Sustainable solutions for generations to come.
Our drive. Our energy.

Annual Financial Report 2018

Verbund
Power for the Future

VERBUND Integrated Annual Report

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

How should this report be used?

The information in this integrated report focuses on the main aspects of economic, environmental and social performance.
Additional information about the content presented here can be found

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

GRI indicators, SDGs and TCFD references in the margin notes point to the corresponding content in the text.

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

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

UN GLOBAL COMPACT
COMMUNICATION ON PROGRESS

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

Design concept for charts and tables

Column/bar width

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

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

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

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

Colours

Current year

Neutral

Previous years

Budgeted figures

VERBUND

Emphasis

Five-year comparison

Economic performance

	Unit	2014[4]	2015	2016	2017	2018
Revenue[1]	€m	2,880.4	2,969.6	2,795.9	2,913.2	**2,847.9**
EBITDA	€m	808.8	888.7	1,044.2	922.3	**864.2**
Adjusted EBITDA[2]	€m	889.6	838.8	894.5	899.7	**863.5**
Operating result (EBIT)	€m	384.4	410.6	615.1	400.1	**655.1**
Operating result before effects from impairment tests	€m	423.5	528.6	704.9	581.0	**536.9**
Profit or loss after tax from discontinued operations[3]	€m	25.1	–	–	–	**–**
Group result	€m	126.1	207.7	424.4	301.4	**433.2**
Adjusted Group result[2]	€m	216.0	268.9	325.9	354.5	**342.2**
Total assets	€m	12,247.3	11,763.0	11,538.2	11,283.6	**11,704.8**
Equity	€m	5,280.5	5,433.3	5,529.5	5,690.8	**5,941.0**
Net debt	€m	4,059.6	3,685.4	3,221.7	2,843.8	**2,560.7**
Additions to property, plant and equipment	€m	412.3	269.3	255.3	231.0	**292.5**
Cash flow from operating activities	€m	717.6	674.0	804.3	640.6	**664.1**
Free cash flow before dividends	€m	284.7	551.4	580.7	416.1	**415.3**
Free cash flow after dividends	€m	– 133.6	392.7	415.7	293.5	**237.2**
EBITDA margin[1]	%	28.1	29.9	37.3	31.7	**30.3**
EBIT margin[1]	%	13.3	13.8	22.0	13.7	**23.0**
Return on capital employed (ROCE)	%	3.2	3.9	5.7	4.2	**6.1**
Return on equity (ROE)	%	3.3	4.7	8.4	5.4	**8.2**
Equity ratio (adjusted)	%	44.7	48.2	50.0	52.4	**52.7**
Gearing	%	76.9	67.8	58.3	50.0	**43.1**
Net debt/EBITDA	X	5.0	4.1	3.1	3.1	**3.0**
FFO/Net debt (net debt coverage)	%	18.2	23.9	32.1	30.0	**28.7**
Gross debt coverage (FFO)	%	16.1	22.8	30.4	28.1	**25.7**
Gross interest cover (FFO)	X	2.8	5.2	8.7	8.1	**7.3**
Closing price	€	15.30	11.86	15.18	20.15	**37.24**
Market capitalisation	€m	5,313.7	4,120.4	5,272.0	6,998.7	**12,937.8**
Earnings per share	€	0.36	0.60	1.22	0.87	**1.25**
Cash flow per share	€	2.07	1.94	2.32	1.84	**1.91**
Carrying amount per share[5]	€	13.26	13.75	14.05	14.58	**15.27**
Price/earnings ratio (last trading day)	X	42.14	19.83	12.42	23.22	**29.87**
Price/cash flow ratio	X	7.41	6.11	6.55	10.93	**19.48**
Price/book value ratio[5]	X	1.15	0.86	1.08	1.38	**2.44**
(Proposed) dividend per share	€	0.29	0.35	0.29	0.42	**0.42**
Dividend yield	%	1.9	3.0	1.9	2.1	**1.1**
Payout ratio from Group result	%	79.9	58.5	23.7	48.4	**33.7**
Entity value/EBITDA	X	11.6	8.8	8.1	10.7	**17.9**
Average number of employees		3,245	3,089	2,923	2,819	**2,742**
Electricity sales volume	GWh	50,823	51,375	55,189	58,518	**58,908**
Hydro coefficient		1.02	0.93	1.00	0.99	**0.94**

[1] calculation adjusted retrospectively in accordance with IAS 8 in financial year 2015 with effect from 1 January 2014 // [2] adjusted for extraordinary effects // [3] Profit or loss after tax from discontinued operations corresponds to the profit or loss after tax attributable to the French equity interests Pont-sur-Sambre Power S.A.S. and Toul Power S.A.S. that were classified as held for sale until their deconsolidation on 13 October 2014. // [4] The calculation of the key performance indicators includes profit or loss after tax from discontinued operations. // [5] calculation adjusted retrospectively in accordance with IAS 8 in financial year 2017

Environmental performance

	Unit	2014	2015	2016	2017	**2018**
Hydropower generation[1]	GWh	31,188	28,098	29,809	29,687	**28,684**
Wind power generation	GWh	811[2]	882[2]	835[2]	952	**834**
Thermal power generation	GWh	2,031	2,259	1,351	2,227	**1,611**
Share of generation from renewables	%	94	93	96	93	**95**
Specific GHG emissions (Scope 1/total electricity generated)[3]	g CO_2e/kWh	52	56	31	41	**34**
Emissions avoided through renewable generation[4]	kt CO_2	25,921	24,167	25,457	23,666	**22,411**
Percentage of sites certified to ISO 14001 and EMAS[5]	%	92	93	93	100	**100**

Social performance

	Unit	2014	2015	2016	2017	**2018**
Number of employees under labour law[6]	Number	3,265	3,098	2,952	2,819	**2,784**
Training per employee[7]	Hours	29.6	33.6	35.2	36.0	**33.6**
Lost time injury frequency (LTIF)[8]	Number	11.5	11.9	8.9	10.1	**5.4**
Proportion of women	%	17.8	17.8	17.5	17.5	**17.6**
Average duration of employment[9]	Years	17.0	19.2	18.9	18.8	**18.1**
Employee turnover rate[10]	%	2.7	2.7	2.7	2.8	**2.1**

[1] incl. purchase rights // [2] incl. the solar power generated in Spain that was available until the sale of the Spanish activities (sale completed in mid-December 2016) // [3] total electricity generated incl. purchase rights excluding generation of district heating; preliminary data prior to audit // [4] calculation using the share of thermal generation based on ENTSO-E mix // [5] sites of consolidated companies, excluding wind power plants if the operating company is certified and sites in which VERBUND has a share of <51% and where another co-owner is responsible for management; as at 31 December of the year // [6] as at 31 December, excl. members of the Executive Board and employees in partial retirement // [7] incl. executives and long-term agency staff, excl. apprentices, apprentices in post-qualification retention period (Behaltefristen), employees seconded to third parties and those on long-term leave; excluding safety instruction // [8] ratio of workplace injuries from the first day of leave to million working hours; excluding injuries requiring only first aid measures. Beginning in 2017, the basis for calculating the working hours is defined for the industry at 1,740 working hours per year (previously 1,618), incl. external contractors for the first time in 2018. // [9] Change in calculation method in 2016: personnel from acquired and newly consolidated companies are included in the duration of employment with the acquired/consolidated company and no longer in the duration of employment with the VERBUND Group. // [10] excl. retirements, incl. employees leaving during their probationary period

GRI 102-7

Basic information

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

Capital market calendar 2019

Event	Date
Annual result 2018	13 March 2019
Publication of integrated annual report	13 March 2019
Record date for Annual General Meeting	20 April 2019
Annual General Meeting	30 April 2019
Ex-dividend date	7 May 2019
Record date for dividends	8 May 2019
Dividend payment date	20 May 2019
Interim report quarter 1/2019	8 May 2019
Interim report quarters 1–2/2019	1 August 2019
Interim report quarters 1–3/2019	6 November 2019

VERBUND

Annual Financial Report 2018

Contents

Part 1
Group

Information about the integrated report

This integrated annual report contains the Group management report published by VERBUND for financial year 2018, the Group report on non-financial information (NFI Report) and the Group's consolidated financial statements, including the notes to the consolidated financial statements. The principles of fair enterprise management followed by VERBUND are laid out in the Corporate Governance Report. This integrated annual report thus not only presents the Group's financial and legal information but also deals with further aspects of sustainability and proper conduct of business operations.

GRI 102-46
GRI 102-48

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

The reporting period comprises the 2018 calendar year. The most recent preceding report (for the 2017 financial year) was published on 14 March 2018. To ensure that our report is up to date, we also report on any major events occurring at VERBUND between 31 December 2018 and authorisation of the annual report for issue on 14 February 2019. Supplementary information on sustainability topics is available in our Disclosures on Management Approach (DMA) document and on our website at www.verbund.com > About VERBUND > Responsibility > Non-financial Information.

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

Integrated report focuses on stakeholder interests

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

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

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

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

Our auditor reviews the NFI Report for completeness and records the outcome in an Independent Assurance that is subsequently presented to the Supervisory Board.

The Supervisory Board reviews the NFI Report and reports on its findings to the General Meeting held in the year following the reporting period.

GRI 102-32

Standards and guidelines

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

GRI 102-54
GRI 102-55

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

The margins of this report include references to GRI disclosures as well as to our contributions to the respective Sustainable Development Goals (SDGs) set by the UN. The "TCFD" references in the margins point to information on how VERBUND is implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) to manage its climate-related financial risk exposure.

VERBUND is one of the signatories to the United Nations Global Compact and as such supports the UN's 2030 Agenda for Sustainable Development. This integrated annual report doubles as our UN Global Compact Communication on Progress Report.

External audit

GRI 102-56

See: Independent Assurance and Independent Auditor's Report

The consolidated financial statements, the Group management report and the NFI Report were subjected to a comprehensive external audit by independent auditor Deloitte Audit Wirtschaftsprüfungs GmbH.

Report of the Executive Board

Ladies and Gentlemen,

In recent years, we at VERBUND have taken action in numerous areas to strengthen our core business and improve the resilience of the Group in today's volatile energy market. We have streamlined our foreign equity interests and successfully restructured our portfolio of thermal power plants. We have also succeeded in cutting costs substantially and made progress in reducing the Group's debt level by implementing multiple programmes to reduce costs and increase efficiency and adjusting our investment programme. VERBUND now has a solid capital structure and considerable strategic flexibility that will allow us to take advantage of opportunities for growth as they arise. GRI 102-14

Favourable energy market environment. The changes occurring throughout 2018 in operating conditions in the energy market have proven favourable for our Group. Among other things, the recovery of wholesale electricity prices that began in Europe in 2017 has continued, with higher prices for CO_2 emission rights in particular fuelling the upward price trend. VERBUND benefited from the favourable market environment thanks to our Group's cost-efficient, environmentally friendly electricity generation capabilities. Our flexible generation units, which take the form of storage and pumped storage power plants as well as the Mellach thermal power plants, will enable our Group to compensate for fluctuating electricity generation in a European energy system that has become increasingly volatile.

Rating agencies and capital market reward VERBUND for measures implemented. Both the capital market and rating agencies have responded favourably to the measures we have implemented and the improvements in the energy market climate, which resulted in two ratings increases for VERBUND AG in September 2018. Moody's Investors Service raised its rating from Baa2/positive outlook to Baa1/positive outlook. Standard and Poor's increased its rating for VERBUND AG from BBB+/stable outlook to A–/stable outlook. VERBUND is thus once again among Europe's highest rated energy suppliers. The equity markets also rewarded VERBUND's good performance last year, with the price of VERBUND shares climbing 84.9% in 2018. This made VERBUND the top performer in the Austrian ATX in a difficult year for the stock markets in which the ATX declined by a total of 19.7% and the European DJ STOXX Utilities sector index was down 2.1% (full-year 2018).

High strategic importance of our core business. In 2018, we strengthened the strategic foundation that will enable us to take advantage of our Group's potential in the future. In the coming years, we will be reinforcing our core business by making additional investments in our hydropower plants and in new renewables, among other things, and accelerating grid expansion. Our current investment budget will be raised for this purpose. In our trading operations, we will continue to strengthen our green electricity marketing efforts. Marketing innovative flexibility products is likewise among the focal points of VERBUND's future activities. New business activities are also on the agenda, particularly for providing innovative services for (large) customers in response to changing customer needs.

VERBUND's new fields of activity will include forward-looking areas such as applications for energy storage technologies. In light of rising demand for electricity, cost-efficient energy storage options are needed in order to advance decarbonisation and successfully deliver the energy transition. Green hydrogen will also make a significant contribution in this context. At the start of quarter 2/2018, we therefore initiated construction of one of the world's biggest hydrogen pilot plants of the H2FUTURE consortium at the voestalpine site in Linz.

Digitalisation continues to gain in significance. Digitalisation will also play an important role in the future of energy and is a core area of focus at VERBUND. In this context, VERBUND launched a project known as Hydropower 4.0 – Digital Hydropower Plant during the first half of 2018. The project involves testing all available options for either implementing existing digital tools to assist in generating electricity from hydropower or developing new ones. VERBUND has also successfully demonstrated how digitalisation can transform existing processes into a specific, innovative application that is of immediate benefit to customers in the form of its "VISION" portal for business customers, which was developed in-house.

