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Effectiveness based upon achieving the best possible results while utilising a minimum of resources.

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It works like this: go to the App Store and download the VERBUND Madeleine App, or enter the following link into your smartphone browser: www.verbund.com/app and install the application on your iPhone.



This symbol indicates a page in the Annual Report that automatically leads to additional content when photographed. You can then enter the world of VERBUND with a simple click:

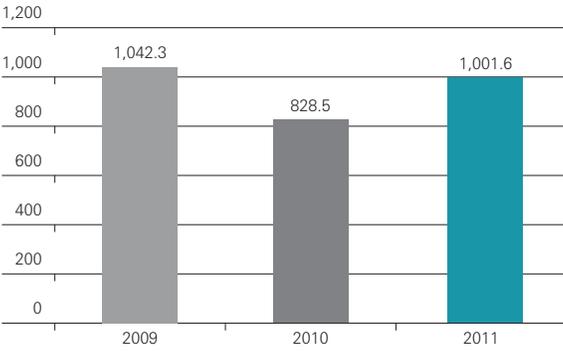
1. Make sure that the page that you photographed in the Annual Report actually contains the reference symbol for Madeleine.
2. Hold your iPhone as straight and steady as possible above the page in the Annual Report that is marked with the symbol. As soon as you can see the entire page in the VERBUND Viewer, take a photo.
3. Check your Internet connection.



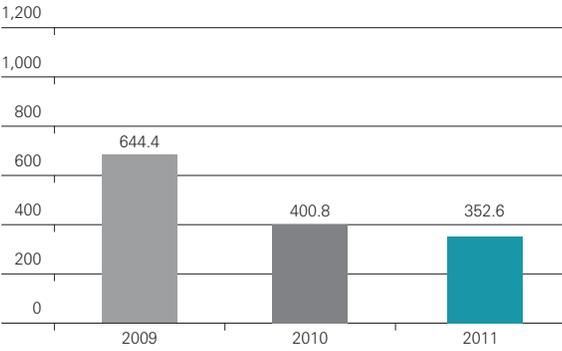
You can start here: photograph the cover of the VERBUND Annual Report 2011 and view the statement from the VERBUND Executive Board members on the topic of efficiency.

Highlights

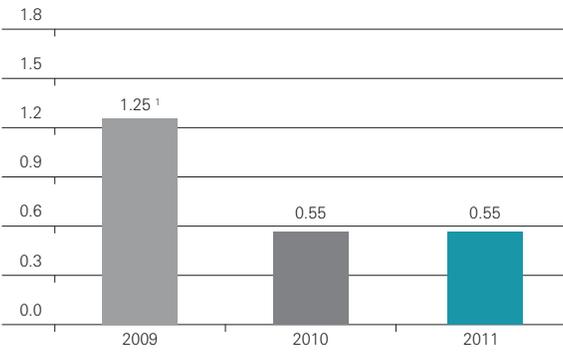
Operating result €m



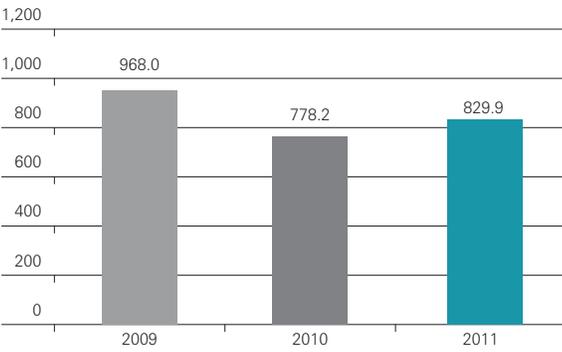
Group result €m



Dividend €/share



Cash flow from operating activities €m

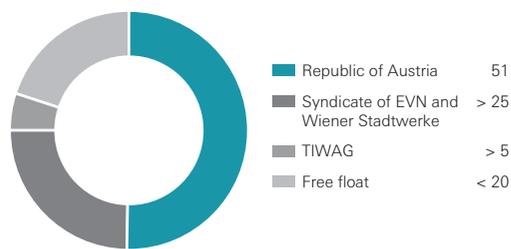


¹ including a special dividend of €0.25/share

Investor relations

Shareholder structure

%



Basic information

Share capital (€)	347,415,686
Stock (shares)	347,415,686

Stock exchange symbol

VER	Vienna Stock Exchange
OEWA	Deutsche Börse
ONR1	London Stock Exchange
OEZVY	American Depository Receipt

Information systems

Bloomberg	VER AV
Reuters	VERB.VI
ISIN	AT0000746409

Rating agencies

Standard & Poor's	A-/stable outlook
Moody's	A2/stable outlook

Shares

	Unit	2011	2010	2009	2008
Share price high	€	32.47	32.12	38.13	59.30
Share price low	€	17.91	24.24	23.73	29.74
Closing price	€	20.74	27.88	29.71	32.56
Performance	%	-25.6	-6.2	-8.8	-32.0
Market capitalisation	€m	7,203.7	9,685.9	9,156.6	10,035.0
ATX weighting	%	4.91	4.86	6.20	10.14
Value of shares traded	€m	3,308.81	3,122.76	3,245.15	6,221.13
Shares traded per day	share	500,030	454,682	416,640	546,238
Earnings per share ¹	€	1.01	1.28	2.09	2.23
Cash flow per share ^{1,2}	€	2.39	2.49	3.14	3.03
Carrying amount per share ²	€	12.44	11.62	10.12	9.30
Price/earnings ratio (last trading day)	X	20.43	21.71	14.21	14.61
Price/cash flow ratio ²	X	8.68	11.18	9.46	10.74
Price/carrying amount ratio ²	X	1.67	2.40	2.94	3.50
Proposed dividend per share ³	€	0.55	0.55	1.25	1.05
Dividend yield	%	2.65	1.97	4.21	3.22
Payout ratio	%	54.19	47.67	59.79	47.13
Entity value/EBITDA	X	10.76	13.14	11.14	9.67

¹ For calculating the earnings per share and the cash flow per share, the average number of shares was determined exactly to the day. // ² Key figures were revised, previous year's values adjusted.

// ³ 2009 including a special dividend of €0.25/share

Capital market calendar 2012

Event	Date
Publication of 2011 results	29/2/2012
Publication of Annual Report	29/2/2012
Annual General Meeting in Vienna	12/4/2012
Dividend ex-date	19/4/2012
Dividend payment date	2/5/2012
Interim report quarter 1/2012	3/5/2012
Interim report quarters 1-2/2012	25/7/2012
Interim report quarters 1-3/2012	24/10/2012

VERBUND
Annual Report 2011

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Report of the Executive Board

Dear Shareholders, the past year brought fresh momentum for Europe's changing energy policies. Influenced by factors such as climate protection, subsidies for new renewable energies, limited fossil resources and Germany's gradual abandonment of nuclear power, the environment in which the entire electricity industry operates has changed fundamentally. The resulting massive expansion in renewable energies in Europe tells us that we are pursuing the right strategy: more than four-fifths of VERBUND electricity in Austria comes from hydropower, supplemented by thermal and wind power. Low-carbon thermal power is necessary to secure the supply of electricity, even though this form of power is very limited in terms of profitability due to the altered market environment in Europe. In order to optimally prepare VERBUND for the future in this volatile and uncertain climate, we continue to focus on our core competencies and the efficient use of resources. We are thus creating a strong basis that will allow us to take advantage of market opportunities in the coming years, and to grow in our core markets.

Operating result increases, Group result decreases Business performance was satisfactory in light of the difficult conditions in the energy sector and the overall economy. Revenue increased by 16.9% to €3,865.4m and the operating result rose by 20.9% to €1,001.6m. The hydro coefficient, which is the measured value for the generation from run-of-river and pondage power plants, was 0.89 in 2011, or 11% below the long-term average and 10 percentage points below the prior-year figure. At an average of €49.9/MWh, electricity prices applicable for the 2011 financial year (forward contracts "Year Base 2011" traded in 2010) were up 1.4% over the prior year's level. Spot market prices (base price) increased by an average of 14.8% to €51.1/MWh in 2011. The changed market environment for the energy sector had led to impairment tests of VERBUND power plants in the third quarter of 2011, which resulted in a net increase in the operating result in the amount of €202.2m. Adjusted for the net positive effects from the impairment tests, the operating result fell only slightly by 3.6% to €799.4m, despite the extraordinarily weak water supply. The Group result declined by 12.0% to €352.6m. The primary cause was the negative impact of foreign interests accounted for using the equity method, particularly the non-cash measurement of foreign exchange liabilities on the part of the Turkish joint venture, and the gas supply contract for the combined cycle gas turbine power plant in Pont-sur-Sambre/France, which was accounted for at fair value through profit or loss for the first time.

Focus on hydropower With its high share of renewable energies, VERBUND is well positioned for the future. In 2011, we continued to concentrate our resources on hydropower. The Limberg II pumped storage power plant in Salzburg has been operating at full capacity since October 2011, and the Reisseck II pumped storage power plant in Carinthia is currently under construction. These two projects underline VERBUND's approach of using pumped storage to make a key contribution to further expanding the volatile field of electricity generation from new renewable energies and thus preserve the security of supply. We are also investing in low-carbon thermal power and wind power: the highly efficient combined cycle gas turbine power plant in Mellach/Styria will be put into commercial operation shortly. The first section of the Casimcea wind farm in Romania is set to be connected to the grid in the first half of 2012, and we have received positive EIA notices for the Petronell II and Hollern II wind farms in Lower Austria in 2011.

Concentration on core markets and core competencies Financial year 2011 was shaped by an increased focus on our core markets and core competencies. The growth market of Turkey continued to perform well, proving to be robust in comparison with the European energy markets. The Hacinoglu hydropower plant and Canakkale wind farm went into operation in 2011.



A total of approximately 5,000 MW in installed power plant capacity is expected by 2015. In Italy, the goal of achieving an installed capacity of approximately 5,000 MW and supplying gas and electricity to more than half a million consumers will be nearly reached upon commissioning of the Aprilia combined cycle gas turbine power plant, which is scheduled for the first quarter of 2012. The ongoing development of this equity interest will be an important strategic topic in 2012. Restructuring will continue in France, where we currently hold 100% of the shares in one combined cycle gas turbine power plant that is in operation and in another one that is under construction.

Position reinforced in electricity trading and distribution As far as trading is concerned, VERBUND was able to keep the value of own generation stable in 2011 by optimising power plant utilisation in spite of the difficult market climate. VERBUND also expanded on its leading role in the marketing of environmentally friendly electricity generation in 2011. For instance, we had great success in marketing green electricity, especially in the German market. In sales, we succeeded in selling around one-third of own generation to consumers and thus solidifying our position as Austria's largest supplier of renewable energies. In the business and industrial customer segment in Austria and Germany, VERBUND has been positioned for years as an innovative and service-oriented provider, with its market share in Austria now having reached approximately 24%.

Leading role as grid operator Austrian Power Grid AG (APG), VERBUND's grid subsidiary, became the control area manager for Vorarlberg at the start of 2012, meaning that it is now in charge of the whole of Austria. In this function, APG is responsible for the physical equalisation between electricity supply and demand all over the country. Thanks to the ongoing modernisation and development of Austria's high-voltage grid, APG not only provides a solid infrastructure basis to ensure the domestic electricity supply, but is also enabling Austria to realise a new age of energy efficiency along with functioning as an integrated European electricity market.

Forward-looking investments for the future Profitable growth and a strong rating are the main cornerstones of our business policy. In 2011, we implemented numerous measures to further improve our capital structure. By 2016, VERBUND will have invested €2.4bn in projects in Austria and abroad with a focus on expanding hydropower and increasing the security of Austria's electricity supply. Our international focus will lie on expanding our strong market position in Turkey.

Dividends and outlook for 2012 At the Annual General Meeting on 12 April 2012, we will propose a dividend of €0.55 per share. The payout ratio for 2011 will thus amount to 54.19%. Regarding the outlook, given the uncertain macroeconomic and financial environment and the resulting difficult conditions in the energy industry, it is impossible at present to give a serious forecast for earnings in 2012. Our dividend policy will aim for a payout ratio of approximately 50% of the Group result.



Dipl.-Ing. Wolfgang Anzengruber



Dr. Johann Sereinig



Dr. Ulrike Baumgartner-Gabitzer



Dr. Günther Rabensteiner

Report of the Supervisory Board

VERBUND – Austria’s leading utility – was faced with very difficult conditions during the 2011 financial year. However, despite the tense state of the market and an extremely poor water supply, VERBUND was able to generate satisfactory earnings with the help of restructuring and cost reduction measures while still continuing to pursue its strategy of profitable and sustainable growth.

The Supervisory Board actively monitored and fostered these positive developments. During the year under review, it did, during six plenary meetings, perform the tasks and exercise the powers that are incumbent upon it by virtue of the law and the Articles of Incorporation. The overall attendance rate of all the members of the Supervisory Board exceeded 92%. In addition, the Chairman of the Supervisory Board maintained regular contact with the members of the Supervisory Board in regard to important matters and obtained the opinion of individual members if they were absent. As a result, every member of the Supervisory Board was always involved in material matters.

The Supervisory Board was kept regularly and comprehensively informed by the Executive Board on a real-time basis, both verbally and in writing, about all relevant questions relating to the enterprise’s business performance and about the position and strategy of the Group and those of the important Group companies, as well as about the Group’s risk position and risk management activities. Based on the Executive Board’s extensive reports, the Supervisory Board continuously monitored its management activities. Supervision, which took place within the scope of open and constructive discussion between the Executive Board and the Supervisory Board, did not reveal any grounds for criticism.

Two Executive Board members appointed One of the Supervisory Board’s most important tasks during the past financial year was to appoint two members to the Executive Board after having issued a public tender. Following the departure of Mag. Christian Kern in 2010, the Supervisory Board appointed Dipl.-Ing. Dr. Günther Rabensteiner to the Executive Board of VERBUND AG on 1 April 2011. Furthermore, the appointment of Dr. Ulrike Baumgartner-Gabitzner was extended. At the same time, the Supervisory Board reallocated responsibilities within the Executive Board. Dr. Rabensteiner, who has held a variety of management posts in the Group for many years – most recently at VERBUND Trading AG – is responsible for the International, Thermal Power and Renewable Energies divisions on the Executive Board.

Other significant resolutions of the Supervisory Board Besides approving the Group budget, the other key Supervisory Board decisions that stand out related in particular to the development of foreign interests, especially the restructuring at POWEO in France, the capital expenditure programme in Turkey and approval for the wind farm project in Casimcea/Romania. Other significant topics involved the sale of shares in VERBUND Innkraftwerke GmbH and a programme to increase hydropower plant efficiency, as well as approval for capital borrowings and the furnishing of guarantees to finance the Group’s growth path.

Changes to the Supervisory Board and its General Committee Following the resignation of two members of the Supervisory Board from their posts, two new members were elected at the Annual General Meeting on 13 April 2011. Dipl.-Ing. Dr. Peter Layr and Dr. Gabriele Payr were appointed to the Supervisory Board to replace Dr. Maximilian Eiselsberg and Dr. Burkhard Hofer. There was no change in the employee representatives. The Supervisory Board thanks the former members of the Board for their many years of successful work on the Supervisory Board. At the constituent session of the Supervisory Board, Dr. Gilbert Frizberg was re-elected Chairman, Dkfm. Peter Püspök was appointed first Vice-Chairman and Mag. Dr. Reinhold Süssenbacher was appointed second Vice-Chairman. As a result, the composition of the committees changed.

Code of Corporate Governance, Supervisory Board Committees As a leading listed enterprise, VERBUND committed early to complying with the Austrian Code of Corporate Governance. The Supervisory Board too sees itself as committed to the Code and in 2010 reaffirmed its commitment with respect to the current version of the Code. The Supervisory Board endeavours to consistently comply with the provisions of the Code that relate to the Supervisory Board. In this spirit, all rules relating to the Supervisory Board's collaboration with the Executive Board and the Supervisory Board itself are complied with in full with the exception of one minor, explained deviation.

Pursuant to the requirement of the Austrian Code of Corporate Governance (Rule 36), the Supervisory Board again conducted a self-evaluation during the past financial year. The evaluation was performed by means of a questionnaire, which asked above all about the efficiency, organisation and operation of the Supervisory Board. The results, which were assessed by an external auditor and can be referred to as encouraging, were subsequently discussed by the Supervisory Board.

The Supervisory Board's Working Committee met six times during the year under review (above all to plan plenary meetings and to approve important projects at subsidiaries). The Audit Committee also met six times, dealing, above all, with the semi-annual financial statements and preparation of the approval of the annual financial statements, the appointment of the auditor and approval of the auditor's work. In addition, it carried out in-depth work on the control, auditing and risk management system.

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 set up in 2011. These committees executed the tasks assigned to them by way of the rules of procedure.

Further information about the composition, the operation and the meetings of the Supervisory Board and its committees and about the remuneration of its members is contained in the corporate governance report (from page 76).

Annual financial statements, 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 consolidated management report for the 2011 financial year, were audited by Deloitte Audit Wirtschaftsprüfungs GmbH and given an unqualified auditors' report.

The auditor reported on the results in writing and found that the Executive Board had provided the explanations and proofs that had been requested, that the accounts, annual financial statements and consolidated financial statements were in accordance with the legal requirements and, in conformity with the principles of proper accounting, presented fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the Company and the Group and that the management report and consolidated management report were consistent with the annual financial statements and the consolidated financial statements. Following their in-depth examination and discussion by the Audit Committee and the Supervisory Board, the Supervisory Board approved the annual financial statements for the 2011 financial year 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 by the Executive Board was approved, as was the profit appropriation proposal. The consolidated financial statements and the consolidated management report were also acknowledged and approved by the Supervisory Board, as was the corporate governance report submitted by the Executive Board, which was audited by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.

Finally, the Supervisory Board would like to thank the Executive Board and all the employees for their high level of dedication and their successful work during the 2011 financial year. The Supervisory Board would also like to thank the Group's shareholders, customers and business associates for their trust.

Vienna, February 2012



Dr. Gilbert Frizberg
Chairman of the Supervisory Board

Strategy and markets

Creating values for the future

Management means creating values. Being dedicated to this principle, the VERBUND strategy reflects our clear commitment to value-based management and a stable credit rating in the A range. We therefore apply value-based and strategic criteria to all our investment and acquisition activities.

Focus on four markets

Geographically, VERBUND focuses on 4 core markets: Austria, Germany, Turkey and Italy.

The Austrian domestic market is extremely important for us. The natural resource of water is present here in unique abundance, which allows for a climate-friendly and sustainable form of energy generation.

After Austria, Germany is by far our most important electricity market, and one in which we have built up an excellent sales and trading position in recent years. VERBUND's role in the German market as an attractive green electricity supplier with the H2Ö brand is especially worthy of note.

Turkey is an attractive growth market where we expect a long-term increase in electricity demand and see a great potential for expansion in power generation. This will create an excellent market opportunity for Enerjisa Enerji Üretim A.S., our joint venture with the Turkish Sabanci Group. Together we are pursuing ambitious strategic objectives in the sectors of hydropower, new renewables (wind and solar power) and modern gas power plants. As a 50% partner since 2007, we are contributing our financial strength as well as our many decades of know-how in the electricity market. Since its founding, our Italian equity interest Sorgenia S.p.A. has been continuously expanding its position in the market through growth in both its generation portfolio and customer base. These activities will continue to be optimised in the future in line with developments in the energy market environment.

Hydroelectricity – a core competency

Our goal is to position VERBUND as one of Europe's leading hydroelectricity companies. Electricity generation from hydropower is a core competency and the decisive element in our generation portfolio, which is why we will continue to further expand this climate-friendly form of power generation in the future. Investments in hydropower projects in Austria and Germany will have top priority in these efforts. In addition to building small to medium-sized run-of-river power plants, we are primarily focussing on the expansion of pumped storage power plants. These plants allow electricity "storage", and by providing flexible usage options, they ensure optimal integration of the weather-dependant new renewables.

Gas and wind power to supplement supply

Supplemental investments in ultramodern and low-carbon combined cycle gas turbine (CCGT) power plants and wind farms are helping us to achieve a diversified, optimised and sustained generation structure. We are particularly alert to the need to strike a balance in the overall portfolio in terms of generation capacity and target countries so as to maximise earnings and minimise risks.



Further expanding trading and sales

International electricity trading is a key link in VERBUND's value chain. As a central hub for the Group's national and international activities, it is essential for ensuring the best possible marketing of our own energy generation, optimising daily power plant utilisation and providing access to the energy markets for our power plants and for sales to consumers. We engage in power exchange and OTC transactions in 19 countries, and maintain contacts with resellers. The significance of trading in green electricity products is growing rapidly in this regard, particularly with Germany as the most important sales market.

Marketing to consumers supplements VERBUND's overall sales effort. Direct access to consumers is essential for the Group's risk diversification, particularly during times of crisis when wholesale prices are more volatile. Having a presence on the consumer market also allows VERBUND to position itself as a competition driver and attractive service provider.

Power grid – the backbone of power supply

The high-voltage grid is the backbone of power supply in the energy industry. It plays a vital role in securing the electricity supply to the population and industry. Grid operation faces special challenges, particularly with the rapidly increasing portion of weather-dependant, and thus volatile, renewables such as wind and solar power. The high-voltage grid must ensure a balance between generation and consumption at all times. For this reason, an essential aspect of our strategy is the forward-looking expansion of the Austrian high-voltage grid, as well as positioning ourselves as a reliable partner for maintaining Europe's electricity supply.

Driving force for research and development

As Austria's leading utility, we are pursuing the ambitious goal of helping to shape new developments and products in the energy sector right from the outset. The sectors of electromobility and intelligent energy management solutions are particularly important in achieving this goal.

54%

Payout ratio

€ 20.7

Closing price of the
VERBUND share in 2011

€ 7,204.7_m

Market capitalisation
as at 31 December 2011



Investor relations

International stock markets

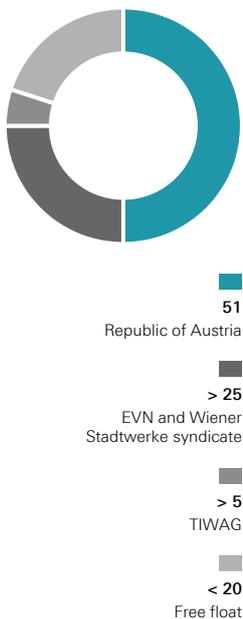
The year 2011 was marked by extremely weak share performance in almost all international stock markets. The mood in the markets, which was still predominantly positive at the beginning of the year, was overshadowed by the earthquake in Japan, worries about an economic slowdown and persistent fears regarding an expansion of the debt crisis in Europe. The further deepening of the debt crisis and a worsening of the economic prospects for 2012 led to massive price losses on the stock markets in the middle of the third quarter. The danger of an expansion of the European debt crisis beyond Greece led to another correction on the European stock markets in November 2011, whereas share performance in the USA towards the end of the year was relatively positive. Thus the Dow Jones Industrial index in the US grew by 5.5% in 2011, while the Euro Stoxx 50 fell by 17.1% and the Nikkei 225 lost 17.3%.

VERBUND share

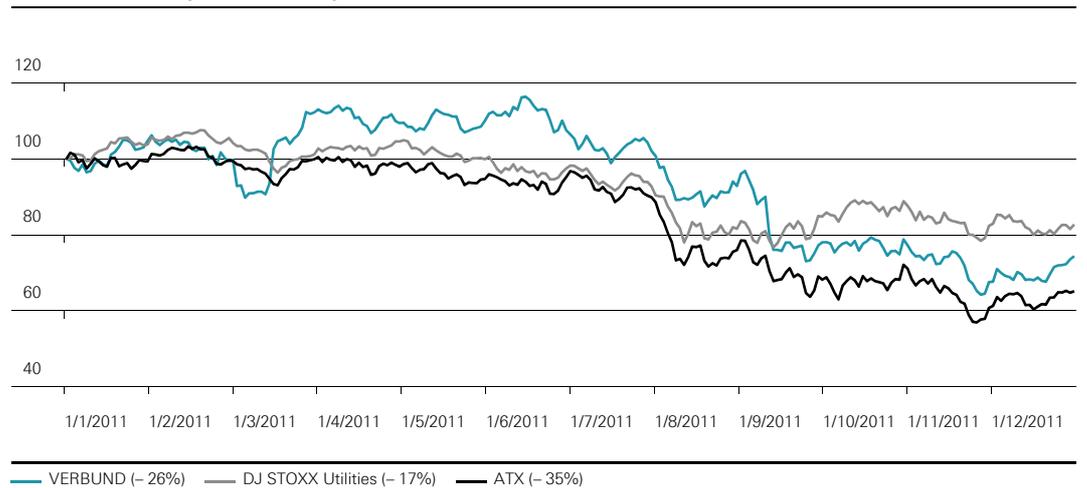
VERBUND shares performed positively in the first half of 2011. Germany's decision to phase out nuclear energy as a result of the nuclear crisis in Japan led to a significant increase in wholesale prices for electricity and consequently to an increase in the price of VERBUND shares. VERBUND shares lost significant value in the second half of 2011, in line with the ATX. In addition to the overall negative mood in the markets, this was also due to the difficult market environment for utilities.

VERBUND shares closed at €20.7 on 31 December 2011, down 25.6% from 31 December 2010, and thus performed better than the ATX (-34.9%), but worse than the industry index DJ STOXX Utilities (-16.6%).

Shareholder structure of VERBUND %



VERBUND share price: relative performance %



Delisting from the Frankfurt Stock Exchange

In December 2011, VERBUND submitted a request to be delisted from the Frankfurt Stock Exchange. The delisting will take effect on 29 March 2012. Trading in VERBUND shares on the Vienna Stock Exchange is not affected by this measure, and will remain unchanged. The reason for the delisting



from the Frankfurt Stock Exchange is VERBUND's plan to bundle liquidity in one trading market, the Vienna Stock Exchange.

Active communication with investors and analysts

VERBUND gives high priority to investor relations. A key concern is maintaining open and active communication with investors and analysts at all times to ensure the greatest possible transparency.

VERBUND conducted road shows in Europe and the USA in 2011, and participated in a number of investor conferences. The Executive Board and investor relations team met investors from all over the world and used conference calls to give details of the key figures and VERBUND's operational and strategic development.

At an analyst day in London in September 2011, top management informed more than 40 analysts about the planned investment programme, the Group strategy, and the Group's future development.

The website www.verbund.com provides extensive information under "Investor relations", such as download versions of financial reports, the financial calendar, current presentations and materials relating to the Annual General Meetings.

Coverage by 21 renowned Austrian and international investment banks ensured the visibility in the financial markets. The following investment banks analysed VERBUND last year:

Barclays Capital (<i>Peter Bisztyga</i>)	Kepler Capital Markets (<i>Ingo Becker</i>)
Berenberg Bank (<i>Ana Gaspar</i>)	Macquarie Research (<i>Matthias Heck</i>)
CA Cheuvreux (<i>Sebastian Kauffmann</i>)	Mainfirst (<i>Andreas Thielen</i>)
Citigroup (<i>Andrew Simms</i>)	BofA Merrill Lynch (<i>Christopher Kuplent</i>)
Commerzbank (<i>Tanja Markloff</i>)	Morgan Stanley (<i>Arsalan Obaidullah</i>)
Deutsche Bank (<i>James Brand</i>)	Nomura (<i>Martin Young</i>)
Erste Group (<i>Christoph Schultes</i>)	Raiffeisen Centrobank AG (<i>Teresa Schinwald</i>)
Exane BNP Paribas (<i>Philip Gottschalk</i>)	Société Générale (<i>John Honoré</i>)
Execution Noble (<i>Lawson Steele</i>)	The Royal Bank of Scotland (<i>Peter Crampton</i>)
Goldman Sachs (<i>Deborah Wilkens</i>)	UBS (<i>Patrick Hummel</i>)
HSBC (<i>Adam Dickens</i>)	

I
 Upcoming dates:
 Annual General Meeting:
 12 April 2012
 Results for quarter
 1/2012: 3 May 2012

Business development

Market and industry

In 2011, European energy policy was shaped by debate on the continued use of nuclear power, stepping up development of renewable energies, establishing energy infrastructure priorities and implementing an energy and climate protection package. The effects of the sovereign debt crisis in the eurozone and its consequences for the international economy were also felt in Austria. Nonetheless, the Austrian economy experienced real growth of 3.2% in 2011. Based on the still favourable industrial trend, electricity consumption in Austria increased slightly in 2011 (January to November) – by 0.7% – despite the warm weather conditions.

General economic situation

Economy cools down

Following a strong recovery phase, global economic growth softened in 2011. The economy was negatively impacted by the nuclear accident in Japan, high sovereign debt in the US and a number of euro countries, rising volatility on the financial markets, declining confidence in economic actors and less leeway in economic policy.

According to the International Monetary Fund (IMF), real economic growth slowed to 1.6% in the industrial countries in 2011 after having been 3.2% just a year earlier. The debt crisis also led to declining figures in the eurozone, with growth likewise falling to 1.6% in real terms after 1.9% in 2010. Germany, the largest economy in the euro area, continued to drive growth in Europe with an increase in real gross domestic product of 3.0%. However, the Austrian economy also experienced strong growth, rising 3.2% in 2011 according to the Austrian Institute of Economic Research (Österreichisches Institut für Wirtschaftsforschung, WIFO). The recovery was fuelled chiefly by merchandise exports and capital expenditure.

Economic outlook declines

Given that the subdued economic environment is now increasingly reaching the core European countries, the impact of the sovereign debt crisis represents the main threat to the economy. The IMF predicts that the eurozone economy will shrink by 0.5% in real terms in 2012. The Austrian economy will not be able to fully escape the effects of the international downturn either, though it is still expected to see real growth of 0.4% in 2012 according to projections by WIFO.

Energy market environment

Weather and economy impact energy consumption

Energy consumption depends largely on the economic climate and weather conditions as well as the trend in energy prices. In 2011, consumption dropped in Austria, despite the rise in economic output, due to the warm weather and high energy prices. Approximately 70% of Austria's energy supply is still based on fossil fuels, i.e. oil, coal and gas.

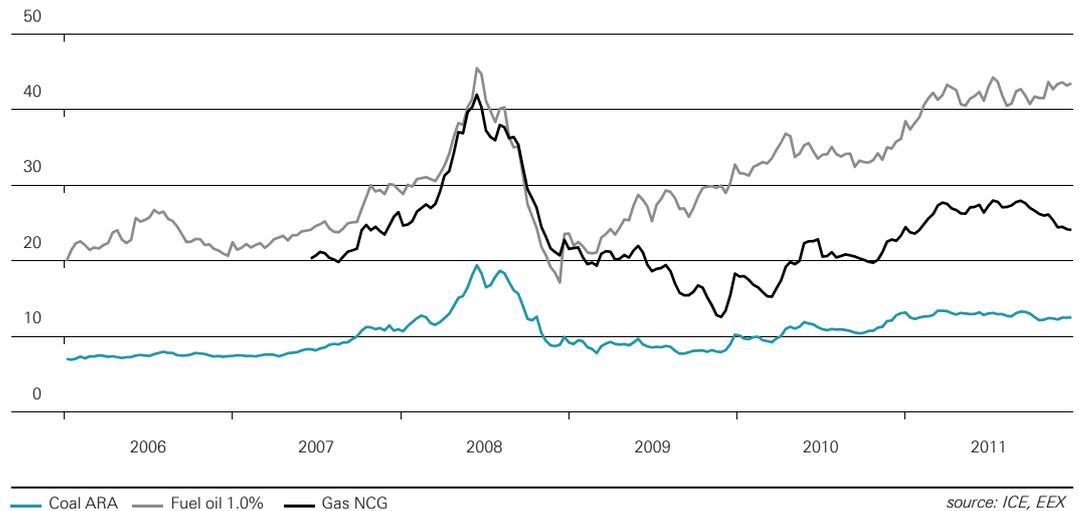
Natural gas consumption declined by 5% in 2011 (January to November). Total heating degree days, which are generally used as a temperature-independent indicator for the use of heating energy, dropped by 12% in 2011. During the winter months, natural gas consumption is closely related to weather conditions. In summer, it is determined to a greater extent by industrial demand or the mode of operation of gas power plants, which utilised 16% less natural gas for electricity generation in 2011 (January to November).

More coal and coke was used given that the Austrian steel industry increased crude steel production by 4% in the past year. The use of hard coal in electricity generation also increased between January and November of 2011, rising by 14%. By contrast, consumption of oil products declined in 2011. The mild weather and high price levels led to lower demand for liquid and other fuels.

It was not possible to further increase the share of renewables in primary energy consumption in 2011, mainly due to the considerably worse water supply. The wind supply was likewise at a low level, and higher temperatures throughout the year resulted in declining sales of biogenic fuels on the heating market.

Coal, oil and gas price development

€/MWh



Futures market (front year), all prices in €/MWh thermal

Electricity demand rises slightly, electricity production declines

Until 1990, electricity consumption in Austria grew more than twice as quickly as economic output. Since then, the correlation between electricity consumption and economic output has been less pronounced. From 1990 until prior to the economic crisis of 2008/2009, electricity consumption and economic output grew at nearly the same pace at an average of 2% per year. After the crises led to a drop of 3.8% in 2009, in 2010 electricity consumption rose by 4.5% on the back of the good economic trend. In 2011, electricity consumption disengaged from GDP performance due to the mild weather to register only slight growth of 0.7% (January to November).

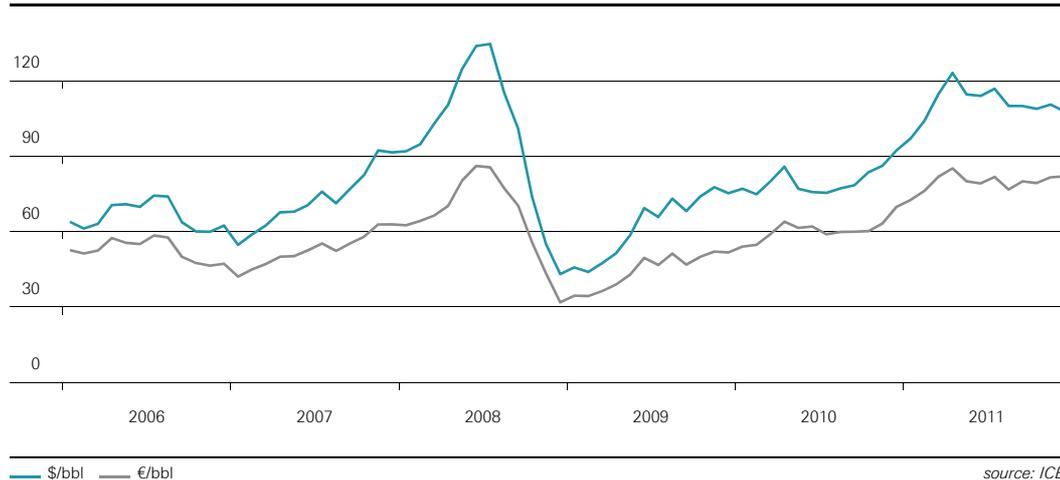
Electricity generation decreased by 6.1% in Austria in 2011 (January to November). Electricity exports fell by 3.9% during this period, and imports rose by 22.3%. Electricity generation from hydropower was down 8.5% in Austria in 2011 (January to November). Utilisation of thermal power plants also decreased during this period, falling 4.2% due to the change in energy price ratios.

Crude oil prices at a high level

During the first half of 2011, political unrest in Northern Africa and the Near East led to a decrease in oil production. The political climate gave rise to fears that the oil supply could become even more scarce. The price for short-term delivery (front month) of Brent crude rose to nearly \$127 per barrel – the previous high had been reached in July 2008 at \$146 per barrel. In the second half of 2011, however, prices dropped again based on fears of a global economic downswing. Brent crude (front month) was traded at just under \$111 per barrel on average for the year, which represented a rise of 38% (euro basis: +31%) on the prior year.

Crude oil price development (Brent front month)

average monthly prices



Gas becomes considerably more expensive, price of steam coal rises

The majority of natural gas imports in the European Union are based on long-term contracts linked to oil price indices. For this reason, the trend on the oil market impacts gas prices after a lag of several months. Short-term trading transactions are also increasingly affecting the situation on the gas markets. Since oil has no direct effect on pricing for such transactions, the correlation between gas and oil prices has become less and less pronounced in recent years.

The difference between gas supply contracts linked to oil price indices and those linked to market price indices for 2012 (front year) was just below €8/MWh in 2011. The gas trading markets with the highest liquidity in continental Europe are the Title Transfer Facility (TTF) hub in the Netherlands and the Net Connect Germany (NCG) hub. The NCG spot market price for natural gas was nearly 31% higher in 2011 than in the previous year. Long-term gas prices also rose. On the futures market, natural gas cost around 33% more in 2011 (NCG front year). Gas imports to Austria increased in price by an average of 18% in 2011 (January to October). The prices for coal deliveries in the ARA area (Amsterdam, Rotterdam, Antwerp) also rose in 2011. Coal prices were up 28% from the previous year on the spot market and up 19% on the futures market (ARA front year; both on a euro basis).

Political and regulatory framework conditions at a European level

The new energy age

The nuclear catastrophe in Fukushima, Japan, spurred an energy debate in Europe. Germany responded by announcing a gradual phase out of nuclear energy to be completed by 2022. Switzerland and Belgium have also decided to phase out nuclear energy. The people of Italy again spoke out against using nuclear energy to generate electricity in June 2011. In Austria, the federal government announced its objective of decreasing dependency on imported electricity by forcing renewable energy development, resulting in heated discussion on the future of energy policy.

EU sets energy focus

In the autumn of 2011, the EU adopted new regulations on wholesale electricity and gas trading. The legislation is intended to prevent market abuse, particularly insider trading, and to protect enterprises and consumers from excessively high energy prices resulting from market manipulation in the future.

A key aspect of the new energy policies is development of the energy infrastructure, especially the European electricity grid. The legislation proposed in 2011 to implement the EU's 2010 infrastructure package provides for an accelerated approval process in the case of particularly urgent energy projects, among other things.

Back in 2007, the EU heads of state had agreed to reduce primary energy consumption in the European Union by 20% by 2020. According to current European Commission estimates, the EU will only reach half of that target if it continues at its present pace. The Commission has therefore proposed that a new set of measures be included in an EU energy efficiency directive. The draft directive provides for incentives to promote efficient energy use at all links of the energy value chain, from energy transformation and distribution to energy consumption. For instance, energy companies would be required to cut 1.5% from final energy sales by implementing efficiency initiatives with their customers. Energy efficiency plans in the individual member countries are planned to ensure implementation of these measures.

Third EU internal market package; unbundling regulation

In September 2009, the third EU internal market package took effect with stricter measures on unbundling. VERBUND has decided to implement the independent transmission operator (ITO) option and will thus retain ownership of Austrian Power Grid AG. This move will ensure operating independence for our grid subsidiaries. Implementation of the ITO option must be certified by the Austrian regulatory authorities and submitted to the European Commission for approval by March 2012. The certification documentation was submitted to the authorities in September 2011, and ITO certification is expected by March 2012.

Energy policy in Austria

Boosting domestic electricity generation

After the events in Fukushima, Austrian energy policy discussion in 2011 revolved mainly around achieving an independent electricity supply and eliminating dependency on imported electricity. The objective is to reverse the negative foreign trade balance in electricity and create a positive balance, in particular by developing renewable energies and putting the planned gas power plants into operation. The 2012 Green Energy Act (Ökostromgesetz, ÖSG) adopted in 2011 is intended to promote the development of renewable energies. The new legislation significantly raises the subsidised volumes for renewable energies, which will benefit VERBUND in the areas of wind energy and small-scale hydropower.

More transparency in energy labelling

In 2010, a mix of 67.4% known renewable energy sources, 17.6% known fossil energy sources, 0.3% known other energy sources and 14.7% electricity of unknown origin (ENTSO-E) was supplied on average to Austrian customers. The new electricity labelling regulation announced by E-Control in September 2011 stipulates that in the future, the countries of origin of the proofs of origin used must be specified in advertising and informational materials and on invoices in addition to the percentage break-down of primary energy sources. Any electricity volumes where no proof of origin can be provided must be identified as electricity of unknown origin. The composition of electricity of unknown origin must be listed separately. This will permit the end consumer to make a conscious choice regarding electricity quality more easily than in the past.

New system usage fees from 2012

Austrian Power Grid AG (APG) has recognised provisions for pending court proceedings based on the decision of the Constitutional Court to rescind the system usage rates for the past three years. APG will also have to raise its rates. The tariff-setting basis for APG's gross and net rates will increase by 18.2% compared to those stated in the 2011 System Usage Rates Directive (Systemnutzungstarife-Verordnung, SNT-VO). A significant success achieved by APG in the current proceedings was the discounting of the costs of capital for capital expenditure in 2011 and 2012 on the basis of the Austrian Electricity Industry and Organisation Act 2010 (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG 2010). In the future, it is the intention to apply this method to all capital expenditure approved as part of the new network development plan.

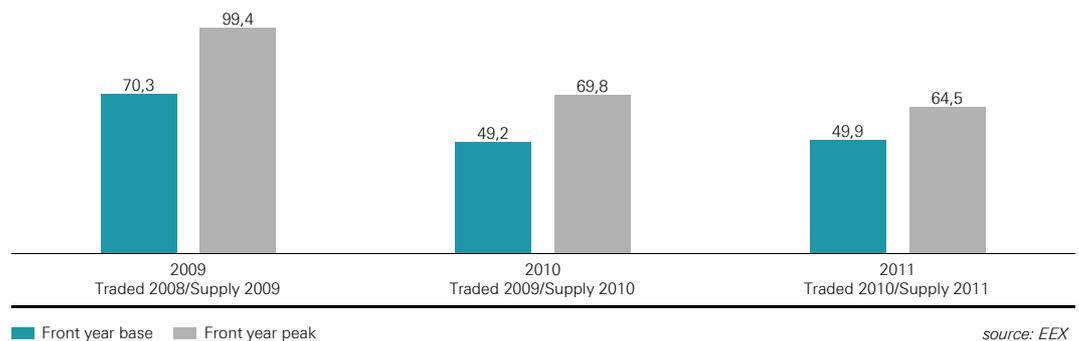
Factors influencing the result

Average electricity wholesale prices above the previous year's level

At an average of €49.9/MWh for base loads and €64.5/MWh for peak load, electricity wholesale prices applicable for the 2011 financial year ("Year Base/Peak 2011" forward contracts traded in 2010) were up 1.4% and down 7.6%, respectively, versus the prior-year level. As a result of its hedging strategy, VERBUND had already included the majority of its own generation in its pricing calculation in 2010 via the forward market. In 2011, spot market prices increased by 14.8% for base load to €51.1/MWh and by 11.1% for peak load to €61.1/MWh (2010: €44.5/MWh for base load and €55.0/MWh for peak load).

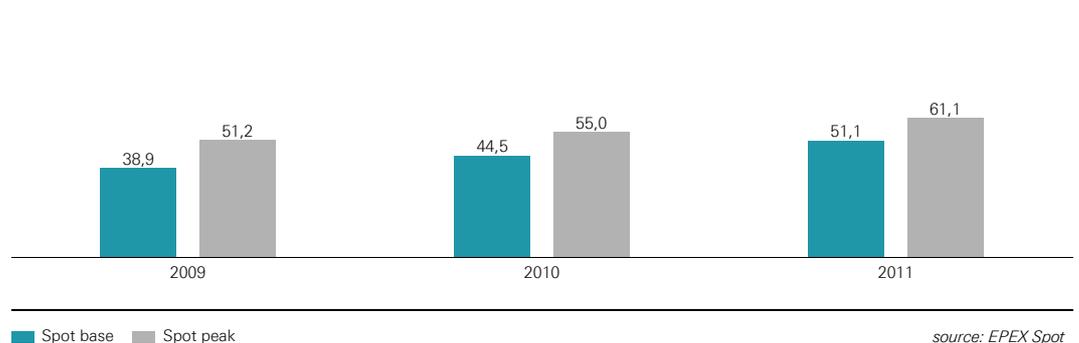
Futures prices for electricity

€/MWh



Spot market prices for electricity

€/MWh

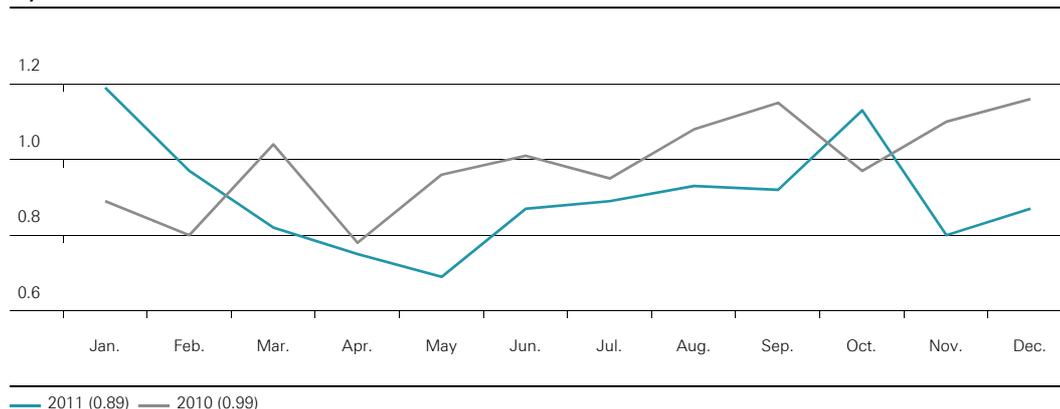


Unusually weak water supply

The year 2011 was one of the worst in VERBUND history for electricity generation from hydropower. The hydro coefficient, which is the measured value for generation from run-of-river and pondage power plants, fell to 0.89 for the year, or 11% below the long-term average and 10 percentage points below the prior-year figure. The weak water supply had a negative impact of round €124.7m on the operating result compared to an average water supply.

The hydro coefficient was 0.99 in quarter 1/2011, or still close to the long-term average. January 2011 had high rainfall levels, resulting in a well-above-average water supply, but February and March were already very dry. This tendency continued in quarter 2/2011, which saw a significantly below-average water supply leading to a hydro coefficient of 0.77. In quarter 3/2011, record high temperatures were measured into September and the hydro coefficient of 0.91 was markedly below average. In line with the year as a whole, quarter 4/2011 was also much too dry in hydrological terms with a hydro coefficient of 0.93. However, the fact that 2011 was unusually poor in terms of generation does not allow for any assumptions regarding a general, sustained deterioration in Austria's water supply – a conclusion that is supported by the results of commissioned environmental studies.

Hydro coefficient



Effects from impairment tests

As a consequence of the Fukushima catastrophe and the German phase-out of atomic energy, the energy market environment has changed significantly, including for VERBUND. On the one hand, change can be observed in the demand for certified hydroelectricity and the associated willingness on the part of electricity customers to pay premium prices for this form of energy. On the other hand, a stronger commitment can be seen on the part of politicians to expand hydropower and to generate energy domestically. In VERBUND's view, there is no potential risk of regulatory intervention in the form of plant-specific fees at this time as such fees would act as a negative investment incentive. In light of these indications of a reversal of impairment losses, the Danube power plant Freudenu and the run-of-river power plant chains Mittlere Salzach and Obere Drau – which had been written down by €480.9m in 1998 in the course of deregulation of the European electricity industry – were retested for impairment as at 30 September 2011 by comparing the recoverable amounts with the carrying amounts of these plants. The resulting reversal of impairment losses amounted to €412.3m. The concurrent increase in contributions to building costs received for the Danube power plant Freudenu reduced the impairment loss reversal by €99.6m. The net effect on profit or loss of the reversal of impairment losses thus totalled €312.6m.

By contrast, the general market situation for gas power plants is becoming very difficult in light of the sustained downward trend in the clean spark spread. Considering this indication for impairment, the combined cycle gas turbine (CCGT) power plant under construction in Mellach was tested for impairment as at 30 September 2011 by comparing its recoverable amount with its carrying amount. The resulting impairment loss amounted to €113.8m. The impairment loss was reduced by €3.5m due to a reversal of deferred government grants. The net effect on profit or loss from the impairment losses thus totalled €110.3m.

Electricity generation and sales volumes

Group electricity supply	GWh		
	2011	2010	Change
Hydropower ¹	24,216	26,708	-9.3%
Wind/solar power	127	112	13.5%
Thermal power ¹	5,410	4,258	27.1%
Own generation	29,753	31,078	-4.3%
Electricity purchased from third parties	32,155	24,652	30.4%
Electricity purchased from third parties APG	2,489	0	n.a.
Electricity supply	64,396	55,729	15.6%

¹incl. purchase rights

In 2011, VERBUND increased the electricity supply by 8,667 GWh. Electricity generation from hydropower decreased by 2,492 GWh or 9.3%. At 0.89, the hydro coefficient of the run-of-river power plants was 11% below the long-term average and 10 percentage points below the previous year's level. Generation from annual storage power plants decreased by 6.7% compared to the previous year due to the lower water flows and higher storage levels at the end of the year. By contrast, generation from thermal power increased by 1,152 GWh or 27.1%. This can be attributed above all to generation of the Mellach CCGT during the commissioning phase (+431 GWh) and to an increase in electricity purchased from the French Pont-sur-Sambre CCGT (+728 GWh). Since 1 March 2011, VERBUND has been purchasing all of the electricity generated at the Pont-sur-Sambre power plant.

Electricity sales volume by customer category

	GWh		
	2011	2010	Change
Consumers	9,510	11,451	- 16.9%
Resellers	26,644	23,390	13.9%
Traders	26,198	19,211	36.4%
Own consumption	2,044	1,677	21.9%
Group sales	64,396	55,729	15.6%

VERBUND's electricity sales volume increased by 8,667 GWh or 15.6% in 2011 compared to the previous year. The increase was mainly due to a rise in trading activities (+6,987 GWh) and higher sales volumes to foreign resellers (+1,073). Volumes sold to the German market increased in particular. Sales volumes to domestic resellers also increased (+2,182 GWh), primarily due to the grid loss energy sold by Austrian Power Grid AG (APG). Since 1 January 2011, APG has been carrying out central purchase of grid loss energy for the majority of Austria's grid operators. In this context, 2,093 GWh was sold to domestic resellers, for example. Electricity sales to consumers declined by 1,941 GWh. Electricity sales to domestic consumers rose marginally (+161 GWh) whereas foreign sales volumes declined significantly (-2,102 GWh), in particular due to the withdrawal from the consumer market in France.

Electricity sales volume by country

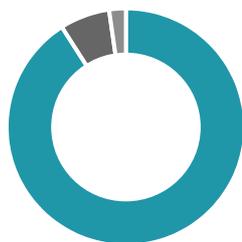
	GWh		
	2011	2010	Change
Austria	27,508	25,115	9.5%
Germany	27,773	21,258	30.6%
France	6,144	6,915	- 11.2%
Italy	793	839	- 5.5%
Hungary	1,462	432	n.a.
Other	716	1169	- 38.8%
Total	64,396	55,729	15.6%

In 2011, VERBUND sold 59.2% of its electricity volume - not including own consumption - on the international markets, primarily electricity markets in Germany and France. The focus of VERBUND's international trading and distribution activities is the German market, which accounts for 75.3% of all volumes sold abroad.

Financial performance

Results	€m		
	2011	2010	Change
Revenue	3,865.4	3,307.9	16.9%
EBITDA	1,041.1	1,059.2	-1.7%
Operating result	1,001.6	828.5	20.9%
Group result	352.6	400.8	-12.0%
Earnings per share in €	1.01	1.28	-21.0%

Revenue 2011
€m



3,516.5
Electricity

261.9
Grid

87.0
Other revenue

Electricity revenue increased

VERBUND's electricity revenue rose in 2011 compared to the previous year by 19.3% to €3,516.5m. The increase is attributable to the rise of 15.6% in electricity sales, in particular sales to traders and resellers abroad. Sales volumes to domestic resellers also increased, primarily due to the sale of grid loss energy by APG. The positive effect of increased sales volumes was amplified by higher electricity prices on the spot market.

Electricity revenue by customer category

	€m		
	2011	2010	Change
Consumers	719.8	749.1	-3.9%
Resellers	1,368.8	1,149.8	19.0%
Traders	1,427.9	1,049.3	36.1%
Electricity revenue	3,516.5	2,948.2	19.3%
Of which in Austria	1,438.6	1,272.1	13.1%
Of which from foreign countries	2,077.9	1,676.1	24.0%

Higher grid revenue

Despite declining revenues from electricity transit (inter-transmission system operator compensation), grid revenue increased by 4.9% year on year to €261.9m in 2011. The rise resulted from the expansion of grid invoicing to the Tyrol control area as well as an increase in grid tariffs (gross components). The recognition of provisions due to rescission of the 2009 to 2011 System Usage Rates Directives by the Austrian Constitutional Court acted to balance out the increase.

Decrease in other revenue, increase in other operating income

Other revenue declined by 20.9% year on year to €87.0m. As a consequence of the deconsolidation of VERBUND's equity interest in the Albanian power plant company Energji Ashta Shpk effective 27 August 2010, other revenue in 2011 did not include any revenue from construction services related to the Albanian hydropower plant concession recognised in accordance with IFRIC 12 (2010: €42.2m). Most of the corresponding construction expenses were included in other operating expenses in the comparison

period. The decrease in other revenue was partially compensated by higher revenues from gas trading and from (wholesale) emission rights in 2011 (€+24.8m).

Other operating income rose by 56.3% to €59.1m, primarily due to the capitalisation of commissioning expenses for the Mellach CCGT.

Expenses	€m		
	2011	2010	Change
Expenses for electricity, grid and gas purchases as well as purchases of emission rights (trade)	-2,205.8	-1,611.3	-36.9%
Fuel expenses and other usage-dependant expenses	-139.0	-118.3	-17.5%
Personnel expenses	-330.8	-308.4	-7.3%
Depreciation of property, plant and equipment and amortisation of intangible assets	-241.7	-229.9	-5.1%
Other operating expenses	-207.8	-248.6	16.4%

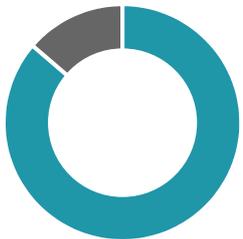
Expenses for electricity purchase rise due to increased sales volumes

Expenses for electricity, grid and gas purchases as well as emission rights purchases (trade) rose in 2011 by 36.9% versus the prior year to €2,205.8m. The significant increase can be attributed to higher electricity sales volumes, which were covered by a rise in electricity purchased from third parties - in part due to a decrease in own generation. This figure also includes the grid loss energy purchases by APG described above (2,489 GWh). Expenses for electricity purchase thus rose by 39.0% or €573.4m year on year. Expenses for grid purchases decreased by 0.5% compared to 2010.

