finance area (in particular forward exchange transactions and interest rate swaps). With the exception of derivative financial instruments related to closed items on the balance sheet (see: Cross-border leasing transactions), interest rate swaps (swaps from variable to fixed interest) have been entered into to hedge the existing interest rate level or carrying amounts for the long term. Some of these interest rate swaps have been designated as cash flow hedges (see: Derivative financial instruments). Those interest rate swaps that hedge intragroup financing at the subsidiary level are recognised as derivatives in VERBUND's consolidated financial statements (measurement category: financial assets held for trading).

With respect to individual closed items on the balance sheet (see: Cross-border leasing transactions), the investments result in variable income that has to be seen alongside fixed expenses. In order to avoid risk, interest rate swaps have been entered into for the corresponding financial liabilities. These interest rate swaps exhibit a risk profile with respect to interest rate and foreign exchange risk that perfectly opposes the corresponding profile of the associated balance sheet items. Therefore, the carrying amount of the associated financial liabilities is adjusted according to the hedged risk to balance out the fair value measurement of the interest rate swaps.

Determination of the fair value of derivative financial instruments in the finance area

The fair value of forward exchange transactions is based on the respective rates (foreign exchange rates and interest rate curves) prevailing at the reporting date. These are Level 2 measurements as defined under IFRS 13.

The fair value of interest rate swaps corresponds to the amount that VERBUND would receive or have to pay if the transaction were terminated on the reporting date. When calculating that amount, current interest rates, yield curves and counterparty credit risk in particular are taken into account. These are Level 2 measurements as defined under IFRS 13.

Within the framework of cash flow hedge accounting, VERBUND employs derivative financial instruments to hedge the price risk of future sales and procurement transactions. Forward and futures contracts as well as options are used as hedging instruments as defined under IAS 39.

VERBUND assesses on a regular basis whether the cumulative changes in the hedged item in relation to those of the hedging instrument lie within the range of 80% to 125% specified under IAS 39 for hedge accounting. Any ineffective portions of fair value changes in the hedging instrument lying in this range, but deviating from 100%, are recognised in profit or loss.

Electricity, gas and CO₂ derivatives not designated as hedging instruments are allocated to the wholesale portfolio and measured at fair value through profit or loss.

The fair value changes of hedging instruments used within the framework of cash flow hedges are recognised without effect on profit or loss in other comprehensive income until the hedged item is realised. If a framework agreement with a netting arrangement has been entered into with a counterparty, the positive and negative fair values of the transaction are offset on the balance sheet (see: Financial instruments and risk management). Subsequently, measurement effects are netted with the results from the hedged item; thus, profit for the period is not expected to be affected.

Fair value changes in (freestanding) electricity and gas derivatives in the wholesale portfolio that were not designated as hedging instruments are recognised in profit or loss net of previously realised futures and following the netting of positive and negative fair values (see: Financial instruments and risk management).

VERBUND must be present in the trading markets in order to best optimise own generation. In addition to the marketing of own electricity generation, which dominates in terms of value creation, third party transactions are also carried out under strict risk management specifications. Energy trading contracts involving third party trading (futures and forward contracts for electricity, gas and CO₂) are measured at fair value through profit or loss. The result from the measurement and realisation of these derivative energy trading contracts is presented net in electricity or gas revenue or in other revenue (CO₂).

The fair values of futures and forward contracts employed by VERBUND can be reliably measured at each reporting date because quoted prices are available for futures contracts at the respective exchanges (European Energy Exchange (EEX), Intercontinental Exchange (ICE), Central European Gas Hub (CEGH)) and forward contracts are measured with forward price curves derived from quoted prices based on a risk-free yield curve and taking counterparty credit risk into account. The options used by VERBUND are measured at the prices quoted on the EEX at the respective last trading day or derived from these quoted prices. The measurements of electricity, gas and CO₂ futures contracts are Level 1 measurements as defined under IFRS 13; the measurements of electricity, gas and CO₂ forward contracts are generally Level 2 measurements. The measurements of listed options are Level 1 measurements and OTC contracts are Level 2 measurements.

Hedging relationships in the energy area; electricity and gas contracts in the wholesale portfolio

Energy trading contracts

Determination of the fair value of derivative financial instruments in the energy area

Revenue recognition

As a rule, revenue is realised at the time of delivery to the customer or when the service has been rendered. A delivery is regarded as having been performed when the significant risks and rewards associated with ownership are transferred to the buyer in accordance with the contractual agreement, payment – this is the fair value of the consideration received or receivable – has been specified by contract and the settlement of the trade receivable is probable. Revenue results mainly from the sale of electricity or gas to industrial and household customers, to energy supply companies, traders and electricity exchanges as well as grid services. Revenue from the delivery of electricity to large-scale customers is realised in the same way as revenue from energy trading and grid services, that is, at the performance date. For small-scale customers, revenue is recognised when the customer can be billed for receipt of a partial delivery. Revenue from grid services includes revenue from national grid tariffs granted by order of Energie-Control Austria für die Regulierung der Elektrizitäts- und Erdgaswirtschaft (E-Control) to cover grid costs, revenue from the auctioning of bottlenecked cross-border capacities and revenue from inter-TSO compensation (ITC) to compensate for the costs of international electricity delivery.

The realisation of standard futures contracts with traders where the main purpose is not the final physical delivery of energy but the management of a trading position is presented under revenue, whereby the underlying revenues and purchase costs are presented together as net amounts under revenue; this corresponds to the result from trading with derivative financial instruments in the energy area.

Revenue is presented net of any sales deductions, exclusive of value added tax and after the elimination of intragroup transactions.

Discretionary judgements and key assumptions concerning the future

The preparation of IFRS consolidated financial statements requires discretionary judgements in the evaluation of whether other entities are controlled or jointly managed by VERBUND or whether VERBUND can exert a significant influence on another entity and/or whether an entity represents a joint operation of VERBUND.

Other discretionary judgements relate to the application of accounting policies as well as the determination of assumptions regarding future developments on the part of management which can significantly influence the recognition and measurement of assets and liabilities, the disclosure of other commitments as at the reporting date and the presentation of income and expenses during the reporting period.

The primary discretionary judgements and key assumptions concerning the future on which the IFRS consolidated financial statements are based are described below.

The weighted average cost of capital (WACC) is used to determine the recoverable amounts when applying net present value approaches. These correspond to the average weighted cost of equity and debt. The weighting of the cost of equity and debt – which corresponds to a capital structure at market values – was derived from an adequate peer group.

The cost of equity is determined from a reference rate, market risk premium and beta factor using the capital asset pricing model (CAPM). The reference rate represents a de facto risk-free rate for an investment with matching maturities and is determined based on the yield curve for government bonds issued by the Deutsche Bundesbank (“Svensson Method”). The market risk premium corresponds to the premium required by an equity investor over the reference rate to hold the market portfolio.

The beta factor measures the relationship between the price trend of an equity instrument and the market as a whole, and thus is a measure of its systematic risk. Equity shares of electric utilities and transmission system operators generally exhibit different beta factors. Beta factors from electric utilities are normally less volatile than the market as a whole, while those of transmission system operators are even more stable.

The cost of debt before tax corresponds to the return on debt instruments traded on the market with an equivalent risk of default and matching maturities.

In order to adequately reflect country risk, corresponding premiums are taken into account on the cost of equity and debt. Every country exhibits default risk to a greater or lesser extent. The capital market reflects this default risk through different yields for government bonds.

In view of the volatile financial market environment, the development of capital costs (and in particular country risk premiums) is under continuous observation.

Determination of the weighted average cost of capital

Impairment testing of goodwill

For the purpose of impairment testing, VERBUND's goodwill was allocated to the following cash-generating units or groups of cash-generating units:

Goodwill	€m	
	2016	2017
Renewable generation segment	287.0	287.0
Sales segment	13.0	13.0
Inn River run-of-river power plant group	280.4	126.6
Grenzkraftwerke run-of-river power plant group	161.1	161.1
Goodwill in VERBUND	741.5	587.7

Impairment testing of goodwill for the Renewable Energy segment

	31/12/2016	31/12/2017
Group of cash generating units	All hydraulic and wind energy power plants of VERBUND plus goodwill ¹	All hydraulic and wind energy power plants of VERBUND plus goodwill ¹
Basis for recoverable amount	Fair value (Level 3) less costs of disposal	Fair value (Level 3) less costs of disposal
Valuation technique	Sum-of-the-parts measurement based on a net present value approach (DCF method)	Sum-of-the-parts measurement based on a net present value approach (DCF method)
Derivation of cash flow	Budgets of VERBUND (based primarily on near-market data)	Budgets of VERBUND (based primarily on near-market data)
Volume	Average expected generation of the respective power plants	Average expected generation of the respective power plants
Price	External price forecasts (see: Accounting policies) and power plant-specific premiums or discounts (for example, the sale of guarantees of origin)	External price forecasts (see: Accounting policies) and power plant-specific premiums or discounts (for example, the sale of guarantees of origin)
Planning period	Detailed planning phase: 6 years; rough planning phase: power plant-specific (up to 94 years for hydropower plants)	Detailed planning phase: up to a maximum of 6 years depending on the specific power plant; rough planning phase: up to a maximum of 25 years depending on the specific power plant; subsequent terminal value phase following rough planning phase depending on the specific power plant
Key measurement assumptions	Electricity price, discount rate	Electricity price, discount rate
Discount rate	WACC after taxes: 4.50% to 10.25% depending on the location	WACC after taxes: 4.75% bis 10.50% depending on the location
Impairment during the period ²	–	–

¹The acquisition of VERBUND Innkraftwerke GmbH on 31 August 2009 resulted in goodwill in the amount of €580.4m, €300.0m of which was assigned to the former Energy segment because this portion of the goodwill was monitored (and/or managed) at this level by management. As a result of the revision of Group management in the 2016 reporting period, €287.0m of this €300.0m was assigned to the new Renewable generation segment. // ² Management believes the carrying amount of the Renewable generation segment's assets including goodwill will not exceed the recoverable amount as a result of potential changes in the key measurement assumptions.

Impairment testing of goodwill for the Sales segment

	31/12/2016	31/12/2017
Group of cash generating units	All of VERBUND's sales activities plus goodwill ¹	All of VERBUND's sales activities plus goodwill ¹
Basis for recoverable amount	Fair value (Level 3) less costs of disposal	Fair value (Level 3) less costs of disposal
Valuation technique	Sum-of-the-parts measurement based on a net present value approach (DCF method)	Sum-of-the-parts measurement based on a net present value approach (DCF method)
Derivation of cash flow	Budgets of VERBUND (based primarily on near-market data)	Budgets of VERBUND (based primarily on near-market data)
Volume	Expected trading and distribution volumes	Expected trading and distribution volumes
Price	Expected trading and distribution margins	Expected trading and distribution margins
Planning period	Detailed planning phase of 6 years followed by a terminal value phase	Detailed planning phase of 6 years followed by a terminal value phase
Key measurement assumptions	Expected trading and sales volumes as well as trading and sales margins	Expected trading and sales volumes as well as trading and sales margins
Discount rate	WACC after taxes: 4.75%	WACC after taxes: 5.00%
Impairment during the period ²	–	–

¹ The acquisition of VERBUND Innkraftwerke GmbH on 31 August 2009 resulted in goodwill in the amount of €580.4m, €300.0m of which was assigned to the former Energy segment because this portion of the goodwill was monitored (and/or managed) at this level by management. As a result of the revision of Group management in the 2016 reporting period, €13.0m of this €300.0m was assigned to the new Sales segment. // ² Management believes the carrying amount of the Renewable generation segment's assets including goodwill will not exceed the recoverable amount as a result of potential changes in the key measurement assumptions.

Impairment testing of goodwill for the Inn River run-of-river power plant group

	31/12/2016	31/12/2017
Group of cash generating units	Run-of-river power plants of the Inn River power plant group ¹ that also each represent a cash-generating unit, plus goodwill ²	Run-of-river power plants of the Inn River power plant group ¹ that also each represent a cash-generating unit, plus goodwill ²
Basis for recoverable amount	Fair value (Level 3) less costs of disposal	Fair value (Level 3) less costs of disposal
Valuation technique	Net present value approach (DCF method)	Net present value approach (DCF method)
Derivation of cash flow	VERBUND Innkraftwerke GmbH budgets (based mainly on near-market data)	VERBUND Innkraftwerke GmbH budgets (based mainly on near-market data)
Volume	Annual output corresponding to the mean energy capability of 1,856 or 1,975 GWh (after conclusion of the Töging modernisation project)	Annual output corresponding to the mean energy capability of 1,856 or 1,975 GWh (after conclusion of the Töging modernisation project)

Impairment testing of goodwill for the Inn River run-of-river power plant group

	31/12/2016	31/12/2017
Price	External price forecasts (see: Accounting policies); discounts for generation characteristics and the hydrological forecast and availability risk; premium for additional proceeds from the sale of guarantees of origin (derived from quoted price); consideration of the water charges based on official notices; estimate of the maintenance costs by the managers responsible	External price forecasts ³ (see: Accounting policies); discounts for generation characteristics and the hydrological forecast and availability risk; premium for additional proceeds from the sale of guarantees of origin derived from quoted price; consideration of the water charges based on official notices; estimate of the maintenance costs by the managers responsible
Planning period	Detailed planning phase: 6 years; rough planning phase: 94 years (long-term reinvestment, repair and maintenance cycles for hydropower plants)	Detailed planning phase: 6 years; rough planning phase: 17 years followed by a terminal value phase
Key measurement assumptions	Electricity price, discount rate	Electricity price, discount rate
Discount rate	WACC after taxes: 4.50%	WACC after taxes: 4.75%
Recoverable amount	€1,227.3m	€767.7m
Impairment during the period	–	153.8m

¹ The Inn River run-of-river power plant group on the comprises the following run-of-river power plants: Aubach, Feldkirchen, Gars, Jettenbach I, Jettenbach II, Neuötting, Perach, Rosenheim, Stammham, Teufelsbruck, Töging, Wasserburg. // ² Goodwill in the amount of €580.4m was created as a result of the acquisition of VERBUND Innkraftwerke GmbH on 31 August 2009, €280.4m of which was allocated to the Inn River run-of-river power plant group because this portion of goodwill is monitored (and/or managed) at this level by management. // ³ The impairment tests were based on the price forecasts of two information service providers in the energy market. In contrast to the preceding measurements, a lower scenario has been applied in the price forecast of one of the two information service providers since 31 December 2017 in order to reflect internal expectations with respect to the long-term electricity price trend. Without this change in the estimate, the recoverable amount of the Inn River run-of-river power plant group would have been €453.9m higher on 31 December 2017.

Sensitivity analysis for the Inn River run-of-river power plant group 31/12/2017¹

	Value assigned to the key valuation assumption	Change in key valuation assumptions	Effects on the carrying amounts of assets
Price of electricity ²	€42.8/MWh	± 5%	+ 92.5 Mio. € – 92.5 Mio. €
Discount rate	4.75%	± 0.25 pp	– 71.4 Mio. € + 85.5 Mio. €

¹ In the sensitivity analysis, one key measurement assumption was changed at a time while the other factors of influence remained constant. However, in reality changes to the key measurement assumptions can also occur simultaneously. This can result in the amplification or (at least partial) neutralisation of the effects. // ² The electricity price shown relates to the year 2025. The sensitivity analysis varies the price of electricity steadily over time up to the planning horizon.

Impairment testing of goodwill for the Grenzkraftwerke run-of-river power plant group¹

	31/12/2016	31/12/2017
Group of cash generating units	Grenzkraftwerke run-of-river power plant group ² that each represent a cash-generating unit plus goodwill and deferred tax liabilities that arose upon acquisition as a result of the purchase price allocation ³	Grenzkraftwerke run-of-river power plant group ² that each represent a cash-generating unit plus goodwill and deferred tax liabilities that arose upon acquisition as a result of the purchase price allocation ³
Basis for recoverable amount	Fair value (Level 3) less costs of disposal	Fair value (Level 3) less costs of disposal
Valuation technique	Net present value approach (DCF method)	Net present value approach (DCF method)
Derivation of cash flow	Grenzkraftwerke GmbH's budgets (based primarily on near-market data)	Grenzkraftwerke GmbH's budgets (based primarily on near-market data)
Volume	The annual output corresponding to the mean energy capability of 3,957 GWh	The annual output corresponding to the mean energy capability of 3,957 GWh
Price	External price forecasts (see: Accounting policies); discounts for generation characteristics and the hydrological forecast and availability risk; premium for additional proceeds from the sale of guarantees of origin (derived from quoted price); consideration of the water charges based on official notices (GER); estimate of the maintenance costs by the managers responsible	External price forecasts (see: Accounting policies); discounts for generation characteristics and the hydrological forecast and availability risk; premium for additional proceeds from the sale of guarantees of origin (derived from quoted price); consideration of the water charges based on official notices (GER); estimate of the maintenance costs by the managers responsible
Planning period	Detailed planning phase: 6 years; rough planning phase: 94 years (long-term reinvestment, repair and maintenance cycles for hydropower plants)	Detailed planning phase: 6 years; rough planning phase: 17 years followed by a terminal value phase
Key measurement assumptions	Electricity price, discount rate	Electricity price, discount rate
Discount rate	Austria: WACC after taxes: 4.75% Germany: WACC after taxes: 4.50%	Austria: WACC after taxes: 5.00% Germany: WACC after taxes: 4.75%
Impairment losses in the period ⁴	–	–

¹ The following notes relate to the second step of the two-step impairment test of the Grenzkraftwerke run-of-river power plant group. The recoverability of the individual run-of-river power plants was tested in the first step and impairment losses totalling €57.7m were recognised (see: Impairment testing of power plants). // ² The Grenzkraftwerke run-of-river power plant group comprises the following power plants: Braunau-Simbach, Egglfing-Obernberg, Ering-Frauenstein, Jochenstein, Nußdorf, Oberaudorf-Ebbs, Passau-Ingling and Schärding-Neuhaus. // ³ The goodwill created upon acquisition results solely from the different measurement of the tax amortisation benefit in the fair value of the run-of-river power plants and the deferred tax liabilities that can be allocated to the run-of-river power plants. While the tax amortisation benefit is discounted to present value, deferred tax liabilities are recognised in non-discounted amounts. In order to account for the origin of goodwill, the deferred tax liabilities attributed to the run-of-river power plants were taken into account when comparing the recoverable amount and carrying amount. // ⁴ According to management, the carrying amount of the Grenzkraftwerke power plant group (less deferred tax liabilities) plus goodwill does not exceed the recoverable amount as a result of possible changes in key measurement assumptions.

Impairment testing of power plants

Impairment tests of the run-of-river power plants of the Grenzkraftwerke run-of-river power plant group¹

	31/12/2017²
Cash-generating unit	Run-of-river power plants of the Grenzkraftwerke run-of-river power plant group ³ , each representing a separate cash-generating unit
Indications of impairment	Updated electricity price forecasts and updated discount rate
Basis for recoverable amount	Fair value (Level 3) less costs of disposal
Valuation technique	Net present value approach (DCF method)
Derivation of cash flow	Grenzkraftwerke GmbH's budgets (based primarily on near-market data)
Volume	The annual output corresponding to the mean energy capability: Braunau-Simbach: 537 GWh; Jochenstein: 976 GWh; Nußdorf: 243 GWh; Passau-Ingling: 494 GWh; Schärding-Neuhaus: 538 GWh
Price	External price forecasts ⁴ (see: Accounting policies); discounts for generation characteristics and the hydrological forecast and availability risk; premium for additional proceeds from the sale of guarantees of origin (derived from quoted prices); consideration of the water charges based on official notices (GER); estimate of the maintenance costs by the responsible managers
Planning period	Detailed planning phase: 6 years; rough planning phase: 17 years followed by a terminal value phase
Key measurement assumptions	Electricity price, discount rate
Discount rate	Austria: WACC after taxes: 5.00% Germany: WACC after taxes: 4.75%
Recoverable amount	Braunau-Simbach: €312.7m; Jochenstein: €643.7m; Nußdorf: €151.5m; Passau-Ingling: €330.8m; Schärding-Neuhaus: €350.3m
Impairment during the period	Braunau-Simbach: €32.6m; Jochenstein: €6.7m; Nußdorf: €5.5m; Passau-Ingling: €5.8m; Schärding-Neuhaus: €7.2m

¹ The following notes relate to the first step of the two-step impairment test of the Grenzkraftwerke run-of-river power plant group. In the second step, the power plant group was tested including goodwill (see: Impairment testing of goodwill). // ² No impairment was recognised on the run-of-river power plants of the Grenzkraftwerke run-of-river power plant group on 31 December 2016. // ³ The Grenzkraftwerke run-of-river power plant group comprises the following power plants: Braunau-Simbach, Ering-Oberberg, Ering-Frauenstein, Jochenstein, Nußdorf, Oberaudorf-Ebbs, Passau-Ingling and Schärding-Neuhaus. // ⁴ The impairment tests were based on the price forecasts of two information service providers in the energy market. In contrast to the preceding measurements, a lower scenario has been applied in the price forecast of one of the two information service providers since 31 December 2017 in order to reflect internal expectations with respect to the long-term electricity price trend. Without this change in the estimate, the recoverable amount would have been €132.0m (Braunau-Simbach), €236.2m (Jochenstein), €60.5m (Nußdorf), €120.8m (Passau-Ingling) and €132.0m (Schärding-Neuhaus) higher.

Sensitivity analysis for the run-of-river power plants of the Grenzkraftwerke run-of-river power plant group 31/12/ 2017¹

	Value assigned to the key valuation assumption	Change in key valuation assumptions	Effects on the carrying amounts of assets
Price of electricity ²	€43.1 per MWh	± 5%	€+ 48.0m €- 131.3m
Discount rate	4.50%	± 0.25 pp	€- 139.5m €+ 54.4m

¹ In the sensitivity analysis, one key measurement assumption was changed at a time while the other factors of influence remained constant. However, in reality changes to the key measurement assumptions can also occur simultaneously. This can result in the amplification or (at least partial) neutralisation of the effects. // ² The electricity price shown relates to the year 2025. The sensitivity analysis varies the price of electricity steadily over time up to the planning horizon.

Impairment test – Mellach combined cycle gas turbine power plant

	31/12/2016	31/12/2017
Cash-generating unit	Combined cycle gas turbine power plant (installed electrical capacity: 848 MW)	Combined cycle gas turbine power plant (installed electrical capacity: 848 MW)
Indications of a (reduction in) impairment	Updated electricity and/or gas price forecasts and updated discount rate	Updated electricity and/or gas price forecasts and updated discount rate
Basis for recoverable amount	Fair value (Level 3) less costs of disposal	Fair value (Level 3) less costs of disposal
Valuation technique	Net present value approach (DCF method)	Net present value approach (DCF method)
Derivation of cash flow	VERBUND Thermal Power GmbH & Co KG in Liqu. budgets (based mainly on near-market data)	VERBUND Thermal Power GmbH & Co KG in Liqu. budgets (based mainly on near-market data)
Volume	Optimisation model with primary inputs: installed capacity, heat extraction (maximum 400 MW) and efficiency at full capacity (58.8%)	Optimisation model with primary inputs: installed capacity, heat extraction (maximum 400 MW) and efficiency at full capacity (58.8%)
Price	External price forecasts (see: Accounting policies); temporarily expected revenue from the grid reserve, congestion management, redispatch, estimates of operating, maintenance and decommissioning costs by the responsible managers	External price forecasts ¹ (see: Accounting policies); temporarily expected revenue from the grid reserve, congestion management, redispatch, estimates of operating, maintenance and decommissioning costs by the responsible managers
Planning period	Total capacity averaging around 100,000 equivalent operating hours or until 2040 (dependent on earlier entry)	Total capacity averaging around 100,000 equivalent operating hours or until 2040 (dependent on earlier entry)
Key measurement assumptions	Development of clean spark spreads, discount rate, temporarily expected revenue from congestion management and redispatch	Development of clean spark spreads, discount rate, temporarily expected revenue from grid reserve, congestion management and redispatch
Discount rate	WACC after taxes: 4.75%	WACC after taxes: 5.00%
Recoverable amount	€24.7m	€109.0m
Impairment losses and reversal of impairment losses in the period ²	€– 15.9m	€80.3m

¹ The impairment tests were based on the price forecasts of two information service providers in the energy market. In contrast to the preceding measurements, a lower scenario has been applied in the price forecast of one of the two information service providers since 31 December 2017 in order to reflect internal expectations with respect to the long-term electricity price trend. Without this change in the estimate, the recoverable amount of the Mellach combined cycle gas turbine power plant would have been €11.7m higher as at 31 December 2017. // ² The reversal of impairment losses in the 2017 reporting period (previous year: impairment loss) was reduced by the change in accrued government grants in the amount of €2.1m (previous year: €0.4m). A reversal of impairment losses in the amount of €39.2m was already recognised on 30 September 2017 in the 2017 reporting period. As at 31 December 2017, the reversal of impairment losses recognised during the year increased to €80.3m.

Sensitivity analysis for the Mellach combined cycle gas turbine power plant 31/12/2017¹

	Value assigned to the key valuation assumption	Change in key valuation assumptions	Effects on the carrying amounts of assets
Clean spark spread ²	50.4 €/MWh	± 5%	€+ 10.1m €- 10.1m
Discount rate	5.00%	± 0.25 pp	€- 2.0m €+ 2.0m
Temporarily expected revenue from the grid reserve, congestion management and redispatch	- ³	± 10%	€+ 19.1m €- 20.5m

¹ In the sensitivity analysis, one key measurement assumption was changed at a time while the other factors of influence remained constant. However, in reality changes to the key measurement assumptions can also occur simultaneously. This can result in the amplification or (at least partial) neutralisation of the effects. // ² The indicated clean spark spread relates to the average for the years 2025–2030. The sensitivity analysis varies the clean spark spread steadily over time up to the planning horizon. // ³ A statement of the value assigned to the temporarily expected revenue from the grid reserve, congestion management and redispatch is omitted due to the currently ongoing bidding process for the grid reserve.

Sensitivity analysis for the Mellach combined cycle gas turbine power plant 31/12/2016¹

	Value assigned to the key valuation assumption	Change in key valuation assumptions	Effects on the carrying amounts of assets
Clean spark spread ²	€47.7/MWh	± 5%	€+ 13.2m €- 13.2m
Discount rate	4.75%	± 0.25 pp	€- 2.0m €+ 2.0m
Temporarily expected revenue from congestion management and redispatch	€88.0/MWh	± 10%	€+ 2.4m €- 2.4m

¹ In the sensitivity analysis, one key measurement assumption was changed at a time while the other factors of influence remained constant. However, in reality changes to the key measurement assumptions can also occur simultaneously. This can result in the amplification or (at least partial) neutralisation of the effects. // ² The indicated clean spark spread relates to the average for the years 2025–2030. The sensitivity analysis varies the clean spark spread steadily over time up to the planning horizon.