Global milestones in green finance products. The Austrian government's climate strategy calls for continuing to expand forms of renewable energy up to 2030. As one of Europe's leading producers of electricity from renewable energy and an energy transition partner, we support these efforts with our sustainable portfolio. Our responsibility for climate protection and to the public has been more than just a slogan for us for decades. VERBUND's green finance initiatives fit perfectly into this scenario. In quarter 1/2018, for instance, we became the first company in the world to issue a green Schuldschein over a fully integrated digital issuing platform. The Schuldschein was issued in a volume of €100m and has a term to maturity of ten years. This was followed in December 2018 by issuance of VERBUND's first syndicated credit facility in the amount of €500m which is rated exclusively in accordance with sustainability criteria. The syndicated credit facility is the first such instrument in the world whose interest rate is determined not by a traditional finance rating but by a sustainability rating over its entire term. Back in 2014, we were the first company in the German-speaking region to launch a green bond, issued in the amount of €500m.

Income trend. VERBUND's EBITDA for financial year 2018 registered a year-on-year decline of 6.3% to €864.2m and the Group result showed an increase of 43.7% to €433.2m. In both the current and the previous reporting periods, however, earnings – especially the Group result – were heavily impacted by non-recurring effects. In 2018, these effects related above all to reversals of impairment losses recognised on the Group's hydropower operations in Austria and Germany and on its wind power operations in Romania. Adjusted for non-recurring effects, EBITDA declined by 4.0% to €863.5m and the Group result was down 3.5% to €342.2m. One of the reasons for the decline in income was the low water supply in the 2018 reporting period. The hydro coefficient for the run-of-river power plants dropped to 0.94, or 5 percentage points below the prior-year figure and 6 percentage points below the long-term average. Notable in this context was the extremely low water supply in quarters 3 and 4/2018, with hydro coefficients of 0.74 and 0.86, respectively. Lower revenue from flexibility products also had a negative effect. The average sales prices obtained for our own generation from hydropower were also somewhat lower than in the previous year at €29.3/MWh (2017: €30.4/MWh). By contrast, the higher earnings contribution from the Grid segment and the good results achieved through the programmes implemented in recent years to reduce costs and increase efficiency had a positive impact.

Dividend. We plan to propose a dividend of €0.42 per share for financial year 2018 at the Annual General Meeting to be held on 30 April 2019. The payout ratio calculated on the basis of the adjusted Group result thus amounts to 42.6% for 2018 (or 33.7% based on the reported Group result).

We would like to express our gratitude to all of our customers as well as to all of our employees, investors, suppliers and business partners.

Let us now work together to find new and sustainable solutions for the next generations! Carbon-free electricity generation: Our drive. Our energy.

Dipl.-Ing. Wolfgang Anzengruber | Mag. Dr. Michael Strugl | Dr. Peter F. Kollmann | Mag. Dr. Achim Kaspar

Report of the Supervisory Board

As Austria's leading utility, VERBUND succeeded in remaining on a profitable and sustainable trajectory in financial year 2018. The Group once again generated very good results in a market climate that remained volatile and in which water supply was poor. The Supervisory Board actively monitored and supported this strong performance.

GRI 102-26

Performance of duties. In financial year 2018, the Supervisory Board discharged the responsibilities and exercised the powers incumbent upon it by virtue of the law and the Articles of Association at six plenary meetings. The overall attendance rate for all Supervisory Board members was 91%. The Chairman additionally kept in regular contact with the Board members to discuss matters of importance as they arose. The Executive Board provided the Supervisory Board with regular and comprehensive real-time information, both verbally and in writing, on all relevant matters relating to the performance as well as the position and strategy of the Group and all significant Group companies; information was also provided on the Group's risk position and its risk management activities.

The Supervisory Board monitored the Executive Board's management of the Company based on the reports received from the Executive Board. Supervision took place in the context of open and constructive discussions between the Executive Board and the Supervisory Board, with the Supervisory Board paying particularly close attention to the Group's structure, business processes and strategy. This involved the Supervisory Board working to advance the ongoing strategy process and adopting a new version of the rules of procedure for the Executive and Supervisory Boards. The main resolutions adopted by the Supervisory Board are presented in the 2018 Consolidated Corporate Governance Report. Between Board meetings, the Chairman of the Supervisory Board conversed regularly with the members of the Executive Board, particularly the Chairman.

Changes in the Executive and Supervisory Boards. In addition to approving the annual financial statements and the Group budget, one of the Supervisory Board's most important decisions during the reporting period involved the (re-)appointment of Executive Board members. The Supervisory Board extended the Executive Board appointments of Dipl.-Ing. Wolfgang Anzengruber as CEO and Dr. Peter Kollmann as CFO. It also appointed Mag. Dr. Michael Strugl to the Executive Board as member and Vice-Chairman, and Mag. Dr. Achim Kaspar as a member of the Executive Board effective 1 January 2019. Effective 31 December 2018, Dr. Johann Sereinig and Dipl.-Ing. Dr. Günther Rabensteiner left the Executive Board and entered retirement. The Supervisory Board would like to thank Dr. Johann Sereinig and Dipl.-Ing. Dr. Günther Rabensteiner for their many years of successful work on the Executive Board.

There were two personnel changes on the Supervisory Board as well. Mag. Stefan Szyszkowitz was appointed to the Supervisory Board to replace Dipl.-Ing. Dr. Peter Layr as a shareholder representative at the Annual General Meeting held on 23 April 2018. With respect to the employee representatives, Doris Dangl was appointed to replace Anton Aichinger effective 5 April 2018.

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

Pursuant to the requirements of the Code (Rule 36), the Supervisory Board again conducted a self-evaluation of its activities in the reporting period, particularly of its organisation and work procedures. The evaluation was undertaken in the form of a comprehensive written questionnaire that was completed by the Board members. In addition, the Supervisory Board again discussed at length possible conflicts of interest when dealing with the approval of contracts with companies where individual Supervisory Board members are related parties. No conflicts of interest were identified that would require any action to be undertaken beyond that taken at the meetings.

Adopted on 23 April 2018, the amended rules of procedure for the Supervisory Board provide for changes involving the Supervisory Board committees as well as modified regulations for Supervisory Board meetings. For example, the Working Committee, which did not meet in the reporting period, was dissolved. In lieu of the Working Committee, the rules of procedure established the previously temporary Strategy Committee as a standing Supervisory Board committee. The Strategy Committee is responsible above all for coordinating corporate strategy with the Executive Board, conducting the annual strategy review and supervising any modifications to be made. During the reporting period, the Strategy Committee held five meetings for the purpose of monitoring revision of the Group's strategy.

The Audit Committee held three meetings in the year under review. It dealt above all with the semi-annual financial statements and preparation of the resolution to approve the annual financial statements, as well as with the appointment of the auditor and examination of the auditor's work. In addition, the Audit Committee concentrated on opportunity and risk management as well as the Group's internal control and audit procedures and on the audits performed by the internal audit function. The number of Audit Committee members was reduced under the new rules of procedure, as was the number of Strategy Committee members. The same applies to the Emergencies Committee provided for in the rules of procedure, which did not meet in the reporting period.

In accordance with the Code of Corporate Governance and the rules of procedure, two other Supervisory Board committees – a Nomination Committee and a Remuneration Committee – were again formed in the past financial year. The Remuneration Committee convened seven times, mainly to discuss the agreements on targets and the variable remuneration paid to the Executive Board as well as the termination agreements with former members of the Executive Board and the new Executive Board contracts. The Nomination Committee held five meetings to prepare for the Supervisory Board elections as well as for the call for applicants to the Executive Board and the Executive Board appointments in June 2018.

Further information on the composition, work procedures and meetings of the Supervisory Board and its committees as well as on the remuneration paid to its members is contained in the Group's Consolidated Corporate Governance Report for 2018.

Annual financial statements and consolidated financial statements. The annual financial statements, together with the management report, the consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRSs) and the Group management report for financial year 2018 were audited by Deloitte Audit Wirtschaftsprüfungs GmbH and issued with an unqualified auditor's report. The auditor prepared the additional report required to be made to the Audit Committee under Article 11 of the Regulation on the statutory audit of public-interest entities and reported its findings in writing. The auditor found that the Executive Board had provided the explanations and evidence requested, that the book-keeping, annual financial statements and consolidated financial statements fulfilled the legal requirements and, in conformity with generally accepted accounting principles, gave a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group. The auditor also confirmed that the management report and the Group management report were consistent with the annual financial statements and the consolidated financial statements.

Following in-depth examination and discussion by the Audit Committee and the Supervisory Board, the Supervisory Board approved the annual financial statements for financial year 2018 as presented by the Executive Board. As a result, they are final for the purposes of Section 96(4) of the Austrian Stock Corporation Act (Aktiengesetz, AktG). The management report prepared by the Executive Board was approved, as was the proposal for the appropriation of profit. The Supervisory Board also approved the consolidated financial statements and the Group management report along with the Consolidated Corporate Governance Report submitted by the Executive Board and the separate NFI Report. There were no grounds for any material objections.

In conclusion, the Supervisory Board would like to thank the Executive Board and all employees for their high level of dedication and their successful work during financial year 2018. The Supervisory Board would also like to thank the Group's shareholders, customers and business partners for their trust.

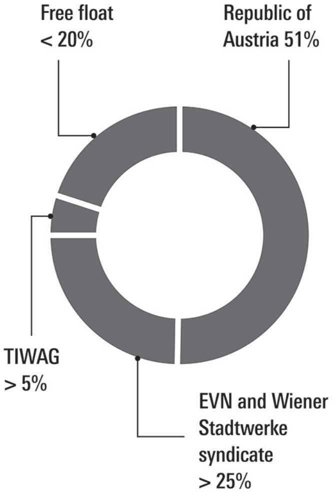
Vienna, March 2019

Dr. Gerhard Roiss
Chairman of the Supervisory Board

OUR DRIVE. OUR ENERGY

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

SHAREHOLDER STRUCTURE



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GRI 102-1, GRI 102-2,
GRI 102-3, GRI 102-4,
GRI 102-5, GRI 102-6

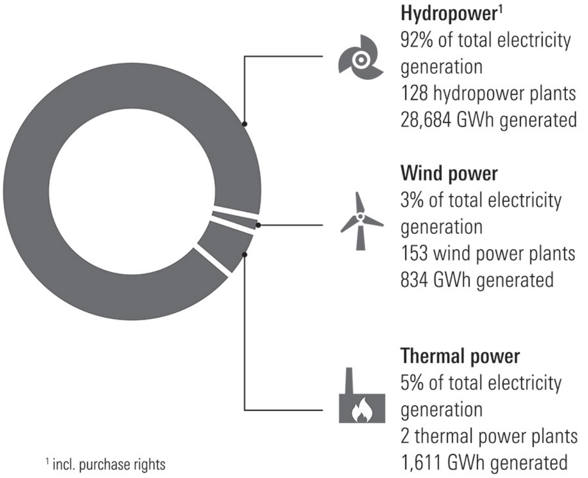
VERBUND at a glance. Power for the future.

Our mission is to energise the future with clean electricity and innovative solutions. We are one of the largest producers of hydroelectricity in Europe. VERBUND's value chain comprises the generation, transportation, trading and sale of electrical energy and other energy sources as well as the provision of energy services. In 2018, the Group generated annual revenue of around €2.8bn with approximately 2,700 employees. VERBUND has been listed on the Vienna Stock Exchange since 1988, with 51% of the share capital held by the Republic of Austria.

GENERATION

All amounts are for 2018

VERBUND is Austria's leading utility and one of the largest producers of hydroelectricity in Europe. Our most important energy generation technologies are hydropower and wind power – renewable resources that account for some 95% of all energy produced by VERBUND. Making the generation of 100% carbon-free electricity a long-term reality is our goal.



[1] incl. purchase rights

TRADING AND SALES

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

TRANSPORTATION

Austrian Power Grid (APG) is the wholly owned grid subsidiary of VERBUND AG. APG operates the Austrian transmission grid, which extends over approx. 3,400 km and includes 64 substations and switching stations. Located in the heart of Europe, the grid integrates electricity from renewable sources into the electricity supply for Austria and the rest of Europe and plays a crucial role in enabling the energy transition. APG's high-performance grid ensures security of supply and forms the basis for the development of a liberalised electricity market throughout the EU.

ENERGY-RELATED SERVICES

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

VERBUND's integrated corporate strategy

The strategy in place at VERBUND lays the foundations for a sustained rise in enterprise value and is divided into three value creation areas: renewable generation, transmission and customer-focused energy solutions.

Pillars of VERBUND's integrated corporate strategy

Carbon-free, low-cost producer

Hydropower and wind power are our most important energy generation technologies. They form the basis for positioning the VERBUND brand as a carbon-free, low-cost producer. Our generation portfolio also provides the structure for offering the necessary flexibility products, which we have designed to optimally reflect the needs of a modern energy market.

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

Reliable transmission system operator

As a reliable and stable transmission system operator, we safeguard the electricity supply in Austria with our high-performance transmission grid. We are also committed to the national network development plan. The geographically favourable location of our transmission grid in the centre of the European domestic market supports our strategic positioning as an expert partner in international alliances.

Provider of customer-focused solutions

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

Markets

Austria and Germany are our core geographical markets.

Investment focus

Our business model centres on investing in profitable assets in the regulated sector and improving generation efficiency as well as on fulfilling our customers' needs in the best possible manner, all the while ensuring responsible management of energy.

VERBUND's current strategy is based on the Group's existing asset and value chain structure. It is continuously updated to reflect changes in the energy market.