Higher fuel expenses due to commissioning of Mellach CCGT

Fuel and other usage-dependant expenses rose by 17.5% in 2011 to €139.0m. The increase is primarily due to first-time operation of the Mellach CCGT, which generated electricity totalling 431 GWh in 2011 and was still in the commissioning phase at the reporting date. The fuel expenses resulting from testing (net of the revenue resulting from electricity sales) were capitalised; the corresponding offsetting item is reported under other operating income. In 2011, 3,670 GWh of electricity was generated at the thermal plants of VERBUND Thermal Power GmbH & Co KG (2010: 3,246 GWh). Fuel expenses were reduced somewhat by the reversal of provisions for onerous contracts and a slight decrease in expenses for the purchase of CO₂ emission rights.

Personnel expenses
€m



285.5
Wages and salaries

45.3
Employee benefits

Personnel expenses up marginally

Expenses for wages, salaries and ancillary expenses increased by 5.4% in 2011 to €285.5m. The increase of 2.65% (2010: 1.45%) in salaries pursuant to the collective agreement and the legally prescribed biennial pay rises acted in particular to increase personnel expenses, as did non-recurring effects from conversion to a performance-related payment system. The average number of employees rose slightly from 3,015 to 3,045. Expenses for employee benefits relating to pension and severance payments (“Sozialkapital”) increased by 20.4% in 2011 to €45.3m. For the most part, this is the result of the fact that no non-recurring effects were recognised in 2011 as well as a reversal of provisions from 2010. Thus total personnel expenses rose by 7.3% to €330.8m in 2011.

Increase in depreciation and amortisation, decrease in other operating expenses

Amortisation of intangible assets and depreciation of property, plant and equipment rose by €11.8m to €241.7m due to the reversal of the impairment losses on the Danube power plant Freudenu and the Mittlere Salzach and Obere Drau run-of-river power plant chains in quarter 3/2011 as well as the commissioning of the first section of the St. Peter-Salzburg 380 kV Salzburg line and the Limberg II pumped storage power plant.

Other operating expenses declined significantly, falling by €40.7m to €207.8m. As a consequence of the deconsolidation of Energji Ashta Shpk effective 27 August 2010, other operating expenses in 2011 did not include any construction expenses related to the Albanian hydropower plant concession recognised in accordance with IFRIC 12 (2010: €42.2m), nor was any other revenue from construction services recognised.

Effects from impairment tests

The effects from impairment tests are described in detail in the section entitled “Factors influencing the result”. In total, impairment tests had a positive impact of €202.2m on the operating result.

Operating result rose due to effects from impairment tests

The operating result rose by 20.9% to €1,001.6m as a result of the developments described. The operating result before effects from impairment tests fell by 3.6% to €799.4m.

Financial result	€m		
	2011	2010	Change
Result from interests accounted for using the equity method	-176.6	22.1	n.a.
Other result from equity interests	1.5	15.5	-90.4%
Interest income	36.5	30.8	18.5%
Interest expenses	-198.9	-245.2	18.9%
Other financial result	-23.2	-18.9	-22.7%
Financial result	-360.7	-195.7	-84.3%

Negative result from equity interests decreased financial result

The result from equity interests decreased significantly on the previous year, falling by €212.8m to €-175.1m. Most of the decrease resulted from foreign interests accounted for using the equity method.

In 2011, the share from France in VERBUND's result from equity interests was €-136.8m (2010: €-105.7m). The gas supply agreement between POWEO Pont-sur-Sambre Production S.A.S. and ENI S.p.A., which runs until 2023, had to be recognised for the first time at fair value through profit or loss.

The 50.01% interest in Shkodra Region Beteiligungsholding GmbH, which is accounted for using the equity method, was tested for impairment as at 30 September 2011. Shkodra Region Beteiligungsholding GmbH (indirectly) holds 100% of the equity interest in Energji Ashta Shpk. The decreasing expectations for Energji Ashta Shpk with respect to income from the sale of certified emission reductions (CERs) and with respect to electricity prices were indicative of impairment, as was the increased country risk impacting the discount rate. In the impairment test conducted as at 30 September 2011, the recoverable amount of the equity interest accounted for using the equity method was compared with its carrying amount. This resulted in an impairment loss in the amount of €35.7m on the equity interest in Shkodra Region Beteiligungsholding GmbH.

The contribution from Turkey to VERBUND's result from equity interests amounted to €-47.3m in financial year 2011 (2010: €36.2m). The EUR/TRY exchange rate trends resulted in measurement-related foreign exchange losses on the part of Enerjisa Enerji Üretim A.S., a Turkish generation company, and Enerjisa Elektrik Dagitim A.S., a Turkish distribution grid company.

In 2011, the contribution of Sorgenia S.p.A. (Group) to VERBUND's result from equity interests was €-3.3m (2010: €43.0m). The negative earnings performance was due to a lower profitability of gas power plants throughout Europe. In addition, the result from interests accounted for using the equity method in 2010 included positive effects on earnings from tax benefits for investments on the part of the Italian company Sorgenia S.p.A. (Group), which did not exist to the same extent in 2011.

The result from foreign interests accounted for using the equity method thus fell by €195.4m year on year to €-219.4m. Income from domestic interests accounted for using the equity method decreased slightly, declining by €3.3m to €42.8m, and primarily reflected the results of KELAG and SSG.

Interest income increased by €5.7m to €36.5m in 2011 compared to 2010, mainly as a result of increased income from money market transactions. Interest expense fell by €46.3m to €198.9m, primarily due to the losses attributable to the limited partners of VERBUND Thermal Power GmbH & Co KG (as a result of the impairment of the CCGT in Mellach).

The other financial result fell by €4.3m compared to 2010 to €-23.2m. Based on the purchase of an additional 60% equity interest in POWEO Production S.A.S. in France and the disposal of the equity interest in POWEO S.A. (Group), VERBUND and Direct Energie S.A. agreed to a sequential combination of a put option and a call option on 40% of the equity interests in former subsidiaries and second-tier subsidiaries of POWEO Production S.A.S. remaining with VERBUND. As at 31 December 2011, the fair value through profit and loss of the resulting overall short position amounted to €13.4m. A compensating effect resulted from the fact that the net negative impact on earnings from the early termination of cross-border leasing transactions in 2010 had been a one-off expense and from the measurement-related decrease in foreign exchange losses arising from a yen-denominated bond.

The financial result therefore decreased by a total of €165.0m to €-360.7m.

Effective tax rate of 27.9%

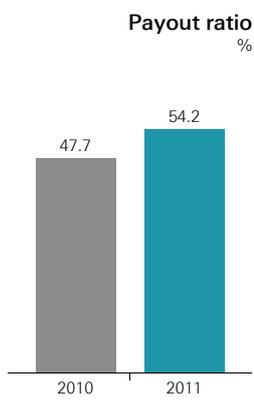
The main reason for the effective tax rate of 27.9% (given the corporate tax rate of 25%) related to the impact of companies accounted for using the equity method.

Decrease in Group result

The Group result declined by 12.0% to €352.6m. Earnings per share dropped by 21.0% to €1.01. The weighted average number of shares in circulation amounted to 347,415,686 in 2011. In the 2010 reporting period, the average number of shares in circulation was determined on a daily basis (312,067,848 shares). The higher average number of shares in 2011 resulted from a capital increase carried out by VERBUND AG effective 26 November 2010 (first trading day of the new shares).

Dividend of €0.55/share to be proposed

The separate 2011 financial statements of exchange-listed VERBUND AG, which are relevant for the distribution of the dividend, were prepared in accordance with the provisions of the Austrian Commercial Code (UGB) and show a net profit of €191.1m. A dividend of €0.55/share will be proposed to the Annual General Meeting on 12 April 2012. In 2010, a dividend of €0.55/share was also paid. The payout ratio for 2011 will thus amount to 54.2%, up from 47.7% in the previous year.



Assets and liabilities

Non-current assets rise as a result of impairment tests

Property, plant and equipment rose by €620.0m to €6,578.7m in 2011. This figure was primarily impacted by VERBUND's capital expenditure programme as well as impairment losses and reversals of impairment losses. Capital expenditure for property, plant and equipment amounted to €581.4m. Of that amount, €120.7m was attributable to the CCGT in Mellach and €121.1m to the Reisseck II and Limberg II pumped storage power plants. A total of €86.2m was invested in the construction of wind power plants in Romania. In the Grid segment, APG invested €22.5m in the 380 kV Salzburg line and €30.1m in the reconstruction and expansion of the Bisamberg substation as well as the line from south-east Vienna to south Burgenland. Impairment tests as at 30 September 2011 resulted in the Danube power plant Freudenuau and the run-of-river power plant chains Mittlere Salzach and Obere Drau being written up and the CCGT in Mellach being written down. Property, plant and equipment therefore increased by €298.5m.

Intangible assets increased by 1.4% year on year to €632.1m due to the acquisition of grid access rights for power plants. As at 31 December 2011, goodwill amounted to €605.7m (31 December 2010: €605.7m), having arisen largely from the acquisition of the Bavarian power plants on the Inn River in 2009.

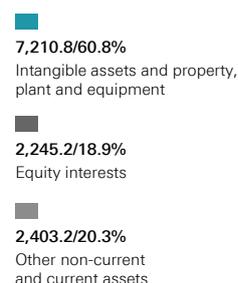
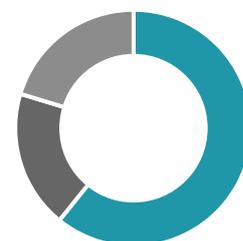
Consolidated balance sheet (short version)

	2011	Percent	2010	Percent	Change
Total assets	11,859.3	100%	11,291.0	100%	5.0%
Non-current assets	10,299.7	87%	9,722.2	86%	5.9%
Current assets	1,558.5	13%	1,568.7	14%	-0.6%
Non-current assets held for sale	1.1	0%	0	0	n.a.
Total liabilities	11,859.3	100%	11,291.0	100%	5.0%
Equity	4,929.4	42%	4,372.4	39%	12.7%
Non-current liabilities	5,886.2	50%	6,041.7	54%	-2.6%
Current liabilities	1,043.7	9%	876.8	8%	19.0%

Decline in carrying amounts of equity interests

The carrying amounts of VERBUND's interests accounted for using the equity method fell by 6.5% to €2,115.3m in 2011. Significant reasons were foreign currency losses of €129.7m (recognised in other comprehensive income) from the currency translation of VERBUND's Turkish joint ventures, the sale of the French equity interests in POWEO S.A. (Group) and POWEO Production S.A.S. as well as negative contributions to results from foreign interests. The latter was above all the result of the fair value measurement of the natural gas supply agreement for the CCGT in Pont-sur-Sambre/France with a negative effect of €75.2m. In addition, an impairment in the amount of €35.7m had to be recognised on the equity interest in Shkodra Region Beteiligungsholding GmbH. Increases in carrying amounts occurred in particular due to capital increases in the amount of €131.9m at Enerjisa Enerji Üretim A.S., a Turkish power plant joint venture.

Assets



Current assets drop slightly

Current assets fell by €10.3m to €1,558.5m compared to 31 December 2010. Trade receivables and other receivables increased by €130.6m, mainly due to the rise in measurement effects pursuant to IAS 39 in the energy area (€+74.7m) and the higher trade receivables (€+27.3m). The increase was partially compensated by a decline of €155.7m in cash and cash equivalents.

Increase in equity

Equity rose by €557.0m to €4,929.4m. The increase was primarily a result of the disposal of VERBUND's nearly 26.2% interest in VERBUND-Innkraftwerke GmbH, which led to a shift between shareholder groups. The equity ratio, which was adjusted for closed items on the asset and liability sides of the balance sheet, went up to 43.0% compared to 39.9% at the previous year's reporting date.

Decrease in non-current liabilities, increase in current liabilities

Financial liabilities decreased by 5.8% compared to 31 December 2010. As at 31 December 2011, financial liabilities totalled €4,233.6m (non-current: €3,908.9m, down 8.4%; current: €324.7m, up 41.9%). The decline was attributable above all to loan repayments, both scheduled (€67.1m) and early (€355.0m). New borrowing amounted to €127.0m in 2011.

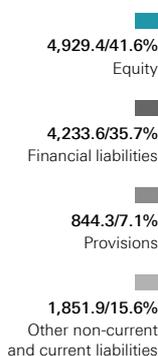
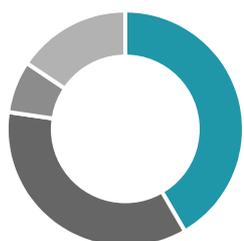
Non-current and current provisions fell by €61.3m versus the previous year to €844.3m. The decline resulted predominantly from the reversal of provisions for onerous contracts and maintenance expenses.

Liabilities from trade receivables and other receivables increased by €151.0m. The higher liabilities were the result of the increase in current liabilities based on the fair value measurement of the derivative financial instruments utilised in the energy area and the rise in liabilities to associates. The latter include in particular current liabilities from the cash pooling agreement between VERBUND and POWEO Pont-sur-Sambre Production S.A.S. in France.

Higher deferred tax liabilities

Deferred tax liabilities increased by €79.0m to €247.3m in 2011, mainly due to a reversal of impairment losses on hydropower plants. Contributions to building costs and grants rose by €144.0m to €574.3m as a result of increased investing activities.

Liabilities
€m



Cash flows

Cash flow statement (short version)	€m		
	2011	2010	Change
Cash flow from operating activities	829.9	778.2	6.6%
Cash flow from investing activities	-786.4	-1,134.0	-30.7%
Cash flow from financing activities	-199.3	718.8	n.a.
Change in cash and cash equivalents	-155.7	363.0	n.a.
Cash and cash equivalents at the end of the period	333.2	489.0	-31.8%

Positive trend in cash flow from operating activities

Cash flow from operating activities grew by 6.6% to €829.9m in 2011. The slightly lower contribution margins from generation (-6.7%) were compensated by variation margins received from futures contracts used in the energy area (change in cash flow: €+82.2m). Moreover, cash outflow for income taxes fell considerably in 2011. This had a positive effect of €36.9m on cash flow from operating activities. Cash inflow from contributions to building costs received rose significantly, increasing by €54.1m due to the increase in investing activities.

Lower cash flow from investing activities

Cash flow from investing activities changed by €+347.7m in 2011, primarily as a result of an increase in money market investments. This was partially compensated by lower payments received from the disposal of securities in the amount of €87.5m. Capital expenditure for property, plant and equipment and intangible assets constituted 83.3% of the corresponding outflows in 2010. Cash flow from investing activities in 2011 also included payments for capital increases on the part of interests accounted for using the equity method as well as the acquisition of interests accounted for using the equity method in the amount of €-278.8m (previous year: €90.8m). The sale of POWEO S.A. and POWEO Production S.A.S. resulted in cash inflows in 2011.

Decline in cash flow from financing activities

Cash flow from financing activities changed by €-918.1m in 2011. The decrease was chiefly the result of the capital increase carried out in November 2010, which had led to cash inflows of €976.8m in that year. No comparable cash inflows occurred in 2011. Moreover, repayments of financial liabilities were €363.0m higher in 2011 and financial liabilities taken out were €73.0m lower. This was partially compensated by lower dividend distributions (€+203.6m). Cash flow from financing activities in 2011 also included payments from the sale of shares in VERBUND Innkraftwerke GmbH.

Key figures

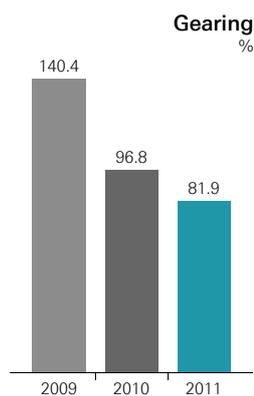
The key figures reflect the impact of impairment tests and the improvement in VERBUND's capital structure. When calculating its key figures, VERBUND eliminates the effects of closed assets and liabilities on the balance sheet. The relevant calculation methods for the determination of the key figures are explained in the glossary.

EBIT margin remains amongst the highest in Europe

Return on sales (EBIT margin) rose from 25.0% to 25.9% and thus remained higher than the average for European utilities. The increase was due above all to the effects from impairment tests.

Gearing ratio considerably lower

The gearing ratio fell from 96.8% as at 31 December 2010 to 81.9% as at 31 December 2011. The decrease was primarily attributable to the early repayment of financial liabilities and a sharp increase in equity. Gearing is the ratio of net debt to equity, including non-controlling interests.



Interest-bearing net debt (short version)

	2011	2010	Change
Current and non-current financial liabilities	3,717.1	4,033.8	-7.9%
Current and non-current financial liabilities – closed items on the balance sheet	408.5	332.8	22.7%
Capital attributable to limited partners	108.0	129.8	-16.8%
Other interest-bearing debts	1,161.7	1,183.3	-1.8%
Financial assets - closed items on the balance sheet	-408.5	-332.8	n.a.
Interest-bearing gross debt	4,986.7	5,346.9	-6.7%
Cash and cash equivalents	-333.1	-488.7	-31.8%
Securities and loans	-551.6	-581.9	-5.2%
Other	-66.3	-42.4	56.4%
Interest-bearing net debt	4,035.7	4,233.9	-4.7%
Equity attributable to shareholders of VERBUND AG	4,323.5	4,036.0	7.1%
Equity attributable to non-controlling shareholders	605.9	336.4	80.1%
Equity including non-controlling shareholders	4,929.4	4,372.4	12.7%
Gearing in %	81.9%	96.8%	-

EVA® still positive

EVA® dropped from €54.2m to €11.8m. This key figure shows the value that was added after deduction of all cost elements, including risk-adjusted equity and borrowing costs. The change in EVA® resulted in particular from a reduction in net operating profit after tax (NOPAT), which amounted to €633.8m in financial year 2011, down from €677.3m in financial year 2010.

Average capital employed rose due to extensive investment activity, which increased from €8,307.9m to €8,884.6m as at 31 December 2011. The resulting rise in capital costs was compensated, however, by a reduction in the weighted average cost of capital (WACC) from 7.50% to 7.00%.

Financing

Financial strategy

The international capital markets were volatile in 2011 and severely affected by the euro crisis and the sovereign debt crisis. Exacerbated by the worsening economy, the outlook for 2012 remains negative and the future is plagued by great uncertainty. The financial strategy of VERBUND reflects the current uncertainties on the financial markets and is based on 5 pillars:

- **Needs-based, central Group financing of subsidiaries**

Medium- and long-term financing of operating activities is carried out centrally within the Group by VERBUND International Finance GmbH and VERBUND AG. VERBUND Finanzierungsservice GmbH oversees short-term equalisation of funds within the Group. As internal financial hubs, these companies borrow capital from third parties or from within the Group from companies with a liquidity surplus and transmit the funds on a needs basis to the Group's subsidiaries within the scope of a market-oriented transfer price system. This makes it possible to leverage the synergies of centralized Group financing, while at the same time passing market and risk impacts on to the subsidiaries.

- **Assuring the appropriate liquidity reserves**

In times of financial crisis, ensuring sufficient liquidity at all times has absolute priority. To guarantee this, sufficient cash and cash equivalents – derived from our liquidity planning – are kept in reserve (maturities of < 3 months). In addition, VERBUND secures liquidity via secured and unsecured lines of credit. To this end, VERBUND has a syndicated credit line (volume of €750m, extending until 2016 with a renewal option) that can be drawn on at any time, even in difficult market situations, as well as non-committed lines, primarily with Austrian banks.

- **Ensuring an excellent credit standing**

A crucial pillar of VERBUND's strategy is to maintain its single-A range credit rating. To this end, strategy is discussed and coordinated on an ongoing basis with both the Moody's Investors Services and Standard & Poor's rating agencies. Great importance is placed on strict compliance with the key ratios specified by these rating agencies. In managing its rating, VERBUND is guided by the ratios of FFO/net debt and RCF/total debt.

- **Ensuring extensive financial flexibility**

Ensuring a single-A credit rating enables broad access to sources of funding. This provides support for the Group's growth strategy and enables access at all times to fresh capital, even in tense capital markets. VERBUND's financing portfolio comprises a balanced mix of bonds, loans, private placements, export credit financing and project financing.

- **Optimising the risk structure on the basis of specified limits and ratios**

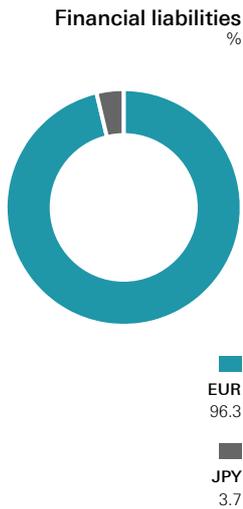
VERBUND’s financial strategy is based on a conservative risk strategy involving defined value-at-risk (VaR) and limit systems, with compliance being reviewed on an ongoing basis by the Group’s risk management. The management of risk in the borrowing portfolio is primarily based on the key ratios of duration, residual maturity, effective interest rate, currency limits, interest rate variability and VaR.

Borrowings and borrowing portfolio

VERBUND was able to take advantage of its high level of internal financing strength in financing its ongoing investments in 2011. Based on the capital increase carried out in 2010 and the disposal of equity interests in 2011, we had sufficient funds at our disposal to implement investment projects focussing on renewable energies. Our new borrowing requirements therefore declined greatly. We only took out one loan in the amount of €125.0m from the European Investment Bank to refinance the funds needed for the CCGT power plant in Mellach. Thanks to our good liquidity, we also made early payments on loans in the amount of €355.0m in 2011.

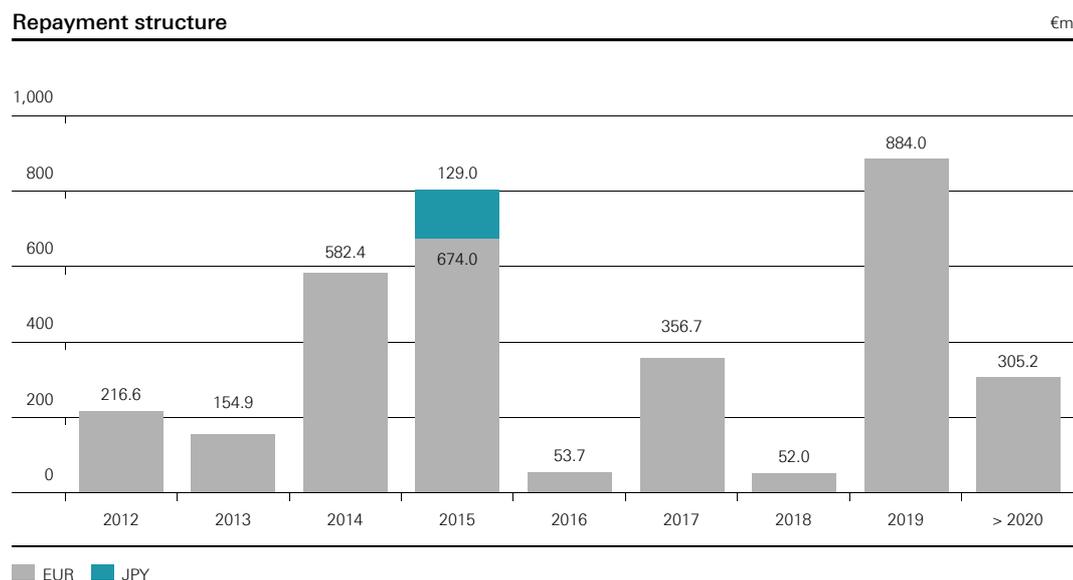
As at 31 December 2011, 63.8% of VERBUND’s borrowing portfolio consisted of bonds, 32.9% of loans (of which 9.0 percentage points were export credit financing) and 3.3% of other financial liabilities.

The following key figures refer to purely external financial liabilities, without taking former cross-border leasing transactions, financial guarantees or limited partnership interests into account. The carrying amount of VERBUND’s financial liabilities amounts to €3,674.1m. Of these liabilities, 96.3% were financed in EUR and 3.7% in JPY. As at 31 December 2011, the duration of all financial liabilities was approximately 3.4 years and the average residual maturity was 5.0 years. The effective interest rate was 4.4%, with 90.1% of the financial liabilities having a fixed interest rate and 9.9% a variable interest rate as at 31 December 2011.



Repayment structure

The repayment structure shows that only small repayments need to be made from 2012 to 2013. The refinancing requirement during this period is €371m and can be covered by cash and cash equivalents and the committed lines of credit. Repayment spikes will occur in 2014, 2015 and 2019 due to the maturity of €-denominated bonds.



Lines of credit

For VERBUND, ensuring liquidity has the highest priority. As at 31 December 2011, VERBUND had a syndicated credit line in the amount of €750.0m at its disposal to ensure liquidity; this line of credit had not been drawn upon. The credit facility was established in quarter 4/2011 with a number of national and international banks. It matures in 2016 (with a renewal option) and can be drawn upon at any time. In addition, VERBUND had uncommitted lines of credit amounting to €755.0m at its disposal as at 31 December 2011, primarily with domestic banks.

I
 As at 31/12/2011:
 S & P: A-/stable outlook
 Moody's: A2/stable
 outlook

Credit rating

The better the credit rating of a company is, the easier the access to international markets, the broader the possibilities for obtaining financing and the less expensive the borrowing. Ensuring the long-term sustainability of VERBUND's credit rating is of great importance, as the corporate risk premiums following the crisis on the financial markets and the sovereign debt crisis are being increasingly differentiated according to a company's rating category. In December 2011, Standard & Poor's confirmed its "A-/stable outlook" rating for VERBUND. From Moody's, VERBUND currently has an "A2/stable outlook" rating. In a sector dominated by rating downgrades, VERBUND's rating assessment is thus far better than the average for European utility stocks.

Key Financial figures

	Unit	2011	2010
Net debt/EBITDA	x	3.9	4.0
Gearing	%	81.9	96.8
Gross interest cover (FFO) ¹	x	3.7	3.6
Gross debt coverage	%	18.9	17.6

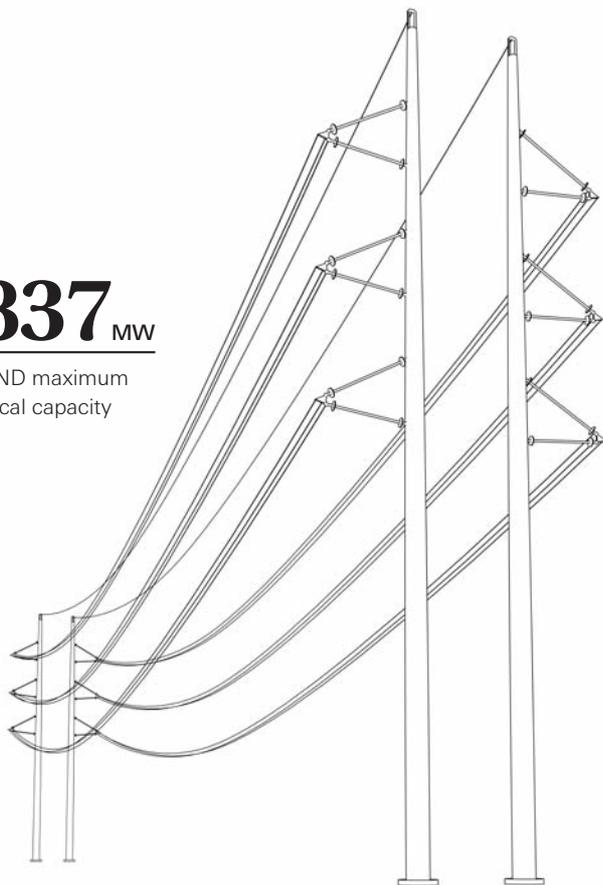
¹ Interest expenses excluding profit shares attributable to limited partners.

39.8 TWh

Transported quantity
in transmission grid

9,837 MW

VERBUND maximum
electrical capacity



5,453 MW

Maximum electrical capacity
in Turkey and Italy



OPERATING SEGMENTS

Operating segments

Electricity

Austria generates about 70,000 GWh of electricity annually. Of this figure, around 40% comes from VERBUND power plants. In 2011, VERBUND generated 81% of its electricity from hydropower. The Group has strengthened its commitment to renewables with wind power and photovoltaics. Combined cycle gas turbine (CCGT) power plants are an efficient and eco-friendly supplemental bridging technology.

Business development in the Electricity segment

External revenue in the Electricity segment grew by 15.1% to €3,435.8m in 2011. This increase can be attributed to electricity sales, in particular to international traders and resellers, which rose by 11.1%. The positive effect from the increased sales volumes was further reinforced by higher electricity prices on the spot market. In 2011, the Electricity segment accounted for some 88.9% of external sales in the Group. The operating result in the Electricity segment increased by 21.6% to €998.6m. This could be attributed primarily to the impairment tests performed on 30 September 2011, which had a positive effect of €202.2m on the operating result. The Electricity segment thus accounted for 99.7% of the Group's operating result.

Electricity supply

Focus: hydropower supplemented with thermal and wind power

VERBUND electricity from hydropower comes from 82 run-of-river power plants and 21 storage power plants. VERBUND's own energy generation is supplemented by purchase rights to electricity generated by a total of 20 hydropower plants owned by Ennskraftwerke AG, Österreichisch-Bayerische Kraftwerke AG, Donaukraftwerke Jochenstein AG and E.ON Wasserkraft GmbH. For electricity generated from hydropower, VERBUND's maximum electrical capacity is 7,365 MW and average annual production is 26,623 GWh (mean energy capability).

In addition, 25 wind turbines at 3 locations in Lower Austria provide capacity of 49 MW, and another 16 MW wind farm is located in Bulgaria. Two photovoltaic power plants in Spain with 3 MW round off VERBUND's renewable generation portfolio.

Three thermal power plants in commercial operation (total 815 MW) complete VERBUND's electricity generation. One thermal power plant (57 MW) is leased out, and another (277 MW) has been decommissioned. The Mellach CCGT in Styria (843 MW gross, 832 MW net) has been in the commissioning phase since August 2011, with commercial start of operations scheduled for 2012. Since March 2011, VERBUND has also had at its disposal 100% of the electricity from the French Pont-sur-Sambre CCGT.

Electricity generation

	Number	Maximum electrical capacity MW	Mean energy capability GWh	2008 GWh	2009 GWh	2010 GWh	2011 GWh
Hydropower	103	6,774	23,592	22,221	23,858	23,825	21,648
Hydropower purchase rights	20	591	3,031	3,087	3,241	2,883	2,569
Wind/solar power	6	68		–	106	112	127
Thermal power	6	1,992		3,352	2,351	3,246	3,670
Thermal power purchase rights	1	412		–	363	1,012	1,740
Total	136	9,837	26,623	28,660	29,918	31,078	29,753

Increase in electricity supply

In 2011, VERBUND supplied 61,907 GWh of its own electricity and third-party electricity, up 11.1% on 2010. Generation by run-of-river, pondage and daily storage power plants decreased by 9.8% due to the dry weather conditions in 2011. At 0.89, the hydro coefficient of the run-of-river power plants was 11% below the long-term average and 10% below the level of 2010. Generation from annual storage power plants was also reduced by 6.7%.

Generation from thermal power plants increased by 27.1% in 2011. This was primarily due to the purchase of the entire electricity output from the Pont-sur-Sambre CCGT in France since March 2011 and the electricity generated by the Mellach CCGT in the commissioning phase. A 98.6% technical availability factor and 99.4% reliability are an outstanding result for VERBUND's thermal power plants, even in an international comparison.

Electricity supply without grid loss energy

	GWh		
	2011	2010	Change
Hydropower ¹	24,216	26,708	–9.3%
Wind/solar power	127	112	13.5%
Thermal power ¹	5,410	4,258	27.1%
Own generation	29,753	31,078	–4.3%
Electricity purchased from third parties	32,155	24,652	30.4%
Electricity supply	61,907	55,729	11.1%

¹incl. purchase rights

Electricity sales volume
More electricity sold

VERBUND sold 61,907 GWh of electricity in 2011, 11.1% more than in the previous year. Trading and higher sales volume to resellers were the main factors in this growth. Electricity sales to consumers declined as a result of the withdrawal from the consumer market in France.

Overall business with retailers and consumers was satisfactory given the macroeconomic situation and the conditions in the energy market. Demand for electricity from some customers has already decreased, however.

The volume of electricity supplied in export markets increased by 20.5%, and accounted for 60% of the total VERBUND electricity volume in 2011. At 75%, the largest portion of the volume sold internationally was concentrated in the most important export market, namely Germany, where 30.6% more electricity was supplied. Sales to resellers and trading activities each increased by one-third, and sales to consumers increased by 6%. VERBUND was able to recruit additional large customers and expand its market position as a leading supplier of green electricity with its premium brand H2Ö - high-quality electricity from renewable resources, produced by TÜV-certified hydropower plants.

In France, the Group's second most important foreign market, the law reorganising the French electricity market (Loi NOME) came into force as of July 2011. Under this law, suppliers can deliver between 65% and 90% of their consumers' requirements through regulated access to cheap nuclear energy (ARENH - Accès Régulé à l'Energie Nucléaire Historique). Under these circumstances, VERBUND made a strategic decision to forego the purchase of ARENH and to withdraw from the French consumer market. Even though sales of VERBUND's own generated electricity increased in France via traders and resellers, total volume decreased by 11.2% as a result of this move.

In the Austrian domestic market, VERBUND sold 25,019 GWh of electricity. VERBUND expanded the domestic consumer market by 2.4%, and supply to resellers increased by 0.6%. Supplies based upon purchase rights decreased significantly due to the low water supply, but were compensated by the formation of new, long-term electricity supply agreements with subsidiaries in prior periods.

Electricity sales by customer category without grid loss energy			GWh
	2011	2010	Change
Consumers	9,510	11,451	-16.9%
Resellers	24,551	23,390	5.0%
Traders	26,020	19,211	35.4%
Own consumption	1,825	1,677	8.8%
Group sales	61,907	55,729	11.1%

Sales to consumers

New products, innovatively positioned

VERBUND is the largest supplier of electricity from renewables in Austria. At the end of 2011, the Group had more than 255,000 customers in the household/agriculture and commercial segment. In September 2011, VERBUND supplemented its offering with new electricity products. All H2Ö products offer electricity from 100% hydropower, with the product mix ranging from the low-priced online product H2Ö-direct to products with supplemental services such as free energy consulting or insurance services.

In the business and industrial customer segment, VERBUND has an innovative and service-oriented position in Austria and Germany, with a market share of 24% in Austria. Sales volumes were significantly expanded once again in Germany. The Düsseldorf sales office, which opened in 2010, strengthened sales activities and is also primarily intended to respond to growing interest among industrial customers for green electricity from certified hydropower plants.

The development of new business segments is another step in the implementation of the Group's growth policy. The VERBUND solar electricity package also helps to promote energy conservation among consumers. VERBUND is a leading member of Austrian Mobile Power, the electromobility platform of leading Austrian businesses. Companies from the energy industry, manufacturing and research have made it their goal to lead Austria into a new age of mobility. The energy partnership with Almenland, an EU leader region in Styria, was also developed in 2011. Almenland is a VERBUND test region for electromobility. The Group also promoted the motto "carbon-free driving" by offering free test-drives with a VERBUND electric car.

The theme of energy efficiency was another area of focus in 2011. This is in line with the consumer trend of becoming more involved in the energy generation cycle and controlling consumption. In the VERBUND-Smart Home pilot project, customers use visualisation tools showing electricity consumption to change from passive consumers to active participants. The project is researching consumption behaviour, and investigating the extent to which incentives can produce energy savings and/or whether load-shifting is possible, for example from daytime hours to night-time hours. In any case, E-Control expects that "smart home" and "smart metering" technologies alone will enable Austrian households to save at least 2,000 GWh per year.

Electricity trading

Trading strategy

Europe's energy markets are closing ranks, and the liquidity of the markets is growing. Increasingly transparent markets necessarily lead to lower price differences. Given this scenario and the activities required for managing their own assets, more and more companies are trading structured products in addition to their standard products.

VERBUND's focus in trading is the optimal marketing of the Group's own assets. In addition, we are strengthening our trading activities through proprietary trading, while observing strict risk guidelines. The know-how that we are gaining through these activities is strengthening VERBUND's market position and allowing us to respond directly to changes in the markets. Trading floor activities in electricity, gas and carbon credit trading provide stable market access for marketing the electricity we generate and hedging our wholesale business. Thanks to its trading operations, VERBUND has the strong presence required on the major OTC markets and exchanges in Europe for its core business of generation.

The balancing energy market is visibly gaining importance thanks to the strong expansion of renewables. VERBUND recognised this trend at an early stage, and is therefore focusing on the marketing of balancing energy. Investments in pumped storage power plants emphasise the strategic role that VERBUND sees for this market.

Electricity prices

VERBUND sells most of its generated energy on futures markets in order to minimise short-term selling and price risks. The price trend on the futures market in 2011 had only a minor influence on revenue during the year under review. It primarily affects the results of subsequent periods.

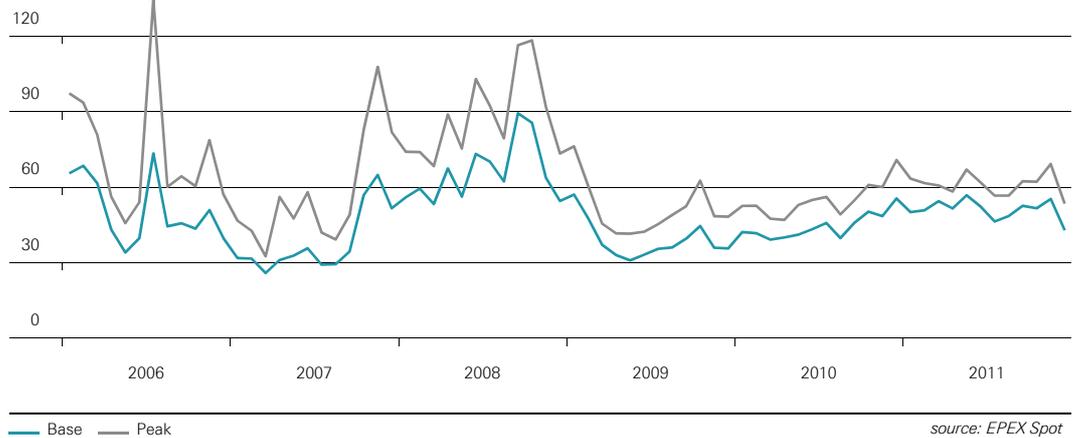


Higher electricity prices on the wholesale markets

On the spot market at the Paris electricity exchange EPEX, the prices for base-load electricity for the German/Austrian market were €51.1/MWh on average for 2011, about 15% up year on year. The peak-load prices were €61.1/MWh, 11% higher than in 2010. Higher fuel prices and the still favourable economic conditions drove prices in the first half of 2011. Weaker economic trends caused electricity prices to weaken again in the second half of 2011. The drop in hourly price volatility and the price differences between base-load and peak-load are somewhat unfavourable from the perspective of the pumped storage power plants. The difference between peak-load and base-load continued to decline, from an average of €10.5/MWh for 2010 to an average of €10.0/MWh for 2011, compared to an average price difference of €12.3/MWh in 2009.

Spot market electricity price development

€/MWh

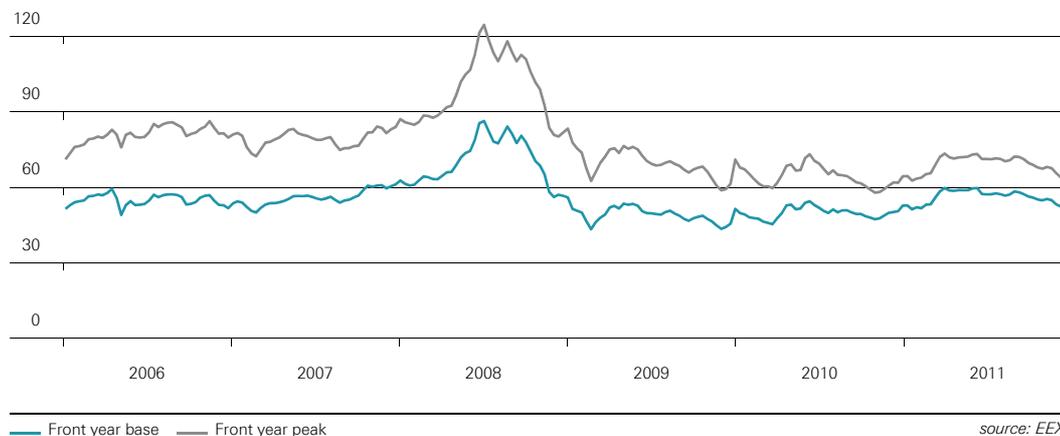


Spot trading for the German/Austrian market region according to the listings at EPEX Spot; monthly average prices.

On the futures market at the Leipzig electricity exchange EEX, base-load was traded at an average price of €56.0/MWh for 2012 (front year base) for the market territory of Germany/Austria, and peak-load (front year peak) was traded at €69.0/MWh. In 2010, front year base contracts paid €49.9/MWh on average, and front year peak contracts paid €64.5/MWh. The price drivers in 2011 were higher prices for primary energy sources and reduced power plant capacity caused by the permanent decommissioning of German nuclear power plants. The futures market prices lost ground once again at the end of 2011 due to a cooling of the global economy.

Futures market electricity price development

€/MWh



Front year listings for the German/Austrian market region on the basis of future trading at EEX; daily prices. The axis refers to the period of trading for delivery in the following year. *source: EEX*

Economic concerns put pressure on prices for carbon emission rights

European trading in carbon emission rights (European Union Allowance - EUA) experienced significant price fluctuations in 2011. The prices for EUAs with delivery in December 2011 (EUA-11), which were still trading at slightly above €14 per tonne of CO₂ at the beginning of the year, were above €17 at times during the spring. This was due to the consequences of events in Japan in March 2011 and the German government’s decision to phase out nuclear energy. The intensification of the euro crisis initiated a downward trend from June 2011 onwards. Prices were also put under pressure by the publication of the draft EU directive for increasing energy efficiency, as well as the failure to reach results at the UN climate conference in Durban.

EUA-11 was traded at an average of €13.4/t for 2011, 7% cheaper than in 2010. Certified emission reductions (CERs, credits from emission-reducing measures in developing countries and emerging markets) cost on average €10.0/t, a reduction of almost 20% compared to 2010.

Expansion in electricity generation

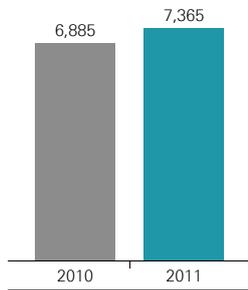
Hydropower contributes to achieving Austria’s climate goals

As an EU member, Austria is committed to increasing its share of renewables for consumers to 34% by 2020. Hydropower is currently the only competitive renewable source of energy for electricity generation. The national energy strategy therefore requires a 3.5 TWh increase in hydropower by 2015. VERBUND will make a significant contribution in the coming years to achieving the European and national goals: plans exist for power plant projects with approximately 1,100 GWh mean energy capability and maximum electrical capacity of approximately 1,500 MW, which will be implemented partly in cooperation with regional partners.

VERBUND was able to open the Limberg II pumped storage power plant in Salzburg ahead of schedule in October 2011. With a capacity of 480 MW, it increases the turbine capacity of the Kaprun power plant to a total of 833 MW.



Hydropower capacities
MW



At the beginning of 2010, VERBUND submitted the environmental impact assessment (EIA) application for the Limberg III pumped storage power plant. In addition to the EIA approval, implementation of the Limberg III project largely depends on the completion of the 380 kV Salzburg line to Kaprun. Construction work on the Reisseck II pumped storage power plant in Carinthia in 2011 consisted largely of demolition and tunnel work. With 430 MW, the new plant will increase the Malta/Reisseck power plant group's turbine capacity to 1,459 MW when it is put into operation as scheduled in 2014.

VERBUND continued to invest in greater efficiency, higher availability and increased safety at its existing facilities in 2011. For example, the first new generator set at the Pernegg power plant on the Mur River in Styria has been in operation since April 2011, and the other two will be converted in the winters of 2011/12 and 2012/13. Since May 2011, the Mayrhofen and Rosshag power plants in Zillertal/Tyrol have also been brought up to date. Modernisation of important turbine, pump and generator parts has increased the turbine capacity of the Zillertal power plant group by 10 MW, pump capacity has been increased by 22 MW, and annual generation from natural water flow has been increased by 12 GWh.

VERBUND has been collaborating (VERBUND share: 50%) with Energie Steiermark/STEWEG-STEAG (SSG) since 2009 to build the Gössendorf and Kalsdorf power plants on the Mur. SSG is responsible for construction, and VERBUND will assume management of the plants after their completion. Operational management of the Gössendorf facility, with a total annual generation of 88.6 GWh of electricity, was transferred to VERBUND at the beginning of December 2011. Construction work on the Kalsdorf project is also proceeding according to schedule. This power plant, which is to commence operation in November 2012, will generate 81.2 GWh of electricity per year.

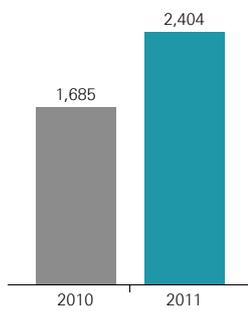
In July 2010, the provincial government of Tyrol issued an EIA approval for the international "Inn joint venture power plant" project (with annual generation of 414 GWh) being carried out by VERBUND (50%), TIWAG-Tiroler Wasserkraft AG and Engadiner Kraftwerke AG. Because of objections, the approval proceedings in Austria and Switzerland will be continued in the court of second instance. A final ruling was issued by the Swiss Federal Administrative Court in October 2011. The proceedings are currently underway in Austria before the environmental tribunal in the second instance.

Natural gas supplementing generation

As part of the path to the future, VERBUND relies on CCGT power plants as an eco-friendly bridging technology. These plants provide an optimal balance for the weather-related fluctuations in renewable energy sources, they are efficient and can be controlled flexibly, and they allow energy to be captured for district heating. The construction costs are only half as high as for coal power plants, and thus CCGT plants also have much lower fixed costs. At the same time, they emit only half as much carbon dioxide.

The Mellach CCGT power plant, which is scheduled to start commercial operations soon, will provide an optimal supplement to VERBUND's generation portfolio. The St. Andrä/Carinthia and Zeltweg/Styria power plants were finally decommissioned. Significant measures were undertaken at the Mellach site to improve the environmental situation within the metropolitan area of Graz; for example, an agreement was reached with Steirische Gas-Wärme GmbH (STGW) to increase the district heating transmission capacity from Mellach to Graz from 230 MW to 350 MW.

Thermal capacities
MW



Commitment to wind power

The rapid technological development of wind power systems in recent years has led to a full-blown wind energy boom. VERBUND identified the potential of this technology early on, and is increasingly

relying on wind power as a supplement to hydropower. In doing so, VERBUND is promoting national, and above all international, expansion in the target markets.

VERBUND is currently building a wind farm in Romania with capacity initially planned at 200 MW. Construction work is on schedule, and the first 100 MW is planned to be put into operation in mid-2012. As part of this wind farm, VERBUND is also implementing a 400 kV substation that will feed more than 700 MW of wind power into the Romanian transmission grid in the future.

In addition to the development of new markets, VERBUND is also focused on expanding existing markets. In Austria, VERBUND has been operating 3 wind farms since 2009 with a capacity of 49 MW in the Bruck an der Leitha region. Because of the good supply of wind and the Group's good local connections and reputation, VERBUND is developing another 3 wind farms with a total capacity of 57 MW in this region, with implementation schedule for 2012 to 2014. This capacity corresponds to more than one-fourth of the entire planned wind energy expansion in Lower Austria in 2012.

Outlook in the Electricity segment

Overall conditions will continue to be challenging

The momentous events in Fukushima in March 2011 brought about a decisive change in the energy policy environment. They spurred dynamic discussions in Europe, not only about the benefits and risks of nuclear energy, but also about the energy supply in general. The creation of conditions that provide for legal certainty and permit positive incentives for production and increased efficiency is a decisive challenge for energy policy. A greater expansion of grid and storage capacities is essential for the accelerated use of the new renewable energies in Europe. This will require particularly intensive international collaboration; only shared solutions can strengthen both the Austrian and the European energy industries, and allow an ecologically sound, economically efficient expansion of this sector. In its new facilities, VERBUND is relying primarily on hydropower and wind power, and is carefully observing developments in other areas of electricity generation from renewables. By expanding its pumped storage power plants, VERBUND is making a significant contribution to the development of renewables in Europe; pumped storage power plants can act as "green batteries" to optimally balance out the fluctuating generation of electricity from solar and wind power plants.

The uncertainties in the markets will continue in 2012. At this time, there are no signs of a sustained recovery in wholesale prices for electricity. The difficult conditions have shown that with its strategy as an integrated utility with a focus on defined core markets and extensive market know-how, VERBUND is very well positioned for the future. In the search for the correct energy mix, it is essential to understand that electricity is the key to a sustainable and climate-friendly energy system. Renewable energies will play an increasingly important role for a sustained transformation in energy production and consumption.



Grid

The 3,500 km long transmission grid operated by Austrian Power Grid AG (APG) forms the backbone of Austria's electricity supply. It is part of the pan-European transmission grid run by ENTSO-E's Regional Group Continental Europe. The voltage levels are 380, 220 and 110 kilovolt.

Business development and grid loss energy

External revenue up in the Grid segment

External revenue in the Grid segment grew by 58.4% to €404.3m in 2011. The main reason for this was the first Austria-wide sale of electricity for coverage of grid losses. This was counteracted by concerns based upon the Austrian Constitutional Court's cancellation of the System Usage Rates Directive (SNT-VO) of the past 3 years. In 2011, the Grid segment accounted for 10.5% of external sales in the Group. Expenses for electricity purchases also increased due to the increased purchase of grid loss energy volumes. Higher depreciation and amortisation, particularly as a result of the commissioning of the first section of the 380 kV Salzburg line (St. Peter grid hub to Salzburg substation) reduced the operating result compared with the previous year to -€7.1m.

For further information
on the grid, visit:
www.apg.at

Sales of grid loss energy	GWh	
	2011	2010
Resellers	2,093	-
Traders	178	-
Own consumption	218	-
Total	2,489	-

New system usage rates as of 2012

The rate basis ordered by the regulatory authorities for APG's gross and net rates will increase in 2012 by 18.2% compared to the SNT-VO that applied in 2011. The total basis for the rates, including grid level 3, the loss rates and system services is increasing by 16.9%. The gross component will be increased by 13.9%. In the net components, the strong investments by APG in transformers have resulted in an even greater distance between the rates for grid level 2 and grid level 1; thus the power tariff for level 2 is increasing by 22.6%, whereas the rate for level 1 is increasing by 12.5%. The power tariff for pumped storage power plants remains unchanged.

The projected purchase costs for secondary control have increased significantly, and from 2012, the required energy volume must for the first time be purchased in a market-oriented manner through tenders. For these reasons, the rates for the energy providers for secondary control are increasing by 21.6%. The deviations from the actual purchase costs will be taken into account afterwards and settled within the framework of the rates from 2014. Generation companies will continue to be charged grid fees for system losses and electricity used for pumping.

In the current process, the prepayment of capital costs for the investments in 2011 and 2012 was achieved based upon the new Austrian Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG 2010) and the existing long-term planning of APG. This mode is planned for the future for all investments approved in the new grid development

plan, and forms an essential basis for the financing of the high investment sums required. Beginning in 2012, volume deviations will be balanced out by the regulatory account. Thus far, these (mostly volume increases) could still be recognised in the profit and loss accounts by the grid operators.

Investments in the Grid segment still at a high level

In 2011, capital expenditures for tangible and intangible assets totalled approximately €121.9m in the Grid segment. A major item was closing the gap in the 380 kV Salzburg line by installing the first part, from the St. Peter grid hub to the Salzburg substation, which cost €18.7m. Other major capital expenditures for grid expansion included projects in Lower Austria – such as extending and converting the Bisamberg substation (€14.3m), the third 380 kV subconductor from south-east Vienna to south Burgenland (€13.5m), and construction of the new 110 kV line from Ernsthofen to Steyr (€6.1m). Part of the planned investments involved investing €8.1m in the implementation of the third Energy Market Liberalisation Package, replacing a transformer at the Lienz substation (€5.0m), and adding a reserve transformer to the facility’s equipment (€2.6m).

Security of supply

Increase in transported energy volumes

The energy volume (including transits) transported in 2011 via the 220/380kV grid (grid level 1) was 39,830 GWh, an increase of 7.0% compared to the previous year. The high degree of fluctuation in energy flow to the neighbouring national and international grid partners also continued in 2011. Exchange with the neighbouring control areas ranged from a maximum export of 2,893 MW to a maximum import with a new peak value of 3,823 MW.

APG is control area manager for Austria

On 1 January 2011, Austrian Power Grid AG successfully integrated the TIWAG Grid control area into the APG control area. On 1 January 2012, APG also took over operation of the control area in Vorarlberg, and is therefore the control area manager for all of Austria.

Extensive operational measures for grid expansion

The 380 kV Salzburg line from the St. Peter grid hub to the Salzburg substation was successfully put into operation in early March 2011 as another section of the 380 kV grid known as the Austrian Ring.

APG also completed construction of the new 110 kV quadruple line from Ernsthofen to the branch-off to North Steyr in 2011. This line will secure the long-term electricity supply to the metropolitan area of Steyr. In order to guarantee the security of supply during the construction period in both cases, APG created extensive temporary lines, installed grid disconnect switches and implemented targeted measures to manage maximum electrical capacities at the power plants based upon ongoing load situation analyses.

Secure supply without interruptions

APG once again took many steps in 2011 to ensure security of supply as far as possible. This required extensive measures in national and international grid operation, in-depth training and further education of employees, and investments in research and development. In its provision of controlling power, APG follows the statutory regulations (EIWOG).

Electricity transmission
220/380 kV grid
TWh



As of the beginning of 2012, APG will purchase the required secondary control reserve for the APG control area in a weekly and monthly tender. In order to be able to manage bottlenecks in the transmission grid, appropriate contacts were formed and/or adapted with power plant operators and grid partners.