Impairment test Mittlere Salzach run-of-river power plant group

31/12/2017¹

Cash-generating unit	The run-of-river power plants of the Mittlere Salzach river group ² collectively represent a cash-generating unit due to the coordinated rise and fall of the depth of the river
Indications of impairment	Updated electricity price forecasts and updated discount rate
Basis for recoverable amount	Fair value (Level 3) less costs of disposal
Valuation technique	Net present value approach (DCF method)
Derivation of cash flow	VERBUND Hydro Power GmbH's budgets (based primarily on near-market data)
Volume	The annual output corresponding to the mean energy capability of 505 GWh
Price	External price forecasts ³ (see: Accounting policies); discounts for generation characteristics and hydrological forecast and availability risk; premium for additional proceeds from the sale of guarantees of origin (derived from quoted prices); estimate of maintenance costs by managers responsible

Impairment test Mittlere Salzach run-of-river power plant group

	31/12/2017¹
Planning period	Detailed planning phase: 6 years; rough planning phase: 17 years followed by a terminal value phase
Key measurement assumptions	Electricity price, discount rate
Discount rate	WACC after taxes: 5.00%
Recoverable amount	€135.2m
Impairment losses in the period ⁴	€21.4m

¹No impairment on the Mittlere Salzach run-of-river power plant group was recognised on 31 December 2016. // ²The Mittlere Salzach run-of-river power plant group comprises the following power plants: Bischofshofen, Kreuzbergmaut, St. Johann, St. Veit, Urreiting, Wallnerau-Salzachstufe, Wallnerau-Unterswasserstufe, Werfen/Pfarrwerfen. // ³The impairment tests were based on the price forecasts of two information service providers in the energy market. In contrast to the preceding measurements, a lower scenario has been applied in the price forecast of one of the two information service providers since 31 December 2017 in order to reflect internal expectations with respect to the long-term electricity price trend. Without this change in the estimate, the recoverable amount of the Mittlere Salzach run-of-river power plant group would have been €46.2m higher on 31 December 2017. // ⁴Impairment losses of the 2017 reporting period were reduced by the change in contributions to building costs in the amount of €0.6m.

Sensitivity analysis for the Mittlere Salzach run-of-river power plant group 31/12/2017¹

	Value assigned to the key valuation assumption	Change in key valuation assumptions	Effects on the carrying amounts of assets
Price of electricity ²	€43.3 per MWh	± 5%	€+ 13.3m €- 13.3m
Discount rate	5.00%	± 0.25 pp	€- 9.9m €+ 8.4m

¹In the sensitivity analysis, one key measurement assumption was changed at a time while the other factors of influence remained constant. However, in reality changes to the key measurement assumptions can also occur simultaneously. This can result in the amplification or (at least partial) neutralisation of the effects. // ²The electricity price shown relates to the year 2025. The sensitivity analysis varies the price of electricity steadily over time up to the planning horizon.

Impairment test – Ashta Beteiligungsverwaltung GmbH

	31/12/2016	31/12/2017
Cash-generating unit	VERBUND and EVN AG joint venture that holds 100% of the interest in Energji Ashta Shpk, which in turn operates a two-stage Hydromatrix power plant (installed capacity: 53 MW) in Albania	VERBUND and EVN AG joint venture that holds 100% of the interest in Energji Ashta Shpk, which in turn operates a two-stage Hydromatrix power plant (installed capacity: 53 MW) in Albania
Indications of a (reduction in) impairment	Updated electricity price forecasts and updated discount rate	Updated electricity price forecasts and updated discount rate
Basis for recoverable amount	Fair value (Level 3) less costs of disposal	Fair value (Level 3) less costs of disposal
Valuation technique	Net present value approach (DCF method)	Net present value approach (DCF method)
Derivation of cash flow	Budgets of Energji Ashta Shpk	Budgets of Energji Ashta Shpk
Volume	The annual output corresponding to the mean energy capability of 242 GWh	The annual output corresponding to the mean energy capability of 242 GWh

Impairment testing of equity-accounted interests

Impairment test – Ashta Beteiligungsverwaltung GmbH

	31/12/2016	31/12/2017
Price	2017–2027: Electricity prices based on the purchase agreement with KESH 2028–2043: External; price forecasts ¹	2018–2027: Electricity prices based on the purchase agreement with KESH 2028–2043: External; price forecasts ¹
Planning period	Detailed planning phase: 1 year; rough planning phase: 26 years (long-term reinvestment, repair and maintenance cycles for hydropower plants)	Detailed planning phase: 1 year; rough planning phase: 25 years (long-term reinvestment, repair and maintenance cycles for hydropower plants)
Key measurement assumptions	Electricity price forecasts and discount rate	Electricity price forecasts and discount rate
Discount rate	WACC after taxes (2017–2027): 9.50% WACC after taxes (2028–2043): 10.25%	WACC after taxes (2018–2027): 10.50% WACC after taxes (2028–2043): 10.50%
Recoverable amount ²	€–15.8m	€–19.6m
Impairment or reversal of impairment losses for the	€5.0m	€–4.1m

¹ The impairment tests were based on the price forecasts of two information service providers in the energy market. In contrast to the preceding measurements, a lower scenario has been applied in the price forecast of one of the two information service providers since 31 December 2017 in order to reflect internal expectations with respect to the long-term electricity price trend. Without this change in the estimate, the recoverable amount of Ashta Beteiligungsverwaltung GmbH would have been €2.0m higher on 31 December 2017. // ² The carrying amount of the equity interest in Ashta Beteiligungsverwaltung GmbH was reduced to zero in the 2013. However, VERBUND also holds non-current loans to Ashta Beteiligungsverwaltung GmbH which, based on their economic substance, represent an increase in the net investment in Ashta Beteiligungsverwaltung GmbH.

Measurement of the long position: Gemeinschaftskraftwerk Inn GmbH

Effective 22 August 2014, VERBUND sold 40% of its 50% equity interest in Gemeinschaftskraftwerk Inn GmbH to TIWAG-Tiroler Wasserkraft AG. As part of this transaction, TIWAG-Tiroler Wasserkraft AG granted VERBUND a put and a call option: VERBUND can sell its remaining 10% equity interest in Gemeinschaftskraftwerk Inn GmbH to TIWAG-Tiroler Wasserkraft AG or increase its 10% equity interest to 25% between 1 June 2018 and 30 June 2018 by acquiring shares from TIWAG-Tiroler Wasserkraft AG. The strike price for the two options corresponds to the investment costs incurred up to that point plus interest for the power plant joint venture on the Inn River. The put option is treated as a hedging instrument for the hedging of a highly probable forecast transaction (cash flow hedge).

The significant non-observable input factors underlying the determination of fair value included electricity price forecasts and the discount rate (for calculating the value of the underlying asset).

Sensitivity analysis for significant, non-observable input factors 31/12/2017¹

	Assumption	Change in assumption	If assumption increases, financial asset changes by ²	If assumption decreases, financial asset changes by ²
Price of electricity ³	€43.3 €/MWh	± 5%	–2.2	2.2
Discount rate	5.00%	± 0.25 pp	2.8	–3.3

¹ In the sensitivity analysis, one non-observable input factor was changed at a time while the other factors of influence remained constant. However, in reality changes in the non-observable inputs can also occur simultaneously. This can result in the amplification or (at least partial) neutralisation of the effects. // ² The change in the financial asset relates only to the put-option. Therefore, it is to be recognised as a measurement of cash flow hedges. // ³ The electricity price shown relates to the year 2025. The sensitivity analysis varies the price of electricity steadily over time up to the planning horizon.

Sensitivity analysis for significant non-observable input factors 31/12/2016¹

€m

	Assumption	Change in assumption	If assumption increases, financial asset changes by ²	If assumption decreases, financial asset changes by ²
Price of electricity ²	€44.7/MWh	± 5%	4.5	-3.7
Discount rate	4.75%	± 0.25 pp	-3.2	6.0

¹In the sensitivity analysis, one non-observable input factor was changed at a time while the other factors of influence remained constant. However, in reality changes in the non-observable inputs can also occur simultaneously. This can result in the amplification or (at least partial) neutralisation of the effects. // ² The change in the financial asset relates only to the call option. Therefore, it is to be recognised in the financial result. // ³ The electricity price shown relates to the year 2025. The sensitivity analysis varies the price of electricity steadily over time up to the planning horizon.

Existing provisions for pensions and similar obligations as well as obligations from termination benefits (carrying amount as at 31 December 2017: €694.9m; previous year: €723.2m) were measured based on assumptions and estimates as at the reporting date. The key factors of influence included the discount rate, the estimated retirement age and the estimated life expectancy as well as future increases in salaries and pension benefits:

Measurement of pensions and similar obligations and statutory termination benefits

Actuarial assumptions for pension obligations

	2016	2017
Discount rate or expected rate of return from plan assets	1.50%	1.50%
Pension increases	1.75%	1.75%
Salary increases	1.75%	1.75%
Employee turnover	None	None
Longevity based on life table	Pagler & Pagler AVÖ 2008-P	Pagler & Pagler AVÖ 2008-P

Actuarial assumptions for obligations similar to pensions

	2016	2017
Discount rate	1.75%	1.75%
Employee turnover (depending on duration of employment)	0.0%–4.0%	0.0%–4.0%
Trend of contributions based on hospital cost index for new contracts (with participation)/old contracts (without participation)	4.0%–6.5%	4.0%–6.5%
Longevity based on life table	Pagler & Pagler AVÖ 2008-P	Pagler & Pagler AVÖ 2008-P

Actuarial assumptions for termination benefit obligations

	2016	2017
Discount rate	1.50%	1.50%
Salary increases	1.75%	1.75%
Employee turnover (depending on duration of employment)	0.0%–4.0%	0.0%–4.0%
Longevity based on life table	Pagler & Pagler AVÖ 2008-P	Pagler & Pagler AVÖ 2008-P

VERBUND is exposed to investment risk, interest rate risk, life expectancy risk and salary risk as well as the risk of price increases and employee turnover risk based on the existing pension and similar obligations as well as obligations from statutory termination benefits. Investment risk is reduced by the investment strategy, which is based on the requirements of the Austrian Pension Fund Act (Pensionskassengesetz, PKG) and the corresponding regulations of the Austrian Financial Market Authority (FMA). Nevertheless, investment income below the level of returns on first class fixed interest corporate bonds can lead to an increase in obligations. A decrease in returns on first class fixed interest corporate bonds, an increase in life expectancy, salary increases and price increases in the area of medical care would also lead to an increase in obligations. Furthermore, obligations would increase if the future actual employee turnover rate were to be lower than currently anticipated.

The following sensitivity analyses for pensions and similar obligations as well as obligations from termination benefits show the effects resulting from changes in significant actuarial assumptions on the obligations. One significant factor of influence was changed in each case, while the remaining factors were held constant. However, in reality it is rather unlikely for changes in the primary factors of influence to occur in isolation. The change in the obligation was calculated in a manner comparable with the calculation of the actual obligation based on the projected unit credit method (PUC method) in accordance with IAS 19.

Sensitivity analysis for net pension liability 2017

	Change in assumption in percentage points or years	If assumption increases, change in net liability of	If assumption decreases, change in net liability of
Discount rate	± 0.25	-2.99%	3.16%
Pension increases	± 0.50	6.44%	-5.84%
Longevity based on life table	± 1 year	5.63%	-5.54%

Sensitivity analysis for obligations similar to pensions 2017

	Change in assumption in percentage points or years	If assumption increases, change in obligation of	If assumption decreases, change in obligation of
Discount rate	± 0.25	-4.21%	4.49%
Trend of contributions based on hospital cost index	± 0.50	8.91%	-7.93%
Longevity based on life table	± 1 year	6.30%	-5.62%

Sensitivity analysis for termination benefit obligations 2017

	Change in assumption in percentage points or years	If assumption increases, change in obligation of	If assumption decreases, change in obligation of
Discount rate	± 0.25	-1.82%	1.88%
Salary increases	± 0.50	3.71%	-3.52%
Longevity based on life table	± 1 year	0.06%	-0.07%

Sensitivity analysis for net pension liability 2016

	Change in assumption in percentage points or years	If assumption increases, change in net liability of	If assumption decreases, change in net liability of
Discount rate	± 0.25	-3.02%	3.19%
Pension increases	± 0.50	6.51%	-5.90%
Longevity based on life table	± 1 year	5.27%	-5.42%

Sensitivity analysis for obligations similar to pensions 2016

	Change in assumption in percentage points or years	If assumption increases, change in obligation of	If assumption decreases, change in obligation of
Discount rate	± 0.25	-4.33%	4.63%
Trend of contributions based on hospital cost index	± 0.50	9.17%	-7.65%
Longevity based on life table	± 1 year	5.73%	-5.70%

Sensitivity analysis for termination benefit obligations 2016

	Change in assumption in percentage points or years	If assumption increases, change in obligation of	If assumption decreases, change in obligation of
Discount rate	± 0.25	-1.91%	1.97%
Salary increases	± 0.50	3.89%	-3.68%
Longevity based on life table	± 1 year	0.06%	-0.07%

Provisions for dismantling and decontamination costs (carrying amount as at 31 December 2017: €39.3m; previous year: €26.6m) were measured based on assumptions and estimates made on the reporting date. The primary factors of influence were the expected dismantling dates, any possible expert reports to ascertain the dismantling and decontamination costs or proceeds from the sale of scrap, the valorisation of these costs and the discount rate of 1.75% (previous year: 1.75%).

Measurement of provisions

Contingent liabilities

Contingent liabilities not recognised in VERBUND's balance sheet are assessed quarterly with respect to their probability of occurrence. If the outflow of resources embodying economic benefits is neither sufficiently probable to justify recognition of a provision nor unlikely, the relevant obligations are reported as contingent liabilities. The assessment is carried out by the managers responsible, taking account of market-related inputs (to the extent possible) and expert opinions (in individual cases).

Joint operation: Ennskraftwerke Aktiengesellschaft

Due to the circumstances and fact that Ennskraftwerke Aktiengesellschaft's operations are solely geared towards supplying both parties with electricity produced at production cost (including a fixed profit margin) and therefore the liabilities entered into by Ennskraftwerke Aktiengesellschaft can essentially only be settled through the payments flowing to it as a result of the sale of the electricity to the parties, the equity interest in Ennskraftwerke Aktiengesellschaft (equity interest ratio of VERBUND and Energie AG Oberösterreich: 50:50) must be classified as a joint operation. As a result, Ennskraftwerke Aktiengesellschaft is being included in the consolidated financial statements with the share of assets and liabilities and/or revenue and expenses attributable to VERBUND. The size of the share is determined based on the relationship of electricity deliveries to both parties. Ennskraftwerke Aktiengesellschaft owns and operates hydropower plants along the Enns and Steyr rivers. The ratio of electricity deliveries to the two parties differs from power plant to power plant. From a cost-benefit perspective, the assets and liabilities and/or revenue and expenses of Ennskraftwerke Aktiengesellschaft based on the average ratio of total electricity deliveries (VERBUND 62% and Energie AG Oberösterreich 38%) are included in VERBUND's consolidated financial statements.

Segment reporting

Segmentation

In accordance with Section 8(3) of the Austrian Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und organisationsgesetz, EIWOG), integrated electricity companies must publish separate balance sheets and income statements for electricity generation, electricity trading and supply activities as well as for transmission activities. However, in accordance with IFRS 8, VERBUND's segment reporting is to be oriented towards internal management and reporting (management approach). The identification of operating segments and the contents of the report therefore correspond to the structure of internal reporting to the Executive Board as the chief operating decision maker, which results in the following identification of operation segments:

Hydropower and wind generation technologies are brought together under the Renewable generation segment. The Sales segment comprises all trading and sales activities, and the Grid segment comprises all activities of Austrian Power Grid (APG). The new services for the electricity market of the future (e.g. convenience services, energy optimisation and electromobility) are reported under the Energy services segment. Electricity and heat generation from coal and gas are reported under the Thermal generation segment. The primarily intragroup business activities of VERBUND Services GmbH are reported under the Services segment. Interests accounted for using the equity method which have not been allocated to any other segment are reported under the Equity interests segment. This currently only comprises the equity interest in KELAG-Kärntner Elektrizitäts-Aktiengesellschaft.

The Energy services, Thermal generation, Equity interests and Services segments have been combined in the “All other segments” category in the segment reporting below because they fall below the quantitative thresholds. The “Reconciliation/consolidation” column includes the activities of VERBUND AG and VERBUND Finanzierungsservice GmbH as well as unconsolidated equity interests that have not been allocated to a segment and consolidations which must be carried out at Group level.

The internal measurement of the operating segments’ performance is based primarily on earnings before interest, tax, depreciation and amortisation (EBITDA). EBITDA for each operating segment corresponds to the aggregate EBITDA of the subsidiaries included in the respective segment, taking inter-segmental revenue and expenses into account. Transactions between segments are carried out at arm’s length.

Furthermore, the result from interests accounted for using the equity method is of significance for the Equity interests segment.

The measure used internally for the reporting of segment assets is capital employed. Capital employed corresponds to the total assets of an operating segment, net of those assets that do not (yet) contribute to VERBUND’s performance and commercialisation processes (for instance, advance payments made, plants under construction, investments under closed items on the balance sheet) and less non-interest-bearing debt.

Other material non-cash items included in the operating result in addition to depreciation of property, plant and equipment and amortisation of intangible assets include, in particular, measurement effects from derivatives and hedging relationships in the energy area, reversals of the deferred income item from contributions to building costs, non-cash changes in provisions and any write-downs of primary energy sources in inventory.

Additions to intangible assets and property, plant and equipment include capital expenditure as well as increases due to any business acquisitions. Additions to equity interests accounted for using the equity method include capital increases as well as any share purchases.

All segment data are measured in accordance with IFRSs.

Notes to the
operating segment
data

Operating segment data

Operating segment data						€m
	Renewable generation	Sales	Grid	All other segments	Reconciliation/consolidation	Total Group
2017						
External revenue	177.8	1,993.5	713.7	25.0	3.3	2,913.2
Internal revenue	788.2	290.0	74.2	247.4	-1,399.7	0.0
Total revenue	965.9	2,283.5	787.9	272.4	-1,396.4	2,913.2
EBITDA	565.0	108.0	158.6	120.7	-30.0	922.3
Depreciation	-252.0	-1.0	-78.2	-9.6	-0.4	-341.3
Effects from impairment tests (operating result)	-244.1	0.0	0.0	63.1	0.0	-180.9
Other material non-cash items	45.6	-7.4	13.1	30.0	1.8	83.1
Result from interests accounted for using the equity method	0.5	0.0	0.3	27.2	0.0	27.9
Effects from impairment tests (financial result)	-4.1	0.0	0.0	-1.1	0.0	-5.2
Capital employed	6,769.7	182.5	1,257.1	513.7	-86.2	8,636.8
of which carrying amount of interests accounted for using the equity method	2.6	0.0	1.5	308.9	0.0	313.0
Additions to intangible assets and property, plant and equipment	112.8	1.2	115.3	26.4	1.3	257.0
Additions to interests accounted for using the equity method	0.0	0.0	0.0	13.4	0.0	13.4

Operating segment data

	€m					
	Renewable generation	Sales	Grid	All other segments	Reconciliation/consolidation	Total Group
2016						
External revenue	124.7	2,010.6	617.7	40.0	3.0	2,795.9
Internal revenue	811.1	188.6	94.4	157.1	-1,251.2	0.0
Total revenue	935.8	2,199.1	712.1	197.0	-1,248.2	2,795.9
EBITDA	542.8	120.4	248.3	165.2	-32.5	1,044.2
Depreciation	-252.8	-1.8	-74.7	-9.5	-0.6	-339.3
Effects from impairment tests (operating result)	-74.9	0.0	0.0	-14.9	0.0	-89.8
Other material non-cash items	69.4	-61.9	12.8	153.8	-11.9	162.2
Result from interests accounted for using the equity method	1.5	0.0	0.1	28.9	0.0	30.5
Effects from impairment tests (financial result)	5.0	0.0	0.0	0.0	0.0	5.0
Capital employed	7,107.6	203.5	1,239.1	355.8	-25.2	8,880.8
of which carrying amount of interests accounted for using the equity method	2.5	0.0	1.3	278.1	0.0	281.9
Additions to intangible assets and property, plant and equipment	115.5	0.7	147.3	5.5	0.7	269.7
Additions to interests accounted for using the equity method	0.0	0.0	0.0	1.2	0.0	1.2

Reconciliation

EBITDA in the total column corresponds to EBITDA in VERBUND's income statement; therefore, the reconciliation to profit before tax can be taken from the income statement.

The reconciliation from the total amount for capital employed to VERBUND's total assets results as follows:

Reconciliation from capital employed to total assets		€m
	2016	2017
Capital employed	8,880.8	8,636.8
Assets not used in the performance and commercialisation process	547.8	520.1
Non-interest-bearing debt	2,109.6	2,126.7
Total assets of VERBUND	11,538.2	11,283.6

Entity-wide disclosures

Under IFRS 8, entity-wide disclosures include geographical segment reporting for revenue (based on the point of delivery) and non-current assets. In addition, information on major customers must be provided.

VERBUND does not have any customers for whom revenue equals or exceeds 10% of total revenue.

Geographical segment reporting: revenue		€m
	2016	2017
Domestic deliveries of electricity	1,001.5	920.9
Electricity deliveries abroad	1,212.4	1,449.3
of which in Germany	1,023.1	1,278.9
of which in other EU countries	179.0	167.9
of which in other countries	10.3	2.5
Electricity revenue	2,213.9	2,370.2
Domestic grid services	303.2	307.4
Foreign grid services	91.8	109.0
of which in EU member states	89.6	109.0
of which in other countries	2.3	0.0
Grid revenue	395.0	416.4
Domestic other revenue	181.5	120.7
Foreign other revenue	5.5	6.0
Other revenue	187.0	126.6
Total revenue	2,795.9	2,913.2

Geographical segment reporting: non-current assets

	€m	
	2016	2017
Intangible assets and property, plant and equipment	9,821.9	9,546.9
of which in Austria	6,814.4	6,805.8
of which in Germany	2,899.9	2,641.4
of which in other EU countries	107.6	99.7
Interests accounted for using the equity method	281.9	313.0
of which in Austria	281.4	313.0
of which in Germany	0.5	0.0
of which in other countries ¹	0.0	0.0

¹ This includes the equity interest in (Austrian) Ashta Beteiligungsverwaltung GmbH, which holds an equity interest in the Albanian entity Energji Ashta Shpk.

Notes on the income statement

Electricity revenue by customer areas

	€m			
	2016 Domestic	2017 Domestic	2016 Foreign	2017 Foreign
Electricity deliveries to resellers	573.8	574.4	373.6	495.1
Electricity deliveries to traders	70.4	101.1	465.2	570.6
Electricity deliveries to consumers	357.3	245.4	373.6	383.6
Electricity revenue^{1, 2}	1,001.5	920.9	1,212.4	1,449.3

¹ Agreements between VERBUND and Austrian grid operators concerning the so-called reimbursement model took effect in the 2017 reporting period. Under this model, energy suppliers and grid operators pursue payment on outstanding receivables from consumers separately. This means that VERBUND is not exposed to a risk of default with respect to grid fees recharged to consumers. As a result, VERBUND has been classified as an agent of the grid operator in connection with the recharged grid fees, and electricity revenue of €172.6m was therefore shown netted against the corresponding grid purchase expenses. // ² In order to present the business performance more accurately, revenue from energy trading is shown as a net amount, i. e. amounts realised and measured are each presented net of expenses. Without this net presentation, electricity revenue (and expenses for the purchase of electricity) would have been €2,669.0m higher in the 2017 reporting period (previous year: €1,139.7m).

(1)
Electricity revenue

Grid revenue by customer areas

	€m			
	2016 Domestic	2017 Domestic	2016 Foreign	2017 Foreign
Electric utilities	246.0	251.7	4.7	8.0
Industrial clients	18.3	12.1	0.0	0.0
Other	38.9	43.5	87.2	101.0
Grid revenue	303.2	307.4	91.8	109.0

(2)
Grid revenue

(3) Other revenue	Other revenue	€m	
		2016	2017
	Revenue from the sale of gas ^{1,2}	102.0	58.5
	Revenue from the sale of proof of origin and green electricity certificates	26.5	24.1
	Revenue from district heating deliveries	32.2	17.4
	Revenue from consulting or planning services as well as from other services	10.7	13.8
	User and management fees	6.5	6.7
	Provision of personnel	2.9	2.7
	Revenue from the sale of waste products	1.1	1.2
	Revenue from the sale of emission rights	4.0	1.0
	Other	1.1	1.3
	Other revenue	187.0	126.6

¹ In order to present the business performance more accurately, revenue from energy trading is shown as a net amount, i.e. amounts realised and measured are each presented net of expenses. Without this net presentation, revenue from the sale of gas (and expenses for the purchase of gas) would have been €1,325.6m higher in the 2017 reporting period (previous year: €968.2m) // ² Agreements between VERBUND and Austrian grid operators concerning the so-called reimbursement model took effect in the 2017 reporting period. Under this model, energy suppliers and grid operators pursue payment on outstanding receivables from consumers separately. This means that VERBUND is not exposed to a risk of default with respect to grid fees recharged to consumers. As a result, VERBUND has been classified as an agent of the grid operator in connection with the recharged grid fees, and revenue from the sale of gas in the amount of €20.1m has therefore been shown netted against the corresponding grid purchase expenses.

(4) Other operating income	Other operating income	€m	
		2016	2017
	Changes in inventory and own work capitalised	25.9	29.4
	Income from the change in status as a result of the sale of shares of SMATRICS GmbH & Co KG	0.0	22.7
	Income from various goods and services	13.8	5.8
	Income from the disposal of property, plant and equipment and intangible assets	3.3	4.6
	Income from (insurance) compensation	3.8	3.3
	Reversals of contributions to building costs	5.6	3.3
	Rent and lease income	2.3	2.3
	Income from the sale of materials	0.6	0.6
	Income from the settlement of open issues between VERBUND and OMV Gas Marketing & Trading GmbH (formerly: EconGas GmbH)	118.0	0.0
	Other	5.8	6.4
	Other operating income	179.0	78.4

Expenses for electricity, grid, gas and certificates purchases	€m	
	2016	2017
Expenses for electricity purchases ¹	962.5	1,276.6
Expenses for grid purchases (system use)	253.4	94.7
Expenses for gas purchases ^{1, 2}	105.6	54.5
Purchase of emission rights (trade)	4.0	1.3
Expenses for proof of origin and green electricity certificate purchases	2.6	1.1
Expenses for electricity, grid, gas and certificates purchases	1,328.1	1,428.2

**(5)
Expenses for
electricity, grid, gas
and certificates
purchases**

¹ Agreements between VERBUND and Austrian grid operators concerning the so-called reimbursement model took effect in the 2017 reporting period. Under this model, energy suppliers and grid operators pursue payment on outstanding receivables from consumers separately. This means that VERBUND is not exposed to a risk of default with respect to grid fees recharged to consumers. As a result, VERBUND has been classified as an agent of the grid operator in connection with the recharged grid fees, and electricity revenue in the amount of €172.6m as well as revenue from the sale of gas in the amount of €20.1m has therefore been shown netted against the corresponding grid purchase expenses. // ² VERBUND and OMV Gas Marketing & Trading GmbH (formerly: EconGas GmbH) have entered into a long-term natural gas supply agreement which, as a consequence of its management, had to be classified as a freestanding derivative and recognised at fair value through profit or loss. Expenses from the measurement of the freestanding derivative were recognised in the amount of €9.8m in the previous year up until the settlement of outstanding issues between VERBUND and OMV Gas Marketing & Trading GmbH in connection with gas deliveries for the Mellach combined cycle gas turbine power plant.