Corporate objectives

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

GRI 102-14

Material topics	Corporate objectives
Increasing enterprise value[1]	Financial stability: net debt/EBITDA < 3.0
	Return on capital: ROCE > 7.0%
	Profitable growth in all segments
	Position VERBUND as most efficient electricity producer in the peer group
	Target/ensure an A-level rating
Secure supply of electricity	Ensure system security in the Austrian transmission grid
	Implement network development plan
	Provide flexibility products to support energy transition
	Implement and continuously develop Group-wide systems for managing IT and data protection
Customer relations	Optimise marketing of own generation
	Significantly expand energy-related services
	Provide innovative solutions for B2C and B2B customers
Innovation	Put new, sustainable products and business models in place
	Increase competitive standing in the new Utility 2.0 model
	Manage digital transformation in the e-economy
Environmental protection and conservation, climate protection	Generate climate- and eco-friendly electricity with a focus on renewable generation
	Take an active role in implementing #mission2030 through sustainable energy projects
	Discontinue coal-fired electricity generation by 2020
	Reduce specific emissions to < 10 g CO_2e/kWh (Scope 1)
	Maintain ISO 14001 certification for all VERBUND sites
Engaging with the relevant stakeholders	Communicate actively and openly with all relevant stakeholder groups
Responsibility to employees	Lost time injury frequency (LTIF): ≤ 5
	Provide attractive, secure jobs: employee turnover rate < 5%
	Implement programme to increase efficiency
	38.5 hours of training per employee/year
	35 new apprentices each year

Advancing diversity and inclusion in the Group	Proportion of women > 20%
	Ensure balanced employee age structure (benchmark: employed wage and salary earners by age group in Austria)
	Fulfil statutory quotas for the employment of disabled persons (currently 4% in Austria and 5% in Germany)
Compliance and transparency	Maintain fair business practices and avoid compliance violations in all segments
Commitment to society	Continue long-term commitment to societal and education-related activities
Procurement practices	Steadily reduce sustainability risk in the supply chain (working conditions, environment, corruption, human rights)

[1] based on existing asset and value-chain structure

Investor relations

International capital market environment

2018 kicked off with a phase of steeply rising share prices on the international stock markets. This was followed by a lengthy period of high volatility, after which a corrective phase set in that intensified towards the end of the year. The main reasons for the price corrections were deteriorating economic forecasts on the one hand and the interest rate policies pursued by the US Federal Reserve on the other. Capital market growth was also impeded by trade disputes and the unresolved issues surrounding Brexit. By contrast, the US market benefited from tax reductions and was therefore able to maintain the phase of rising share prices longer than other marketplaces. Despite reaching historic highs on multiple occasions, however, the US Dow Jones Industrial stock index did not manage to turn in a positive performance in 2018, ending the year down 5.6%. Performance of the European and Japanese stock markets was also much weaker due to the global challenges mentioned and the lack of any positive countermeasures such as tax cuts (as in the US). The Eurostoxx 50 was down 14.3% year-on-year and Japan's Nikkei 225 index fell by 12.1% compared with the prior year. The trend in the emerging markets reflected worry about higher interest rates, which led to a decline of 16.6% in the MSCI Emerging Markets Index in 2018. The Austrian ATX performed in line with global share prices, with export-based Austrian companies in particular being impacted by fears of trade disputes. Austria's leading index fell by 19.7% in 2018 to 2,745.8 points.

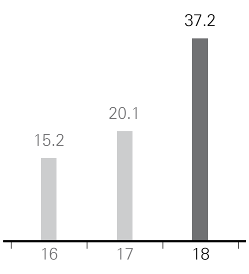
Upcoming dates:

Record date for Annual General Meeting:
20 April 2019
Annual General Meeting:
30 April 2019
Ex-dividend date:
7 May 2019
Record date for dividends:
8 May 2019
Dividend payment date:
20 May 2019
Results for quarter 1/2019:
8 May 2019

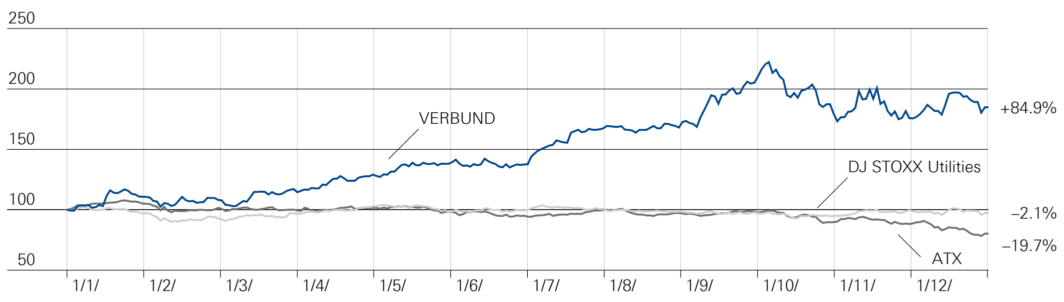
VERBUND shares

VERBUND shares performed very well in 2018, bucking the general trend on the international stock markets. Apart from a corrective phase occurring between mid-January and the beginning of March, the price of VERBUND shares rose nearly continuously before topping out at the start of October 2018. This was followed by another steep share price correction lasting until early November. The period until the end of 2018 was characterised by volatile sideways movement. VERBUND shares nonetheless closed financial year 2018 trading at €37.2, up by an impressive 84.9% on the figure for 31 December 2017. This made VERBUND the top performer in the Austrian ATX in a difficult year for the stock markets in which the ATX declined by 19.7% for the year as a whole and the European DJ STOXX Utilities sector index was down 2.1%. With a market capitalisation of €12.9bn, VERBUND is one of Austria's largest listed companies. Moreover, VERBUND succeeded in gaining inclusion in the DJ STOXX Utilities and the MSCI Austria indices in 2018.

Closing prices
VERBUND shares €/share



VERBUND share price: relative performance 2018



KPIs – shares

	Unit	2017	**2018**	Change
Share price high	€	21.8	44.8	105.6%
Share price low	€	14.7	20.0	35.6%
Closing price	€	20.1	37.2	84.9%
Performance	%	32.8	84.9	–
Market capitalisation	€m	6,998.7	12,937.8	84.9%
ATX weighting	%	2.5	6.2	–
Value of shares traded	€m	1,032.5	3,803.0	268.3%
Shares traded per day	Shares	242,541	459,485	89.4%

Investor relations team activities in 2018

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Andreas Wollein
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E-mail: investor-relations@verbund.com

Active, open communication with investors, analysts and individual shareholders during road shows, conference calls and in one-on-one conversations is important to VERBUND. VERBUND's investor relations team conducted road shows in Europe and the US in 2018 and participated in several major investor conferences. Together with the Executive Board, the team met with investors from all over the world and provided them with information on VERBUND's key performance indicators and its operational and strategic performance.

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

VERBUND shares are covered by 13 renowned Austrian and international investment banks, thus ensuring their visibility in the capital market. The following investment banks covered our Group as at 31 December 2018:

Berenberg Bank *(Lawson Steele)*
Commerzbank *(Tanja Markloff)*
Concorde Securities *(Gellert Gaál)*
Credit Suisse *(Wanda Serwinovska)*
Deutsche Bank *(Duncan Scott)*
Erste Group *(Petr Bártek)*
Exane BNP Paribas *(Sofia Savvantidou)*
HSBC *(Adam Dickens)*
Kepler Cheuvreux *(Ingo Becker)*
Morgan Stanley *(Nicholas Ashworth)*
Oddo BHF *(Louis Boujard)*
Raiffeisen Centrobank *(Teresa Schinwald)*
Société Générale *(Lueder Schumacher)*

Current ratings

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

As at 31 December 2018, VERBUND's ratings were as follows:

- Standard & Poor's: A–/stable outlook
- Moody's: Baa1/positive outlook

VERBUND in sustainability indices and sustainability rankings

In 2018, institutional investors devoted increased attention to the topic of investment portfolio decarbonisation. More and more investment portfolios and mutual funds are being carbon footprinted as well. This trend has had a positive impact on VERBUND with its sustainable business model.

ISS-oekom, for example, gave VERBUND a good overall rating of “B” in its company rankings for 2018. This re-affirmed oekom’s recommendation of VERBUND as a prime investment for investors interested in sustainability. The comprehensive report made special mention of VERBUND’s climate protection policies and the Group’s comprehensive reporting of its environmental KPIs.

Sustainalytics introduced a new risk-based ESG rating method in 2018 that considers sustainability risks in each sector of industry. The overall rating is calculated on the basis of a company’s external risk exposure combined with its internal management approach for dealing with the risks identified. Compared with the average for all sectors, the electric utilities sector has a higher risk exposure in terms of resource consumption and emissions, for example. VERBUND nonetheless succeeded in further improving its overall rating versus the previous year thanks to effective application of the management approaches implemented. With an ESG rating of 23.8/100 points (note: the lower, the better), VERBUND was among the top 6% of all companies rated in the electric utilities sector.

VERBUND recently attained GOLD status in the ESG rating updated in 2018 and issued by EcoVadis, a supplier evaluation platform. This puts VERBUND among the top 5% of the over 50,000 enterprises surveyed.

In the CDP climate performance rankings for 2018, VERBUND was among the four best companies in Austria with a score of A– (climate change category).

VERBUND – Austria’s leading utility and one of the largest producers of hydroelectricity in Europe.

Each year, the Chamber of Public Accountants and Tax Advisors presents the Austrian Sustainability Reporting Award (ASRA) to the Austrian companies publishing the best sustainability reports.
In the category of “Integrated Annual Reports”, VERBUND achieved an outstanding second place in 2018. The jury acknowledged VERBUND’s 2017 report for its comprehensive presentation of environmental and social KPIs and for its in-depth examination of the topic of diversity management. Special mention was made of the Company’s clear presentation of its climate strategy and the effects of its business operations on the environment and society.

VERBUND was included in the following sustainability indices as at 31 December 2018:

- VÖNIX (VBV Austrian sustainability index)
- Ethibel Sustainability Index (ESI) Excellence Europe

Please refer to: www.voenix.at

Consolidated
Corporate Governance Report

Consolidated Corporate Governance Report

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

Corporate governance – framework

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

Declaration of commitment to the Austrian Code of Corporate Governance

Declaration of conformity

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

VERBUND declares its unconditional commitment to the Austrian Code of Corporate Governance. The Executive Board and Supervisory Board see it as their primary duty to comply with all of the rules of the Code as fully as possible and to maintain and continue to develop the Group's high internal standards. The Code was applied during financial year 2018 and was adhered to in accordance with the explanatory notes in this report. Active implementation of the requirements of the Code is intended to ensure responsible management and control of the Group directed at sustainable, long-term value creation and to create a high level of transparency for all stakeholders. VERBUND will continue to actively adhere to the Code as amended in January 2018 during financial year 2019. Applying it as fully as possible is an essential building block for strengthening the trust placed in the Group by shareholders, business partners, employees and the general public.

Evaluation

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

Additional reporting

A consolidated corporate governance report is presented as required under statutory provisions. Key items of this report are expanded beyond the listed parent company to include the entire Group. Opinion 22 of the Austrian Financial Reporting and Auditing Committee (AFRAC) has been followed with respect to the requirements on content.

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

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

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

Deviations

VERBUND complies with almost all the rules in the Austrian Code of Corporate Governance, including the R Rules. The deviations applied in financial year 2018 are the same as those applied in the previous year. From a total of 83 rules in the Code, there are slight deviations in the application of only two C Rules which are to some extent the result of legislative circumstances. In accordance with the "comply or explain" principle, these deviations are explained below:

C Rule 2:

The principle of "one share – one vote" is generally adhered to with respect to VERBUND shares. The sole exception is based on a restriction on voting rights embodied in the "federal constitutional act regulating the ownership structure of enterprises in the Austrian electricity industry" and in the provision of the Articles of Association based upon this. The exception is as follows: "With the exception of regional authorities and companies in which regional authorities hold an interest of at least 51%, the voting rights of each shareholder at the Annual General Meeting are restricted to 5% of the share capital."

C Rule 45:

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

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

Executive Board

Composition of the Executive Board

In financial year 2018, the Executive Board was once again composed of four members. GRI 102-18 GRI 405-1

The term of office of all members of the Executive Board ended on 31 December 2018. At its meeting on 13 June 2018, the Supervisory Board therefore appointed the following persons as members of the Executive Board as at 1 January 2019: Dipl.-Ing. Wolfgang Anzengruber as Chairman, Mag. Dr. Michael Strugl as Vice-Chairman, Dr. Peter F. Kollmann and Mag. Dr. Achim Kaspar. Dr. Johann Sereinig and Dipl.-Ing. Dr. Günther Rabensteiner retired as at 31 December 2018.