Successful ENTSO-E audit

In October 2011, APG underwent a comprehensive and strict audit by ENTSO-E. The results were extremely positive: APG received top marks. The APG team received a “Fully Compliant” rating for all the standards addressed in the audit. This affirms APG’s continuing position as one of the best transmission system operators in Europe. Part of the audit includes verifying compliance with the mandatory rules established jointly by all transmission system operators (TSOs) of continental Europe in the Operation Handbook. This handbook covers practically all of the aspects necessary for safe system operation, thematically divided into 8 policies, including in-depth training and further education of the members of staff who manage operations.

Continuing research and development

APG invested around €1.0m in research in 2011. It collaborated with a number of partners on 23 research projects, some of which extend over several years. Particular areas of focus for research included planning for grid expansion (including different scenarios for the energy industry), grid monitoring and security, and weather, climate and the environment. Emphasis was placed on specific, application-oriented research issues, such as iced-line monitoring for timely detection of ice build-up on transmission lines.

Line construction projects

APG’s main goal in line construction is the completion of the 380 kV Austrian Ring. As part of this Ring, the Salzburg line forms the backbone for the security of supply for all of Austria. Given its great significance for Europe, this line is a Trans-European Energy Networks (TEN-E) project. It also permits the further expansion of electricity generation and integration of renewables into the Austrian power grid.

After the Austrian Supreme Administrative Court rejected the request for suspensive effect and confirmed a public interest, construction started on the first section of the 380 kV Salzburg line (St. Peter grid hub to Salzburg substation) in August 2009. After only 16 months of construction, this section has been in full operation on schedule since March 2011. This represents another milestone for the creation of the 380 kV Austrian Ring. The total investment for the 46 km long section together with substations is approximately €119m.

For the second section, from the Salzburg substation to the Tauern grid hub, APG developed a route corridor with a panel of experts and in an intensive dialogue process with local residents and the potentially affected communities. The resulting provisional route was presented to the community at informational events in May 2011. In its finding of 2 July 2011, the Supreme Administrative Court rejected all objections to the approval of preliminary work pursuant to the Electric Power Lines Act (Starkstromweegegesetz, StWG), and thus confirmed the application of the Federal Electric Power Lines Act for approval of the Salzburg line. The environmental impact statement is scheduled for submission in mid-2012.



For project information on the 380 kV Salzburg line, visit: www.apg.at

New regulatory developments

The third EU internal market package, which came into force in September 2009 and which includes stricter measures for unbundling, was enacted into national law in December 2010 with the EIWOG 2010. VERBUND has decided to implement the ITO (independent transmission operator) model. This action will secure the operational independence of the grid subsidiary. The implementation of the ITO model must be certified by the national regulatory authorities and submitted to the European Commission for approval by March 2012. The certification documents were submitted to the regulators in September 2011, and ITO certification is expected by March 2012.

The European Network of Transmission System Operators for Electricity (ENTSO-E) and the European Agency for the Cooperation of Energy Regulators (ACER) are mandated by law to create new market rules for the European electricity market by 2014. These “network codes” will then automatically become legally binding. Another focus lies in harmonising the European target model that is to be implemented in cooperation with the European Commission, regulators and representatives of the electricity market over the next few years.

Outlook in the Grid segment

The European transmission system operators will have to continue intensive preparations for the growing challenges they will face, especially in light of a single European electricity market and the planned massive expansion of volatile renewable energies. APG will carry on with the expansion programme defined in the 2020 Grid Master Plan. The planned projects include the 380 kV Salzburg line, the integration of wind power in Burgenland and Lower Austria, and strengthening the grid into Germany and in Carinthia. The Master Plan is currently being updated, and will be republished in 2012 with a planning horizon to 2030. In accordance with the new statutory requirements of EIWOG, a new grid development plan taking into account all relevant market participants was submitted to E-Control for the first time in 2011. All the other project work and programmes for maintenance, safety and improving efficiency will also go ahead as planned. In addition, APG along with 11 other transmission system operators has owned the Capacity Allocation Service Company (CASC) since 2010. As a service provider, CASC coordinates auctions of cross-border capacities – for APG, those to Italy and Switzerland. The Central Allocation Office established together with 7 other system operators coordinates auctions of cross-border capacities to the Czech Republic, Hungary and Slovenia.

Equity interests

Foreign equity interests

Italy: completion of thermal power plant portfolio

In 2011, the contribution of Sorgenia S.p.A. (Group) to the VERBUND result from equity interests was -€3.3m (2010: €43.0m). The negative income trend was the result of lower profitability from gas power plants across Europe. In addition, the result from interests accounted for using the equity method in 2010 included positive effects on earnings from tax benefits for investments on the part of the Italian company Sorgenia S.p.A. (Group), which no longer existed to the same extent in 2011. This is compensated in part, however, by income from sales of interests (Sorgenia Solar, Wind France). For example, Sorgenia Solar (19 MW) was sold to the British Terra-Firma Group in August 2011. The sale of 50% of Wind France to the US investor KKR and the simultaneous establishment of a joint venture with this new partner was completed in September 2011. In the thermal power generation segment, the commissioning of the 800 MW Lodi CCGT in quarter 1/2011 was an important milestone in the development of the generation portfolio. Work on completion of the fourth CCGT, Aprilia, is also proceeding according to schedule. The commissioning of this power plant, and thus the completion of the thermal power plant portfolio, is expected in quarter 1/2012. Sorgenia S.p.A. (Group) supplied gas and electricity to approximately 500,000 customers by the end of 2011.

France: significant strategic decisions

We continued the restructuring of our business activities in France in 2011, for example through our exit from POWEO S.A. (Group) and the sale of the renewable energy portfolio. France's contribution to the VERBUND result from equity interests for 2011 was -€136.8m (2010: -€105.7).

The structuring and implementation of the regulatory conditions for liberalization of the French electricity market ("Loi NOME") did not occur to the extent expected. This was the reason for VERBUND's withdrawal from the French consumer market. Effective 30 September 2011, the 46% interest in POWEO S.A. was sold to Direct Energie S.A.

In advance of this sale, VERBUND had already acquired the remaining 60% interest in POWEO Production S.A.S. (holding company for the thermal and renewable energy generation companies) from POWEO S.A. VERBUND and Direct Energie S.A. agreed to a sequential combination comprising a put option and a call option on 40% of the interest in VERBUND's remaining equity interest in former subsidiaries and second-tier subsidiaries of POWEO Production S.A.S. This is intended to ensure that no later than 1 July 2013, VERBUND will definitively control POWEO Pont-sur-Sambre Production S.A.S. and POWEO Toul Production S.A.S. in particular, or will be able to sell them in their entirety, including the associated guarantees and financing. The sale of the renewables portfolio, which was undertaken due to the changed regulatory conditions, was completed on 22 September 2011.

The current tense market situation for the operation of gas power plants (low electricity prices and relatively high gas purchase costs) throughout Europe is also affecting the Pont-sur-Sambre CCGT (412 MW). All operational, commercial and legal options are currently being analysed in order to reduce financial losses in the current market environment and improve the competitiveness of the power plant in Pont-sur-Sambre. Based on recognition of a result from equity interests of €-92.5m, the carrying amount of the equity interest accounted for under the equity method was nil as at 30 September 2011.

Information on Sorgenia:
www.sorgenia.it

Information on POWEO:
www.poweo.com



The Toul CCGT (413 MW) is currently in the construction phase. Delivery of the gas and steam turbines as well as the generator began in quarter 4/2011, and thus the “first fire” can take place on schedule in 2012. The Toul gas power plant has also been affected by the current difficult market environment, thus the carrying amount of the equity interest as at 30 September 2011 was written down to nil.

Turkey: successful expansion in generation

The Enerjisa Holding Company (HoldCo) was implemented on 27 December 2011. This company now holds 100% of all Turkish operating companies. VERBUND and its Turkish partner Sabanci each hold 50% of this holding company. The goal of the transaction was to implement a holding company that integrates all elements of the value chain (operating companies).

Turkey’s contribution to the VERBUND result from equity interests in financial year 2011 was €-47.3m (2010: €36.2m). The devaluation of the Turkish lira against the euro had a particularly negative effect, as the currency lost approximately 20% of its value in 2011.

Enerjisa is attempting to reach an installed capacity of approximately 5,000 MW by 2015, and to achieve a 10% share of the Turkish electricity market. This strategy is being implemented rapidly: the Hacininoglu hydropower plant (142 MW) and the Canakkale wind farm (30 MW) went into operation in quarter 1/2011. In addition, licenses were acquired for 2 hydropower plants and 1 wind farm with a total capacity of approximately 702 MW.

Together with its Turkish partner Sabanci, VERBUND operates the Baskent EDAS distribution grid in the extensive, highly populated area round Ankara. The distribution grid was integrated under the umbrella of EnerjiSA at the end of September, and officially renamed as “EnerjiSA Baskent”. EnerjiSA Baskent supplies approximately 3.3 million consumers.

Albania: construction of the Ashta power plant making progress

In Albania, VERBUND is collaborating with EVN AG to implement the Ashta hydropower project on the Drin River. VERBUND has a 50% interest. In this project, two plant stations are each fitted with 45 turbine/generator units using HYDROMATRIX® technology. The power plant is expected to be in full operation in quarter 1/2013 with a mean energy capability of 244 GWh and a maximum electrical capacity of 53 MW; this will supply 100,000 households in Albania with environmentally-friendly energy.

Domestic equity interests

STEWEG-STEAG GmbH

STEWEG-STEAG GmbH (SSG) is the largest utility in Styria. It generates, purchases, processes, transmits and sells energy and energy sources, and also trades electricity. VERBUND has a 34.57% stake in SSG, with Energie Steiermark AG holding the remaining 65.43%.

The energy sales at SSG showed positive development in all areas in 2011. SSG made a positive contribution of €6.3m to the VERBUND Group result from equity interests. The proportional dividend for 2010 was incorporated, amounting to €6.9m, into VERBUND AG in 2011.

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Information on Enerjisa:
www.enerjisa.com

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Information on
STEWEG-STEAG:
www.e-steiermark.com

Information on KELAG:
www.kelag.at

KELAG-Kärntner Elektrizitäts-Aktiengesellschaft: rising contribution to results

KELAG-Kärntner Elektrizitäts-Aktiengesellschaft provides electricity, gas and heat to customers throughout Austria. KELAG also operates internationally in the hydropower and wind power segments. VERBUND AG has a 35.17% interest in the utility as at 31 December 2011. Kärntner Energieholding Beteiligungs GmbH holds 63.85% of the shares and the free float accounts for 0.98%.

KELAG continued to grow successfully in 2011, particularly in the area of electricity and natural gas trading. KELAG made a proportional positive contribution of €33.0m to the VERBUND Group result from equity interests. The proportional dividend for 2010, amounting to €10.5m, was incorporated into VERBUND AG in 2011.

Information on
 Energie Klagenfurt:
www.stw.at

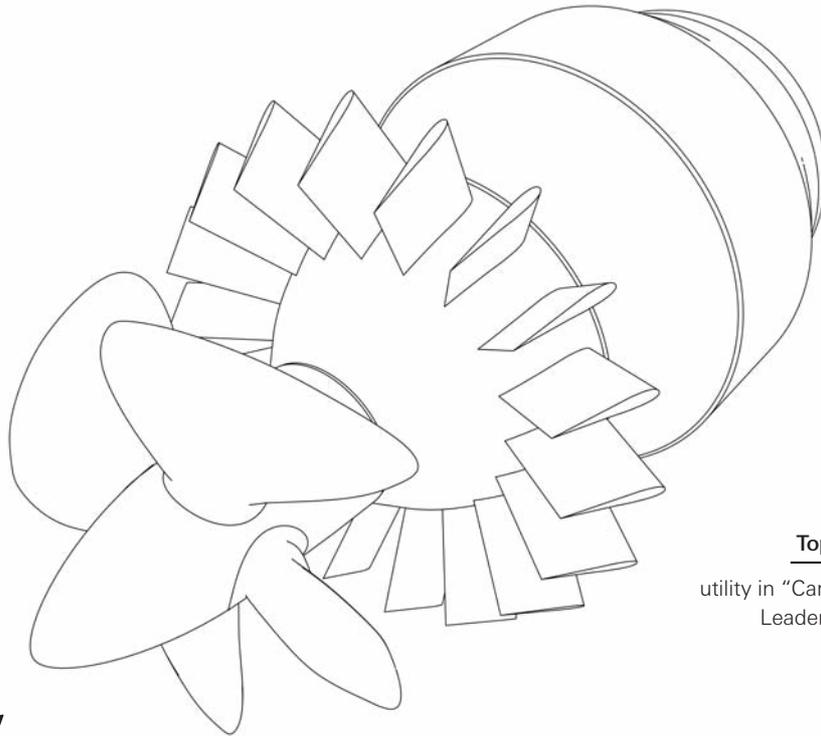
ENERGIE KLAGENFURT: environmental tribunal decision for Klagenfurt CCGT is pending

Energie Klagenfurt GmbH (EKG) is a company engaged in generating, transmitting, distributing and trading electricity, district heating and gas. VERBUND has a 49% interest in Energie Klagenfurt, and Stadtwerke Klagenfurt AG holds 51%.

Revenue increased in 2011 compared to the previous year. EKG made a proportional positive contribution of €0.9m to the VERBUND Group result from equity interests. The proportional dividend for 2010, amounting to €1.7m, was accounted for at VERBUND AG in 2011. The EIA proceedings for the Klagenfurt CCGT have been before the environmental tribunal in the second instance since the end of 2010. An oral hearing was held in October 2011 to discuss the supplemental expert opinion. The approval decision by the second instance is expected in quarter 1/2012. The investment decision is still pending, and depends to a large extent on further changes in conditions in the energy market environment.

€ **4.2** m

invested in new
research projects



95 %

of all facilities are
TÜV-certified

Top 2

utility in "Carbon Performance
Leadership Index"



GROUP

Group

Human resources

VERBUND employed an average of 3,045 people in 2011. Their dedication and their achievements have made a substantial contribution to the development of our Group. The central task of our executives and our personnel management is to ensure that employees receive the best possible training and are allocated to the most suitable positions. We offer performance-related, market-oriented payment as a matter of course. In order to manage the wealth of tasks to be completed, we must take a forward-looking, cost-conscious view to personnel planning. On a European comparison, VERBUND leads the field in terms of job productivity (measured in terms of revenue per employee).

Key figures – employees

	Unit	2011	2010
Average number of employees	Persons	3,045	3,015
Of which apprentices	Persons	161	147
New recruits	Persons	172	164
Fluctuation rate	Percent	1.6	1.6
Average age of employees	Years	44.2	44.3
Training per employee	Hours	48.2	41.6

Productive and efficient use of personnel

Our goal is to create efficient processes that will enable us to utilise our internal personnel resources in an even more targeted manner. As in past years, we have implemented cost savings – for instance by reducing overtime, decreasing unused holiday accruals and cancelling or delaying plans for recruiting new personnel. Where recruiting is necessary, VERBUND does so with the greatest cost-consciousness. Training and advanced training is pursued in a consistent and targeted manner within the available budget.

Transparency for employees and executives alike

For many years, standardisation of processes and systems has been an important factor in our endeavour to increase efficiency. A key step towards standardising our remuneration system was taken in 2009 when we introduced an objective, market-oriented total payment model for all executives. This was followed in 2010 by the introduction of a uniform, performance-related payment scheme across the Group for all salaried staff, which has also applied to wage earners since 2011. Now all VERBUND employees receive both performance- and profit-related payment. We also set an Austrian standard for clarity and transparency in the redrafting of our executive contracts in 2011.

Intensive training for future talent

Our skilled workers and master craftsmen are employees of high strategic significance for VERBUND, particularly in terms of securing the core business. For this reason, we pay special attention to retaining knowledge in this area. We make significant investments in training our apprentices and in ensuring structured succession planning. For more than 60 years, VERBUND has placed great value on apprentice training. The competency and skills needed to meet future challenges are conveyed to young talent at 3 apprentice workshops and at a total of 23 locations in Austria and Germany. Each year, some 45 young



men and women begin their 4-year training programme in a unique dual profession combining electrical and mechanical engineering to provide them with an in-demand profession with excellent future opportunities.

Promoting employee satisfaction

The level of satisfaction and commitment of our employees has been proven to have a major effect on the Group's productivity. That is why it is important for us to promote these factors. We create an open, respectful and responsible working atmosphere by supporting open communication and involving our employees in the development of the Group. In September 2011, we conducted our second Group-wide employee survey. The response rate rose by 50% compared to the first survey in 2008. This is an indication that our employees are taking active advantage of our offer to engage in dialogue. The responses also show that our many initiatives and measures to promote an accommodating working environment are supported by positive action. Our employees' responses represent a positive score card for us, indicating that VERBUND enjoys a high level of working satisfaction even in an external comparison.

Success through transparency and variety

As one of the first companies in Austria to do so, VERBUND has been publishing salary figures in all of its job postings since March 2011. In addition, we provided the employee representative with an income overview of all companies in the Group in 2011, regardless of the number of employees. These measures provide for transparency across the board and prevent inequality.

Following the appointment of an equal opportunities officer in 2010, VERBUND continued on its chosen path of consistently promoting gender equality and diversity. The award of the third VERBUND women's scholarship to three students from Vienna University of Technology underlines our commitment to promoting women, as does the fact that we participated in the City of Vienna's Take Your Daughter to Work Day for the eighth time.

Value-based management

Creating values for the future

VERBUND has been dedicated to the principle of value-based management for many years now. In 2003, EVA[®] was defined as a key performance indicator in order to create greater transparency regarding value creation in the Group. Increasing enterprise value in the long term is a key criterion for all strategic and operating decisions. VERBUND therefore takes value-based action when budgeting, making investment decisions, in its operating decision-making process and when measuring performance.

Economic value added (EVA[®])

A positive EVA[®] indicates that during the reporting period, the capital employed generated returns in excess of the cost of capital. Accordingly, value was created for the owners of VERBUND. Unlike EBIT or cash flow- or margin-based performance indicators, EVA[®] also takes risk-adequate opportunity costs with respect to total capital into account and helps prevent incorrect allocations. EVA[®] is determined as the net figure resulting from deducting the cost of average capital employed (capital charge) from net operating profit after taxes (NOPAT). NOPAT is profits derived from a company's operations before financing costs, including the result from equity interests, and after deducting adjusted income taxes. In 2011, NOPAT amounted to €633.8m (previous year: €677.3m). Capital employed corresponds to average total assets, net of those assets that do not yet contribute to performance processes and less non-interest-bearing debt. Capital employed amounted to €8,884.6m in 2011 (previous year: €8,307.9m). EVA[®] declined to €11.8m in 2011 (previous year: €54.2m)

Reduction in weighted average cost of capital

The capital charge is determined by multiplying the capital employed by the weighted average cost of capital (WACC). WACC, which is the rate of return a company pays on average to investors and lenders in order to finance assets, is derived from the return expectations observed on the capital market. The capital asset pricing model (CAPM) is used to determine equity risk premiums. Borrowing costs are derived from market data. Cost of equity and borrowing costs are weighted on the basis of the capital structure derived from the market. The WACC for VERBUND amounted to 7.00% in 2011 (previous year: 7.50%) and was determined as follows:

Weighted average cost of capital

Market risk premium	6.44%	Risk-free interest rate	3.38%
x beta factor	0.92	+ credit spread	1.25%
= equity risk premium	5.90%	= borrowing costs before tax	4.60%
+ risk-free interest rate	3.38%	- income tax rate	27.90%
= cost of equity	9.30%	= borrowing costs after tax	3.30%
Equity ratio	60%	+ debt ratio	40%
	WACC	7.00%	

Uniform criteria for all projects

Future investment and acquisition projects are evaluated in accordance with uniform Group criteria and profitability calculation models. In determining the cost of capital, adequate account is taken of the risks associated with the production technology employed as well as the country risk. The final investment or acquisition decision is made on the basis of value-based performance metrics. This procedure is intended to ensure returns that are consistently in excess of the cost of capital, increase the market value of VERBUND and lay a foundation for the corresponding operating results and dividends.

To guarantee optimum capital allocation, the projects with the highest relative net present value are implemented. The relative net present value is calculated by dividing the net present value by the capital expenditure. Integrating EVA® in the decision-making process means that the periodic value contributions from completed projects are analysed using the same principles as those applied to future investment and acquisition projects.

Sustainability

Sustainability is part of our core business due to the high percentage of renewables that we use for electricity generation. Sustainable conduct extends beyond this into many other Group activities.

Sustainability: our services

Generation	More than four-fifths of VERBUND electricity in Austria comes from environmentally friendly hydropower. In 2011 alone we saved nearly 20 million tonnes of CO ₂ emissions by using hydroelectricity.
Environment	At the end of 2011, 62% of our power plant sites in Austria and Germany were certified in accordance with EMAS or ISO 14001.
Communication with interest groups	We involve the general public in the implementation of our planned projects and are in constant contact with stakeholders, with whom we maintain a flow of information.
International commitment	We are very careful in selecting our international partners. Our goal is to fully implement VERBUND standards for environmental management at all of our foreign equity interests.
Employees	We offer all of our employees extensive training and advanced training opportunities. We also place high value on health and safety.
Social commitment	We are involved in many community projects, for instance to support the disadvantaged, reduce energy poverty, promote sport and culture and convey knowledge about energy and climate protection.



Sustainability reports can be downloaded from the following link:
www.verbund.com/cc/en/responsibility/key-figures-and-reports

Sustainability made transparent

We have prepared a sustainability report every year since 2002. VERBUND is thus amongst those companies in Austria that have been documenting their achievements in the area of sustainability for many years as well as presenting their advancements transparently in a catalogue of measures. In our sustainability committees – the Sustainability Board and the Sustainability Working Group – we take a close look at our achievements and work to achieve continuous improvements.

Heightened social commitment

In 2011, we added the “Friends at VERBUND” initiative to the VERBUND Empowerment Fund run by Diakonie, a Protestant humanitarian assistance organisation.

An Internet platform allows our employees to interact with physically and/or mentally handicapped people in Austria in order to expand their circle of contacts. The purpose is for both sides to become acquainted with the world of the other. In 2011, VERBUND received a special award for volunteer commitment for this project as part of the Corporate Social Responsibility (CSR) award from TRIGOS. VERBUND’s Empowerment Fund supports Diakonie’s clients by providing them with state-of-the-art assisting technology such as computer voice output devices and controllable PC mice to allow them to interact with their environment.



Environmental pioneer in Europe

More than four-fifths of VERBUND electricity comes from hydropower. Wind and solar power plants, along with highly efficient, low-carbon thermal power plants, round off our portfolio. Our outstanding environmental performance has been confirmed once again in an international comparison: in 2011, VERBUND was ranked for the first time in the leadership index of the 250 largest enterprises in Germany and Austria by the Carbon Disclosure Project (CDP), the world's largest rating of emissions data. The No. 2 ranking among "Utilities" underlines the pioneering role of VERBUND in managing greenhouse gas emissions and evaluating and responding to possible environmental risks and opportunities as well as its role in non-financial reporting. Over the next 3 years we will be commissioning state-of-the-art thermal plants, which will further lower the specific CO₂ emissions of VERBUND's thermal power plants. However, due to the rise in total thermal generation, the specific CO₂ emissions of VERBUND's overall generation will increase, as will CO₂ emissions in absolute terms.

Environmental management system and certification

Our goal is to have all of our generation and grid facilities certified in accordance with the ISO 14001 international environmental standard. We are currently preparing to expand to new locations, particularly abroad. The environmental management system of VERBUND was installed in 1995 and complies with either the EMAS or the ISO 14001 environmental standard. At the end of 2011, 27 of VERBUND's 123 hydropower plants were certified in accordance with EMAS (17% of mean energy capability) and 89 in accordance with ISO 14001 (74% of mean energy capability). The trend in environmental certification of VERBUND hydropower plants is moving toward certification under the ISO 14001 international standard. We aim for all VERBUND facilities to meet this standard over the medium term and thus be integrated in the environmental management system. The 3 thermal power plants currently in operation are also certified. Since 2008, all grid locations and systems have been externally inspected pursuant to the ISO 9001, ISO 14001, ISO 27001, OHSAS 18001 and EMAS standards. Since 2009, all thermal and hydropower plants have also met TÜV (German technical inspection authority) criteria.

Environmentally friendly resource conservation

The measures we take with regard to the environment are an important part of our plant projects. Semi-natural fishways, recultivation of hydropower plant reservoirs and sustainable grid management all act to conserve natural resources. Our construction of the Limberg II storage power plants in Salzburg implemented pioneering environmental planning in all areas with only minimal encroachment on the natural environment of this high mountain region. The measures taken included limiting road construction and removing roads no longer needed after construction, renaturalisation of specific sites and special reseeded.

Resource conservation is part of our office culture as well: automatic basic settings for multi-functional equipment help our employees to save an additional 4 tonnes of paper each year on top of that saved via recycling. Energy consumption is optimised by using new IT equipment that meets the "green IT standard". Moreover, conversion to a new standard client (2011) reduces energy consumption by approximately 300,000 kWh annually.

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You will find the 2011 CDP report here: www.verbund.com/cc/en/responsibility/sustainability/policies-and-standards

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Please see the 2011 CSR report for details on our environmental management system. Current certification: www.verbund.com/cc/en/responsibility/key-figures-and-reports/audits-certifications

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 Details on specific environmental figures can be found under the following link:
www.verbund.com/cc/en/responsibility/environment/environment-figures

Key figures – environment

	Unit	2011	2010
Electricity generation (net, excl. own consumption)	GWh	29,753	31,078
Of which hydropower (incl. purchase rights)	GWh	24,216	26,708
Of which hydropower (purchase rights)	GWh	2,569	2,883
Of which thermal power (incl. purchase rights)	GWh	5,410	4,258
Of which thermal power (purchase rights)	GWh	1,740	1,012
Of which wind and solar power	GWh	127	112
Share of hydropower, wind and solar power generation	%	81.8	86.3

Fuel use (thermal power plants excl. purchase rights)

	Unit	2011	2010
Hard coal	t	1,079,238	1,078,808
Lignite	t	–	–
Oil (heavy heating oil)	t	28,723	45,588
Natural gas	1,000 m ³	107,001	10,007
Biomass and solid recovered fuels (sewage sludge)	t	15,303	14,250

Greenhouse gas emissions (thermal power plants)

	Unit	2011	2010
CO ₂ fossil absolute (ETS emissions)	kt CO ₂	3,249	3,241
CO ₂ specific (ETS emissions re total generation)	t/GWh	109	104
CO ₂ specific (ETS emissions re thermal generation incl. purchase rights)	t/GWh	601	761
Scope 1–3 (total)	kt CO ₂ e	4,093	3,890
Of which Scope 1 (direct emissions under GHG protocol)	kt CO ₂ e	3,250	3,246
Of which Scope 2 (indirect emissions)	kt CO ₂ e	842	643
Of which Scope 3 (other indirect emissions)	kt CO ₂ e	0.7	0.7
Scope 1–3 specific (re total generation)	t/GWh	138	125

Emissions prevented by hydropower, wind and solar power (basis of comparison: Dürnrrohr power plant)

	Unit	2011	2010
CO ₂	kt	19,718	21,724

Transmission grid

	Unit	2011	2010
Electricity transmitted in APG grid	GWh	39,830	37,218
Grid loss	GWh	518	475
Percentage of grid loss in total electricity transmitted	%	1.3	1.3



Research and development

Identifying the technologies of the future early on and recognising and responding to new market opportunities are the core tasks of our “Centre of excellence for innovation”. VERBUND’s intragroup research activities are also coordinated at the Centre. The individual VERBUND companies continue to carry out local research projects in their areas of focus, for instance in the fields of hydropower, thermal power, new renewable energies and trading and sales.

Key figures – research and development

	Unit	2011	2010
Number of completed projects	Number	22	23
Number of current projects	Number	61	50
Total project volume ¹	€m	74.6	74.3
Of which EU projects ¹	€m	18.0	24.4
VERBUND’s total share ¹	€m	18.9	20.0
Annual VERBUND expenses ¹	€m	4.2	4.8

¹ Over the entire duration of the projects

Managing energy intelligently

VERBUND’s “energy management as a service” project shows how individual local market participants can use a platform to communicate not only with each other, but also with central electricity utilities and grid companies. This enables a local balance between electricity generation, consumption and storage (e.g. via electric vehicles) and the grid. The “VERBUND Smart Home” pilot project demonstrates how electricity can be made visible to customers. In this project involving approximately 250 participants, measurement and switching functions are being tested and prepared for roll out, as are the integration and visualisation of local generators.

Electricity for the traffic of the future

Climate change calls for a new energy system. As Austria’s leading electricity company – generating more than four-fifths of its electricity from renewable energies – VERBUND is part of the solution. Studies indicate that it is realistic for 100% of the electricity for electric vehicles to come from renewable energies, which would bring advantages for consumers, the environment, policymakers and the economy. Clear regulations with respect to electromobility could lower CO₂ emissions from traffic, improve air quality and reduce noise pollution. This would also make the achievement of environmental targets more realistic. Dependency on fossil resources would decrease, thus driving market growth. The EmporA (Electric Mobile Power Austria) and EmporA 2 projects cover the entire electromobility value chain, from vehicle technology to users.

VERBUND coordinates and heads these flagship projects, each of which are being implemented together with 14 Austrian partners. EmporA (project total: €21m) and EmporA 2 (€5m) are backed by environmental and energy investment funds, which have provided financial support in the amount of €11m. VIBRATE, Europe’s first cross-border electromobility project, will link Vienna and Bratislava even more closely. The project is being headed by VERBUND. A consortium consisting of Energy Centre Bratislava, EVN, Wien Energie and Zapadoslovenska energetika will invest more than €1m in the “Twin



City Region" between 2011 and 2013. Another project is the "Austrian Mobile Power" platform, where VERBUND is working with 31 partners in industry and research to create an overall concept for electromobility in Austria. In addition, we are making it possible to experience electromobility in tourism in the Almenland region of Styria, where we are working on a model that is unique in all of Austria. Our goal is to create a carbon-neutral region in Almenland. In addition to electric bicycles and scooters, VERBUND's vehicle fleet also includes electric cars. In line with our motto of "carbon-free driving", we have been offering free test drives to customers, employees and other interested parties since autumn 2011.

Hydropower: new directions for new locations

VERBUND is working on the development, production and testing of a low-cost turbine prototype for low heads together with an Austrian manufacturer of hydropower plant components. The aim is to reduce capital expenditure along with expenses for service and maintenance by taking an innovative approach, such as using oil-free machinery, avoiding the use of contact seals and the use of river water as a lubricant and coolant. This project could enable an economical hydropower solution at many locations for the first time.

Thermal power: optimising operations

In the area of thermal power, research activities centre on investigating future operational requirements. Focus is placed, for example, on researching the durability of structural components that are subject to severe stresses and optimising power plant utilisation and district heat generation.

Power grid: ensuring efficient transfer

In 2011, VERBUND's grid subsidiary APG worked on 23 research projects as part of numerous collaborative efforts, some of which extended over a number of years. Particular areas of focus included planning, monitoring and securing grid development as well as weather, climate and the environment. Emphasis was placed on application-oriented research issues, such as an iced-line monitoring project. The project involves development of a system for the timely detection of ice build-up on transmission lines so that countermeasures can be implemented promptly. The Institute of Electrical Measurement and Measurement Signal Processing at the Technical University of Graz developed a measuring instrument in cooperation with APG. After tests of the first prototypes were successful in warning of ice build-up, development of the device is continuing with an industrial partner. Initial use in APG's grid occurred in November 2011.

Wind energy: exact forecasting for Europe

Due to the rapid expansion of wind energy in Europe, the significance of generation forecasts is increasing. Such forecasts ensure network stability and enable the best possible marketing of electricity from wind energy. That is why VERBUND, together with meteorologists, is optimising wind energy forecasting for 10 European wind sites. A detailed benchmark test indicated proven improvements in wind forecasting. Another area we are focussing on is field trials of innovative wind measurement technologies. These technologies are intended to increase planning security for wind power projects on complex terrain and in remote areas. They reduce the measurement periods and increase the reliability of the measurements.

Risk and opportunity management

A Group-wide risk management system has been in place at VERBUND since 2001. The system has been updated on an ongoing basis to respond to changing strategic requirements, thus ensuring its effectiveness and efficiency.

Efficient structure supports business processes

The risk and opportunity management department is part of Group controlling and thus subject to reporting to the CFO. A chief information security officer (CISO), who coordinates all issues relating to information security and data protection, is additionally integrated into this department. The head of risk and opportunity management also chairs VERBUND’s Risk Management Committees. With respect to operating risk management, Financial Management and Trading have built up a number of resources. After implementation of the independent transmission operator (ITO) model in 2012, risk organisation at APG, our grid subsidiary, will be independent of that of VERBUND.

Risk management is a key aspect of business process transactions. Identifying, measuring and pursuing opportunities and risks is an integral part of all decisions with regard to Group strategy, standard planning and reporting, project execution and investment and acquisition. Risk and opportunity management involves aggregating the data collected in the system and submitting quarterly reports to the Group Executive Board and the Supervisory Board. Risk and opportunity management acts to support VERBUND’s value-based management approach. Risks and opportunities are tracked along the entire value chain in the form of overlapping management loops using established risk management tools, methods and models:

I Information on financial instruments and risk management is presented in the notes to the financial statements.

Scope of risk and opportunity management

		Level in the value chain (consolidated companies and joint ventures)		
		Electricity	Grid	Equity Interests & Services
Organisational level,	Strategic (political-, market- or technology-based view)	Opportunities – risk management as the combined task of all employees, organised as overlapping management loops (identifying, measuring, deriving and pursuing measures, analysing and responding to deviations) for each specific type of risk for (permanent) organisational units and (temporary) projects.		
observation period,	Medium term (financial, value-based view)			
subject areas	Short term (operational view – effectiveness, efficiency, security, resistance to crisis)			

Risks and opportunities in 2012

The energy market environment continued to worsen in 2011, leading to earnings collapses throughout the utilities sector. Changed macroeconomic conditions, falling wholesale prices, high volatility on the energy markets and the commissioning of new power plants have increased the risk of a margin decline and thus the probability of additional impairment losses on investments and equity interests. The future will be impacted in particular by the following opportunities and risks:

- The trends in the regulatory and energy market environments
- The economic trend in our core international markets of Germany, Italy and Turkey
- New forms of energy generation and changed roles for market participants
- Sustainability in the use of resources, new service areas and new business models

VERBUND's operating result is influenced to a great extent by the volume and price risks associated with own generation. Hydropower plant generation fluctuates depending on hydrological factors outside of human control, and the earnings contribution additionally varies based on the trend in electricity prices. The earnings contribution of thermal power plants is affected above all by price trends for electricity, primary energy (natural gas, hard coal) and carbon certificates. Investment, personnel, operating and maintenance and contractual risks are monitored continuously. In 2012, focus will be placed on negotiating new gas supply agreements as well as monitoring investment performance and the recoverability of investments. Taking into account the output priced in as at the 31 December 2011 reporting date, a change of 1.0% either way in the following factors – all else remaining equal – would be reflected in the operating result for 2012 as indicated below:

- Greater or less generation from hydropower: €12.0m
- Wholesale electricity prices (hydropower plants and thermal power plants): €7.0m
- Clean spark spread (difference between the prices of gas and electricity, taking into account CO₂ costs when electricity price assumptions vary): €1.3m

VERBUND's financial result is increasingly influenced by the earnings contributions from its equity interests. The opportunity and risk profile of VERBUND reflects its implementation of an international growth strategy. The earnings contributions are a reflection of the expansion of our operating activities and the changed energy market environment as well as the effects of measuring financial liabilities in foreign currency. The result from equity interests fluctuates due to expenses for restructuring, changes in currency exchange rates, potential impairment of the carrying amounts of equity interests and the possible crystallisation of liabilities and guarantees. The volatility of VERBUND's Japanese yen liabilities also shows in the financial result. A change of 1.0% either way in the following factors – all else remaining equal – would be reflected in the financial result for 2012 as indicated below:

- JPY-EUR exchange rate (financial result): €1.3m
- TRY-EUR exchange rate (result from equity interests): €3.8m
- Wholesale electricity prices at international equity interests (result from equity interests): €12.0m

Outlook

Following a strong recovery in 2010, global economic growth weakened again in 2011. The business environment was deeply affected by the nuclear accident at Fukushima, the high level of sovereign debt in the USA and several eurozone countries, increased volatility in the financial markets, a decline in business confidence and the largely exhausted range of economic policy options on the part of national governments. The greatest risk for the economy in the eurozone in 2012 will be the sustained burden of the sovereign debt crisis, since the economic slowdown is affecting not only the peripheral EU countries, but is also increasingly extending to the main EU members. According to the forecast of the International Monetary Fund (IMF), economic output in the eurozone may shrink 0.5% in real terms in 2012, and may only grow 0.8% in 2013.

Industry outlook cautious

The expansion of the new renewables (wind power and solar power) in Europe is presenting the energy system there with enormous challenges. Firstly, the integration of these volatile capacities into the grid requires appropriate solutions. Secondly, the profitability of the non-subsidised power plants, which are essential for security of supply, must be preserved. Gas power plants in particular are currently having to deal with very low margins. The majority of natural gas imports to the EU are based on long-term contracts linked to the price of oil. Apart from that, the gas markets are characterized by increasingly short-term trading transactions when supply exceeds demand. In recent years, this has led to an increased decoupling of gas and oil prices. Gas power plants with “classical” oil-indexed take-or-pay agreements cannot be run profitably in the current market environment. Given the low margins, there is currently very little incentive for companies to invest in new, non-subsidised power plant projects. The uncertainties in the markets will continue in 2012. There are no signs of a sustained recovery in wholesale prices for electricity at this time.

CO₂ emission rights, which lost a great deal of value during the past year because of the uncertain economy, also have a significant influence on wholesale prices for electricity. Future developments in this area will depend not only on the business environment within the industry, but particularly on decisions by the EU regarding further structuring of the underlying conditions.

Uncertain financial environment

The European sovereign debt and banking crisis, in conjunction with the gloomy economic picture, harbours significant uncertainties for the future growth and stability of the financial markets. The steady deterioration in the credit ratings of many European countries and banks represents a risk to the business environment and the secure supply of capital for the economy. A break-up of the eurozone would have unforeseeable consequences for Europe's future growth.

In a weakening financial environment, VERBUND has adjusted its business activities by significantly reducing its debt level and optimising its capital structure. We will consistently follow this course of action in financial year 2012 through a number of measures. At the same time, we are continuing our investment programme. This programme is largely oriented toward renewables, primarily hydropower, and the expansion of the grid infrastructure. The Group still has a high level of internal financing capability that will secure its activities in these areas. To further strengthen this capability, VERBUND successfully took out a syndicated loan of €750m in 2011. This ensures that the Group will have access to capital at any time, even in a difficult financial environment.

By maintaining a stable “A” investment grade rating, the Group has been able to continue implementing its investment programme. By 2016, the net debt to EBITDA ratio should not exceed 4.0x and the gearing ratio should be below 100%. At the same time, ROCE is expected to remain above 8% and the cash flow (FFO) to net debt ratio above 20%.

Investment plan 2012–2016: focus on hydropower and grid expansion

VERBUND is continuing its expansion of hydropower, wind power and low-carbon thermal power. Between 2012 and 2016, it will invest €2.4bn in national and international power plant and grid expansion projects. Of this total, 65% will be directed to the Austrian-German domestic market, with a focus on eco-friendly energies and expansion of the necessary grid infrastructure. In its international activities, the Group’s focus is on Turkey, which accounts for approximately 18% of capital expenditures. Our goal here is to create an eco-friendly generation portfolio of approximately 5,000 MW by 2015. We are investing some 7% of the planned resources in a wind farm in Romania.

Earnings projection 2012

Regarding the outlook, given the uncertain macroeconomic and financial environment and the resulting difficult conditions in the energy industry, it is impossible at present to give a serious forecast for earnings in 2012. Our dividend policy will aim for a payout ratio of approximately 50% of the Group result.



Internal control and risk management system

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

Control environment

Code of Conduct

The Executive Board of VERBUND is aware of its responsibility towards stakeholders, society and the environment. For this reason, Group management acts in accordance with the principles defined in the Group's Code of Conduct.

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Code of Conduct
of VERBUND:
www.verbund.com/cc/en/about-us/corporate-mission

Controlling

VERBUND's Executive Board bears responsibility for developing and implementing the internal control and risk management system for the entire accounting process. As a business partner of the Executive Board, VERBUND Group controlling coordinates and manages the execution of tasks in controlling, corporate accounting and risk management so that all applicable laws and regulations are complied with in a uniform manner throughout the Group.

The controlling departments at the VERBUND subsidiaries receive expert support from Group controlling and make use of their access to the requisite specifications and Group manuals in carrying out their work. VERBUND Management Service GmbH and the financial accounting departments of the non-SAP companies provide services relevant to the accounting process such as financial accounting, procurement, payroll and IT.

Budgeting, revised and medium-term planning

Amongst other factors, VERBUND is managed on the basis of the Group result and the key performance indicators derived therefrom. Our internal control system (ICS) for accounting entails detailed budgeting and medium-term planning as well as analysis of deviations from actual results.

The income statement and the potentials are rolled over in the revised plan for the month. The quarterly planning comprises an income statement, a balance sheet, a cash flow statement and a segment report as well as a calculation of the budgeted figures and these are presented in the Supervisory Board report. Budgeting for the following financial year commences each September, when the assumptions are sent out, and is completed at the end of November. Medium-term planning is carried out concurrently and builds on the budget.

Financial reporting

VERBUND runs a fast-close process every year to prepare the consolidated financial statements in accordance with IFRSs and the separate financial statements in accordance with local GAAP. In the case of consolidated companies, the IFRS figures from the separate financial statements are transferred for consolidation to the SAP EC-CS consolidation module. The equity interests accounted for using the equity method are recognised at Group level in the SAP EC-CS consolidation module.

Risk assessment

All identified risks and opportunities are recorded and measured in VERBUND's Group-wide risk management system and any necessary action is defined with the help of software. Opportunity and Risk Management coordinates and monitors processes, aggregates the data collected locally and makes quarterly reports to the Executive and Supervisory Boards on the Group-wide risk and opportunity portfolio, paying particular attention to potential deviations from the Group result. Special Risk Management Committees (RMCs) have been established for all key areas involving risks or

opportunities. The RMCs are primarily responsible for continuously reviewing and updating risks and opportunities as well as evaluating and implementing risk management measures.

Control measures

Process manual for accounting

The internal control system must be evaluated regularly to ensure its appropriateness and monitored by means of control measures. To this end, VERBUND has surveyed current processes, assessed the risks and identified key internal controls. In addition, it has created a risk control matrix containing the timing of the controls, which have been summarised in a process manual together with the flow charts from the process map. An updated version is released every year. Internal audit ensures ongoing control in connection with its audit engagements.

Executive orders, Group guidelines, standard operating procedures

VERBUND has a whole set of executive orders, guidelines and standard operating procedures to ensure that structures, roles, functions and processes are clearly defined for all concerned. The organisational team implements continuous improvements to ensure that these regulations are up to date and are adapted as needed.

IT systems

SAP management systems are used for financial accounting and budgeting throughout the Group. VERBUND Trading AG also uses host systems for recording wholesale and trading transactions, e.g. Endur as the ETRM software and SDK.ProviderSuite for customer invoicing. The balances are automatically transferred to SAP via interfaces.

Transactions by VERBUND Sales GmbH, i.e. all electricity sales to consumers, are also initially processed in SDK.ProviderSuite and then automatically transferred to SAP. Original vouchers are archived in SAP, while contracts and other important documents are stored in the document management system (DMS).

Information and communication

Internal reporting

The controlling departments of the VERBUND companies send monthly reports to the relevant board members and executives as well as to the Group corporate accounting department, which consolidates the data and reports it to the VERBUND Executive Board. In addition to the budgeted and actual statements, the reports include business highlights, variance analyses and target achievement reports. Similarly, financial management reports to the Executive Board of VERBUND on liquidity, financial liabilities and highlights in the areas of financing and investor relations.

The quarterly reports contain the income statement, the balance sheet, the cash flow statement and a comparison of quarterly, year-to-date and full-year ratios with the budget and the previous year, as well as the segment report, the contribution margins and reports of earnings potentials and targets achieved. Financial management also reports on the general conditions for exchange rates and interest rates, on the amortisation outlook, investment performance and risk monitoring in the area of financing. Opportunity and risk management provides an overview of the risk horizon for the current and the subsequent year as well as the results achieved by the Risk Management Committees.

Reports to the Supervisory Board

The financial section of the quarterly reports to the Supervisory Board corresponds in essence with the internal quarterly reports, but includes additional segment information.

Other reports to the Supervisory Board include the annual report on VERBUND's equity interests and the report of the Executive Board on the Group budget, including the financing and liquidity plan as well as human resources and investment planning.

Legal unbundling

To prevent information from being shared in an illegal manner between the VERBUND companies and APG, company codes are kept strictly separate and reports are only made accessible to specific people. This ensures that VERBUND companies cannot access the grid company's sensitive data and vice versa. The only exceptions are made for shared services such as financial accounting and IT until final implementation of legal unbundling in 2012.

Monitoring

Internal audit monitors all operating and business processes as well as the internal control and risk management system. Audits are performed pursuant to the schedule approved by the VERBUND Executive Board, supplemented by short audits and special audits. The audit reports include recommendations for measures that are subject to semi-annual follow ups after instructions for their implementation have been issued.

One of internal audit's main priorities is ensuring that all operational procedures and processes are consistent with the Group-wide guidelines and regulations, the VERBUND companies' articles of association or partnership agreements and the applicable laws. Internal audit also reviews the division of duties and functions and the maintenance of the policy of dual control. Where information technology is used, internal audit checks whether the applicable authorisation systems have been implemented.

Shareholder structure and capital information

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

1. At the balance sheet date, the share capital comprises: 170,233,686 no-par shares (bearer shares category A), equivalent to 49% of share capital; 177,182,000 no-par shares (registered shares category B), equivalent to 51% of share capital, authenticated by an interim certificate deposited with the Federal Ministry of Finance and made out in the name of the Republic of Austria. There were 347,415,686 shares in circulation at the balance sheet date. With the exception of the voting restriction described under Point 2, all shares have 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 Incorporation, 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 in the Annual General Meeting are restricted to 5% of the share capital." We are not aware of any other restrictions that affect voting rights or the transfer of shares.
3. The shareholder structure of VERBUND AG is largely defined by the majority holding of the Republic of Austria. 51% of the share capital of VERBUND AG is owned by the Republic of Austria under constitutional law. A syndicate comprising the state energy companies Wiener Stadtwerke Holding AG 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 19% of the share capital is in free float.
4. There are no shares with special control rights.
5. VERBUND does not have 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. A Nomination Committee has been established within the Supervisory Board pursuant to the Austrian Code of Corporate Governance, which makes arrangements for the appointment of Executive Board members on behalf of the Supervisory Board (see also corporate governance report 2011). Apart from the above, there are no other regulations extending beyond the legal requirements that relate to the members of the Executive Board and the Supervisory Board. Moreover, there are no applicable requirements derived directly from law regarding amendment of the articles of incorporation.

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For further details,
see the corporate
governance report.

7. The authorisation granted to the Executive Board at the 62nd Ordinary General Meeting held on 25 March 2009 in accordance with Section 65(1)(8) of the Stock Corporation Act (Aktengesetz, AktG) relating to the purchase of treasury shares was valid until 25 September 2011. The Executive Board did not issue a decision on a buyback programme.

In the Extraordinary General Meeting held on 24 September 2010, new authorised capital was resolved, whereby the Executive Board was authorised under Section 169 of the Stock Corporation Act (AktG) to increase the share capital with the approval of the Supervisory Board by 23 September 2015 by up to €154,100,000.00 by issuing up to 154,100,000.00 new bearer or registered ordinary shares (no-par shares) against a cash contribution – if applicable, made in several instalments – and to determine the issue amount, the terms of issue and the further details of the implementation of the capital increase with the approval of the Supervisory Board. This with the proviso that the federal government subscribes for new shares within the scope of a capital increase from the authorised capital, thus ensuring that the shareholding of the federal government in the Company does not fall below 51% of the Company's share capital even after completion of a capital increase from authorised capital.

Subsequently, the Executive Board resolved a capital increase with the Supervisory Board's approval on 24 November 2010 by issuing 39,215,686 no-par shares, whereby the share capital rose to €347,415,686.00. After this capital increase, the Executive Board is authorised to increase the share capital with the approval of the Supervisory Board by 23 September 2015 from the current nominal value of €347,415,686.00 by up to €114,884,314.00 by issuing up to 114,884,314.00 new bearer or registered ordinary shares (no-par shares) against a cash contribution – if applicable, made in several instalments – and to determine the issue amount, the terms of issue and the further details.

The Executive Board has no additional powers 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(8) of the Austrian Commercial Code (UGB). Furthermore, in our opinion, a public takeover bid is not possible at this time under constitutional law.

9. There are no compensation agreements within the meaning of Section 243a(9) of the Austrian Commercial Code (UGB).

Events after the balance sheet date

The capital increases in Enerjisa Enerji A.S. for 2012 in the amount of TRY 1,045.4m were resolved effective 30 January 2012. VERBUND's share in these capital increases is 50%.

Vienna, 31 January 2012
Executive Board

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

Dr. Johann Sereinig
Vice-Chairman of the Executive Board

Dr. Ulrike Baumgartner-Gabitzer
Member of the Executive Board

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

Corporate governance report

in accordance with Section 243b 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 law, including, in particular, stock corporation and capital market law, regulations governing employee co-determination, the Company's Articles of Incorporation, 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

General

VERBUND declares its unconditional commitment to the Austrian Code of Corporate Governance as currently amended. It actively implements the requirements of the Code to ensure responsible management and control of the Group directed at the sustainable and long-term creation of value and the creation of a high level of transparency for every stakeholder.

During the 2011 financial year, the Executive Board and Supervisory Board continued to see it as a primary task to comply with all the rules of the Code as fully as possible and to sustain and continue to develop the Group's high internal standards. As in prior years, an independent external auditor evaluated the application of and adherence to the Code, and approved the present corporate governance report.

The Austrian Code of Corporate Governance is available from the website of the Austrian Working Group for Corporate Governance at www.corporate-governance.at. Detailed information about the composition and operation of the Executive Board and Supervisory Board as well as the Supervisory Board's committees is provided in the sections on "Executive Board" and "Supervisory Board".

Important events during 2011

The most important events in the area of corporate governance in the 2011 financial year were the appointment of two Executive Board members, of whom one was a new appointment and the other an extension, as well as the election of two new Supervisory Board members and a change in the General Committee of the Supervisory Board.

The appointment of the Executive Board members was preceded by a public tender. With the appointment of a new Executive Board member effective 1 April 2011, the Supervisory Board reallocated responsibilities within the Executive Board.

In addition to the procedural and content requirements of the Code, the criterion of diversity (Rule 42) was also taken into account during the election of the new Supervisory Board members. The proportion of women in the Supervisory Board therefore increased to 20%.

The change in the General Committee of the Supervisory Board also entailed changes in the composition of the Supervisory Board committees.

Deviations

VERBUND complies with almost all the rules in the Austrian Code of Corporate Governance, including the R Rules. The deviations in the 2011 financial year that remained the same as in the previous year relate

to the Code as amended in January 2010, which applied for the 2011 financial year. There was a partial and minor deviation in the handling of two C Rules out of the total 83 rules in the Code. 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 Incorporation 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 in 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 amendments to the Code of Corporate Governance adopted at the end of the past year will take effect in 2012. VERBUND will also be in full compliance with the new version of the Code as amended in January 2012.

Executive Board

Composition of the Executive Board

During the 2011 financial year, the Executive Board had three members or, following the appointment of one new member as at 1 April 2011, four members.

Executive Board

Name	Year of birth	Date of initial appointment	End of current term of office
CEO Dipl.-Ing. Wolfgang Anzengruber, Chairman	1956	1/1/2009	31/12/2013
Deputy CEO Dr. Johann Sereinig, Vice-Chairman	1952	1/1/1994	31/12/2013
Member of the Executive Board Dr. Ulrike Baumgartner-Gabitzer	1957	1/1/2007	31/12/2013
Member of the Executive Board Dipl.-Ing. Dr. Günther Rabensteiner	1953	1/4/2011	31/12/2013

Supervisory board mandates of Executive Board members outside the Group

Name	Group	Function
Dipl.-Ing. Wolfgang Anzengruber	Palfinger AG	Member
Dr. Johann Sereinig	Vienna Insurance Group AG FK Austria Wien AG	Member Member
Dr. Ulrike Baumgartner-Gabitzer	FIMBAG-Finanzmarkteteiligung AG	Member

Operation and allocation of responsibilities

The rules of procedure regulate 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 inform and its reporting duties, and contain a catalogue of measures that require approval by the Supervisory Board or its Working Committee. These also include material business transactions at the most important subsidiaries.

Because of the change in the composition of the Executive Board, responsibilities within the Executive Board have been reallocated and came into force on 1 April 2011. The Supervisory Board has laid down the areas of responsibility of the members of the Executive Board as follows, without prejudice to the overall responsibility of the Executive Board:

Allocation of responsibilities

Dipl.-Ing. Wolfgang Anzengruber	Strategy, M&A and corporate development, corporate affairs, legal, communication, innovation, finance, controlling, risk management, auditing, Nomination Committee
Dr. Johann Sereinig	Business management and marketing, strategic human resources management, Electricity trading, electricity distribution, management services, telecom services, auditing, Nomination Committee
Dr. Ulrike Baumgartner-Gabitzer	Hydroelectric generation Transmission grid Tourism Centre of excellence for hydropower
Dipl.-Ing. Dr. Günther Rabensteiner	International equity interests Thermal generation Renewables Centres of excellence for hydropower, thermal power and renewables

Remuneration of the members of the Executive Board

Remuneration of the members of the Executive Board totalled €2,607,219 in 2011 (previous year: €2,859,553).

Remuneration of the members of the Executive Board

Name	Fixed remuneration in €	Variable remuneration in €
Dipl.-Ing. Wolfgang Anzengruber	623,569	234,402
Dr. Johann Sereinig	593,957	270,428
Dr. Ulrike Baumgartner-Gabitzer	416,390	153,049
Dipl.-Ing. Dr. Günther Rabensteiner (from 1/4/2011)	315,425	0

Because it is only possible to ascertain at the end of the year whether targets have been reached, variable remuneration components are paid out in the following year. Consequently, the variable remuneration components granted to the members of the Executive Board in 2011 were paid in respect of the 2010 financial year.