Fuel expenses and other usage-/revenue-dependent expenses	€m	
	2016	2017
Use of natural gas	41.0	71.6
Other revenue-dependent expenses	13.2	19.4
Use of coal and heating oil	1.1	14.9
Emission rights acquired in exchange for consideration	5.5	7.2
Other usage-dependent expenses	0.9	1.1
Fuel expenses and other usage-/revenue-dependent expenses	61.7	114.2

**(6)
Fuel expenses and
other usage-
/revenue-dependent
expenses**

Personnel expenses	€m	
	2016	2017
Wages and salaries	243.1	237.7
Expenses for social security contributions as required by law as well as income-based charges and compulsory contributions	54.9	53.4
Other social expenses	3.6	3.6
Subtotal	301.6	294.6
Expenses for pensions and similar obligations	6.6	14.3
Expenses for termination benefits	5.4	4.7
Personnel expenses	313.6	313.6

**(7)
Personnel expenses**

The pension fund contributions to the defined contribution investment and risk association amounted to €7.3m (previous year: €7.5m) in the 2017 reporting period. Expenses for termination benefits included a total of €1.5m (previous year: €1.4m) in contributions to an employee pension fund.

(8) Other operating expenses	Other operating expenses		€m
		2016	2017
	Third-party maintenance of power plants and line systems	66.8	77.9
	Other third-party services received	23.1	17.4
	Advertising expenses	15.8	16.2
	IT expenses	12.8	14.5
	Expenses for supervision by E-Control	12.1	14.0
	Costs for personnel provided, temporary personnel	9.5	10.1
	Travel expenses, advanced training	9.3	9.2
	Legal, consulting and audit expenses	12.7	7.4
	Rental, lease expenses	7.2	6.9
	Material costs for motor vehicle operation and maintenance	5.9	6.1
	Operating costs	4.7	5.2
	Purchased telecommunication services	3.7	4.1
	Fees	4.9	3.9
	Insurance	4.1	3.7
	Concession fees	2.7	2.7
	Usage fees	2.5	2.7
	Membership fees	3.4	2.6
	Compensation payments	6.4	2.5
	Expenses from the disposal of property, plant and equipment and intangible assets	2.5	0.3
	Reversal of provisions	-0.6	-5.2
	Other	17.5	10.8
	Other operating expenses	227.2	213.2

(9) Amortisation of intangible assets and depreciation of property, plant and equipment	Depreciation of property, plant and equipment and amortisation of intangible assets		€m
		2016	2017
	Depreciation of property, plant and equipment	332.5	335.0
	Amortisation of intangible assets	6.9	6.3
	Depreciation of property, plant and equipment and amortisation of intangible assets	339.3	341.3

Impairment losses	€m	
	2016	2017
Goodwill of the Inn River power plant group	0.0	153.8
Power plants of the Grenzkraftwerke power plant group	0.0	57.7
Mittlere Salzach power plant group	0.0	21.9
Accrued contributions to building costs for the Mittlere Salzach power plant group	0.0	-0.6
Mellach district heating plant ¹	0.0	10.5
Gries run-of-river power plant ²	0.0	6.2
Deferred contributions to building costs for the Gries run-of-river power plant	0.0	-1.0
Pernegg run-of-river power plant ²	0.0	5.9
Romanian windfarms	57.2	0.0
Gössendorf and Kalsdorf run-of-river power plants	17.6	0.0
Deferred grants for the Gössendorf and Kalsdorf run-of-river power plants	-1.0	0.0
Mellach combined cycle gas turbine power plant	15.9	0.0
Deferred contributions to building costs for the Mellach combined cycle gas turbine power plant	-0.4	0.0
Other impairment losses	1.7	4.6
Impairment losses	90.8	259.1

(10)
Impairment losses
and reversals of
impairment losses

¹ Provisions were allocated for a dismantling obligation in the 2017 reporting period. Since this increased the carrying amount of the Mellach district heating plant, its recoverability had to be tested. // ²The recoverability of the Austrian run-of-river power plants had to be tested based on updated electricity price forecasts as well as an updated discount rate. The impairment tests were based on the price forecasts of two information service providers in the energy market. In contrast to the preceding measurements, a lower scenario has been applied in the price forecast of one of the two information service providers since 31 December 2017 in order to reflect internal expectations with respect to the long-term electricity price trend. Without this change in the estimate, the recoverable amount of the Gries run-of-river power plant would have been €4.4m higher on 31 December 2017, while the recoverable amount of the Pernegg run-of-river power plant would have been €25.9m higher.

The reversals of impairment losses of the 2017 reporting period related entirely to the Mellach combined cycle gas turbine power plant (see: Discretionary judgements and key assumptions concerning the future).

In the 2017 reporting period and the previous year, the result from interests accounted for using the equity method can be mainly attributed to the positive result of KELAG-Kärntner Elektrizitäts-Aktiengesellschaft, which operates internationally and also provides electricity, gas and heat to customers throughout Austria with a focus on Carinthia.

(11)
Result from interests
accounted for using
the equity method

Other result from equity interests	€m	
	2016	2017
Income from equity interests and unconsolidated subsidiaries	12.3	9.1
Income from the disposal of equity interests and unconsolidated subsidiaries	0.0	2.5
Expenses arising from equity interests and unconsolidated subsidiaries	-4.7	-0.4
Expenses from the disposal of equity interests and unconsolidated subsidiaries	-1.6	0.0
Other result from equity interests	6.0	11.2

(12)
Other result from
equity interests

(13)	Interest income	€m
Interest income		2016 2017
	Interest from investments under closed items on the balance sheet	28.9 29.3
	Interest from money market transactions	0.2 0.1
	Other interest and similar income	2.0 6.7
	Interest income	31.1 36.0
(14)	Interest expenses	€m
Interest expenses		2016 2017
	Interest for bonds	50.5 50.4
	Interest for financial liabilities under closed items on the balance sheet	28.9 29.3
	Interest for other liabilities from electricity supply commitments	17.1 16.6
	Interest for bank loans	21.6 14.0
	Net interest expense on personnel-related liabilities	15.5 11.0
	Interest on a share redemption obligation	6.3 6.5
	Interest for other non-current provisions	2.1 1.7
	Profit attributable to limited partners	-0.3 -0.3
	Borrowing costs capitalised in accordance with IAS 23	-12.3 -5.0
	Other interest and similar expenses	6.0 5.6
	Interest expenses	135.2 129.6
(15)	Other financial result	€m
Other financial result		2016 2017
	Measurement of an obligation to return an interest ¹	19.4 31.7
	Income from financial instruments	2.6 2.5
	Foreign exchange gains	1.6 0.2
	Foreign exchange losses	-0.5 -0.1
	Measurement of derivatives in the finance area	-1.0 2.9
	Expenses arising from financial instruments	-4.8 0.0
	Measurement of the long position: Gemeinschaftskraftwerk Inn GmbH	-13.7 -4.3
	Other	0.7 5.2
	Other financial result	4.3 38.2

¹ The measurement was based on the price forecasts of two information service providers in the energy market. In contrast to the preceding measurements, a lower scenario has been applied in the price forecast of one of the two information service providers since 31 December 2017 in order to reflect internal expectations with respect to the long-term electricity price trend. Without this change in the estimate, the carrying amount of the obligation to return an interest would have been €42.2m higher and instead of income, the measurement would have resulted in an expense in the amount of €10.4m.

The result from the measurement of an obligation to return an interest relates to the obligation to transfer 50% of the interest in Donaukraftwerk Jochenstein AG back to the Federal Republic of Germany, specifically to the Free State of Bavaria. It results from the discounted change (with original effective interest rate) in fair value of the interest as at 31 December 2050.

The result from the measurement of the long position in Gemeinschaftskraftwerk Inn GmbH relates to the put and call option over 10% of the interest (put option) and 15% of the interest (call option) in Gemeinschaftskraftwerk Inn GmbH granted by TIWAG-Tiroler Wasserkraft AG (see: Discretionary judgements and key assumptions concerning the future).

As a rule, the changes in value of derivative financial instruments related to closed items on the balance sheet and the liabilities measured at fair value through profit or loss are, in principle, also recognised in other financial result. However, the net effects on profit or loss of these two items balance each other out and were therefore not included in the above table.

In the 2017 reporting period, the impairment loss (previous year: reversal of impairment losses) related primarily to the interest in Ashta Beteiligungsverwaltung GmbH accounted for using the equity method in the financial result (see: Discretionary judgements and key assumptions concerning the future).

(16)
Impairment losses
and reversals of
impairment losses

Taxes on income	€m	
	2016	2017
Current tax expenses ¹	-6.7	68.7
Future tax expense for subsequent taxation of transfers of losses from foreign members of the tax group	18.9	8.4
Changes in deferred income taxes	85.0	-0.1
Taxes on income	97.2	77.0

(17)
Taxes on income

¹ Current tax expenses include expenses from prior periods of €1.8m (previous year: income €35.7m).

The reasons for the difference between VERBUND's computed and recognised tax expense are as follows:

Tax reconciliation	€m	
	2016	2017
Computed income tax expense (25.0%)	139.2	94.6
Impairment testing of equity-accounted and other interests	-1.3	0.2
Impairment testing of property, plant and equipment	14.3	0.0
Disposal of equity interests	-0.4	0.0
Amortisation of goodwill under tax law	0.0	-2.9
Interests accounted for using the equity method	-7.6	-3.4
Tax-exempt investment income	-3.1	-5.8
Differing tax rates	-1.8	-6.1
Differences from other line items (each <€2m)	-2.6	-2.5
Income tax expenses for the period	136.8	74.1
Income tax expenses or income from prior periods (current and deferred) ¹	-39.5	2.9
Recognised income tax expenses	97.2	77.0
Effective tax rate	17.5%	20.3%

¹ The prior-period tax income resulted mainly from the goodwill amortisation in the tax accounts for the equity interest in VERBUND Innkraftwerke GmbH (2010–2013) and Innwerk AG (2015) including interest thereon.

(18)
Earnings per share

Determination of earnings per share	€m	
	2016	2017
Profit for the period	459.6	301.6
Profit for the period attributable to non-controlling interests	-35.1	-0.1
Group result	424.4	301.4
Weighted average number of shares in circulation	347,415,686	347,415,686
Earnings per share in €¹	1.22	0.87

¹ There were no options on the issue of new shares or other facts or circumstances that could have a diluting effect; therefore, basic and diluted earnings per share were the same.

Notes to the statement of comprehensive income

	€m			
	2016	2016	2017	2017
Reclassification adjustments to the income statement				
Differences from currency translation				
Measurement gains or losses recognised in equity	-1.1		-3.2	
Reclassification adjustment to the income statement	0.0	-1.1	0.0	-3.2
Measurements of available-for-sale financial instruments				
Measurement gains or losses recognised in equity	9.3		31.0	
Reclassification adjustment to the income statement	-0.5	8.8	0.0	31.0
Measurements of cash flow hedges				
Measurement gains or losses recognised in equity	-218.5		-153.6	
Reclassification adjustment to the income statement	-22.8		90.5	
Basis adjustments	0.0	-241.2	0.0	-63.1
Other comprehensive income from interests accounted for using the equity method				
Measurement gains or losses recognised in equity	0.3		0.2	
Reclassification adjustment to the income statement	0.0		0.0	
Basis adjustments	0.0	0.3	0.0	0.2
Other comprehensive income		-233.3		-35.2

(19)
Reclassification
adjustments to the
income statement

(20)
Taxes on income on
other comprehensive
income

Taxes on income on other comprehensive income							€m
	2016 Before taxes	2016 Taxes	2016 After taxes	2017 Before taxes	2017 Taxes	2017 After taxes	
Remeasurements of the net defined benefit liability	-17.3	4.6	-12.7	6.6	-1.6	5.0	
Other comprehensive income from interests accounted for using the equity method	-2.2	-	-2.2	5.0	-	5.0	
Total of items that will not be reclassified subsequently to the income statement	-19.4	4.6	-14.9	11.6	-1.6	10.0	
Differences from currency translation	-1.1	-	-1.1	-3.2	-	-3.2	
Measurements of available-for-sale financial instruments	8.8	-2.3	6.5	31.0	-7.8	23.2	
Measurements of cash flow hedges	-241.2	60.3	-180.9	-63.1	15.8	-47.3	
Other comprehensive income from interests accounted for using the equity method	0.3	-	0.3	0.2	-	0.2	
Total of items that will be reclassified subsequently to the income statement	-233.3	58.1	-175.2	-35.2	8.0	-27.2	
Other comprehensive income	-252.7	62.6	-190.1	-23.5	6.3	-17.2	

Notes to the balance sheet

Intangible assets	€m		
	Concessions, rights, licences	Goodwill	Total
2017			
Cost as at 1/1	148.8	766.8	915.6
Foreign exchange differences	-0.1	0.0	-0.1
Additions	26.0	0.0	26.0
Disposals	-3.5	0.0	-3.5
Reclassifications	-0.4	0.0	-0.4
Cost as at 31/12	170.8	766.8	937.6
Accumulated amortisation as at 1/1	79.0	25.3	104.3
Foreign exchange differences	-0.1	0.0	-0.1
Depreciation	6.3	0.0	6.3
Impairment losses	0.0	153.8	153.8
Reversals of impairment losses	-0.2	0.0	-0.2
Disposals	-2.1	0.0	-2.1
Reclassifications	0.0	0.0	0.0
Accumulated amortisation as at 31/12	82.9	179.1	262.0
Net carrying amount as at 31/12	87.9	587.7	675.6
Net carrying amount as at 1/1	69.8	741.5	811.3

(21)
Intangible assets

Intangible assets	€m		
	Concessions, rights, licences	Goodwill	Total
2016			
Cost as at 1/1	135.6	766.8	902.4
Change in the basis of consolidation	0.5	0.0	0.5
Additions	14.4	0.0	14.4
Disposals	-1.5	0.0	-1.5
Reclassifications	-0.2	0.0	-0.2
Cost as at 31/12	148.8	766.8	915.6
Accumulated amortisation as at 1/1	72.3	25.3	97.6
Change in the basis of consolidation	-0.4	0.0	-0.4
Depreciation	6.9	0.0	6.9
Impairment losses	0.6	0.0	0.6
Disposals	-0.4	0.0	-0.4
Reclassifications	0.0	0.0	0.0
Accumulated amortisation as at 31/12	79.0	25.3	104.3
Net carrying amount as at 31/12	69.8	741.5	811.3
Net carrying amount as at 1/1	63.3	741.5	804.8

(22)
Property, plant and
equipment

Property, plant and equipment							€m
	Land and buildings	Machin- ery	Electrical instal- lations	Power lines	Office and plant equip- ment	Plants under construc- tion and projects	Total
2017							
Cost as at 1/1	7,759.1	4,593.7	3,639.6	1,319.7	176.4	247.3	17,735.4
Foreign exchange differences	-1.7	-6.8	-0.4	0.0	0.0	0.0	-8.9
Additions	25.2	11.3	37.9	9.3	10.7	136.4	231.0
Disposals	-0.7	-4.1	-18.7	-0.1	-5.3	-6.7	-35.5
Reclassifications	9.4	7.3	41.2	27.0	2.1	-86.6	0.4
Cost as at 31/12	7,791.4	4,601.4	3,699.8	1,355.9	183.9	290.4	17,922.5
Accumulated depreciation as at 1/1	3,075.7	2,571.7	2,217.0	722.7	128.9	9.2	8,724.8
Foreign exchange differences	-0.3	-5.9	-0.1	0.0	0.0	0.0	-6.3
Depreciation	90.8	93.4	113.6	25.3	12.0	0.0	335.0
Impairment losses	61.4	25.0	14.1	0.1	0.0	6.2	106.8
Reversals of impairment losses	-10.7	-53.4	-12.2	-2.7	0.0	-1.1	-80.1
Disposals	-0.1	-3.1	-14.5	0.0	-5.0	-6.4	-29.2
Reclassifications	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulated depreciation as at 31/12	3,216.7	2,627.8	2,317.7	745.3	135.8	8.0	9,051.2
Net carrying amount as at 31/12	4,574.6	1,973.6	1,382.0	610.6	48.1	282.4	8,871.3
Net carrying amount as at 1/1	4,683.5	2,022.0	1,422.7	597.0	47.5	238.1	9,010.7

Property, plant and equipment

	€m						
	Land and buildings	Machinery	Electrical installations	Power lines	Office and plant equipment	Plants under construction and projects	Total
2016							
Cost as at 1/1	7,531.0	4,462.2	3,441.0	1,316.5	177.5	630.3	17,558.1
Foreign exchange differences	-0.2	-0.9	-0.1	0.0	0.0	0.0	-1.2
Change in the basis of consolidation	-11.5	-0.1	4.3	0.0	-5.8	0.0	-13.1
Additions	26.5	21.5	69.2	1.4	9.7	127.0	255.3
Disposals	-2.2	-17.2	-38.4	0.0	-5.2	-0.8	-63.8
Reclassifications	215.6	128.1	163.5	1.9	0.3	-509.2	0.2
Cost as at 31/12	7,759.1	4,593.7	3,639.6	1,319.7	176.4	247.3	17,735.4
Accumulated depreciation as at 1/1	2,986.6	2,416.9	2,121.4	697.2	126.5	7.9	8,356.2
Foreign exchange differences	0.0	-1.1	0.0	0.0	0.0	0.0	-1.1
Change in the basis of consolidation	-9.7	-0.1	0.4	0.0	-5.1	0.0	-14.5
Depreciation	87.6	93.2	113.4	24.9	12.5	0.9	332.5
Impairment losses	14.1	71.0	5.5	0.5	0.0	0.4	91.6
Reversals of impairment losses	-1.0	0.0	0.0	0.0	0.0	0.0	-1.0
Disposals	-0.3	-9.2	-24.3	0.0	-5.1	0.0	-38.9
Reclassifications	-1.5	0.9	0.5	0.1	0.0	0.0	0.0
Accumulated depreciation as at 31/12	3,075.7	2,571.7	2,217.0	722.7	128.9	9.2	8,724.8
Net carrying amount as at 31/12	4,683.5	2,022.0	1,422.7	597.0	47.5	238.1	9,010.7
Net carrying amount as at 1/1	4,544.5	2,045.3	1,319.6	619.3	51.0	622.3	9,201.9

The additions can be presented in detail as follows:

Additions	€m	
	2016	2017
General overhaul of substations	11.2	21.9
Mayrhofen power plant: modernisation of impellers, Lower Tuxbach diversion	0.3	18.5
Automation of hydropower plants	14.6	15.3
General overhaul of power lines	22.3	15.0
Ybbs-Persenbeug power plant (modernisation of machinery and the control system)	14.7	8.0
Modernisation control system (Grid segment)	10.6	7.8
Kaprun grid area	18.5	6.7
Reißeck II power plant	25.2	5.9
Other additions (< €10.0m)	137.9	131.9
Total additions to property, plant and equipment	255.3	231.0

(23)
Interests accounted
for using the equity
method

Interests accounted for using the equity method	€m	
	2016	2017
Amortised cost as at 1/1	303.1	318.5
Additions	1.2	13.4
Dividends	-14.2	-14.2
Result from equity accounting	30.5	27.9
Other comprehensive income from equity accounting	-2.1	4.9
Change in consolidation method	0.0	-0.6
Amortised cost as at 31/12	318.5	349.9
Accumulated value adjustments as at 1/1	-57.5	-52.5
Impairment losses	0.0	-4.1
Reversals of impairment losses	5.0	0.0
Accumulated value adjustments as at 31/12	-52.5	-56.6
Net carrying amount as at 31/12	266.0	293.3
Net carrying amount as at 1/1	245.6	266.0
Net carrying amount as at 31/12	266.0	293.3
of which interests accounted for using the equity method	281.9	313.0
of which impairment losses on non-current loans	-15.8	-19.6

The additions relate mainly to SMATRICS GmbH & Co KG, which has been accounted for using the equity method since the sale of some of the interest on 6 December 2017 (see: Basis of consolidation).

The carrying amount of the equity interest in Ashta Beteiligungsverwaltung GmbH was reduced to zero in 2013 by the recognition of negative results from interests accounted for using the equity method and impairment losses. However, VERBUND still holds non-current loans to Ashta Beteiligungsverwaltung GmbH, which in their economic substance represent an increase of the net investment in Ashta Beteiligungsverwaltung GmbH. In the 2017 reporting period, the positive result from interests accounted for using the equity method in the amount of €0.3m (previous year: €1.4m)

increased the (residual) carrying amount of these non-current loans, whereas the recognised impairment decreased it by €4.1m (previous year: increase of €5.0m due to the recognition of a reversal of impairment losses). A summary of aggregated financial information for the equity-accounted joint ventures and associates is presented in the section entitled Subsidiaries, joint ventures and associates of VERBUND.

Other equity interests	€m		
	Interests in unconsolidated subsidiaries	Other equity interests	Total
2017			
(Amortised) cost as at 1/1	5.4	133.2	138.6
Change in the basis of consolidation	1.4	0.0	1.4
Additions from acquisitions of interests and capital increases	0.0	1.1	1.1
Disposals	-0.1	-1.5	-1.6
(Amortised) cost as at 31/12	6.7	132.8	139.5
Accumulated value adjustments as at 1/1	-0.1	-23.9	-24.0
Impairment losses	-1.1	0.0	-1.1
Fair value measurement in OCI	6.3	15.3	21.5
Disposals	0.1	1.5	1.6
Accumulated value adjustments as at 31/12	5.2	-7.1	-2.0
Net carrying amount as at 31/12	11.9	125.7	137.5
Net carrying amount as at 1/1	5.3	109.3	114.6

(24)
**Other equity
interests**

Other equity interests	€m		
	Interests in unconsolidated subsidiaries	Other equity interests	Total
2016			
(Amortised) cost as at 1/1	10.7	139.1	149.8
Change in the basis of consolidation	-5.3	0.0	-5.3
Additions from acquisitions of interests and capital increases	0.0	0.2	0.2
Disposals	0.0	-6.1	-6.1
(Amortised) cost as at 31/12	5.4	133.2	138.6
Accumulated value adjustments as at 1/1	0.0	-34.2	-34.2
Impairment losses	-0.1	-1.6	-1.6
Fair value measurement in OCI	0.0	5.8	5.8
Disposals	0.0	6.1	6.1
Accumulated value adjustments as at 31/12	-0.1	-23.9	-24.0
Net carrying amount as at 31/12	5.3	109.3	114.6
Net carrying amount as at 1/1	10.7	104.9	115.6

The fair value measurements in other comprehensive income in the 2017 reporting period relate on the one hand to the interest in VUM Verfahren Umwelt Management GmbH (€6.3m) and on the other hand to the equity interests in Burgenland Holding AG (€9.3m) and Energie AG Oberösterreich (€6.0m).

(25)
Investments and non-current other receivables

Investments and non-current other receivables		€m
	2016	2017
Investments – closed items on the balance sheet	375.1	334.5
Interest rate swaps – closed items on the balance sheet	114.1	89.8
Other investments and other receivables	225.9	239.8
Total	715.1	664.1

Investments – cross-border leasing and closed items on the balance sheet				€m
	Securities (loan stock rights) under closed items on the balance sheet	Other loans under closed items on the balance sheet	Total	
2017				
Amortised cost as at 1/1	67.1	308.0	375.1	
Foreign exchange differences	-8.3	-39.5	-47.8	
Additions	2.4	2.3	4.7	
Capitalised interest	0.0	10.7	10.7	
Disposals	-1.6	-6.6	-8.2	
Amortised acquisition costs as at 31/12	59.7	274.9	334.5	

Investments – cross-border leasing and closed items on the balance sheet				€m
	Securities (loan stock rights) under closed items on the balance sheet	Other loans under closed items on the balance sheet	Total	
2016				
Amortised cost as at 1/1	64.2	294.0	358.2	
Foreign exchange differences	2.0	7.8	9.8	
Additions	2.4	2.1	4.5	
Capitalised interest	0.0	10.5	10.5	
Disposals	-1.6	-6.3	-7.9	
Amortised acquisition costs as at 31/12	67.1	308.0	375.1	

As at 31 December 2017, the securities consisted of medium-term notes with a principal amount of \$69.0m (previous year: \$68.2m) and/or an amortised cost of €59.7m (previous year: €67.1m).

Securities in the amount of €59.7m (previous year: €67.1m) and loans in the amount of €274.9m (previous year: €308.0m) are pledged. The securities and loans all serve banks as collateral for borrowing.

Other investments and non-current other receivables

	€m			
	Loans to investees	Securities (loan stock rights)	Other loans	Total
2017				
Cost as at 1/1	75.1	145.0	5.3	225.5
Additions	0.0	0.0	0.1	0.1
Disposals	0.0	0.0	-0.1	-0.1
Reclassifications	2.7	0.0	-0.2	2.5
Cost as at 31/12	77.8	145.0	5.1	228.0
Accumulated value adjustments as at 1/1	-15.8	-7.5	0.0	-23.3
Fair value measurement in OCI	0.0	9.4	0.0	9.4
Result from interests accounted for using the equity method ¹	0.3	0.0	0.0	0.3
Impairment losses on interests accounted for using the equity-method ¹	-4.1	0.0	0.0	-4.1
Accumulated value adjustments as at 31/12	-19.6	1.9	0.0	-17.6
Net carrying amount as at 31/12	58.2	146.9	5.1	210.3
Net carrying amount as at 1/1	59.3	137.5	5.3	202.2
Net carrying amount of other non-current receivables as at 31/12²				119.3
Net carrying amount of other non-current receivables as at 1/1 ²				137.9
Net carrying amount total as at 31/12				329.6
Net carrying amount total as at 1/1				340.1

¹ The carrying amount of the equity interest in Ashta Beteiligungsverwaltung GmbH was already reduced to zero in 2013 by the recognition of negative results from interests accounted for using the equity method and impairment losses. VERBUND still holds non-current loans to Ashta Beteiligungsverwaltung GmbH, which in their economic substance represent an increase of the net investment in Ashta Beteiligungsverwaltung GmbH. Negative results and impairment losses reduce the carrying amount of the net investment. In contrast, positive results, reversals of impairment losses and shareholder contributions increase it. // ² incl. carrying amount of interest rate swaps – closed items on the balance sheet

Other investments and non-current other receivables				€m
	Loans to investees	Securities (loan stock rights)	Other loans	Total
2016				
Cost as at 1/1	79.7	148.5	5.9	234.2
Additions	0.0	0.0	0.1	0.1
Disposals	0.0	0.0	-0.1	-0.1
Reclassifications	-4.6	-3.6	-0.6	-8.8
Cost as at 31/12	75.1	145.0	5.3	225.5
Accumulated value adjustments as at 1/1	-22.2	-14.7	0.0	-36.9
Fair value measurement in OCI	0.0	3.6	0.0	3.6
Reclassification adjustments ("recycling")	0.0	-0.5	0.0	-0.5
Result from interests accounted for using the equity method ¹	1.4	0.0	0.0	1.4
Reversals of impairment losses on interests accounted for using the equity method ¹	5.0	0.0	0.0	5.0
Reclassifications	0.0	4.2	0.0	4.2
Accumulated value adjustments as at 31/12	-15.8	-7.5	0.0	-23.3
Net carrying amount as at 31/12	59.3	137.5	5.3	202.2
Net carrying amount as at 1/1	57.5	133.8	5.9	197.3
Net carrying amount of other non- current receivables as at 31/12²				137.9
Net carrying amount of other non- current receivables as at 1/1 ²				139.6
Total net carrying amount as at 31/12				340.1
Total net carrying amount as at 1/1				336.9

¹ The carrying amount of the equity interest in Ashta Beteiligungsverwaltung GmbH was already reduced to zero in 2013 by the recognition of negative results from interests accounted for using the equity method and impairment losses. VERBUND still holds non-current loans to Ashta Beteiligungsverwaltung GmbH, which in their economic substance represent an increase of the net investment in Ashta Beteiligungsverwaltung GmbH. Negative results and impairment losses reduce the carrying amount of the net investment. In contrast, positive results, reversals of impairment losses and shareholder contributions increase it. // ² incl. carrying amount of interest rate swaps – closed items on the balance sheet

Securities in the amount of €146.9m (previous year: €137.5m) primarily include shares in investment funds to cover employee benefit obligations and were classified as "available for sale".