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	31/12/2020
Deputy CEO Dr. Johann Sereinig Vice-Chairman	1952	1/1/1994	31/12/2018
Dr. Peter F. Kollmann Member of the Executive Board	1962	1/1/2014	31/12/2021
Dipl.-Ing. Dr. Günther Rabensteiner Member of the Executive Board	1953	1/4/2011	31/12/2018

GRI 102-25

Board functions of Executive Board members within the Group

Name	Group company		Function
Dipl.-Ing. Wolfgang Anzengruber	VERBUND Hydro Power GmbH	Supervisory Board, Annual General Meeting	Chairman Chairman
	VERBUND Solutions GmbH	Annual General Meeting	Chairman
	SMATRICS GmbH & Co KG	Shareholders' Meeting	Chairman
	E-Mobility Provider Austria GmbH	Annual General Meeting	Vice-Chairman
Dr. Johann Sereinig	Austrian Power Grid AG	Supervisory Board	Member
	VERBUND Hydro Power GmbH	Supervisory Board	Member
	VERBUND Sales GmbH	Annual General Meeting	Chairman
	VERBUND Sales Deutschland GmbH	Annual General Meeting	Chairman
	VERBUND Services GmbH	Annual General Meeting	Chairman
	VERBUND Trading GmbH	Supervisory Board, Annual General Meeting	Chairman Chairman
Dr. Peter F. Kollmann	Austrian Power Grid AG	Supervisory Board	Chairman
	VERBUND Hydro Power GmbH	Supervisory Board	Member
	VERBUND Services GmbH	Annual General Meeting	Vice-Chairman
	VERBUND Thermal Power GmbH	Supervisory Board	1st Vice-Chairman
	VERBUND Trading GmbH	Supervisory Board, Annual General Meeting	1st Vice-Chairman Vice-Chairman
Dipl.-Ing. Dr. Günther Rabensteiner	Ennskraftwerke AG	Supervisory Board	1st Vice-Chairman
	VERBUND Hydro Power GmbH	Supervisory Board	1st Vice-Chairman
	VERBUND Innkraftwerke GmbH	Supervisory Board, Shareholders' Meeting	Chairman Chairman
	Grenzkraftwerke GmbH	Supervisory Board, Annual General Meeting	Chairman Chairman
	Innwerk AG	Supervisory Board	Chairman
	Donaukraftwerk Jochenstein AG	Supervisory Board	Chairman
	Österreichisch-Bayerische Kraftwerke AG	Supervisory Board	Chairman
	VERBUND Thermal Power GmbH	Supervisory Board	Chairman

Supervisory Board appointments of Executive Board members outside the Group

Name	Company	Function
Dipl.-Ing. Wolfgang Anzengruber	University of Salzburg (University Council)	Member
Dr. Johann Sereinig	KELAG-Kärntner Elektrizitäts-Aktiengesellschaft	Member
	FK Austria Wien AG	Member
	APK Pensionskasse AG	Member
Dr. Peter F. Kollmann	Telekom Austria AG	Member

Work procedures and allocation of responsibilities

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

The rules of procedure govern the allocation of responsibilities and how the members of the Executive Board must work together. In addition, they lay down the Executive Board's duties to notify and report, and contain a list of measures that require approval by the Supervisory Board. The measures requiring approval also include material transactions proposed by the Group's main subsidiaries. The rules of procedure were updated during the reporting period and a revised version was issued as at 1 January 2019. The changes mainly concerned the organisation of Executive Board meetings, reporting to the Supervisory Board and transactions requiring approval.

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

Allocation of responsibilities

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

[1] Audit and the Human Resources Committee were the joint responsibility of the chairman and the vice-chairman.

Remuneration of members of the Executive Board

Total remuneration of members of the Executive Board in the 2018 reporting period amounted to €5,599,347 (previous year: €4,485,156) including benefits in kind of €79,237 (previous year: €59,858). Other remuneration of €828,016 (previous year: €0) relates to compensation for unused leave for former members of the Executive Board.

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

	2017 Fixed remuneration	2017 Variable remuneration	2017 Other	2018 Fixed remuneration	2018 Variable remuneration	2018 Other
Dipl.-Ing. Wolfgang Anzengruber	827,375	499,972	0	849,770	563,457	0
Dr. Johann Sereinig	790,919	342,214	0	813,641	385,665	598,682
Dipl.-Ing. Dr. Günther Rabensteiner	587,845	254,348	0	604,733	286,643	229,334
Dr. Peter F. Kollmann	783,585	339,040	0	806,096	382,089	0

Because it is only possible to ascertain at the end of the year whether targets have been achieved, variable remuneration components are paid out in the following year. Therefore, the total amount includes variable remuneration components granted to members of the Executive Board in the 2018 reporting period for the 2017 reporting period as well as back-payment of bonuses relating to 2016.

Variable remuneration depends upon performance and is limited to a specific percentage of the respective fixed remuneration. For the 2017 reporting period (as well as for the current 2018 reporting period), this percentage rate amounted to between 50% and 70%. The level of performance-based remuneration components depends on the extent to which the targets agreed for the financial year are achieved. 50% of the target agreement in the 2017 reporting period was based on the achievement of the Group result, 30% on the achievement of free cash flow (three-year target) and 20% on other medium-term (two-year, qualitative) goals, such as the settlement of legacy issues (for example, the successful resolution of contentious issues such as pending complaints and arbitration proceedings) and the optimisation and adaptation of structures, processes and business models based on technological development (digitalisation) and the disruptive changes resulting from competition in the energy market. The principles underlying the Executive Board's share of profit were unchanged from the previous year.

A company pension plan has been set up for members of the Executive Board in the form of a defined contribution pension fund agreement. In the 2018 reporting period, contributions to the pension fund were paid for the Executive Board in the amount of €225,992 (previous year: €219,681).

Statutory regulations apply, taking account of the requirements of Rule 27a of the Austrian Code of Corporate Governance, with respect to the claims of members of the Executive Board upon termination of their position. In the 2018 reporting period, €376,224 (previous year: €361,817) was paid out for pensions and €2,189,150 (previous year: €0) for termination benefits in favour of beneficiaries.

Profit or loss for the period included expenses for termination benefits and pensions and similar obligations – i.e. post-employment benefits – in the amount of €45,486 (previous year: €37,715). Expenses for pensions and similar obligations for former members of the Executive Board and their surviving dependants included in the profit or loss for the period amounted to a total of €47,481 (previous year: €50,769).

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

Remuneration policy in the subsidiaries

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

D&O insurance

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

Supervisory Board

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

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

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

GRI 102-24

Personal details, chairpersons and other Board functions

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

As at 31 December 2018, the Supervisory Board had a total of 15 members. Ten were shareholder representatives elected by the Annual General Meeting and five were employee representatives appointed by the Works Council.

During the reporting period, the following changes occurred in the composition of the Supervisory Board: at the AGM held on 23 April 2018, Mag. Stefan Szyszkowitz was elected to the Supervisory Board as shareholder representative in place of Dipl.-Ing. Dr. Peter Layr. Among the employee representatives, Doris Dangl took the place of Anton Aichinger on the Supervisory Board effective 5 April 2018.

Name	Year of birth	Date of initial appointment	End of current term of office
Dr. Gerhard Roiss Chairman Board of directors of SULZER AG Switzerland Member of the University Council of Johannes Kepler University in Linz	1952	5/4/2017	AGM 2020
Prof. Dr. Michael Süß 1st Vice-Chairman Member of the supervisory board of Herrenknecht AG and the board of directors of Oerlikon AG (chairman); Renova AG (asset director); Süß Management Systems and Süß Film (shareholder)	1963	22/4/2015	AGM 2020
Mag. Elisabeth Engelbrechtsmüller-Strauß 2nd Vice-Chairwoman CEO of Fronius International GmbH; member of the supervisory board of Wels Betriebsansiedelungs-GmbH (chairwoman); member of the board of trustees of the Institute of Science and Technology and the University Council of Johannes Kepler University in Linz	1970	22/4/2015	AGM 2020
Mag. Harald Kaszanits Austrian Economic Chambers	1963	7/4/2010	AGM 2020
Dipl.-Ing. Dr. Peter Layr	1953	13/4/2011	23/4/2018
Mag. Werner Muhm Member of the supervisory boards of Wiener Städtische Versicherung, AWH Beteiligungsges.m.b.H. and KA Finanz AG; member of the managing board of Leopold Museum Privatstiftung, vice-chairman of the board of trustees of the Austrian National Library	1950	22/4/2015	AGM 2020
Dr. Susanne Riess CEO of Bausparkasse Wüstenrot AG; Member of the supervisory boards of Wüstenrot Versicherungs-AG (chairwoman), Wüstenrot stambena štedionica d.d., Croatia (chairwoman), Wüstenrot životno osiguranje d.d., Croatia (chairwoman), Wüstenrot Fundamenta-Lakáskassza Zrt., Hungary (vice-chairwoman), Wüstenrot stavebná sporiteľňa a.s., Slovakia (vice-chairwoman), Wüstenrot poisťovňa a.s., Slovakia (member), SIGNA Development Selection and Prime Selection (member), Einlagensicherungsgesellschaft Austria (member) and IHAG Privatbank Zürich (member of the board of directors)	1961	22/4/2015	AGM 2020
Mag. Jürgen Roth Managing partner at Tank Roth GmbH; member of the supervisory boards of ICS Internationalisierungscenter Steiermark GmbH (chairman) and ELG (Erdöl-Lagergesellschaft m.b.H.)	1973	22/4/2015	AGM 2020

Name	Year of birth	Date of initial appointment	End of current term of office
Mag. Stefan Szyszkowitz Spokesman of the managing board of EVN AG; member of the supervisory boards of Burgenland Holding Aktiengesellschaft (chairman), EVN Macedonia AD (chairman), RAG-Beteiligungs-Aktiengesellschaft (chairman), RAG Austria AG (chairman), Energie Burgenland AG (vice-chairman) and Netz Niederösterreich GmbH (vice-chairman); member of the supervisory boards of Österreichische Post AG and Wiener Börse AG/CEESEG AG	1964	23/4/2018	AGM 2020
Christa Wagner Managing partner at Wagner-Josko Immobilien GmbH; shareholder in Josko Fenster und Türen GmbH; member of the supervisory boards of Eurosun a.s. and exceet Card Group AG	1960	7/4/2010	AGM 2020
Dipl.-Ing. Peter Weinelt Managing Director of Wiener Stadtwerke GmbH and Wiener Stadtwerke Planvermögen GmbH; member of the supervisory boards of Wien Energie GmbH (chairman), Wiener Netze GmbH (chairman) and Burgenland Holding Aktiengesellschaft (member)	1966	5/4/2017	AGM 2020

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

Employee representative

Name	Year of birth	Date of initial appointment	
Anton Aichinger Chairman of the Group's employee representatives	1955	from 25/10/2006 until 5/4/2018	appointed by the empl. reps.
Kurt Christof Chairman of the Central Works Council Member of the supervisory boards of Stadtwerke Voitsberg GmbH and of Sparkasse Voitsberg/Köflach Bankaktiengesellschaft	1964	since 8/3/2004	appointed by the empl. reps.
Doris Dangl Chairwoman of the Group's employee representatives	1963	since 5/4/2018	appointed by the empl. reps.
Dr. Isabella Hönlinger Chairwoman of the Works Council	1971	since 1/9/2016	appointed by the empl. reps.
Ing. Wolfgang Liebscher Chairman of the Central Works Council	1966	since 1/11/2013	appointed by the empl. reps.
Dipl.-Ing. Hans Pfau Chairman of the Works Council	1953	since 1/9/2016	appointed by the empl. reps.

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

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

Independence

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

- The Supervisory Board member shall not have served as a member of the Executive Board or as a member of the senior management staff of the Company or one of its subsidiaries in the past five years.
- The Supervisory Board member shall not maintain or have maintained in the past year any business relationships with the Company or one of its subsidiaries to an extent that would be significant to the member of the Supervisory Board. This shall also apply to relationships with companies in which the member of the Supervisory Board has a considerable economic interest, but not to exercising functions on the boards of the Group. The approval of individual transactions by the Supervisory Board pursuant to L Rule 48 shall not automatically mean that the person is deemed not to be independent.
- The Supervisory Board member shall not have acted as auditor of the Company or have owned a share in the audit firm or have worked there as an employee in the past three years.
- The Supervisory Board member shall not be a member of the managing board of another company in which a member of the Executive Board of the Company is a supervisory board member.
- The Supervisory Board member may not remain on the Supervisory Board for more than 15 years. This shall not apply to Supervisory Board members who are shareholders with a direct equity interest in the Company or who represent the interests of such a shareholder.
- The Supervisory Board member shall not be a close relative (direct descendant, spouse, life partner, parent, uncle, aunt, sibling, niece or nephew) of a member of the Executive Board or of persons who hold one of the aforementioned positions.

Based upon these guidelines for independence (Annex to the Austrian Code of Corporate Governance), all ten shareholder representatives have issued a written statement on their independence. Eight of them have declared their independence, and two members of the Supervisory Board have classified themselves as not being independent (with respect to only the “relationships with related parties” criterion).

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

Meetings of the Supervisory Board

Six plenary meetings of the Supervisory Board were held during financial year 2018. The overall attendance rate for all Supervisory Board members was 91%. One member of the Supervisory Board attended fewer than half of the meetings in person.

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

- consolidated financial statements and annual financial statements of VERBUND AG for 2017;
- proposals for resolutions for the Annual General Meeting;

- proposal for profit appropriation in accordance with Section 96(1) of the Stock Corporation Act (AktG);
- election of the General Committee of the Supervisory Board and constitution of the committees;
- appointment of the auditor;
- new versions of the rules of procedure for the Executive Board and Supervisory Board;
- borrowing of €100m (digital green Schuldschein);
- revocation of the resolution to liquidate VERBUND Thermal Power GmbH & Co KG;
- investment plans for small power plants and efficiency improvements;
- transfer of the Dürnrohr and Korneuburg power plants as part of the overall agreement with EVN;
- power plant joint venture on the Inn River: exercise of the put option;
- appointment of Executive Board members;
- refinancing of the syndicated loan of up to €500m (green syndicated loan);
- sale of 50% equity interest in VERBUND GETEC Energiecontracting GmbH; and
- approval of the Group's budget for 2019.

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

Each year during the audit of the financial statements, the auditor provides the Supervisory Board with a separate report on the reliability of the risk management system. The report from the auditor details sustainability risks in the same manner as in the written quarterly reports on operating risk management that the Supervisory Board discusses at each of its meetings.

In addition to the meetings of the Supervisory Board and its committees (see below), regular discussions and teleconferences took place between the Chairman of the Supervisory Board and the Chairman of the Executive Board and several discussions were held with individual members of the Executive Board.