Because Dr. Rabensteiner was appointed to the Executive Board only in the course of 2011, he did not receive payment of any variable remuneration in respect of the 2010 financial year.

Variable remuneration depends on performance and is limited to a certain percentage of the respective fixed remuneration. This percentage was a maximum of 50% to 60% in respect of the 2010 financial year. The amount of the performance-dependant remuneration components is based on the extent to which the targets agreed for the financial year are reached. 50% of the target agreement for 2010 related to the attainment of the planned Group result and 50% related to the attainment of qualitative, and in part medium-term, targets, e.g. in the area of research and development as well as in the structural-organisational area.

The principles underlying the Executive Board's share of profit were unchanged from the previous year. The company pension plan for the members of the Executive Board is based on a defined

the Executive Board in the amount of €132,621 (previous year: €115,714). Statutory regulations apply with respect to the claims of members of the Executive Board upon termination of their position.

In 2011, €491,166 (previous year: €707,387) were paid out for pensions and severance payments in support of beneficiaries. Due to a non-recurring item, the expenses for severance payments and pensions and similar obligations (post-employment benefits) resulted in income of €135,697 (previous year: expense in the amount of €42,891). Expenses for pensions and similar obligations for former Executive Board members and their surviving dependents were €597,362 (previous year: €97,792). No loans or advances were paid out to members of the Group's Boards. Neither the members of the Executive Board nor senior management staff have stock options.

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 authorized signatories and other senior management staff of subsidiaries. The costs are borne by the Group.

Supervisory Board

The Supervisory Board has also expressly declared its commitment to the Austrian Code of Corporate Governance and has also reaffirmed its commitment to the Code as amended in January 2010. Consequently, the Code, together with the Austrian Stock Corporation Act (Aktiengesetz, AktG) and the Austrian Commercial Code (UGB), the Company's Articles of Incorporation and the rules of procedure for the Executive Board and Supervisory Board, has become the basis for the Supervisory Board's actions.

Personal details, chairpersons and functions on the Board

The Supervisory Board has a total of 15 members. Ten are shareholder representatives elected by the General Meeting, and five are employee representatives appointed by the Works Council.

Following the resignation of two members of the Supervisory Board from their posts, two new members were elected at the Annual General Meeting on 13 April 2011.

Name	Year of birth	Date of initial appointment	End of current term of office
Dr. Gilbert Frizberg Chairman Sole member of the managing board of FI Beteiligungs- und Finanzierungs AG, CEO of Hereschwerke GmbH, managing partner of Franz Heresch&Co GmbH	1956	16/3/2000	AGM in 2015
Dr. Maximilian Eiselsberg 1st Vice-Chairman (to 13/4/2011) Lawyer	1947	23/2/1993	13/4/2011
Dkfm. Peter Püspök 1st Vice-Chairman (from 13/4/2011) 2nd Vice-Chairman (to 13/4/2011) Member of the supervisory board of Semper Constantia Privatbank (vice-chairman)	1946	16/3/2000	AGM in 2015
Mag. Dr. Reinhold Süßenbacher 2nd Vice-Chairman (from 13/4/2011) Member of the supervisory boards of KSV 1870 Holding AG (vice-chairman), Richter Pharma AG (vice-chairman), Bene AG (vice-chairman), Voglauer Möbelwerk Gschwandtner & Zwilling GesmbH, UMDASCH AG, LICON Treuhand- und VerwaltungsgesmbH and LISEC Maschinenbau GesmbH	1949	7/4/2010	AGM in 2015
Dipl.-Betriebswirt Alfred H. Heinzl Managing partner of Heinzl Holding GmbH, member of the supervisory boards of Miba AG, Allianz Elementar Versicherungs AG, Zellstoff Pöls AG (chairman), Wilfried Heinzl AG (chairman), Europapier AG (chairman), Biocel Paskov AS in the Czech Republic (chairman), and Estonian Cell AS in Kunda/Estonia	1947	16/3/2000	AGM in 2015

Name	Year of birth	Date of initial appointment	End of current term of office
Dr. Burkhard Hofer Chairman of the supervisory board of EVN AG, member of the supervisory boards of BEGAS Energie AG, Burgenland Holding AG, RAG-Beteiligungs AG, Flughafen Wien AG and HYPO NOE Gruppe Bank AG	1944	27/5/1999	13/4/2011
Mag. Harald Kaszanits Head of cabinet of the Federal Ministry of Economy, Family and Youth	1963	7/4/2010	AGM in 2015
Mag. Herbert Kaufmann Member of the supervisory board of Austro Control österreichische Gesellschaft für Zivilluftfahrt mbH	1949	26/3/2008	AGM in 2015
Dipl.-Ing. Dr. Peter Layr Speaker of the managing board of EVN AG, vice-chairman of the supervisory board of Burgenland Holding AG, chairman of the supervisory board of RAG Rohöl-Aufsuchungs AG and RAG Beteiligungs AG	1953	13/4/2011	AGM in 2015
Dr. Gabriele Payr Chairwoman of the managing board of WIENER STADTWERKE Holding AG, chairwoman of the supervisory boards of WIEN ENERGIE GmbH, WIEN ENERGIE Gasnetz GmbH, WIEN ENERGIE Stromnetz GmbH, Aktiengesellschaft der Wiener Lokalbahnen, B&F WIEN – Bestattung und Friedhöfe GmbH, Gemeinnützige Wohnungs- und Siedlungsgesellschaft der Wiener Stadtwerke Gesellschaft m.b.H., WIENER STADTWERKE Beteiligungsmanagement GmbH, member of the supervisory board of WIENER STÄDTISCHE VERSICHERUNG AG Vienna Insurance Group, member of the General Council of Österreichische Nationalbank	1959	13/4/2011	AGM in 2015
Christa Wagner Managing partner of JOSKO Fenster und Türen GmbH	1960	7/4/2010	AGM in 2015
Ing. Siegfried Wolf Chairman of the board of OJSC Russian Machines, member of the supervisory boards of Österreichische Industrieholding AG, Siemens AG Österreich, STRABAG SE, GAZ Group, Russian Machines OJSC, Glavstroy Corporation LLC, PSK Transstroy LLC, Banque Baring Brothers Sturdza SA and Continental AG	1957	16/3/2000	AGM in 2015

Employee representatives

Name	Year of birth		
Anton Aichinger Chairman of the Group's employee representatives	1955	since 25/10/2006	appointed by the employee representatives
Kurt Christof Chairman of the Central Works Council, member of the supervisory board of Sparkasse Voitsberg/Köflach Bankaktiengesellschaft	1964	since 8/3/2004	appointed by the employee representatives
Harald Novak Chairman of the Central Works Council	1952	27/9/1991–9/5/1993 since 15/12/2000	appointed by the employee representatives
Dipl.-Ing. Ingeborg Oberreiner Chairwoman of the Works Council, member of the supervisory board of BAV Pensionskassen AG	1951	since 29/8/2006	appointed by the employee representatives
Ing. Joachim Salamon Member of the Central Works Council	1956	since 25/10/2006	appointed by the employee representatives

Independence**Criteria for independence**

During its meeting on 23 February 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 5 years.
- The Supervisory Board member shall not maintain or have maintained in the past year any business relations with the Company or one of its subsidiaries to an extent of significance for 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 in 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 auditing company 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 offspring, 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.”

Following the re-election of the Supervisory Board in April 2010 and the amendment to this rule in the Code (now, half of the shareholder representatives must be independent), the independence of the members of the Supervisory Board was reassessed in response to a letter from the compliance officer in June 2010. This occurred in the summer of 2011 with regard to the two members who were newly appointed in April 2011.

Assessment took place on the basis of the decision of the Supervisory Board dated 23 February 2010, in which the Supervisory Board reaffirmed its commitment to the Austrian Code of Corporate Governance as amended on 1 January 2010 and defined how the criteria for independence are to be applied (Annex to the Code). All ten shareholder representatives have provided written statements regarding their independence. Eight of them have declared their independence, and two members of the Supervisory Board (Layr, Payr) have classified themselves as not being independent (in respect of one criterion in each case). In addition, the following shareholder representatives meet the criteria for independence contained in C Rule 54 (not representing the interests of a shareholder with a stake of more than 10%): Frizberg, Püspök, Süssenbacher, Heinzl, Kaufmann, Wagner and Wolf.

Meetings of the Supervisory Board

Six plenary meetings of the Supervisory Board were held during the 2011 financial year. The overall attendance rate of all the members of the Supervisory Board was approximately 92%.

No members of the Supervisory Board attended fewer than half of the meetings in person.

The activities of the Supervisory Board focused primarily on resolutions related to the following topics:

- the consolidated financial statements and annual financial statements of VERBUND AG for 2010;
- motions for the General Meeting (including election of the Supervisory Board);
- appointment of two Executive Board members;
- the reallocation of responsibilities within the Executive Board;
- approval for the wind farm project in Casimcea/Romania;
- re-election of the General Committee of the Supervisory Board and constitution of the committees;
- the restructuring of POWEO;
- investment programme for Turkey;
- the sale of shares in VERBUND-Innkraftwerke GmbH;
- the unbundling of grid subsidiary APG;
- borrowings and the furnishing of guarantees and assumption of liabilities;
- the programme to increase efficiency at the Zillertal power plant group;
- the issuance of a signatory authority ("Prokura");
- approval of the Group's budget for 2012.

(See also the focuses of the activities of the Supervisory Board's committees.)

Self-evaluation of Supervisory Board activity

Pursuant to the requirement of the Austrian Code of Corporate Governance (Rule 36), the Supervisory Board again conducted a self-evaluation during the past financial year. The evaluation was made by means of a questionnaire, which asked above all about the efficiency, organisation and operation of the Supervisory Board. The results, which were analysed by an external auditor, were then discussed by the Supervisory Board.

Composition and operation of the Committees

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

Every chairperson of a committee is required to report to the Supervisory Board on the work of the committee he or she heads 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, which also functions as the Audit and Emergencies Committee

During the 2010 financial year, the number of members of the Working Committee, which also functions as the Audit and Emergencies Committee (hereinafter referred to as the "Working Committee"), was reduced from six to four elected members. It consists of the chairman, the two vice-chairmen and one other member of the Supervisory Board. The membership of employee representatives is governed by Section 92(4) of the Austrian Stock Corporation Act (Aktengesetz, AktG). The financial expert required by law and by the Code (Rule 40) is at the disposal of the Audit Committee.

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),
- acts as the Audit Committee within the meaning of Section 92(4a) of the Austrian Stock Corporation Act, and
- 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 chairman is required to create the prerequisites for rapid decision making on matters that fall within the scope of competence of the Emergencies Committee or are referred to that committee for a decision (calling of a meeting within a shorter period, video conferences). The grounds for urgency must be stated. If necessary, the Working Committee can assign decision-making competence to its chairman in a specific individual case.

The Emergencies Committee makes decisions on all matters where an immediate Supervisory Board decision is needed to gain economic advantages or to fend off the threat of financial damage.

The Working Committee is chaired by the chairman of the Supervisory Board, or, if he is prevented from taking the chair, by the vice-chairmen in the specified order.

Members of the Working Committee

Name	Function
Dr. Gilbert Frizberg	Chairman
Dr. Maximilian Eiselsberg (to 13/4/2011)	1st Vice-Chairman
Dkfm. Peter Püspök	1st Vice-Chairman (from 13/4/2011) 2nd Vice-Chairman (to 13/4/2011)
Mag. Dr. Reinhold Süssenbacher (from 13/4/2011)	2nd Vice-Chairman
Mag. Harald Kaszanits	Member
Anton Aichinger	Employee representative
Dipl.-Ing. Ingeborg Oberreiner	Employee representative

The Supervisory Board's Working Committee met 6 times during the 2011 financial year. The Audit Committee also met 6 times. The Emergencies Committee was involved in the written consent procedure for the sale of parts of POWEO.

The activities of the Working Committee focused on:

- preparing meetings of the Supervisory Board;
- approval of the furnishing of guarantees;
- the restructuring of POWEO;
- the establishment of an e-mobility provider company;
- capital increase at VERBUND Trading Romania.

The activities of the Audit Committee focused on:

- preparing the resolution on the annual financial statements for 2010;
- making a proposal for the election of the auditor;
- the semi-annual financial statements for 2011;
- monitoring financial reporting processes;
- the internal control, auditing and risk management systems;
- coordinating the audit priorities for 2011 with the auditor;
- Internal audit's audit programme and audit reports.

The 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 chairman and the two vice-chairmen.

The Supervisory Board has permanently assigned responsibility for the following matters to the Remuneration Committee:

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

Members of the General and Remuneration Committee

Name	Function
Dr. Gilbert Frizberg	Chairman
Dr. Maximilian Eiselsberg (to 13/4/2011)	1st Vice-Chairman
Dkfm. Peter Püspök	1st Vice-Chairman (from 13/4/2011) 2nd Vice-Chairman (to 13/4/2011)
Mag. Dr. Reinhold Süssenbacher (from 13/4/2011)	2nd Vice-Chairman

The expert required by Rule 43 of the Code (ÖCGK) is at the Remuneration Committee's disposal. The Remuneration Committee met 3 times during the 2011 financial year. The meetings dealt with the target agreements and the variable remuneration components of the members of the Executive Board as well as the conclusion of contracts with the newly appointed Executive Board member and the member whose term had been extended. In addition, the General Committee met regularly to discuss current issues. In part, it did so with the Executive Board or individual members of the Executive Board.

Nomination Committee

According to its rules of procedure, the Supervisory Board is required to appoint a Nomination Committee made up of the chairman and the two vice-chairmen. 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 for filling mandates in the Executive Board. 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 and to prepare the election of members of the Supervisory Board.

Members of the Nomination Committee

Name	Function
Dr. Gilbert Frizberg	Chairman
Dr. Maximilian Eiselsberg (to 13/4/2011)	1st Vice-Chairman
Dkfm. Peter Püspök	1st Vice-Chairman (from 13/4/2011) 2nd Vice-Chairman (to 13/4/2011)
Mag. Dr. Reinhold Süssenbacher (from 13/4/2011)	2nd Vice-Chairman
Anton Aichinger	Employee representative
Dipl.-Ing. Ingeborg Oberreiner	Employee representative

The Nomination Committee met 3 times during the 2011 financial year in order to prepare for the appointment of two members of the Executive Board and the by-election of two members of the Supervisory Board.

Contracts requiring consent

In the 2011 financial year, Hereschwerke Regeltechnik GmbH provided goods and services totalling €331,569.58 net to the Group companies VERBUND Hydro Power AG (VHP) and VERBUND Telekom Service GmbH (VTS) for electrical installations in the Peggau power plant. The contracts forming the basis for these orders by VHP and VTS were 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).

Hereschwerke Regeltechnik GmbH is a company over which Supervisory Board member Dr. Gilbert Frizberg exercises a degree of economic influence.

Remuneration of members of the Supervisory Board

Remuneration of the members of the Supervisory Board totalled €200,133 in 2011 (previous year: €212,779). This includes reimbursements of charged costs (travel expenses).

The following remuneration scheme for the members of the Supervisory Board was adopted by the 59th Annual General Meeting held on 20 March 2006, when the annual remuneration for the members elected by the General Meeting and the attendance fees (for all members) were decided. This remuneration scheme also applied in respect of the 2011 financial year:

Remuneration scheme	€
Annual remuneration	
Chairman	15,000
Vice-Chairman	11,250
Member	7,500
Attendance fee	400

These arrangements also apply in respect of the Supervisory Board's Working Committee. In detail, the following remuneration was paid to the members of the Supervisory Board in respect of the 2011 financial year:

Remuneration of members of the Supervisory Board

	in €	
Name (without title)	Annual remuneration	Attendance fees
Gilbert Frizberg, Chairman	30,000	4,800
Maximilian Eiselsberg, Vice-Chairman (to 13/4/2011)	6,350	1,200
Peter Püspök, Vice-Chairman	22,500	4,800
Reinhold Süssenbacher, Vice-Chairman (Vice-Chairman from 13/4/2011)	18,266	4,400
Alfred Heinzl	7,500	2,000
Burkhard Hofer (to 13/4/2011)	2,116	800
Harald Kaszanits	15,000	4,400
Herbert Kaufmann	7,500	2,000
Peter Layr (from 13/4/2011)	5,383	1,200
Gabriele Payr (from 13/4/2011)	5,383	1,200
Christa Wagner	7,500	2,400
Siegfried Wolf	7,500	1,200
Employee representatives		
Anton Aichinger	–	4,800
Kurt Christof	–	2,400
Harald Novak	–	2,400
Ingeborg Oberreiner	–	4,800
Joachim Salamon	–	2,400

No loans or advances were disbursed to the members of the Supervisory Board. All members of the Supervisory Board are covered by the D&O insurance taken out by VERBUND (see above, page 80).

Measures taken to promote women

in accordance with Section 243b(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 at the workplace. VERBUND treats all its employees equally, regardless of their gender, age, religious beliefs, culture, skin colour, social origins, sexual orientation or nationality. Decisive action is taken to combat every form of discrimination or workplace harassment.

On 1 January 2007, Dr. Ulrike Baumgartner-Gabitzner became the first woman appointed to the Executive Board of VERBUND. This makes VERBUND one of the very few listed companies in Austria with a woman in a high-ranking management position.

VERBUND AG cannot influence whether there are women in the Supervisory Board because choosing the members of the Supervisory Board is the sole responsibility of the shareholders. At the Supervisory Board's suggestion, the Annual General Meeting held on 13 April 2011 elected another woman, Dr. Gabriele Payr, to the Supervisory Board of VERBUND AG. Together with Christa Wagner and Dipl.-Ing. Ingeborg Oberreiner (as employee representative), the Supervisory Board now has three female members.

On 31 December 2011, twelve women held managerial positions within the Group (including the Executive Board and the first and second tiers of management). This represents a 14.3% decline in the number of women in senior positions compared with the previous year. The number of women as a percentage of all Group employees remained constant compared with the previous year at 18.3%.

To promote the topic of equal treatment (diversity management) at VERBUND, responsibility for all currently existing measures was concentrated in the position of an equal opportunities officer, and will be continuously refined going forward. As an equal treatment initiative, VERBUND has maintained information since March 2011 on gross monthly base salaries under the collective agreement for internal and external job postings. Thus VERBUND was one of the few companies to fulfil this obligation from the very beginning. The goal is to provide better information to job applicants regarding employment conditions and to create greater transparency.

In 2011 VERBUND created for the first time an income overview containing information on average salaries for men and women. In accordance with the statutory requirements, the data from the VERBUND Group, as well as VERBUND Hydro Power AG as its largest subsidiary, were analysed and transmitted to the Works Council for informational purposes. The results of the income overview show no direct discrimination against women. This can be attributed to the Group's strict compliance with the classifications of the collective agreement as well as implementation of the performance-related payment scheme. Nevertheless, socio-political and cultural aspects such as increased part-time work among women, the lower number of women in technical professions, and the difficulty of women to achieve more highly paid (management) positions are also reflected within VERBUND.

VERBUND takes the results of this income overview very seriously, and will continue to place a high priority on targeted measures for promoting women in the future. The goal is to attract more qualified women, and above all engineers, as employees within the enterprise. As a result, for the third time, in the spring of 2011, VERBUND awarded women's scholarships to three outstanding female students at Vienna University of Technology. A jury chose a first-year student of mechanical engineering, a masters student of electrical engineering and a PhD student in technical mathematics. They will be supported by made-to-measure scholarship packages worth €5,000 each.

In addition, each year, VERBUND takes part in Take Your Daughter to Work Day ("Töchertag") and in the Women in Technology ("Frauen in die Technik", FIT) information days. This enables us to address a female target group when they are still very young and get them interested in the fascinating technical professions. The Group is also glad to have a growing number of female apprentices each year commencing their training in a unique double profession with good prospects, namely electrical engineering and metalworking.

During certification within the scope of the career and family audit ("Audit Beruf und Familie") process, a record was made of all the measures and offerings that are already in place within the Group to help employees achieve a successful work/life balance. VERBUND has been able to continue to increase an already high level of compatibility between working and family life. The audit will be conducted again in 2012.

Executive Board's Declaration of Conformity to the Austrian Code of Corporate Governance

Following the now ninth evaluation of conformity to the Austrian Code of Corporate Governance, the Executive Board has issued the following statement:

"The Austrian Code of Corporate Governance was applied within VERBUND AG during the 2011 financial year and adhered to in accordance with the explanatory notes above. There were only 2 rules in the Code from which partial deviations occurred. These were in part the result of legislative circumstances and were explained and justified accordingly. VERBUND will continue to adhere to the Code in its amended form during the 2012 financial year and will continue to endeavour to comply with all rules as fully as possible.

From the outset, VERBUND has given very high priority to applying the Code of Corporate Governance. Its application is an essential building block in strengthening the trust of shareholders, business associates, employees and the public in the Group"

Vienna, 31 January 2012

Executive Board

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

Dr. Johann Sereinig
Vice-Chairman of the Executive Board

Dr. Ulrike Baumgartner-Gabitzer
Member of the Executive Board

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

External audit

As in prior years, an independent auditor carried out a voluntary external evaluation of adherence to the provisions of the Austrian Code of Corporate Governance for the 2011 financial year.

Summary of the results of the evaluation of adherence to the Austrian Code of Corporate Governance during the 2011 financial year

We evaluated adherence to the recommendations of the Austrian Code of Corporate Governance as amended in January 2010 (ÖCGK; issued by the Austrian Working Group for Corporate Governance) at VERBUND AG during the 2011 financial year.

Responsibility of the legal representatives: The Executive Board of the Company is responsible for reporting on the implementation of and adherence to corporate governance principles within the Group (“Declaration of Conformity”).

Responsibility of the auditor: Our task is to ascertain, based on our evaluation, whether the statements in the Declaration of Conformity are accurate. We performed our evaluation in accordance with the Austrian professional standards for other audits (KFS/PG 13). According to these standards, we must maintain our professional obligations, including requirements of independence, and must plan and perform the mandate in accordance with the principle of materiality in such a way that we can issue our opinion with sufficient certainty. The procedures selected depend on the auditor’s judgment, and include in particular the following activities: we carried out our evaluation on the basis of the questionnaire for the voluntary external evaluation of adherence to the Code (ÖCGK) published by the Austrian Working Group for Corporate Governance. The evaluation was carried out by questioning the Boards of the Company and the employees of the Company named by them and by inspecting the documents made available to us by the Company. Our evaluation also included the random sample-based auditing of the proofs presented to us and the statements made. The subject matter of our mandate is neither an audit nor a review of financial statements. Similarly, our mandate does not include either the discovery and clarification of criminal offences, e.g. misappropriations or other breaches of trust and violations of law, nor does it include an assessment of the effectiveness and economic efficiency of the Company’s management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion concerning the adequacy of the Declaration of Conformity. *Opinion:* Based upon the results of our evaluation, the Executive Board’s Declaration of Conformity correctly represents the implementation of the recommendations in the Code at VERBUND AG during the 2011 financial year.

Vienna, 31 January 2012

Ernst & Young

Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Helmut Maukner
Certified Public Accountant

Mag. Elfriede Baumann
Certified Public Accountant

81.9 %

Gearing
(2010: 96.8%)

€ 11,859.3_m

Balance sheet total (+5.0%)

€ 1,001.6_m

Operating result (+20.9%)



RESULTS

Income statement of VERBUND

In accordance with IFRSs	Notes	2011	2010
			€k
Revenue		3,865,372	3,307,891
Electricity revenue	1	3,516,510	2,948,242
Grid revenue		261,890	249,719
Other revenue	2	86,972	109,929
Other operating income	3	59,120	37,801
Expenses for electricity, grid and gas purchases as well as purchases of emission rights (trade)	4	-2,205,825	-1,611,299
Fuel expenses and other usage-dependent expenses	5	-138,963	-118,309
Personnel expenses	6	-330,772	-308,356
Amortisation of intangible assets and depreciation of property, plant and equipment	7	-241,678	-229,876
Other operating expenses	8	-207,844	-248,557
Operating result before effects from impairment tests		799,409	829,293
Effects from impairment tests ¹	9	202,185	-829
Operating result		1,001,594	828,464
Result from interests accounted for using the equity method	10	-176,629	22,089
Other result from equity interests	11	1,492	15,544
Interest income	12	36,491	30,787
Interest expenses	13	-198,899	-245,228
Other financial result	14	-23,164	-18,878
Financial result		-360,708	-195,686
Profit before tax		640,886	632,778
Taxes on income	15	-178,627	-148,396
Profit for the period		462,259	484,382
Attributable to the shareholders of VERBUND AG (Group result)		352,624	400,833
Attributable to non-controlling interests		109,635	83,549
Earnings per share in € ²	16	1.01	1.28

¹ The effects from impairment tests consist of impairment losses and reversals from impairment losses (net of changes in the corresponding 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

		2011	2010
In accordance with IFRSs	Notes		
Profit for the period		462,259	484,382
Other comprehensive income from:			
Foreign exchange differences	17	-129,259	23,919
Available-for-sale financial instruments	17	-7,045	-1,161
Cash flow hedges	17	101,000	-126,424
Interests accounted for using the equity method	17	8,464	-27,906
Other comprehensive income before tax		-26,840	-131,573
Taxes on income	18	-23,587	31,943
Other comprehensive income after tax		-50,428	-99,630
Total comprehensive income for the period		411,831	384,752
Attributable to the shareholders of VERBUND AG (Group result)		302,268	300,980
Attributable to non-controlling interests		109,563	83,772

€k

Balance sheet of VERBUND

		€k	
In accordance with IFRSs	Notes	31/12/2011	31/12/2010
Non-current assets		10,299,720	9,722,235
Intangible assets	19	632,141	623,624
Property, plant and equipment	20	6,578,701	5,958,695
Interests accounted for using the equity method	21	2,115,338	2,261,908
Other equity interests	22, 34	129,911	138,866
Investments and other receivables	23, 25, 34	843,629	739,143
Current assets		1,558,456	1,568,745
Inventories	24	107,114	92,279
Trade receivables and other receivables	25, 34	1,118,100	987,484
Cash and cash equivalents	26, 34	333,243	488,982
Non-current assets held for sale	27	1,134	0
Total assets		11,859,310	11,290,979

		€k	
In accordance with IFRSs		31/12/2011	31/12/2010
Equity		4,929,400	4,372,400
Attributable to the shareholders of VERBUND AG	28–31	4,323,546	4,036,025
Attributable to non-controlling interests	32	605,854	336,375
Non-current liabilities		5,886,247	6,041,742
Financial liabilities	33, 34	3,908,952	4,267,425
Provisions	35	618,719	631,321
Deferred tax liabilities	36	247,301	168,333
Contributions to building costs and grants	37	574,266	430,222
Deferred income – cross-border leasing	38	55,193	56,788
Other liabilities	34, 39	481,816	487,653
Current liabilities		1,043,663	876,838
Financial liabilities	33, 34	324,736	228,792
Provisions	35	225,598	274,281
Current tax liabilities	40	12,419	49,670
Trade payables and other liabilities	34, 41	480,909	324,095
Total liabilities		11,859,310	11,290,979

Statement of changes in equity of VERBUND

In accordance with IFRSs	Share capital	Capital reserves	Retained earnings	Difference from currency translation
Notes	28	29	30	31
As at 1/1/2010	308,200	10,936	2,845,105	-59,808
Capital increase	39,216	960,784	-	-
Transaction costs of capital increase	-	-17,393	-	-
Shift between shareholder groups	-	-	19,772	-
Total comprehensive income for the period	-	-	400,833	24,144
Dividend	-	-	-385,250	-
As at 31/12/2010	347,416	954,327	2,880,460	-35,664
As at 1/1/2011	347,416	954,327	2,880,460	-35,664
Shift between shareholder groups	-	-	176,332	-
Total comprehensive income for the period	-	-	352,624	-129,368
Dividend	-	-	-191,079	-
As at 31/12/2011	347,416	954,327	3,218,337	-165,032

€k						
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		
3,619	4,658	5,205	3,117,916	291,775	3,409,691	
–	–	–	1,000,000	–	1,000,000	
–	–	–	–17,393	–	–17,393	
–	–	–	19,772	30,898	50,670	
450	–119,025	–5,421	300,980	83,772	384,752	
–	–	–	–385,250	–70,070	–455,320	
4,069	–114,367	–216	4,036,025	336,375	4,372,400	
4,069	–114,367	–216	4,036,025	336,375	4,372,400	
–	–	–	176,332	220,544	396,876	
–6,058	85,839	–769	302,268	109,563	411,831	
–	–	–	–191,079	–60,628	–251,707	
–1,988	–28,528	–984	4,323,546	605,854	4,929,400	

Cash flow statement of VERBUND

		€k	
In accordance with IFRSs	Notes		
		2011	
		2010	
Profit for the period		462,259	484,382
Amortisation of intangible assets and depreciation of property, plant and equipment (net of reversals of impairment losses)		-56,622	230,602
Impairment losses on investments (net of reversals of impairment losses)		2,772	85
Result from interests accounted for using the equity method (net of dividends received)		214,073	4,429
Result from the disposal of non-current assets		-6,260	-9,367
Change in non-current provisions and deferred tax liabilities		42,751	-13,466
Change in contributions to building costs and grants		144,044	28,359
Income from the reversal of deferred income and result from the termination of cross-border leasing transactions		-1,595	17,169
Other non-cash expenses and income		-15,100	44,507
Subtotal		786,321	786,698
Change in inventories		-14,835	34,801
Change in trade receivables and other receivables		-45,397	85,052
Change in trade payables and other liabilities		184,623	-21,576
Change in current provisions and current tax liabilities		-80,793	-106,776
Cash flow from operating activities	42	829,919	778,200
Cash outflow from capital expenditure for intangible assets and property, plant and equipment		-564,986	-678,175
Cash inflow from the disposal of intangible assets and property, plant and equipment		2,225	2,164
Cash outflow from capital expenditure for investments		-492,733	-76,448
Cash inflow from the disposal of investments		80,430	90,648
Cash outflow from capital expenditure for interests accounted for using the equity method		-278,800	-90,781
Cash inflow from the disposal of subsidiaries and interests accounted for using the equity method	43	67,503	5,005
Cash inflow (outflow) from the disposal of (capital expenditure for) current investments		400,000	-366,820
Cash inflow (outflow) from decreases (increases) in non-current receivables		0	-19,605
Cash flow from investing activities		-786,359	-1,134,011

		€k	
In accordance with IFRSs	Notes	2011	2010
Cash inflow from capital increases		0	976,811
Cash inflow from shifts between shareholder groups		396,876	51,424
Cash inflow (outflow) from money market transactions		-46,370	45,456
Cash inflow from the assumption on financial liabilities (excluding money market transactions)		127,000	200,000
Cash outflow from the repayment of financial liabilities (excluding money market transactions)		-425,049	-64,224
Cash outflow from capital expenditure for investments under cross-border leasing transactions		0	-1,055
Cash inflow (outflow) from the disposal (repayment) of investments (liabilities) under cross-border leasing transactions		0	-34,283
Dividends paid		-251,756	-455,320
Cash flow from financing activities	44	-199,300	718,809
Change in cash and cash equivalents		-155,739	362,998
Cash and cash equivalents as at 1/1/		488,982	125,984
Cash and cash equivalents as at 31/12/		333,243	488,982

Notes to the consolidated financial statements of VERBUND

VERBUND AG with its registered office at Am Hof 6a, 1010 Vienna, Austria, is the parent company of the energy group VERBUND, 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 electrical energy to power exchange buyers, traders, energy supply companies and industrial companies as well as households and commercial customers. In addition, VERBUND operates the Austrian high-voltage grid and holds equity interests in domestic and foreign energy supply companies. VERBUND's foreign equity interests concentrate in particular on Turkey, Italy and France.

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 the International Financial Reporting Standards (IFRSs) as endorsed by the European Union. The separate financial statements of the consolidated subsidiaries included in VERBUND's consolidated financial statements are based on uniform accounting policies. The balance sheet date is 31 December 2011 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 full consolidation. VERBUND AG asserts control when it is in a position to directly or indirectly govern a subsidiary's financial and operating policies in order to obtain benefits from its activities. Inclusion in the consolidated financial statements begins when control is achieved and ends when it ceases.

First-time 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 (minority) interest in the acquiree are recognised and measured. Positive consolidation differences between the consideration transferred plus any non-controlling interest and – in the case of a business combination in stages – plus 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.

Companies controlled jointly with another company (joint ventures) and companies over which VERBUND AG, directly or indirectly, has a significant influence (associates) are accounted for using the equity method. The equity method is a method of consolidation 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 profit or loss under IFRSs from (consolidated) interim or annual financial statements for which the reporting date is not more than three months prior to VERBUND's balance sheet date. Significant events or transactions at investees accounted for using the equity method occurring between this reporting date and VERBUND's balance sheet date result in corresponding adjustments.

Intragroup transactions, receivables, liabilities and intercompany profits are eliminated under consideration of deferred taxes. The carrying amounts of the transferred company are carried forward in intragroup combinations und mergers of joint ventures – so-called transactions under common control.

A list of all of VERBUND's subsidiaries, joint ventures and associates is presented in the table "Group companies" at the end of the notes. The group of subsidiaries, joint ventures and associates included in VERBUND's consolidated financial statements changed as follows in the 2011 reporting period:

Group of
consolidated
companies

	Full consolidation	Accounting using the equity method
As at 31/12/2010	25	20
Change in consolidation method	0	1
Additions from new company establishments	2	1
Additions from dividends in kind	0	2
Disposals from disinvestments	0	-2
Disposals from mergers	-2	-5
As at 31/12/2011	25	17
Of which domestic companies	19	10
Of which foreign companies	6	7

The additions of consolidated companies relate to VERBUND International Frankreich GmbH, which was newly established effective 25 January 2011 as a wholly owned subsidiary of VERBUND International GmbH, and VERBUND International Finance GmbH, which was newly established effective 9 June 2011 as a wholly owned subsidiary of VERBUND AG. The new establishment of VERBUND International Finance GmbH relates to the disposal of the previously fully consolidated Dutch company VERBUND International Finance BV, which was merged with the newly established VERBUND International Finance GmbH in the 2011 reporting period.

The other disposal of a consolidated subsidiary is related to the 94.9% equity interest in VERBUND Kraftwerke Beteiligungsholding GmbH & Co KG. The limited partner, which was not part of the group, withdrew from VERBUND Kraftwerke Beteiligungsholding GmbH & Co KG in the 2011 reporting period. The general and limited partner shares were then united in VERBUND Beteiligungsholding GmbH, whereby the corporate assets were transferred to the last remaining shareholder (without liquidation).

The change in consolidation method relates to the first-time recognition of the equity-accounted 50.01% interest in the previously non-consolidated Shkodra Region Beteiligungsholding GmbH effective 1 January 2011. This was related to the disposal of the equity-accounted interest in Albanian Enerji Ashta Shpk, which was transferred in the reporting period to Ashta Beteiligungsverwaltung GmbH, a wholly owned subsidiary of Shkodra Region Beteiligungsholding GmbH, by means of a capital increase in exchange for a contribution in kind. Shkodra Region Beteiligungsholding GmbH is a joint

venture of VERBUND and EVN AG. This transaction was accounted for by carrying forward the carrying amounts of the equity interests.

The addition of an equity-accounted investee relates to Enerjisa Enerji A.S., which was newly established as a joint venture of VERBUND and Sabanci Holding A.S. effective 21 December 2011. This was connected to the disposal of the equity-accounted interests in Enerjisa Enerji Üretim A.S., Enerjisa Elektrik Dagitim A.S., Enerjisa Elektrik Enerjisi Toptan Satis A.S. and Enerjisa Dogalgaz Toptan Satis A.S. These companies were contributed to newly established Enerjisa Enerji A.S. in the 2011 reporting period by means of a capital increase in exchange for a contribution in kind. Enerjisa Enerji A.S. is a joint venture of VERBUND and Sabanci Holding A.S. This transaction was accounted for by carrying forward the carrying amounts of the equity interests.

A 60% interest in French POWEO Production S.A.S. was acquired from POWEO S.A. effective 21 February 2011 for €120.0m, whereby POWEO Production S.A.S. became a wholly owned subsidiary of VERBUND. However, potential voting rights on the part of POWEO S.A. in the form of a call option exercisable any time until 30 June 2013 prevented control from being obtained. Thus, POWEO Production S.A.S. remained an equity-accounted associate of VERBUND. Effective 22 June 2011, POWEO Production S.A.S. distributed its 100% equity interest in POWEO Pont-sur-Sambre Production S.A.S. and POWEO Toul Production S.A.S. to VERBUND as a dividend in kind; they continue to be accounted for using the equity method, since they (inter alia) are to be regarded as the new underlying for the call option. In addition, the dividend distributed in kind also included the 100% equity interest in POWEO Blaringhem Production S.A.R.L. (now recognised under other equity interests for lack of materiality) as well as a receivable from this investee. This transaction was accounted for by carrying forward the carrying amount of the equity interest in POWEO Production S.A.S., which was allocated to the distributed assets following the recognition of an impairment loss in relation to the fair values less costs to sell.

The disposals as a result of sales relate to the 100% equity interest in French POWEO Production S.A.S. and the 46.01% equity interest in French POWEO S.A. (Group). The equity interest in POWEO Production S.A.S., which only comprised its 100% equity interest in POWEO ENR S.A.S. following the dividend in kind distributed on 22 June 2011, was sold to a consortium consisting of AXA Infrastructure Holding S.A.R.L., Kallista Energy Investment and Direct Energie Neoen S.A.S. effective 22 September 2011. The equity interest in POWEO S.A. (Group) was sold effective 30 September 2011 to Direct Energie S.A. Within the framework of this sale, VERBUND and Direct Energie S.A. agreed to a sequential combination comprising a put option and a call option over 40% of the interest in former subsidiaries and second-tier subsidiaries of POWEO Production S.A.S. that remained with VERBUND. This is intended to ensure that in particular POWEO Pont-sur-Sambre Production S.A.S. and POWEO Toul Production S.A.S. will be definitively controlled by VERBUND no later than 1 July 2013 or that they can be entirely disposed of (including all financing and guarantees currently provided by VERBUND).

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 items of the balance sheet are subsequently measured at the respective spot exchange rate on the balance sheet date. Foreign exchange gains and losses are recognised in profit or loss in the 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 companies Alpha Wind S.R.L. and CAS Regenerabile S.R.L., and the Bulgarian company Haos Invest EAD, 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. For carrying forward the proportional share in the net assets of investees accounted for using the equity method, currency translation is effected accordingly. With the exception of the Turkish joint venture, the functional currency of investees accounted for using the equity method is the euro.

The 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 balance sheet date. The expenses and income of consolidated subsidiaries are translated using average monthly rates, while those of investees accounted for using the equity method are translated using average quarterly rates. Translation differences at the reporting date are recognised without effect on profit or loss in other comprehensive income and presented separately in equity.

The foreign exchange rates employed for currency translation were as follows:

Foreign exchange rates used for currency translation

Country	Currency	31/12/2011 ECB foreign exchange reference rate	31/12/2010 ECB foreign exchange reference rate	2011 Average rate	2010 Average rate
Bulgaria ¹	€1 = BGN	1.9558	1.9558	1.9558	1.9558
Romania	€1 = RON	4.3233	4.2620	4.2416	4.2184
Turkey	€1 = TRY	2.4432	2.0694	2.3334	2.0115

¹ The Bulgarian lev (BGN) is pegged to the euro; therefore, the exchange rate does not fluctuate.

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 (IFRIC) that have been endorsed by the European Union and whose application was mandatory as at 31 December 2011 were applied.

The following new or amended standards and interpretations were required to be applied for the first time in the 2011 reporting period:

Currency translation

New accounting standards applicable or applied

Newly applicable or applied accounting standards

Standard or interpretation		Published by the IASB (endorsed by the EU)	Mandatory application for VERBUND	Effects on the consolidated financial statements of VERBUND
IAS 24	Amendments: Related Party Disclosures	4/11/2009 (19/7/2010)	1/1/2011	Focussing the disclosures on those transactions with the Republic of Austria and with companies controlled by the government that are collectively but not individually significant
IFRIC 14	Amendments: Prepayments of a Minimum Funding Requirement	26/11/2009 (19/7/2010)	1/1/2011	none
Various	Improvements to IFRSs	6/5/2010 (18/2/2011)	1/1/2011	none

The amendments to IAS 24 revised the definition of related parties. The new definition follows a symmetrical view of relationships with related parties and clarifies in which cases relationships requiring disclosure exist between individuals with a controlling or significant influence or key management personnel. In addition, the amendments provide for some relief from note disclosure requirements for reporting entities that are controlled or significantly influenced by the government. Until now, government-related entities such as VERBUND had to provide detailed information regarding all transactions with companies that are controlled by the government. Since 2011, note disclosures can be limited to such transactions that are collectively but not individually significant due to greater emphasis on the principle of materiality. The amendment of this standard had no material effect on VERBUND's consolidated financial statements.

As a result of the amendments to IFRIC 14, companies that must meet minimum funding requirements related to pension plans may now recognise the economic benefit from prepayments for future contributions as an asset. The amendment of this interpretation had no effect on VERBUND's consolidated financial statements.

The Annual Improvements to IFRSs in 2010 included specific changes to a number of individual standards (IASs 1, 28, 31 and 34 as well as IFRSs 1, 3 and 7) and one interpretation (IFRIC 13). These annual amendments specify the standards and eliminate unintended inconsistencies within the IFRSs. This collection of amendments had no material effect on VERBUND's consolidated financial statements.

The remaining accounting policies have not been changed since the 2010 reporting period.

IASB and IFRIC have issued new standards and interpretations that were not (yet) applied by VERBUND in the 2011 reporting period, because they have either not yet been endorsed by the European Union or were not yet mandatorily applicable:

New accounting standards not yet applicable or applied

New accounting standards not yet applicable or applied

Standard or interpretation		Published by the IASB (endorsed by the EU) ¹	Mandatory application for VERBUND	Effects on the consolidated financial statements of VERBUND
IAS 1	Amendments: Presentation of Items of Other Comprehensive Income	16/6/2011 (expected for Q1/2012)	expected 1/1/2013	In presenting the statement of other comprehensive income, items of other comprehensive income that may be "recycled" are separated from other items for which a recycling is not intended
IAS 12	Amendments: Recovery of Underlying Assets	20/12/2010 (expected for Q3/2012)	expected 1/1/2012	none
IAS 19	Amendments: Employee Benefits	16/6/2011 (expected for Q1/2012)	expected 1/1/2013	Change in the method of recognition of pension and similar obligations as well as obligations from severance payments and partial retirement models
IAS 27	Separate Financial Statements	12/5/2011 (expected for Q4/2012)	expected 1/1/2013	currently being examined
IAS 28	Investments in Associates and Joint Ventures	12/5/2011 (expected for Q4/2012)	expected 1/1/2013	currently being examined
IAS 32	Amendments: Offsetting Financial Assets and Financial Liabilities	16/12/2011 (expected for Q4/2012)	expected 1/1/2014	currently being examined
IFRS 1	Amendments: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	20/12/2010 (expected for Q2/2012)	expected 1/1/2012	none
IFRS 7	Amendments: Transfers of Financial Assets	7/10/2010 (22/11/2011)	1/1/2012	currently being examined
IFRS 7	Amendments: Offsetting Financial Assets and Financial Liabilities	16/12/2011 (expected for Q4/2012)	expected 1/1/2013	currently being examined

New accounting standards not yet applicable or applied

IFRS 9	Financial Instruments	12/11/2009 and 16/12/2011 (postponed)	expected 1/1/2015	currently being examined
IFRS 10	Consolidated Financial Statements	12/5/2011 (expected for Q4/2012)	expected 1/1/2013	currently being examined
IFRS 11	Joint Arrangements	12/5/2011 (expected for Q4/2012)	expected 1/1/2013	currently being examined
IFRS 12	Disclosure of Interests in Other Entities	12/5/2011 (expected for Q4/2012)	expected 1/1/2013	currently being examined
IFRS 13	Fair Value Measurement	12/5/2011 (expected for Q3/2012)	expected 1/1/2013	currently being examined
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	19/10/2011 (expected for Q3/2012)	expected 1/1/2013	none

¹ Basis: EU Endorsement Status Report dated 26 January 2012

The amendments to IAS 1 standardise the presentation of items of other comprehensive income in the statement of comprehensive income. In the future, those items that might be “recycled” (i.e. reclassified) are to be separated in the presentation of the statement of comprehensive income from items that are not intended to be reclassified. Reclassification to the income statement is only intended for differences resulting from the currency translation of subsidiaries, joint ventures and associates, reserves from the measurement of cash flow hedges and reserves from the measurement of available-for-sale financial instruments. The amendment of this standard will lead to a corresponding restructuring of the statement of comprehensive income in VERBUND’s consolidated financial statements.

For investment property measured at fair value as well as property, plant and equipment and intangible assets measured using the revaluation model, the amendments to IAS 12 introduce the rebuttable presumption that an asset’s carrying amount is recovered through sale. This is significant insofar as the measurement of deferred tax liabilities and deferred tax assets may depend on whether an asset’s carrying amount is expected to be recovered through use or through sale. The amendment of this standard will not have an effect on VERBUND’s consolidated financial statements.

As a result of the amendments to IAS 19, accounting policies for employee benefits will be changed in several ways. The abolishment of the corridor method for the (deferred) recognition of actuarial gains and losses with respect to post-employment defined benefit obligations is at the centre of the amendments to this standard. The possibility of faster recognition of actuarial gains and losses in profit or loss up to the recognition of all actuarial gains and losses in profit or loss is also abolished. In the future, all changes in the value of the defined benefit obligation are to be recognised immediately in the respective reporting period; the results of the revaluation – primarily actuarial gains and losses – are recognised in other comprehensive income (without any “recycling” in the income statement). In addition, the return on plan assets is no longer to be estimated on the basis of the anticipated return on the asset portfolio, but instead (de facto) to be recognised in the amount of the discount rate for the defined benefit obligation. Other amendments to the standard relate to the subsequent recognition of past service cost (which is to be recognised in the future in profit or loss in the period of the change in the pension plan), the differentiation between current and non-current obligations and the disclosures required to be made in the notes regarding features and risks of pension plans. The amendment of this standard will lead to a change in the accounting method for pension and similar obligations as well as obligations from statutory severance payments and partial retirement models in VERBUND’s consolidated financial statements.

As a result of the amendments to IAS 32, the requirements for offsetting financial instruments are specified and supplemented. The offsetting of financial assets and financial liabilities will still only be possible in the future if there is currently a legally enforceable right to offset the recognised amounts with one another and there is an intention to settle the financial instruments on a net basis or to realise the financial asset and settle the associated financial liability simultaneously. The amendments to the standard supplement and specify the application guidance with respect to “current” and “simultaneous”. The amendment to IFRS 7, which specifies additional disclosures in the notes for financial instruments that have been offset and for financial instruments that may not have been offset, but are subject to a master netting arrangement or similar agreement, is related to the amendments to IAS 32. The future effects of the amendments to these standards on VERBUND’s consolidated financial statements are currently being examined.

The amendments to IFRS 1 expand the exemptions for first-time adopters of IFRSs such that they may recognise their assets and liabilities at fair value in the opening IFRS balance sheet if their functional currency is subject to severe hyperinflation at the transition date. In addition, the fixed transition date cited in IFRS 1 has been changed to the date of transition to IFRSs. Accordingly, first-time adopters are not required to adjust those transactions that would have resulted in the derecognition of financial instruments or “day one measurement differences” prior to the date of transition to IFRSs retrospectively to the IFRSs accounting standards. These amendments will not apply to VERBUND, because VERBUND already prepares consolidated financial statements in accordance with IFRSs.

As a result of the amendments to IFRS 7, disclosure requirements for the derecognition of financial assets have been expanded. Additional disclosures related to transferred but not (or not in their entirety) derecognised financial assets and their relationship to thereby newly incurred liabilities are now required in the notes. If the transferred financial assets have also been derecognised in their entirety, detailed qualitative and quantitative information regarding any rights or obligations retained or assumed as part of the transaction must be disclosed in the future. The note disclosures also include the effects on profit or loss ensuing from the transaction itself and from the measurement of the retained or assumed rights and obligations. The future effects of this amendment on VERBUND's consolidated financial statements are currently being examined.

IFRS 9 reforms the classification and measurement of financial instruments. This standard represents the end of the first phase of a three phase project with the goal of replacing IAS 39 in its current form. The original intention was the mandatory first-time application on 1 January 2013. However, effective 16 December 2011, the IASB delayed the date of mandatory first-time application to 1 January 2015. In addition, the originally intended exemptions regarding comparative information were also extended to 1 January 2015; in contrast, additional disclosures in the notes were specified under IFRS 7. IFRS 9 now only recognises two categories of financial assets: debt instruments that are held as part of a business model to generate contractual cash flows and are recognised at amortised cost, and all other debt instruments as well as equity instruments, which are normally measured at fair value through profit or loss. There is an option to recognise changes in the fair value of equity instruments not held for trading without effect on profit or loss in other comprehensive income. For financial liabilities, the accounting standards according to IAS 39 have been substantially retained. However, if a financial liability is recognised at fair value through profit or loss, IFRS 9 specifies that the amount of the fair value change being attributed to changes in a company's own credit risk must be recognised separately in other comprehensive income. The expected effects of this new standard on VERBUND's consolidated financial statements are currently being examined; however, a final assessment can only be made when the second and third phases ("impairment methodology" and "hedge accounting") are completed. The finalisation date for the second and third phases is uncertain at this time.

IFRS 10 replaces the accounting requirements for consolidated financial statements under IAS 27 as well as those for the consolidation of special purpose entities under SIC 12; in the future, IAS 27 only governs the recognition of (equity interests in) subsidiaries, joint ventures and associated companies in separate IFRSs financial statements. IFRS 10 redefines the concept of control uniformly for all entities – including special purpose entities. In accordance with IFRS 10, a parent company controls an investee if it has rights to receive variable returns based on its investment in the investee, or it is exposed to them and has the ability to affect these returns. Furthermore, IFRS 10 contains specifications regarding the consideration and/or assessment of potential voting rights, decision-making or protective rights attributable to third parties as well as arrangements that are characterised by delegated or reserved decision rights or de facto control. Whether control exists will increasingly require an overall (and thus more discretionary) assessment of the parent's economic influence on the investee in the future; the assessment of voting rights relationships alone will no longer be sufficient in certain circumstances. As a result of this redefinition of controlling influence, the group of consolidated companies must be redetermined (under certain circumstances). The future effects of this new standard on VERBUND's consolidated financial statements are currently being examined.

IFRS 11 replaces the accounting rules for joint ventures, joint operations and jointly controlled assets under IAS 31 as well as those for non-monetary contributions by venturers under SIC 13; as a consequence, IAS 28 is being renamed. IFRS 11 eliminates the option of proportionately consolidating equity interests in joint ventures; in the future, these must be accounted for using equity method. In addition, joint ventures are more clearly contrasted with joint operations, which now also include jointly controlled assets. If the partners of a jointly controlled entity have direct rights to the assets of the jointly controlled entity and/or obligations arising from the entity's liabilities based on the legal form, the contractual terms, or other factors and circumstances, this will not represent a joint venture in the future, but instead a joint operation. The assets and liabilities of a joint operation as well as its income and expenses are to be recognised proportionately in the partner's consolidated IFRSs financial statements. Until now, VERBUND has accounted for all equity interests in entities that are controlled jointly with one or more partners using the equity method. However, the existence of electricity supply agreements that essentially entitle the partners of jointly controlled entities to proportionately purchase the electricity generated by the entity suggests the existence of a joint operation (and not a joint venture). Thus, IFRS 11 could lead to a change in the accounting method in VERBUND's consolidated financial statements under certain circumstances for those investments in jointly controlled entities with which this type of electricity supply agreement is in place. The future effects of this new standard on VERBUND's consolidated financial statements are currently being examined.

IFRS 12 consolidates the disclosures in notes regarding equity interests in subsidiaries, joint ventures and associates as well as structured entities in a comprehensive standard. The notes disclosures required under IAS 27, IAS 28 and IAS 31 are expanded in particular by the addition of disclosures regarding the significant premises and discretionary decisions used for determining the group of consolidated companies. The future effects of this new standard on VERBUND's consolidated financial statements are currently being examined.

IFRS 13 provides a global definition of the concept of the fair value of assets, liabilities and equity instruments. Fair value is standardised as the price that an entity would receive on the measurement date if an asset were sold, or the price it would have to pay to transfer a liability. As a rule, this presumes an orderly transaction between any market participants on the most liquid market. Fair value must be determined based on a hypothetical transaction; the existence of an actual intent to sell or transfer is of no consequence. In addition, IFRS 13 contains specifications regarding basic rules for certain facts and circumstances relevant to measurement, defines a hierarchy of input factors relevant to measurement (whereby the so-called "levels" are actually taken from IFRS 7), describes measurement techniques and standardises and/or expands the required disclosures in the notes. The future effects of this new standard on VERBUND's consolidated financial statements are currently being examined.

IFRIC 20 governs the recognition of stripping costs incurred in surface mining for ore and minerals. On the one hand, the mine waste material removed can contain a low level of ore and/or minerals that are to be regarded as inventories; on the other hand, the removal of mine waste material can result in improved access to further quantities of ore and minerals that will be mined in future periods. Depending on the resulting benefit, this results in an inventory item or a non-current stripping activity asset which is to be added to an existing intangible or tangible asset. The amendment of this new interpretation will have no effect on VERBUND's consolidated financial statements.

Goodwill and other intangible assets

When accounting for business combinations, the consideration transferred (plus any non-controlling interests and any equity interest previously held by VERBUND) is to be compared with the net assets acquired, in order to determine the consolidation difference arising from the business combination. If the consolidation difference is positive, it is treated as goodwill; if it is negative, the value determination of the influencing factors on the consolidation 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.

In accordance with IFRS 3, goodwill is not subject to scheduled 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. 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 net realisable value (fair value less 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 cash-generating units on the basis of medium-term planning in the fourth quarter of each reporting period. In addition to the annually conducted impairment test, a qualitative analysis is conducted as at the balance sheet date of each of the 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.