Non-current other receivables contain derivative financial instruments measured at fair value in the amount of €89.8m (previous year: €114.1m) which relate to financial liabilities under closed items on the balance sheet.

Inventories	€m	
	2016	2017
Coal	20.6	16.0
Natural gas	1.0	1.4
Less write downs	-20.4	-14.8
Inventories of primary energy sources held for generation	1.2	2.6
Emission rights held for trading	2.1	1.6
Measurements of emission rights held for trading	1.1	1.5
Fair value of emission rights held for trading	3.2	3.1
Proof of origin and green electricity certificates	0.5	0.9
Additives and consumables	4.1	3.9
Other	0.1	0.0
Inventories	9.1	10.5

(26)
Inventories

Trade receivables and other receivables	€m			
	2016 Non-current	2017 Non-current	2016 Current	2017 Current
Trade receivables	0.0	0.0	346.3	345.7
Receivables from investees	0.0	0.0	38.6	27.9
Other loans	-	-	0.7	0.2
Loans to investees	-	-	4.6	4.9
Other receivables and assets	137.9	119.3	177.4	204.1
Trade receivables and other receivables	137.9	119.3	567.6	583.0

(27)
Trade receivables
and other receivables

Other receivables with a maturity of more than one year were recognised under investments and non-current other receivables (see: (25) Investments and non-current other receivables).

Other receivables and assets				€m
	2016 Non-current	2017 Non-current	2016 Current	2017 Current
Derivatives in the energy area	0.0	0.0	118.6	104.7
Receivables from tax clearing	0.0	0.0	12.5	11.1
Long position:				
Gemeinschaftskraftwerk Inn GmbH	0.0	0.0	4.3	19.2
Guarantees in electricity trading	0.0	0.0	8.1	32.9
Emission rights	–	–	6.0	7.9
Receivables from accrued interest	0.0	0.0	0.4	0.4
Derivatives in the finance area	114.1	89.8	0.0	0.0
Other	23.9	29.5	27.6	28.0
Other receivables and assets	137.9	119.3	177.4	204.2

The most significant allowances and/or payment defaults (overdue payments) were as follows:

Allowances					€m
	Receivables net (carrying amount)	of which impaired as at reporting date	Allowances	Receivables gross	
2017					
Trade receivables	345.7	22.2	3.2	348.9	
Receivables from investees	27.9	0.0	0.0	27.9	
Loans	5.1	0.0	0.0	5.1	
Other receivables and assets	204.1	0.0	5.2	209.4	
Total	583.0	22.2	8.4	591.4	

Allowances					€m
	Receivables net (carrying amount)	of which impaired as at reporting date	Allowances	Receivables gross	
2016					
Trade receivables	346.3	20.9	2.3	348.6	
Receivables from investees	38.6	0.0	0.0	38.6	
Loans	5.3	0.0	0.0	5.3	
Other receivables and assets	177.4	0.0	0.1	177.5	
Total	567.6	20.9	2.4	570.0	

Overdue amounts 2017

	Carrying amount	of which not impaired at reporting date but overdue in the periods shown	of which not impaired but overdue in the periods shown			
			up to 30 days	31 to 120 days	121 to 360 days	> 360 days
Trade receivables	345.7	311.9	10.7	0.2	0.7	0.0
Receivables from investees	27.9	27.9	0.0	0.0	0.0	0.0
Loans	5.1	5.1	0.0	0.0	0.0	0.0
Other receivables and assets	204.1	203.7	0.4	0.0	0.0	0.0
Total	583.0	548.8	11.1	0.2	0.7	0.1

Overdue amounts 2016

	Carrying amount	of which not impaired at reporting date but overdue in the periods shown	of which not impaired but overdue in the periods shown			
			up to 30 days	31 to 120 days	121 to 360 days	> 360 days
Trade receivables	346.3	308.0	17.0	0.1	0.0	0.3
Receivables from investees	38.6	38.6	0.0	0.0	0.0	0.0
Loans	5.3	5.3	0.0	0.0	0.0	0.0
Other receivables and assets	177.4	177.2	0.0	0.1	0.0	0.0
Total	567.6	529.1	17.0	0.2	0.0	0.4

Non-current other receivables were neither overdue nor impaired in the 2017 reporting period or in the previous year.

Cash and cash equivalents

	2016	2017
Cash at banks	27.9	28.5
Cash in hand	0.1	0.1
Cash and cash equivalents	28.0	28.6

(28)
Cash and cash equivalents

The lock-in period for all current financial investments reported in cash and cash equivalents was less than three months at the time the investment was made. Cash and cash equivalents correspond to the fund of cash and cash equivalents in the cash flow statement as defined in IAS 7.

- (29) **Called and paid-in share capital** Just as in the previous year, the share capital comprised 170,233,686 no-par value shares in the form of bearer shares (category A) and 177,182,000 no-par value shares in the form of registered shares (category B). Category B represents 51% of the share capital, authenticated by an interim certificate deposited with the Federal Ministry of Finance and made out in the name of the Republic of Austria. The share capital was paid in full.
- (30) **Capital reserves** The amount of €954.3m (previous year: €954.3m), which represents the portion of the reserves that was not retained from profit for the period in previous reporting periods, is recognised under capital reserves.
- (31) **Retained earnings** Retained earnings comprise the retained profits and the effects on equity attributable to the shareholders of VERBUND AG from the shift between shareholder groups. Of the retained earnings, the amount that can be distributed to the shareholders of VERBUND AG is the item presented as profit for the period in the (separate) annual financial statements of VERBUND AG as at 31 December 2017 prepared in accordance with the Austrian Commercial Code (Unternehmensgesetzbuch, UGB). For financial year 2017, this profit for the reporting period that had not yet been approved amounted to €145.9m (previous year: €100.8m). The Annual General Meeting will recommend a dividend of €0.42 per share (previous year: €0.29 per share).
- (32) **Reserve for differences from currency translation** The reserve for differences from currency translation includes mainly the currency translation of the consolidated Romanian subsidiaries VERBUND Wind Power Romania SRL and VERBUND Trading Romania SRL.

(33) Non-controlling interests	Non-controlling interests		in %
		2016	2017
	VERBUND Innkraftwerke GmbH	29.73	29.73
	VERBUND Hydro Power GmbH	19.46	19.46
	VERBUND Wind Power Austria GmbH	19.46	19.46

The capital shares in VERBUND Thermal Power GmbH & Co KG in Liqu. as well as ten wind farms and two infrastructure companies in the Hunsrück area of Rhineland-Palatinate attributable to limited partners were recognised under non-current financial liabilities in accordance with IAS 32.

Non-current and current financial liabilities

	€m			
	2016	2017	2016	2017
	Non-current	Non-current	Current	Current
Bonds	1,371.9	1,374.0	35.6	21.0
Financial liabilities to banks	530.2	340.5	289.0	192.9
Financial liabilities to others	0.0	0.0	0.2	0.0
Capital shares attributable to limited partners	3.7	2.8	0.0	0.0
Subtotal	1,905.8	1,717.3	324.8	213.9
Financial liabilities to banks – closed items on the balance sheet	489.2	424.3	0.0	0.0
Non-current and current financial liabilities	2,394.9	2,141.6	324.8	213.9

(34)
Non-current and current financial liabilities

Non-current and current financial liabilities¹

	€m	
	2016	2017
Carrying amount as at 1/1	2,648.2	2,230.5
Net change in money market transactions	-305.5	0.3
Changes in capital shares attributable to limited partners	1.2	-0.9
Changes in interest accruals	2.0	-0.3
Unscheduled repayments	-62.0	0.0
Scheduled repayments	-53.4	-298.4
Carrying amount as at 31/12	2,230.5	1,931.2
of which non-current liabilities	1,905.8	1,717.3
of which current liabilities	324.8	213.9

¹ excl. financial liabilities from closed items on the balance sheet

Financial liabilities – closed items on the balance sheet

	€m	
	2016	2017
Carrying amount as at 1/1	481.3	489.2
Foreign exchange gains or losses	9.1	-48.0
Capitalisation	28.9	29.3
Repayments and/or disposals	-21.1	-21.8
Market value changes	-9.1	-24.3
Carrying amount as at 31/12	489.2	424.3
of which non-current liabilities	489.2	424.3

VERBUND had no mortgage-backed liabilities on 31 December 2017 or on 31 December 2016.

Profit/loss attributable to limited partners in the 2017 reporting period related to the limited partners of VERBUND Thermal Power GmbH & Co KG in Liqu. as well as the limited partners of ten wind farms and two infrastructure companies in the Hunsrück area of Rhineland-Palatinate.

Non-current and current financial liabilities 2017

	Longest maturity	Issue volume	Carrying amount as at 31/12	1 year or less
Bonds				
Euro currency	2024	1,540.0	1,395.0	21.1
Total bonds		1,540.0	1,395.0	21.1
of which at a fixed interest rate	2024	1,540.0	1,395.0	21.1
Financial liabilities to banks				
Euro currency	2037	888.4	533.4	192.9
Total financial liabilities to banks		888.4	533.4	192.9
of which at a fixed interest rate	2037	570.0	407.0	171.8
of which at a variable interest rate	2030	318.4	126.4	21.2
Financial liabilities to others				
Euro currency	2021	0.1	0.0	0.0
Total financial liabilities to others		0.1	0.0	0.0
of which at a fixed interest rate	2021	0.1	0.0	0.0
Financial liabilities to banks – closed items on the balance sheet¹				
Foreign currencies (\$)	2030		424.3	0.0
Total financial liabilities to banks – closed items on the balance sheet			424.3	0.0
of which at a fixed interest rate	2030		424.3	0.0
Capital shares attributable to limited partners		–	2.8	0.0
Total financial liabilities			2,355.5	214.0

¹ There is balance sheet cover on the asset side for these financial liabilities.

								€m
	› 1 to 2 years	› 2 to 3 years	› 3 to 4 years	› 4 to 5 years	› 5 years	Weighted nominal interest rate	Weighted effective interest rate	Fair value as at 31/12
	681.6	199.4	0.0	0.0	492.9	3.59%	4.18%	1,499.2
	681.6	199.4	0.0	0.0	492.9	3.59%	4.18%	1,499.2
	681.6	199.4	0.0	0.0	492.9	3.59%	4.18%	1,499.2
	43.7	42.2	38.5	33.5	182.6	2.46%	2.54%	570.0
	43.7	42.2	38.5	33.5	182.6	2.46%	2.54%	570.0
	22.6	27.6	27.6	22.6	134.7	3.15%	3.17%	442.3
	21.1	14.6	10.8	10.8	47.9	0.27%	1.43%	127.7
	0.0	0.0	0.0	0.0	0.0	3.00%	3.02%	0.0
	0.0	0.0	0.0	0.0	0.0	3.00%	3.02%	0.0
	0.0	0.0	0.0	0.0	0.0	3.00%	3.02%	0.0
	0.0	0.0	0.0	0.0	424.3	-	-	459.3
	0.0	0.0	0.0	0.0	424.3	-	-	459.3
	0.0	0.0	0.0	0.0	424.3	-	-	459.3
	2.8	0.0	0.0	0.0	0.0	-	-	
	728.1	241.6	38.5	33.5	1,099.9			

Non-current and current financial liabilities 2016

	Longest maturity	Issue volume	Carrying amount as at 31/12	1 year or less
Bonds				
Euro currency	2024	1,612.7	1,407.5	35.7
Total bonds		1,612.7	1,407.5	35.7
of which at a fixed interest rate	2024	1,612.7	1,407.5	35.7
Financial liabilities to banks				
Euro currency	2037	1,128.4	819.1	289.0
Total financial liabilities to banks		1,128.4	819.1	289.0
of which at a fixed interest rate	2037	810.0	671.6	267.8
of which at a variable interest rate	2030	318.4	147.5	21.2
Financial liabilities to others				
Euro currency	2021	0.2	0.2	0.2
Total financial liabilities to others		0.2	0.2	0.2
of which at a fixed interest rate	2021	0.2	0.2	0.2
Financial liabilities to banks – closed items on the balance sheet¹				
Foreign currencies (\$)	2030		489.2	0.0
Total financial liabilities to banks – closed items on the balance sheet			489.2	0.0
of which at a fixed interest rate	2030		489.2	0.0
Capital shares attributable to limited partners		–	3.7	0.0
Total financial liabilities			2,719.6	324.8

¹ There is balance sheet cover on the asset side for these financial liabilities.

								€m
	› 1 to 2 years	› 2 to 3 years	› 3 to 4 years	› 4 to 5 years	› 5 years	Weighted nominal interest rate	Weighted effective interest rate	Fair value as at 31/12
	0.0	680.7	199.2	0.0	492.0	3.61%	4.28%	1,553.7
	0.0	680.7	199.2	0.0	492.0	3.61%	4.28%	1,553.7
	0.0	680.7	199.2	0.0	492.0	3.61%	4.28%	1,553.7
	189.7	43.7	42.2	38.5	216.1	2.69%	2.86%	866.2
	189.7	43.7	42.2	38.5	216.1	2.69%	2.86%	866.2
	168.6	22.6	27.6	27.6	157.3	3.23%	3.37%	717.9
	21.1	21.1	14.6	10.8	58.7	0.21%	1.44%	148.3
	0.0	0.0	0.0	0.0	0.0	5.52%	4.15%	0.2
	0.0	0.0	0.0	0.0	0.0	5.52%	4.15%	0.2
	0.0	0.0	0.0	0.0	0.0	5.52%	4.15%	0.2
	0.0	0.0	0.0	0.0	489.2	-	-	531.0
	0.0	0.0	0.0	0.0	489.2	-	-	531.0
	0.0	0.0	0.0	0.0	489.2	-	-	531.0
	3.7	0.0	0.0	0.0	0.0	-	-	-
	193.4	724.4	241.4	38.5	1,197.2			

(35)
Additional
disclosures regarding
financial instruments
in accordance with
IFRS 7

Carrying amounts and fair values by measurement category 2017

€m

Assets – balance sheet items	Measurement categories in accordance with IAS39 or measurement in accordance with other IFRSs	Level	Carrying amount as at 31/12	Fair value as at 31/12
Interests in unconsolidated subsidiaries	FAAC	–	1.0	–
Interests in unconsolidated subsidiaries	FAAFS	2	10.8	10.8
Other equity interests	FAAFS	1	20.5	–
Other equity interests	FAAFS	2	103.4	103.4
Other equity interests	FAAC	–	1.9	–
Other equity interests			137.5	
Securities	FAAFS	1	138.3	138.3
Securities	FAAFS	3	7.5	7.5
Securities	FAAC	–	1.0	–
Securities – closed items on the balance sheet	LAR	2	59.7	57.1
Other loans – closed items on the balance sheet	LAR	2	274.9	304.8
Derivatives in the finance area – closed items on the balance sheet	FAHFT	2	89.8	89.8
Loans to investees	LAR	2	58.3	60.4
Other loans	LAR	2	5.1	5.0
Other	–	–	29.5	–
Other investments and non-current other receivables			664.1	
Trade receivables	LAR	–	345.7	–
Receivables from investees	LAR	–	27.9	–
Loans to investees	LAR	2	4.9	5.1
Other loans	LAR	2	0.2	0.2
Derivatives in the energy area	FAHFT	2	104.7	104.7
Long position: Gemeinschaftskraftwerk Inn GmbH	FAHFT	3	19.2	19.2
Emission rights	IAS38 / IAS 2	–	7.9	–
Other	LAR	–	44.8	–
Other	–	–	27.5	–
Trade receivables and current other receivables			583.0	
Cash and cash equivalents	LAR	–	28.6	28.6
Aggregated by measurement categories				
Financial assets at cost	FAAC		3.9	
Loans and receivables	LAR		850.1	
Available-for-sale financial assets	FAAFS		280.5	
Financial assets held for trading	FAHFT		213.8	

Carrying amounts and fair values by measurement category 2017

€m

Liabilities – balance sheet items	Measurement categories in accordance with IAS39 or measurement in accordance with other IFRSs	Level	Carrying amount as at 31/12	Fair value as at 31/12
Bonds	FLAAC	2	1,395.0	1,499.2
Financial liabilities to banks and to others	FLAAC	2	533.4	570.0
Financial liabilities to banks – closed items on the balance sheet	FLAAC	2	106.3	141.3
Financial liabilities to banks – closed items on the balance sheet	FLAFVPL	2	318.0	318.0
Capital shares attributable to limited partners	IAS32	–	2.8	–
Non-current and current financial liabilities			2,355.5	
Electricity supply commitment	–	–	163.0	–
Obligation to return an interest	FLAAC	3	78.3	125.1
Trade payables	FLAAC	–	1.5	–
Other	FLAAC	–	27.0	–
Other non-current liabilities			269.7	
Trade payables	FLAAC	–	171.5	–
Derivatives in the energy area	FLHFT	2	264.0	264.0
Derivatives in the finance area	FLHFT	2	18.6	18.6
Other	FLAAC	–	115.1	–
Other	–	–	75.6	–
Trade payables and current other liabilities			644.8	
Aggregated by measurement categories				
Financial liabilities at amortised cost	FLAAC		2,428.2	
Financial liabilities at fair value through profit or loss	FLAFVPL		318.0	
Financial liabilities held for trading	FLHFT		282.6	

Carrying amounts and fair values by measurement categories 2016

€m

Assets – balance sheet items	Measurement categories in accordance with IAS 39 or measurement in accordance with other IFRSs	Level	Carrying amount as at 31/12	Fair value as at 31/12
Interests in unconsolidated subsidiaries	FAAC	–	5.3	–
Other equity interests	FAAFS	2	92.6	92.6
Other equity interests	FAAC	–	16.8	–
Other equity interests			114.6	
Securities	FAAFS	1	133.9	133.9
Securities	FAAC	–	3.5	–
Securities – closed items on the balance sheet	LAR	2	67.1	61.8
Other loans – closed items on the balance sheet	LAR	2	308.0	333.2
Derivatives in the finance area – closed items on the balance sheet	FAHFT	2	114.1	114.1
Loans to investees	LAR	2	59.3	62.3
Other loans	LAR	2	5.3	5.7
Other	–	–	23.9	–
Other investments and non-current other receivables			715.1	
Trade receivables	LAR	–	346.3	–
Receivables from investees	LAR	–	38.6	–
Loans to investees	LAR	2	4.6	4.8
Other loans	LAR	2	0.7	0.7
Derivatives in the energy area	FAHFT	2	118.6	118.6
Long position: Gemeinschaftskraftwerk Inn GmbH	FAHFT	3	4.3	4.3
Emission rights	IAS 38/IAS 2	–	6.0	–
Other	LAR	–	26.1	–
Other	–	–	22.5	–
Trade receivables and current other receivables			567.6	
Cash and cash equivalents	LAR	–	28.0	28.0
Aggregated by measurement categories				
Financial assets at cost	FAAC		25.6	
Loans and receivables	LAR		883.9	
Available-for-sale financial assets	FAAFS		226.5	
Financial assets held for trading	FAHFT		236.9	

Carrying amounts and fair values by measurement categories 2016

Liabilities – balance sheet items	Measurement categories in accordance with IAS 39 or measurement in accordance with other IFRSs	Level	Carrying amount as at 31/12	Fair value as at 31/12
Bonds	FLAAC	2	1,407.5	1,553.7
Financial liabilities to banks and to others	FLAAC	2	819.3	866.4
Financial liabilities to banks – closed items on the balance sheet	FLAAC	2	118.7	160.5
Financial liabilities to banks – closed items on the balance sheet	FLAFVPL	2	370.5	370.5
Capital shares attributable to limited partners	IAS 32	–	3.7	–
Non-current and current financial liabilities			2,719.7	
Electricity supply commitment	–	–	169.9	–
Obligation to return an interest	FLAAC	3	103.6	182.0
Trade payables	FLAAC	–	3.6	–
Other	FLAAC	–	28.4	–
Other non-current liabilities			305.5	
Trade payables	FLAAC	–	157.2	–
Derivatives in the energy area	FLHFT	1	0.5	0.5
Derivatives in the energy area	FLHFT	2	253.5	253.5
Derivatives in the finance area	FLHFT	2	27.0	27.0
Other	FLAAC	–	133.7	–
Other	–	–	73.5	–
Trade payables and current other liabilities			645.3	
Aggregated by measurement categories				
Financial liabilities at amortised cost	FLAAC		2,772.0	
Financial liabilities at fair value through profit or loss	FLAFVPL		370.5	
Financial liabilities held for trading	FLHFT		280.9	

For financial liabilities (under closed items on the balance sheet) classified as FLAFVPL in the above table, the difference between the carrying amount as at 31 December 2017 and the amount that VERBUND would have to pay upon maturity is €46.9m (previous year: €59.9m). The amount due upon maturity was translated at the rate (€1=\$) of 1.1993 on the reporting date (previous year: 1.0541). In the event of insolvency, derivative financial instruments in the finance area (under closed items on the balance sheet) can be netted against the financial liabilities classified as FLAFVPL (under closed items on the balance sheet) (see: Financial instruments and risk management).

Of the derivative financial instruments in the energy area classified as FAHFT and FLHFT in the above table, positive fair values in the amount of €40.7m (previous year: €28.9m) and negative fair values in the amount of €326.7m (previous year: €227.1m) relate to hedging relationships designated as cash flow hedges. These fair values represent gross amounts; following the inter-portfolio netting

carried out in accordance with VERBUND's accounting policies (see: Financial instruments and risk management), cash flow hedges can no longer be isolated.

Level 3 measurement of financial instruments: long position: GKI¹

	2016	2017
Carrying amount as at 1/1	18.0	4.3
Measurement gains or losses (recognised in other financial result)	-13.7	-4.3
Measurement gains or losses (recognised as a measurement of cash flow hedges)	0.0	19.2
Carrying amount as at 31/12	4.3	19.2

¹ The fair value of the long position: Gemeinschaftskraftwerk Inn GmbH is determined based on a Level 3 measurement (see: Discretionary judgements and key assumptions concerning the future).

Valuation techniques and input factors for determining fair values

Level	Financial instruments	Valuation technique	Input factor
1	Securities	Market approach	Nominal values, stock exchange price
1	Energy forwards	Market approach	Settlement price published by the stock exchange
1	Other equity interest in Burgenland Holding AG	Market approach	Stock exchange price
2	Other assets and liabilities measured at fair value in the finance area	Net present value approach	Cash flows already fixed or determined via forward rates, yield curve, credit risk of the contracting parties
2	Securities and other loans under closed items on the balance sheet, long-term loans, liabilities to banks, bonds and other financial liabilities	Net present value approach	Payments associated with the financial instruments, yield curve, credit risk of the contracting parties (credit default swaps or credit spread curves)
2	Interests in unconsolidated subsidiaries, other equity interest in Energie AG Oberösterreich and HGRT	Market approach	Trading Multiple, transaction price
2	Non-listed energy forwards	Net present value approach	Forward price curve derived from stock exchange, yield curve, credit risk of the contracting parties
3	Return obligation (obligation to transfer back the 50% interest acquired in Donaukraftwerk Jochenstein AG)	Net present value approach	Price forecasts for electricity, weighted average cost of capital after taxes

Valuation techniques and input factors for determining fair values

Level	Financial instruments	Valuation technique	Input factor
3	Long position: Gemeinschaftskraftwerk Inn GmbH (GKI)	Net present value approach	Price forecast for electricity and discount rate for calculating the value of the underlying asset (weighted average cost of capital after taxes), yield curve
3	Securities (shares of CESEAG AG)	Net present value approach	Expected distribution of profits, cost of equity
–	Cash and cash equivalents, trade receivables and payables, current other receivables, other borrowing within current credit lines as well as current other liabilities	–	Carrying amounts as a realistic estimate of fair value
–	Interests in unconsolidated subsidiaries and other equity interests	–	Reliable estimate of future cash flows mostly not possible; no comparable transactions for fair value measurement using analogy methods

Expected cash outflows as at 31/12/2017

	€m			
Maturity	2018	2019	2020–2022	From 2023
Bonds	49.7	733.2	232.3	515.0
Financial liabilities to banks	196.7	47.9	124.5	200.9
Financial liabilities to others	0.0	0.0	0.0	0.0
Financial liabilities to banks – closed items on the balance sheet ¹	19.2	19.1	59.3	447.7
Capital shares attributable to limited partners	0.0	2.8	0.0	0.0
Cash outflows on financial liabilities	265.6	803.1	416.0	1,163.6
Trade payables	171.5	1.1	0.4	0.2
Derivatives in the energy area	418.9	138.4	109.5	0.0
Derivatives in the finance area ²	5.8	4.9	7.3	1.4
Other	115.1	5.1	3.1	97.1
Cash outflows on trade payables and other payables	711.4	149.4	120.3	98.7
Cash outflows on liabilities in accordance with IFRS 7	977.1	952.5	536.3	1,262.3

¹ Cash outflows under closed items on the balance sheet have to be seen alongside the corresponding cash inflows from associated investments. // ² Cash outflows from interest rate swaps are accounted for as the net-cash flow of both legs.

Expected cash outflows as at 31/12/2016

€m

Maturity	2017	2018	2019-2021	From 2022
Bonds	65.0	49.7	957.9	522.5
Financial liabilities to banks	291.3	196.8	136.2	237.5
Financial liabilities to others	0.1	0.0	0.0	0.0
Financial liabilities to banks – closed items on the balance sheet ¹	21.8	21.9	66.9	531.7
Capital shares attributable to limited partners	0.0	3.7	0.0	0.0
Cash outflows on financial liabilities	378.2	272.1	1,161.1	1,291.7
Trade payables	157.2	2.7	0.9	0.1
Derivatives in the energy area	375.8	139.3	27.9	0.0
Derivatives in the finance area ²	10.4	5.7	11.0	3.1
Other	133.7	5.4	3.1	123.5
Cash outflows on trade payables and other payables	677.0	153.1	42.8	126.8
Cash outflows on liabilities in accordance with IFRS 7	1,055.2	425.2	1,203.9	1,418.4

¹ Cash outflows under closed items on the balance sheet have to be seen alongside the corresponding cash inflows from associated investments. // ² Cash outflows from interest rate swaps are accounted for as the net-cash flow of both legs.

Net results by measurement categories

The net results in accordance with IFRS 7 mainly comprise impairment losses and reversals of impairment losses, foreign exchange gains and losses and realised gains or losses on disposal.

Net results by measurement categories

€m

	2016 Net result	2016 of which (reversal of) impairment losses	2017 Net result	2017 of which (reversal of) impairment losses
Financial assets at cost	-1.6	-1.6	1.4	-1.1
Available-for-sale financial assets	1.1	0.0	0.0	0.0
Loans and receivables	8.9	-0.9	-48.4	-0.6
Financial liabilities at amortised cost	18.8	-	48.2	-
Financial liabilities at fair value through profit or loss	1.2	-	55.8	-
Financial assets and/or liabilities held for trading	-30.2	-	-31.6	-
Total interest expenses		-113.2		-105.7
Total interest income		33.7		38.6
Measurements in other comprehensive income ¹		9.3		31.0
Reclassifications from other comprehensive income recognised in the income statement ¹		-0.5		0.0

¹ This net result relates to available-for-sale financial assets.