Evaluation of Supervisory Board activity

The performance of the Supervisory Board is evaluated annually during the Annual General Meeting, at which the shareholders vote to approve the actions of the Supervisory Board. At the 71st Annual General Meeting on 23 April 2018, the actions of all Supervisory Board members were formally approved. GRI 102-28

As required by the Austrian Code of Corporate Governance (Rule 36), the Supervisory Board also evaluates its activities, in particular its organisation and work procedures, itself. This self-evaluation was conducted in 2018 on the basis of an extensive questionnaire.

Composition and work procedures of the committees

The Supervisory Board approved a new version of its rules of procedure on 23 April 2018. In addition to revised provisions for Supervisory Board meetings (preparation, convocation, quorum, meeting participation), this new version stipulates in particular changes to Supervisory Board committees.

In accordance with its rules of procedure, the Supervisory Board shall, following the Annual General Meeting, annually elect the members of an Audit Committee, a Strategy Committee, an Emergencies Committee, a Remuneration Committee and a Nomination Committee. In addition, it can form temporary or permanent committees specifically for certain projects and topics. The former Working Committee was dissolved as at 23 April 2018.

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

Working Committee (until 23 April 2018)

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

Members of the Working Committee

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

The Working Committee

- was 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);
- acted as the Emergencies Committee (Rule 39 of the Austrian Code of Corporate Governance).

The Supervisory Board continually transferred certain matters requiring approval to the Working Committee.

The Working Committee of the Supervisory Board did not meet during financial year 2018.

Audit Committee

The Audit Committee was established pursuant to Section 92(4a) of the Austrian Stock Corporation Act (AktG) and, in accordance with the rules of procedure for the Supervisory Board, consists of four Supervisory Board members elected by the shareholders and two employee representatives in accordance with Section 92(4) AktG. The chairperson and vice-chairperson of the committee are elected from among its members.

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

Members of the Audit Committee

Name	Function
Mag. Elisabeth Engelbrechtsmüller-Strauß	Chairwoman
Dr. Gerhard Roiss	Vice-Chairman
Mag. Werner Muhm	Member
Christa Wagner	Member
Doris Dangl	Employee representative
Kurt Christof	Employee representative

The Supervisory Board's Audit Committee met three times during financial year 2018. The activities of the Audit Committee focused on:

- preparing the resolution on the consolidated financial statements for 2017 and the annual financial statements of VERBUND AG for 2017 including appropriation of profit;
- proposal for the election of the auditor;
- acknowledgement of the semi-annual financial statements for 2018;
- monitoring financial reporting processes;
- monitoring the internal control system and the audit and risk management systems;
- discussion of areas of emphasis for the 2018 audit (auditor);
- audit and non-audit services;
- acknowledgement of the reports of the Executive Board; and
- acknowledgement of the audit programme and audit report of the Internal Audit department.

Strategy Committee

The Strategy Committee established on a temporary basis in the previous year has now been firmly anchored in the rules of procedure in effect since 23 April 2018. It is comprised of four members of the Supervisory Board elected by the shareholders and two employee representatives in accordance with Section 92(4) AktG. The chairperson and vice-chairperson of the committee are elected from among its members.

The Strategy Committee is responsible for developing a corporate strategy in collaboration with the Executive Board and for the annual review of strategy and support of any adaptive measures. Furthermore, it addresses issues that are not to be handled by the entire Supervisory Board in consideration of competition-related aspects and conflicts of interest.

To this end, the Strategy Committee met five times during the reporting period.

Members of the Strategy Committee

Name	Function
Dr. Gerhard Roiss	Chairman
Prof. Dr. Michael Süß	Vice-Chairman
Mag. Elisabeth Engelbrechtsmüller-Strauß	Member
Mag. Harald Kaszanits	Member
Doris Dangl	Employee representative
Ing. Wolfgang Liebscher	Employee representative

Emergencies Committee

An emergencies committee (Rule 39 of the Austrian Code of Corporate Governance) is a committee for decision-making in urgent situations.

The chairperson is required to make the necessary preparations for rapid decision-making on matters that fall within the remit of the Emergencies Committee or are referred to that committee for a decision (convening a meeting at short notice, video conferences). The grounds for urgency must be stated. The Emergencies Committee makes decisions on all matters where an immediate Supervisory Board decision is needed to gain economic advantages or fend off the threat of financial damage.

The Emergencies Committee is comprised of four members of the Supervisory Board elected by the shareholders and two employee representatives in accordance with Section 92(4) AktG. The chairperson and vice-chairperson of the committee are elected from among its members.

The committee did not meet during the reporting period.

Members of the Emergencies Committee

Name	Function
Dr. Gerhard Roiss	Chairman
Prof. Dr. Michael Süß	Vice-Chairman
Mag. Elisabeth Engelbrechtsmüller-Strauß	Member
Dr. Susanne Riess	Member
Doris Dangl	Employee representative
Kurt Christof	Employee representative

Remuneration Committee

Pursuant to its rules of procedure, the Supervisory Board is required to appoint a Remuneration Committee in accordance with the Austrian Code of Corporate Governance consisting of the chairperson of the Supervisory Board and its two vice-chairpersons. The Supervisory Board has permanently assigned responsibility for the following matters to this committee:

- 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; and
- regular review of the remuneration policy for members of the Executive Board.

Members of the Remuneration Committee

Name	Function
Dr. Gerhard Roiss	Chairman
Prof. Dr. Michael Süß	Vice-Chairman
Mag. Elisabeth Engelbrechtsmüller-Strauß	Member

In Dr. Roiss, the Remuneration Committee has the expert required by Rule 43 of the Austrian Code of Corporate Governance at its disposal.

The Remuneration Committee met seven times during financial year 2018. The meetings dealt with the agreements on targets and level of target achievement for the Executive Board's variable remuneration components, the termination agreements with the retiring members of the Executive

Board, the new contracts with members of the Executive Board and the determination of Executive Board member remuneration.

Nomination Committee

In accordance with its rules of procedure, the Supervisory Board shall appoint a Nomination Committee comprised of the chairperson of the Supervisory Board and three other members of the Supervisory Board elected by the shareholders plus two employee representatives in accordance with Section 92(4) AktG. The chairperson of the Supervisory Board chairs the committee, and the committee elects the vice-chairperson.

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

Members of the Nomination Committee

Name	Function
Dr. Gerhard Roiss	Chairman
Mag. Elisabeth Engelbrechtsmüller-Strauß	Vice-Chairwoman
Dr. Susanne Riess	Member
Mag. Jürgen Roth	Member
Doris Dangl	Employee representative
Ing. Wolfgang Liebscher	Employee representative

The Nomination Committee met five times during financial year 2018. These meetings dealt with the preparations for elections to the Supervisory Board at the 2018 Annual General Meeting as well as the invitation to apply for the seats on the Executive Board and preparations for the appointment of the Executive Board members including the division of responsibilities in June 2018.

Contracts requiring consent – conflicts of interest

In financial year 2018, the following contracts and/or transactions approved by the Supervisory Board of VERBUND AG in accordance with the Austrian Stock Corporation Act (AktG) and the Austrian Code of Corporate Governance (Rule 49) existed between the VERBUND Group and individual Supervisory Board members or companies with which Supervisory Board members have close relationships: GRI 102-25

Supervisory Board member Mag. Elisabeth Engelbrechtsmüller-Strauß

The general authorisation issued by the Supervisory Board in 2015 for the supply of inverters by the Fronius Group (through external intermediaries or SOLAVOLTA, in which VERBUND owns a 50% stake) in the amount of €600k per year and for the supply of small devices to VERBUND companies in the amount of €60k per year was only partially utilised in financial year 2018. Mag. Elisabeth Engelbrechtsmüller-Strauß is CEO of the Fronius Group.

Supervisory Board member Mag. Jürgen Roth

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

Supervisory Board member Mag. Stefan Szyszkowitz (from 23 April 2018)
A number of contractual relationships, some of which have been in place for many years, exist between VERBUND and the EVN Group, of which Mag. Stefan Szyszkowitz is spokesman of the managing board. Most of these relationships had already been entered into before Mag. Szyszkowitz became a member of the Supervisory Board. The business transacted under these contracts and their volume are reported to the Supervisory Board on an annual basis. In financial year 2018, an order volume totalling €518k was processed on the basis of the existing contracts (excluding transactions with grid subsidiary APG). These primarily involved electricity, gas or grid purchases and usage fees for various VERBUND companies. In addition, there are agreements concerning VERBUND Innkraftwerke GmbH and contractual relationships for the supply of electricity with e&t Energie HandelsgmbH, in which EVN holds a 45% interest.

After granting general approval in 2017, the Supervisory Board in 2018 approved the contractual settlement agreements between VERBUND AG and VTP on the one hand and EVN on the other hand in connection with the decommissioning of the Dürnrohr and Korneuburg power plants to end all pending judicial proceedings and pay an amount of €12m to EVN.

Supervisory Board member Dipl.-Ing. Peter Weinelt
A number of contractual relationships, some of many years standing, exist between VERBUND and the Wiener Stadtwerke Group, of which Dipl.-Ing. Peter Weinelt is managing director. Most of these had already been entered into before Dipl.-Ing. Peter Weinelt became a member of the Supervisory Board. The business transacted under these contracts and their volume are reported to the Supervisory Board on an annual basis. In financial year 2018, an order volume totalling €661k was processed on the basis of existing contracts (excluding transactions with grid subsidiary APG). This primarily involved invoices for electricity and grid fees and operational management for VERBUND companies. In addition, there are agreements concerning VERBUND Innkraftwerke GmbH and contractual relationships for the supply of electricity with e&t Energie HandelsgmbH, in which Wiener Stadtwerke holds a 45% interest.

In financial year 2018, the Supervisory Board also looked at possible (other) conflicts of interest involving Supervisory Board members that could arise in particular as a result of activities or equity interests in the energy sector or in companies competing with the VERBUND Group. With the exception of the disclosed 25% interest of Fronius in aWATTar, a supplier of green electricity, all Supervisory Board members confirmed that no conflicts of interest existed on their parts which would require reporting or disclosure. According to the assessment of the Supervisory Board, there are no fundamental conflicts of interest that would require further measures. Should such conflicts arise in future, suitable measures, such as abstention from voting or from providing advice and voting on individual agenda items, will have to be implemented promptly.

An expert opinion obtained after the 2018 report from the Austrian Court of Audit confirms that the Group has taken adequate and suitable measures to manage potential conflicts of interest in the Supervisory Board in an appropriate manner.

Remuneration of members of the Supervisory Board

The remuneration of the members of the Supervisory Board (including reimbursement of costs/travel expenses recharged) amounted to a total of €348,934 in 2018 (previous year: €380,801).

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

Remuneration scheme for the Supervisory Board in €

Annual remuneration	
Chairperson	25,000
Vice-Chairperson	15,000
Member	10,000
Attendance fee	500

This remuneration also applies to work performed in each case in the Audit Committee, the Working Committee (until 23 April 2018) and the Strategy Committee (from 23 April 2018). As previously, there is no separate remuneration for work carried out in other committees.

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

Specifically, the following remuneration was paid to the members of the Supervisory Board for financial year 2018:

Remuneration of Supervisory Board members in €

Name (without title)	Annual remuneration	Attendance fees
Gerhard Roiss, Chairman	65,000	7,000
Michael Süß, Vice-Chairman	28,000	2,800
Elisabeth Engelbrechtsmüller-Strauß, Vice-Chairwoman	55,000	7,000
Harald Kaszanits	23,333	5,000
Peter Layr (until 23/4/2018)	3,333	500
Werner Muhm	23,333	4,500
Susanne Riess	10,000	3,000
Jürgen Roth	10,000	3,000
Stefan Szyszkowitz (from 23/4/2018)	6,667	2,000
Christa Wagner	23,333	4,000
Peter Weinelt	10,000	3,000
Employee representatives		
Anton Aichinger (until 5/4/2018)	–	1,500
Kurt Christof	–	4,500
Doris Dangl (from 5/4/2018)	–	5,500
Isabella Hönlinger	–	3,000
Wolfgang Liebscher	–	4,000
Hans Pfau	–	4,500

Annual General Meeting

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

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

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

The agenda for the 71st Annual General Meeting held on 23 April 2018, the resolutions adopted and the voting results can be viewed on the website at www.verbund.com > Investor Relations > General Meeting.

Diversity concept for appointments to the Executive Board and Supervisory Board

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

GRI 405-1
GRI 103-2

SDG 5

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

Supervisory Board

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

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

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

Gender representation: With the change in the composition of the Supervisory Board which took place in April of last year, the Supervisory Board of VERBUND AG (overall) is in compliance with the statutory quota applicable from January 2018 requiring 30% of the less-represented gender on the supervisory board (women, in the case of VERBUND).

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

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

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

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

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

Executive Board

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

Educational and career background: In addition to extensive managerial experience and comprehensive industry knowledge, members of the Executive Board shall have a sound education and relevant professional experience in either the technical or the commercial/administrative area.
Gender representation: For the medium term, the Executive Board shall have one female member.
Internationality: Some members of the Executive Board shall have spent a significant part of their professional career abroad or have many years of experience in international business.
Duration of the composition: The composition and division of responsibilities of the Executive Board shall not remain unchanged for more than ten years.

The Supervisory Board took these aspects into account in appointing the members of the Executive Board in the reporting period.

Measures for the advancement of women

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

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

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

SDG 5

Since the selection of Supervisory Board members is solely the responsibility of the Annual General Meeting and depends on delegates being appointed as employee representatives, the Executive Board has no influence on whether there are any women on the Supervisory Board of VERBUND AG. With Elisabeth Engelbrechtsmüller-Strauß, Susanne Riess, Christa Wagner, as well as the employee representatives Doris Dangl and Isabella Hönlinger, the Supervisory Board of VERBUND AG has five women members, which equates to a female membership of one-third.