Intangible assets acquired separately are measured at cost in accordance with IAS 38, net of any impairment losses, and amortised according to the straight-line method if their useful life is not classified as indefinite. The useful lives are mainly between 10 to 20 years; software is amortised over 4 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 2011 reporting period amounted to €4.2m (previous year: €4.8m). 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 as incurred in the consolidated financial statements of VERBUND, as either the corresponding recognition criteria have not been met or the amounts are not material. Nevertheless, internally generated intangible assets may be recognised in accordance with IFRIC 12 in connection with service concession arrangements (see: Service concession arrangements). Borrowing costs attributable to the period of development of such intangible assets are to be capitalised in the case of qualified assets (see: Property, plant and equipment). As long as intangible assets are not yet available for use, they must be tested annually for impairment.

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 manufacturing costs, the cost of internally generated plant and equipment also includes appropriate indirect material and production costs. Borrowing costs are capitalised for qualified assets. According to VERBUND's accounting policies, a project results in a qualified asset only if the construction period lasts at least 12 months. The effective borrowing costs (less investment income from any temporary investments) are to be capitalised to the extent that the qualified 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 2011 reporting period were around 4.4% (previous year: between 4.2% and 4.5%).

Depreciation charges on property, plant and equipment are based on the expected useful lives of its components. In detail, the following useful lives are applied:

Useful life	Years
Residential, office, plant and other plant facilities	20–50
Hydroplant buildings	75
Machinery	6–75
Electrical installations	5–33
Power lines	50
Office and plant equipment	4–10

In case of an asset leased out by VERBUND, the lease is classified as a finance lease if substantially all the risks and rewards associated with the leased asset are transferred to the lessee. In this case, VERBUND as the lessor does not recognise the asset, but instead a receivable in the amount of the present value of all future minimum lease payments to be received (including any non-guaranteed residual value), net of advance payments received. The difference between this so-called net investment in the lease and the sum of all undiscounted minimum payments under the lease (including any non-guaranteed residual value) represents deferred interest income, which is collected over the term of the lease on the basis of the outstanding amounts receivable (according to the effective interest method).

Conversely, an asset is recognised under non-current assets at the present value of the minimum lease payments (or the lower fair value, if applicable) if substantially all risks and rewards associated with a leased asset are carried by VERBUND. 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 according to the effective interest method.

All other lease agreements for which VERBUND acts as the lessor or 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.

Property, plant and equipment

Assets leased and leased out

Service concession arrangements

Infrastructure projects carried out in the form of partnerships between private companies and public authorities (public private partnerships, PPP) are recognised in accordance with IFRIC 12. In the 2008 reporting period, VERBUND concluded such an agreement with the Albanian Ministry of Economy, Trade and Energy (METE). This hydropower plant concession includes the planning, construction, financing, operation, maintenance and transfer of a two-stage Hydromatrix power plant on the Drin River in northern Albania. For this infrastructure project, Energji Ashta Shpk was established as a project company and wholly owned subsidiary of VERBUND in the 2008 reporting period. In connection with this hydropower plant concession, the construction property and existing facilities as well as rights of way and water rights were transferred to Energji Ashta Shpk. The infrastructure project is conceived as an operator model (build own operate transfer, BOOT) with a 35-year term, after which the power plant, including all associated operating equipment, rights and agreements, is to be transferred to METE without exchange of consideration. An ordinary right of termination does not exist. There is a fixed electricity purchase agreement for the first 15 years of operation with Korporata Elektroenergetike Shqiptare (KESH), the Albanian state-owned electricity supplier. The electricity purchase agreement includes a renewal option; alternatively, the electricity generated can be sold on the open market.

The construction services rendered as part of an Albanian hydropower plant concession were accounted for as specified under IFRIC 12 in accordance with the accounting requirements included in IAS 11 for construction contracts. Expenses and income were recognised based on the percentage-of-completion method (POC) at the fair value of the consideration receivable. The stage of completion was determined based on the cost-to-cost method. Income from the (future) operation services to be rendered will be recognised in accordance with IAS 18. The consideration receivable from the power plant concession was recognised as a financial asset to the extent that it is associated with the 15-year fixed electricity purchase agreement with KESH. An intangible asset was recognised for the consideration receivable subject to demand risk and resulting from the period of around 17 years in which the generated volume of electricity is expected to be sold on the open market.

As a result of EVN AG's investment in Energji Ashta Shpk, the Albanian project company became an equity-accounted joint venture of VERBUND effective 27 August 2010. Since then, the results of the construction services rendered as part of an Albanian hydropower plant concession have been recognised under the result from interests accounted for using the equity method. A total of €42.2m in revenue from construction services and a profit for the period in the amount of €0.2m was recognised in the 2010 reporting period until deconsolidation. In the 2011 reporting period, the equity interest in Energji Ashta Shpk was contributed to Ashta Beteiligungsverwaltung GmbH, a wholly owned subsidiary of Shkodra Beteiligungsholding GmbH (see: Financial reporting principles).

Recoverability of non-financial assets

In accordance with 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 a 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 net realisable value (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 IAS 36. If fair value cannot be determined based on market prices, methods used to determine the net present value can be applied. If net present value methods are applied, the discounted cash flow method (DCF method) is used. Future investments to enhance or improve performance and restructuring expenditures are taken into account when determining fair value. As a rule, value in use is determined using methods to determine the net present values. The discounted cash flow method (DCF) is used for determining these. 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 performance, nor restructuring expenditures (not including existing obligations) are included in the calculation of value in use. The discount rate is an after-tax interest rate which reflects the 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. Impairment losses are recognised in profit or loss as well as separately disclosed in segment reporting. If the reasons for impairment no longer apply in a subsequent period, a reversal is to be recognised in profit or loss.

Equity interests in non-consolidated 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 measured at fair value with the effect in other comprehensive income in accordance with IAS 39.

Those interests for which the fair value cannot be derived from comparable recent transactions in the reporting period or for which the fair value cannot be determined using the discounted cash flow method (DCF), as cash flows cannot be reliably estimated, 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. Carrying forward of the proportionate net assets is effected 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 the 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.

Equity interests

Recoverability of equity interests

As at the balance sheet 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, methods 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 all estimated cash flows to be generated in the future from associates or joint ventures is used to determine the value in use. For the purposes of impairment testing, every equity-accounted interest is considered separately, unless the associate or joint venture does not generate any cash flows from continuing use that are largely independent of those of other assets held by VERBUND.

Investments and loans

Investments and other non-current 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 as 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 7. 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 impairment is incurred. In contrast, any impairment losses are recognised in profit or loss (see: Recoverability of financial assets).

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 the 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, receivables from non-consolidated 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.

Trade receivables and other receivables

Prepaid expenses are presented under non-current receivables and recognised at amortised cost.

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).

At every balance sheet 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 for example 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, legal environment and/or market environment.

Recoverability of financial assets

In the case of equity instruments classified as available for sale, objective indications of impairment include, in particular, a significant (more than 20%) or prolonged (longer than 9 months) decrease in the fair value below cost. Any impairment is 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 accounting requirements set forth under IAS 38, IAS 20 and IAS 37.

Emission rights

Emission rights are recognised on the allocation 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 a consideration). For emission rights allocated without exchange of consideration, an item of deferred income for the grant received is recognised at fair value – based on the quoted price on the European Energy Exchange (EEX) – and reversed to profit or loss under fuel expenses as emission rights are consumed, amortised, or sold. The CO₂ emission results 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 provision in the corresponding amount. In the event of a shortfall, VERBUND recognises an additional provision equal to the fair value of the rights required to cover the shortfall.

Emission rights held by VERBUND for trading 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.

Inventories

Inventories of the primary energy sources natural gas, coal and heating oil as well as additives and consumables are measured at the lower of cost or net realisable value as at the balance sheet date. The latter is determined based on planned electricity revenue, net of production costs. 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 by VERBUND for trading 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.

Financial liabilities

Financial liabilities are recognised at the amount actually received (at cost, net of transaction costs). 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 accruals 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. The receivables from guarantee payments due are classified as loans and receivables and carried forward according to the effective interest method. The guarantee liabilities are measured at the higher of the amount to be recognised based on the accounting requirements for provisions set forth 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 rates 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 rates 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.

VERBUND's Grid segment is subject to such a regulatory rate regime applied by Energie-Control Austria. 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. These defined benefit obligations are partially covered by pension plan assets earmarked for this purpose by BAV Pensionskassen AG (pension fund). A contractual trust arrangement (CTA) was set up with Helaba Pensions Trust e.V. through Landesbank Hessen-Thüringen in order to secure the entitlements from the company pension plan for the employees of VERBUND-Innkraftwerke Deutschland GmbH. VERBUND is obliged 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 CTA are recognised as plan assets as defined under IAS 19 and offset with the provision for current pensions, vested pension benefits and similar obligations.

Provisions for current pensions, vested pension benefits and similar obligations are determined in accordance with IAS 19 using the projected unit credit method (PUC method), whereby actuarial gains or losses are recognised based on the corridor method. Actuarial gains or losses, that is, differences between expected pension expenses and actual pension expenses determined at the end of the reporting period, are thus only recognised in the income statement (allocated over future periods) when the cumulative unrecognised gains or losses exceed 10% of the greater of the defined benefit obligation and the fair value of plan assets. However, if the cumulative unrecognised gains or losses exceed 20% of the recognised expected provision, the excess actuarial gains or losses are recognised immediately in profit or loss. All expenses (and income) related to these obligations are recognised under personnel expenses.

The pension obligations are determined on the basis of actuarial reports for the 1 January 2011 and 31 December 2011 reporting dates; the determinations are based on "AVÖ 2008 P - Actuarial Assumptions for Pension Insurance - Pagler & Pagler".

Regulatory assets and liabilities

Pensions and similar obligations and statutory severance payments

Plan assets are invested through the pension fund mainly in various investment funds in compliance with the provisions of the Austrian Pension Fund Act (Pensionskassengesetz, PKG). Helaba Pensions Trust e.V. also invests trust fund assets in investment fund units.

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 severance payment 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 in service and the salary drawn at the time of termination or retirement. This obligation is measured in accordance with IAS 19 according to the projected unit credit method with an accumulation period of 25 years, whereby actuarial gains or losses are recognised immediately in profit or loss (without application of the corridor method). Insofar as the assumptions underlying the calculation differ from the assumptions applied to provisions for pensions, they are presented in the respective note disclosures.

Employees whose service began in Austria after 31 December 2002 are no longer entitled to a direct claim against their employer for a statutory severance payment. For these employment contracts, the 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 obliged to make regular contributions under this severance payment 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 according to the projected unit credit method, whereby actuarial gains or losses are recognised immediately in profit or loss (without application of the corridor method). The measurement parameters mainly correspond to those for these obligations similar to pensions. The resulting expenses to be recognised are presented under pension expenses.

There is also a CTA in place with Helaba Pension Trust e.V. for the purpose of securing credit balances from partial retirement models of employees of VERBUND-Innkraftwerke GmbH. An aliquot allocation is made twice a year in line with the accumulated credit balances; there is no obligation to provide additional funding. The CTA is recognised as plan assets as defined under IAS 19 and offset from 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 the settlement of which will probably lead to a future outflow of economic resources. There must be a reliable estimate for 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 possible estimate of the expenditure with which a current obligation could be settled or transferred to a third party as at the balance sheet date. Future cost increases that are foreseeable and probable as at the balance sheet 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 thermal power plants and wind 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 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 a provision for onerous contracts is recognised.

Non-current provisions are discounted if the present value of the expected settlement amount differs materially from the nominal value. As a rule, all provisions for which settlement lies more than 12 months in the future are discounted in accordance with the accounting policies of VERBUND. 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.

Other liabilities

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

Government grants related to expenses and income also lead to the recognition of an item of deferred income that is reversed to profit or loss on an accruals basis as the associated expenses 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.

Contributions to building costs

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.

Cross-border leasing transactions

Obligations under cross-border leasing transactions entered into up to and including the 2000 reporting period were entirely, i.e. both the equity portions and the loan portions, covered by the

corresponding acquisition of securities (zero coupons, medium-term notes) or through loans to financial institutions. With respect to one transaction entered into in the 2001 reporting period, at first neither corresponding securities were acquired, nor were payments to financial institutions made. The funds received were utilised entirely for financing. Corresponding hedging instruments were entered into in order to avoid the currency risk associated with this transaction. As a consequence of investing as planned into a loan to a financial institution as part of this transaction in the 2011 reporting period, now all balance sheet items are to be regarded as closed.

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 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.

A total of around 85% of the original volume of cross-border leasing transactions was terminated in the 2009 and 2010 reporting periods. VERBUND's last remaining transaction has an off-balance sheet financing structure (see: Other liabilities 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. However, some of the cross-border leasing transactions were only partially terminated, whereby the transactions with the 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 are also being continued. Therefore, cover is still provided on the balance sheet. The accounting balances denominated in foreign currency (exclusively US dollar) are measured at the exchange rate prevailing at the balance sheet 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 netted.

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 IFRSs 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 first-time 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 related to the

carrying amounts of equity interests are another exception to this rule provided they do not result from write downs affecting taxable income.

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	2011	2010
Austria	25.0	25.0
Albania	10.0	10.0
Bulgaria	10.0	10.0
Germany ¹	27.3	27.3
Italy ²	27.5 (+4.8176)	27.5 (+4.8176)
The Netherlands ³	20.0 / 25.0	20.0 / 25.5
Romania	16.0	16.0
Spain ⁴	20.0 / 25.0 / 30.0	20.0 / 25.0 / 30.0

¹ This tax rate also includes the solidarity surcharge and municipal trade tax. The trade tax depends on the local multiplier, which varies from one municipality to another. // ² In addition to corporate income tax, there is also a regional tax (Imposta regionale sulle attività produttive, IRAP) // ³ In the Netherlands, there is a staggered tax rate. In the reporting period 2011, the Netherlands changed the tax rate from 25,5% to 25,0%. // ⁴ In Spain there is a staggered tax rate.

As of the 2005 reporting period, VERBUND took advantage of the option to form a group of companies for tax purposes granted by legislators with the 2005 Austrian Tax Reform Act (Steuerreformgesetz 2005); VERBUND AG is the parent of the tax group.

The parent of the tax group charges members of the tax group their attributable corporate tax amounts by means of tax allocation. Domestic group members receive a credit in the event of a loss. 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.

Derivative financial instruments are recognised at cost when the contract is concluded and subsequently measured at fair value. As a rule, unrealised gains or losses are recognised in the income statement if the requirements for the accounting for 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 hedging transactions between the hedged item and hedging instrument and the hedging strategy as well as the regular measurement of both retrospective and prospective 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.

Derivative financial instruments

With respect to the accounting treatment of fair value hedges, both the derivative hedging instrument as well as the hedged item are measured at fair value through profit or loss with respect to the hedged risk. However, if a derivative financial instrument is used as a hedging transaction in a cash flow hedge, the unrealised gains or losses from the hedging transaction are recognised in other comprehensive income for the time being. 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 with positive fair value are recognised under trade receivables and other receivables; those with negative fair value are recognised under other financial liabilities or trade payables and other liabilities.

So-called own-use contracts concluded 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 is to be recognised for the own-use contract in accordance with IAS 37.

Hedging transactions in the finance area

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 transactions related to closed items on the balance sheet (see: Cross-border leasing transactions), interest rate swaps (swaps from variable to fixed interest) were entered into in order to hedge the existing interest level for the long term. These interest rate swaps were designated as cash flow hedges (see: Derivative financial instruments). A series of forward exchange transactions were entered into in Hungarian forint (HUF) in connection with the auction of cross-border capacities in order to hedge HUF exchange rate volatility. These forward transactions are treated as freestanding derivatives; in this case, the accounting standards for hedging relationships are not applied.

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 were entered into for the corresponding financial liabilities. Since the items related to the interest rate swaps show a perfectly opposite risk profile with respect to interest rate and exchange rate risk, the carrying amounts of the associated financial liabilities are adjusted according to the hedged risk to balance out the fair value measurement of the interest rate swaps.

With respect to one financial liability originally incurred as part of a cross-border leasing transaction, cover was not provided on the balance sheet until the 2011 reporting period; therefore, it was previously not presented as a closed item on the balance sheet in the notes to VERBUND's consolidated financial statements. Corresponding derivative transactions were entered into by VERBUND in order to eliminate the foreign exchange risk of these financial liabilities denominated in US dollars. The fair value changes of these derivative transactions compensated the foreign exchange measurement of the hedged financial liability. This financial liability was closed on the balance sheet by investing into a loan to a financial institution in the 2011 reporting period.

The fair value of forward exchange transactions is based on respective rates (foreign exchange rates and interest rate curves) prevailing at the balance sheet date. These are Level 2 measurements as defined under IFRS 7.

The fair value for interest rate swaps corresponds to the amount that VERBUND would receive or have to pay if the transaction were liquidated on the balance sheet date. This value reflects current market conditions, in particular current interest rates and yield curves. These are Level 2 measurements as defined under IFRS 7.

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 or futures contracts are used as hedging instruments as defined under IAS 39.

VERBUND assesses monthly 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 concluded 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 off of positive and negative fair values (see: Financial instruments and risk management).

Determination of the fair value of derivative financial instruments in the finance area

Hedging transactions in the energy area; electricity and gas contracts in the wholesale portfolio

Energy trading contracts

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).

Determination of the fair value of derivative financial instruments in the energy area

The fair values of futures and forward contracts employed by VERBUND can be reliably measured at each balance sheet date, because quoted prices are available for futures contracts at the respective exchanges (European Energy Exchange (EEX), Intercontinental Exchange (ICE), Italian Derivatives Energy Exchange (IDEX), Central European Gas Hub (CEGH)) and forward contracts are measured with forward price curves derived from quoted prices and discounted based on the EURIBOR.

Consequently, electricity, gas and CO₂ futures contracts involve Level 1 measurements as defined under IFRS 7; electricity, gas and CO₂ forward contracts as well as gas swaps involve Level 2 measurements.

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 to industrial and domestic customers, to energy supply companies, traders and electricity exchanges, as well as grid services. Revenue from the delivery of electricity to large customers is realised in the same way as revenue from energy trading and grid services, that is, at the performance date. In the small customer area, revenue is recognised when the customer can be billed for receipt of a partial delivery. Revenue from grid services includes revenue from national grid rates granted by order of Energie-Control Austria 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.

Other revenue includes revenue from the provision of personnel as well as consulting and project planning services recognised on the basis of actual work hours incurred. In addition, other revenue also includes revenue from district-heating deliveries to consumers and revenue from construction services in the 2010 reporting period related to the Albanian hydropower plant concession accounted for in accordance with IFRIC 12 (see: Service concession arrangements).

Discretionary judgements and key assumptions concerning the future

The preparation of IFRSs consolidated financial statements requires discretionary judgements for 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 balance sheet date and the presentation of income and expenses during the reporting period.

In particular with respect to the following assumptions and estimates, there is considerable risk that the carrying amounts of assets and liabilities will require significant adjustment in subsequent reporting periods.

The weighted average cost of capital (WACC) is used to determine the recoverable amounts when applying net present value methods. These correspond to the average weighted cost of equity and debt. The weighting of the cost of equity and debt – this corresponds to a capital structure at market values – was derived from a peer group.

The cost of equity is determined using the capital asset pricing model (CAPM) from a reference rate, market risk premium and beta factor. The reference rate represents a “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. The market risk premium corresponds to the premium that an equity investor requires over and above the reference rate as compensation for the risk associated with holding the market portfolio. VERBUND uses the arithmetic mean of long-term time series to estimate the market risk premium. 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 instruments of electricity producers and transmission system operators generally exhibit different beta factors. Beta factors from electricity producers 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 adequate 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 a more or less high risk of default. The capital market reflects this default risk through different returns on government bonds and credit default swaps.

Considering the currently volatile financial market environment, the development of capital costs (and in particular the country risk premiums) is under constant observation.

Determination of the weighted average cost of capital

Impairment testing of goodwill

For the purpose of impairment testing, VERBUND allocated goodwill to the following cash-generating units:

Goodwill	€m	
	2011	2010
Bruck/Hollern/Petronell-Carnuntum wind farms	25.3	25.3
Run-of-river power plant group on the Inn River	280.4	280.4
Electricity segment	300.0	300.0
Goodwill in VERBUND	605.7	605.7

Wind farms in Bruck/Hollern/Petronell-Carnuntum

Effective 1 January 2009, 100% of the shares in the wind farms in Bruck/Hollern/Petronell-Carnuntum were acquired at a cost of €55.4m. The wind farms have an installed capacity of 49 MW. Goodwill in the amount of €25.3m was recognised upon first-time consolidation and allocated entirely to the same wind farms.

The recoverable amount for the wind farms in Bruck/Hollern/Petronell-Carnuntum was determined on the basis of fair value less costs to sell. Neither a concluded sale agreement, nor a binding offer was available. Since there are no market prices for the shares in VERBUND Wind Power Austria GmbH and analogy methods could not be employed for lack of comparable recent transactions, the fair value was determined using a net present value method based on discounted cash flows. The discount rate was 6.75% (previous year: 6.5%).

The cash flows of relevance to measurement were derived from recent planning on the part of VERBUND Wind Power Austria GmbH and/or VERBUND Renewable Power GmbH and are based primarily on near-market data. The planning data reflects the planned expansion of the wind farms' 57 MW installed capacity. The construction decisions were made in the 2011 reporting period. The plan is for the new wind power plants in Petronell-Carnuntum to go online at the end of 2012; the new wind power plants in Hollern and Bruck are supposed to go online at the middle and end of 2013, respectively. The planning data were adjusted for the determination of fair value, in order to simulate the measurement perspective of a typical market participant. The wind farms in operation were measured at fair value based on the average output revealing several years of past experience. For the new wind power plants to be constructed as part of the wind farm expansion measurement was based on expected output. The prices were derived for the wind power plants in operation for the first up to 6 years (depending on the wind farm) and for the wind power plants to be newly constructed for the first 13 years of the planning period from the fixed feed-in rates specified under the Austrian Green Electricity Act (Ökostromgesetz, ÖSG); the electricity prices for the subsequent years were determined based on the electricity price forecast of a reputable market research institute and information service provider in the energy market. The extrapolation of electricity prices (from 2035 onwards) was based on the assumption of a sustained rate of increase of 2.0%. The forecast electricity revenue was reduced by 13.0% to reflect balance energy costs after the end of fixed feed-in rates; the percentage rate was estimated based on the average balance energy costs of the Eco Balance Group (Ökobilanzgruppe) over the last 3 years. The material annual expenses from the planning were carried forward with a 2.0% to 2.7% rate of increase.

The planning phase was determined based on the remaining useful life of the wind power plants in operation and/or the useful life of the wind power plants to be constructed, after which planning was based on an assumption of a finite cycle of reinvestment in state-of-the-art wind power plants. The repair and maintenance cycles were determined based on the maintenance agreements entered into with the wind power plant manufacturer.

The key valuation assumptions on which the determination of the recoverable amount was based include the electricity price forecasts, the expected annual output of the wind power plants in operation and those to be constructed as part of the wind farm expansion, the specific investment costs of the wind power plants to be constructed and the discount rate.

The recoverable amount was compared to the carrying amount of the wind farms in Bruck/Hollern/Petronell-Carnuntum, including goodwill. The recoverability of goodwill allocated to the wind farms was confirmed for the 2011 reporting period. According to the present valuation assumptions, the recoverable amount of the wind farms exceeds the carrying amount including goodwill by €23.7m.

The table below shows the values assigned to the key valuation assumptions as well as the changes in value that would be necessary for the recoverable amount of the Bruck/Hollern/Petronell-Carnuntum wind farms to equal the carrying amount including goodwill:

Sensitivity analysis for the wind farms			€m
	Value assigned to the key valuation assumption	Change in value for the recoverable amount to equal the carrying amount	
Price of electricity when the fixed feed-in tariffs end	€73.10/MWh	- 14.6 %	
Annual output of wind power plants in operation ²	100.0 GWh	- 21.2 GWh	
Annual output of wind power plants to be constructed ³	139.8 GWh	- 24.3 GWh	
Specific investment costs per MW for wind power plants to be constructed ⁴	€1.53m	€+0.21m	
Discount rate ⁵	6.75%	+0.94 percentage points	

¹ The electricity prices were determined based on the forecasts of a reputable market research institute and information service provider in the energy market. The base price indicated relates to the year 2017. This is the first full year following the end of the fixed feed-in tariffs for the two largest wind farms in operation, Hollern and Petronell-Carnuntum. // ² The annual output of the wind farms in operation reflects several years of experience. // ³ The forecast annual output is based on data from wind measurements and the resulting forecast model calculations. // ⁴ The specific investment costs for the wind power plant to be constructed are based on the price list of a leading wind power plant manufacturer (including installation and grid connection contract). // ⁵ The discount rate corresponds to the weighted average cost of capital after taxes. The parameters to determine the discount rate were derived from market data and/or a peer group.

Run-of-river power plant group on the Inn River

Effective 31 August 2009, 99.7% of the shares in Kraftwerksgruppe Inn GmbH (now VERBUND-Innkraftwerke GmbH) were acquired at a cost of €1,430.3m (for 100% of the shares, 0.3% of which were attributable to non-controlling interests). The 13 run-of-river power plants of the Bavarian run-of-river power plant group on the Inn River have a combined installed capacity of 312 MW. Goodwill totalling €580.4m was recognised upon first-time consolidation; of which, €280.4m was allocated to the same power plant group.

A total of 3.73% of the shares in VERBUND-Innkraftwerke GmbH were sold effective 28 June 2010 and 25 February 2011 to Innkraft Bavaria GmbH & Co KG, which is managed as a holding company, as part of the so-called "Bavarian/Austrian Regional Plan". Effective 4 July 2011, 13.0% of the interest in VERBUND-Innkraftwerke GmbH was acquired from both evn naturkraft Beteiligungs- und Betriebs-GmbH and WIEN ENERGIE GmbH. As a result, VERBUND's interest in VERBUND Innkraftwerke GmbH decreased from 99.7% to 70.27% (see: Notes to the balance sheet). Due to this sale of shares, there was a shift between the shareholder groups, i.e. part of the interest attributable to the shareholders of the parent company shifted to the interest attributable to non-controlling interests. Goodwill was not affected by these transactions (see: Accounting policies).

The recoverable amount of the run-of-river power plant group on the Inn River was determined based on value in use in the 2011 reporting period. The value in use was determined using a net present value method based on discounted cash flows. The discount rate before tax was 7.25%. The recoverable amount was determined in the 2010 reporting period based on fair value less costs to sell using a net present value (discounted cash flow) method. The corresponding discount rate for the 2010 reporting period - the weighted average cost of capital after taxes - was 6.25%.

The cash flows of relevance to measurement were derived from VERBUND-Innkraftwerke GmbH's current planning. The determination of fair value was based on constant output over the planning period corresponding to the mean energy capability. The prices were determined based on the VERBUND energy market model (VEMM). The VEMM is an energy simulation tool for the development of medium and long-term electricity price scenarios for electricity markets. In addition, the prices reflect the statutory feed-in rates for those power plants subject to the Renewable Energy Sources Act (Erneuerbare-Energien-Gesetz, EEG). The extrapolation of electricity revenue (from 2051 onwards) was based on the assumption of a sustained rate of increase of 2.0%. The forecast electricity revenue was reduced by discounts for electricity generation characteristics and hydrological forecast and availability risk. These discounts, which were derived from experience, correspond to the percentage difference from the pure base price and serve to model the generation value. The material annual expenses from the planning were carried forward with price increases of 2.0% to 4.0%.

The planning period was divided into a detailed planning phase and a rough planning phase. The detailed planning phase comprised a period of 6 years. The rough planning phase has a horizon of approximately 94 years, reflecting the long-term reinvestment, maintenance and repair cycles of run-of-river power plants. Planning is therefore based on a finite reinvestment cycle that reflects replacement investments based on experience. The determination of the fair value of the run-of-river power plant group on the Inn River reflects both the (theoretical) possibility that the Free State of Bavaria will exercise its reversion rights as well as the present generation value of electricity production. The agreement entered into with the Free State of Bavaria to convert the existing reversion rights to the run-of-river power plants in Wasserburg, Teufelsbrück and Gars to so-called contingent rights of reversion (see: Other liabilities and risks) was accordingly taken into account.

The key valuation assumptions on which the determination of the recoverable amount was based include the electricity price forecasts, the rate of increase of electricity revenue and the discount rate.

The recoverable amount was compared to the carrying amount of the run-of-river power plant group on the Inn River, including goodwill. The recoverability of goodwill allocated to the power plant group was confirmed for the 2011 reporting period. According to the present valuation assumptions, the recoverable amount of the run-of-river power plant group on the Inn River exceeds the carrying amount including (scaled up to 100%) goodwill by €340.2m.

The table below shows the values assigned to the key valuation assumptions as well as the changes in value that would be necessary for the recoverable amount of the run-of-river power plant group on the Inn River to equal the carrying amount including goodwill:

Sensitivity analysis for the run-of-river power plant group on the Inn River

	Value assigned to the key valuation assumption	Change in value for the recoverable amount to equal the carrying amount
Price of electricity ¹	€58.70/MWh	-20.2%
Rate of increase of electricity revenue from 2051	2.0%	-11.7 percentage points
Discount rate ²	7.25%	+1.58 percentage points

¹ The electricity prices were determined based on the VERBUND Energy Market Model (VEMM). The base price indicated relates to the year 2012. // ² The discount rate corresponds to the weighted average cost of capital before taxes. The parameters to determine the discount rate were derived from market data and/or a peer group.

Electricity segment

Effective 31 August 2009, 99.7% of the shares in Kraftwerksgruppe Inn GmbH (now VERBUND-Innkraftwerke GmbH), which operates 13 run-of-river power plants on the Inn River in Bavaria, were acquired at a cost of €1,430.3m (for 100% of the shares, 0.3% of which were attributable to non-controlling interests). Goodwill totalling €580.4m was recognised upon first-time consolidation, of which €300.0m was allocated to the same power plant group.

As a result of shifts between shareholder groups in the 2010 and 2011 reporting periods, VERBUND's interest in VERBUND-Innkraftwerke GmbH decreased from 99.7% to 70.27%. Goodwill was not affected by these transactions (see: Accounting policies).

The recoverable amount for the Electricity segment was determined on the basis of fair value less costs to sell. In addition to VERBUND's entire generation portfolio, the Electricity segment also includes electricity trading and distribution (see: Segment reporting). Thus, the entire goodwill from the acquisition of 13 run-of-river power plants on the Inn River in Bavaria was ultimately tested for impairment in a top-down test.

The fair value for the Electricity segment was determined based on market price. The starting point was VERBUND's quoted price, which was €20.74 per share on the last trading day of the year. The fair value of the Electricity segment was determined by applying analogy methods that place operating and/or value-based performance figures in relation to VERBUND's overall entity value (market capitalisation plus net debt).

Impairment testing of power plants

The recoverable amount was compared to the carrying amount of the Electricity segment, including goodwill. The recoverability of goodwill allocated to the Electricity segment was confirmed for the 2011 reporting period. Management believes the carrying amount of the Electricity segment including goodwill will not exceed the recoverable amount as a result of potential changes in the key valuation assumptions.

Power plants impaired as a result of the deregulation of the electricity market

In the 1998 and 1999 reporting periods, impairment losses totalling €732.3m and €145.4m as well as provisions for onerous executory contracts in the amount of €321.1m had been recognised on power plants and power plant groups as a result of the deregulation of the electricity market.

As a consequence of the Fukushima catastrophe and the German phase-out of atomic energy, the energy market environment has also changed significantly for VERBUND in the 2011 reporting period. On the one hand, change can be observed in the demand for certified hydroelectricity and an associated willingness on the part of electricity customers to pay premium prices for it. On the other hand, the regulatory environment for energy shows a stronger commitment on the part of politicians to expanding hydropower and the potential – in particular in large-scale hydropower – to increase Austria's degree of energy self-sufficiency. In VERBUND's view, there is no potential risk of regulatory intervention in the form of plant-specific fees at this time due to their negative investment incentive. In light of these indications of a reversal of impairment losses, the Danube power plant Freudenuau and the run-of-river power plant chains Mittlere Salzach and Obere Drau were tested for impairment as at 30 September 2011. The recoverable amounts were each determined based on the value in use. The values in use were determined using a net present value method based on discounted cash flows. The discount rate before taxes was 8.3% (previous year: 8.5%).

The cash flows of relevance to measurement were derived from VERBUND Hydro Power AG's current planning. The determination of fair value was based on constant output over the planning period corresponding to the mean energy capability. The prices were determined based on the VERBUND energy market model (VEMM). The VEMM is an energy simulation tool for the development of medium and long-term electricity price scenarios for electricity markets. The extrapolation of electricity revenue (from 2051 onwards) was based on the assumption of a sustained rate of increase of 2.0%. The forecast electricity revenue was reduced by power plant specific or power plant group specific discounts for electricity generation characteristics and a discount for hydrological forecast and availability risk. These discounts, which were derived from experience, correspond to the percentage difference from the pure base price and serve to model the generation value. The material annual expenses from the planning were carried forward with price increases of 2.0% to 2.75%.

The planning period was divided into a detailed planning phase and a rough planning phase. The detailed planning phase comprised a period of 6 years. The rough planning phase reflects the power plant-specific consensus periods ranging from 2073 to 2082, whereby the long-term reinvestment, maintenance and repair cycles of run-of-river power plants are taken into account. Planning is therefore based on a finite reinvestment cycle that reflects replacement investments based on experience.

The key valuation assumptions underlying the determination of the recoverable amount include electricity price forecasts, the rate of increase of electricity revenue, the discount rate and the potential risk of regulatory intervention in the form of plant-specific fees.

The recoverable amount was compared to the carrying amount of the Danube power plant at Freudenau as well as the carrying amounts of the run-of-river power plant chains Mittlere Salzach and Obere Drau. The resulting reversal of impairment losses amounted to €412.3m. Carrying forward the contributions to building costs for the Danube power plant at Friedenau concurrently reduced the reversal of impairment losses by €99.6m. Thus, the net effect on profit or loss from the reversal of impairment losses amounted to a total of €312.6m.

For the remaining power plants and power plant groups that were impaired in the 1998 and 1999 reporting periods (carrying amount less contributions to building costs as at 31 December 2011: €641.5m; previous year: €654.2m), there are no indications of a reversal of impairment losses from VERBUND's perspective as at the balance sheet date.

Combined cycle gas turbine power plant in Mellach

A combined cycle gas turbine power plant has been under construction in Mellach since the 2009 reporting period. Both production lines of this thermal power plant were in the commissioning phase as at 31 December 2011. Final start of operation of both production lines is planned for the first and second quarters of 2012.

In light of the sustained downward trend of the clean spark spread, which corresponds to the difference between the price of electricity and the price for gas and CO₂, the general market situation for gas power plants is becoming difficult. Considering this indication of impairment, the combined cycle gas turbine power plant under construction in Mellach was tested for impairment as at 30 September 2011. The recoverable amount was determined based on the value in use. The value in use was determined using a net present value method based on discounted cash flows. The discount rate before taxes was 6.6% (previous year: 8.4%).

The cash flows of relevance to measurement were derived from the recent planning of VERBUND Thermal Power GmbH & Co KG. The value in use was determined based on the installed capacity of the thermal power plant of 832 MW (electric); the maximum heat extraction was assumed to be 400 MW (thermal). The presumed level of efficiency at full capacity was 58.8%. The utilisation of the power plant was determined using an optimisation model and amounted up to around 5,700 hours per year operating at full capacity. In addition, the planning was based on the assumption of a heat extraction of up to 450 GWh per year for the metropolitan area of Graz. The prices were determined based on the VERBUND energy market model (VEMM). The VEMM is an energy simulation tool for the development of medium and long-term electricity price scenarios for electricity markets. The material annual expenses from the planning were carried forward with a 2.0% to 3.0% rate of increase.

The planning period was divided into a detailed planning phase and a rough planning phase. The detailed planning phase comprised a period of 6 years. The rough planning phase extends until 2046 and is determined based on the total capacity of equivalent operating hours (EOH). The reinvestment, repair and maintenance cycles were determined based on the maintenance agreement entered into with Siemens AG Austria.

The key valuation assumptions underlying the determination of the recoverable amount include the terms of the long-term natural gas supply contract concluded for the combined cycle gas turbine power plant (see: Other liabilities and risks), the trend of the clean spark spread, the possibilities for gas storage and the discount rate.

The recoverable amount was compared with the carrying amount of the combined cycle gas turbine power plant under construction in Mellach. The resulting impairment was €113.8m. The reversal of deferred government grants reduced the impairment by €3.5m. The net effect on profit or loss from the impairment loss amounted to a total of €110.3m.

Wind farm on the Bulgarian Black Sea coast

Haos Invest EAD operates a wind farm in Kavarna on the Bulgarian Black Sea coast. This wind farm is subject to a sustained bottleneck in the upstream grid. In addition, new renewable electricity rules came into effect on 3 May 2011 in Bulgaria that, inter alia, have led to changes in conditions for access to the grid and in the feed-in rate. Considering these indications of impairment, the wind farm in Kavarna was tested for impairment. The recoverable amount was determined based on the value in use. The value in use was determined using a net present value method based on discounted cash flows. The discount rate before taxes was 10.5% (previous year: 9.5%).

The cash flows of relevance to measurement were derived from HAOS Invest EAD's current planning. The value in use was determined on the basis of generated output estimated based on wind assessment reports. The installed capacity amounts to 16 MW; however, due to the sustained bottleneck in the upstream grid, the feed-in ratio is expected to average only 55% until the end of 2012. The prices for the first 14 years of the planning period resulted from fixed feed-in rates in accordance with Bulgarian rules for renewable electricity; electricity prices for the subsequent period were determined based on the VERBUND energy market model (VEMM). The VEMM is an energy simulation tool for the development of medium and long-term electricity price scenarios for electricity markets. The forecast electricity revenue was reduced by balance energy costs of 15.0% after the end of fixed feed-in rates. The material annual expenses from the planning were carried forward with a 2.0% rate of increase.

The planning period is divided into a detailed planning phase and a rough planning phase. The detailed planning phase comprises a period of 6 years. The rough planning phase extends until the end of the useful life in 2031. The repair and maintenance cycles were determined based on the maintenance agreements entered into with the wind power plant manufacturers.

The key valuation assumptions underlying the determination of the recoverable amount include electricity price forecasts, the capacity of grid access, the annually forecasted generation output of the wind power plants and the discount rate.

The recoverable amount was compared to the carrying amount of the wind farm in Kavarna. The recoverability of the wind farm was confirmed for the 2011 reporting period.

Impairment testing of interests accounted for using the equity method

The 100% equity-accounted interests in both POWEO Pont-sur-Sambre Production S.A.S. and POWEO Toul Production S.A.S. which had to be considered particularly in light of the generally difficult market situation for gas power plants in Europe, were tested for impairment following indications of impairment as at 30 September 2011. The recoverable amount of both equity interests accounted for using the equity method (see: Financial reporting principles) was determined based on fair value less costs to sell. The fair values were determined using a net present value method based on discounted cash flows. The discount rate was 8.25% (previous year: 6.0%).

The cash flows of relevance to measurement were derived from the current planning of POWEO Pont-sur-Sambre Production S.A.S. and POWEO Toul Production S.A.S. and are based primarily on near-market data. The fair value measurement was based on the installed capacities of the combined cycle gas turbine power plants in Pont-sur-Sambre (in operation) and Toul (under construction) in the

respective amounts of 412 MW and 413 MW. The operation of the power plants during the planning period was determined using an optimisation model. The prices were determined based on the electricity price forecasts of a reputable market research institute and information service provider. The extrapolation of electricity prices (from 2035 onwards) was based on the assumption of a sustained rate of increase of 2.0%. The material annual expenses from the planning were carried forward with a 2.0% rate of increase.

The planning period extended until 2031 (for the power plant at Pont-sur-Sambre) and 2038 (for the power plant in Toul) and was determined based on the total capacity of equivalent operating hours (EOH). The final start of operation of the power plant in Toul is planned for the end of 2012. The reinvestment, repair and maintenance cycles were determined based on concluded maintenance agreements.

The key valuation assumptions underlying the determination of the recoverable amounts included the terms of the long-term natural gas supply agreements concluded for the combined cycle gas turbine power plants (including, inter alia, the results of contractually agreed price adjustments of the natural gas supply agreements for the power plant in Pont-sur-Sambre), the reissue of the operating permit for the power plant in Toul, the trend of the clean spark spread and the discount rate.

The recoverable amounts were compared to the carrying amounts of the interests accounted for using the equity method. The impairment test of the equity interest in POWEO Pont-sur-Sambre Production S.A.S. did not result in any impairment losses; the carrying amount as at 30 September 2011 had already been reduced to zero due to negative IFRSs results currently recognised. Inter alia, this was due to the natural gas supply agreement between POWEO Pont-sur-Sambre Production S.A.S. and ENI S.p.A. in place until 2023. The mode of operation due to the optimisation of the power plant in Pont-sur-Sambre resulted in the resale of a significant volume of gas in the 2011 reporting period. Such management of the natural gas supply agreement is regarded as net settlement under IFRSs; as a consequence, the exemption for own-use contracts in IAS 39 (own-use exemption) no longer applied. Thus, the natural gas supply agreement had to be recognised at fair value through profit or loss. The resulting effect on VERBUND's result from interests accounted for using the equity method (or on the off-balance sheet losses for which recognition was discontinued) amounted to €-79.6m in the 2011 reporting period.

The impairment test for the equity interest in POWEO Toul Production S.A.S. resulted in an impairment loss of €4.2m as at 30 September 2011. As a result, the carrying amount was reduced to zero as at 30 September 2011. VERBUND has provided various financial guarantee contracts to finance the construction of the power plant in Toul (see: Transactions with related parties). The recognised guarantee liability was increased by €18.1m in light of the negative result from the impairment test, whereby the probability that POWEO S.A. would exercise its option was taken into account.

The 50.01% equity-accounted interest in Shkodra Region Beteiligungsholding GmbH was tested for impairment as at 30 September 2011 following indications of impairment. Shkodra Region Beteiligungsholding GmbH, a joint venture of VERBUND and EVN AG, (indirectly) holds on the one hand 100% of the equity interest in Energji Ashta Shpk and on the other hand intends to develop further projects in the Albanian Region of Shkodra. Energji Ashta Shpk is currently constructing a two-stage Hydromatrix power plant on the Drin River in Northern Albania conceived within the framework of an operator model (see: Accounting policies). The decreasing expectations for Energji Ashta Shpk with respect to revenue from the sale of certified emission reductions (CERs) and with respect to electricity prices after the end of the 15-year fixed electricity purchase agreement with the Albanian

state-owned electricity supplier were indicative of impairment, as was the elevated discount rate as a consequence of the increased country risk. The value in use was determined using a net present value method based on discounted cash flows. The discount rate before taxes was 9.7% (previous year: 9.4%).

The cash flows of relevance to measurement were derived from Energji Ashta Shpk's current planning. The determination of fair value was based on constant output over the planning period corresponding to the mean energy capability. The prices for the first 15 years after commissioning were determined based on the electricity purchase agreement with Korporata Elektroenergetike Shqiptare (KESH); electricity prices for the subsequent period were determined based on VERBUND's energy market model (VEMM). The final start of operation of the power plant is planned for the end of 2013. The material annual expenses from the planning were carried forward starting in 2014 with a 2.0% to 3.0% rate of increase. The planning phase includes the 35 year term of the hydropower plant concession.

The key valuation assumptions underlying the determination of the recoverable amount include the electricity price forecasts for the period following the end of the electricity purchase agreement, revenue from the sale of certified reductions in emissions and the discount rate.

The recoverable amount was compared to the carrying amount of the equity interest accounted for using the equity method. The impairment test of the equity interest in Shkodra Region Beteiligungsholding GmbH as at 30 September 2011 resulted in an impairment loss of €35.7m.

Measurement of short positions

VERBUND acquired an additional 60% of the interest in French POWEO Production S.A.S. for €120.0m in the 2011 reporting period. As part of this transaction, POWEO S.A. was granted a call option exercisable any time until 30 June 2013 on this same 60% interest. As a consequence of the dividend distributed in kind and the disposal of the equity interest in POWEO Production S.A.S. (see: Financial reporting principles), interests of 60% in former subsidiaries and second-tier subsidiaries of POWEO Production S.A.S. that remained with VERBUND together now form the underlying of this call option.

Furthermore, as part of the disposal of the equity interest in POWEO S.A. (Group), VERBUND and Direct Energie S.A. agreed to a sequential combination of a put option and a call option over 40% of the equity interests in former subsidiaries and second-tier subsidiaries of POWEO Production S.A.S. that remained with VERBUND. VERBUND only has the possibility of exercising this put option if POWEO S.A. first exercises its call option. The exercise of the call option on the part of Direct Energie S.A. is moreover linked to VERBUND abstaining from exercising its put option. If the put or call options over the 40% interest are exercised, all financing and guarantees currently provided by VERBUND would also be transferred to Direct Energie S.A.

The overall short position resulting from these temporarily interdependent options represents a potential voting right as defined under IAS 27. Thus, it conflicts with VERBUND's control of the former subsidiaries and second-tier subsidiaries of POWEO Production S.A.S. As at 31 December 2012, this overall short position was out of the money; nevertheless, it has economic substance from VERBUND's point of view. This overall short position had to be recognised as a free-standing derivative in accordance with IAS 39 at fair value through profit or loss. The fair value was determined using a binomial tree approach. As at 31 December 2011, the fair value of the overall short position was €13.4m. The effect on profit or loss resulting from this measurement was recognised under other expenses from financial instruments.

The Austrian Constitutional Court cancelled the System Usage Rates Directives (Systemnutzungstarife-Verordnungen, SNT-VO) for 2009, 2010 and 2011 with its decisions dated 27 September 2011. As a consequence of these decisions, Austrian Power Grid AG is faced with the possibility of the (tentative) repayment of usage fees for pumped storage power plants as well as grid loss fees and fees for system services collected on the basis of these directives to all parties who have filed a corresponding law suit with the Austrian Constitutional Court. These impending repayment obligations resulted in a €20.0m increase in existing provisions for onerous contracts recognised in profit or loss in VERBUND's consolidated financial statements in the 2011 reporting period. The provisions were measured (carrying amount as at 31 December 2011: €39.4m) based on assumptions and estimates as at the balance sheet date. The key factors of influence included the estimated loss of revenue, the estimated costs of legal consultation, statutory interest on arrears, the repayment period and the discount rate of 4.75%.

Existing provisions for pension and similar obligations, severance payments and partial retirement programs (carrying amount as at 31 December 2011: €482.5m; previous year: €492.4m) were measured based on assumptions and estimates as at the balance sheet 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.

Provisions for dismantling costs (carrying amount as at 31 December 2011: €29.0m; previous year: €32.1m) were measured based on assumptions and estimates as at the balance sheet date. The key factors of influence included the expected dismantling dates (mainly in the time range from 2020 to 2025), any expert reports determining the dismantling costs, the valorisation of these costs and the discount rate of 4.75% (previous year: 5.25%).

Provisions for onerous contracts (carrying amount as at 31 December 2011: €64.8m; previous year: €92.7m) were measured based on assumptions and estimates as at the balance sheet date. Provisions for onerous contracts were recognised for onerous rental and electricity supply agreements and, in particular, in connection with the obligation to provide district heating to Steirische Gas-Wärme GmbH. The key factors of influence were the electricity and primary energy prices as well as the costs for emission rights and the discount rate of 4.75% (previous year: 5.25%).

The contingent liabilities not recognised on 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 provisions, nor unlikely, the relevant obligations are disclosed as contingent liabilities. The estimation is carried out by the responsible managers, taking market-related inputs (to the extent possible) and reports (in individual cases) into account.

Measurement of provisions

Contingent liabilities

Segment reporting

In VERBUND's segment reporting, the business activities are assigned to the Electricity, Grid and Equity Interests & Services segments. The identification of operating segments and the data disclosed correspond to the structure of internal reporting to the Executive Board as the chief operating decision maker.

Segmentation

In accordance with Section 8(3) of the Austrian Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG), integrated electricity companies must publish separate balance sheets and income statements for electricity generation, electricity trading and supply activities as well as transmission activities. However, in accordance with IFRS 8, VERBUND's segment reporting must be based on the internal management approach and reporting (management approach), resulting in the following separate operating segments:

Electricity

The Electricity segment includes all VERBUND subsidiaries and profit centres, the business activities of which are related to the construction, operation and maintenance of hydrologic and thermal as well as solar and wind power plants. In addition, the Electricity segment includes energy trading and the distribution of electricity to consumers (household, commercial, business and industrial customers).

Grid

The Grid segment corresponds to Austrian Power Grid AG, which operates and maintains the Austrian grid area, the majority of the 220/380 kV high-voltage grid and parts of the 110 kV grid as a control area manager and as a separate and independent transmission system operator under corporate law.

Equity Interests & Services

The Equity Interests & Services segment includes, in particular, the management and control functions related to VERBUND's foreign and domestic equity interests. This includes in particular the equity interest in STEWEAG-STEAG GmbH, KELAG-Kärntner Elektrizitäts-AG, Energie Klagenfurt GmbH, Österreichisch-Bayerische Kraftwerke AG and Ennskraftwerke AG held directly by VERBUND AG as well as the equity interests in Turkey, Italy and France held (directly or indirectly) by VERBUND International GmbH and the equity interest in Albania held (indirectly) by VERBUND Hydro Power AG. In addition, this segment includes VERBUND's (foreign) project companies until the construction of generation capacities begins, after which they are reclassified to the Electricity segment. Therefore, VERBUND Renewable Power GmbH – the lead company for project developments in the renewable energies sector – is also included in the Equity Interests & Services segment. This segment also includes those subsidiaries and profit centres that provide corporate functions such as financing services, shared-service-centre services and telecommunications services.

The internal measurement of the operating segments' performance is based primarily on the operating result. The operating result for each operating segment corresponds to the total operating result of the subsidiaries included in the respective segment, taking intersegmental revenue and expenses into account. Transactions between the segments are carried out at arm's length.

In addition, the result from equity interests, which is entirely allocated to the Equity Interests & Services segment, is also of significance for this segment. Due to the fact that some interests accounted for using the equity method and other equity interests are held by subsidiaries assigned to the Electricity and Grid segments, the allocation of assets and results is (negligibly) asymmetric.

The internally reported measure of segment assets is the 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, effected advance payments, 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 of hedging transactions 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.

The additions to intangible assets and property, plant and equipment include investments and increases due to any business combinations. The additions to equity interests accounted for using the equity method and other equity interests include capital increases and 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
	Electricity	Grid	Equity Interests & Services	Elimination	Total Group
2011					
External revenue	3,435.8	404.3	25.3	–	3,865.4
Internal revenue	121.9	8.4	86.5	–216.7	0.0
Total revenue	3,557.8	412.6	111.7	–216.7	3,865.4
Operating result	998.6	–7.1	–35.7	45.7	1,001.6
Depreciation and amortisation	–170.9	–62.7	–9.1	1.1	–241.7
Effects from impairment tests ¹	202.2	0.0	0.0	0.0	202.2
Other material non-cash items	55.8	–12.3	–2.2	–0.5	40.7
Result from equity interests	–	–	–175.1	0.0	–175.1
Of which result from interests accounted for using the equity method	–	–	–176.6	0.0	–176.6
Capital employed	5,650.2	989.1	6,994.3	–4,547.0	9,086.5
Of which carrying amount of interests accounted for using the equity method	7.6	1.3	2,106.4	0.0	2,115.3
Additions to intangible assets and property, plant and equipment	459.1	121.9	13.7	0.0	594.7
Additions to equity interests	18.2	0.0	261.0	0.0	279.3

¹ The effects from impairment tests consist of impairment losses and reversals of impairment losses (net of changes in the corresponding deferred contributions to building costs and government grants). The components of this effect on profit or loss is disclosed in detail under (9) Effects from impairment tests.

Operating segment data					€m
	Electricity	Grid	Equity Interests & Services	Elimination	Total Group
2010					
External revenue	2,986.2	255.3	66.5	–	3,307.9
Internal revenue	138.6	63.4	103.9	–306.0	0.0
Total revenue	3,124.8	318.7	170.4	–306.0	3,307.9
Operating result	821.3	44.4	–36.5	–0.8	828.5
Depreciation and amortisation	–164.7	–57.0	–9.3	1.1	–229.9
Effects from impairment tests	–0.7	0.0	–0.1	0.0	–0.8
Other material non-cash items	–90.1	6.3	1.4	–0.6	–83.1
Result from equity interests	–	–	37.6	0.0	37.6
Of which result from interests accounted for using the equity method	–	–	22.1	0.0	22.1
Capital employed	4,812.7	828.8	7,112.8	–4,071.5	8,682.8
Of which carrying amount of interests accounted for using the equity method	23.6	1.3	2,237.0	0.0	2,261.9
Additions to intangible assets and property, plant and equipment	490.3	135.3	40.1	0.0	665.7
Additions to equity interests	21.1	0.3	74.9	0.0	96.3

The operating result in the total column corresponds to the operating result recognised 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 balance sheet total is shown below:

Reconciliation from capital employed to the balance sheet total			€m
	2011	2010	
Capital employed	9,086.5	8,682.8	
Assets not used in the performance and commercialisation process	1,277.7	1,378.8	
Non-interest-bearing debt	1,495.1	1,229.4	
Total assets of VERBUND	11,859.3	11,291.0	

In accordance with IFRS 8, entity-wide disclosures include geographical segment reporting for revenue (based on the point of delivery) and non-current assets. In addition, information regarding major customers is required.

VERBUND has no single customer with whom revenue equals or exceeds 10% of total revenue.

Reconciliation

Entity-wide disclosures

Geographical segment reporting: revenue		€m
	2011	2010
Domestic deliveries of electricity	1,438.6	1,272.1
Electricity deliveries abroad	2,077.9	1,676.1
Of which in Germany	1,542.7	1,146.7
Of which in France	356.1	387.7
Of which in other EU countries	169.0	125.8
Of which in other countries	10.2	15.8
Electricity revenue	3,516.5	2,948.2
Domestic grid services	216.3	200.6
Foreign grid services	45.6	49.1
Of which in EU member states	43.3	27.2
Of which in other countries	2.3	21.9
Grid revenue	261.9	249.7
Other revenue	87.0	109.9
Total revenue	3,865.4	3,307.9
Of which domestic	1,741.4	1,540.0
Of which foreign	2,124.1	1,767.9

Geographical segment reporting: non-current assets		€m
	2011	2010
Intangible assets and property, plant and equipment	7,210.8	6,582.3
Of which in Austria	5,747.8	5,176.1
Of which in Germany	1,322.2	1,348.6
Of which in other EU countries	140.8	57.6
Of which in other countries	0.0	0.0
Interests accounted for using the equity method	2,115.3	2,261.9
Of which in Austria and Germany	652.7	625.3
Of which in Turkey	742.7	793.1
Of which in Italy	714.5	708.0
Of which in France	0.0	114.2
Of which in other countries ¹	5.4	21.4

¹ This includes the interest in (Austrian) Shkodra Region Beteiligungsholding GmbH which indirectly holds the interest in Albanian project company Energji Ashta Shpk.