The net result in the “financial assets at cost” category was recognised under result from equity interests; dividend income from financial assets at cost and available-for-sale financial assets was not included in the net result.

The net result in the “available-for-sale financial assets” category was recognised primarily in other financial result.

Insofar as the net result in the “loans and receivables” category contains write-downs of trade receivables, it was recognised in the operating result; foreign exchange effects from loans under closed items on the balance sheet were recognised in other financial result.

The net results in the “financial liabilities at amortised cost” and “financial liabilities at fair value through profit or loss” categories included foreign exchange effects related to financial liabilities and were recognised under other financial result.

On the one hand, the net results in the “financial assets and/or liabilities held for trading” category arose from the measurement of derivative financial instruments in the energy area (wholesale and trading); this part was recognised in the operating result (electricity revenue). On the other hand, the net result also arose from the measurement of the (other) derivative financial instruments in the finance area; these net results were recognised under other financial result.

Total interest expenses were recognised under interest expenses; total interest income was recognised in part in interest income and in part under other financial result.

Non-current and current provisions	€m			
	2016 Non-current	2017 Non-current	2016 Current	2017 Current
Provisions for pensions	415.3	402.6	–	–
Provisions for obligations similar to pensions	161.7	156.0	–	–
Provisions for termination benefits	146.2	136.2	–	–
Provisions for partial retirement	17.8	10.4	8.6	6.8
Other personnel-related provisions	14.6	14.7	21.6	20.4
Other provisions	84.1	101.9	48.5	26.4
Non-current and current provisions	839.6	821.8	78.6	53.6

(36)
**Non-current and
current provisions**

Provisions for pensions and similar obligations

Reconciliation from defined benefit obligation to provisions

	€m			
	2016 Pension obligations	2017 Pension obligations	2016 Obligations similar to pensions	2017 Obligations similar to pensions
Defined benefit obligation covered by plan assets	245.2	241.6	–	–
Fair value of plan assets	–154.6	–154.3	–	–
Net value of obligations covered by plan assets	90.6	87.3	–	–
Defined benefit obligation not covered by plan assets	324.6	315.2	161.7	156.0
Carrying amount of provisions as at 31/12	415.3	402.6	161.7	156.0

Pension expenses

	€m			
	2016 Pension obligations	2017 Pension obligations	2016 Obligations similar to pensions	2017 Obligations similar to pensions
Service costs (vested claims)	3.3	3.8	2.6	3.0
Net interest expense	8.1	6.0	3.3	2.8
Pension expenses (recognised in profit for the period)	11.4	9.8	5.9	5.8
Remeasurements of the net liability	9.3	0.4	8.7	–7.2
Pension expenses (recognised in total comprehensive income for the period)	20.7	10.2	14.6	–1.4

Reconciliation of defined benefit obligation

	€m			
	2016 Pension obligations	2017 Pension obligations	2016 Obligations similar to pensions	2017 Obligations similar to pensions
Defined benefit obligation as at 1/1	573.0	569.8	151.0	161.7
Service costs (vested claims)	3.3	3.8	2.6	3.0
Pension payments or contributions to supplementary health insurance (benefit payments)	-34.2	-33.8	-4.0	-4.3
Interest expenses	11.1	8.3	3.3	2.8
Remeasurements based on experience adjustments	2.0	8.7	-4.2	-7.2
Remeasurements arising from changes in financial assumptions	14.6	0.0	13.0	0.0
Defined benefit obligation as at 31/12	569.8	556.8	161.7	156.0

As at 31 December 2017, the weighted average duration of the pension obligation is 13 years (previous year: 13 years) and that of the obligations similar to pensions is 18 years (previous year: 19 years).

Reconciliation of plan assets

	€m			
	2016 Pension obligations	2017 Pension obligations	2016 Obligations similar to pensions	2017 Obligations similar to pensions
Fair value of plan assets as at 1/1	152.8	154.6	-	-
Contributions by VERBUND	2.6	0.2	-	-
Payouts (benefit payments)	-11.2	-11.1	-	-
Interest income	3.0	2.3	-	-
Other gains (+) or losses (-)	7.4	8.3	-	-
Fair value of plan assets as at 31/12	154.6	154.3	-	-

The investment and risk association in the pension fund attributable to VERBUND realised a gain of €10.6m in the 2017 reporting period (previous year: gain of €10.3m). The deficit represents the portion of pension obligations not covered by plan assets; these relate primarily to direct commitments to pension recipients. In the 2018 reporting period, current contributions to the pension fund for coverage of defined contribution plans in the amount of €0m (previous year: €0m) are expected.

Plan assets						in %
	Quoted	Unquoted	2016 Total	Quoted	Unquoted	2017 Total
Shares	40.0	0.0	40.0	43.0	0.0	43.0
Bonds	42.0	0.0	42.0	44.1	0.0	44.1
Money market	10.2	0.0	10.2	7.6	0.0	7.6
Other investments	7.8	0.0	7.8	5.3	0.0	5.3
Total	100.0	0.0	100.0	100.0	0.0	100.0

VERBUND regularly coordinates the general investment guidelines with APK Pensionskasse AG. Risk management in APK Pensionskasse AG is guided by the provisions of the Austrian Pension Fund Act (Pensionskassengesetz, PKG) and the corresponding directives of the Financial Market Authority (FMA).

Provisions for termination benefits

Analysis of the provisions for termination benefits			€m
	2016	2017	
Provisions for statutory termination benefits	144.9	135.7	
Provisions for termination benefits from special agreements in accordance with social plan	1.3	0.5	
Carrying amount of provisions as at 31/12	146.2	136.2	

Expense for termination benefit costs			€m
	2016	2017	
Service costs	1.4	1.2	
Net interest expense	3.0	2.1	
Expense for termination benefit costs (recognised in profit for the period)	4.4	3.3	
Remeasurements of termination benefits	-0.8	0.1	
Expenses for termination benefit costs (recognised in total comprehensive income for the period)	3.6	3.4	

Reconciliation of defined benefit obligation for statutory termination benefits			€m
	2016	2017	
Defined benefit obligation as at 1/1	154.4	144.9	
Change in the basis of consolidation	-0.4	0.0	
Service costs (vested claims)	1.4	1.2	
Interest expenses	3.0	2.1	
Termination benefit (benefit payments)	-12.7	-12.6	
Remeasurements based on experience adjustments	-0.9	0.1	
Remeasurements arising from changes in financial assumptions	0.1	0.0	
Defined benefit obligation as at 31/12	144.9	135.7	

The weighted average duration of the termination benefits is 8 years as at 31 December 2017 (previous year: 8 years).

Provisions for partial retirement

Reconciliation from defined benefit obligation to provisions		€m
	2016	2017
Defined benefit obligation covered by plan assets	27.5	18.7
Fair value of plan assets	-1.1	-1.4
Carrying amount of provisions as at 31/12	26.4	17.3

Expenses for partial retirement		€m
	2016	2017
Service costs	0.3	0.9
Net interest expense	0.7	0.0
Remeasurements	-8.5	-2.6
Expenses for partial retirement (recognised in profit for the period)	-7.5	-1.7

Reconciliation of defined benefit obligation		€m
	2016	2017
Defined benefit obligation as at 1/1	43.7	27.5
Service costs (vested claims)	0.3	0.9
Net interest expense	0.7	0.0
Payments for early retirement	-8.6	-7.5
Remeasurements	-8.5	-2.2
Defined benefit obligation as at 31/12	27.5	18.7

Reconciliation of plan assets		€m
	2016	2017
Fair value of plan assets as at 1/1	1.1	1.1
Decrease (due to surplus cover)	0.0	0.0
Contributions by VERBUND	0.0	0.0
Other gains (+) or losses (-)	0.0	0.3
Fair value of plan assets as at 31/12	1.1	1.4

Plan assets		in %
	2016	2017
Bonds	100.0	100.0
Total	100.0	100.0

Other personnel-related provisions

Analysis of other personnel-related provisions

	€m			
	2016 Non-current	2017 Non-current	2016 Current	2017 Current
Provision for bonuses from the performance-based remuneration system	–	–	21.2	20.3
Provision for anniversary bonuses	8.4	8.7	0.0	0.0
Other	6.2	6.0	0.4	0.1
Other personnel-related provisions	14.6	14.7	21.6	20.4

Reconciliation of other personnel-related provisions

	€m	
	2016	2017
Carrying amount as at 1/1	36.3	36.1
of which non-current	15.1	14.6
of which current	21.2	21.6
Change in the basis of consolidation	–0.2	–0.2
New provisions	17.8	16.6
Interest accrued	0.3	0.2
Appropriation	–17.8	–17.6
Reversal	–0.2	0.0
Carrying amount as at 31/12	36.1	35.1
of which non-current	14.6	14.7
of which current	21.6	20.4

Other provisions

Reconciliation of other provisions 2017

	€m				
	Provisions for onerous contracts	Dismantling and decontamination costs	Electricity and grid delivery	Other	Total
Carrying amount as at 1/1/2017	8.0	26.6	0.6	97.4	132.6
of which non-current	0.0	24.8	0.0	59.3	84.1
of which current	8.0	1.8	0.6	38.1	48.5
Change in the basis of consolidation	0.0	0.0	0.0	-0.2	-0.2
New provisions	0.0	15.7	0.0	6.4	22.1
Interest accrued	0.0	0.1	0.0	0.9	1.0
Appropriation	0.0	-0.3	-0.4	-4.2	-4.9
Reversal	-7.8	-2.8	-0.2	-11.5	-22.3
Currency translation	0.0	0.0	0.0	0.0	0.0
Carrying amount as at 31/12/2017	0.2	39.3	0.0	88.8	128.2
of which non-current	0.0	39.3	0.0	62.6	101.9
of which current	0.2	0.0	0.0	26.2	26.4

Reconciliation of other provisions 2016

	€m				
	Provisions for onerous contracts	Dismantling and decontamination costs	Electricity and grid delivery	Other	Total
Carrying amount as at 1/1/2016	24.0	24.2	0.6	139.7	188.5
of which non-current	22.3	23.0	0.0	50.2	95.5
of which current	1.7	1.1	0.6	89.5	93.0
Change in the basis of consolidation	0.0	0.0	0.0	0.2	0.2
New provisions	0.8	4.4	0.0	36.1	41.3
Interest accrued	0.0	0.5	0.0	1.0	1.5
Appropriation	0.0	-0.3	0.0	-39.4	-39.6
Reversal	-16.8	-2.2	0.0	-40.2	-59.2
Currency translation	0.0	0.0	0.0	0.0	-0.1
Carrying amount as at 31/12/2016	8.0	26.6	0.6	97.4	132.6
of which non-current	0.0	24.8	0.0	59.3	84.1
of which current	8.0	1.8	0.6	38.1	48.5

(37)
Deferred tax liabilities

The differences between the tax bases and the carrying amounts in the IFRS balance sheet result in the following deferred taxes:

Deferred taxes	€m	
	2016	2017
Deferred tax refund claims	454.2	417.9
of which from provisions for pensions and termination benefits	120.1	114.1
of which from allowances on receivables	50.3	34.9
of which from impairment losses from equity interests	41.1	24.4
of which from loss carryforwards	73.9	88.9
of which from the liquidation of subsidiaries	90.7	68.0
of which from other items	78.1	87.7
Deferred tax liabilities	-1,023.4	-976.3
of which from property, plant and equipment (different useful lives, fair value adjustments on purchase price allocations)	-823.4	-799.1
of which from special tax deductions	-95.2	-94.0
of which from tax-deductible goodwill	-58.2	-28.9
of which from other items	-46.6	-54.3
Deferred tax refund claims (+) or tax liabilities (-) netted	-569.2	-558.4

In the 2017 reporting period and in the previous year, the net position for deferred taxes changed as follows:

Deferred taxes	€m	
	2016	2017
As at 1/1	-549.5	-569.2
Changes recognised in profit or loss	-83.1	4.4
Changes recognised in other comprehensive income	62.6	6.3
Change in the basis of consolidation	0.8	0.0
Other changes	0.0	0.0
As at 31/12	-569.2	-558.4

The changes recognised in other comprehensive income mainly concerned the measurements of available-for-sale financial instruments, the measurements of cash flow hedges and remeasurements of the net defined benefit liability.

At 31 December 2017 (and in the previous year), it could be assumed under present tax rules that the differences between the tax base of equity interests and the proportionate share of equity (outside basis differences) of the consolidated subsidiaries, branch offices, associates and joint arrangements included in VERBUND's consolidated IFRS financial statements, which result in particular from retained earnings and uncovered losses, will remain tax-free for the foreseeable future. Therefore, no tax liability was recognised at 31 December 2017 for temporary differences in the amount of €3,841.7m (previous year: €4,073.9m) in connection with these equity interests.

No current tax assets are recognised for tax losses and deductible temporary differences attributable to VERBUND Sales Deutschland GmbH and the Romanian subsidiary VERBUND Wind Power

Romania SRL, because it is unlikely due to the earnings situation that a future taxable net profit will be available against which the deferred tax assets can be utilised.

This deferred income item includes deferred contributions to building costs, particularly those paid by provincial energy companies, e.g. for power plant projects, and deferred government grants (see: Accounting policies).

(38)
Contributions to building costs and grants

Contributions to building costs and grants	€m	
	2016	2017
Contributions to building costs	719.1	712.5
Government grants	32.6	35.0
Contributions to building costs and grants	751.7	747.5

This item shows the deferred cash inflow in the amount of the present value of the economic benefits from cross-border leasing transactions. As at 31 December 2017, this item still amounted to €45.6m (previous year: €47.2m).

(39)
Deferred income – cross-border leasing

Other non-current liabilities	€m	
	2016	2017
Electricity supply commitment ¹	169.9	163.0
Obligation to return an interest ²	103.6	78.3
Trade payables	3.6	1.5
Other	28.4	27.0
Other non-current liabilities	305.5	269.7

(40)
Other non-current liabilities

¹ The electricity supply commitment corresponds to the obligation arising from a 20-year electricity supply agreement, which was entered into in the 2009 reporting period as part of the consideration for the acquisition of Kraftwerksgruppe Inn GmbH (now VERBUND Innkraftwerke GmbH). // ² This return obligation refers to the obligation to transfer the 50% interest in Donaukraftwerk Jochenstein AG newly acquired in the 2013 reporting period back to the Federal Republic of Germany or the Free State of Bavaria without exchange of consideration effective 31 December 2050.

Current tax liabilities	€m	
	2016	2017
Taxes on income	50.6	94.7
Other taxes	1.2	1.0
Current tax liabilities	51.8	95.8

(41)
Current tax liabilities

(42) Trade payables and current other liabilities	Trade payables and current other liabilities		€m
		2016	2017
	Derivatives in the energy area	253.9	264.0
	Trade payables	157.2	171.5
	Outstanding receipts for investments	42.8	36.0
	Other personnel-related liabilities	31.5	32.0
	Other liabilities for maintenance expenses	32.6	31.7
	Other liabilities from electricity and grid deliveries	33.1	23.4
	Liabilities to tax authorities	23.9	19.3
	Derivatives in the finance area	27.0	18.6
	Liabilities to unconsolidated subsidiaries and investees	8.9	9.3
	Liabilities to ECRA	6.0	7.7
	Electricity supply commitment	6.2	7.0
	Liabilities from social security (including social insurance institutions)	4.7	4.5
	Other liabilities for legal, audit and consulting expenses	4.1	1.5
	Other	13.5	18.2
	Trade payables and current other liabilities	645.3	644.8

Notes to the cash flow statement

The indirect method has been used to prepare VERBUND's cash flow statement. The composition of the fund of cash and cash equivalents is disclosed in the notes to the balance sheet (see: Notes to the balance sheet).

Non-cash transactions

Outstanding items with respect to current liabilities arose in connection with additions to intangible assets and property, plant and equipment in the amount of €36.0m (previous year: €42.8m).

(43) Cash inflow from the disposal of equity interests

In the 2017 reporting period, the payments from the disposals of consolidated subsidiaries as well as interests accounted for using the equity method and other equity interests result from the sale of some of the interest in SMATRICS GmbH & Co KG (see Financial reporting principles; previous year: entirely from the sale of the interest in the Spanish entity VERBUND Photovoltaics Ibérica SL).

Additional information on cash flow from financing activities	€m	
	2016	2017
Dividends paid to non-controlling interests	-43.4	-21.8
Dividends paid to the shareholders of VERBUND AG	-121.6	-100.8

(44)
Additional
information on cash
flow from financing
activities

Financial instruments and risk management

VERBUND also uses primary and derivative financial instruments in both the finance and energy area for the purpose of risk management.

VERBUND is exposed to considerable financial risks in its operating activities and the related financing transactions. These comprise mainly interest rate and liquidity risks, counterparty risks, price risks from securities, foreign exchange risks and the risk of a change in VERBUND's rating.

Therefore, in the finance area, VERBUND focuses on identifying, analysing and measuring risks and opportunities as well as on determining measures to be implemented in this context, which can secure profits and/or mitigate the adverse effects if a risk should materialise.

In the finance area, the Group has defined its own rules as part of its framework of Group guidelines in order to be able to correspondingly monitor and manage financial risks. Among other things, this refers to the calculation and measurement of KPIs in line with market conditions with respect to locking in interest rates, currency diversification and the duration of financial liabilities in order to suggest and introduce appropriate measures as needed. Sufficient liquidity is ensured at all times through liquidity planning which is generally focused on the current and subsequent reporting period and the resulting corresponding investments and/or borrowings.

Financial instruments

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

The derivative financial instruments used in the finance area comprise the following and are recognised under the balance sheet items listed:

Derivative financial instruments in other receivables	€m		
	Reference value ¹	Positive fair values 31/12/2016	Positive fair values 31/12/2017
Interest rate swaps – closed items on the balance sheet (fixed interest recipient)	\$257.3m (previous year: \$254.1m)	114.1	89.8

¹ The reference value includes the reference basis of the derivative instruments. The actual cash flows only represent a fraction of these values.

Finance area

Derivative financial instruments in other liabilities				€m
	Reference value ¹	Negative fair values 31/12/2016	Negative fair values 31/12/2017	
Interest rate swaps – hedges (fixed interest recipient)	€115.3m (previous year: €369.9m)	16.0	10.6	
Interest rate swap relating to financial liabilities (freestanding)	€159.0m (previous year: €177.5m)	11.0	8.0	

¹ The reference value includes the reference basis of the derivative instruments. The actual cash flows only represent a fraction of these values.

The derivative financial instruments listed serve exclusively to hedge financially against existing currency and interest rate risks.

The fluctuations in the value of interest rate swaps related to the closed items on the balance sheet (see: Accounting policies) serve to balance the fluctuations in the value of the corresponding liabilities which are measured at fair value through profit or loss.

There are interest rate swaps in the notional amount of €115.3m (previous year: €369.9m) to hedge increases in interest rates for financial liabilities bearing variable interest. These interest rate swaps are recognised as cash flow hedges. The future interest payments hedged by these hedging instruments will occur in the following nine years (2018 to 2026) and will be recognised in profit or loss accordingly.

Additional interest rate swaps (from variable to fixed interest rate) were also entered into with an outstanding notional value of €159.0m as at 31 December 2017 (previous year: €177.5m) as part of (intragroup) project financing. From a financial perspective, these interest rate swaps also serve to hedge increases in interest rates, but from the Group perspective, these are freestanding derivatives and recognised at fair value through profit or loss.

Liquidity risk

In order to secure sufficient liquidity reserves, a five-year syndicated credit line in the amount of €500.0m with two renewal options to extend the term for one year each was entered into in the 2014 reporting period. The credit line was granted to VERBUND AG as part of an international banking syndicate. This credit line was not drawn down. In addition, there are also liquidity reserves in the form of securities and investment funds.

For contractually agreed (non-discounted) cash outflows from financial liabilities in accordance with IFRS 7, see: (35) Additional disclosures regarding financial instruments in accordance with IFRS 7.

Credit risk

The amounts reported on the asset side also represent the maximum credit and default risk. The counterparty risk in the electricity and grid business as well as in the finance area is measured and monitored uniformly as part of Group-wide risk management. As a rule, transactions – with the exception of petty amounts – are only entered into with customers of sufficient creditworthiness either on the basis of an external investment grade rating from an international rating agency (Moody's, Standard & Poor's) or following an internal credit assessment to determine an equivalent rating. An individual limit is established for each counterparty and monitored across the Group. Money market investments are also only entered into with financial partners with confirmed creditworthiness. All counterparty risks and the customer structure portfolio are monitored on the basis of default

probabilities calculated by international rating agencies. As a rule, if the credit assessment or the rating does not meet the requirements – i.e. an investment grade rating is not achieved – transactions are only entered into if sufficient collateral is provided (advance payments, bank guarantees, letters of comfort). Default risks are minimised as a result of this counterparty requirement. Risk is further reduced by entering into netting arrangements. An exception is made for the operating activities in the (regulated) Grid segment, where there are some trade receivables for which the debtor does not meet the requirements due to obligations to contract.

In the 2017 reporting period, a credit insurance policy was entered into for Austria and Germany in the consumer business area with a 10% deductible and two-year term. As at 31 December 2017, €33.7m of the trade receivables (previous year: €0.0m) are covered under this insurance policy; however, there is a maximum coverage of €10.0m per year. The table below provides an overview of the material financial instruments with credit risk by credit rating group:

Financial instruments with credit risk by assigned rating group 2017								€m
Credit rating group	Equivalent Moody's-rating	Securities and loans under closed items on the balance sheet	Securities	Non-current and current other receivables ¹	Trade receivables	Derivatives in the finance area	Derivatives in the energy area	Investments as well as cash and cash equivalents ²
A	up to Aa3	221.1	0.0	0.0	6.6	0.0	3.9	0.1
B	up to A3	18.0	0.0	0.0	97.9	0.0	70.9	22.7
C	up to Baa3	95.5	0.0	0.0	128.7	89.8	21.6	10.7
D	below Baa3	0.0	0.0	0.0	39.4	0.0	8.4	0.0
Not rated		0.0	146.9	155.1	73.2	0.0	0.0	0.4
Total		334.5	146.9	155.1	345.7	89.8	104.7	33.9

¹ incl. receivables from investees and loans to investees // ² Non-current and current other loans and money market transactions have been summarised as investments in this presentation.

Financial instruments with credit risk by assigned rating group 2016

€m

Credit rating group	Equivalent Moody's-rating	Securities and loans under closed items on the balance sheet	Securities	Non-current and current other receivables ¹	Trade receivables	Derivatives in the finance area	Derivatives in the energy area	Investments as well as cash and cash equivalents ²
A	up to Aa3	69.9	0.0	0.0	1.8	0.0	1.9	0.3
B	up to A3	197.4	0.0	14.2	116.8	0.0	57.5	2.4
C	up to Baa3	107.8	0.0	0.0	166.3	114.1	55.3	25.3
D	below Baa3	0.0	0.0	0.0	0.6	0.0	3.9	0.0
Not rated		0.0	137.4	118.7	60.8	0.0	0.0	6.0
Total		375.1	137.4	132.8	346.3	114.1	118.6	34.0

¹incl. receivables from investees and loans to investees // ² Non-current and current other loans and money market transactions have been summarised as investments in this presentation.

Securities and loans related to closed items on the balance sheet are not exposed to price or foreign exchange risk from VERBUND's perspective. These investments were either carried out on the basis of matching currencies and maturities or they were adjusted to maturity, interest rates and currencies of the corresponding financial liabilities through corresponding derivatives. The remaining risk is thus a credit risk or default risk of the partner with whom the investments were carried out. This was in turn minimised in that investments were only carried out with partners with original first-class ratings (group A), whereby the credit rating and the solvency of the partner is constantly monitored in order to be able to react in a quick and timely manner according to the terms of the agreement in the event of impending default (see also: Accounting policies, other obligations and risks).

The other securities without assigned ratings are, in particular, domestic investment funds (funds for institutional investors) acquired to cover personnel-related provisions.

The amounts presented as "not rated" under non-current and current other receivables mainly include loans to investees accounted for using the equity method in addition to various small amounts (see: Transactions with related parties). In light of the close interconnections with VERBUND, it does not seem practical to have credit ratings for investees.

With respect to trade receivables, the amounts presented as "not rated" related on the one hand to the expansion of the consumer business, which led to a large number of receivables that individually lie below the de minimis limit (€<0.1m). On the other hand, it also includes receivables for which no credit assessments were carried out due to special circumstances (e.g. legal obligations to accept contracts).

Interest rate risk

VERBUND regards fluctuations in interest rates as a significant cash flow risk. As at 31 December 2017, the portion of financial liabilities (taking interest rate swaps into account) for which VERBUND was exposed to a corresponding interest rate risk was 6.5% (previous year: 6.6%).

A 1.0% increase in the interest rate would result in a decrease of €1.3m p.a. (previous year: €1.6m p.a.) in profit before taxes with the loan portfolio in existence as at the reporting date, including the money market transactions. As a rule, hedging instruments are used in an attempt to further reduce the effects of short-term market price fluctuations on profit or loss. However, prolonged negative market price changes can have a negative impact on performance.

At 31 December 2017, there are interest rate swaps (notional amount: \$257.3m; previous year: \$254.1m) related to closed items on the balance sheet. The fair value of these derivatives, together with the related securities, loans and receivables, in each case form a micro hedge that exactly equates to the fair value recognised for the related financial liability. The changes in fair value of the interest rate swaps correspond to the fluctuations in value of the hedged financial liabilities measured at fair value induced by changes in interest rates.

At 31 December 2017, there were additional interest rate swaps over a total notional amount of €115.3m (previous year: €369.9m). These swaps exchange variable interest for a fixed interest rate in order to also secure the existing low interest level for the long term. These interest rate swaps were designated as hedging instruments as part of cash flow hedges in accordance with IAS 39.

In addition, interest rate swaps (from variable to fixed interest) were entered into as part of intragroup project financing with a notional amount of €159.0m (previous year: €177.5m) for which no hedging relationships could be presented from a Group perspective (for the fair value of the non-current financial liabilities see: (35) Additional disclosures regarding financial instruments in accordance with IFRS 7). The average remaining term for the entire portfolio is 3.7 years (previous year: 4.1 years).

Foreign exchange risk

There are no assets exposed to significant foreign exchange risks because deliveries are settled almost entirely in euros; the same generally applies to other primary financial instruments.

Since securities and loans under closed items on the balance sheet as well as the associated liabilities are denominated exclusively in US dollars, no foreign exchange risk is incurred.

Risk from cross-border leasing transactions

With the beginning of the financial market crisis during the 2008 reporting period, the risk profile of cross-border leasing transactions changed for VERBUND – mainly as a result of the deterioration in the credit rating of contractual parties (banks and insurance companies). At the same time, due to the increased liquidity requirements of American cross-border leasing investors and the agreements between these investors and the American tax authorities regarding tax benefits to be approved, their willingness to terminate individual transactions early increased. VERBUND took advantage of these opportunities and was able to terminate a total of about 85% of the original volume of cross-border leasing transactions in the 2009 and 2010 reporting periods. The remaining transaction volume (Freudenau power plant) amounts to around \$966.0m, corresponding to around 15% of the original transaction volume. The original net present value benefit associated with this transaction was €75.9m. This last remaining transaction has an off-balance sheet financing structure. Any potential liabilities on

the part of VERBUND that could arise from this transaction are still hedged in part by means of counter-guarantees (see: Other obligations and/or entitlements and risks).