As at 31 December 2018, eight women held management positions within the Group (first and second levels of management). The percentage of women in management positions is therefore 9.5%. The percentage of women among employees throughout the Group is 17.6%. One female executive has worked part time since 2012.

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

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

- Under the VERBUND diversity strategy, particular emphasis is placed on the dimension of gender, for which targets and measures are defined and implemented.
- Executives from the first level of management are also measured against targets set to promote the equal treatment of women.
- The VERBUND women's network addresses the ongoing development of a sustainable strategy for the advancement of women within VERBUND.
- Each year, VERBUND awards a scholarship to highly qualified women studying technical subjects.
- VERBUND takes part in Take Your Daughter to Work Day to promote technical careers to girls while they are still at school and awaken their interest in the fascinating technical professions.
- In 2018, VERBUND received the Work and Family Audit certificate for the fourth time.
- On a regular basis, VERBUND prepares an income report comparing the salaries of men and women.

Vienna, 14 February 2019

The Executive Board

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

Mag. Dr. Michael Strugl
Vice-Chairman of the Executive Board

Dr. Peter F. Kollmann
Member of the Executive Board

Mag. Dr. Achim Kaspar
Member of the Executive Board

Group management report

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

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

General conditions

Prices for crude oil, natural gas and coal increased in financial year 2018 before falling again in October 2018. CO_2 prices also rose significantly in 2018 fuelled by concerns about shortages in the supply of CO_2 emission rights in connection with the launch of the market stability reserve in 2019. The increases in CO_2 and raw materials prices pushed up prices for wholesale electricity.

Demand for electricity increased slightly in 2018. The somewhat higher level of demand starting in the second quarter of 2018 compared with 2017 compensated for the lower demand experienced in the winter months of 2018.

At VERBUND, we are using our powers of innovation to bring our customers into a new energy era.

VERBUND's clear strategic positioning as an energy supplier focusing on sustainable renewable energy in combination with timely implementation of organisational and structural measures has given VERBUND an excellent foundation for the Group's continued growth. Challenges such as digitalisation, decarbonisation and decentralisation of the energy system present a multitude of opportunities for continued growth at VERBUND.

General economic environment

Global economy in stable growth phase

The steady growth trend since mid-2016 was sustained in 2018 with global economic growth of 3.7%, as in the previous year. In the US, gross domestic product continued to rise sharply despite global trade disputes and the resulting loss of investor confidence. Economic growth was 2.9% in the US and 1.8% in the eurozone. In Japan, economic growth declined to 0.9% in 2018, down from 1.9% in 2017 (all figures from the January 2019 forecast published by the International Monetary Fund (IMF)).

The Chinese economy registered its slowest rate of growth since 2009 at 6.6% in 2018, with the trade dispute between the United States and China being the main factor in the decline. China has attempted to keep the country's growth levels relatively stable through monetary and budgetary easing. While growth in Russia and Brazil was lower by comparison, both countries posted growth rates surpassing the 2017 figures.

Growth in the eurozone economy slipped to 1.8% in 2018 compared with the prior-year reporting period (2017: 2.4%). Since the start of the year, the economies in key eurozone countries have been negatively impacted by the slowdown in foreign trade. The German economy recorded growth of 1.5% in 2018. For 2019, the IMF is projecting GDP growth of 1.3% for Germany. According to the IMF experts, the lower forecast is based on declining exports and weaker industrial production.

Austria's economy performed well in 2018 by international standards. Economic growth picked up to 2.7% (January 2019 economic forecast by the Austrian Institute of Economic Research) on the back of strong industrial activity. The aforementioned uncertainties will likewise curb growth in Austria in 2019, however, with the growth rate projected to drop to approximately 2.0% in 2019. Although household spending continues to support economic growth, it is not sufficient to fully compensate for declining demand in foreign trade.

Energy market environment

Electricity consumption increases in Austria

According to initial data from E-Control, electricity consumption in Austria rose by 0.3% in 2018 (total supply of electricity: domestic electricity consumption less pumped storage consumption).

Electricity generation from hydropower dropped 2.2% below the 2017 level in 2018. In the first half of 2018, electricity generation from hydropower was still well above the 2017 generation levels (+24%) with the exception of the month of March. In the second half of 2018, generation from hydropower fell to nearly one-quarter below the 2017 level due to the prolonged drought.

Average annual electricity generation from thermal power plants decreased by as much as 7.0% in 2018 compared with 2017 levels. Only in March and in the months from September to December 2018 did generation levels exceed the prior-year figures.

Generation from wind power plants was down 10.3% on the previous year's level due to lower wind supply. "Other generation" increased by 4.5%. Other generation includes electricity produced from other renewable energy sources (excluding biomass, which comes under the category of thermal generation) and from power plants that cannot yet be allocated for statistical purposes. Total electricity production in Austria decreased by 3.7% in 2018.

Decreases were seen in both imports (–4.4%) and exports (–16.2%) of electricity in 2018. Net imports came to 8,947 GWh in 2018, or 2,401 GWh less than in the prior year.

Oil price up sharply compared with 2017

The average price for one barrel of Brent crude oil (front month) rose by more than 30% in 2018 to just under $72/bbl, compared with approximately $55/bbl in 2017.

In 2018, the oil market was impacted in particular by the emerging trade dispute between the US and China as well as the withdrawal of the United States from the Iran nuclear deal and the announced imposition of sanctions on Iran by the US. The price of Brent crude fluctuated between $60/bbl and $70/bbl for quite some time at the start of the year, after which it rose on the back of OPEC production cuts and announcement of the re-imposition of sanctions against Iran coupled with unchecked demand for oil. By the end of May 2018, the price had nearly reached the $80/bbl mark. Crude oil prices then underwent a correction in the face of reports of OPEC discussions with Russia on increasing production as well as robust growth in US production levels and an increase in crude oil inventories in the US. By mid-June, the price had fallen to around $70/bbl. In the ensuing period, the threat of sanctions against Iran proved to be the determining factor for the price of oil, which rose to over $85/bbl at the start of October. Oil prices fell substantially from mid-October onwards, dipping to below $60/bbl at times once it emerged that the production cuts arising from the Iran sanctions would be less far-reaching than imagined (eight key oil buyers were exempted from the prohibition on buying Iranian oil) in combination with production expansions in Saudi Arabia, Russia and the US. The decision of OPEC and Russia to cut production led to a brief stabilisation of the price of oil at just under $60/bbl. Oil prices dropped further at the end of 2018 to close the year at below $55/bbl.

Increase in gas prices

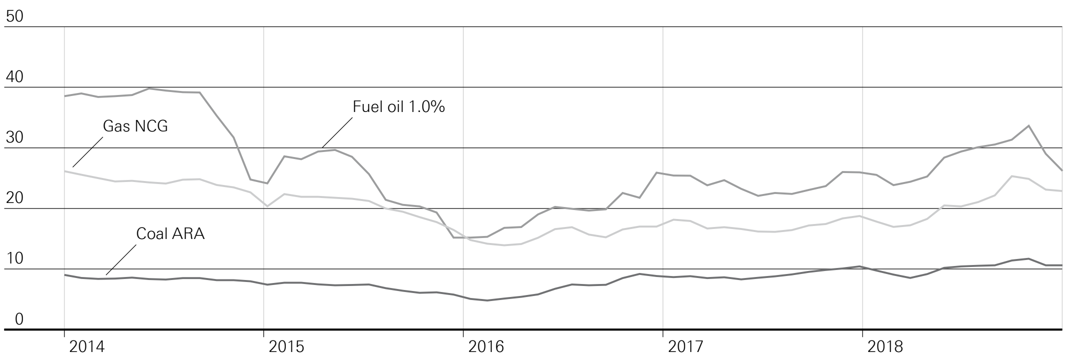
The average spot price for natural gas at the European NCG trading point increased by over €5/MWh year-on-year to nearly €23/MWh in 2018. In futures trading, supplier contracts for the coming year (NCG front year) were invoiced at around €21/MWh, or nearly €4/MWh more than had to be paid for the NCG front year in 2017. European gas prices received a boost in 2018 from strong oil prices as well as rising LNG prices.

Further increase in steam coal prices

Steam coal prices also increased substantially in 2018 compared with the previous year. Coal prices on the spot market (ARA front year) were up by more than $13, or nearly 20%, on the prior year at an average of $87/t.

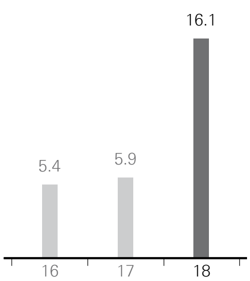
Coal prices were also up on the spot market with an increase of 8% in 2018 compared with the average listing in 2017. The price of coal benefited above all from the general upward trend on the commodities markets as well as from sustained high demand in the EU, Japan and Korea. Key exporter Indonesia, however, did not meet its planned export targets.

Coal, oil and gas price performance €/MWh thermal



Average monthly prices, futures market (front year) *Source: ICE, EEX*

CO_2-emission rights prices €/t CO_2



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

EU implements emissions trading reforms

Prices on the emissions trading market benefitted from the agreement on reforming the emissions trading regime reached at the start of 2018 by the Council of the European Union and the European Parliament. The agreement stipulates stricter climate targets for installations in the power sector and energy-intensive industry that are subject to the EU ETS. Greenhouse gas emission allowances for such installations will be lowered by 2.2% per year – more than has hitherto been the case – between 2021 and 2030. At the same time, pollution allowances will be taken off the market in order to lower the supply.

CO_2 prices nearly tripled in 2018 as a result. Whereas the 2017 average was just below €6/t, this figure rose to around €16/t in 2018 (futures market front year). The price even surpassed €25/t for a short period, although this was followed by a downward correction. Not until the end of 2018 did CO_2 prices again approach the previous high.

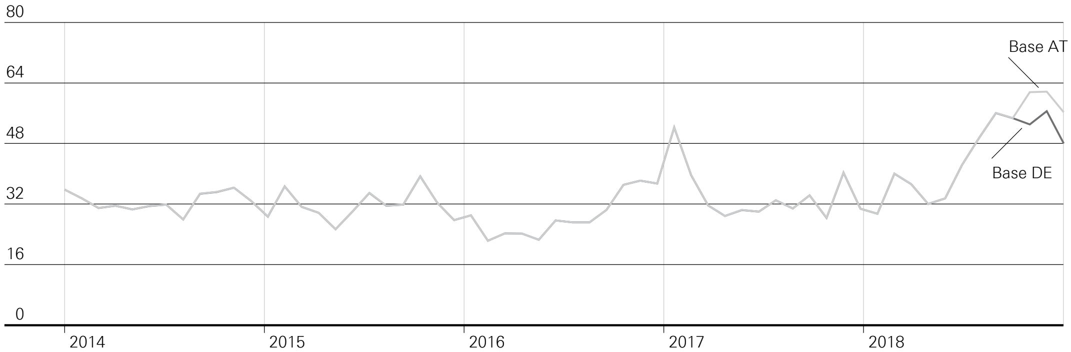
Substantial increase in wholesale electricity prices

In 2018, the market for wholesale electricity was impacted on the one hand by a sharp price increase in connection with price hikes in the markets for primary energy and CO_2 and on the other by the split of the German-Austrian joint bidding zone effective 1 October 2018. The physical incapacity of the grid to transport the rapidly rising quantities of electricity generated from wind farms in the north of Germany to the demand centres in the south in sufficient capacities led to unscheduled power flows (“loop flows”) via Poland and Czech Republic. To reduce these unplanned loop flows, Germany pushed introduction of a congestion management procedure at the German-Austrian border.

The congestion management procedure introduced at the border between Austria and Germany at the start of October 2018 increased electricity prices in Austria as expected. The price increase was due to the relatively inexpensive excess power generated from German renewables no longer being able to be supplied to Austria in the accustomed quantities. The average price of electricity on the Austrian spot market during the first three months of market separation (October to December 2018) was approximately €7.3/MWh above the price in Germany. It remains to be seen how the price will evolve in the future.

The average price for base load electricity deliveries on EPEX SPOT, the European power exchange, increased by approximately 34% year-on-year to €46.3/MWh in 2018 (reflecting the prices in the Austrian market area from 1 October 2018). Peak-load prices were at €54.0/MWh, or 25% higher than the 2017 average. The average price for immediate base load electricity deliveries in the German market area (from 1 October 2018) was €44.5/MWh, and the price for peak-load energy was €52.1/MWh. The price increases were driven mainly by higher prices for steam coal and CO_2.

Spot market electricity price performance (Base) in €/MWh

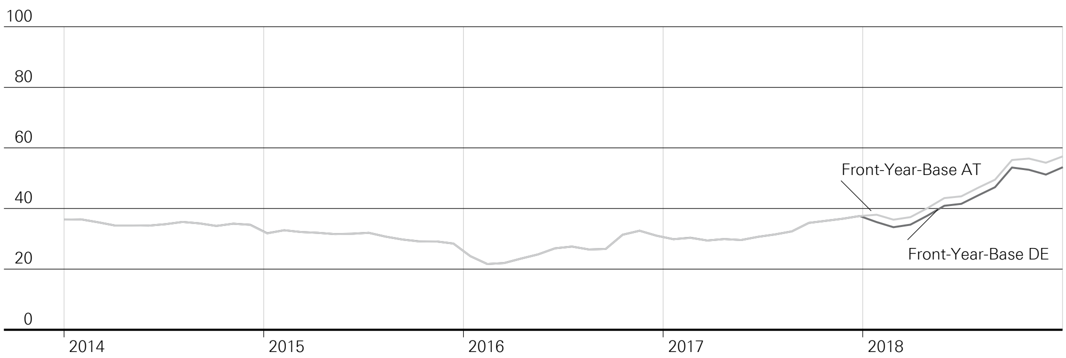


Until 30/9/2018 Market area Germany/Austria, starting 1/10/2018 Market area Germany and Austria shown separately; monthly average prices *Source: EPEX Spot*

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

In the futures market at the European Energy Exchange (EEX), base load for 2019 (front year base) was traded at an average price of €46.64/MWh in 2018 in the Austrian market area and peak load (front year peak) was traded at €56.84/MWh. In 2017, front year base contracts cost €32.38/MWh on average and front year peak contracts cost €40.51/MWh (for the joint German-Austrian market area). In the German market area, front year base traded at an average of €43.84/MWh and front year peak at €53.95/MWh in 2018. The higher prices were due to the rise in CO_2, gas and coal prices.