Notes to the income statement

Electricity revenue by customer areas

	€m			
	2011 Domestic	2010 Domestic	2011 Foreign	2010 Foreign
Electricity deliveries to consumers	531.5	505.2	188.3	243.9
Electricity deliveries to resellers	874.4	718.1	494.4	431.7
Electricity deliveries to traders	32.7	48.9	1,395.2	1,000.5
Electricity revenue	1,438.6	1,272.1	2,077.9	1,676.1

(1)
Electricity revenue

Other revenue

	€m	
	2011	2010
Revenue from the sale of emission rights	21.8	7.9
Revenue from district-heating deliveries	15.9	14.3
Revenue from consulting or planning services as well as from other services	15.2	21.0
Provision of personnel	10.8	12.8
Revenue from gas deliveries or trading	10.6	0.3
User and management fees	5.6	5.2
Revenue from the sale of waste products	2.9	2.5
Revenue from construction services related to a hydropower plant concession ¹	0.0	42.2
Other	4.1	3.7
Other revenue	87.0	109.9

(2)
Other revenue

¹ This revenue arose from construction services related to the Albanian hydropower plant concession recognised in accordance with IFRIC 12 (see: Accounting policies). The corresponding construction expenses were mainly included in other operating expenses. The recognition of income and expenses in VERBUND's consolidated financial statements ended with the deconsolidation of Energji Ashta Shpk effective 27 August 2010.

Other operating income

	€m	
	2011	2010
Changes in inventory and own work capitalised ¹	38.3	21.3
Income from various goods and services	6.0	7.5
Income from the disposal of property, plant and equipment and intangible assets	3.2	1.4
Rent and lease income	2.5	1.9
Income from insurance compensation	2.3	0.0
Scheduled reversals of the deferred income item from cross-border leasing	1.6	1.6
Income from book-out transactions in the energy area	1.4	0.0
Reversals of contributions to building-costs	1.2	0.8
Other (< €1.0m)	2.6	3.3
Other operating income	59.1	37.8

(3)
Other operating income

¹ In the 2011 reporting period, this also contained a total of € 13.3m of costs of testing (net of electricity revenue from these) during the commissioning phase of the combined cycle gas turbine power plant in Mellach.

(4) Expenses for electricity, grid and gas purchases as well as purchases of emission rights (trade)	Expenses for electricity, grid and gas purchases as well as purchases of emission rights (trade)	€m
	2011	2010
	Expenses for electricity purchases	1,469.3
	Expenses for grid purchases (system use)	136.1
	Expenses for gas purchases ¹	-2.4
	Purchase of emission rights (trade)	8.3
	Expenses for electricity, grid and gas purchases as well as purchases of emission rights (trade)	1,611.3
	2,042.7	2,205.8
	135.3	17.9
	9.9	8.3
	17.9	8.3
	2,205.8	1,611.3
	¹ The negative expenses for gas purchases in the reporting period 2010 mainly result from the measurement of freestanding derivatives in the energy area.	
(5) Fuel expenses and other usage-dependent expenses	Fuel expenses and other usage-dependent expenses	€m
	2011	2010
	Fuel expenses	100.7
	Emission rights acquired in exchange for consideration	11.0
	Other usage-dependent expenses	6.6
	Fuel expenses and other usage-dependent expenses	118.3
	124.2	139.0
	8.4	6.4
	6.4	118.3
(6) Personnel expenses	Personnel expenses	€m
	2011	2010
	Wages and salaries	218.1
	Expenses for social security contributions as required by law as well as income-based charges and compulsory contributions	48.9
	Other social expenses	3.7
	Subtotal	270.7
	Expenses for pensions and similar obligations	32.2
	Expenses for severance payments	5.5
	Personnel expenses	308.4
	230.5	330.8
	51.0	36.1
	3.9	9.3
	285.5	330.8
	36.1	308.4
	9.3	308.4
	330.8	308.4
(7) Amortisation of intangible assets and depreciation of property, plant and equipment	Amortisation of intangible assets and depreciation of property, plant and equipment	€m
	2011	2010
	Amortisation of intangible assets	4.3
	Depreciation of property, plant and equipment	225.6
	Amortisation of intangible assets and depreciation of property, plant and equipment	229.9
	4.2	241.7
	237.5	229.9
	4.2	229.9
	237.5	229.9
	241.7	229.9

The pension fund contributions to the defined contribution investment and risk association amounted to €7.4m (previous year: €7.3m) in the 2011 reporting period. Expenses for severance payments include a total of €0.9m (previous year: €0.9m) in contributions to an employee provision fund.

Other operating expenses	€m	
	2011	2010
Third-party maintenance of power plants and line systems	65.9	62.5
Advertising expenses	18.0	15.7
Legal, consulting and auditing expenses	16.3	15.5
Other third-party services received	14.4	14.9
Material costs for motor vehicle operation and maintenance	12.9	12.2
Costs for provided personnel, temporary personnel	12.2	11.1
Travel expenses, advanced training	10.7	10.2
Expenses for supervision by Energie-Control Austria	10.4	9.9
Rent, lease expenses	8.6	4.3
Concession fees	8.3	7.0
IT expenses	7.4	7.9
Compensation payments	5.1	7.4
Insurance	4.3	4.1
Fees	4.0	4.7
Purchased telecommunication services	3.8	3.6
Operating costs	3.3	3.4
Membership fees	2.5	2.7
Third-party services received in connection with PPPs ¹	0.0	42.2
Reversal of provisions	-6.9	0.0
Other (< €1.0m)	6.9	9.2
Other operating expenses	207.8	248.6

¹ These external services were related to the Albanian hydropower plant concession recognised in accordance with IFRIC 12. These other operating expenses had to be seen alongside the revenue from construction services (see: Accounting policies). The recognition of income and expenses in VERBUND's consolidated financial statements ended with the deconsolidation of Energji Ashta Shpk effective 27 August 2010.

**(8)
Other operating
expenses**

Effects from impairment tests	€m	
	2011	2010
Impairment loss of the combined cycle gas turbine power plant in Mellach	-113.8	0.0
Reversal of deferred government grants for the combined cycle gas turbine power plant in Mellach	3.5	0.0
Reversal of impairment loss of the Danube power plant Freudenu	352.4	0.0
Carrying forward of contributions to building costs received for the Danube power plant Freudenu	-99.6	0.0
Reversal of impairment loss of the run-of-river power plant chain Obere Drau	43.7	0.0
Reversal of impairment loss of the run-of-river power plant chain Mittlere Salzach	16.2	0.0
Other	-0.1	-0.8
Effects from impairment tests	202.2	-0.8

**(9)
Effects from
impairment tests**

(10)
Result from interests
accounted for using
the equity method

Result from interests accounted for using the equity method		€m
	2011	2010
Income or expenses from interests accounted for using the equity method	-128.0	78.2
Impairment losses ¹	-59.1	-56.2
Reversals of impairment losses	10.5	0.0
Result from interests accounted for using the equity method	-176.6	22.1

¹ The impairment losses in the 2010 reporting period concerned an equity interest in the French company POWEO S.A. (Group).

The 46.01% equity interest in POWEO S.A. (Group) was classified as held for sale effective 31 March 2011. In accordance with IFRS 5, an impairment test was conducted prior to this classification. The recoverable amount was determined on the basis of fair value less costs to sell. The measurement benchmark was the quoted price of POWEO S.A. (Group) of €4.69 per share as at 31 March 2011. The resulting reversal of impairment loss amounted to €10.5m; it was recognised in the result from interests accounted for using the equity method. The equity interest was sold effective 30 September 2011; the effects on profit or loss from this were recognised in the other result from equity interests.

The 100% equity interest in POWEO Production S.A.S. was tested for impairment as at 30 June 2011 due to indications of impairment – these were in the form of indicative purchase offers for its 100% equity interest in POWEO ENR S.A.S. The recoverable amount was determined using a sum-of-the-parts approach based on the fair value less costs to sell of the 100% equity interests of POWEO Production S.A.S. in its generation companies. The impairment loss resulting from the impairment test amounted to €19.2m; it was recognised in the result from interests accounted for using the equity method. Effective 30 June 2011, after the distribution of the dividend in kind was complete (see: Financial reporting principles), the equity interest in POWEO Production S.A.S., which at that time included only the 100% equity interest in POWEO ENR S.A.S. and recoverable tax loss carryforwards, was classified as held for sale. The equity interest was sold effective 22 September 2011; the effects on profit or loss from this were recognised in the other result from equity interests.

The 50.01% equity interest in Shkodra Region Beteiligungsholding GmbH was tested for impairment as at 30 September 2011 due to indications of impairment (see: Discretionary judgements and key assumptions concerning the future). The impairment loss resulting from the impairment test amounted to €35.7m; it was recognised in the result from interests accounted for using the equity method.

The 100% equity interest in POWEO Toul Production S.A.S. was tested for impairment as at 30 September 2011 due to indications of impairment (see: Discretionary judgements and key assumptions concerning the future). The impairment loss resulting from the impairment test amounted to €4.2m; it was recognised in the result from interests accounted for using the equity method.

The carrying amounts of the equity interests in POWEO Pont-sur-Sambre Production S.A.S. and POWEO Toul Production S.A.S. were reduced to zero in the 2011 reporting period by current losses or by impairment losses. Off-balance sheet losses for which recognition was discontinued amounted to €37.4m for POWEO Pont-sur-Sambre Production S.A.S. and €48.8m for POWEO Toul Production S.A.S.

The proportional IFRSs results from the interim and annual financial statements of associated companies or joint ventures were influenced in particular by the following effects:

The EUR/TRY and the USD/TRY exchange rate trends resulted in foreign exchange losses recognised in profit or loss on the part of Enerjisa Enerji Üretim A.S. and at Enerjisa Elektrik Dagitim A.S. from the measurement of liabilities denominated in foreign currency. In the 2011 reporting period, the resulting

effect on the result from interests accounted for using the equity method of VERBUND amounted to a total of €-85.8m (previous year: €24.0m).

POWEO Pont-sur-Sambre Production S.A.S. and ENI S.p.A. have entered into a natural gas supply agreement until 2023. This natural gas supply agreement was recognised for the first time at fair value through profit or loss in the 2011 reporting period (see: Discretionary judgements and key assumptions concerning the future). The resulting effect on the result from interests accounted for using the equity method (or on the off-balance sheet losses for which recognition was discontinued) of VERBUND amounted to a total of €- 79.6m.

The following tables show a summary of aggregated income statement data for joint ventures and associates of VERBUND accounted for using the equity method. All companies accounted for using the equity method are recognised at their proportional profit or loss of the period under IFRSs from interim or annual financial statements, the reporting date of which is no more than three months prior to the balance sheet date of the parent company (see: Financial reporting principles). The income statement data of the investees thus relates to the period from 1 October 2010 to 30 September 2011 and is based on disclosed financial statements or data updated to the best of VERBUND's knowledge.

The differences between the pro rata profit or loss for the period and the result from interests accounted for using the equity method are, in particular, attributable to the fair value adjustments identified upon share acquisitions that are carried forward, impairment losses on equity interests, adjustments to VERBUND's accounting rules and adjustments resulting from events and transactions between the balance sheet date of the last (consolidated) interim or annual financial statements of the investee and the balance sheet date of VERBUND.

Joint ventures 2011

	€m		
	Austria and Germany	Turkey	Other ¹
Revenue	216.5	1,985.6	61.6
Profit or loss for the period – 100%	9.2	-96.2	2.8
Profit or loss for the period – VERBUND's share	4.4	-48.1	1.4
Differences due to the application of the equity method of accounting	-0.9	0.7	-35.4
Result from joint ventures accounted for using the equity method	3.5	-47.3	-34.0

¹ This includes the interest in (Austrian) Shkodra Region Beteiligungsholding GmbH which indirectly holds the interest in Albanian project company Energji Ashta Shpk.

Joint Ventures 2011: Income statements – VERBUND's share

€m

	Austria and Germany	Turkey	Other ¹
Income	112.6	1,021.1	34.1
Expenses	-108.1	-1,069.2	-32.7
Profit or loss for the period – VERBUND's share	4.4	-48.1	1.4

¹ This includes the interest in (Austrian) Shkodra Region Beteiligungsholding GmbH which indirectly holds the interest in Albanian project company Energji Ashta Shpk.

Joint ventures 2010

€m

	Austria and Germany	Turkey	Other ¹
Revenue	211.7	1,491.4	1.7
Profit or loss for the period – 100%	7.8	58.2	0.2
Profit or loss for the period – VERBUND's share	3.8	29.1	0.1
Differences due to the application of the equity method of accounting	-1.0	7.1	0.2
Result from joint ventures accounted for using the equity method	2.8	36.2	0.3

¹ This includes the interest in (Austrian) Shkodra Region Beteiligungsholding GmbH which indirectly holds the interest in Albanian project company Energji Ashta Shpk.

Joint Ventures 2010: Income statements – VERBUND's share

€m

	Austria and Germany	Turkey	Other ¹
Income	109.9	795.9	1.5
Expenses	-106.1	-766.7	-1.4
Profit or loss for the period – VERBUND's share	3.8	29.1	0.1

¹ This includes the equity interest in (Austrian) Shkodra Region Beteiligungsholding GmbH which indirectly holds the interest in the Albanian project company Energji Ashta Shpk. Until EVN AG's 50% acquisition effective 27 August 2010, Energji Ashta Shpk was a fully consolidated subsidiary of VERBUND. The disclosure concerning the result from interests accounted for using the equity method of VERBUND or on the associated data from the income statement of Energji Ashta Shpk thus relates only to the period from 27 August 2010 to 30 September 2010.

Associates 2011

	€m		
	Austria	Italy ¹	France ²
Revenue	3,209.8	2,274.0	427.7
Profit or loss for the period – 100%	110.7	9.3	–224.2
Profit or loss for the period – VERBUND's share	39.2	2.9	–176.8
Differences due to the application of the equity method of accounting	2.2	–6.2	40.0
Result from associates accounted for using the equity method	41.3	–3.3	–136.8

¹ In the 2011 reporting period, Sorgenia S.p.A. (Group) changed its accounting policy for derivative financial instruments in the energy area. They are now netted in the income statement. At the time the consolidated financial statements of VERBUND were prepared, the retrospectively adjusted amounts for 2010 were not yet available.

² Profits or losses for the period for the equity interests in POWEO Pont-sur-Sambre Production S.A.S. and POWEO Toul Production S.A.S. could not be completely recognised since the carrying amounts had already been reduced to zero. Off-balance sheet losses for which recognition was discontinued were taken into account in differences due to the application of the equity method of accounting.

Associates 2010

	€m		
	Austria	Italy ¹	France
Revenue	2,761.2	2,539.3	691.6
Profit or loss for the period – 100%	117.4	117.5	–81.8
Profit or loss for the period – VERBUND's share	41.3	46.3	–36.8
Differences due to the application of the equity method of accounting	4.2	–3.3	–68.8
Result from associates accounted for using the equity method	45.5	43.0	–105.7

¹ In the 2011 reporting period, Sorgenia S.p.A. (Group) changed its accounting policy for derivative financial instruments in the energy area. They are now netted in the income statement. At the time the consolidated financial statements of VERBUND were prepared, the retrospectively adjusted amounts for 2010 were not yet available.

Other result from equity interests

	€m	
	2011	2010
Income from non-consolidated subsidiaries	6.2	4.8
Income from other equity interests	4.3	4.5
Losses upon deconsolidation of consolidated subsidiaries	0.0	–0.2
Result from the disposal of investments or other equity interests	–0.5	6.4
Expenses arising from other equity interests	–8.8	0.0
Other	0.2	0.0
Other result from equity interests	1.5	15.5

(11)
Other result from equity interests

Result from the disposal of investments or other equity interests includes an effect on profit or loss totalling €–1.7m (thereof “recycling” of other comprehensive income in the amount of €–2.5m) from the sale of equity-accounted interests in POWEO Production S.A.S. and POWEO S.A. (Group).

After the distribution of the dividend in kind which was complete in the 2011 reporting period, POWEO Production S.A.S. included only the 100% equity interest in POWEO ENR S.A.S. and recoverable tax loss carryforwards. POWEO ENR S.A.S. operates in the area of project development and in the management of on and offshore wind farms as well as solar and biomass power plants. The decision to sell the equity interest in POWEO Production S.A.S. was the result in particular of VERBUND's strategic focus and the difficult environment on the French market.

POWEO S.A. (Group) is an alternative electricity supplier to Électricité de France S.A. (EDF) in the French consumer market. The decision to sell the equity interest in POWEO S.A. (Group) was the result in particular of the disadvantageous rate structure of the “Loi NOME”, a law reorganising the French electricity market.

In the 2011 reporting period, expenses arising from other equity interests mainly include expenses for equity guarantees of OeKB Oesterreichische Kontrollbank AG, impairment losses on equity interests in POWEO Blaringhem Production S.A.R.L. and C.E.M.P. d.o.o. and an impairment loss on the equity interest held for sale in POWEO Outre-mer Solaire S.A.S. (Group) in the amount of €0.9m.

(12)	Interest income	€m
Interest income		2010
	2011	
	Interest from investments under closed items on the balance sheet	26.7
	Interest from money market transactions	1.6
	Other interest and similar income	2.6
	Interest income	30.8

(13)	Interest expenses	€m
Interest expenses		2010
	2011	
	Interest for bonds	107.3
	Interest for bank loans	55.7
	Interest for other liabilities from electricity supply commitments	45.1
	Interest for financial liabilities under closed items on the balance sheet	27.0
	Interest for other non-current provisions	7.7
	Profit or loss attributable to limited partners	7.6
	Borrowing costs capitalised in accordance with IAS 23	-17.0
	Other interest and similar expenses	12.0
	Interest expenses	245.2

(14)	Other financial result
	This line item mainly includes income from dividends distributed by investment funds, income from investments in securities, results from the termination of cross-border leasing transactions (in the 2010 reporting period) and measurement results from financial instruments recognised in profit or loss. The investments in investment funds were originally carried out, in particular, to cover provisions for pension obligations; in the meantime, however, they also include investments for the creation of liquidity reserves. In addition, income from loans and foreign exchange gains and losses were recognised in other financial result.

Other financial result	€m	
	2011	2010
Income from financial instruments	19.4	13.7
Foreign exchange gains	2.1	0.4
Income from the disposal of financial instruments	0.6	8.3
Impairment losses on financial instruments	0.0	-0.3
Income from the termination of cross-border leasing transactions	0.0	-33.8
Reversals from (+) and/or allocations to (-) provisions for interest rate differences relating to investments under cross-border leasing transactions	0.0	15.1
Measurement of the overall short position vis-à-vis POWEO S.A. and Direct Energie S.A.	-13.4	0.0
Foreign exchange losses	-13.7	-22.2
Measurement of guarantee liabilities	-18.1	0.0
Other financial result	-23.2	-18.9

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.

The net effect on profit or loss on the other financial result from the early termination of cross-border leasing transactions amounted to €-18.8m in the 2010 reporting period. This net effect on profit or loss included the reversal of a provision for interest differences arising from investments due to the early termination of the cross-border leasing transaction for which it was recognised, proportional amounts reversed to profit or loss from deferred income from cross-border leasing and foreign exchange losses.

Upon the acquisition of a 60 % interest in POWEO Production S.A.S., POWEO S.A. was granted a call option that could be exercised at any time until 30 June 2013 on this same 60% interest (see: Financial reporting principles). As a consequence of a dividend distributed in kind and the disposal of the equity interest in POWEO Production S.A.S., the 60 % interests in former subsidiaries and second-tier subsidiaries of POWEO Production S.A.S. that remained with VERBUND now form the underlying of the call option. As part of the sale of the equity interest in POWEO S.A. (Group), VERBUND and Direct Energie S.A. agreed to a sequential combination comprising a put option and a call option over 40% of the interesta in former subsidiaries and second-tier subsidiaries of POWEO Production S.A.S. that remained with VERBUND. The overall short position resulting from these temporarily interdependent options was to be recognised as a free-standing derivative at fair value through profit or loss in accordance with IAS 39. The short position was measured using a binomial tree approach.

(15)
Taxes on income

Taxes on income	€m	
	2011	2010
Current tax expenses ¹	111.3	120.9
Future tax expense for subsequent taxation of transfers of losses from foreign members of the tax group	4.7	7.5
Changes in deferred income taxes	62.6	20.1
Taxes on income	178.6	148.4

¹ Current tax expenses includes tax income from prior periods in the amount of € 0.0m (previous year: € 1.1m).

Taxes on income in the 2011 reporting period in the amount of €178.6m are €18.4m higher than the computed tax expense of €160.2m that would have been incurred by multiplying profit before tax in the amount of €640.9m by the 25% income tax rate applicable to VERBUND AG. The reasons for the difference between VERBUND's computed and recognised tax expense are as follows:

Tax reconciliation	€m	
	2011	2010
Computed income tax expense	160.2	158.2
Differences from interests accounted for using the equity method	29.8	1.0
Differences from tax-exempt results from equity interests	-8.3	-8.8
Differences from the disposal of interests accounted for using the equity method	-7.1	0.0
Differences from amortisation of goodwill in accordance with Section 9(7) of the Austrian Corporate Income Tax Act	-0.9	-0.5
Differences from tax-exempt premiums	-0.2	-0.1
Differences due to different foreign tax rates	0.5	0.7
Differences from other items	0.7	0.2
Income tax expenses for the period	174.9	150.7
Income tax expenses or income from prior periods (current and deferred)	3.7	-2.3
Reported income tax expenses	178.6	148.4
Effective tax rate	27.9%	23.5%

(16)
Earnings per share

Determination of earnings per share	€m	
	2011	2010
Profit for the period	462.3	484.4
Net of profit for the period attributable to non-controlling interests	- 109.6	- 83.5
Group result	352.6	400.8
Weighted average number of shares in circulation ¹	347,415,686	312,067,848
Earnings per share in €	1.01	1.28

¹ The average number of shares in circulation was determined on a daily basis. The year-on-year change in the average number of shares resulted mainly from a capital increase carried out effective 26 November 2010 (first trading day of the new shares) by VERBUND AG.

There are 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 correspond to one another.

Notes to the statement of comprehensive income

Reclassification adjustments ("recycling") to the income statement				€m	
	2011	2011	2010	2010	2010
From foreign exchange differences					
Measurement gains or losses recognised in equity	-129.3		23.9		
Reclassification adjustment to the income statement	0.0	-129.3	0.0		23.9
From available-for-sale financial instruments					
Measurement gains or losses recognised in equity	-6.6		3.1		
Reclassification adjustment to the income statement	-0.4	-7.0	-4.2		-1.2
From cash flow hedges					
Measurement gains or losses recognised in equity	35.0		-81.3		
Reclassification adjustment to the income statement	66.0		-45.1		
Basis adjustments	0.0	101.0	0.0		-126.4
From interests accounted for using the equity method					
Measurement gains or losses recognised in equity	-7.7		-53.1		
Reclassification adjustment to the income statement	8.9		20.0		
Basis adjustments	7.3	8.5	5.3		-27.9
Other comprehensive income		-26.8			-131.6

(17)
Reclassification adjustments ("recycling") to the income statement

Taxes on income on other comprehensive income				€m		
	2011 Before taxes	2011 Taxes	2011 After taxes	2010 Before taxes	2010 Taxes	2010 After taxes
From foreign exchange differences	-129.3	0.0	-129.3	23.9	0.0	23.9
From available-for-sale financial instruments	-7.0	1.7	-5.3	-1.2	0.3	-0.9
From cash flow hedges	101.0	-25.3	75.7	-126.4	31.7	-94.8
From interests accounted for using the equity method	8.5	-	8.5	-27.9	-	-27.9
Other comprehensive income	-26.8	-23.6	-50.4	-131.6	31.9	-99.6

(18)
Taxes on income on other comprehensive income

Notes to the balance sheet

(19)
Intangible assets

Concessions, industrial property rights, electricity purchase rights, water rights, software, user rights for facilities owned by third parties, as well as licences derived therefrom and goodwill are recognised under intangible assets.

Intangible assets			€m
	Concessions, rights, licences	Goodwill	Total
2011			
Acquisition costs as at 1/1/	62.7	605.7	668.4
Additions	13.4	0.0	13.4
Disposals	-3.8	0.0	-3.8
Acquisition costs as at 31/12/	72.3	605.7	678.1
Accumulated amortisation as at 1/1/	44.8	0.0	44.8
Amortisation	4.2	-	4.2
Impairment losses	0.0	0.0	0.0
Disposals	-3.1	0.0	-3.1
Accumulated amortisation as at 31/12/	45.9	0.0	45.9
Net carrying amount as at 31/12/	26.4	605.7	632.1
Net carrying amount as at 1/1/	17.9	605.7	623.6

Intangible assets			€m
	Concessions, rights, licences	Goodwill	Total
2010			
Acquisition costs as at 1/1/	71.0	605.7	676.7
Additions	30.1	0.0	30.1
Disposals	-38.4	0.0	-38.4
Acquisition costs as at 31/12/	62.7	605.7	668.4
Accumulated amortisation as at 1/1/	43.4	0.0	43.4
Amortisation	4.3	-	4.3
Impairment losses	0.1	0.0	0.1
Disposals	-3.0	0.0	-3.0
Accumulated amortisation as at 31/12/	44.8	0.0	44.8
Net carrying amount as at 31/12/	17.9	605.7	623.6
Net carrying amount as at 1/1/	27.6	605.7	633.3

Land and buildings, machinery and electrical installations, power lines, office and plant equipment as well as plants under construction and projects are recognised under property, plant and equipment.

(20)
Property, plant and equipment

Property, plant and equipment							€m
	Land and buildings	Machinery	Electrical installations	Power lines	Office and plant equipment	Plants under construction and projects	Total
2011							
Acquisition and production costs as at 1/1/	5,458.5	2,547.7	2,237.1	1,124.2	145.6	1,050.4	12,563.4
Foreign exchange differences	0.0	0.0	0.0	0.0	0.0	-0.1	-0.1
Additions	40.1	26.3	58.2	19.5	8.9	428.4	581.4
Disposals	-10.3	-39.7	-37.5	-12.4	-3.6	-0.8	-104.3
Reclassifications	207.4	111.7	95.6	76.4	0.1	-491.1	0.0
Acquisition and production costs as at 31/12/	5,695.6	2,645.9	2,353.4	1,207.8	151.0	986.7	13,040.4
Accumulated depreciation as at 1/1/	2,738.5	1,577.5	1,666.7	521.3	96.1	4.7	6,604.7
Depreciation	71.5	56.8	73.5	26.0	9.7	0.0	237.5
Impairment losses	0.0	0.0	0.1	0.0	0.0	113.8	114.0
Reversals of impairment losses	-342.0	-48.1	-22.2	0.0	0.0	0.0	-412.3
Disposals	-8.6	-38.8	-28.3	-2.5	-3.3	-0.8	-82.2
Reclassifications	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulated depreciation as at 31/12/	2,459.4	1,547.4	1,689.9	544.8	102.4	117.8	6,461.7
Net carrying amount as at 31/12/	3,236.2	1,098.5	663.5	663.0	48.5	869.0	6,578.7
Net carrying amount as at 1/1/	2,720.1	970.2	570.4	602.9	49.5	1,045.7	5,958.7

Property, plant and equipment							€m
	Land and buildings	Machinery	Electrical installations	Power lines	Office and plant equipment	Plants under construction and projects	Total
2010							
Acquisitions and production costs as at 1/1/	5,408.7	2,501.5	2,167.8	1,097.1	139.8	639.8	11,954.7
Additions	32.0	19.3	41.3	15.8	9.8	517.5	635.7
Disposals	-4.7	-3.9	-12.1	-1.5	-4.7	0.0	-26.8
Reclassifications	22.5	30.8	40.1	12.8	0.6	-106.9	0.0
Acquisitions and production costs as at 31/12/	5,458.5	2,547.7	2,237.1	1,124.2	145.6	1,050.4	12,563.4
Accumulated depreciation as at 1/1/	2,673.5	1,527.3	1,606.4	497.7	90.8	5.2	6,400.9
Depreciation	68.5	54.0	70.0	23.7	9.5	0.0	225.6
Impairment losses	0.0	0.1	0.6	0.0	0.0	0.0	0.7
Disposals	-3.5	-3.9	-10.8	-0.1	-4.2	0.0	-22.4
Reclassifications	0.0	0.0	0.5	0.0	0.0	-0.5	0.0
Accumulated depreciation as at 31/12/	2,738.5	1,577.5	1,666.7	521.3	96.1	4.7	6,604.7
Net carrying amount as at 31/12/	2,720.1	970.2	570.4	602.9	49.5	1,045.7	5,958.7
Net carrying amount as at 1/1/	2,735.2	974.2	561.4	599.4	49.0	634.6	5,553.8

Additions for the reporting period 2011 in detail are as follows:

Additions	€m	
	2011	2010
Combined cycle gas turbine power plant Mellach	120.7	249.0
Wind farms Casimcea (Romanian Black Sea Coast)	86.2	1.0
Reisseck II power plant	82.2	21.0
Kaprun Limberg II power plant	38.9	74.7
380 kV Tauern–Pongau–Salzach–St. Peter line	22.5	52.0
Gössendorf power plant	20.3	20.0
380 kV Southeast Vienna–Southern Burgenland line (3rd subconductor)	15.2	0.0
Bisamberg substation (conversion and extension)	14.9	9.2
Pernegg power plant (revitalisation)	14.8	24.3
Kalsdorf power plant	10.4	6.1
Automation of hydropower plants	7.6	11.4
380 kV Southeast Vienna–Győr line (2nd system)	4.0	10.7
Other additions (< €10.0m)	143.7	156.3
Total additions to property, plant and equipment	581.4	635.7

In the 2002 reporting period, the Triebenbach power plant was taken over on the basis of a financial lease arrangement. As at 31 December 2011 it was recognised under property, plant and equipment with a net carrying amount of €15.0m (previous year: €15.9m). This is allocated to the following asset groups: land and buildings €9.5m (previous year: €9.8m), machinery €3.1m (previous year: €3.4m) and electrical installations €2.4m (previous year: €2.7m).

Reconciliation of lease payments to their present value 2011	€m		
	2012	2013–2016	From 2017
Lease payments	1.6	15.7	–
Effect of discounting	0.1	2.1	–
Present value of the leasing liability as at 31/12/2011	1.5	13.6	–

Reconciliation of lease payments to their present value 2010	€m		
	2011	2012–2015	From 2016
Lease payments	1.7	17.6	–
Effect of discounting	0.1	2.8	–
Present value of the leasing liability as at 31/12/2010	1.6	14.8	–

In the 2011 reporting period, an additional 60% equity interest in French POWEO Production S.A.S. was acquired for €120.0m. The equity interest continued to be accounted for using the equity method despite 100% ownership by VERBUND (see: Financial reporting principles). In order to dispose of POWEO Production S.A.S. including its 100% equity interest in POWEO ENR S.A.S., but excluding its other subsidiaries or second-tier subsidiaries, the 100% equity interests of POWEO Production S.A.S. in

(21)
Interests accounted for using the equity method

POWEO Pont-sur-Sambre Production S.A.S., POWEO Toul Production S.A.S. and POWEO Blaringhem Production S.A.R.L. were distributed to VERBUND. In addition, as part of the sale of POWEO Production S.A.S., POWEO Outre-mer Solaire S.A.S. (Group), a 50.1% second-tier subsidiary of POWEO Production S.A.S. remained with VERBUND. The equity interests in POWEO Blaringhem Production S.A.R.L. or in POWEO Outre-mer Solaire S.A.S. (Group) were no longer accounted for using the equity-method in the consolidated financial statements of VERBUND but were recognised as other equity interests or as non-current assets held for sale.

The equity interest in POWEO Production S.A.S. was sold effective 22 September 2011, whereas the equity interest in POWEO S.A. was sold effective 30 September 2011 (see: Financial reporting principles).

In the 2011 reporting period, capital increases were carried out by Turkish Enerjisa Enerji Üretim A.S. and (in the form of a capital contribution to a third-tier subsidiary) at Enerji Ashta Shpk. VERBUND's 50% share in the capital increases by Enerjisa Enerji Üretim A.S. totalled €131.9m; VERBUND's 50.01% share in the capital increase by Enerji Ashta Shpk amounted to €18.0m.

In addition, shares in the Italian Sorgenia S.p.A. (Group) totalling €6.8m were acquired. The acquisitions of interests resulted from capital increases and the exercise of put options on shares that have been issued within the scope of a share-based remuneration programme for members of the management of Sorgenia S.p.A. (Group). As a result, VERBUND's ownership interest in Sorgenia S.p.A. (Group) increased slightly to 44.9%.

Interests accounted for using the equity method	€m	
	2011	2010
Amortised acquisition costs as at 1/1/	2,368.1	2,224.3
Additions	276.8	95.9
Dividends	-39.4	-26.0
Result from equity accounting	-128.0	78.2
Other comprehensive income from equity accounting	6.0	-27.9
Reclassification adjustments	2.5	0.0
Other comprehensive income from foreign exchange differences	-129.7	24.1
Disposals	-150.8	-0.5
Amortised acquisition costs as at 31/12/	2,205.2	2,368.1
Accumulated value adjustments as at 1/1/	106.2	50.0
Impairment losses	59.1	56.2
Reversals of impairment losses	-10.5	0.0
Disposals	-64.9	0.0
Accumulated value adjustments as at 31/12/	89.9	106.2
Net carrying amount as at 31/12/	2,115.3	2,261.9
Net carrying amount as at 1/1/	2,261.9	2,174.3

The following tables show a summary of aggregated balance sheet data for VERBUND's joint ventures and associates accounted for using the equity method. The reference date for investee balance sheet data is 30 September 2011 (see: Financial reporting principles); data are based on disclosed financial statements and/or on data updated to the best of VERBUND's knowledge.

The difference between the proportionate share in equity and the equity interest recognised is due primarily to fair value adjustments identified upon acquisition of interests that are carried forward, goodwill, accumulated impairment losses on equity interests, adjustments to VERBUND's accounting policies and adjustments resulting from events and transactions between the balance sheet date of the last (consolidated) interim financial statement or annual financial statement of the investee and the balance sheet date of VERBUND.

Joint ventures 2011				€m
	Austria and Germany	Turkey	Other ¹	
Total assets	526.5	3,337.0	191.5	
Total liabilities	311.1	1,990.0	145.4	
Equity – 100%	215.4	1,347.0	46.2	
Equity – VERBUND's share	105.5	673.5	23.1	
Differences due to the application of the equity method of accounting	19.1	69.3	–17.7	
Carrying amount of joint ventures accounted for using the equity method as at 31/12/2011	124.6	742.7	5.4	

¹ This includes the equity interest in the (Austrian) Shkodra Region Beteiligungsholding GmbH, which indirectly holds an equity interest in the Albanian project company Energji Ashta Shpk.

Joint Ventures 2011: Balance sheets – VERBUND's share				€m
	Austria and Germany	Turkey	Other ¹	
Non-current assets	202.5	1,438.6	72.0	
Current assets	56.7	229.9	23.8	
Non-current liabilities	124.9	623.9	26.0	
Current liabilities	28.7	371.1	46.7	
Equity – VERBUND's share	105.5	673.5	23.1	

¹ This includes the equity interest in the (Austrian) Shkodra Region Beteiligungsholding GmbH, which indirectly holds an equity interest in the Albanian project company Energji Ashta Shpk.

Joint ventures 2010				€m
	Austria and Germany	Turkey	Other ¹	
Total assets	538.6	3,122.1	80.5	
Total liabilities	323.7	1,689.0	69.7	
Equity – 100%	214.9	1,433.2	10.7	
Equity – VERBUND's share	105.3	716.6	5.4	
Differences due to the application of the equity method of accounting	20.0	76.5	16.0	
Carrying amount of joint ventures accounted for using the equity method as at 31/12/2010	125.3	793.1	21.4	

¹ This includes the equity interest in the (Austrian) Shkodra Region Beteiligungsholding GmbH, which indirectly holds an equity interest in the Albanian project company Energji Ashta Shpk.

Joint Ventures 2010: Balance sheets – VERBUND's share

€m

	Austria and Germany	Turkey	Other ¹
Non-current assets	213.5	1,279.9	37.4
Current assets	51.7	281.2	2.8
Non-current liabilities	114.6	513.5	0.0
Current liabilities	45.3	330.9	34.9
Equity – VERBUND's share	105.3	716.6	5.4

¹ This includes the interest in (Austrian) Shkodra Region Beteiligungsholding GmbH which indirectly holds the interest in Albanian project company Energji Ashta Shpk.

Associates 2011

€m

	Austria	Italy ¹	France ²
Total assets	2,982.0	3,405.4	568.2
Total liabilities	1,786.0	2,299.9	623.9
Equity – 100%	1,195.9	1,105.5	–55.7
Equity – VERBUND's share	420.6	461.1	–55.7
Differences due to the application of the equity method of accounting	107.5	253.4	55.7
Carrying amount of associates accounted for using the equity method as at 31/12/2011	528.1	714.5	0.0

¹ In the 2011 reporting period, Sorigenia S.p.A. (Group) changed its accounting policy for derivative financial instruments in the energy area. They are now netted in the income statement. At the time the consolidated financial statements of VERBUND were prepared, the retrospectively adjusted amounts for 2010 were not yet available. // ² Profits or losses for the period for the equity interests in POWEO Pont-sur-Sambre Production S.A.S. and POWEO Toul Production S.A.S. could not be completely recognised since the carrying amounts had already been reduced to zero. Off-balance sheet losses for which recognition was discontinued were taken into account in differences due to the application of the equity method of accounting.

Associates 2010

€m

	Austria	Italy ¹	France
Total assets	3,324.5	4,114.6	998.1
Total liabilities	2,204.5	3,019.7	782.0
Equity – 100%	1,120.0	1,094.8	216.1
Equity – VERBUND's share	392.7	451.3	145.7
Differences due to the application of the equity method of accounting	107.3	256.7	–31.6
Carrying amount of associates accounted for using the equity method as at 31/12/2010	500.0	708.0	114.2

¹ In the 2011 reporting period, Sorigenia S.p.A. (Group) changed its accounting policy for derivative financial instruments in the energy area. They are now netted in the income statement. At the time the consolidated financial statements of VERBUND were prepared, the retrospectively adjusted amounts for 2010 were not yet available.

Other equity interests	€m		
	Interests in non-consolidated subsidiaries	Other equity interests	Total
2011			
(Amortised) acquisition costs as at 1/1/	2.7	138.2	140.9
Additions from acquisitions of interests and capital increases	0.3	2.3	2.6
Disposals	-1.6	0.0	-1.6
Reclassifications	0.0	-3.0	-3.0
(Amortised) acquisition costs as at 31/12/	1.4	137.5	138.8
Accumulated value adjustments as at 1/1/	0.0	2.0	2.0
Impairment losses	0.0	2.8	2.8
Fair value measurement in OCI	0.0	4.6	4.6
Disposals	0.0	0.0	0.0
Reclassifications	0.0	-0.5	-0.5
Accumulated value adjustments as at 31/12/	0.0	8.9	8.9
Net carrying amount as at 31/12/	1.4	128.5	129.9
Net carrying amount as at 1/1/	2.7	136.2	138.9
Other equity interests			
	€m		
	Interests in non-consolidated subsidiaries	Other equity interests	Total
2010			
(Amortised) acquisition costs as at 1/1/	2.7	138.4	141.1
Additions from acquisitions of interests and capital increases	0.1	0.3	0.4
Disposals	-0.1	-0.5	-0.6
Reclassifications	0.0	0.0	0.0
(Amortised) acquisition costs as at 31/12/	2.7	138.2	140.9
Accumulated value adjustments as at 1/1/	0.0	2.5	2.5
Impairment losses	0.0	0.0	0.0
Fair value measurement in OCI	0.0	0.0	0.0
Disposals	0.0	-0.5	-0.5
Reclassifications	0.0	0.0	0.0
Accumulated value adjustments as at 31/12/	0.0	2.0	2.0
Net carrying amount as at 31/12/	2.7	136.2	138.9
Net carrying amount as at 1/1/	2.7	135.9	138.6

The additions of other equity interests for the 2011 reporting period in the amount of €2.3m concern an equity interest in POWEO Blaringhem Production S.A.R.L. Impairment losses concern the equity interest in POWEO Blaringhem Production S.A.R.L. in the amount of €2.3m and the equity interest in C.E.M.P. d.o.o. in the amount of €0.5m. Measurement results in the amount of €-4.6m were recognised in other comprehensive income for the equity interest in Energie AG Oberösterreich.

(22)
Other equity interests

Reclassifications of other equity interests in the 2011 reporting period relate to VERBUND's equity interests in CEESEG AG, European Energy Exchange AG (EEX) and EXAA Abwicklungsstelle für Energieprodukte AG; these are now recognised under loan stock rights.

The additions to interests in non-consolidated subsidiaries for the 2011 reporting period mainly concern a capital increase by VERBUND Romania S.R.L.; the disposals concern the sale of the interest in VERBUND-Austrian Power Trading ENERGA Hellas Electricity Supply and Trade S.A., as well as the liquidation of APT Power Trading SL d.o.o.

(23)
Investments and
other non-current
receivables

Investments and other receivables	€m	
	2011	2010
Investments – closed items on the balance sheet	287.4	253.5
Interest rate swaps – closed items on the balance sheet	120.2	79.3
Other investments and other receivables	436.0	406.3
Total	843.6	739.1

Investments – cross-border leasing and closed items on the balance sheet					€m
	Securities (loan stock rights) under cross-border leasing	Securities (loan stock rights) under closed items on the balance sheet	Other loans under cross- border leasing	Other loans under closed items on the balance sheet	Total
2011					
Amortised acquisition costs as at 1/1/	0.0	50.7	0.0	202.8	253.5
Foreign exchange differences	0.0	1.1	0.0	–6.1	–5.0
Additions	0.0	2.3	0.0	35.5	37.8
Capitalised interest	0.0	0.0	0.0	7.8	7.8
Disposals	0.0	–2.2	0.0	–3.6	–5.8
Amortised acquisition costs as at 31/12/	0.0	52.0	0.0	236.4	288.3
Of which non-current assets	0.0	52.0	0.0	235.5	287.4
Of which current assets	0.0	0.0	0.0	0.9	0.9

Investments – cross-border leasing and closed items on the balance sheet					€m
	Securities (loan stock rights) under cross-border leasing	Securities (loan stock rights) under closed items on the balance sheet	Other loans under cross-border leasing	Other loans under closed items on the balance sheet	Total
2010					
Amortised acquisition costs as at 1/1/	42.6	46.3	45.5	190.7	325.1
Foreign exchange differences	0.0	3.3	0.0	15.6	18.9
Additions	0.0	1.1	0.0	0.0	1.1
Capitalised interest	0.4	0.0	1.4	7.0	8.8
Disposals	-43.0	0.0	-46.9	-10.5	-100.4
Amortised acquisition costs as at 31/12/	0.0	50.7	0.0	202.8	253.5
Of which non-current assets	0.0	50.7	0.0	202.8	253.5
Of which current assets	0.0	0.0	0.0	0.0	0.0

As at 31 December 2011, the securities consisted of medium-term notes with a nominal value of \$64.8m (previous year: \$65.4m) or €51.9m (previous year: €50.7m).

The amount of €51.9m (previous year: €50.7m) of the securities and €236.4m (previous year: €202.8m) of the loans has been pledged. Securities and loans all serve banks as collateral for credits.

Other non-current investments and other non-current receivables				€m
	Loans to investees	Securities (loan stock rights)	Other loans	Total
2011				
Acquisition costs as at 1/1/	30.0	155.5	214.3	399.8
Additions	27.9	1.1	377.5	406.5
Disposals	-0.8	-2.8	0.0	-3.6
Reclassifications	185.7	3.0	-573.9	-385.2
Acquisition costs as at 31/12/	242.7	156.9	17.9	417.6
Accumulated value adjustments as at 1/1/	0.0	26.6	0.0	26.6
Impairment losses	0.0	0.0	0.0	0.0
Reversals of impairment losses	0.0	0.0	0.0	0.0
Fair value measurement in OCI	0.0	2.0	0.0	2.0
Reclassification adjustments	0.0	0.4	0.0	0.4
Disposals	0.0	-0.3	0.0	-0.3
Reclassifications	0.0	0.5	0.0	0.5
Accumulated value adjustments as at 31/12/	0.0	29.3	0.0	29.3
Net carrying amount as at 31/12/	242.7	127.6	17.9	388.3
Net carrying amount as at 1/1/	30.0	128.9	214.3	373.2
Net carrying amount of other non-current receivables as at 31/12/				168.0
Net carrying amount of other non-current receivables as at 1/1/				112.4
Net carrying amount total as at 31/12/				556.2
Net carrying amount total as at 1/1/				485.6

Other non-current investments and other non-current receivables				€m
	Loans to investees	Securities (loan stock rights)	Other loans	Total
2010				
Acquisition costs as at 1/1/	39.9	267.0	183.2	490.1
Additions	25.6	2.3	50.2	78.1
Disposals	0.0	- 113.8	0.0	- 113.8
Reclassifications	- 35.5	0.0	- 19.1	- 54.6
Acquisition costs as at 31/12/	30.0	155.5	214.3	399.8
Accumulated value adjustments as at 1/1/	0.0	55.0	0.0	55.0
Impairment losses	0.0	0.0	0.0	0.0
Reversals of impairment losses	0.0	- 3.1	0.0	- 3.1
Fair value measurement in OCI	0.0	0.0	0.0	0.0
Reclassification adjustments	0.0	4.2	0.0	4.2
Disposals	0.0	- 29.5	0.0	- 29.5
Reclassifications	0.0	0.0	0.0	0.0
Accumulated value adjustments as at 31/12/	0.0	26.6	0.0	26.6
Net carrying amount as at 31/12/	30.0	128.9	214.3	373.2
Net carrying amount as at 1/1/	39.9	212.0	183.2	435.1
Net carrying amount of other non-current receivables as at 31/12/				112.4
Net carrying amount of other non-current receivables as at 1/1/				106.8
Net carrying amount total as at 31/12/				485.6
Net carrying amount total as at 1/1/				542.0

Securities in the amount of €124.6m (previous year: €128.9m) include primarily shares in investment funds and government bonds (Austria and France) and were classified as available for sale. Of the securities, €56.2m (previous year: €59.2m) were pledged as collateral primarily in connection with trading on the power exchanges and balance energy management.

The additions to other loans in the 2011 reporting period mainly concerned temporary investments in the form of money market transactions. Reclassifications concerned temporary investments in the form of money market transactions in the amount of €410.0m which were to be reclassified as other current receivables due to progressing maturity. In addition, a (other) loan to POWEO Pont-sur-Sambre Production S.A.S. in the amount of €163.9m was reclassified to loans to investees.

Other non-current receivables contain derivative financial instruments measured at fair value in the amount of €120.2m (previous year: €79.3m), which relate to financial liabilities under closed items on the balance sheet.

(24)
Inventories

Inventories	€m	
	2011	2010
Heating oil	7.8	14.9
Coal	66.4	74.4
Natural gas	23.6	0.0
Net of write downs	-5.9	-0.1
Inventories of primary energy sources held for generation	91.9	89.2
Natural gas held for trading	7.4	0.0
Emission rights held for trading	7.3	0.0
Net of write downs	-2.8	0.0
Inventories held for trading	11.8	0.0
Additives and consumables	3.5	3.1
Inventories	107.1	92.3

(25)
Trade receivables and
other receivables

Trade receivables and other receivables	€m			
	2011	2010	2011	2010
	Non-current	Non-current	Current	Current
Trade receivables	0.0	0.0	278.7	251.4
Receivables from investees	0.0	9.0	140.8	103.0
Other loans	-	-	411.8	10.4
Loans to investees	-	-	13.2	42.1
Receivables from non-consolidated subsidiaries	0.0	0.0	7.4	4.9
Other receivables and assets	168.0	103.4	266.3	575.7
Trade receivables and other receivables	168.0	112.4	1,118.1	987.5

As at 31 December 2011, other loans included a total of €0.9m (previous year: €0.0m) from other loans under closed items on the balance sheet.

Other receivables with a maturity of more than one year were recognised under investments and other non-current receivables.

Other receivables and assets				
	€m			
	2011 Non-current	2010 Non-current	2011 Current	2010 Current
Money market transactions	0.0	0.0	0.0	400.5
Derivatives in the energy area	0.0	0.0	173.5	98.8
Derivatives in the finance area	120.2	79.3	0.0	0.1
Emission rights	–	–	17.0	36.4
Electricity costs prepayment Österreichisch-Bayrische Kraftwerke AG	22.5	24.1	1.6	1.8
Receivables from tax clearing	0.0	0.0	23.0	1.9
Receivables from accrued interest	0.0	0.0	9.1	2.8
Guarantees in electricity trading	0.0	0.0	7.8	3.5
Other receivables from payroll	0.0	0.0	0.4	0.4
Receivables from lock operations and maintenance	0.0	0.0	2.3	3.7
Receivables from disposals of assets	0.0	0.0	17.1	0.0
Receivables from EU grants	0.0	0.0	3.7	0.0
Receivables from guarantee payments	23.0	0.0	0.0	0.0
Other	2.1	0.0	10.8	25.8
Other receivables and assets	168.0	103.4	266.3	575.7

The most significant allowances and/or payment defaults (overdue payments) were as follows:

Allowances				
	€m			
	Receivables net (carrying amount)	Of which: impaired as at balance sheet date	Allowances	Receivables gross
2011				
Trade receivables	278.7	2.0	7.6	286.3
Receivables from investees	140.8	0.0	0.0	140.8
Receivables from non-consolidated subsidiaries	7.4	0.0	0.0	7.4
Loans	424.9	0.0	0.0	424.9
Other receivables and assets	266.3	1.8	0.4	266.7
Total	1,118.1	3.8	8.0	1,126.1

Allowances

€m

	Receivables net (carrying amount)	Of which: impaired as at balance sheet date	Allowances	Receivables gross
2010				
Trade receivables	251.4	7.6	5.9	257.3
Receivables from investees	103.0	0.0	0.0	103.0
Receivables from non-consolidated subsidiaries	4.9	0.0	0.0	4.9
Loans	52.5	0.0	0.0	52.5
Other receivables and assets	575.7	0.0	0.0	575.7
Total	987.5	7.6	5.9	993.4

Overdue amounts 2011

€m

	Carrying amount	Of which not impaired or overdue as at balance sheet date	Of which not impaired but overdue in the indicated periods			
			up to 30 days	31 to 120 days	121 to 360 days	> 360 days
Trade receivables	278.7	272.6	3.6	0.3	0.2	0.0
Receivables from investees	140.8	139.9	0.9	0.0	0.0	0.0
Receivables from non-consolidated subsidiaries	7.4	7.4	0.0	0.0	0.0	0.0
Loans	424.9	424.9	0.0	0.0	0.0	0.0
Other receivables and assets	266.3	264.5	0.0	0.0	0.0	0.0
Total	1,118.1	1,109.3	4.5	0.3	0.2	0.0

Overdue amounts 2010

	Carrying amount	Of which not impaired or overdue as at balance sheet date	Of which not impaired but overdue in the indicated periods			
			up to 30 days	31 to 120 days	121 to 360 days	> 360 days
Trade receivables	251.4	237.6	3.9	1.3	1.0	0.0
Receivables from investees	103.0	101.9	0.7	0.1	0.3	0.0
Receivables from non-consolidated subsidiaries	4.9	4.9	0.0	0.0	0.0	0.0
Loans	52.5	52.5	0.0	0.0	0.0	0.0
Other receivables and assets	575.7	570.4	0.8	0.3	0.2	4.0
Total	987.5	967.3	5.4	1.7	1.5	4.0

In the 2011 and 2010 reporting periods, none of the allowances for receivables from investees apply to interests accounted for using the equity method (see: Transactions with related parties).

Cash and cash equivalents

	€m	
	2011	2010
Cash at banks	333.2	488.9
Cash in hand	0.1	0.1
Cash and cash equivalents	333.2	489.0

(26)
Cash and cash equivalents

The lock-in period for all current financial investments 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 in accordance with IAS 7.

(27) Non-current assets held for sale	<p>As part of the sale of POWEO Production S.A.S., POWEO Outre-mer Solaire S.A.S. (Group), a 50.1% second-tier subsidiary of POWEO Production S.A.S., remained with VERBUND. The equity interest was classified as held for sale and measured as at 31 December 2011 at the lower of its carrying amount and fair value less costs to sell. A resulting impairment loss was recognised in the other result from equity interests. No other comprehensive income related to the equity interest POWEO Outre-mer Solaire S.A.S. (Group) was recognised in the consolidated financial statements of VERBUND.</p> <p>The disposal of the 50.1% equity interest in POWEO Outre-mer Solaire S.A.S. (Group) is to be carried out as promptly as possible in the form of a share deal. The company is active in the area of project development and in the operation of solar parks and rooftop photovoltaic systems in French overseas territories. This equity interest will temporarily remain with VERBUND merely as an interim step towards achieving the best possible disposal of the renewable energies projects of POWEO Production S.A.S. The decision to sell the equity interest in POWEO Outre-mer Solaire S.A.S. (Group) was made in particular based on VERBUND's strategic focus.</p>
(28) Share capital	<p>Effective 26 November 2010 – this was the first trading day of the new shares – VERBUND AG carried out a capital increase. A total of 39,215,686 new shares were issued in the 2010 reporting period. Since then, the share capital comprises: 170,233,686 (before capital increase: 151,018,000) no-par shares (bearer shares category A) and 177,182,000 (before capital increase: 157,182,000) no-par shares (registered shares category B). The registered shares category B represent 51.0% 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.</p>
(29) Capital reserves	<p>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.</p>
(30) Retained earnings	<p>The 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 2011 that are prepared in accordance with the Austrian Commercial Code (Unternehmensgesetzbuch, UGB). For the 2011 financial year, this not yet approved profit for the reporting period amounts to €191.1m (previous year: €191.1m). A dividend of €0.55 per share (previous year: €0.55) will be proposed at the Annual General Meeting.</p>
(31) Reserve for foreign exchange differences	<p>The reserve for foreign exchange differences primarily contains the currency translation of the equity-accounted joint venture held with the Turkish company Sabanci Holding A.S.</p>

Non-controlling interests	%	
	2011	2010
VERBUND Hydro Power AG	19.67	19.67
VERBUND Thermal Power GmbH	40.51	40.51
VERBUND Tourismus GmbH	0.00	16.10
Alpha Wind S.R.L.	10.00	49.93
VERBUND-Innkraftwerke GmbH	29.73	3.54

(32)
Non-controlling
interests

The shifts between the shareholder groups in the 2011 reporting period are mainly related to the sale of 26.2% of the interest in VERBUND-Innkraftwerke GmbH. Following a non-proportional capital increase by Alpha Wind S.R.L., in which Ima Partners S.R.L. participated as a new partner, an additional 39.93% interest in Alpha Wind S.R.L. was also acquired.