Some of the cross-border leasing transactions had been terminated early in their entirety; that is, all associated liabilities (A-loans and B-loans) and investments were also repaid. Some of the cross-border leasing transactions were only partially terminated, whereby the transactions with investors and the associated A-loans were repaid, while VERBUND continued the existing B-loans. For these transactions that are designated as partially terminated, the existing B-payment undertaking agreements and the corresponding investments as well as the related derivatives (interest rate swaps, fair value hedges) were continued. Therefore, balance sheet cover remains in place. Expenses and income from the measurement of these items correspond to one another in terms of both value and value date, and are offset. The reference value of the interest rate swaps amounts to \$257.3m (previous year: \$254.1m).

The financial assets and liabilities related to closed items on the balance sheet are not netted on the balance sheet (if there is no current legally enforceable right to offset the amounts recognised). In the event of insolvency, the interest rate swaps (€89.8m; previous year: €114.1m) can be netted against the financial liabilities to banks recognised at fair value (€318.0m; previous year: €370.5m). The net liability from both of these items therefore amounted to €228.2m as at 31 December 2017 (previous year: €256.4m).

The downgrade of VERBUND AG's credit rating by Standard & Poor's and Moody's in the 2016 reporting year triggered a head lease filing with respect to the equity investor. Provisions were recognised in the previous year for the estimated future expenses resulting from the impact of the head lease filing. Since the credit rating by Standard & Poor's was upgraded in the 2017 reporting period, the rating levels of the two agencies now differ and the head lease filing is therefore no longer triggered. As a result, the provisions recognised for this instance were reversed.

In addition, there is still a risk that the investing financial institutions would have to be exchanged or additional collateral would have to be provided if the rating of the investing financial institutions were downgraded below a certain threshold amount. The same applies to two transactions that had been terminated early for which the financial liabilities were continued if the rating of either VERBUND or the issuer of the investments were to be downgraded by a certain amount. In such case, corresponding measures would have to be implemented.

The ratings of contractual parties as well as VERBUND's rating exceeded the contractually agreed thresholds. Thus there is currently no need for VERBUND to switch individual contractual parties or investments. This risk is also reduced not least of all by the existence of guarantors' liabilities from regional authorities for individual contractual parties.

Energy area

Within its core business, VERBUND is active in international energy markets and is thus exposed to market, counterparty and operational risks that have to be seen alongside corresponding opportunities. Sustained economic activity in these markets requires appropriate structures and processes as well as strict intragroup regulations. Dealing with market risks is managed by means of rule books and the limits established in them. Counterparty risk is approached using separate guidelines both at the Group level as well as at the level of the subsidiaries. There is a procedure manual for the management of operational risks.

The current utilisation of the various limits for market risk (value at risk, stress limit, stop-loss limits and exposure limits) is monitored, managed and reported on a daily basis, as is the risk position of the (derivative) financial instruments in the energy area.

At 31 December 2017, the derivative financial instruments in the energy area (electricity futures as well as electricity forwards and options, gas futures and gas forwards, CO₂ futures and CO₂ forwards) comprised the following:

Cash flow hedges (sales and procurement) as at 31/12/2017 €m

	Positive fair values	Negative fair values	Net
Futures	25.5	247.4	-221.9
Forwards	15.2	79.2	-64.1
Total before netting	40.7	326.7	-286.0
of which current	33.4	283.6	-250.1
of which non-current	7.3	43.1	-35.9
of which in other comprehensive income			-286.0

Wholesale as at 31/12/2017 €m

	Positive fair values	Negative fair values	Net
Futures	208.4	4.6	203.8
Forwards	79.6	176.6	-97.0
Options	1.3	0.3	1.0
Swaps	1.2	1.4	-0.2
Total before netting	290.5	182.9	107.5
of which current	209.8	104.5	105.3
of which non-current	80.6	78.4	2.2
Futures already realised	50.3	149.3	-99.0
Total			8.5

Trading as at 31/12/2017			€m
	Positive fair values	Negative fair values	Net
Futures	14.0	14.3	-0.3
Forwards	365.1	364.4	0.7
Total before netting	379.0	378.6	0.4
of which current	316.6	316.7	-0.1
of which non-current	62.4	61.9	0.5

Total as at 31/12/2017			€m
	Positive fair values	Negative fair values	Net
Futures	247.9	266.3	-18.5
Forwards	459.9	620.2	-160.4
Options	1.3	0.3	1.0
Swaps	1.2	1.4	-0.2
Total before netting	710.2	888.2	-178.1
Including netting agreements	-605.4	-605.4	
Total after netting	104.7	282.8	-178.1
EEX/ECX clearing variation margins of futures		-18.9	18.9
Recognised under other receivables or liabilities	104.7	264.0	-159.2

At 31 December 2017, the derivative financial instruments in the energy area (electricity futures as well as electricity forwards and options, gas futures and gas forwards, CO₂ futures and CO₂ forwards) comprised the following:

Cash flow hedges (sales and procurement) as at 31/12/2016			€m
	Positive fair values	Negative fair values	Net
Futures	23.1	201.9	-178.7
Forwards	5.7	25.2	-19.5
Total before netting	28.9	227.1	-198.2
of which current	27.1	221.5	-194.4
of which non-current	1.7	5.6	-3.9
of which in other comprehensive income			-198.2

Wholesale as at 31/12/2016

	Positive fair values	Negative fair values	Net
Futures	90.2	16.7	73.5
Forwards	66.1	185.2	-119.1
Options	2.5	3.0	-0.5
Total before netting	158.8	204.9	-46.1
of which current	145.8	166.9	-21.1
of which non-current	13.0	37.9	-25.0
Futures already realised	82.7	28.2	54.5
Total			8.4

Trading as at 31/12/2016

	Positive fair values	Negative fair values	Net
Futures	12.6	12.0	0.6
Forwards	584.7	582.2	2.6
Total before netting	597.3	594.2	3.1
of which current	532.8	529.7	3.1
of which non-current	64.5	64.5	0.0

Total as at 31/12/2016

	Positive fair values	Negative fair values	Net
Futures	125.9	230.6	-104.7
Forwards	656.6	792.6	-136.0
Options	2.5	3.0	-0.5
Total before netting	785.0	1,026.2	-241.2
Including netting agreements	-666.5	-666.5	
Total after netting	118.5	359.7	-241.2
EEX/ECX clearing variation margins of futures		-105.8	105.8
Recognised under other receivables or liabilities	118.5	253.9	-135.4

Derivative financial instruments in the energy area with positive fair values are recognised under trade receivables and other receivables; those with negative fair values are recognised under trade payables and other liabilities. If a framework agreement with a netting clause has been entered into with a counterparty, the positive and negative fair values of the transactions for this counterparty are netted for accounting purposes because the aim is to settle on a net basis.

The effects of potential price fluctuations on the electricity market were measured (-10.0% to +10.0%) on the operating result (wholesale portfolio, trading portfolio) as well as on the equity (cash flow hedges). At present, a 10.0% increase in the market price would have an impact on the operating result in the amount of €+2.1m (previous year: €+5.8m) and on the provisions for measurements of cash flow hedges in equity (not including deferred taxes) in the amount of €-90.4m (previous year: €-107.3m). At present, a 10.0% decline in the market price would have an impact on the operating result in the amount of €-2.1m (previous year: €-5.8m) and on the provision for measurements of cash flow hedges

in equity (not including deferred taxes) in the amount of €+90.4m (previous year: €+107.3m). The future sales and procurement transactions hedged by cash flow hedges will occur over the next four years (2018 to 2021) and be recognised in profit or loss accordingly. At 31 December 2017, there were no material portions of cash flow hedges to be recognised in profit or loss in accordance with IAS 39.

In the 2017 reporting period, €87.8m was recognised in other comprehensive income with a resulting decrease in equity (previous year: €249.1m with a resulting decrease in equity), €85.4m of which relates to reclassifications to profit or loss as an expense (previous year: gain of €31.8m).

Capital management

The goals of VERBUND's capital management are to ensure liquidity, to guarantee adequate liquidity reserves, to optimise the capital structure (balance sheet equity and debt) and to ensure a strong rating in the long term. As part of capital management, the Executive Board regularly monitors the following KPIs: net debt/EBITDA, free cash flow (before dividends) and ROCE.

In order to support the rating, the Group strives for a ratio of net debt/EBITDA of <3.0, a free cash flow before dividends of >€250m and a ROCE of > 7.0% (profit or loss from any discontinued operations is taken into account when determining the KPIs). These targets are based on the existing asset and value chain structure.

Net debt/EBITDA	€m	
	2016	2017
Net debt	3,221.7	2,843.8
EBITDA	1,044.2	922.3
Net debt/EBITDA	3.1	3.1

Free cash flow	€m	
	2016	2017
Cash flow from operating activities	804.3	640.6
Cash flow from investing activities excluding cash inflows and outflows from investments and/or disposals in investments	-223.6	-224.5
Free cash flow	580.7	416.1

Return on capital employed	€m	
	2016	2017
NOPAT	500.0	368.7
Average capital employed	8,780.9	8,758.8
Return on capital employed	5.7%	4.2%

Other obligations and/or entitlements and risks

At 31 December 2017, around 85.0% of the original volume of cross-border leasing transactions had been terminated. The last remaining transaction has an off-balance sheet financing structure. As at 31 December 2016, VERBUND's secondary liability amounted to €504.1m (previous year: €582.3m) for the non-redeemed portion of the leasing liability from this cross-border leasing transaction. Of the rights of recourse against the primary debtors, €327.9m (previous year: €392.8m) is secured through counter-guarantees from financial institutions, entities entitled to purchase electricity and regional authorities (from guarantors' liabilities). In addition, €240.2m (previous year: €259.8m) is covered by off-balance sheet investments in zero coupons of the European Investment Bank which are also secured by a guarantee from the Financial Security Assurance Inc. (FSA).

Contingent liabilities

In connection with the flooding of the Drau River in 2012, several parties filed claims for damages. The civil claims for damages currently amount to around €109.9m (previous year: €109.8m). VERBUND is contesting both the amounts and merits of these claims. No disclosures have been provided in respect of any contingent liabilities or provisions that may arise in relation to these claims for damages because it is likely that such note disclosures would seriously prejudice VERBUND's position in the proceedings.

Court proceedings pending

On 19 May 2015, VERBUND was served notice of an action by EVN AG (the action was brought before the Vienna Commercial Court on 5 May 2015). The subject of this action is EVN AG's action for a declaratory judgement to the effect that VERBUND's termination of the operating provisions of the construction, operation and management agreement from 1980 effective 30 June 2015 in connection with the completed shutdown of VERBUND's power plant block at the site of the power plant joint venture in Dürnrrohr is unlawful and that EVN AG lost benefits from the synergy effects of joint management. Discussions were held in the 2017 reporting period regarding a potential out-of-court settlement. No disclosures have been provided in respect of any contingent liabilities or provisions that may arise in relation to this action because it is likely that such note disclosures would seriously prejudice VERBUND's position in the proceedings.

In connection with the amortisation of goodwill described in the previous year for the investment in VERBUND Innkraftwerke GmbH claimed for tax purposes for the years 2014–2023, the appeal against the 2014 notice of assessment for the group parent remains pending. The tax benefit for these years (reduction of future tax payments in the amount of €8.2m per year) is recognised in accordance with VERBUND's accounting policies if it is reasonably likely.

Contracts and purchase commitments

Contracts and purchase commitments 2017				€m
	Total commitment as at 31/12/2017	Commitment within one year	Commitment within 5 years	
Rental, lease and insurance contracts	n/a ¹	17.3	74.3	
Purchase commitment for property, plant and equipment, intangible assets and other services	380.4	255.5	379.8	

Contracts and purchase commitments 2016				€m
	Total commitment as at 31/12/2016	Commitment within one year	Commitment within 5 years	
Rental, lease and insurance contracts	n/a ¹	21.2	76.7	
Purchase commitment for property, plant and equipment, intangible assets and other services	363.9	210.3	359.6	

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

Purchase contracts

As part of a basic contract which can be terminated yearly, Weglokoks S.A. offers VERBUND Thermal Power GmbH & Co KG in Liqu. 450,000 tonnes of hard coal annually at negotiable prices. There is also a framework contract that can be terminated yearly with OKD A.S. for an annual volume of at least 600,000 tonnes hard coal at negotiable prices. No purchase agreements have so far been entered into for delivery in the 2018 reporting period, as the negotiations with the coal suppliers have not been finalised.

In addition, there are further customary purchase contracts for business activities that include, in particular, the delivery of electricity and primary energy sources, but also property, plant and equipment, as well as maintenance and repair services.

Other commitments

Provincial energy companies have acquired (proportionate) electricity purchase rights by providing contributions to building costs for power plants on the Danube and Drau rivers and for the Malta power plant group. Due to these electricity supply agreements, VERBUND is obligated to deliver a portion of the electricity generated in these power plants to the provincial energy companies in exchange for reimbursement of the contractually predetermined recognised expenses (excluding depreciation, amortisation and interest).

In the 2011 reporting period, an agreement was reached with the Free State of Bavaria to convert the existing reversion rights for the Wasserburg, Teufelsbrück and Gars run-of-river power plants into so-called contingent reversion rights – these are only triggered in the event that VERBUND permanently ceases to operate the power plants or permanently shuts them down. In exchange, VERBUND undertook to implement certain water management measures and environmental and infrastructure measures on the Bavarian Inn River by 2021.

There is a district heating supply and purchase agreement between VERBUND Thermal Power GmbH & Co KG in Liqu. and Steirische Gas-Wärme GmbH to meet the district heating demand of the metropolitan area of Graz. District heating plants have been authorised at the Mellach site to satisfy the resulting delivery obligations.

As is typical for the energy industry, payments for losses are made to land owners for economic disadvantages associated with the construction of power plants and lines. The total present value of these commitments is not material to VERBUND.

Average number of employees

	2016	2017	Change
Salaried employees	2,749	2,664	-85
Wage earners	4	2	-2
Apprentices	169	153	-17
Average number of employees ¹	2,923	2,819	-104

¹ Part-time employees were taken into account proportionately based on their working hours.

As at the reporting date, 84 (previous year: 115) employees had a letter of loyalty granting them a higher degree of employment protection. The prerequisite was at least 20 years of service at VERBUND and a minimum age of 45.

In the 2017 reporting period there was a total average of 16 secondments (previous year: 18) to unconsolidated subsidiaries of VERBUND. In addition, 14 employees were assigned on average to PÖYRY Energy GmbH (previous year: 16).

The expenses for services provided by the Group auditor refer to VERBUND's consolidated subsidiaries that are audited by the Group auditor/the Group auditor's network; the corresponding expenses for subsidiaries that are not consolidated due to lack of materiality are not included here. VERBUND's Group auditor in both 2017 and 2016 was Deloitte Audit Wirtschaftsprüfungs GmbH.

Expenses for services provided by the Group auditor

	€k			
	Deloitte ¹ 2016	Deloitte ¹ 2017	Network 2016	Network 2017
Audit services relating to consolidated and separate financial statements	329.5	281.6	197.8	157.3
Other assurance services	46.7	51.0	0.0	1.2
Tax consulting services	19.8	0.0	0.0	0.0
Other advisory services	4.0	80.4	0.0	0.0
Total expenses	400.0	413.0	197.8	158.5

¹ Deloitte Audit Wirtschaftsprüfungs GmbH

The following expenses for Group auditor/Group auditor network services were incurred by VERBUND's joint ventures: €25.4k (previous year: €25.4k) for audit services relating to the consolidated and separate financial statements (of which to Deloitte Audit Wirtschaftsprüfungs GmbH: €25.4k; previous year: €25.4k).

Average number of employees

Provision of personnel

Expenses for services provided by the Group auditor

Transactions with related parties

Related parties of VERBUND include all subsidiaries, associates and joint ventures. In addition, related parties include the members of VERBUND's Executive Board and Supervisory Board, companies controlled or significantly influenced by them or their close family members. Due to its position as the majority shareholder, the Republic of Austria is a related party. Consequently, companies over which the Republic of Austria has a controlling or significant influence are also considered to be related parties. These include, in particular, Österreichische Bundesbahnen (ÖBB), Bundesbeschaffung GmbH (BBG), OMV and Telekom Austria as well as Energie-Control Austria für die Regulierung der Elektrizitäts- und Erdgaswirtschaft (E-Control).

Transactions between related parties are carried out at arm's length. Transactions with unconsolidated subsidiaries, joint ventures or associates are not presented due to lack of materiality.

Transactions with joint ventures

Material transactions with equity-accounted joint ventures had the following effect on VERBUND's income statement and balance sheet:

Transactions with joint ventures		€m	
	2016	2017	
Income statement			
Electricity revenue	3.1	2.6	
Other revenue	0.5	2.8	
Other operating income	0.1	0.3	
Expenses for electricity, grid, gas and certificates purchases	-2.6	-0.4	
Fuel expenses and other usage-/revenue-dependent expenses	-0.1	0.0	
Other operating expenses	-0.1	-0.1	
Interest expenses	0.0	0.0	
Interest income	1.4	1.4	
Other financial result	2.2	2.1	

Transactions with joint ventures		€m	
	31/12/2016	31/12/2017	
Balance sheet			
Investments and non-current other receivables	42.2	33.6	
Trade receivables and current other receivables	9.5	10.9	
Contributions to building costs	1.0	1.0	
Trade payables and current other liabilities	3.4	1.1	

As part of a cooperation between OMV Aktiengesellschaft, Siemens Aktiengesellschaft Österreich and VERBUND, the two partners acquired shares of SMATRICS GmbH & Co KG from VERBUND effective 6 December 2017 and/or carried out a unilateral capital increase for the company (see: Financial reporting principles). Since the transaction, SMATRICS GmbH & Co KG has been a joint venture of VERBUND and consequently to be qualified as a related party in accordance with IAS 24.

Investments at 31 December 2017 included a non-current loan to Energji Ashta Shpk in the amount of €32.1m (previous year: €39.3m) as well as a current other receivable in the amount of €3.5m (previous year: €3.5m). Both mainly served the financing of construction services relating to an Albanian hydropower plant concession.

KELAG-Kärntner Elektrizitäts-Aktiengesellschaft has acquired (proportionate) electricity purchase rights by providing contributions to building costs for power plants on the Danube and Drau rivers and for the Malta and Reißeck power plant groups. Based on these electricity supply agreements, VERBUND is obligated to deliver a portion of the electricity generated in these power plants to KELAG-Kärntner Elektrizitäts-Aktiengesellschaft in exchange for reimbursement of the contractually predetermined recognised expenses (excluding depreciation, amortisation and interest).

Material transactions with equity-accounted associates had the following effect on VERBUND's income statement and balance sheet:

Transactions with associates

Transactions with associates	€m	
	2016	2017
Income statement		
Electricity revenue	63.4	57.8
Grid revenue	23.4	24.7
Other revenue	0.2	-0.4
Other operating income	6.8	1.6
Expenses for electricity, grid, gas and certificates purchases	-27.0	-11.9
Other operating expenses	-0.9	-0.7
Interest expenses	0.0	0.0
Interest income	0.1	0.2
	31/12/2016	31/12/2017
Balance sheet		
Trade receivables and current other receivables	16.2	19.1
Contributions to building costs	287.3	282.0
Trade payables and current other liabilities	0.3	0.3

Electricity revenue was realised with KELAG-Kärntner Elektrizitäts-Aktiengesellschaft (€43.4m; previous year: €35.4m) and OeMAG Abwicklungsstelle für Ökostrom AG (€14.4m; previous year: €28.0m). Electricity revenue was offset by electricity purchases from KELAG-Kärntner Elektrizitäts-Aktiengesellschaft in the amount of €11.3m (previous year: €17.2m).

**Transactions with
the Republic of
Austria and
companies under its
controlling influence**

Grid revenue was only realised with KELAG-Kärntner Elektrizitäts-Aktiengesellschaft. KELAG-Kärntner Elektrizitäts-Aktiengesellschaft made contributions to building costs of €3.0m (previous year: €7.3m) in the 2017 reporting period.

Electricity deliveries from companies controlled or significantly influenced by the Republic of Austria amounted to a total of €51.0m (previous year: €26.7m) in the 2017 reporting period. The primary buyers of this electricity were ÖBB, Bundesbeschaffung GmbH, Telekom Austria and OMV. Electricity purchased from companies controlled or significantly influenced by the Republic of Austria amounted to a total of €16.1m in the 2017 reporting period (previous year: €0.2m). The electricity deliveries were carried out by ÖBB.

VERBUND's expense for monitoring by E-Control amounted to a total of €14.0m (previous year: €12.1m) in the 2017 reporting period.

**Disclosures
regarding the
governing bodies of
the Group**

Detailed disclosures regarding the Boards of VERBUND AG are presented in the corporate governance report. The following disclosures focus on the remuneration of members of the Executive Board and the Supervisory Board.

Current remuneration of the Executive Board (incl. variable remuneration)					€
	Current remuneration	2016 (of which variable portion)	Current remuneration	2017 (of which variable portion)	
Dipl.-Ing. Wolfgang Anzengruber	1,219,954	(402,505)	1,327,347	(499,972)	
Dr. Johann Sereinig	1,167,133	(385,702)	1,133,133	(342,214)	
Dipl.-Ing. Dr. Günther Rabensteiner	752,796	(172,002)	842,193	(254,348)	
Dr. Peter F. Kollmann	1,003,460	(229,275)	1,122,625	(339,040)	

Remuneration of the Executive Board members amounted to a total of €4,485,156 in the 2017 reporting period (previous year: €4,293,724), including €59,858 (previous year: €150,381) in remuneration in kind.

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 includes variable remuneration components granted to members of the Executive Board in the 2017 reporting period for the 2016 reporting period.

Variable remuneration depends upon performance and is limited to a specific percentage of the respective fixed remuneration. For the 2016 reporting period (as well as for the current 2017 reporting period), this percentage rate amounted to between 50% and 70%. 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 in the 2016 reporting period was based on the achievement of the Group result, 30% on the achievement of free cash flow (three-year target) and 20% on other intermediate (two-year, qualitative) goals, such as the settlement of legacy issues (for example, the successful resolution of contentious issues such as pending complaints and arbitration proceedings) and the optimisation and adaption of structures, processes and business models based on technological development (digitalisation) and the disruptive changes resulting from competition in the energy industry. 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 2017 reporting period, contributions to the pension fund were paid for the Executive Board in the amount of €219,681 (previous year: €217,045).

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 2017 reporting period, €361,817 (previous year: €361,210) 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 €37,715 (previous year: €46,002). 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 €50,769 (previous year: €68,322). In addition, remeasurement expenses in the amount of €66,807 (previous year: expenses amounting to €325,558) were recognised in other comprehensive income.

Remuneration for members of the Supervisory Board (including the reimbursement of recharged business/travel expenses) amounted to a total of €380,801 (previous year: €387,329). 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, VERBUND does not have a stock option programme for either the members of the Executive Board or senior management staff.

Subsidiaries, joint ventures and associates of VERBUND

The following table contains condensed financial information for each of the Group's subsidiaries with significant, non-controlling interests before intragroup adjustments:

Subsidiaries with significant, non-controlling interests

Subsidiaries with significant, non-controlling interests: Statement of comprehensive income

	€m			
	VERBUND Hydro Power GmbH	2016 VERBUND Innkraftwerke GmbH	VERBUND Hydro Power GmbH	2017 VERBUND Innkraftwerke GmbH
Revenue	676.9	63.0	654.0	72.4
Profit/loss after tax from continuing operations	180.1	-7.4	167.7	-109.7
Profit/loss for the period	180.1	-7.4	167.7	-109.7
Ownership interest of non-controlling interests	19.46%	29.73%	19.46%	29.73%
Profit/loss for the period attributable to non-controlling interests	35.1	-2.2	32.6	-32.6
Other comprehensive income	-2.1	-1.4	3.3	-0.2
Total comprehensive income for the period	178.0	-8.8	171.0	-109.9
Ownership interest of non-controlling interests	19.46%	29.73%	19.46%	29.73%
Total profit/loss for the period attributable to non-controlling interests	34.6	-2.6	33.3	-32.7

Subsidiaries with significant, non-controlling interests: Balance sheet

€m

	VERBUND Hydro Power GmbH	31/12/2016 VERBUND Innkraftwerke GmbH	VERBUND Hydro Power GmbH	31/12/2017 VERBUND Innkraftwerke GmbH
Non-current assets	4,758.1	667.5	4,619.9	767.7
Current assets	16.6	31.5	13.7	28.9
Non-current liabilities	-2,082.1	-84.2	-2,383.1	-23.5
Current liabilities	-655.6	-12.7	-142.5	-8.4
Net assets	2,037.0	602.1	2,108.0	764.7
Ownership interest of non-controlling interests	19.46%	29.73%	19.46%	29.73%
Net assets attributable to non-controlling interests	396.5	179.0	410.3	227.4

Subsidiaries with significant, non-controlling interests: Cash flows

€m

	VERBUND Hydro Power GmbH	31/12/2016 VERBUND Innkraftwerke GmbH	VERBUND Hydro Power GmbH	31/12/2017 VERBUND Innkraftwerke GmbH
Cash flow from operating activities	331.2	33.6	278.4	38.5
Cash flow from investing activities	-83.2	-8.0	-79.0	-9.4
Cash flow from financing activities	-247.9	-25.7	-199.5	-29.1
Change in cash and cash equivalents	0.0	0.0	0.0	0.0
Dividends paid to non-controlling interests	38.9	4.5	19.5	2.4

There is a shareholder agreement at VERBUND Innkraftwerke GmbH that specifies that the entire profit for the year is to be approved as net profit for the period and distributed to the shareholders except in the following cases: the shareholders agree unanimously to a different payout ratio; the distribution of the entire profit violates statutory provisions; equity as a percentage of assets will fall below 25% as at the respective reporting date if the entire profit is distributed; there are insufficient cash and cash equivalents available to distribute the entire profit; a distribution of the entire profit would not leave enough cash and cash equivalents for approved capital expenditure, maintenance and restructuring measures and/or actions that must be taken due to force majeure, or reserves are to be recognised for the reversal of impairment losses.

Joint ventures

The tables below show a summary of aggregated financial information for the joint ventures of VERBUND accounted for using the equity method broken down according to material joint ventures (Ashta Beteiligungsverwaltung GmbH und SMATRICES GmbH & Co KG) and joint ventures that are individually immaterial. The reference date for investee balance sheet data is 30 September 2017 (see: Financial reporting principles); the data are based on disclosed financial statements and/or on data updated to the best of VERBUND's knowledge. However, an exception is made for the balance sheet data of SMATRICES GmbH & Co KG, which relate to 6 December 2017. Due to the sale of shares and a unilateral capital increase, since this date the investment in SMATRICES GmbH & Co KG has been included in the consolidated financial statements of VERBUND according to the equity method (see: Financial reporting

principles). Since the proportionate net assets are adjusted no later than one quarter following the underlying changes in accordance with VERBUND's accounting policies, a result from interests accounted for using the equity method was not yet recognised for SMATRICS GmbH & Co KG in the 2017 reporting period.