Futures market electricity price performance (Base) in €/MWh



2014-2017 Market area Germany/Austria; starting 2018 Market area Germany and Austria shown separately; the axis refers to the period of trading, delivery in the following year; monthly average prices

Source: EEX

VERBUND sells most of the electricity it generates in advance on the futures markets so as to reduce short-term selling and price risks. The price trend in the futures market in 2018 had only a minor influence on revenue during the reporting period. The trend will positively impact earnings in subsequent periods, however.

Political and regulatory framework

In 2018, the Council of the European Union and the European Parliament succeeded in clearing up the last remaining issues with the Clean Energy Package (CEP) during the term of the Austrian presidency following extensive negotiations.

In Austria, the federal government presented its Climate and Energy Strategy (#mission2030) which sets the objectives of a reduction of 25–30% in primary energy intensity by 2030 compared with 2015 and covering 100% of total electricity consumption (national balance) from national renewable energy sources by 2030. The strategy package includes reforms involving the topics of system charges and Österreichische Beteiligungs AG, among other things.

EU energy policy

"Clean Energy for All Europeans": negotiations on the legislative package concluded

After two years of negotiations, the European legislators succeeded in bringing the negotiations on the Clean Energy for All Europeans package to a close in the second half of 2018 during the term of the Austrian Council presidency. In essence, the package defines new targets for developing renewable energy and improving energy efficiency by 2030, dismantles a number of internal energy market barriers and facilitates access to the energy market for consumers and new market players alike.

Specifically, the share of energy from renewables is to reach 32% of the EU's gross final consumption by 2030, with 14% of all fuels used in the transport industry to come from renewables. An energy efficiency headline target of 32.5% has been set for 2030. In 2023, the targets for both renewables expansion and energy efficiency are to be revisited and possibly raised. The reporting duties set out in the new policy framework's Governance Regulation are intended to ensure adherence to the targets defined in national energy and climate plans. Any deviations are to be met with appropriate countermeasures. The Renewable Energy Directive (RED II) specifies that support for electricity from renewable sources is to be granted by means of tendering procedures and in a market-based way. RED II also stipulates a framework for renewables self-consumption. The single market directive and regulation are dismantling barriers in energy trading markets, introducing rules for market-based capacity mechanisms in the event of supply shortages, defining a new process for the introduction of price zones, strengthening regional cooperation between transmission system operators (TSOs) and aligning the statutory framework for distribution system operators (DSOs) to changed market conditions. They are also creating a level playing field for all generation technologies, including flexibility instruments such as storage capacity and demand response tools. In the future, storage systems will continue to be managed by market players as a rule, and by regulated TSOs in exceptional cases only. In addition, European regulator ACER has been given a stronger role.

Europe's long-term decarbonisation strategy: A Clean Planet for All

At the end of November 2018, the European Commission published a set of documents outlining its vision for transitioning to a climate-neutral economy by 2050. The scenarios proposed in the documents are to be discussed among EU institutions during 2019. The new European Commission will then present its final strategy after broad consultation and on the basis of the European Council's findings of May 2019.

Low-carbon mobility

A number of legislative proposals aimed at reducing carbon emissions in the mobility sector were under discussion in 2018. New CO_2 standards are to be introduced from 2021 for passenger cars as well as for both light and heavy commercial vehicles. The standards are intended to bring about significant decarbonisation in the transport sector by 2030. The Clean Vehicles Directive is designed to incentivise public procurers to invest a significant portion of their resources in carbon-free drive technologies when awarding contracts for new vehicles.

Hydropower: environmental guidance and initiation of EU Water Framework Directive revision process

Upon conclusion of a process extending over several years, in May 2018 the European Commission published its "Guidance on the requirements for hydropower in relation to Natura 2000", which includes guidance on the construction and operation of hydropower installations. The new guidance provides more detail on existing Natura 2000 legislation in relation to hydropower, presents good practice examples and aims to harmonise national application.

Work on revising the Water Framework Directive began in 2018 with a public consultation, which is expected to continue until March 2019.

New legal framework for the energy sector in Austria

Climate and Energy Strategy #mission2030

In May 2018, the Austrian federal government approved a new Climate and Energy Strategy (#mission2030). The Federal Ministry for Sustainability and Tourism and the Federal Ministry for Transport, Innovation and Technology are responsible for overseeing the #mission 2030 project, which introduces a structured framework for implementing the necessary action plans in the area of climate and energy policy. The objectives of the strategy are decarbonisation of the energy system by 2050, a reduction of 25–30% in primary energy intensity by 2030 compared with 2015 and covering 100% of total electricity consumption (national balance) from national renewable energy sources by 2030. The Climate and Energy Strategy is currently being transposed into legislation and administrative law. The central element of the strategy in the area of electricity is the Renewable Energy Development Act (Erneuerbaren-Ausbau-Gesetz, EAG), which is intended to restructure support schemes for renewable electricity generation. The Green Electricity Act (Ökostromgesetz, ÖkostromG) as well as the Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG) and the Natural Gas Act (Gaswirtschaftsgesetz, GWG) will be amended in the process, too.

Act on the Development and Advancement of Austria as a Business Location

The Act on the Development and Advancement of Austria as a Business Location (Standort-Entwicklungsgesetz, StEntG) presented by the Federal Ministry for Digital and Economic Affairs was approved by the Austrian Parliament in December 2018.

The StEntG is intended to enable the Austrian federal government to designate specific projects that serve the development or advancement of Austria as a business location to an exceptional degree as being in the public interest of the Republic of Austria in order to accelerate environmental impact assessment (EIA) procedures for such projects. If the EIA authorities do not issue a decision within twelve months of application, the project applicant may file a complaint transferring the matter to the Austrian Federal Administrative Court for decision.

Change in system charges

The grid tariffs for 2019 have been established by E-Control in the amended System Charges Order (SNE-VO). The new System Charges Order brings significant relief with regard to the "system services fees" generation rate component based on the EU regulation establishing a guideline on electricity balancing.

Renewable Energy Development Act

The Federal Ministry for Sustainability and Tourism began working on a new Renewable Energy Development Act (EAG) in 2018. In December 2018, a preliminary contract for the EAG containing the main elements of the new support regime for renewable energy was submitted in the form of an address to the Council of Ministers. The bill is expected to be presented in the second quarter of 2019. The primary purpose of the EAG is to restructure public subsidies for renewables based on the specifications laid out in the European Commission's guidelines on public support for environmental protection and energy as well as those set forth in the EU Renewable Energy Directive (RED II), such as the provisions on transitioning from feed-in tariffs to market-based premiums. The EAG also addresses the topics of market design, system responsibility and sector coupling.

Austrian environmental package

In autumn 2018, the Federal Ministry for Sustainability and Tourism adopted an environmental package consisting of the Aarhus Participation Act (Aarhus-Beteiligungsgesetz), the Federal Act on Environmental Liability (Bundesumwelthaftungsgesetz, B-UHG) and the Environmental Impact

Assessment Act (Umweltverträglichkeitsprüfungsgesetz, UVP-G). The Aarhus Participation Act implements an ECJ ruling concerning the legal remedies available to recognised environmental organisations as well as the provisions of the third pillar of the Aarhus Convention by way of three special administrative laws, including the Water Rights Act (Wasserrechtsgesetz, WRG). The amended Federal Act on Environmental Liability (B-UHG) aligns the legal situation in Austria with the ECJ's finding that, in the future, exceptions from liability for environmentally hazardous activities causing damage to water as defined by the B-UHG shall only apply if the water rights permit was granted in accordance with Section 104a of the Water Rights Act (WRG), which provides for exceptions from the requirement to prevent deterioration of the status of a body of surface water. The amended Environmental Impact Assessment Act (UVP-G) provides for various mechanisms to expedite environmental procedures, such as the requirement to use a so-called "Business Hub Ombudsman" (*Standortanwalt*) and requiring official decisions to be made within six weeks. In addition, the right to participate in environmental proceedings has been restricted to NGOs fulfilling certain minimum requirements.

Network and Information Security Act (NISG)

The Network and Information Security Act (Netz- und Informationssystemsicherheitsgesetz, NISG) adopted at the end of 2018 transposes the EU's Network and Information Security Directive into Austrian law. The legislation is intended to ensure a high level of security in network and information systems. Specifically, it provides for the establishment of national coordination structures to prevent and handle security incidents and the formation of computer security incident response teams (CSIRTs) to support operators of essential services, which include energy sector services. As an operator of essential services, VERBUND is affected by the new legislation and in the future will cooperate closely with the authorities in matters of cybersecurity. VERBUND is also a founding member of the Computer Emergency Response Team (CERT) working group. In recent years, the CERT working group has established an Austrian Energy CERT (E-CERT), one of whose roles will be to act as a computer security incident response team (CSIRT) for the energy sector as provided for in the Network and Information Security Act (NISG).

Österreichische Beteiligungs AG (ÖBAG)

The "Federal act amending the ÖIAG Act of 2000, the Austrian Real Estate Act and the Financial Market Stability Act" provides for a transformation of Österreichische Bundes- und Industriebeteiligungen GmbH into a stock corporation operating under the new name of Österreichische Beteiligungs AG (ÖBAG). The legislation also assigns ÖBAG to supervise the Austrian federal government's investment in VERBUND AG. The specifics of ÖBAG's duties with respect to VERBUND AG will be stipulated in a management agreement between the Republic of Austria and ÖBAG. VERBUND AG's ownership structure will not be impacted.

New legal framework for the energy sector in Germany

Creation of a Commission on Growth, Structural Change and Employment

On 6 June 2018, the German federal government approved the establishment of a Commission on Growth, Structural Change and Employment. The Commission was tasked with coming up with a fossil fuel phase-out plan suitable for achieving short-, medium- and long-term climate protection targets. It was also assigned to put forward proposals for structural development designed to promote growth and employment in the affected regions. On 26 January 2019, the Commission published its final report in which it recommended that the German federal government draw up a road map for the gradual withdrawal from coal-fired electricity generation by 2038 at the latest by pushing rapid expansion of energy storage and sector coupling technologies. Structural aid is to be offered to the regions that rely on brown coal and hard coal mining to give them a future-proof perspective. In addition, an accelerated approvals process for new gas power plants is intended to facilitate the transition from coal to gas. The Commission recommends checking the implementation and effectiveness of the proposed measures through regular monitoring with a view to electricity prices, security of supply and climate protection.

Regulation on Gradual Introduction of Standardised National Transmission System Fees

The Regulation on Gradual Introduction of Standardised National Transmission System Fees entered into force on 29 June 2018. The Regulation provides for gradual standardisation of grid usage fees across Germany. The implementation process will be completed by 1 January 2023. In October 2018, transmission system operators published their grid usage fees for 2019 for the first time on the basis of the new regulations. The standardised fee share for 2019 has been set at 20% of the relevant cost basis of the respective TSO.

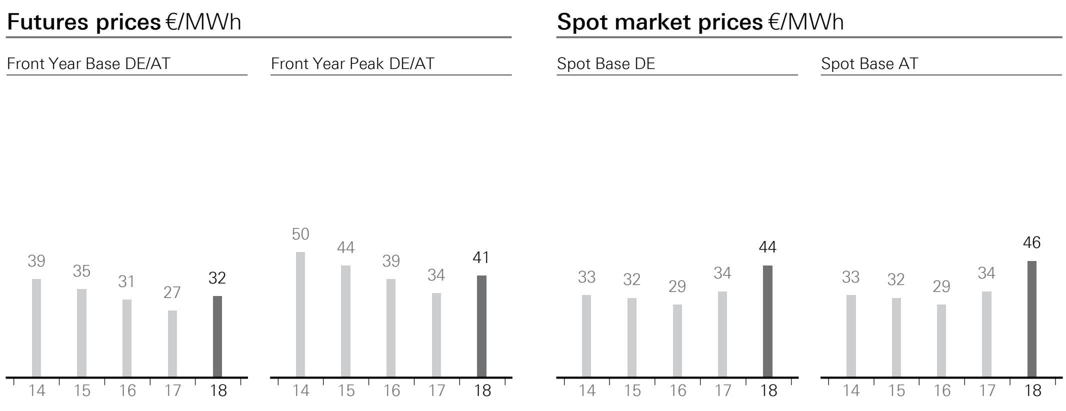
Finance

Factors affecting the result

Wholesale electricity prices

VERBUND contracted most of its own generation for 2018 on the futures market back in 2016 and 2017. Prices for front-year base load contracts averaged €32.4/MWh in 2017 and front-year peak load was traded at an average of €40.5/MWh in 2017. This represents a year-on-year increase of 21.8% for base load and 20.9% for peak load. Price levels in the electricity futures market largely mirrored the trend in prices for gas, coal and emission rights.