Capital shares in VERBUND Thermal Power GmbH & Co KG attributable to limited partners of 44.35% (previous year: 44.35%) were presented under non-current financial liabilities in accordance with IAS 32. The same applied for the 5.1% limited partnership interest in VERBUND Kraftwerke Beteiligungsholding GmbH & Co KG in the 2010 reporting period.

Non-current and current financial liabilities	€m			
	2011	2010	2011	2010
	Non-current	Non-current	Current	Current
Bonds	2,227.0	2,214.6	56.9	56.8
Financial liabilities to banks	1,042.2	1,475.6	220.8	128.5
Financial liabilities to others	83.0	84.1	44.3	42.3
Guarantee liabilities	41.1	9.0	1.8	0.7
Capital shares attributable to limited partners	108.0	129.8	0.0	0.0
Subtotal	3,501.3	3,913.1	323.8	228.4
Financial liabilities to banks – closed items on the balance sheet	407.6	332.5	0.9	0.3
Financial liabilities to banks – early terminated cross-border leasing transactions ¹	0.0	21.9	0.0	0.1
Financial liabilities to others – cross-border leasing	0.0	0.0	0.0	0.0
Non-current and current financial liabilities	3,908.9	4,267.4	324.7	228.8

(33)
Non-current and
current financial
liabilities

¹ In the 2010 reporting period, financial liabilities to banks resulting from early terminated cross-border leasing transactions, but for which there was no cover on the balance sheet, were recognised under financial liabilities to banks. In the 2011 reporting period, cover was also established on the balance sheet for the last transaction through a loan to a financial institution. In the reconciliation of financial liabilities under closed items on the balance sheet from 1 January to 31 December, this addition is presented as a reclassification.

Non-current and current financial liabilities¹	€m	
	2011	2010
Carrying amount as at 1/1/	4,141.5	3,914.6
Net change in money market transactions	-46.4	46.3
Changes in interest accruals	3.6	7.1
Scheduled repayments	-67.1	-62.0
Unscheduled repayments	-355.0	0.0
Borrowings	127.0	200.0
Changes in guarantee liabilities	33.3	9.7
Changes in capital shares attributable to limited partners	-21.8	3.9
Foreign exchange gains or losses	10.0	21.9
Carrying amount as at 31/12/	3,825.1	4,141.5
Of which non-current liabilities	3,501.3	3,913.1
Of which current liabilities	323.8	228.4

¹ excluding financial liabilities under closed items on the balance sheet or (in the 2010 reporting period) from early terminated cross-border leasing transactions

Financial liabilities – closed items on the balance sheet	€m	
	2011	2010
Carrying amount as at 1/1/	332.8	301.6
Additions	0.0	0.0
Foreign exchange gains or losses	-8.3	14.8
Capitalisation	27.4	24.8
Repayments and/or disposals	-16.5	-23.1
Reclassifications	21.9	0.0
Market value changes	51.2	14.7
Carrying amount as at 31/12/	408.5	332.8
Of which non-current liabilities	407.6	332.5
Of which current liabilities	0.9	0.3

Financial liabilities – cross-border leasing	€m	
	2011	2010
Carrying amount as at 1/1/	0.0	94.1
Foreign exchange gains or losses	0.0	0.0
Capitalisation	0.0	4.5
Repayments and/or disposals	0.0	-78.0
Reclassification to financial liabilities under closed items on the balance sheet	0.0	0.0
Reclassification to financial liabilities from early terminated cross-border leasing transactions	0.0	-21.9
Market value changes	0.0	1.3
Carrying amount as at 31/12/	0.0	0.0
Of which non-current liabilities	0.0	0.0
Of which current liabilities	0.0	0.0

Capital shares attributable to limited partners	€m	
	2011	2010
Carrying amount as at 1/1/	129.8	125.9
Profit or loss attributable to limited partners	-21.5	7.6
Distributions	0.0	-3.9
Disposals	-0.2	0.0
Other changes	0.0	0.3
Carrying amount as at 31/12/	108.0	129.8

As at 31 December 2011, the shares attributable to limited partners relate only to the capital shares of VERBUND Thermal Power GmbH & Co KG; the capital share of VERBUND Kraftwerke Beteiligungsholding GmbH & Co KG was disposed of in the 2011 reporting period as a consequence of an intragroup mergers (see: Financial reporting principles). In the 2011 reporting period, however, the shares attributable to the limited partners include profit or loss attributable to both limited partners.

In the 2011 reporting period, new non-current financial liabilities in the total amount of €127.0m (previous year: €200.0m) were incurred. These borrowings were in the amount of €125.0m from the European Investment Bank and have a variable interest rate; an existing financial liability bearing fixed interest was increased by €2.0m.

Scheduled repayments of financial liabilities (excluding financial liabilities as part of the early terminated cross-border leasing transactions) were made in the amount of €67.1m (previous year: €62.0m); unscheduled early repayments were made in the amount of €355.0m (previous year: €0.0m). Current financial liabilities (cash advances) were repaid in the amount of €46.4m (previous year: €0.1m) and €0.1m (previous year: €46.4m) were obtained on the money market.

There were no changes in the underlying terms of the existing financial liabilities with regard to interest rates or maturities.

With regard to financial liabilities from early terminated cross-border leasing transactions, capitalisations in the amount of €27.4m (previous year: €29.3m) were recognised. Repayments and disposals came to €16.5m (previous year: €101.1m).

Within one year, payments of €1.1m (previous year: €1.0m) will be paid toward the liability from the finance lease agreement for the Triebenbach power plant, with repayment of €14.7m in the subsequent three years. The total of non-discounted lease payments (including payment of the residual value) is €17.3m (previous year: €19.3m). The lease agreement will expire on 30 April 2015 (see: Property, plant and equipment).

As at 31 December 2011, VERBUND had no mortgage-backed liabilities.

Non-current and current financial liabilities 2011

	Longest Maturity	Issue volume	Open balance as at 31/12/	1 year or less
Bonds				
Euro currency	2020	2,112.7	2,152.1	53.8
Foreign currencies (¥)	2015	126.1	131.8	3.1
Total bonds		2,238.8	2,283.9	56.9
Of which at a fixed interest rate	2020	2,238.8	2,283.9	56.9
Of which at a variable interest rate	-	-	-	-
Financial liabilities to banks				
Euro currency	2030	1,161.2	1,263.0	220.8
Foreign currencies	-	-	-	-
Total financial liabilities to banks		1,161.2	1,263.0	220.8
Of which at a fixed interest rate	2026	867.7	873.3	187.6
Of which at a variable interest rate	2030	293.5	389.7	33.2
Financial liabilities to others				
Euro currency	2021	133.3	127.3	44.3
Foreign currencies	-	-	-	-
Total financial liabilities to others		133.3	127.3	44.3
Of which at a fixed interest rate	2021	109.4	111.4	43.1
Of which at a variable interest rate	2015	23.9	15.9	1.2
Financial liabilities to banks – closed items on the balance sheet¹				
Euro currency	-	-	-	-
Foreign currencies (\$)	2030	-	408.5	0.9
Total financial liabilities to banks – closed items on the balance sheet			408.5	0.9
Of which at a fixed interest rate	2030	-	408.5	0.9
Of which at a variable interest rate	-	-	-	-
Guarantee liabilities	2031	350.0	42.9	1.8
Capital shares attributable to limited partners	-	-	108.0	0.0
Total financial liabilities			4,233.6	324.7

¹ For these financial liabilities there is balance sheet cover on the assets side. Therefore, certain information is of limited informative value.

	€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	497.9	498.0	0.0	1,102.4	4.88%	4.97%	2,343.1
	0.0	0.0	128.7	0.0	0.0	4.10%	4.51%	142.8
	0.0	497.9	626.7	0.0	1,102.4	4.83%	4.89%	2,485.9
	0.0	497.9	626.7	0.0	1,102.4	4.83%	4.89%	2,485.9
	-	-	-	-	-	-	-	-
	153.7	53.7	195.7	53.7	585.4	3.18%	3.55%	1,273.3
	-	-	-	-	-	-	-	-
	153.7	53.7	195.7	53.7	585.4	3.18%	3.55%	1,273.3
	122.7	22.7	164.7	22.7	352.9	3.69%	4.00%	905.6
	31.0	31.0	31.0	31.0	232.5	2.05%	2.24%	367.7
	1.5	68.7	12.4	0.4	0.0	2.94%	3.33%	129.4
	-	-	-	-	-	-	-	-
	1.5	68.7	12.4	0.4	0.0	2.94%	3.67%	129.4
	0.4	67.1	0.4	0.4		2.90%	3.33%	113.5
	1.2	1.5	12.0	0.0	0.0	2.19%	4.60%	15.9
	-	-	-	-	-	-	-	-
	0.0	0.0	0.0	0.0	407.6			442.1
	0.0	0.0	0.0	0.0	407.6			442.1
	0.0	0.0	0.0	0.0	407.6			442.1
	-	-	-	-	-	-	-	-
	1.7	1.8	1.8	1.8	34.1	-	-	-
	108.0	0.0	0.0	0.0	0.0	-	-	-
	264.9	622.1	836.6	55.9	2,129.5			

Non-current and current financial liabilities 2010

	Longest Maturity	Issue volume	Open balance as at 31/12	1 year or less
Bonds				
Euro currency	2020	2,112.7	2,149.9	53.9
Foreign currencies (¥)	2015	126.1	121.5	2.9
Total bonds		2,238.8	2,271.4	56.8
Of which at a fixed interest rate	2020	2,238.8	2,271.4	56.8
Of which at a variable interest rate	-	-	-	-
Financial liabilities to banks				
Euro currency	2030	1,667.4	1,604.1	128.6
Foreign currencies	-	-	-	-
Total financial liabilities to banks		1,667.4	1,604.1	128.6
Of which at a fixed interest rate	2026	867.7	888.0	18.0
Of which at a variable interest rate	2030	799.7	716.1	110.3
Financial liabilities to banks – early terminated cross-border leasing transactions¹				
Euro currency	-	-	-	-
Foreign currencies (\$)	2027	-	21.9	0.0
Total financial liabilities to banks – early terminated cross-border leasing transactions			21.9	0.0
Of which at a fixed interest rate	2027	-	21.9	0.4
Of which at a variable interest rate	-	-	-	-
Financial liabilities to others				
Euro currency	2021	133.0	126.5	43.0
Foreign currencies	-	-	-	-
Total financial liabilities to others		133.0	126.5	43.0
Of which at a fixed interest rate	2021	109.1	109.6	41.9
Of which at a variable interest rate	2015	23.9	16.8	1.1
Financial liabilities to banks – closed items on the balance sheet¹				
Euro currency	-	-	-	-
Foreign currencies (\$)	2030	-	332.8	0.4
Total financial liabilities to banks – closed items on the balance sheet			332.8	0.4
Of which at a fixed interest rate	2030	-	332.8	0.4
Of which at a variable interest rate	-	-	-	-
Guarantee liabilities	2026	185.0	9.7	0.7
Capital shares attributable to limited partners	-	-	129.8	0.0
Total financial liabilities			4,496.2	228.8

¹ For these financial liabilities there is balance sheet cover on the assets side. Therefore, certain information is of limited informative value.

								€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	0.0	497.2	497.6	1,101.2	4.61%	4.97%	2,303.5
	0.0	0.0	0.0	118.6	0.0	4.10%	4.22%	136.6
	0.0	0.0	497.2	616.2	1,101.2	4.58%	4.84%	2,440.1
	0.0	0.0	497.2	616.2	1,101.2	4.58%	4.84%	2,440.1
	-	-	-	-	-	-	-	-
	239.8	177.7	77.8	219.9	760.3	2.86%	3.68%	1,648.0
	-	-	-	-	-	-	-	-
	239.8	177.7	77.8	219.9	760.3	2.86%	3.68%	1,648.0
	184.4	122.7	22.7	164.7	375.5	3.67%	4.23%	916.2
	55.4	55.2	55.2	55.2	384.8	1.86%	2.92%	731.9
	-	-	-	-	-	-	-	-
	1.3	0.0	0.0	0.0	20.6	7.36%	7.17%	26.9
	1.3	0.0	0.0	0.0	20.6	7.36%	7.17%	26.9
	1.3	0.0	0.0	0.0	20.6	7.36%	7.17%	26.9
	-	-	-	-	-	-	-	-
	1.1	1.3	68.7	12.4	0.0	3.15%	3.81%	127.2
	-	-	-	-	-	-	-	-
	1.1	1.3	68.7	12.4	0.0	3.15%	3.81%	127.2
	0.0	0.2	67.1	0.4	0.0	2.93%	3.47%	110.4
	1.1	1.1	1.5	12.0	0.0	4.77%	4.60%	16.8
	-	-	-	-	-	-	-	-
	0.0	0.0	0.0	0.0	332.4	-	-	407.8
	0.0	0.0	0.0	0.0	332.4	-	-	407.8
	0.0	0.0	0.0	0.0	332.4	-	-	407.8
	-	-	-	-	-	-	-	-
	0.6	0.6	1.2	1.0	5.5	-	-	-
	129.8	0.0	0.0	0.0	0.0	-	-	-
	372.0	179.0	643.7	848.5	2,214.5	-	-	-

(34)
Additional
disclosures regarding
financial instruments
in accordance with
IFRS 7

Carrying amounts and fair values by measurement categories 2011

€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 non-consolidated subsidiaries	FAAC		1.4	–
Other equity interests	FAAC		128.5	–
Other equity interests			129.9	
Securities	FAAFS	1, 2	127.6	127.6
Securities – closed items on the balance sheet	LAR		52.0	37.9
Other loans – closed items on the balance sheet	LAR		235.5	211.3
Derivatives in the finance area – closed items on the balance sheet	FAHFT	2	120.2	120.2
Loans to investees	LAR		242.7	210.9
Other loans	LAR		17.9	17.9
Receivables from financial guarantees	LAR		23.0	20.6
Other	–		24.7	–
Other non-current investments and other non-current receivables			843.6	
Trade receivables	LAR		278.7	278.7
Receivables from investees	LAR		140.8	140.8
Receivables from non-consolidated subsidiaries	LAR		7.4	7.4
Loans to investees	LAR		13.2	12.4
Other loans – closed items on the balance sheet	LAR		0.9	0.8
Other loans	LAR		0.1	0.1
Derivatives in the energy area	FAHFT	1, 2	173.5	173.5
Guarantees in electricity trading	LAR		7.8	7.8
Money market transactions	LAR		410.7	406.7
Receivables from financial guarantees	LAR		1.8	1.6
Emission rights	IAS 38 / IAS 2		17.0	–
Other	–		66.2	–
Trade receivables and other current receivables			1,118.1	
Cash and cash equivalents	LAR		333.2	333.2
Aggregated by measurement categories				
Financial assets at cost	FAAC		129.9	
Loans and receivables	LAR		1,765.7	
Available-for-sale financial assets	FAAFS		127.6	
Financial assets held for trading	FAHFT		293.7	

Carrying amounts and fair values by measurement categories 2011

€m

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		2,283.9	2,485.9
Financial liabilities to banks and to others	FLAAC		1,390.3	1,402.7
Financial liabilities to banks – closed items on the balance sheet	FLAAC		90.0	123.6
Financial liabilities to banks – closed items on the balance sheet	FLAFVPL		318.5	318.5
Guarantee liabilities	IAS 39 / IAS 37		42.9	–
Capital shares attributable to limited partners	IAS 32		108.0	–
Non-current and current financial liabilities			4,233.7	
Electricity supply commitment	–		473.6	–
Derivatives in the finance area	FLHFT	2	0.3	0.3
Trade payables	FLAAC		2.9	2.9
Other	FLAAC		5.0	5.0
Other non-current liabilities			481.8	
Trade payables	FLAAC		172.6	172.6
Liabilities to investees	FLAAC		57.6	57.6
Liabilities to non-consolidated subsidiaries	FLAAC		1.5	1.5
Derivatives in the energy area	FLHFT	1, 2	111.8	111.8
Derivatives in the finance area	FLHFT	2	28.6	28.6
Overall short position vis-à-vis POWEO S.A. and Direct Energie S.A.	FLHFT	3	13.4	13.4
Other	FLAAC		1.2	1.2
Other	–		94.2	–
Trade payables and other current liabilities			480.9	
Aggregated by measurement categories				
Financial liabilities at amortised cost	FLAAC		4,004.9	
Financial liabilities at fair value through profit or loss	FLAFVPL		318.5	
Financial liabilities held for trading	FLHFT		154.2	

Carrying amounts and fair values by measurement categories 2010

€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 non-consolidated subsidiaries	FAAC		2.7	–
Other equity interests	FAAC		136.2	–
Other equity interests			138.9	
Securities	FAAFS	1, 2	128.9	128.9
Securities – closed items on the balance sheet	LAR		50.7	43.9
Other loans – closed items on the balance sheet	LAR		202.8	189.3
Derivatives in the finance area – closed items on the balance sheet	FAHFT	2	79.3	79.3
Loans to investees	LAR		30.0	27.8
Other loans	LAR		214.3	220.8
Receivables from financial guarantees	LAR		9.0	9.0
Other	–		24.1	–
Other non-current investments and other non-current receivables			610.2	
Trade receivables	LAR		251.4	251.4
Receivables from investees	LAR		103.0	103.0
Receivables from non-consolidated subsidiaries	LAR		4.9	4.9
Loans to investees	LAR		42.1	43.7
Other loans	LAR		10.4	10.6
Derivatives in the energy area	FAHFT	1, 2	98.7	98.7
Derivatives in the finance area	FAHFT	2	0.1	0.1
Guarantees in electricity trading	LAR		3.5	3.5
Money market transactions	LAR		400.5	400.5
Receivables from financial guarantees	LAR		0.7	0.7
Emission rights	IAS 38 / IAS 2		36.4	–
Other	–		35.8	–
Trade receivables and other current receivables			987.5	
Cash and cash equivalents	LAR		489.0	489.0
Aggregated by measurement categories				
Financial assets at cost	FAAC		138.9	
Loans and receivables	LAR		1,812.3	
Available-for-sale financial assets	FAAFS		128.9	
Financial assets held for trading	FAHFT		178.1	

Carrying amounts and fair values by measurement categories 2010

€m

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		2,271.4	2,440.1
Financial liabilities to banks and to others	FLAAC		1,752.5	1,801.9
Financial liabilities to banks – closed items on the balance sheet	FLAAC		63.6	85.2
Financial liabilities to banks – closed items on the balance sheet	FLAFVPL	2	269.2	269.2
Guarantee liabilities	IAS 39 / IAS 37		9.7	–
Capital shares attributable to limited partners	IAS 32		129.8	–
Non-current and current financial liabilities			4,496.2	
Derivatives in the finance area	FLHFT	2	10.2	10.2
Electricity supply commitment	–		472.3	–
Trade payables	FLAAC		0.8	0.8
Other	FLAAC		4.4	4.4
Other non-current liabilities			487.7	
Trade payables	FLAAC		114.9	114.9
Liabilities to investees	FLAAC		16.7	16.7
Liabilities to non-consolidated subsidiaries	FLAAC		1.5	1.5
Derivatives in the energy area	FLHFT	1, 2	91.1	91.1
Derivatives in the finance area	FLHFT	2	12.2	12.2
Other	FLAAC		6.2	6.2
Other	–		81.5	–
Trade payables and other current liabilities			324.1	
Aggregated by measurement categories				
Financial liabilities at amortised cost	FLAAC		4,232.0	
Financial liabilities at fair value through profit or loss	FLAFVPL		269.2	
Financial liabilities held for trading	FLHFT		113.5	

The fair values of financial assets and liabilities correspond, in principle, to the market prices for similar assets and liabilities (Level 1 measurement). If the financial instruments are quoted on an active market, the respective price quotation on that market represents the fair value for VERBUND.

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 measurement).

If fair value measurement of assets is performed using input parameters that cannot be observed on the market, this is consistent with a Level 3 measurement.

The fair values of quoted securities correspond to the nominal values multiplied by the price quotations at the balance sheet date. These fair values are based on Level 1 measurements.

Level 2 measurements are performed for all other assets and liabilities in the finance area that are systematically measured at fair value. Fixed cash flows or cash flows determined on the basis of forward rates and the current yield curve are discounted at the measurement date using the discount factors determined from the yield curve applicable at the balance sheet date. Thus the fair value of interest rate swaps is equivalent to the amount that VERBUND would receive or have to pay upon termination of the transaction on the balance sheet date, taking current market conditions, especially current interest rate levels and yield curves, into consideration.

The fair values of securities or other loans under closed items on the balance sheet, non-current loans and receivables from financial guarantees presented in the table above correspond to the present values of the cashflows related to the assets, taking into consideration the current interest rate parameters, which reflect market-related and counterparty-related changes (credit default swaps) in terms and expectations.

The fair values of interests in non-consolidated subsidiaries and other equity interests were not disclosed, as it was largely not possible to provide a reliable estimate of future cash flows; due to a lack of comparable transactions, it was also not possible to determine fair values using analogy methods.

In the case of cash and cash equivalents, trade accounts receivable and other current receivables, the carrying amounts provide a realistic estimate of their fair values due to the short residual time to maturity.

The fair values of liabilities to banks, bonds and other financial liabilities are determined as present values of the debt-related cashflows employing the applicable yield curve and the credit spread curve. For the 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 2011 and the amount which VERBUND would have to pay upon maturity is €89.0m (previous year: €142.0m). The amount due upon maturity was translated at the rate (€1=\$) on the balance sheet date of 1.2939 (previous year: 1.3362).

The fair values of borrowings within current credit lines as well as other current liabilities are determined based on their carrying amounts due to the short time to maturity.

The fair values of quoted energy forwards correspond to the daily settlement prices published by the individual stock exchanges at the balance sheet date. The fair values of electricity, gas and CO₂ futures contracts are therefore based on Level 1 measurements. The fair values of non-quoted energy forwards are measured with a forward price curve that is derived from the quoted prices using an EURIBOR-based discounting method. The fair values of electricity, gas and CO₂ forward contracts and the gas swaps are therefore based on Level 2 measurements in accordance with IFRS 7.

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 €89.2m (previous year: €15.3m) and negative fair values in the amount of €46.4m (previous year: €89.7m) relate to hedging relationships designated as cash flow hedges. These fair values are not netted values; following the inter-portfolio netting performed in accordance with VERBUND's accounting policies (see: Financial instruments and risk management), cash flow hedges can no longer be isolated.

The fair value of the overall short position with respect to the former subsidiaries and second-tier subsidiaries of POWEO Production S.A.S. (including financing and guarantees currently provided by

VERBUND) vis-à-vis POWEO S.A. and Direct Energie S.A. (see: Financial reporting principles; Discretionary judgements and key assumptions concerning the future) was determined using a sequential valuation model based on a binomial tree approach for American options. The key valuation assumptions for this were the terms of the option agreements, the development of exercise price derived from the option agreements, the (sum of) fair values of the equity interests comprising the underlying and a volatility parameter derived from historical time series of price trends for electricity, gas and CO₂ (clean spark spreads). The determination of the fair value of this short position in the equity interest area is therefore consistent with a Level 3 measurement in accordance with IFRS 7.

Level 3 measurement of financial instruments	€m	
	2011	2010
Carrying amount as at 1/1/	-	-
Additions	14.9	-
Measurement gains or losses (recognised in other financial result)	-1.5	-
Carrying amount as at 31/12/	13.4	-

The effects of potential fluctuations of the valuation assumptions on the fair value of the freestanding derivative from the overall short position vis-à-vis POWEO S.A. and Direct Energie S.A. were determined by means of a sensitivity analysis. A 25% increase in fair value of the underlying would currently cause the fair value of the freestanding derivative to increase by €11.6m; a 25% reduction of the fair value of the underlying would currently cause the fair value of the freestanding derivative to decline by €8.0m. An increase of the volatility parameter by 25 percentage points would currently cause the fair value of the freestanding derivative to increase by €14.6m; a reduction of the volatility parameter by 25 percentage points would currently cause the fair value of the freestanding derivative to decline by €11.2m.

Analysis of contractual cash outflows

The contractual (non-discounted) cash outflows on VERBUND's financial liabilities in accordance with IFRS 7 are as follows:

Cash outflows as at 31/12/2011				€m
Maturity	2012	2013	2014–2016	from 2017
Bonds	107.3	107.3	869.6	1,264.7
Financial liabilities to banks	258.0	187.3	378.2	630.0
Financial liabilities to others	45.0	2.7	84.5	0.0
Capital shares attributable to limited partners	0.0	108.0	0.0	0.0
Guarantee liabilities ¹	0.0	0.0	350.0	0.0
Financial liabilities – closed items on the balance sheet	0.9	0.0	0.0	407.6
Cash outflows on financial liabilities	411.2	405.3	1,682.3	2,302.3
Trade payables	172.6	0.6	2.1	0.2
Liabilities to investees	57.6	0.0	0.4	0.0
Liabilities to non-consolidated subsidiaries	1.5	0.0	0.0	0.0
Derivatives in the energy area ²	1,061.3	284.8	104.9	0.0
Derivatives in the finance area ²	5.5	0.2	0.0	0.0
Other	54.6	0.0	0.5	4.4
Cash outflows on trade payables and other payables	1,353.0	285.6	107.9	4.5
Cash outflows on liabilities in accordance with IFRS 7	1,764.2	690.9	1,790.2	2,306.8

¹ The financial guarantees for construction financing of the combined cycle gas turbine power plant in Toul were indicated at the maximum amount of liability in accordance with IFRS 7, although VERBUND does not currently expect default on the financial liabilities. The assignment to the 2014–2016 time range is related to the beginning of repayments. // ² With and without hedging relationships

Cash outflows as at 31/12/2010

	€m			
Maturity	2011	2012	2013–2015	From 2016
Bonds	106.9	106.5	1,414.4	1,328.3
Financial liabilities to banks	188.5	293.5	586.8	837.3
Financial liabilities to others	44.1	4.3	89.5	4.9
Capital shares attributable to limited partners	0.0	129.8	0.0	0.0
Guarantee liabilities	0.0	0.0	185.0	0.0
Financial liabilities – closed items on the balance sheet	0.4	0.1	0.0	332.3
Cash outflows on financial liabilities	339.9	534.2	2,275.7	2,502.8
Trade payables	114.9	0.2	0.6	0.0
Liabilities to investees	16.7	0.0	0.0	0.0
Liabilities to non-consolidated subsidiaries	1.5	0.0	0.0	0.0
Derivatives in the energy area ²	742.4	262.5	52.2	0.0
Derivatives in the finance area ²	34.5	0.0	0.0	0.0
Other	62.5	0.1	0.0	4.1
Cash outflows on trade payables and other payables	972.5	262.8	52.8	4.1
Cash outflows on liabilities in accordance with IFRS 7	1,312.4	797.0	2,328.5	2,506.9

¹ The financial guarantees for construction financing of the combined cycle gas turbine power plant in Toul were indicated at the maximum amount of liability in accordance with IFRS 7, although VERBUND does not currently expect default on the financial liabilities. The assignment to the 2013–2015 time range is related to the beginning of repayments. // ² With and without hedging relationships

Cash outflows under closed items on the balance sheet have to be seen alongside the corresponding cash inflows from associated investments.

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
	2011 Net result	2011 Of which impairment losses	2010 Net result	2010 Of which impairment losses	
Financial assets at cost	-1.6	-2.8	6.2	0.0	
Available-for-sale financial assets	0.6	0.0	8.3	0.0	
Loans and receivables	-7.5	-2.4	5.3	-0.7	
Financial liabilities at amortised cost	-11.8	-	-21.9	-	
Financial liabilities at fair value through profit or loss	-46.0	-	-26.2	-	
Financial assets and/or liabilities held for trading	47.3	-	-2.3	-	
Total interest expenses		-197.1		-202.0	
Total interest income		55.9		44.5	
Measurements in other comprehensive income ¹		-6.6		3.1	
Reclassifications from other comprehensive income recognised in the income statement ¹		-0.4		-4.2	

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 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.

The net results in the financial assets and/or liabilities held for trading category result from the measurement of derivative financial instruments in the energy area (wholesale and trading); this part was recognised in the same way as the measurement of HUF forward exchange transactions (see: Financial instruments and risk management) in the operating result (electricity revenue). The net result also relates to the measurement of the (other) derivative financial instruments in the finance area and from the measurement of the overall short position vis-à-vis POWEO S.A. and Direct Energie S.A.; these net results were recognised under other financial result.

The net effect on profit or loss from early terminations of cross-border leasing transactions accounted for €-18.8m in the 2010 reporting period and was recognised under other financial result. The net effect on profit or loss resulted from the sale of investments and repayment of financial liabilities. It also contained foreign exchange losses. Furthermore, the net effect on profit or loss also included the pro-rated reversal of deferred income from cross-border leasing, as well as the reversal of a provision for interest rate differences. The two latter effects on profit or loss do not represent components of the net results in accordance with IFRS 7. So as not to give an incomplete representation of the economic

substance of early terminations of cross-border leasing transactions, selected components of these terminations have not been included in the net result table.

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			
	2011 Non-current	2010 Non-current	2011 Current	2010 Current
Provisions for pensions	193.9	201.4	–	–
Provisions for severance payments	133.7	135.9	–	–
Provisions for obligations similar to pensions	136.4	131.5	–	–
Provisions for partial retirement	11.1	15.3	7.4	8.3
Other personnel-related provisions	6.7	6.6	49.7	49.6
Other provisions	136.9	140.6	168.5	216.4
Non-current and current provisions	618.7	631.3	225.6	274.3

(35)
Non-current and current provisions

Provisions for pensions and similar obligations

Reconciliation of the defined benefit obligation

	€m			
	2011 Pension obligations	2010 Pension obligations	2011 Obligations similar to pensions	2010 Obligations similar to pensions
Defined benefit obligation as at 1/1/	389.4	402.3	122.5	115.7
Service costs (vested claims)	1.0	0.9	2.2	2.0
Interest expenses	17.7	19.3	5.7	5.9
Pension payments or contributions to supplementary health insurance	–32.1	–32.9	–3.0	–2.8
Actuarial gains (-) or losses (+)	–3.0	–0.2	–8.1	1.6
Defined benefit obligation as at 31/12/	373.0	389.4	119.3	122.5

Reconciliation of plan assets

	2011 Pension obligations	2010 Pension obligations	2011 Obligations similar to pensions	2010 Obligations similar to pensions
Fair value of plan assets as at 1/1/	158.6	162.1	–	–
Funds – contributions	1.7	0.5	–	–
Funds – payouts	–9.6	–9.6	–	–
Expected gains from plan assets	2.9	3.0	–	–
Actuarial gains (+) or losses (–)	–5.8	2.6	–	–
Fair value of plan assets as at 31/12/	147.8	158.6	–	–

Reconciliation from the DBO to the provision

	2011 Pension obligations	2010 Pension obligations	2011 Obligations similar to pensions	2010 Obligations similar to pensions
Defined benefit obligation covered by plan assets	171.8	174.4	–	–
Fair value of plan assets	–147.8	–158.6	–	–
Net value of obligations covered by plan assets	24.0	15.8	–	–
Defined benefit obligation not covered by plan assets	201.2	215.0	119.3	122.5
Accumulated actuarial gains (+) or losses (–)	–31.3	–29.4	17.1	9.1
Carrying amount of the provisions as at 31/12/	193.9	201.4	136.4	131.5

Pension expenses					€m
	2011 Pension obligations	2010 Pension obligations	2011 Obligations similar to pensions	2010 Obligations similar to pensions	
Service costs (vested claims)	1.0	0.9	2.2	2.0	
Interest expenses	17.7	19.3	5.7	5.9	
Expected investment gains (-) or losses (+)	-2.9	-3.0	-	-	
Amortised actuarial gains (-) or losses (+)	0.6	0.2	-0.1	0.0	
Pension expenses (recognised under personnel expenses)	16.4	17.4	7.8	7.9	

Reconciliation of unrealised actuarial gains or losses					€m
	2011 Pension obligations	2010 Pension obligations	2011 Obligations similar to pensions	2010 Obligations similar to pensions	
Accumulated actuarial gains (+) or losses (-) as at 1/1/	-29.4	-32.3	9.1	10.7	
Actuarial gains (+) or losses (-) for the year	3.0	0.2	8.1	-1.6	
Investment gains (+) or losses (-) for the year	-5.8	2.1	-	-	
Amortisation for the reporting period	0.9	0.6	-0.1	-	
Accumulated actuarial gains (+) or losses (-) as at 31/12/	-31.3	-29.4	17.1	9.1	

Actuarial assumptions for pensions

	2011	2010
Discount rate	4.75%	4.75%
Pension increases	2.25%	2.25%
Salary increases	2.75%	2.75%
Fluctuation	none	none
Retirement age – women	56.5–65	56.5–65
Retirement age – men	61.5–65	61.5–65
Expected non-current return on plan assets ¹	2.00%	2.00%

¹ The expected non-current return on plan assets is determined on the basis of the secondary market yield of Austrian federal bonds bearing fixed interest.

Actuarial assumptions for obligations similar to pensions¹

	2011	2010
Discount rate	4.75%	4.75%
Fluctuation (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)	4.5%	4.5%
Trend of contributions based on hospital cost index for old contracts (without participation)	7.5%	7.5%

¹ Premiums for supplementary health insurance

The estimated cost increase for medical care has a significant effect on the premiums for supplementary health insurance recognised under personnel expenses; on the basis of the defined benefit obligation as at 31 December 2011 in the amount of €119.3m (previous year: €122.5m), a one-percentage-point change in the cost increase would have the following effects:

	€m	
	1 percentage point increase	1 percentage point decrease
Effect on service and interest costs	1.9	–1.5
Effect on the defined benefit obligation	23.3	–18.4

Adjustments based on past experience are actuarial gains and losses that result from deviations in individual, personal parameter assumptions. Thus they differ from adjustments that are determined by parameter assumptions applicable to the entire workforce. This relates, for example, to salary trends, the number of deaths, early retirement and resignations.

Adjustments of pension obligations of the last 5 years based on past experience

	2007	2008	2009	2010	2011
Defined benefit obligation as at 31/12/ in €m	418.3	405.7	402.3	389.4	373.0
Plan assets at fair value in €m	–151.2	–132.6	–162.1	–158.6	–147.8
Deficit (+) or surplus (–) in €m	267.1	273.1	240.2	230.8	225.2
Adjustments based on past experience gains (+) or losses (–)					
In % of the defined benefit obligation at the end of the reporting period	1.16%	2.16%	–0.32%	0.07%	–0.08%
In % of the plan assets at the end of the reporting period	–3.28%	–13.16%	4.62%	1.42%	–3.98%

Adjustments of obligations similar to pensions of the last 5 years based on past experience

	2007	2008	2009	2010	2011
Defined benefit obligation as at 31/12/ in €m	116.3	114.5	115.7	122.5	119.3
Adjustments based on past experience gains (+) or losses (-) in % of the defined benefit obligation at the end of the reporting period	-5.26%	-0.26%	-3.46%	-3.91%	-6.78%

In the 2011 reporting period, the pension fund recorded a loss of €2.9m (previous year: a profit of €5.2m). The deficit represents that part of the pension obligations that is not covered by plan assets; these relate primarily to direct commitments to pension recipients. In the 2012 reporting period, current contributions to the pension fund for coverage of defined contribution plans in the amount of €6.9m are expected.

Plan assets

	%	
	2011	2010
Bonds – euro	40.5	41.1
Bonds – euro money market	24.2	6.8
Bonds – euro corporates	16.2	3.9
Cash	10.0	19.8
Alternative investments	2.2	2.9
Bonds – euro high yield	2.1	2.8
Shares – non-euro	1.4	5.4
Bonds – euro emerging markets	1.3	1.8
Bonds – non-euro	1.1	0.0
Shares – euro	0.9	9.5
Shares – emerging markets	0.0	6.1
Total	100.0	100.0

Provisions for severance payments
Composition of the provisions for severance payments

	€m	
	2011	2010
Provisions for statutory severance payments	130.1	130.9
Provisions for severance payments from special agreements in accordance with social plan	3.6	5.0
Carrying amount of the provisions as at 31/12/	133.7	135.9

Reconciliation of the defined benefit obligation		€m
	2011	2010
Defined benefit obligation as at 1/1/	130.9	136.0
Service costs (vested claims)	1.9	2.1
Interest expenses	6.0	6.6
Severance payments	-8.9	-9.5
Actuarial gains (-) or losses (+)	0.2	-4.3
Defined benefit obligation as at 31/12/	130.1	130.9

Reconciliation from the DBO to the provision		€m
	2011	2010
Defined benefit obligation	130.1	130.9
Carrying amount of the provisions as at 31/12/	130.1	130.9

Expense for severance payments		€m
	2011	2010
Service costs	1.9	2.1
Interest expenses	6.0	6.6
Recognised actuarial gains (-) or losses (+)	0.2	-4.3
Expenses for severance payments (recognised under personnel expenses)	8.1	4.4

Actuarial assumptions for severance payments		€m
	2011	2010
Discount rate	4.75%	4.75%
Fluctuations (depending on duration of employment)	0.0%–4.0%	0.0%–4.0%

Provisions for partial retirement

Provisions for partial retirement provide for bridging payments within the framework of partial retirement models in the amount of €18.5m (previous year: €23.6m). These models enable VERBUND to reduce the workforce in a way that is socially acceptable.

Reconciliation of the defined benefit obligation		€m
	2011	2010
Defined benefit obligation as at 1/1/	24.8	32.5
Service costs (vested claims)	4.1	1.2
Interest expenses	0.6	0.9
Payments for early retirement	-8.3	-8.4
Actuarial gains (-) or losses (+)	-0.7	-1.4
Defined benefit obligation as at 31/12/	20.5	24.8

Reconciliation of plan assets

	2011	2010
Fair value of plan assets as at 1/1/	1.2	1.2
Contribution to the CTA	0.7	0.0
Actuarial gains (+) or losses (-)	0.1	0.0
Fair value of plan assets as at 31/12/	2.0	1.2

Reconciliation from the DBO to the provision

	€m	
	2011	2010
Defined benefit obligation covered by plan assets	20.5	24.8
Fair value of plan assets	-2.0	-1.2
Carrying amount of the provisions as at 31/12/	18.5	23.6

Expenses for partial retirement

	€m	
	2011	2010
Service costs	4.1	1.2
Interest expenses	0.6	0.9
Reduction from the provision for reorganisation expenses ¹	-0.2	-0.9
Recognised actuarial gains (-) or losses (+)	-0.7	-1.4
Expenses for partial retirement (recognised under personnel expenses)	3.8	-0.2

¹ This reduction comes from the intended use of the provision for reorganisation expenses recognised under other personnel-related provisions.

Plan assets

	%	
	2011	2010
Bonds – euro	100.0	100.0
Total	100.0	100.0

Other personnel-related provisions

Compositon of other personnel-related provisions

	€m			
	2011	2010	2011	2010
	Non-current	Non-current	Current	Current
Provision for holiday entitlements	-	-	17.3	18.3
Provision for flexitime balances	-	-	2.9	2.7
Provision for reorganisation expenses	-	-	2.6	2.9
Provision for additional holiday allowance	-	-	8.8	8.2
Provision for bonuses from the performance-based remuneration system	-	-	16.9	16.1
Provision for anniversary bonuses	4.7	4.6	-	-
Other	2.0	2.0	1.2	1.4
Compositon of the other personnel-related provisions	6.7	6.6	49.7	49.6

Reconciliation of the other personnel-related provisions

	€m	
	2011	2010
Carrying amount as at 1/1/	56.2	59.9
Of which non-current	6.6	8.5
Of which current	49.6	51.4
New provisions	51.7	48.4
Interest accrued	0.3	0.4
Appropriation	-50.5	-48.6
Reversal	-1.1	-2.9
Reclassifications	-0.2	-1.0
Carrying amount as at 31/12/	56.4	56.2
Of which non-current	6.7	6.6
Of which current	49.7	49.6

Other provisions**Reconciliation of the other provisions**

	€m		
	Provisions for onerous contracts	Other non-current and current provisions	Total
Carrying amount as at 1/1/2011	92.7	264.3	357.1
Of which non-current	91.7	48.9	140.6
Of which current	1.0	215.4	216.4
New provisions	0.7	172.7	173.4
Interest accrued	4.8	2.2	7.0
Appropriation	-0.8	-178.8	-179.6
Reversal	-32.7	-19.7	-52.4
Carrying amount as at 31/12/2011	64.8	240.6	305.3
Of which non-current	63.0	73.9	136.9
Of which current	1.8	166.7	168.5

Provisions for onerous contracts as at 31 December 2011 increased by approximately €4.0m (previous year: €2.6m) due to the adjustment of the discount rate to 4.75% (previous year: 5.25%).

Reconciliation of the other provisions

			€m
	Provisions for onerous contracts	Other non-current and current provisions	Total
Carrying amount as at 1/1/2010	102.4	286.7	389.1
Of which non-current	100.7	69.6	170.3
Of which current	1.7	217.1	218.8
Change in the group of consolidated companies	0.0	-1.0	-1.0
New provisions	0.6	165.8	166.4
Interest accrued	5.8	3.0	8.8
Appropriation	-16.0	-178.3	-194.3
Reversal	-0.1	-11.8	-11.9
Reclassifications	0.0	0.0	0.0
Carrying amount as at 31/12/2010	92.7	264.4	357.1
Of which non-current	91.7	48.9	140.6
Of which current	1.0	215.4	216.4

Reconciliation of the other non-current and current provisions

							€m
	Dismantling costs	Outstanding receipts for investments	Mainte- nance expenses	Legal, auditing and consulting expenses	Electricity and grid delivery	Other	Total
Carrying amount as at 1/1/2011	32.1	83.0	68.6	7.0	52.6	21.0	264.3
Of which non-current	32.1	0.0	2.4	0.0	9.6	4.8	48.9
Of which current	0.0	83.0	66.2	7.0	43.0	16.2	215.4
New provisions	1.3	76.6	43.9	5.6	40.5	4.9	172.7
Interest accrued	1.3	0.0	0.0	0.0	0.6	0.3	2.2
Appropriation	0.0	-78.2	-61.2	-6.4	-29.5	-3.6	-178.8
Reversal	-5.6	-3.6	-5.5	-0.4	-4.4	-0.2	-19.7
Carrying amount as at 31/12/2011	29.0	77.9	45.8	5.9	59.8	22.2	240.6
Of which non-current	29.0	0.0	0.5	0.0	39.4	4.9	73.9
Of which current	0.0	77.9	45.3	5.9	20.4	17.2	166.7

Reconciliation of the other non-current and current provisions

€m

	Dismantling costs	Outstanding receipts for investments	Maintenance expenses	Legal, auditing and consulting expenses	Electricity and grid delivery	Other ¹	Total
Carrying amount as at 1/1/2010	30.0	88.2	73.1	5.4	53.6	36.4	286.7
Of which non-current	30.0	0.0	16.6	0.0	8.6	14.4	69.6
Of which current	0.0	88.2	56.5	5.4	45.0	22.0	217.1
Change in the group of consolidated companies	0.0	-1.0	0.0	0.0	0.0	0.0	-1.0
New provisions	0.8	77.2	48.9	6.8	24.6	7.5	165.8
Interest accrued	1.3	0.0	0.9	0.0	0.7	0.1	3.0
Appropriation	0.0	-81.3	-49.8	-4.8	-20.9	-21.5	-178.3
Reversal	0.0	0.0	-4.5	-0.3	-5.5	-1.5	-11.8
Carrying amount as at 31/12/2010	32.1	83.1	68.6	7.0	52.6	21.0	264.3
Of which non-current	32.1	0.0	2.4	0.0	9.6	4.8	48.9
Of which current	0.0	83.0	66.2	7.0	43.0	16.2	215.4

¹ A provision for interest rate differences with a carrying amount as at 1 January 2010 of € 13.8m is included in this column. Additions amounted to € 1.3m. Appropriations amounted to € 15.1m. The carrying amount as at 31 December 2010 was € 0.0m.

(36)
Deferred tax liabilities

The differences between the tax bases and the carrying amounts in the IFRSs balance sheet result in the following deferred taxes:

Deferred taxes

€m

	2011	2010
Deferred tax refund claims	130.2	122.9
Of which from provisions for pensions and severance payments	62.3	61.3
Of which from loss carryforwards	27.2	13.0
Of which from other items	25.8	6.0
Of which from tax-deductible goodwill	7.9	20.8
Of which from derivative financial instruments	7.1	21.8
Deferred tax liabilities	-377.6	-291.3
Of which from property, plant and equipment (different useful lives, fair value adjustments on purchase price allocations)	-239.6	-160.5
Of which from special tax deductions	-116.1	-117.8
Of which from derivative financial instruments	-11.1	-0.5
Of which from other items	-10.7	-12.5
Deferred tax refund claims (+) or tax liabilities (-) netted	-247.3	-168.3

In the 2011 reporting period, the net position for deferred taxes changed as follows:

Deferred taxes	2011	2010
As at 1/1/	-168.3	-174.1
Changes recognised in other comprehensive income	-16.3	33.3
Changes recognised in profit or loss	-62.6	-27.5
As at 31/12/	-247.3	-168.3

The changes recognised in other comprehensive income relate primarily to the profits or losses from available-for-sale financial instruments and cash flow hedges.

Under present tax rules, it may be assumed that the differences between the tax base of the equity interests and the proportional share of equity in the consolidated subsidiaries, which result primarily from retained earnings and uncovered losses, will remain largely tax-exempt; therefore no tax deferral was recognised. Differences between the tax base of the equity interests and the carrying amount of the interests accounted for using the equity method usually also remain tax-exempt; tax deferrals are recognised only when the corresponding tax planning opportunities are expected to be utilised in VERBUND's view.

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).

(37)
Contributions to building costs and grants

Contributions to building costs and grants	€m	
	2011	2010
Contributions to building costs ¹	537.1	397.6
Government grants ²	37.2	32.6
Contributions to building costs and grants	574.3	430.2

¹ Contributions to building costs received for the Danube power plant Freudenu were carried forward concurrently to the reversal of the impairment loss. This resulted in an increase of €99.6m in the 2011 reporting period. // ² The deferred government grants for the combined cycle gas turbine power plant in Mellach were carried forward concurrently to the impairment loss. This resulted in a reduction of €3.5m in the 2011 reporting period.

This item represents the deferred cash inflow in the amount of the present value of the economic benefits from cross-border leasing transactions. As at 31 December 2011, this item still amounts to €55.2m (previous year: €56.8m).

(38)
Deferred income – cross-border leasing

The scheduled reversals recognised under other operating income totalled €1.6m (previous year: €1.6m). The other reversals in the amount of €15.7m resulted in the 2010 reporting period from early terminations of cross-border leasing transactions and were recognised in other financial result.

(39) Other non-current liabilities	Other non-current liabilities		€m
		2011	2010
	Electricity supply commitment	473.6	472.3
	Derivatives in the finance area	0.0	10.2
	Liabilities from water rights	4.4	4.1
	Trade payables	2.9	0.8
	Other	1.0	0.2
	Other non-current liabilities	481.8	487.7

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).

(40) Current tax liabilities	Current tax liabilities		€m
		2011	2010
	Corporate tax	12.4	49.7
	Other taxes	0.0	0.0
	Current tax liabilities	12.4	49.7

(41) Trade payables and other current liabilities	Trade payables and other current liabilities		€m
		2011	2010
	Trade payables	172.6	114.9
	Derivatives in the energy area	111.8	91.0
	Liabilities to investees	57.6	16.7
	Liabilities to tax authorities	32.1	24.7
	Derivatives in the finance area	28.6	12.2
	Prepayments received from contributions to building costs	20.0	0.0
	Liabilities to ECRA	17.0	36.4
	Liabilities from guarantee payments	13.4	0.0
	Liabilities from the social security sector (including social insurance institutions)	4.5	4.4
	Electricity payments received in advance	2.9	2.6
	Rent or lease payments received in advance	2.1	0.1
	Liabilities to non-consolidated subsidiaries	1.5	1.5
	Prepayments received from auctions	1.2	6.2
	Accrued grid operator remuneration	1.0	1.0
	Other	14.5	12.2
	Trade payables and other current liabilities	480.9	324.1

Notes to the cash flow statement

The indirect method was used to prepare VERBUND's cash flow statement. The composition of the funds of cash and cash equivalents is disclosed in the note disclosures to the balance sheet (see: Notes to the balance sheet).

The material non-cash transactions of the 2011 reporting period comprise the transfer of the equity interest in Enerji Ashta Shpk to Ashta Beteiligungsverwaltung GmbH, a wholly-owned subsidiary of Shkodra Region Beteiligungsholding GmbH, the transfer of the equity interests in the Turkish joint ventures to the newly established Enerjisa Enerji A.S., the distribution of the dividend in kind of POWEO Production S.A.S. (see: Financial reporting principles) and the 50% deferral of the purchase price (carrying amount of the other loan as at 31 December 2011: €17.1m) for the equity interest in POWEO S.A. (Group) until 30 June 2013.

Non-current liabilities (from security deposits) in connection with additions to intangible assets as well as property, plant and equipment were €2.1m (previous year: €0.0m), and outstanding current liabilities were €1.7m (previous year: €0.0m). Current receivables from disposals of intangible assets as well as property, plant and equipment were €17.4m (previous year: €0.2m).

Non-cash transactions

Additional information on cash flow from operating activities

	2011	2010
Paid (-) or received (+) variation margins on futures contracts in the energy area	34.2	-48.0
Paid taxes on income ¹	-181.9	-218.8
Interest received	14.2	16.9
Interest paid	-161.6	-162.5
Dividends received	48.0	35.9

¹ The paid taxes on income relate primarily to cash flows from operating activities.

(42)
Additional information on cash flow from operating activities

Cash inflow from the disposal of interests accounted for using the equity method in the 2011 reporting period resulted from the sale of the equity interests in the French POWEO S.A. and the French POWEO Production S.A.S.

Cash inflow from the disposal of consolidated subsidiaries in the 2010 reporting period resulted from the sale of a 50% interest in Albanian Energji Ashta Shpk to EVN AG for €5.1m. The deconsolidation resulted in a disposal of cash and cash equivalents of €0.1m. As a result, the Albanian project company became an equity-accounted joint venture of VERBUND.

(43)
Cash inflow from the disposal of subsidiaries and interests accounted for using the equity method

Additional information on cash flow from financing activities

	2011	2010
Paid dividends – to non-controlling interests	-60.6	-70.7
Paid dividends – to the shareholders of VERBUND AG	-191.1	-385.3

(44)
Additional information on cash flow from financing activities

Financial instruments and risk management

VERBUND uses primary and derivative financial instruments in both the finance and energy area also for the purpose of risk management.

Finance area

VERBUND is exposed to considerable financial risks in its operating activities and the associated financing transactions and, in particular, also as a consequence of the financial market crisis. These comprise mainly interest rate and liquidity risks, counterparty risks, price risks from securities, currency 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 in the event a risk should materialise.

In the finance area, own rules have been developed within the framework of Group guidelines in order to be able to correspondingly manage financial risks. In addition, position limits with respect to locking in interest rates, currency diversification and the duration of financial liabilities were defined and are constantly monitored and adjusted if necessary. Sufficient liquidity is ensured at all times through liquidity planning, which is generally oriented 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 are comprised as follows and are recognised under the listed balance sheet items:

Derivative financial instruments in other receivables			€m
	Reference value ¹	Positive fair values 31/12/2011	Positive fair values 31/12/2010
Interest rate swaps – closed items on the balance sheet (fixed interest recipient)	\$238.9m (previous year: \$238.1m)	120.2	79.3
Forward exchange transactions in electricity trading	HUF 1,696.6m (previous year: HUF 1,871.4m)	0.0	0.1

¹ The reference value includes the reference basis of the derivative instruments. The actual cash flows only represent a fraction of these values.

Derivative financial instruments in other liabilities				€m
	Reference value ¹	Negative fair values 31/12/2011	Negative fair values 31/12/2010	
Forward exchange transaction relating to financial liabilities	\$0.0m (previous year: \$29.3m)	0.0	10.2	
Interest rate swaps relating to financial liabilities	€419.6m (previous year: €425.2m)	28.4	12.2	
Forward exchange transactions in electricity trading	HUF 1,696.6m (previous year: HUF 1,871.4m)	0.3	0.0	

¹ The reference value includes the reference basis of the derivative instruments. The actual cash flows only represent a fraction of these values.

The listed derivative financial instruments serve exclusively to economically hedge against existing currency and interest rate risks.

The fluctuations in value of the interest rate swaps related to the closed items on the balance sheet (see: Accounting policies) serve to balance the fluctuations in value of the corresponding liabilities which are measured at fair value through profit or loss.

The forward exchange transaction relating to financial liabilities presented in the 2010 reporting period related to an early terminated cross-border leasing transaction for which no cover was provided on the balance sheet at the time; the forward exchange transaction hedged the currency risk of the corresponding financial liability (see: Accounting policies). In the 2011 reporting period, cover was also established on the balance sheet for this financial liability through a loan to a financial institution – just as for the other financial liabilities originally incurred from cross-border leasing transactions; the corresponding forward exchange transaction was terminated.

HUF forward exchange transactions were entered into in order to hedge electricity trading transactions and cross-border capacities; measurement was recognised in profit or loss.

There are interest rate swaps in the amount of €419.6m (previous year: €425.2m) 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 transactions will occur in the following 15 years (2012 to 2026) and be recognised in profit or loss accordingly.