Individually material joint ventures: Statement of comprehensive income					€m
	2016		2017		
	Ashta Beteiligungs- verwaltung GmbH	SMATRICS GmbH & Co KG	Ashta Beteiligungs- verwaltung GmbH	SMATRICS GmbH & Co KG	
Revenue	0.7	-	0.2	-	
Depreciation and amortisation	-0.1	-	-0.1	-	
Interest income	11.0	-	10.4	-	
Interest expense	-7.2	-	-6.8	-	
Taxes on income	0.7	-	-0.8	-	
Profit after tax from continuing operations	2.8	-	0.7	-	
Ownership interest of VERBUND	50.01%	-	50.01%	-	
Profit for the period attributable to VERBUND	1.4	-	0.3	-	
Differences due to the application of the equity method of accounting	0.0	-	0.0	-	
Result from joint ventures accounted for using the equity method	1.4	-	0.3	-	
Profit after tax from continuing operations	2.8	-	0.7	-	
Other comprehensive income	0.0	-	0.0	-	
Total comprehensive income for the period	2.8	-	0.7	-	
Ownership interest of VERBUND	50.01%	-	50.01%	-	
Total comprehensive income for the period attributable to VERBUND	1.4	-	0.3	-	
Differences due to the application of the equity method of accounting	0.0	-	0.0	-	
Total comprehensive income for the period from joint ventures accounted for using the equity method	1.4	-	0.3	-	
Dividends received from joint ventures	0.0	-	0.0	-	

At Ashta Beteiligungsverwaltung GmbH, resolutions on the distribution of dividends are to be unanimously approved with the joint venture partners.

At SMATRICS GmbH & Co KG, assigned profit shares are to be distributed in full after covering any existing losses from prior years insofar as it is legally allowed and the company's equity ratio amounts to 30% (even after the distribution).

Individually immaterial joint ventures: Statement of comprehensive income		€m	
	2016	2017	
Loss after tax from continuing operations	-2.8	-1.4	
Loss for the period attributable to VERBUND	-1.5	-0.8	
Differences due to the application of the equity method of accounting	-0.4	-0.1	
Result from joint ventures accounted for using the equity method	-1.9	-0.9	
Loss after tax from continuing operations	-2.8	-1.4	
Other comprehensive income	0.0	0.0	
Total comprehensive income for the period	-2.8	-1.4	
Total comprehensive income for the period attributable to VERBUND	-1.5	-0.8	
Differences due to the application of the equity method of accounting	-0.4	-0.1	
Total comprehensive income for the period from joint ventures accounted for using the equity method	-1.9	-0.9	

Individually immaterial joint ventures: Balance sheet		€m		
	31/12/2016		31/12/2017	
	Ashta Beteiligungs- verwaltung GmbH	SMATRICS GmbH & Co KG	Ashta Beteiligungs- verwaltung GmbH	SMATRICS GmbH & Co KG
Non-current assets	130.9	-	128.9	4.5
Current assets	4.0	-	2.3	11.9
Non-current liabilities	-107.6	-	-101.3	-1.9
Current liabilities	-8.0	-	-9.9	-1.2
Net assets	19.3	-	20.0	13.3
Ownership interest of VERBUND	50.01%	-	50.01%	40.00%
Net assets attributable to VERBUND	9.7	-	10.0	5.3
Differences due to the application of the equity method of accounting	-9.7	-	-10.0	7.0
Carrying amount of joint ventures accounted for using the equity method	0.0	-	0.0	12.3

Individually material joint ventures: Details regarding net assets		€m		
	31/12/2016		31/12/2017	
	Ashta Beteiligungs- verwaltung GmbH	SMATRICS GmbH & Co KG	Ashta Beteiligungs- verwaltung GmbH	SMATRICS GmbH & Co KG
Cash and cash equivalents	0.0	-	0.7	8.2
Non-current financial liabilities	111.9	-	105.0	0.0
Current financial liabilities	7.7	-	7.7	0.0

Until further notice, there is a cash management agreement in place between VERBUND and Energi Ashta Shpk (wholly owned subsidiary of Ashta Beteiligungsverwaltung GmbH) with a limit of €9.0m (previous year: €9.0m). As at 31 December 2017, €4.3m (previous year: €4.5m) of the limit had been drawn down.

Individually immaterial joint ventures: Balance sheet

	€m	
	31/12/2016	31/12/2017
Net assets	10.0	9.4
Net assets attributable to VERBUND	3.7	3.4
Differences due to the application of the equity method of accounting	1.1	0.9
Carrying amount of joint ventures accounted for using the equity method	4.8	4.3

The tables below show a summary of aggregated financial information for the associates of VERBUND accounted for using the equity method broken down according to material associates (KELAG-Kärntner Elektrizitäts-Aktiengesellschaft) and individually immaterial associates. The reference date for investee balance sheet data is 30 September 2017 (see: Financial reporting principles); the data are based on disclosed financial statements and/or on data updated to the best of VERBUND's knowledge.

Associates

Individually material associates: Statement of comprehensive income

	€m	
	2016 KELAG-Kärntner Elektrizitäts- Aktien- gesellschaft	2017 KELAG-Kärntner Elektrizitäts- Aktien- gesellschaft
Revenue	1,249.4	1,810.4
Profit after tax from continuing operations	87.9	80.1
Ownership interest of VERBUND	35.17%	35.17%
Profit for the period attributable to VERBUND	30.9	28.2
Differences due to the application of the equity method of accounting	0.0	0.0
Share of profit from associates accounted for using the equity method	30.9	28.2
Profit after tax from continuing operations	87.9	80.1
Other comprehensive income	-5.6	14.0
Total comprehensive income for the period	82.3	94.2
Ownership interest of VERBUND	35.17%	35.17%
Total comprehensive income for the period attributable to VERBUND	28.9	33.1
Differences due to the application of the equity method of accounting	0.0	0.0
Total comprehensive income for the period from associates accounted for using the equity method	28.9	33.1
Dividends received from associates	14.1	14.1

KELAG-Kärntner Elektrizitäts-Aktiengesellschaft's resolutions on the distribution of dividends must be approved with a simple majority. Kärntner Energieholding Beteiligungs GmbH holds 51% of the interest in KELAG-Kärntner Elektrizitäts-Aktiengesellschaft and therefore determines their distribution policy.

Individually immaterial associates: Statement of comprehensive income		€m
	2016	2017
Profit after tax from continuing operations	0.2	1.1
Profit for the period attributable to VERBUND	0.1	0.3
Differences due to the application of the equity method of accounting	0.0	0.0
Share of profit from associates accounted for using the equity method	0.1	0.3
Profit after tax from continuing operations	0.2	1.1
Other comprehensive income	0.0	0.0
Total comprehensive income for the period	0.2	1.1
Total comprehensive income for the period attributable to VERBUND	0.1	0.3
Differences due to the application of the equity method of accounting	0.0	0.0
Total comprehensive income for the period from associates accounted for using the equity method	0.1	0.3

Individually material associates: Balance sheet		€m
	31/12/2016 KELAG-Kärntner Elektrizitäts- Aktien- gesellschaft	31/12/2017 KELAG-Kärntner Elektrizitäts- Aktien- gesellschaft
Non-current assets	1,611.8	1,621.3
Current assets	344.3	338.2
Non-current liabilities	-848.3	-842.4
Current liabilities	-317.9	-272.1
Equity attributable to non-controlling interests	-6.2	-7.1
Net assets	783.6	837.8
Ownership interest of VERBUND	35.17%	35.17%
Net assets attributable to VERBUND	275.6	294.6
Differences due to the application of the equity method of accounting	0.3	0.3
Carrying amount of associates accounted for using the equity method	275.8	294.9

Individually immaterial associates: Balance sheet		€m
	31/12/2016	31/12/2017
Net assets	5.2	6.0
Net assets attributable to VERBUND	1.3	1.5
Differences due to the application of the equity method of accounting	0.0	0.0
Carrying amount of associates accounted for using the equity method	1.3	1.5

The following list of Group companies prepared in accordance with Section 245a(1) in conjunction with Section 265(2) of the Austrian Commercial Code (UGB) comprises VERBUND's subsidiaries, joint ventures and associates. In addition, this list also includes unconsolidated subsidiaries and other joint ventures and equity interests of VERBUND not accounted for using the equity method with an interest of $\geq 20\%$.

List of Group companies

Segment: Renewable Generation

Company	Head-quarters	Consolidation method	Parent company	2016 Parent company's share of equity	Head-quarters	Consolidation method	Parent company	2017 Parent company's share of equity
VERBUND AG (VH) – Renewable generation activities	Vienna	CS	–	–	Vienna	CS	–	–
CAS Regenerabile SRL	Bucharest	CS	VH VFS	99.99% 0.01%	–	–	–	–
Donaukraftwerk Jochenstein Aktiengesellschaft	Passau	CS	VH VHP-IW	50.00% 50.00%	Passau	CS	VH VHP-IW	50.00% 50.00%
Grenzkraftwerke Gesellschaft mit beschränkter Haftung	Simbach	CS	VH VHP-IW	50.00% 50.00%	Simbach	CS	VH VHP-IW	50.00% 50.00%
Innwerk AG (VHP-IW)	Stammham	CS	VH	100.00%	Stammham	CS	VH	100.00%
Österreichisch-Bayerische Kraftwerke Aktiengesellschaft	Simbach	CS	VH VHP-IW	50.00% 50.00%	Simbach	CS	VH VHP-IW	50.00% 50.00%
Ventus Renew Romania S.R.L.	Bucharest	CS	VH VFS	99.98% 0.02%	–	–	–	–
VERBUND Wind Power Austria GmbH (VRP-AT)	Vienna	CS	VHP	100.00%	Vienna	CS	VHP	100.00%
VERBUND Wind Power Deutschland GmbH (VRP-DE)	Wörrstadt	CS	VH	100.00%	Wörrstadt	CS	VH	100.00%
VERBUND Wind Power Romania SRL (Vorjahr: Alpha Wind SRL)	Bucharest	CS	VH VFS	99.98% 0.02%	Bucharest	CS	VH VFS	99.98% 0.02%
Windpark Dichtelbach GmbH & Co. KG	Wörrstadt	CS	VH	95.00%	Wörrstadt	CS	VH	95.00%
Windpark Dörrebach GmbH & Co. KG	Wörrstadt	CS	VH	95.00%	Wörrstadt	CS	VH	95.00%
Windpark Eichberg GmbH & Co. KG	Wörrstadt	CS	VH	95.00%	Wörrstadt	CS	VH	95.00%

Segment: Renewable Generation

Company	Head- quarters	Consoli- dation method	Parent company	2016 Parent company's share of equity	Head- quarters	Consoli- dation method	Parent company	2017 Parent company's share of equity
Windpark Ellern GmbH & Co. KG	Wörr- stadt	CS	VH	95.00%	Wörr- stadt	CS	VH	95.00%
Windpark Hochfels GmbH & Co. KG	Wörr- stadt	CS	VH	95.00%	Wörr- stadt	CS	VH	95.00%
Windpark Rheinböllen GmbH & Co. KG	Wörr- stadt	CS	VH	95.00%	Wörr- stadt	CS	VH	95.00%
Windpark Schönborn GmbH & Co. KG	Wörr- stadt	CS	VH	95.00%	Wörr- stadt	CS	VH	95.00%
Windpark Seibersbach GmbH & Co. KG	Wörr- stadt	CS	VH	95.00%	Wörr- stadt	CS	VH	95.00%
Windpark Stetten I GmbH & Co. KG	Wörr- stadt	CS	VH	95.00%	Wörr- stadt	CS	VH	95.00%
Windpark Utschenwald GmbH & Co. KG	Wörr- stadt	CS	VH	95.00%	Wörr- stadt	CS	VH	95.00%
Infrastruktur Oberheimbach I GmbH & Co. KG	Wörr- stadt	CS	VH	81.00%	Wörr- stadt	CS	VH	81.00%
VERBUND Hydro Power GmbH (VHP)	Vienna	CS	VH	80.54%	Vienna	CS	VH	80.54%
VERBUND Innkraftwerke GmbH	Töging	CS	VH	70.27%	Töging	CS	VH	70.27%
Infrastrukturgesell- schaft Bischheim GmbH & Co. KG	Wörr- stadt	CS	VH	61.26%	Wörr- stadt	CS	VH	61.26%
Ennskraftwerke Aktiengesellschaft	Steyr	JO	VH	50.00%	Steyr	JO	VH	50.00%
Ashta Beteiligungs- verwaltung GmbH (previous year: Shkodra Region Beteiligungsholding GmbH)	Vienna	EM ¹	VHP	50.01%	Vienna	EM ¹	VHP	50.01%
Kraftwerk Nußdorf Errichtungs- und Betriebs GmbH & Co KG	Vienna	EM ¹	VHP	33.33%	Vienna	EM ¹	VHP	33.33%
Kraftwerk Nußdorf Errichtungs- und Betriebs GmbH	Vienna	EM ¹	VHP	33.33%	Vienna	EM ¹	VHP	33.33%

Segment: Renewable Generation

Company	Head- quarters	Consoli- dation method	Parent company	2016 Parent company's share of equity	Head- quarters	Consoli- dation method	Parent company	2017 Parent company's share of equity
Lestin & Co Tauch-, Bergungs- und Sprengunterneh- men Gesellschaft m.b.H. (LESTIN)	Vienna	UC	VHP	100.00%	Vienna	UC	VHP	100.00%
VERBUND Tourismus GmbH	Vienna	UC	VHP LESTIN	99.90% 0.10%	Vienna	UC	VHP LESTIN	99.90% 0.10%
Verbundplan Birecik Baraji Isletme Ltd. Sti.	Birecik	UC	VHP	70.00%	-	-	-	-

CS = Consolidated subsidiary / EM = Investee accounted for using the equity method / JO = Joint operation, proportionate inclusion of assets and liabilities as well as income and expenses / UC = Unconsolidated entities due to immateriality or lack of significant influence

¹ Joint ventures

Segment: Sales

Company	Head- quarters	Consoli- dation method	Parent company	2016 Parent company's share of equity	Head- quarters	Consoli- dation method	Parent company	2017 Parent company's share of equity
VERBUND AG (VH) – Sales activities	Vienna	CS	-	-	Vienna	CS	-	-
VERBUND Sales GmbH (VSA)	Vienna	CS	VH	100.00%	Vienna	CS	VH	100.00%
VERBUND Sales Deutschland GmbH	Munich	CS	VSA	100.00%	Munich	CS	VSA	100.00%
VERBUND Trading GmbH (VTR)	Vienna	CS	VH	100.00%	Vienna	CS	VH	100.00%
VERBUND Trading Romania S.R.L.	Bucha- rest	CS	VTR VH	99.00% 1.00%	Bucha- rest	CS	VTR VH	99.00% 1.00%
VERBUND Trading & Sales Deutschland GmbH	Munich	UC	VTR	100.00%	Munich	UC	VTR	100.00%
VERBUND Trading Czech Republic s.r.o.	Prague	UC	VTR	100.00%	Prague	UC	VTR	100.00%
VERBUND Trading Serbia d.o.o.	Belgrade	UC	VTR	100.00%	Belgrade	UC	VTR	100.00%
smart Energy Services GmbH	Vienna	UC ¹	VSA	50.00%	Vienna	UC ¹	VSA	50.00%

Segment: Grid

Company	Head- quarters	Consoli- dation method	Parent company	2016	Head- quarters	Consoli- dation method	Parent company	2017
				Parent company's share of equity				Parent company's share of equity
Austrian Power Grid AG (APG)	Vienna	CS	VH	100.00%	Vienna	CS	VH	100.00%
OeMAG Abwicklungsstelle für Ökostrom AG	Vienna	EM	APG	24.40%	Vienna	EM	APG	24.40%

CS = Consolidated subsidiary / EM = Investee accounted for using the equity method / JO = Joint operation, proportionate inclusion of assets and liabilities as well as income and expenses / UC = Unconsolidated entities due to immateriality or lack of significant influence

¹ Joint ventures

All other segments: Energy services

Company	Head- quarters	Consoli- dation method	Parent company	2016	Head- quarters	Consoli- dation method	Parent company	2017
				Parent company's share of equity				Parent company's share of equity
VERBUND AG (VH) – Energy services activities	Vienna	CS	–	–	Vienna	CS	–	–
VERBUND Solutions GmbH (VSO)	Vienna	CS	VH	100.00%	Vienna	CS	VH	100.00%
SOLAVOLTA Energie- und Umwelttechnik GmbH	Sankt Marga- rethen im Bgl.	EM ¹	VSO	50.00%	Sankt Marga- rethen im Bgl.	EM ¹	VSO	50.00%
SMATRICS GmbH & Co KG	Vienna	CS	VSO	83.29%	Vienna	EM ¹	VSO	40.00%
VERBUND GETEC Energiecontracting GmbH	Vienna	EM ¹	VSO	50.00%	Vienna	EM ¹	VSO	50.00%
AQUANTO GmbH i. L.	Unterföhr ing	EM ¹	VH	50.00%	Unterföh ring	UC	VH	100.00%
E-Mobility Provider Austria GmbH	Vienna	UC	VSO	83.29%	Vienna	UC	VSO	40.00%

All other segments: Thermal generation

Company	Head- quarters	Consoli- dation method	Parent company	2016		Head- quarters	Consoli- dation method	Parent company	2017	
				Parent company's share of equity					Parent company's share of equity	
VERBUND Thermal Power GmbH & Co KG in Liqu.	Neudorf ob Wildon	CS	VH	100% ²		Neudorf ob Wildon	CS	VH	100% ²	
VERBUND Thermal Power GmbH (VTP GmbH)	Neudorf ob Wildon	CS	VH	100.00%		Neudorf ob Wildon	CS	VH	100.00%	

CS = Consolidated subsidiary / EM = Investee accounted for using the equity method / JO = Joint operation, proportionate inclusion of assets and liabilities as well as income and expenses / UC = Unconsolidated entities due to immateriality or lack of significant influence

¹ Joint ventures // ² The other limited partners of VERBUND Thermal Power GmbH & Co KG in Liqu. hold a combined share of <0.01%.

All other segments: Services

Company	Head- quarters	Consoli- dation method	Parent company	2016		Head- quarters	Consoli- dation method	Parent company	2017	
				Parent company's share of equity					Parent company's share of equity	
VERBUND Services GmbH	Vienna	CS	VH	100.00%		Vienna	CS	VH	100.00%	

All other segments: Equity interests

Company	Head- quarters	Consoli- dation method	Parent company	2016		Head- quarters	Consoli- dation method	Parent company	2017	
				Parent company's share of equity					Parent company's share of equity	
KELAG-Kärntner Elektrizitäts- Aktiengesellschaft	Klagen- furt	EM	VH	35.17%		Klagen- furt	EM	VH	35.17%	

Other Group companies

Company	Head- quarters	Consoli- dation method	Parent company	2016		Head- quarters	Consoli- dation method	Parent company	2017	
				Parent company's share of equity					Parent company's share of equity	
VERBUND AG (VH) – All other activities	Vienna	CS	–	–		Vienna	CS	–	–	
VERBUND Finanzierungs- service GmbH	Vienna	CS	VH	100.00%		Vienna	CS	VH	100.00%	

Other Group companies

Company	Head- quarters	Consoli- dation method	Parent company	2016		Head- quarters	Consoli- dation method	Parent company	2017	
				Parent company's share of equity					Parent company's share of equity	
VUM Verfahren Umwelt Manage- ment GmbH	Klagen- furt	UC	APG	100.00%		Klagen- furt	UC	APG	100.00%	
PÖYRY Energy GmbH	Vienna	UC	VH	25.10%		-	-	-	-	

CS = Consolidated subsidiary / EM = Investee accounted for using the equity method / JO = Joint operation, proportionate inclusion of assets and liabilities as well as income and expenses / UC = Unconsolidated entities due to immateriality or lack of significant influence

Events after the reporting date

There were no events requiring disclosure between the reporting date of 31 December 2017 and approval for publication on 15 February 2018.

Vienna, 15 February 2018

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

Responsibility statement of the legal representatives

We confirm that, to the best of our knowledge, the consolidated financial statements of VERBUND, prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, give a true and fair view of the assets and liabilities, financial position and profit or loss of VERBUND.

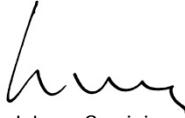
We also confirm that, to the best of our knowledge, the Group management report of VERBUND presents the development of the business, performance of the business and position of the Group so as to give a true and fair view of the assets and liabilities, financial position and profit or loss of VERBUND, and that the Group management report describes the significant risks and uncertainties to which VERBUND is exposed.

Vienna, 15 February 2018

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

Independent Auditor's Report

(complimentary translation, German original prevails)

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of VERBUND AG, Vienna, and its subsidiaries (the Group), which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet as at 31 December 2017, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements comply with legal requirements and give a true and fair view of the consolidated financial position as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU, and the additional requirements under section 245a UGB.

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 Consolidated Financial Statements section of our report. We are independent of the Group in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

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

Goodwill and the carrying amount of power plant facilities

Description and issue

The Group reports goodwill in the amount of around €587.7m as at 31 December 2017 (previous year: around €741.5m) related to the Renewable generation and Sales segments as well as the Inn power plant group and Grenzkraftwerke. The carrying amounts of property, plant and equipment total around €8.9bn as at 31 December 2017 and comprise, among other things, hydraulic, thermal and wind energy power plants.

Due to the current operating environment in the energy industry, the Group tested the reported goodwill and the power plant facilities for impairment.

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. Due to the resulting complexities, the dependency of the results on the estimate of the market data on the part of the management and the sensitivity with respect to the capital costs and the assumptions regarding the medium and long-term electricity and natural gas price trends for energy markets, this is a particularly important key audit matter.

Details regarding the impairment tests and the key valuation assumptions are presented in the notes to the consolidated financial statements in the sections entitled Accounting policies and “Discretionary judgements and key assumptions concerning the future” under the paragraphs on “Impairment testing of goodwill” and “Impairment testing of power plants”.

Audit approach

We compared the parameters used in the impairment tests with company-specific information and industry-specific market data and/or expectations from external and internal data sources and assessed the adequacy of the applied valuation models. The assumptions regarding the medium and long-term price trend on the energy markets were evaluated based on prices quoted on electricity exchanges as well as available price forecasts. We consulted internal experts in order to corroborate the capital costs by means of comparative analysis. We assessed the consistency of the future cash flows applied in the calculations by comparing the planning data used therein with the medium term plans approved by the Supervisory Board, contractual bases and electricity price scenarios specific to VERBUND. Compared with the previous year, the valuation methodology underlying the impairment tests was adapted such that the excess financial return assuming the infinite existence of a power plant site is taken into account after the end of the applicability of the price forecasts by means of terminal value calculation. There were also changes compared with the previous year due to higher capital costs as well as due to the adaption of the applied electricity price scenarios to internal expectations with respect to the long-term electricity price trend.

Other provisions, other obligations and/or entitlements and risks

Description and issue

The Group has entered into long term agreements with co-owners and/or co-users of individual power plants. Some of these agreements have become less profitable due to the changed economic climate. The adjustments to contracts applied in this context increase the risk of potential countermeasures on the part of contracting parties, even though the aim is also for extra-judicial settlements. Furthermore, the Group continues to be confronted with claims for damages in the amount of around €109.9m related to floods.

In our view, these matters are of particular importance because their recognition and measurement as well as the explanatory notes to the consolidated financial statements regarding any resulting provisions and/or contingent liabilities are based on estimates and assumptions by management with respect to the likelihood of a potential claim as well as the attributable share of potential damages and thus an increased risk of erroneous disclosures and/or presentations in the accounting.

Details regarding the development of other provisions are presented in the paragraph on other provisions under the balance sheet disclosures in the notes to the consolidated financial statements. More detailed comments on the pending proceedings are provided in the consolidated financial statements in the section entitled “Other obligations and/or entitlements and risks”.

Audit approach

We have assessed the adequacy and comprehensibility of underlying assumptions and measurements as well as their explanations in the notes, in particular based on the statement of facts and contractual bases presented to us as well as the legal expertise obtained by us and reviewed the compliance with the stipulated disclosure obligations.

Other Information

Management is responsible for the other information. The other information contain all the information in the non-financial report of the Group that we have received before the date of our auditor's report as well as all the information in the integrated annual report and in the supplement to the 2017 Integrated Annual Report (Disclosures on Management Approach, DMA), but does not include the consolidated financial statements, the Group management report, our auditor's report thereon and the independent certification of certain non-financial standard disclosures. The integrated annual report and the DMA are expected to be made available to us after the date of the auditor's report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

The Company's management is responsible for the preparation of the consolidated financial statements that give a fair and true view in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements under section 245a UGB as well as the special legislation of the Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG). Furthermore, the management is responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

The scope of the audit does not include assurance on the future viability of the Group or on the efficiency or effectiveness with which the management has conducted or will conduct the affairs of the Group.

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.

We also:

- Identify and assess the risks of material misstatement of the consolidated 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.
- When performing our audit in accordance with the applicable standards on auditing, we take into account the Group's legal and regulatory framework, but are not responsible for preventing or detecting violations on the part of the Group against laws and other legal provisions. The unavoidable risk due to the inherent limits of an audit that some material misstatements in the financial statements may not be detected, although the audit was properly planned and conducted, is greater for violations of other legal provisions. This is the case, because – among other things – there are many laws and other legal provisions related primarily to the operating aspects of a corporate group that are not recorded by the group's accounting-related information systems and such violations can be accompanied by an effort to conceal the violation.
- 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors' 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 Group'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 consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that give a true and fair view.
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and we 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 consolidated 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 Group Management Report

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

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

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

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

Opinion

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

Statement

Additional information required under Article 10 of the EU-VO

We were elected by the Annual General Meeting held on 5 April 2017 as the auditor for the financial year ended 31 December 2017 and engaged by the Supervisory Board on 26 July 2017 to audit the financial statements. We have been the Group'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 Consolidated Financial Statements" is in line with the additional report to the Audit Committee and complies with Art. 11 of the EU-VO.