Liquidity risk

In the 2011 reporting period, VERBUND met all of its payment obligations (interest and principle repayments) from financial liabilities on time in accordance with the relevant terms. This also applies to all other liabilities insofar as there were no legal or substantial objections.

In order to secure sufficient liquidity reserves, there had been a five-year syndicated credit line in the amount of €750.0m since the 2005 reporting period with a renewal option to extend the term twice. The renewal options were exercised in the past; the credit line would have expired in 2012. For this reason, a new five-year syndicated credit line with a renewal option to extend the term twice was concluded in the 2011 reporting period. The credit line open to date was terminated. The credit line was granted to the newly established VERBUND International Finance GmbH as part of an international banking

syndication. The open credit lines were not drawn down. In addition, there are still liquidity reserves related to securities and investment funds.

The contractually agreed (non-discounted) cash outflows from financial liabilities in accordance with IFRS 7 are presented under note (34) Additional disclosures regarding financial instruments in accordance with IFRS 7.

Credit risk

The amounts presented 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 within the framework 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 Group-wide. Money market investments are also only carried out with financial partners with confirmed creditworthiness. All counterparty risks and the customer structure portfolio are observed 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 concluding netting arrangements.

In the past, counterparty risk was normally not insured. A credit insurance policy in the area of consumer business had first been concluded in the 2009 reporting period. Based on the claims experiences – there were almost no outages – the decision not to renew the credit insurance policy was made at the beginning of the 2011 reporting period.

As at 31 December 2011, trade receivables were therefore no longer covered by credit insurance against losses (previous year: €23.3m with a maximum cover ratio of €10.0m per year). Due to changes in the economic situation, conclusion of a new credit insurance policy is being considered for 2012.

The table below provides an overview of the material line items for financial instruments with credit risk and the allocated credit rating groups:

Financial instruments with credit risk by assigned rating group									€m
Credit rating group	Equivalent Moody's rating	Securities and loans under closed items on the balance sheet	Other securities and investment funds	Other non-current receivables	Derivatives in the finance area	Trade receivables	Derivatives in the energy area	Money market transactions as well as cash and cash equivalents	
A	up to Aa3	146.4	58.4	0.0	–	17.7	19.8	24.7	
B	up to A3	141.1	–	23.3	120.2	121.5	83.4	675.0	
C	up to Baa3	–	–	190.9	–	73.0	57.5	42.9	
D	below Baa3	–	–	0.0	–	2.4	12.9	–	
Not rated		–	69.2	92.0	–	64.1	0.0	1.5	
Total		287.5	127.6	306.2	120.2	278.7	173.5	744.1	

Securities and loans related to closed items on the balance sheet are not exposed to price or currency 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 derivative financial instruments. The remaining risk is thus a credit risk or default risk of the partner with which 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 and Other liabilities and risks).

The other securities without assigned rating are, in particular, domestic investment funds (funds for institutional investors) acquired to cover the provision for social capital.

The amounts presented as "not rated" under other non-current receivables include mainly loans to investees accounted for using the equity method in addition to various small amounts (see: Transactions with related parties); this does not apply for POWEO Pont-sur-Sambre Production S.A.S. and POWEO Toul Production S.A.S. In light of the close interconnections with VERBUND, it does not seem sensible to have credit ratings for the (other) investees.

With respect to trade receivables, the non-rated amounts, in particular, are related to the expansion of the consumer business, which led to a large number of receivables that individually lie below the minimum limit (< €0.1m). Also included in this amount are companies for which credit assessment may not have been conducted, but to which nevertheless credit limits were granted due to special circumstances (e.g. legal obligations to accept contracts or special strategic goals).

In addition, there is a credit risk in the amount of €350.0m from a financial guarantee for construction financing of the combined cycle gas turbine power plant in Toul (see: Transactions with related parties).

Interest rate risk

VERBUND regards fluctuations in interest rates as a significant cash flow risk. The rules in the area of risk management specify that a maximum of 40% of financial liabilities may bear variable interest, excluding money market transactions. As at 31 December 2011, the portion of financial liabilities (taking interest rate swaps into account) for which VERBUND is exposed to a corresponding interest rate risk was 9.9% (previous year: 16.2%).

A 1.0% increase in the interest rate would result in a decrease of €4.0m p.a. (previous year: €6.9m p.a.) in profit before taxes with respect to the existing loan portfolio as at the balance sheet date. As a rule, hedging instruments are used in an attempt to further reduce the effects of short-term market price fluctuations on results. However, prolonged negative market price changes can have a negative impact on results.

As at 31 December 2011, there are interest rate swaps related to closed items on the balance sheet. A separate micro valuation unit is established for the fair value of each derivative financial instruments together with its associated securities, loans and receivables corresponding exactly to the fair value recognised for the respective financial liability. The changes in the 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.

As at 31 December 2011, there are additional interest rate swaps for a total nominal value of €419.6m (previous year: €425.2m). These swaps exchange variable interest for a fixed interest rate in order to secure the existing low interest level also for the long term. These interest rate swaps were designated as hedging instruments within the framework of cash flow hedges in accordance with IAS 39.

The financial liabilities are presented under note (34) Additional disclosures regarding financial instruments in accordance with IFRS 7 together with their fair values. The average remaining term for the entire portfolio is 5.0 years (previous year: 5.6 years).

Currency risk

There are no assets exposed to significant currency risks, because deliveries are settled almost entirely in euros; the same generally applies to the other primary financial instruments.

Since the securities and loans under closed items on the balance sheet as well as the associated liabilities are denominated exclusively in US dollars, no currency risk is incurred.

With respect to the remaining financial liabilities, VERBUND's rules in the area of risk management for financing in foreign currencies specify maximum values for each respective currency portion; these limits were not exceeded in the 2011 reporting period. As at 31 December 2011, the currency risk of all financial liabilities (in yen) can be presented as follows:

Liability	€m	
Foreign currency	31/12/2011	31/12/2010
¥12,900.0m	128.7	118.7

The financial liability in yen listed above are exposed to unhedged foreign currency risk. An increase of 1.0% in the foreign exchange rate of yen to euro would have a negative effect on profit before taxes of about €1.3m (previous year: €1.2m).

Risk from cross-border leasing transactions

With the beginning of the financial market crisis during the 2008 reporting period, the risk profile of the 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 amounts to around \$966.0m, corresponding to around 15% of the original transaction volume. The original net present value benefit associated with these transactions was about €76.0m. This last remaining transaction has an off-balance sheet financing structure. Any potential liabilities on the part of VERBUND that can arise from this transaction – which is highly unlikely from a current perspective – are still secured in part through counter-guarantees (see: Other risks and liabilities).

Some of the early terminated cross-border leasing transactions were terminated in their entirety; that is, all associated liabilities (A-loans and B-loans) and investments were also repaid. However, some of the cross-border leasing transactions were only partially terminated, whereby the transactions with the 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 derivative financial instruments (interest rate swaps, fair value hedges) were continued. The previous cover provided on the balance sheet thus remains. 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 \$238.9m (previous year: \$238.1m); the reference value of a related forward exchange transaction terminated in the 2011 reporting period amounted to \$29.3m as at 31 December 2010.

With respect to the one remaining cross-border leasing transaction, the risk remains that a head lease filing will have to be effected if VERBUND's rating falls below a certain threshold. The risk also remains that either the instrument must be exchanged or additional collateral or a letter of credit must be provided if an investment partner's rating or the rating of an investment instrument falls below a certain threshold. The same applies to two early terminated transactions for which the financial liabilities were

continued, if the rating of either VERBUND or the investment partner deteriorates by a certain amount. In this case, corresponding initial measures must be implemented.

The ratings of contractual parties as well as VERBUND's rating exceed the contractually agreed thresholds as at 31 December 2011. Thus, there is currently no need for VERBUND to exchange individual contractual parties or investment instruments. This risk is also reduced not least of all by guarantor's liabilities on the part of regional authorities for individual contractual parties.

Energy area

Within its core business, VERBUND is active in international energy markets and thus is exposed to market, counterparty and operational risks which 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 at both the Group level as well as at the level of the subsidiaries. There is a process manual for the management of operational risks.

The current utilisation of the various limits with respect to 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 situation of the (derivative) financial instruments in the energy area.

As at 31 December 2011, the derivative financial instruments in the energy area (electricity futures and electricity forwards, gas forwards, gas swaps, CO₂ futures and CO₂ forwards) can be broken down as follows:

Cash flow hedges (sales and procurement) as at 31/12/2011

	Positive fair values	Negative fair values	Net
Futures	52.3	35.4	16.9
Forwards	36.9	11.0	25.9
Swaps	0.0	0.0	0.0
Total before netting	89.2	46.4	42.8
Of which current	88.1	44.6	43.5
Of which non-current	1.1	1.8	-0.7
Of which in other comprehensive income			42.8

Wholesale as at 31/12/2011

	Positive fair values	Negative fair values	Net
Futures	19.2	42.9	-23.6
Forwards	224.7	197.4	27.3
Swaps	7.3	0.1	7.3
Total before netting	251.3	240.4	10.9
Of which current	150.3	144.5	5.8
Of which non-current	101.0	95.9	5.1
Futures already realised			-5.4
Total			5.5

Trading as at 31/12/2011

	Positive fair values	Negative fair values	Net
Futures	2.6	0.7	1.9
Forwards	625.7	621.8	3.9
Total before netting	628.3	622.5	5.8
Of which current	614.1	608.1	6.0
Of which non-current	14.2	14.4	-0.2

Total as at 31/12/2011

	Positive fair values	Negative fair values	Net
Futures	74.1	79.0	-4.9
Forwards	887.4	830.1	57.3
Swaps	7.3	0.1	7.2
Total before netting	968.8	909.2	59.6
Including netting agreements	-795.2	-795.2	0.0
Total after netting	173.5	114.0	59.6
EEX/ECX clearing variation margins of futures	0.0	-2.2	
Recognised under other current receivables or liabilities	173.5	111.8	61.8

As at 31 December 2010, the derivative financial instruments in the energy area (electricity futures and electricity forwards, gas forwards, CO₂ futures and CO₂ forwards) can be broken down as follows:

Cash flow hedges (sales and procurement) as at 31/12/2010			€m
	Positive fair values	Negative fair values	Net
Futures	11.0	53.7	-42.7
Forwards	4.3	36.0	31.7
Swaps	0.0	0.0	0.0
Total before netting	15.3	89.7	-74.4
Of which current	12.2	82.7	-70.5
Of which non-current	3.1	7.0	-3.9
Of which in other comprehensive income			-74.4

Wholesale as at 31/12/2010			€m
	Positive fair values	Negative fair values	Net
Futures	74.8	58.9	15.8
Forwards	200.9	164.0	36.9
Total before netting	275.6	222.9	52.7
Of which current	204.6	156.7	47.9
Of which non-current	71.0	66.2	4.8
Futures already realised			-56.0
Total			-3.3

Trading as at 31/12/2010			€m
	Positive fair values	Negative fair values	Net
Futures	0.8	0.6	0.1
Forwards	276.6	274.1	2.5
Total before netting	277.4	274.7	2.6
Of which current	267.9	265.5	2.4
Of which non-current	9.5	9.2	0.3

Total as at 31/12/2010			€m
	Positive fair values	Negative fair values	Net
Futures	86.5	113.2	-26.7
Forwards	481.7	474.1	7.6
Swaps	0.0	0.0	0.0
Total before netting	568.3	587.3	-19.1
Including netting agreements	-469.6	-469.6	0.0
Total after netting	98.7	117.7	-19.1
EEX/ECX clearing variation margins of futures	0.0	-26.6	
Recognised under other current receivables or liabilities	98.7	91.1	7.5

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 concluded with a counterparty, the positive and negative fair values of the transactions for this counterparty are netted for accounting purposes.

The effects of potential price fluctuations on the electricity market (-10.0% to +10.0%) on the operating result (wholesale portfolio, trading portfolio) as well as on equity (cash flow hedges) were measured by means of a sensitivity analysis. At present, a 10.0% increase in the market price would have an impact on the operating result in the amount of €-1.2m (previous year: €-4.4 m) and on equity (not including deferred taxes) in the amount of €-67.2m (previous year: €-71.3m). At present, a 10.0% decline in the market price would have an impact on the operating result in the amount of €+1.2m (previous year: €+4.4 m) and on equity (not including deferred taxes) in the amount of €+67.2m (previous year: €+71.3 m).

The future sales and procurement transactions hedged by cash flow hedges will occur over the next four years (2012 to 2015) and be recognised in profit or loss accordingly. As at 31 December 2011, there were no ineffective portions of cash flow hedges to be recognised in profit or loss in accordance with IAS 39.

In the 2011 reporting period, €58.2m (previous year: €-64.1m) was recognised in other comprehensive income. In the same period, €59.0m (previous year: €-53.0m) was reclassified to the income statement.

Other liabilities and risks

Contingent liabilities

As at 31 December 2011, 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 2011, VERBUND's subsidiary liability amounts to €532.2m (previous year: €524.8m) for the non-redeemed portion of the leasing liability from this cross-border leasing transaction. Of the rights of recourse against the primary debtors, €409.6m (previous year: €412.6m) is secured through counter-guarantees on the part of financial institutions, entities entitled to purchase electricity and regional authorities (from guarantors' liabilities). In addition, €172.9m (previous year: €159.1m) is covered by off-balance sheet investments in zero coupons of the European Investment Bank, which are also secured by a guarantee on the part of the Financial Security Assurance Inc. (FSA).

Contracts and purchase commitments

	Contracts and purchase commitments			€m
	Total commitment as at 31/12/2011	Commitment within 1 year	Commitment within 5 years	
Rent, lease and insurance agreements	n/a ¹	21.7	96.2	
Purchase commitment for property, plant and equipment, intangible assets and other services	471.1	314.6	469.8	

¹ The total amount of obligations is subject to indefinite contractual periods; therefore, an exact amount cannot be determined.

Operating grant

VERBUND Thermal Power GmbH & Co KG received a grant in the past for the Voitsberg III power plant from Energie-Control GmbH (now Energie-Control Austria). In the revision of Section 69(6) of the Austrian Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, EIWOG), the legislator specified that – as the recipient – the Republic of Austria or Energie-Control Austria is entitled to reclaim the grant including interest if a claim to reimbursement of operating grants previously conferred should arise. A provision has been recognised for this risk from ongoing legal proceedings.

Purchase contracts

There is an operating and electricity supply agreement with E.ON Wasserkraft GmbH according to which VERBUND is entitled to purchase half of the electricity generated in the Ering-Frauenstein and Eggfing-Obernberg power plants in exchange for reimbursement of the contractually stipulated recognised expenses plus a profit mark-up.

Within the framework of a basic contract concluded on 6 August 2007, which can be terminated yearly, Weglokoks S.A. offers VERBUND Thermal Power GmbH & Co KG 450,000 t of hard coal annually at negotiable prices. So far, the prices for a volume of 70,000 t have been agreed for delivery in 2012. In addition, a contract with OKD S.A. over the purchase of 750,000 t of Czech hard coal in the 2012 reporting period was concluded.

There is a contract with EconGas GmbH to supply natural gas which can be terminated 15 years after deliveries commence over about 8.3 TWh natural gas per year for the combined cycle gas turbine power plant in the commissioning phase in Mellach.

For the supply of the combined cycle gas turbine power plant in Mellach, there is a necessary agreement to expand capacities with Gasnetz Steiermark GmbH over the provision of transport capacities in an amount not to exceed approximately 1.7 GWh per hour.

In addition, there are further customary purchase contracts for business activities that include, in particular, the delivery of primary electricity and energy sources, but also property, plant and equipment as well as maintenance and repair services.

Provincial energy companies have acquired (pro rata) 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 stipulated 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 to the run-of-river power plants Wasserburg, Teufelsbrück and Gars into so-called contingent rights of reversion – only for the event that VERBUND permanently ceases to operate the power plants or permanently shuts them down. In exchange, VERBUND undertakes 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 and Steirische Gas-Wärme GmbH to meet the district heating demand of the metropolitan area of Graz. The district heating power stations in Mellach and Neudorf-Werndorf were previously used to meet the supply commitment resulting from this contract. The combined cycle gas turbine power plant in Mellach currently in the commissioning phase is now also entitled to supply district heating.

In light of the current situation in the financial markets, VERBUND expects an obligation to provide additional funding to the pension fund in the amount of €9.7m to cover defined benefit obligations. Since fulfilling this obligation will represent an exchange of assets that will benefit the plan assets, it was not recognized in profit or loss in the 2011 reporting period, but will only be recognised upon final requirement by BAV Pensionskassen AG.

Compensation payments are made to property owners on a regular basis for economic detriment – this is typical for the energy industry – resulting from the construction of power plants and lines. The present value of these commitments is insignificant in its entirety for VERBUND.

Other commitments

Average number of employees

	2011	2010	Change
Salaried employees	2,806	2,782	24
Wage earners	78	86	-8
Apprentices	161	147	14
Average number of employees¹	3,045	3,015	30

Average number of employees

¹ Part-time employees were taken into account proportionately based on their working hours.

As at the balance sheet date, 347 (previous year: 423) employees had a letter of loyalty granting them a higher degree of protection against layoff. The prerequisite was at least 20 years of service at VERBUND and a minimum age of 45.

Provision of personnel

In the 2011 reporting period, an average of 63 (previous year: 67) employees were assigned to PÖYRY Energy GmbH to complete various engineering and consulting tasks. VERBUND holds an interest of 25.1% in PÖYRY Energy GmbH (see: Group companies). These assignments are compensated at standardised rates, based on the qualifications of the respective employees and the hourly rates prevailing in the market.

In the 2011 reporting period, there was, in addition, an average of 6 assignments (previous year: 1) to non-consolidated subsidiaries of VERBUND.

Expenses for services by the Group auditor

The expenses for services provided by the Group auditor refer to the parent company and the subsidiaries as well as to those joint ventures of VERBUND that are audited by the Group auditor/the Group auditor's network. VERBUND's Group auditor in both 2010 and 2011 was Deloitte Audit Wirtschaftsprüfungs GmbH.

Expenses for services rendered by the Group auditor	€k	
	2011	2010
Audit of the consolidated and separate financial statements as well as other assurance services ¹	1,182.0	2,755.2
Other advisory services	159.4	185.7
Total expenses	1,341.4	2,940.9

¹ In the 2010 reporting period, the portion of expenses for other assurance services related to the transaction costs of the capital increase was not recognised in profit or loss, but instead reduces equity (net of attributable taxes on income) in accordance with IAS 32.

Transactions with related parties

Parties related to 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 related parties. These include, in particular, Österreichische Bundesbahnen (ÖBB), Bundesbeschaffung GmbH (BBG), OMV and Telekom Austria as well as Energie-Control Austria.

Transactions with non-consolidated subsidiaries, joint ventures or associates are not presented due to lack of materiality.

There is an electricity supply agreement with Ennskraftwerke AG under which VERBUND is entitled to purchase the electricity generated in their power plants, net of electricity purchases of other entitled partners, in exchange for reimbursement of the contractually stipulated recognised expenses plus a reasonable return on equity.

There are electricity supply agreements with Österreichisch-Bayerische Kraftwerke AG and Donaukraftwerk Jochenstein AG according to which VERBUND is entitled to purchase half of the electricity generated in their power plants in exchange for reimbursement of the contractually stipulated recognised expenses plus a reasonable return on equity.

Material transactions with equity-accounted joint ventures had the following impact on VERBUND's income statement and balance sheet:

**Transactions with
joint ventures**

Transactions with joint ventures	€m	
	2011	2010
Income statement		
Electricity revenue	41.7	38.9
Grid revenue	4.2	5.8
Other revenue	6.6	9.2
Other operating income	0.4	0.4
Expenses for electricity, grid and gas purchases as well as purchases of emission rights (trade)	-49.3	-48.5
Other operating expenses	-1.1	-0.7
Interest expenses	-0.2	-0.1
Interest income	1.8	0.3
Other financial result	1.8	0.8
	31/12/2011	31/12/2010
Balance sheet		
Investments and other receivables	91.1	28.4
Trade receivables and other current receivables	44.4	76.4
Non-current provisions	0.4	0.0
Current provisions	1.4	1.2
Trade payables and other current liabilities	13.4	16.5

In the 2011 reporting period, VERBUND purchased electricity based on electricity purchase agreements in the amount of €19.4m (previous year: €19.9m) from Ennskraftwerke AG, in the amount of €15.3m (previous year: €16.2m) from Österreichisch-Bayerische Kraftwerke AG and in the amount of €7.2m (previous year: €9.4m) from Donaukraftwerk Jochenstein AG.

In addition, a receivable from Ennskraftwerke AG in the amount of €35.0m (previous year: €35.0m) was reclassified in the 2011 reporting period from other current receivables to investments.

Investments as at 31 December 2011 included a non-current loan to Energji Ashta Shpk in the amount of €51.9m (previous year: €24.0m) as well as an other current receivable in the amount of €32.6m (previous year: €33.0m); both mainly serve the financing of construction services related to an Albanian hydropower plant concession. In order to provide security for the companies providing construction services, VERBUND issued guarantees (for the benefit of ANDRITZ HYDRO GmbH) and letters of comfort (for the benefit of Porr Bau GmbH or Siemens AG Österreich). In addition, VERBUND issued letters of comfort for the benefit of the Albanian Energy Regulatory Entity (ERE) and the Albanian Ministry of Economy, Trade and Energy (METE).

VERBUND issued letters of comfort and sponsor support agreements in order to secure financing for the subsidiaries (Enerjisa Enerji Üretim A.S. and Enerjisa Elektrik Dagitim A.S.) of the Turkish joint venture Enerjisa Enerji A.S. from international banking syndicates.

KELAG-Kärntner Elektrizitäts-AG has acquired (pro rata) 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 KELAG-Kärntner Elektrizitäts-AG in exchange for reimbursement of the contractually stipulated recognised expenses (excluding depreciation, amortisation and interest).

Transactions with associates

There is an off-take agreement with POWEO Pont-sur-Sambre Production S.A.S. in effect until at least 2025 according to which - as a result of the acquisition of 100% equity interests in the former subsidiaries of POWEO Production S.A.S. (see: Financial reporting principles) - now 100% (instead of 40%) of the electricity produced in the combined cycle gas turbine power plant in Pont-sur-Sambre must be purchased by VERBUND International Frankreich GmbH (60%) and VERBUND International GmbH (40%) at market prices. In the event that the put and call options on VERBUND's remaining equity interests in former subsidiaries and second-tier subsidiaries of POWEO Production S.A.S. are exercised, this off-take agreement would also be (proportionately) transferred to POWEO S.A. and Direct Energie S.A.

Material transactions with equity-accounted associates had the following impact on VERBUND's income statement and balance sheet:

Transactions with associates	€m	
	2011	2010
Income statement		
Electricity revenue	457.3	427.0
Grid revenue	48.1	45.4
Other revenue	11.5	18.1
Other operating income	1.4	1.0
Expenses for electricity, grid and gas purchases as well as purchases of emission rights (trade)	-257.0	-192.6
Other operating expenses	-2.2	-6.8
Interest expenses	-0.4	0.0
Interest income	2.7	0.6
Other financial result	-19.1	7.2
	31/12/2011	31/12/2010
Balance sheet		
Investments and other receivables	178.3	174.1
Trade receivables and other current receivables	112.0	80.3
Current provisions	2.0	0.0
Trade payables and other current liabilities	63.1	5.1

Electricity revenue resulted mainly from the delivery of electricity to STEWEAG-STEAG GmbH in the amount of €308.6m (previous year: €284.8m) and KELAG-Kärntner Elektrizitäts-AG in the amount of €61.5m (previous year: €75.3m). This revenue has to be seen alongside the electricity purchased from STEWEAG-STEAG GmbH in the amount of €43.8m (previous year: €17.5m) and KELAG-Kärntner Elektrizitäts-AG in the amount of €51.6m (previous year: €66.0m). KELAG-Kärntner Elektrizitäts-AG made contributions to building costs of €35.5m (previous year: €14.9m) in the 2011 reporting period.

In the 2011 reporting period, revenue with POWEO S.A. (Group) – which continues to comprise all those generation companies controlled by POWEO S.A. due to potential voting rights (see: Financial reporting principles) – totalled €68.1m (previous year: €54.0m). Electricity purchases from POWEO S.A. (Group) totalled €147.4m in the 2011 reporting period (previous year: €99.1m). Interest income from POWEO S.A. (Group) amounted to a total of €2.7m (previous year: €0.1m). Other financial result in the amount of €-19.2m (previous year: €7.2m) resulted on the one hand from the measurement through profit or loss of the overall short position vis-à-vis POWEO S.A. and Direct Energie S.A. as at 30 September 2011 in the amount of €-26.4m, and on the other hand from interest income from a loan to POWEO Pont-sur-Sambre S.A.S. in the amount of €7.3m (previous year: €7.2m). In determining these disclosures, it was taken into consideration that POWEO S.A. (as parent company of the group) and POWEO Production S.A.S. were only related parties as defined under IAS 24 until the end of quarter 3/2011; POWEO Pont-sur-Sambre Production S.A.S. and POWEO Toul Production S.A.S. were and continue to be related parties as defined under IAS 24.

As at 31 December 2011, there were receivables from POWEO Pont-sur-Sambre Production S.A.S. and POWEO Toul Production S.A.S. totalling €250.7m (previous year: €187.8m), €173.8m of which non-current (previous year: €172.8m). As at 31 December 2011, these receivables included the non-current portion of a loan, maturing in 2023, to POWEO Pont-sur-Sambre Production S.A.S. in the amount of €150.8m (previous year: €163.9m); the current portion of this loan in the amount of €13.1m (previous year: €13.1m) was included in other current receivables. In connection with the loan, there is collateral in the form of a mortgage on the combined cycle gas turbine power plant.

Receivables from other companies of the POWEO S.A. (Group) as at 31 December 2010 amounted to a total of €25.3m, all of which current. As at 31 December 2011, there were payables to POWEO Pont-sur-Sambre Production S.A.S. and POWEO Toul Production S.A.S. totalling €42.0m (previous year: €5.1m), all of which current.

As a result of the acquisition of 100% equity interests initially in POWEO Production S.A.S. itself and then in its (former) subsidiaries, electricity purchases from the existing off-take agreement with POWEO Pont-sur-Sambre Production S.A.S. increased by (an additional) 60%. VERBUND will therefore purchase all of the electricity generated in the combined cycle gas turbine power plant until the option is potentially exercised by POWEO S.A.

In the 2011 reporting period, POWEO Pont-sur-Sambre Production S.A.S. was to provide a bank guarantee in favour of the French Réseau de Transport d'Electricité (RTE). This was issued by Société Générale against a counter-guarantee from VERBUND.

VERBUND provided a financial guarantee with a maximum liability of €350.0m (outstanding amount as at 31 December 2011: €232.0m) for the construction financing of the combined cycle gas turbine power plant in Toul by a German-Austrian banking syndicate and by the European Investment Bank (EIB). These financial guarantees were recognised under receivables at the present value of the guarantee payments to be made by POWEO Toul Production S.A.S.; they have to be seen alongside a guarantee liability recognised under other financial liabilities. This was increased by €18.1m in the 2011 reporting

period (see: Discretionary judgements and key assumptions concerning the future). There is collateral in the form of a mortgage on the combined cycle gas turbine power plant (currently under construction) in connection with the financial guarantee.

In order to secure the completion of the solar park and rooftop photovoltaic system projects of POWEO Outre-mer Solaire S.A.S. in French overseas territories, VERBUND provided various guarantees in the 2011 reporting period.

In addition, VERBUND has provided a guarantee to Agip North Africa BV that Sorgenia S.p.A. will meet its obligations from a natural gas supply agreement, and to OeMAG Abwicklungsstelle für Ökostrom AG that STEWEAG-STEG GmbH will meet its contractual obligations to the green energy clearing and settlement agency.

In the 2010 reporting period, VERBUND received an investment grant in the amount of €16.0m from OeMAG Abwicklungsstelle für Ökostrom AG for cogeneration at the combined cycle gas turbine power plant in Mellach. This resulted in another current receivable in the amount of €4.8m (previous year: €11.2m) as at 31 December 2011.

As at 31 December 2011, there were other contingent liabilities in the amount of €28.1m (previous year: €26.3m) in the form of guarantees issued by VERBUND for non-consolidated Verbundplan Birecik Baraji Isletme Ltd. Sti. (VBOC). VBOC is entrusted with the operation of the Birecik hydropower plant on the Euphrates River in Turkey within the framework of an operator model (build operate transfer, BOT) over 15 years. The guarantees relate to the commitments on the part of VBOC arising from its management activities for Birecik Baraj ve Hidroelektrik Santrali Tesis ve Isletme A.S. in Turkey.

As a result of withdrawing from the bidding process for the Ayedas distribution grid in the Asian part of Istanbul, a claim for compensation in the amount of the bid bonds lost plus a flat fee could arise for VERBUND under certain circumstances on the basis of a framework agreement between VERBUND and Sabanci Holding A.S.

The outstanding contribution commitments to investees include equity contributions, provided that the corresponding shareholder resolutions have already been passed. As at 31 December 2011, there were no outstanding contribution commitments to investees (previous year: €0.0m).

In the future, contribution commitments could arise from a framework agreement between VERBUND and Sabanci Holding A.S. to create a generation portfolio with an installed capacity of around 5,000 MW in Turkey by 2015. The corresponding projects of Enerjisa Enerji Üretim A.S. are to be financed with equity ratios between 30% and 40%. VERBUND's interest in these projects is 50%.

Sorgenia S.p.A. (Group) is running a share-based remuneration programme in which stock options are issued to members of management. For the shares of Sorgenia S.p.A. (Group) acquired as part of this share-based remuneration programme, members of management have put options which enable them to sell the shares proportionately to the shareholders of Sorgenia S.p.A. (Group). Currently, VERBUND holds a 44.9% interest in Sorgenia S.p.A. (Group).

Contingent liabilities to investees

Other commitments to investees

Transactions with the Republic of Austria and companies under its controlling influence

Electricity deliveries to the Republic of Austria amounted to €0.0m (previous year: €0.03m). Electricity deliveries to companies controlled or significantly influenced by the Republic of Austria amounted to a total of €97.9m (previous year: €93.9m) in the 2011 reporting period. The primary buyers of this electricity were ÖBB, OMV and Telekom Austria. Electricity purchased from companies controlled or significantly influenced by the Republic of Austria amounted to a total of €42.4m in the 2011 reporting period (previous year: €31.6m). The primary supplier of this electricity was the ÖBB.

VERBUND's expense for monitoring by Energie-Control Austria amounted to a total of €10.4m (previous year: €9.9m) in the 2011 reporting period.

Disclosures regarding the Boards of the Group

Detailed disclosures regarding the Boards of VERBUND AG are presented in the corporate governance report. The following presentations focus on the remuneration of members of the Executive Board and the Supervisory Board.

Current remuneration of the Executive Board

	€	
	Fixed remuneration	Variable remuneration
Dipl.-Ing. Wolfgang Anzengruber	623,569	234,402
Dr. Johann Sereinig	593,957	270,428
Dr. Ulrike Baumgartner-Gabitzer	416,390	153,049
Dipl.-Ing. Dr. Günter Rabensteiner (from 1/4/2011)	315,425	0

Total remuneration of members of the Executive Board in 2011 amounted to €2,607,219 (previous year: €2,859,553). Because it is only possible to ascertain at the end of the year whether targets have been reached, variable remuneration components are paid out in the following year. Therefore, the variable remuneration paid to members of the Executive Board in the 2011 reporting period relates to the 2010 reporting period. Since Dipl.-Ing. Dr. Rabensteiner was only appointed to the Executive Board during the course of the 2011 reporting period, no variable remuneration for the 2010 reporting period was paid out.

Variable remuneration depends on performance and is limited to a certain percentage of the respective fixed remuneration. In respect of the 2010 financial year, this percentage was a maximum of 50% to 60%. The amount of the performance-dependent remuneration components is oriented on the degree of achievement of the goals agreed for the reporting period. The agreement on goals for the 2010 reporting period was based in half on reaching the planned Group result and in half on qualitative (in part, intermediate) goals – for example, in the area of research and development as well as in the structural-organisational area. 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 2011 reporting period, contributions to the pension fund were paid for the Executive Board in the amount of €132,621 (previous year: €115,714).

Statutory regulations apply with respect to the claims of members of the Executive Board upon termination of their position. In the 2011 reporting period, €491,166 (previous year: €707,387) were paid out for pensions and severance payments in support of beneficiaries.

Income of €135,697 (previous year: expenses in the amount of €42,891) was included under expenses for severance payments and pensions and similar obligations (post-employment benefits) due to a non-

recurring item. Expenses for pensions and similar obligations for former members of the Supervisory Board and their surviving dependants amounted to a total of €597,362 (previous year: €97,792).

Remuneration for members of the Supervisory Board amounted to a total of €200,133 (previous year: €212,779). No loans or advances were paid out to members of the Group's Boards. Neither the members of the Executive Board nor senior management staff of VERBUND have stock options.

Group companies

The following list comprises VERBUND's subsidiaries, joint ventures and associates. In addition, this list also contains non-consolidated subsidiaries and other equity interests of VERBUND with an interest of $\geq 20\%$. As a rule, the list contains data from the most recent available annual financial statements of the company in accordance with local GAAP (for Austria: in accordance with UGB). For annual financial statements in foreign currencies, translation of the data was carried out at the exchange rate at the respective balance sheet date.

Group companies								€k
Company	Head-quarter	Consolidation method	Parent company	Parent company's share of equity	Balance sheet date	Equity	Profit or loss for the year	Comments
VERBUND AG (VH)	Vienna	FC	–	–	31/12/2011	2,889,867	274,327	
VERBUND Beteiligungsholding GmbH (VBH)	Vienna	FC	VH	100.00%	31/12/2011	1,204,492	–111,911	
VERBUND International GmbH (VIN)	Vienna	FC	VBH	100.00%	31/12/2011	972,699	–112,890	
VERBUND Italia S.p.A. (VIT)	Milan	FC	VIN	100.00%	31/12/2011	646,856	–495	1
Austrian Power Grid AG (APG)	Vienna	FC	VH	100.00%	31/12/2011	258,076	1,005	
VERBUND International Frankreich GmbH (VIN-FR)	Vienna	FC	VIN	100.00%	31/12/2011	85,121	–36,691	2
VERBUND Renewable Power GmbH (VRP)	Vienna	FC	VBH	100.00%	31/12/2011	80,360	–842	
CAS REGENERABILE S.R.L.	Bucharest	FC	VRP-AT	99.90% 0.10%	31/12/2011	26,092	584	1
VERBUND Tourismus GmbH (VTO)	Kaprun	FC	VH VBH	99.90% 0.10%	31/12/2011	22,416	495	
Haos Invest EAD	Sofia	FC	VRP	100.00%	31/12/2011	9,200	329	1
VERBUND Sales GmbH (VSA)	Vienna	FC	VH	100.00%	31/12/2011	7,352	7,839	
VERBUND Photovoltaics Ibérica S.L.	Madrid	FC	VRP	100.00%	31/12/2011	5,452	558	1
VERBUND Wind Power Austria GmbH (VRP-AT)	Vienna	FC	VRP VBH	99.75% 0.25%	31/12/2011	4,699	852	

Group companies

								€k
Company	Head-quarter	Consolidation method	Parent company	Parent company's share of equity	Balance sheet date	Equity	Profit or loss for the year	Comments
VERBUND Management Service GmbH	Vienna	FC	VH	100.00%	31/12/2011	3,091	6,045	
VERBUND Telekom Service GmbH	Vienna	FC	VH	100.00%	31/12/2011	2,167	6,985	
VERBUND International Finance GmbH	Vienna	FC	VH	100.00%	31/12/2011	2,035	-637	
VERBUND Trading AG	Vienna	FC	VH	100.00%	31/12/2011	1,859	1,579	
VERBUND Umwelttechnik GmbH	Klagenfurt	FC	VRP	100.00%	31/12/2011	583	150	
VERBUND Finanzierungsservice GmbH	Vienna	FC	VH	100.00%	31/12/2011	218	2,147	
VERBUND Kraftwerke Beteiligungsholding GmbH	Vienna	FC	VBH	100.00%	31/12/2011	35	3	
Alpha Wind S.R.L.	Bucharest	FC	VRP	90.00%	31/12/2011	94,829	-1,162	1
VERBUND Hydro Power AG (VHP)	Vienna	FC	VH	80.33%	31/12/2011	1,197,202	321,996	
VERBUND-Innkraftwerke GmbH	Töging	FC	VH	70.27%	31/12/2011	431,354	29,419	
VERBUND Thermal Power GmbH	Graz	FC	VH	59.49%	31/12/2011	1,535	1,131	
VERBUND Thermal Power GmbH & Co KG	Graz	FC	VH	55.65%	31/12/2011	59,206	-44,701	
POWEO Pont-sur-Sambre Production S.A.S.	Pont-sur-Sambre	EM	VIN-FR VIN	60.00% 40.00%	31/12/2010	85,601	11,575	
POWEO Toul Production S.A.S.	Toul	EM	VIN-FR VIN	60.00% 40.00%	31/12/2010	-1,333	-1,335	
Shkodra Region Beteiligungsholding GmbH (VHP-AL-HI)	Vienna	EM	VHP	50.01%	31/12/2010	30	-5	3
Österreichisch-Bayerische Kraftwerke Aktiengesellschaft	Simbach	EM	VH	50.00%	31/12/2010	51,361	3,272	3

Group companies								€k
Company	Head-quarter	Consolidation method	Parent company	Parent company's share of equity	Balance sheet date	Equity	Profit or loss for the year	Comments
Donaukraftwerk Jochenstein								
Aktiengesellschaft	Passau	EM	VH	50.00%	31/12/2010	13,981	818	3
Ennskraftwerke								
Aktiengesellschaft	Steyr	EM	VH	50.00%	31/12/2010	13,129	236	3
Grenzkraftwerke								
Gesellschaft mit beschränkter Haftung	Simbach	EM	VHP	50.00%	31/12/2010	127	77	3
Energie Klagenfurt GmbH	Klagenfurt	EM	VH	49.00%	31/12/2010	67,392	3,592	3
Gletscherbahnen Kaprun								
Aktiengesellschaft	Kaprun	EM	VTO	45.00%	30/9/2010	41,117	1,269	
Kärntner Restmüllverwertungs GmbH	Arnoldstein	EM	VRP	42.87%	31/12/2010	11,800	1,862	
KELAG-Kärntner								
Elektrizitäts-Aktiengesellschaft	Klagenfurt	EM	VH	35.17%	31/12/2010	507,421	78,667	
Sorgenia Holding S.p.A. (SORGENIA)	Milan	EM	VIT	34.97%	31/12/2010	703,586	-30,577	
STEWEG-STEAG GmbH	Graz	EM	VH	34.57%	31/12/2010	340,503	37,532	
Kraftwerk Nußdorf								
Errichtungs- und Betriebs GmbH & Co KG	Vienna	EM	VHP	33.33%	31/12/2010	6,036	488	3
Kraftwerk Nußdorf								
Errichtungs- und Betriebs GmbH	Vienna	EM	VHP	33.33%	31/12/2010	42	3	3
OeMAG								
Abwicklungsstelle für Ökostrom AG	Vienna	EM	APG	24.40%	31/12/2010	5421	375	
Enerjisa Enerji A.S. (VIN-TR-HI)	Istanbul	EM	VIN	50.00%	-	-	-	2, 3
Sorgenia S.p.A.								
			VIT	16.94%				
	Milan	NC	SOR-GENIA	79.98%	31/12/2010	703,129	-31,033	1
Energji Ashta Shpk	Tirana	NC	VHP-AL-HII	100.00%	31/12/2010	39,414	-1,553	

Group companies

								€k
Company	Head-quarter	Consolidation method	Parent company	Parent company's share of equity	Balance sheet date	Equity	Profit or loss for the year	Comments
Enerjisa Elektrik Enerjisi Toptan Satis A.S.	Istanbul	NC	VIN-TR-HI	100.00%	31/12/2010	3,570	1,836	1, 4
Enerjisa Elektrik Dogalgaz Toptan Satis A.S.	Istanbul	NC	VIN-TR-HI	100.00%	31/12/2010	1,623	-39	1, 4
Enerjisa Enerji Üretim A.S.	Istanbul	NC	VIN-TR-HI	100.00%	31/12/2010	962	10	1, 4
VERBUND Trading Hungária Kft	Budapest	NC	VTR	100.00%	31/12/2010	612	78	
Enerjisa Elektrik Dagitim A.S.	Istanbul	NC	VIN-TR-HI	100.00%	31/12/2010	576	14	1, 4
VERBUND Trading Slovakia s.r.o.	Bratislava	NC	VTR	100.00%	31/12/2010	467	24	
VERBUND Trading Czech Republic s.r.o.	Prague	NC	VTR	100.00%	31/12/2010	453	9	
VERBUND Trading & Sales Deutschland GmbH	Munich	NC	VTR	100.00%	31/12/2010	228	120	
VERBUND Trading Macedonia DOOEL	Skopje	NC	VTR	100.00%	31/12/2010	149	50	
Lestin & Co Tauch- und Bergungs- unternehmen Gesellschaft m.b.H.	Passau	NC	LES-TIN	100.00%	31/12/2010	79	0	
VERBUND Trading Croatia d.o.o.	Zagreb	NC	VTR	100.00%	31/12/2010	78	14	
POWEO Blaringhem Production S.A.R.L.	Paris	NC	VIN-FR	60.00% 40.00%	31/12/2010	-71	-42	
VERBUND Trading Serbia d.o.o.	Belgrade	NC	VTR	100.00%	31/12/2010	62	-11	
VERBUND EcoSales GmbH	Vienna	NC	VSA	100.00%	31/12/2010	35	-19	
Ashta Beteiligungs- verwalung GmbH (VHP-AL-HII)	Vienna	NC	VHP-AL-HI	100.00%	31/12/2010	30	-5	
VERBUND Trading Romania S.R.L.	Bucharest	NC	VTR-VH	99.00% 1.00%	31/12/2010	-3	-4	
Lestin & Co Tauch-, Bergungs- und Sprengunternehmen Gesellschaft m.b.H. (LESTIN)	Vienna	NC	VHP	82.35%	31/12/2010	519	38	

Group companies

€k

Company	Head-quarter	Consolidation method	Parent company	Parent company's share of equity	Balance sheet date	Equity	Profit or loss for the year	Comments
VERBUND Mobile Power Region GmbH	Vienna	NC	VH AL- MEN- LAND	75.10% 24.90%	31/12/2010	16	- 19	
RIECADO Regional Energy Capacity Auction Data Operator GmbH	Vienna	NC	APG	74.80%	31/12/2010	125	55	
Verbundplan Birecik Baraji Isletme Ltd. Sti.	Birecik	NC	VHP	70.00%	31/12/2010	5,258	4,665	
Energie Austria GmbH	Vienna	NC	VH	68.75%	31/12/2010	46	- 4	
POWEO Outre-mer Solaire	Paris	NC	VIN- FR	50.10%	31/12/2010	4,442	- 394	
Gemeinschaftskraftwerk Inn GmbH	Landeck	NC	VH	50.00%	31/12/2010	222	3	
C.E.M.P. d.o.o.	Zagreb	NC	VRP	50.00%	31/12/2010	168	- 105	
Almenland Energie GmbH (ALMENLAND)	Fladnitz	NC	VRP	50.00%	31/12/2010	28	0	
PÖYRY Energy GmbH	Vienna	NC	VH	25.10%	31/12/2010	14,811	2,526	

FC = Fully consolidated subsidiary / EM = Investee accounted for using the equity method / NC = Non-consolidated company

¹ Separate financial statements in accordance with IFRSs // ² Newly established in the 2011 reporting period // ³ Joint venture // ⁴ Contribution in the 2011 reporting period

Events after the balance sheet date

Effective 30 January 2012, capital increases were resolved by Enerjisa Enerji A.S. for 2012 in the amount of TRY 1,045.4m. VERBUND's interest in these capital increases is 50%.

Vienna, 31 January 2012
Executive Board

Dipl.-Ing. Wolfgang Anzengruber
Chairman

Dr. Johann Sereinig
Vice-Chairman

Dr. Ulrike Baumgartner-Gabitzer
Member

Dipl.-Ing. Dr. Günther Rabensteiner
Member

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 they apply in the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of VERBUND.

We also confirm that, to the best of our knowledge, the consolidated 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, liabilities, financial position and profit or loss of VERBUND, and that the consolidated management report describes the significant risks and uncertainties to which VERBUND is exposed.

Vienna, 31 January 2012
Executive Board

Dipl.-Ing. Wolfgang Anzengruber
Chairman

Dr. Johann Sereinig
Vice-Chairman

Dr. Ulrike Baumgartner-Gabitzer
Member

Dipl.-Ing. Dr. Günther Rabensteiner
Member

Auditor's report

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of VERBUND AG, Vienna, for the financial year from 1 January 2011 to 31 December 2011. These consolidated financial statements comprise the consolidated balance sheet as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the reporting period ended 31 December 2011 as well as the notes to the consolidated financial statements.

The Company's management is responsible for the Group accounting system and for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and with the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements 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.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

**Management's
responsibility for the
consolidated
financial statements
and for the
accounting system**

**Auditors'
responsibility and
description of type
and scope of the
statutory audit**

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as at 31 December 2011 and of its financial performance and its cash flows for the financial year from 1 January 2011 to 31 December 2011 in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union.

Comments on the consolidated management report

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditors' report also has to contain a statement as to whether the management report of the Group is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB) are appropriate.

In our opinion, the consolidated management report is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB) are appropriate.

Vienna, 31 January 2012

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Gerhard Marterbauer
Certified Public Accountant

Mag. Maximilian Schreyvogel
Certified Public Accountant

Glossary

Base load

Base-power deliveries are quantities supplied in constant amounts 24 hours a day.

Benchmark

Designation for a reference value to which a fund or portfolio is compared for orientation.

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; broken down into cash flow from operating activities, from investment activities and from financing activities.

Clean dark spread

Difference between the price of fuel (coal) including CO₂ and the price of electricity.

Clean spark spread

Difference between the price of fuel (gas) including CO₂ and the price of electricity.

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 related to cross-border leasing transactions and to the Republic of Austria as well as associated investments were treated in the same way.

Code of corporate governance

Code of conduct for corporations establishing the principles of good management. However, the contents do not represent codified law, but instead provide rules and standards, which companies voluntarily adhere to.

Cross-border leasing

International leasing transactions in which the lessor and lessee are based in different countries.

Discounted cash flow method

A method of determining enterprise value by discounting future net cash flows which are defined differently depending on the method. VERBUND applies the entity approach (gross method).

Earnings before interest and tax (EBIT)

Operating result.

Earnings before interest, taxes, depreciation and amortisation (EBITDA)

Operating result before interest, taxes and depreciation of property, plant and equipment and amortisation of intangible assets taking into account effects from impairment tests.

EBIT margin

Return on sales.

Economic value added (EVA®)

Difference between the income a company earns on the assets used for performance and commercialisation processes and the (total) costs of capital; $EVA^{\circ} = NOPAT - (\text{capital employed} \times WACC)$.

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 (Section 2 and 43 of the Energy Regulatory Authorities Act or Energie-Control Gesetz); it is tasked with monitoring the implementation of the deregulation of the Austrian electricity and gas market and intervening for regulatory purposes if necessary.

ECRA (Emission Certificate Registry Austria GmbH)

Set up by the legislator as the emissions registry on the basis of the Emissions Allowance Trading Act (Emissionszertifikatengesetz, EZG); it is tasked with the technical administration of issuing, holding, transferring and cancelling emission rights.

EWOG

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.

Enterprise value (EV)

The enterprise value corresponds to market capitalisation plus net debt and reflects the market value of the whole business.

Equity method

Method 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)

Equity in relation to total capital adjusted for items closed on the balance sheet.

Fluctuation rate

The fluctuation rate is a percentage of employees who have left the company due to termination, mutual agreement, early retirement or dismissal during the probationary period. The percentage is calculated based on the actual number of employees as at the balance sheet date.

Free cash flow

Cash flow from operating activities plus cash flow from investment activities; available for financing activities (e.g. dividend distributions, repayment of loans).

Funds from operations (FFO)

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

Gearing

Net debt in relation to equity.

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

Relation of funds from operations (FFO) to gross debt.

Gross interest cover

Relation of funds from operations (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. The long-term average = 1; consequently, 1.1 signifies a 10% increase in production.

International Financial Reporting Standards (IFRSs)

The abbreviation IFRSs is the generic term used for all International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs), as well as all interpretations issued by the Standing Interpretations Committee (SICs) and the International Financial Reporting Standards Interpretations Committee (IFRICs).

Inter-TSO compensation (ITC)

Compensation for transmission charges relating to cross-border flows of electricity in transmission grids.

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.

(n-1) criterion

Rule according to which the failure of a single operating asset, e.g. a power line, may not endanger the safety of network operation.

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.

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

Recommended dividend payments in relation to Group result.

Peak load

Peak denotes the time period with high demand for electricity; generally during the day on weekdays. In Germany, France, Austria, Italy and Switzerland from 8 a.m. to 8 p.m. every weekday (Monday to Friday).

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.

Portfolio

Total inventory of securities held by a customer or investment fund; serves to diversify risk.

Public private partnership (PPP)

Public and private sector partnership to complete public tasks (e.g. infrastructure projects).

Return on capital employed (ROCE)

Net operating profit after tax (NOPAT) adjusted for interest expenses for tax purposes (including interest on personnel expenses) in relation to average capital employed.

Return on equity (ROE)

Net profit or loss for the period (adjusted for results from the termination of cross-border leasing transactions) in relation to average equity.

Return on sales

Earnings before interest and tax (EBIT) in relation to revenue.

Risk management

Systematic method of identifying and measuring potential risks as well as selecting and implementing measures to counteract risks.

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. From 2012, the E-Control Commission will issue the System Usage Rates Directive.

Total heating degree days

Sum of heating degree days for a certain period.

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 daily, the variation margin represents unrealised gains or losses. The position per se remains pending.

VERBUND energy market model (VEMM)

An energy simulation tool for the development of medium- and long-term electricity price scenarios for electricity markets.

Volatility

The intensity of price fluctuations of stocks and foreign currency and/or changes in the price of bulk goods.

Weighted average cost of capital (WACC)

Weighted average costs of capital for equity and debt.

VERBUND AG corporate structure

Electricity generation

VERBUND Hydro Power AG
VERBUND Thermal Power GmbH & Co KG
VERBUND Renewable Power GmbH
VERBUND Innkraftwerke GmbH

Eco-friendly and cost-effective electricity generation is the basis for VERBUND's success.

Electricity trading and distribution

VERBUND Trading AG
VERBUND Sales GmbH

VERBUND is one of the most successful electricity traders in Europe. The Group has also been supplying consumers in Austria since 2005.

Electricity transmission

Austrian Power Grid AG

VERBUND operates the most powerful high-voltage grid in Austria, and is an important hub for electricity transmission in Europe.

International equity interests

VERBUND International GmbH

The Group develops its business activities abroad through VERBUND International GmbH.

Five-year comparison

VERBUND Group 2011, IFRSs

	Unit	2011	2010	2009	2008	2007
Revenue	€m	3,865.4	3,307.9	3,483.1	3,744.7	3,038.3
Operating result (EBIT)	€m	1,001.6	828.5	1,042.3	1,138.6	916.1
EBITDA	€m	1,041.1	1,059.2	1,251.5	1,321.8	1,099.1
Group result	€m	352.6	400.8	644.4	686.6	579.2
Balance sheet total	€m	11,859.3	11,291.0	10,345.2	8,293.8	7,339.8
Equity	€m	4,929.4	4,372.4	3,409.7	3,128.1	2,674.6
Net debt	€m	4,035.7	4,233.9	4,788.9	2,753.2	2,119.5
Capital expenditure for property, plant and equipment	€m	581.4	635.7	471.9	440.3	249.4
Cash flow from operating activities	€m	829.9	778.2	968.0	934.2	807.6
Free cash flow	€m	43.6	-355.8	-1,075.7	-187.5	161.1
EBITDA margin	%	26.9	32.0	35.9	35.3	36.2
Return on sales (ROS; EBIT margin)	%	25.9	25.0	29.9	30.4	30.2
Return on capital employed (ROCE)	%	7.1	8.2	12.9	16.7	15.9
Return on equity (ROE)	%	9.9	12.9	22.4	27.3	26.8
Equity ratio (adjusted)	%	43.0	39.9	34.3	41.3	39.6
Gearing	%	81.9	96.8	140.4	88.0	79.2
Gross debt coverage (FFO)	%	18.9	17.6	20.2	36.3	30.3
Gross interest cover (FFO) ¹	X	3.7	3.6	4.8	7.1	8.1
Share price high	€	32.47	32.12	38.13	59.30	49.95
Share price low	€	17.91	24.24	23.73	29.74	31.21
Closing price	€	20.74	27.88	29.71	32.56	47.88
Market capitalisation	€m	7,203.7	9,685.9	9,156.6	10,035.0	14,756.6
Earnings per share ²	€	1.01	1.28	2.09	2.23	1.88
Cash flow per share ^{2,3}	€	2.39	2.49	3.14	3.03	2.62
Carrying amount per share ³	€	12.44	11.62	10.12	9.30	7.00
Price/earnings ratio (last trading day)	X	20.43	21.71	14.21	14.61	25.48
Price/cash flow ratio ^{2,3}	X	8.68	11.18	9.46	10.74	18.27
Price/carrying amount ratio ³	X	1.67	2.40	2.94	3.50	6.84
(Proposed) dividend per share	€	0.55	0.55	1.00	1.05	0.90
Special dividend per share	€	-	-	0.25	-	-
Dividend yield	%	2.65	1.97	4.21	3.22	1.88
Payout ratio	%	54.19	47.67	59.79	47.13	47.89
Entity value/EBITDA	X	10.76	13.14	11.14	9.67	15.35
Average number of employees		3,045	3,015	2,820	2,541	2,441
Electricity sales volume	GWh	64,396	55,729	51,289	56,057	57,038
Hydro coefficient		0.89	0.99	1.06	1.01	0.97

¹ Interest expenses without the profit shares attributable to the limited partners // ² For calculating the earnings per share and the cash flow per share, the average number of shares was determined exactly to the day. // ³ Key figures were revised, previous year's values adjusted.

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