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

Engagement Partner

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

Vienna, 15 February 2018

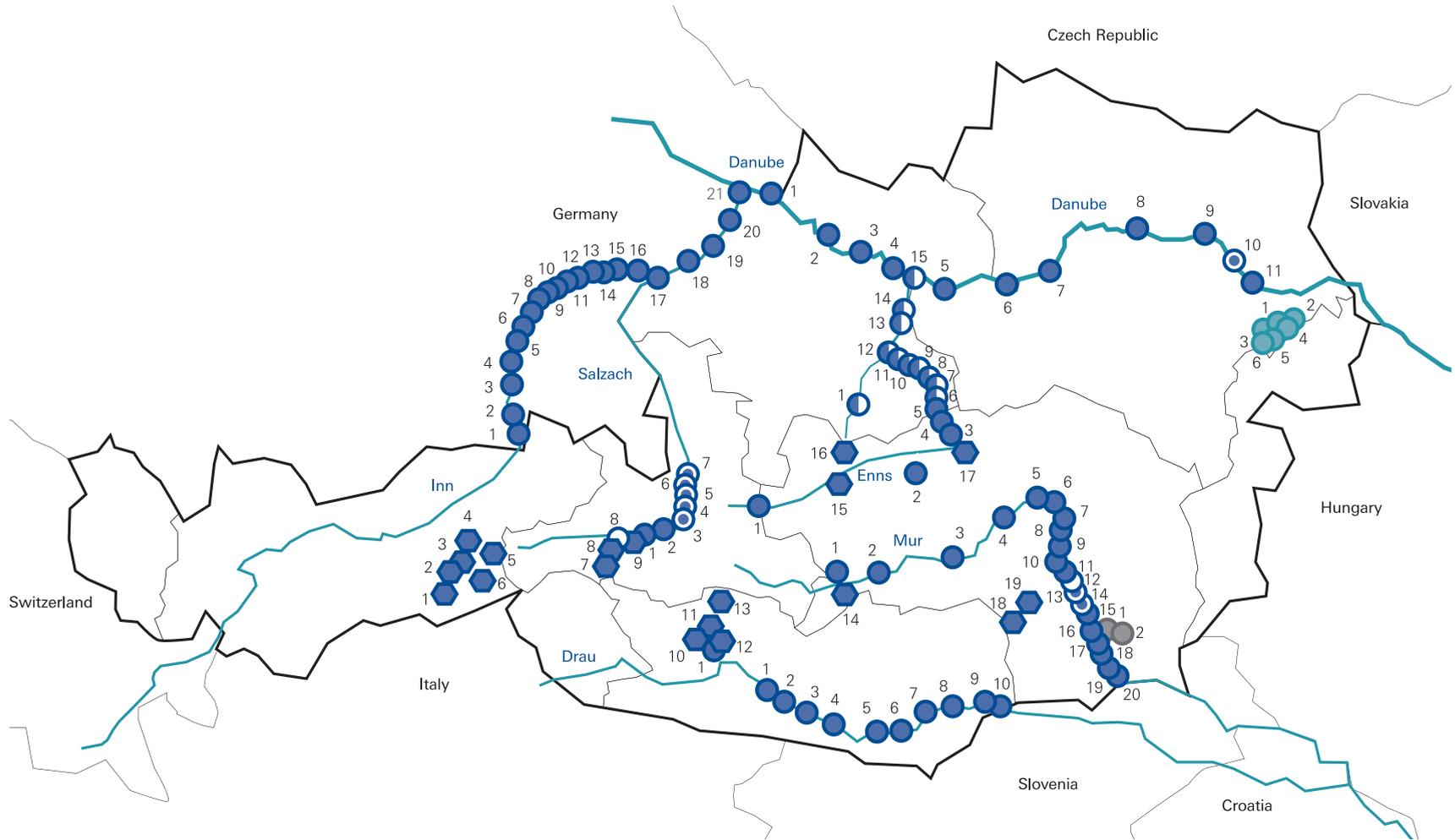
Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Gerhard Marterbauer
Wirtschaftsprüfer
(Austrian Certified Public Accountant)

Mag. Christof Wolf
Wirtschaftsprüfer
(Austrian Certified Public Accountant)

VERBUND power plants and
APG grid facilities

VERBUND power plants



- ⬢ Storage power plant
- ⬢ Storage power plant under construction
- Run-of-river plant > 5 MW
- Run-of-river plant under construction
- ⊙ Joint venture power generating VERBUND Hydro Power GmbH
- ⊙ VERBUND participation
- Thermal power plant
- Wind farm

* Plant certified to ISO 14001
 ** Plant certified to EMAS and ISO 14001

Storage power plants

- 1 Roßhag *
- 2 Bösdornau *
- 3 Mayrhofen *
- 4 Gerlos *
- 5 Häusling *
- 6 Funsingau *
- 7 Kaprun Oberstufe *
- 8 Kaprun Hauptstufe *
- 9 Schwarzach *
- 10 Reißeck-Kreuzeck *
- 11 Reißeck II *
- 12 Malta Hauptstufe *
- 13 Malta Oberstufe *
- 14 Bodendorf-Paal *
- 15 Sölk *
- 16 Salza *
- 17 Hieflau *
- 18 St. Martin *
- 19 Arnstein *

Run-of-river plants on the Inn

- 1 Oberaudorf-Ebbs *
- 2 Nußdorf *
- 3 Rosenheim *
- 4 Feldkirchen *
- 5 Wasserburg *
- 6 TW Wasserburg *
- 7 Teufelsbruck *
- 8 Gars *
- 9 TW Gars *
- 10 Jettenbach 1 *
- 11 Jettenbach 2 *
- 12 Töging *
- 13 Aubach *
- 14 Neuötting *
- 15 Perach *
- 16 Stammham *
- 17 Braunau-Simbach *
- 18 Ering-Frauenstein *
- 19 Egglfing-Obernberg *
- 20 Schärding-Neuhaus *
- 21 Passau-Ingling *

Run-of-river plants on the Salzach

- 1 Wallnerau *
- 2 St. Veit *
- 3 St. Johann
- 4 Urreiting
- 5 Bischofshofen
- 6 Kreuzbergmaut
- 7 Werfen/Pfarrwerfen
- 8 Gries

Run-of-river plants on the Danube

- 1 Jochenstein *
- 2 Aschach *
- 3 Ottensheim-Wilhering *
- 4 Abwinden-Asten *
- 5 Wallsee-Mitterkirchen *
- 6 Ybbs-Persenbeug *
- 7 Melk *
- 8 Altenwörth *
- 9 Greifenstein *
- 10 Nußdorf *
- 11 Freudenau *

Run-of-river plants on the Enns

- 1 Mandling *
- 2 Triebenbach *
- 3 Landl *
- 4 Krippau *
- 5 Altenmarkt *
- 6 Schönau *
- 7 Weyer *
- 8 Großraming *
- 9 Losenstein *
- 10 Ternberg *
- 11 Rosenau *
- 12 Garsten-St. Ulrich *
- 13 Staning *
- 14 Mühlradung *
- 15 St. Pantaleon *

Run-of-river plant on the Steyr

- 1 Klaus *

Run-of-river plant on the Möll

- 1 Malta Unterstufe *

Run-of-river plants on the Mur

- 1 Bodendorf-Mur *
- 2 St. Georgen *
- 3 Fischening *
- 4 Leoben *
- 5 Dionysen *
- 6 Pernegg *
- 7 Laufnitzdorf *
- 8 Rabenstein *
- 9 Peggau *
- 10 Friesach *
- 11 Weinzödl *
- 12 Graz-Puntigam
- 13 Gössendorf *
- 14 Kalsdorf *
- 15 Mellach *
- 16 Lebring *
- 17 Gralla *
- 18 Gabersdorf *
- 19 Obervogau *
- 20 Spielfeld *

Run-of-river plant on the Drau

- 1 Paternion *
- 2 Kellerberg *
- 3 Villach *
- 4 Rosegg-St. Jakob *
- 5 Feistritz-Ludmannsdorf *
- 6 Ferlach-Maria Rain *
- 7 Annabrücke *
- 8 Edling *
- 9 Schwabeck *
- 10 Lavamünd *

Thermal power plants

- 1 FHKW Mellach **
- 2 GDK Mellach **

Wind farm

- 1 Petronell Carnuntum *
- 2 Petronell Carnuntum II *
- 3 Hollern *
- 4 Hollern II *
- 5 Bruck/Leitha *
- 6 Bruck/Göttlesbrunn *

Additional VERBUND-Wind farms (not shown):

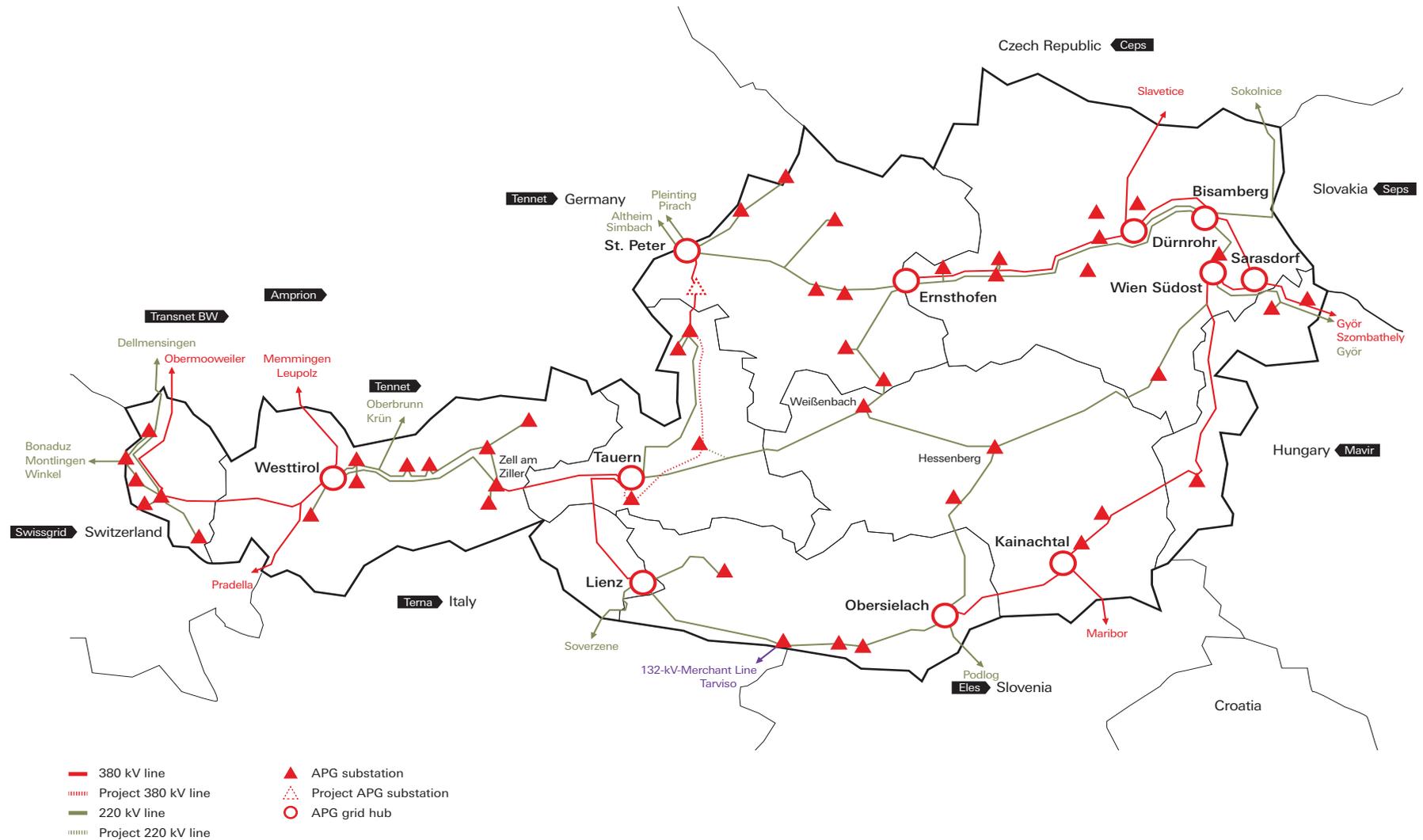
Germany

- Ellern
- Stetten

Romania

- Alpha Nord 1+3
- Casimcea Süd 2
- Ventus Nord 2

Grid facilities 220/380 kV



Glossary

ACER

Agency for the Cooperation of Energy Regulators

Adjusted EBITDA

The adjustments include effects from restructuring expenses from Group-wide cost-cutting programmes as well as other expenses and income of a non-recurring or rare nature in EBITDA. EBITDA from any discontinued operations is also reflected in adjusted EBITDA. EBITDA is our most important internal earnings performance indicator and an indicator of the sustainable profitability of our business.

Adjusted Group result

The adjustments include – in addition to the effects adjusted from adjusted EBITDA – effects from impairment tests and effects from business acquisitions, as well as other expenses and income of a non-recurring or rare nature (after taxes and non-controlling interests). Beyond that, special tax effects are not taken into account in the adjusted Group result.

Average number of employees

Calculated according to actual effective dates of hires and resignations and number of hours worked.

Balancing services market

Control power is necessary for balancing out sudden large changes in load – too much or too little electricity in the grid. This means that a certain percentage of power plant capacity is held at the ready as reserves for rapid stabilisation of the grid. The control area manager procures the necessary capacities through market mechanisms and also compensates the providers for the quantities of electricity actually used.

Base (base load)

Base (base load) refers to the load profile for electricity deliveries supplied at a constant rate throughout 24 hours of each day of the supply period.

Capital employed

Total assets less those assets that do not (yet) contribute to the performance and commercialisation processes (e.g. advance payments, plants under construction, investments under closed items on the balance sheet), and less non-interest-bearing debt.

Cash flow

Net balance of the inflow and outflow of cash and cash equivalents; made up of cash flow from operating activities, investing activities and financing activities.

Clean dark spread

Generation margin for electricity from coal-fired power plants representing the difference between the electricity price and the fuel costs (coal) for generating electricity taking into account the cost of emission rights.

Clean spark spread

Generation margin for electricity from gas power plants representing the difference between the electricity price and the fuel costs (gas) for generating electricity taking into account the cost of emission rights.

Climate-neutral natural gas

CO₂ emissions result from the use of natural gas by our customers. To achieve climate neutrality, these emissions must be saved elsewhere. VERBUND therefore promotes sustainable and clean energy generation, such as with the Ashta hydropower plant in Albania, thus compensating for the CO₂ emissions for VERBUND natural gas. So, precisely that volume of CO₂ released through the use of VERBUND natural gas is balanced out by the sustained promotion of clean energy generation.

Closed items on the balance sheet

Closed items on the balance sheet include (continued) financial liabilities and related investments from cross-border leasing transactions that have been terminated early; previously, financial liabilities relating to cross-border leasing transactions and to the Republic of Austria, as well as associated investments, were treated in the same way.

Cross-border leasing

International leasing transactions in which the lessor and lessee are based in different countries.

DMA (Disclosures on Management Approach)

Disclosures on management approach are a Global Reporting Initiative (GRI) requirement. These explain how the Group manages the economic, environmental and social impacts of its activities on the material Aspects it has identified. VERBUND combines those processes and management systems in one document and publishes it on the website (www.verbund.com > Investor Relations > Financial reports).

Earnings before interest and tax (EBIT)

Operating result.

Earnings before interest, taxes, depreciation and amortisation (EBITDA)

Operating result before interest, taxes, depreciation of property, plant and equipment and amortisation of intangible assets and effects from impairment testing.

EBIT margin

Ratio of earnings before interest and tax (EBIT) to revenue.

E-Control (Energie-Control Austria)

Energie-Control GmbH (E-Control) was established in 2001. On 3 March 2011, E-Control was transformed into a public authority (Sections 2 and 43 of the Energy Regulatory Authorities Act or Energie-Control Gesetz). E-Control is tasked with monitoring and supporting the implementation of the deregulation of the Austrian electricity and gas market and intervening for regulatory purposes if necessary.

EIWOG

Austrian Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, EIWOG). EIWOG implements the EU's Electricity Directive (2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC) in Austria.

Electricity standard load profile

Standard load profiles (SLP) are used for electricity customers without recorded power measurement. SLPs use a calculated, sufficiently precise forecast of electricity purchases on a quarter-hourly basis in place of the non-existent load profile curve of end users. SLPs are representative load profiles used for household, agricultural and commercial customer groups with electricity consumption of up to 100,000 kWh per year, featuring similar usage patterns.

Employee turnover

Employee turnover refers to the percentage of employees who left the Company due to termination, mutual agreement, early retirement or departures during the probationary period. The percentage is calculated based on the actual number of employees as at the reporting date.

Equity method

Method used to account for investees upon which a significant influence can be exercised and for joint ventures. Under the equity method, the carrying amount of the equity interest is basically adjusted for changes in the proportionate share in the investee's net assets; the result is a "one-line consolidation." The changes are either recognised in profit or loss or in other comprehensive income (i.e. directly in equity).

Equity ratio (adjusted)

Ratio of equity to total capital adjusted for closed items on the balance sheet.

Free cash flow before dividends

Operating cash flow plus cash flow from investing activities excluding cash inflows and outflows from investments in or disposals of financial investments; represents cash available for financing activities (e.g. repayment of financial liabilities) and cash inflows and outflows for financial investments.

Funds from operations (FFO)

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

Gearing

Ratio of net debt to equity.

GRI

Global Reporting Initiative. The Global Reporting Initiative has developed guidelines and standards for companies to prepare sustainability reports since 1997 using an international participative process.

Gross debt

Non-current and current financial liabilities plus interest-bearing provisions and other interest-bearing liabilities net of closed items on the balance sheet.

Gross debt coverage

Ratio of funds from operations (FFO) to gross debt.

Gross interest cover

Ratio of FFO to interest expenses (including interest related to personnel expenses).

Hydro coefficient

The hydro coefficient is the quotient of the actual electricity generation of one (or a series of) hydropower plant(s) in a period and the average (calculated based on historical water supply) generation potential of the (series of) hydropower plant(s) in the same period. This long-term average = 1; consequently, for example, a hydro coefficient of 1.1 signifies a 10% increase in generation.

Inter-TSO compensation (ITC)

ITC is the compensation for transmission charges relating to cross-border flows of electricity in transmission grids.

Investments in machinery and equipment

This capital expenditure is for machinery and equipment, operating and office equipment, and vehicles. Fixed elements of structures such as lifts, heating systems, pipelines and other similar equipment are not included, though permanently installed machinery or components of complex manufacturing facilities are.

Maximum electrical capacity

The maximum capacity at which a power plant can sustain operation under normal conditions.

Mean energy capability

Average generation potential of a hydropower plant calculated based on historical water supply.

NaDiVeG

Austrian Sustainability and Diversity Improvement Act (Nachhaltigkeits- und Diversitätsverbesserungsgesetz, or NaDiVeG) for the national implementation of EU Directive 2014/95/EU regarding the disclosure of non-financial information and information related to diversity by certain large companies. See also NFR Directive.

Net debt

Gross debt less cash and cash equivalents, short-term investments and loans as well as securities held in current and non-current assets.

NFR Directive

The Austrian federal government has implemented EU Directive 2014/95/EU for binding sustainability reporting – the NFR Directive – in its Sustainability and Diversity Improvement Act (Nachhaltigkeits- und Diversitätsverbesserungsgesetz, or NaDiVeG), which applies to financial years beginning after 31 December 2016. This law requires large public interest entities with over 500 employees (incl. listed companies, insurance companies and banks) to include a non-financial statement in their management report. This statement includes information on environmental matters, social and employee-related matters, respect for human rights and anti-corruption matters. In addition, companies required to prepare a corporate governance report are also required to include information on their diversity policy in this report.

Number of employees under labour law (LLE)

All employment relationships with the company under labour law. LLE is measured at the end of the month at each reporting date; calculation is based on headcount including employees on unpaid leave and excluding members of the Executive Board, employees in early retirement and seasonal interns.

Operator model

Operator models are public private partnerships (PPPs) for which the planning, financing, construction and independent operation of the plant-specific infrastructure are assigned to an operating company.

Payout ratio

Ratio of (proposed) dividend payment to Group result.

Peak (peak load)

In the German/Austrian bidding zone, peak (peak load) refers to the load profile for electricity deliveries supplied at a constant rate throughout twelve hours from 8 a.m. until 8 p.m. of each working day of the supply period.

Performance

Describes the performance of a security or portfolio, e.g. over a period of one year, in relation to a specific measure of risk.

RCF/net debt

Retained cash flow (RCF): funds from operations (FFO) less dividends distributed.

Redispatch

The term redispatch refers to the short-term changes to power plant utilisation to avoid or remedy grid congestion.

Return on capital employed (ROCE)

Ratio of net operating profit after tax (NOPAT) (profit or loss for the period less interest expenses net of any tax effects) to average capital employed.

Return on equity (ROE)

Ratio of net profit or loss for the period (adjusted for results from the termination of cross-border leasing transactions) to average equity.

Sustainable Development Goals (SDGs)

The 17 goals and 169 targets for sustainable development set by the UN member nations, applicable from 2016 for all nations worldwide. These aim to end poverty, drive forward the equal treatment of women, improve healthcare and combat climate change by the end of 2030.

System Usage Rates Directive (SNT-VO)

The System Usage Rates Directive (Systemnutzungstarife-Verordnung, SNT-VO) dictated the principles for determining and allocating costs, the criteria for calculating rates as well as the rates for grid usage fees. The Energy Control Commission issued the directive annually. Since 2012, the E-Control Commission has issued the System Usage Rates Directive.

Total heating degree days

Total number of heating degree days for a certain period. A heating degree day (HDD), or degree day, is determined based on the temperature difference between a specific constant room temperature and the average daily air temperature to the extent that this temperature is the same as or lower than an assumed heating threshold temperature. A room temperature of 20°C and a heating threshold temperature of 12°C are (normally) used to calculate HDD in Austria.

Value at risk (VaR)

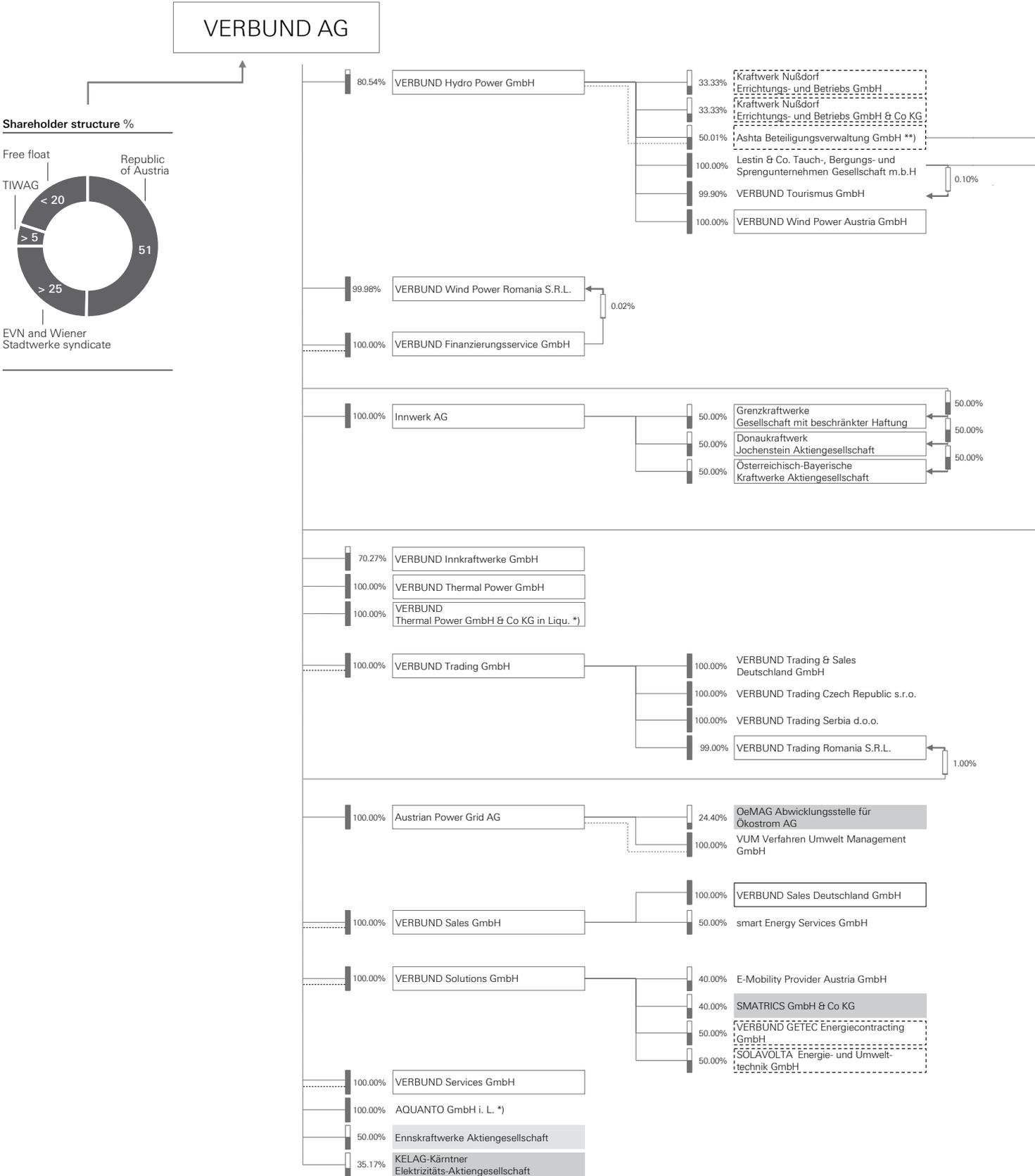
A method applied to calculate the potential trading position loss arising from price changes. The loss potential is calculated based on an assumed probability (e.g. 95%) and on the basis of market-oriented price changes.

Variation margin

The variation margin represents an amount paid or credited daily on the price fluctuations of futures contracts (i.e. paid to or from the futures exchange). In contrast to the initial margin, the variation margin does not represent collateral. Although the amounts are debited or credited to a margin account on a daily basis, the variation margin represents unrealised gains or losses. The position per se remains pending.

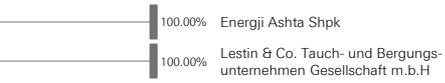
VERBUND Group structure

as at 31 December 2017 GRI 102-45



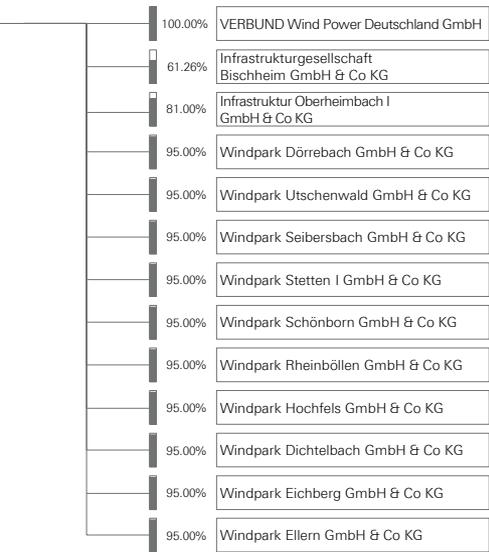
*) in liquidation

**) the company has issued a proportionate loss absorption agreement to its shareholder(s)



Legend

- Full consolidation
- Proportionate consolidation
- Equity method
- Joint venture, Equity method
- Not consolidated
- - - Profit and loss transfer agreement



EDITORIAL DETAILS

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Shareholder structure:

– Republic of Austria (51.0%)

– Syndicate (> 25.0%) consisting of EVN AG (the shareholders of which are:

Niederösterreichische Landes-Beteiligungsholding GmbH, 51%,

EnBW Energie Baden-Württemberg AG, 30.6%) and Wiener Stadtwerke (the sole shareholder is the City of Vienna)

– TIWAG-Tiroler Wasserkraft AG (> 5.0%, the sole shareholder is the province of Tyrol)

– Free float (< 20.0%): no further information is available concerning owners of shares in free float.

Legal and statutory limitations of voting rights:

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 in the Annual General Meeting are restricted to 5% of the share capital.

Regulatory body/trade associations:

E-Control GmbH/E-Control Kommission

Bundesministerium für Finanzen

Wirtschaftskammer Österreich

Oesterreichs Energie

Object of the Group:

The Group focus is the generation, transportation, trading with and sale of electrical energy and energy from other sources as well as the provision and performance of energy services.

Executive Board:

Wolfgang Anzengruber (Chairman),

Johann Sereinig (Vice-Chairman),

Peter F. Kollmann,

Günther Rabensteiner

Supervisory Board:

Gerhard Roiss (Chairman), Michael Süß

(1st Vice-Chairman), Elisabeth

Engelbrechtsmüller-Strauß (2nd Vice-

Chairwoman), Harald Kaszanits, Peter Layr,

Werner Muhm, Susanne Riess, Jürgen Roth,

Christa Wagner, Peter Weinelt, Anton

Aichinger, Isabella Hönlinger, Kurt Christof,

Wolfgang Liebscher, Hans Pfau

Specific laws applicable:

Austrian Electricity Industry and

Organisation Act (Elektrizitätswirtschafts-

und -organisationsgesetz, EIWOG) with

associated regulations and implementation

laws. The legal bases listed can be accessed

online via the legal information system of

the Federal Chancellery of the Republic of

Austria at www.ris.bka.gv.at.



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