In the German spot market, wholesale trading prices for electricity in 2018 were well above the prior-year level. Prices for base load electricity increased by an average of 30.0% to €44.5/MWh and prices for peak load rose by 22.0% to €52.1/MWh. Since the split of the joint German-Austrian price zone in October 2018, separate, higher prices have prevailed in Austria. Wholesale electricity traded at €46.3/MWh for base load and €54.0/MWh for peak load on average in Austria in 2018. In the fourth quarter of 2018, the average spot market price in Austria was €7.3/MWh higher than in the German market. Spot market prices in 2018 followed the trend in prices for emission rights in particular.

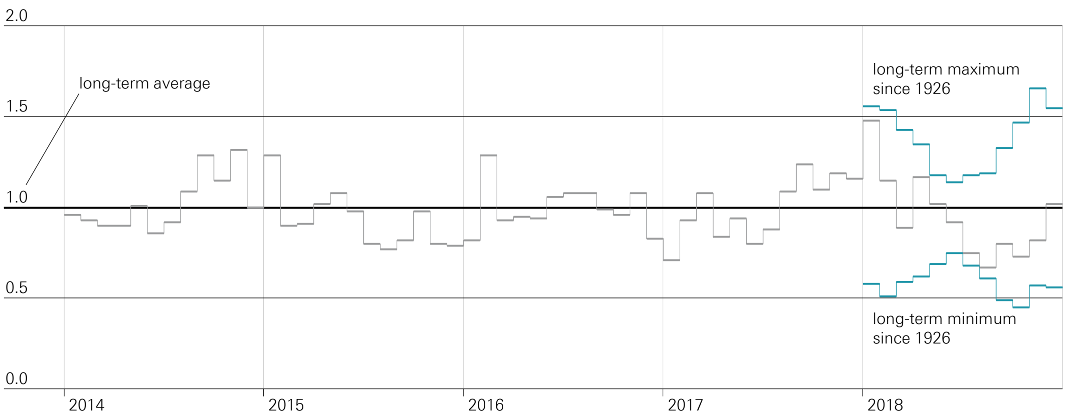


Futures prices traded in the year before supply. The years stated are the respective years of supply. Market area Germany/Austria. *Source: EEX, EPEX Spot*
Spot prices: 1/1/2014 - 30/9/2018 Market area Germany/Austria, starting 1/10/2018 Market area Germany or Austria respectively. Average prices.

Water supply

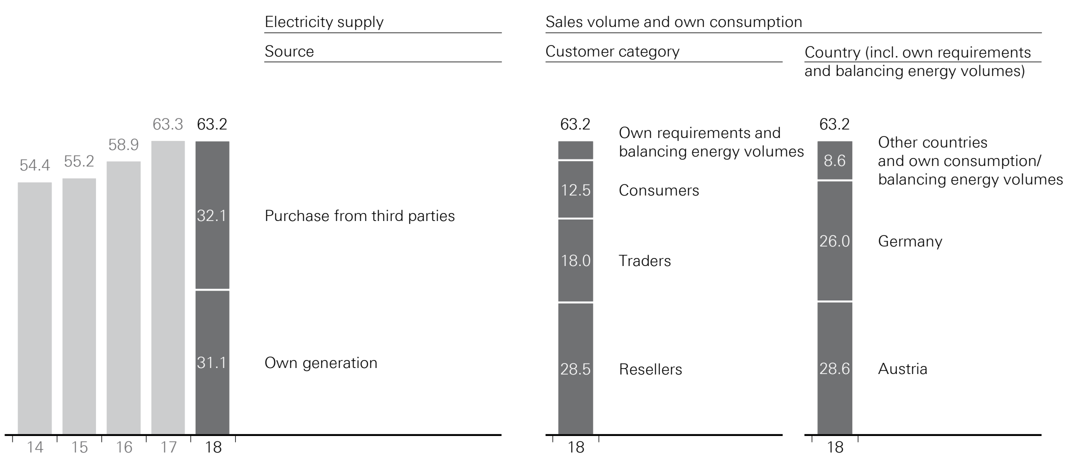
The water supply in rivers is of particular significance for VERBUND since around 90% of its electricity is produced using hydropower. Water supply is measured by means of a hydro coefficient, with the value of 1.00 representing the long-term average. In the 2018 reporting period, the hydro coefficient for run-of-river and pondage power plants was 0.94, which is considerably lower than the long-term average and 5 percentage points below the prior-year level. The hydro coefficients for the individual quarters differed substantially as follows: quarter 1: 1.17; quarter 2: 1.03; quarter 3: 0.74; quarter 4: 0.86.

Hydro coefficient (monthly averages)



Electricity supply and sales volumes

Electricity supply and sales volumes TWh



VERBUND's own generation decreased by 1,736 GWh to 31,130 GWh in quarters 1–4/2018. This represents a year-on-year decline of 5.3%. Generation from hydropower fell by 1,003 GWh compared with the prior-year period. The hydro coefficient for the run-of-river power plants dropped to 0.94, or 5 percentage points below the prior-year figure and 6 percentage points below the long-term average. Despite lower generation from turbining and the lower water supply, generation from annual storage power plants increased by 5.5% due to the high reservoir levels as at 31 December 2017.

VERBUND's wind power installations generated 118 GWh less electricity in quarters 1–4/2018 than in the prior-year period due to less windy conditions.

Generation from thermal power plants decreased by 615 GWh in quarters 1–4/2018. The Mellach combined cycle gas turbine power plant produced 550 GWh less electricity in 2018 due to the significant reduction in the use of this plant for congestion management compared with the prior year. Generation at the Mellach hard coal-fired power plant declined by 65 GWh.

Purchases of electricity from third parties for trading and sales rose by 1,403 GWh. Electricity purchased from third parties for grid loss and control power volumes increased by 264 GWh in the reporting period.

Group electricity supply

GWh

	2017	**2018**	Change
Hydropower[1]	29,687	28,684	–3.4%
Wind power	952	834	–12.4%
Thermal power	2,227	1,611	–27.6%
Own generation	32,866	**31,130**	–5.3%
Electricity purchased for trading and sales	25,635	27,039	5.5%
Electricity purchased for grid loss and control power volumes	4,763	5,026	5.5%
Electricity supply	63,264	**63,195**	–0.1%

[1] incl. purchase rights

VERBUND's electricity sales volume increased by 390 GWh in quarters 1–4/2018. Electricity volumes delivered to consumers rose by 596 GWh. Here, a sharp rise in sales to international customers more than compensated for the slight decline in sales to domestic customers. As at 31 December 2018, our residential customer base comprised approximately 469,000 electricity and gas customers. Sales to resellers rose by 697 GWh year-on-year due to a significant rise in sales to German municipal utilities. Electricity deliveries to trading firms decreased by 904 GWh, with increases in deliveries to France and Austria unable to fully compensate for lower deliveries to Germany. Own use of electricity declined by 506 GWh due to reduced turbining operations.

Group electricity sales volume and own use

GWh

	2017	**2018**	Change
Consumers	11,894	12,490	5.0%
Resellers	27,757	28,455	2.5%
Traders	18,867	17,964	–4.8%
Electricity sales volume	58,518	**58,908**	0.7%
Own use	3,651	3,145	–13.8%
Control power volume	1,095	1,141	4.2%
Total electricity sales volume and own use	63,264	**63,195**	–0.1%

In 2018, approximately 49% of the electricity sold by VERBUND went to the Austrian market. The lower share of sales to Austria was attributable primarily to the new position of Austrian customers as a result of the price zone split. Austrian customers now purchase electricity in Germany and transfer it to

Austria themselves through exchange trading. International trading and sales activities focused on the German market, which accounted for around 86% of all volumes sold abroad.

Electricity sales by country

GWh	2017	**2018**	Change
Austria	31,559	**28,615**	–9.3%
Germany	23,485	**26,022**	10.8%
France	2,599	**3,036**	16.8%
Romania	719	**1,044**	45.2%
Other	156	**192**	22.9%
Electricity sales volume	58,518	**58,908**	0.7%

Financial performance

Result

€m	2017	**2018**	Change
EBITDA	922.3	**864.2**	–6.3%
Adjusted EBITDA	899.7	**863.5**	–4.0%
Operating result	400.1	**655.1**	63.7%
Group result	301.4	**433.2**	43.7%
Adjusted Group result	354.5	**342.2**	–3.5%
Earnings per share in €	0.87	**1.25**	43.7%
(Proposed) dividend per share in €	0.42	**0.42**	0.0%

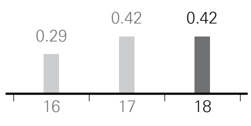
Income trend

VERBUND's EBITDA for financial year 2018 registered a year-on-year decline of 6.3% to €864.2m and the Group result showed an increase of 43.7% to €433.2m. In both the current and the previous reporting periods, however, earnings – especially the Group result – were heavily impacted by non-recurring effects. In 2018, such effects related above all to reversals of impairment losses recognised on the Group's hydropower operations in Austria and Germany and on its wind power operations in Romania. The non-recurring income from impairment testing was due to favourable changes in energy market parameters, especially higher projections for electricity prices. In total, the Group result contained non-recurring income of €91.0m in 2018 (2017: non-recurring expenses of €53.1m) and EBITDA included non-recurring income of €0.8m (2017: non-recurring income of €22.7m). Adjusted for these non-recurring effects, EBITDA declined by 4.0% to €863.5m and the Group result was down 3.5% to €342.2m. The low water supply in the 2018 reporting period was the main reason for the income decline. The hydro coefficient for the run-of-river power plants dropped to 0.94, or 5 percentage points below the prior-year figure and 6 percentage points below the long-term average. Notable in this context was the extremely low water supply in quarters 3 and 4/2018, with hydro coefficients of 0.74 and 0.86, respectively. By contrast, generation from annual storage power plants increased by 5.5%. Lower revenue from flexibility products also had a negative effect. Revenue from flexibility products saw a pronounced year-on-year decline due to the significant non-recurring income reported in financial year 2017. The average sales prices obtained for our own generation from hydropower were also somewhat lower than in the previous year at €29.3/MWh (2017: €30.4/MWh). By contrast, the higher earnings contribution from the Grid segment and the good results achieved through the programmes implemented in recent years to reduce costs and increase efficiency had a positive impact.

Dividend

A dividend of €0.42 per share for financial year 2018 will be proposed to the Annual General Meeting on 30 April 2019. The payout ratio calculated on the basis of the reported Group result amounts to 33.7% for 2018 and the payout ratio calculated on the basis of the Group result after adjusting for non-recurring effects is 42.6%. In 2017, a dividend of €0.42 per share was paid out to shareholders; the payout ratio amounted to 48.4% of the reported Group result or 41.2% of the adjusted Group result.

Dividend per share €



Revenue €m

	2017	**2018**	Change
Electricity revenue	2,370.2	2,189.8	–7.6%
Grid revenue	416.4	537.2	29.0%
Other revenue	126.6	121.0	–4.5%
Revenue	2,913.2	2,847.9	–2.2%

Electricity revenue

VERBUND's electricity revenue decreased by €180.4m to €2,189.8m in 2018. In terms of quantities, electricity sales volumes saw a slight increase of 390 GWh, or 0.7%, year-on-year. However, the average sales prices obtained for our own generation from hydropower fell by €1.1/MWh to €29.3/MWh. The decline in electricity revenue was due in particular to the initial application of IFRS 15 (which had no impact on profit or loss). Under the new standard, recharged grid fees/levies are presented netted against the corresponding grid purchase expenses (please refer to the notes to the consolidated financial statements for details on the initial application of IFRS 15).

Grid revenue

Grid revenue rose by €120.8m year-on-year to €537.2m in 2018, primarily as a result of the increase in domestic grid revenue resulting from higher tariff revenue. Higher revenue from auctioning off cross-border capacity also had a positive impact. However, grid revenue was negatively impacted by revenue declines relating to control power.

Other revenue and other operating income

Other revenue decreased by €5.7m to €121.0m. Higher revenue from the sale of green electricity certificates and district heating deliveries was counteracted by lower revenue from gas sales. Other operating income fell by €12.9m to €65.5m, mainly due to the sale of shares in SMATRICS GmbH & Co KG in the 2017 reporting period. The resulting income amounted to €22.7m.

Expenses €m

	2017	**2018**	Change
Expenses for electricity, grid, gas and certificates purchases	1,428.2	**1,360.7**	–4.7%
Fuel expenses and other usage-/revenue-dependent expenses	114.2	125.8	10.1%
Personnel expenses	313.6	322.8	2.9%
Other operating expenses	213.2	239.8	12.5%

Expenses for electricity, grid, gas and certificates purchases

Expenses for electricity, grid, gas and certificates purchases decreased by €67.5m to €1,360.7m. A total of 1,667 GWh more electricity was purchased from third parties for trading and sales as well as for grid loss and control power volumes. However, expenses were substantially reduced by the initial application of IFRS 15 (which had no impact on profit or loss; please refer to the notes to the consolidated financial statements for details on the initial application of IFRS 15). All in all, expenses for electricity purchases registered a minimal increase of €11.0m. Expenses for grid purchases were down €64.0m, primarily as a result of the initial application of IFRS 15 (which had no impact on profit or loss), and expenses for gas purchases were €16.2m lower in the 2018 reporting period.

Fuel expenses

Fuel and other usage-/revenue-dependent expenses rose by €11.6m to €125.8m. The increase in expenses was due in particular to higher expenses for emission rights resulting from the surge in CO_2 prices and higher expenses for coal based on the increase in coal procurement prices. By contrast, lower use of natural gas had a positive impact. The decline is attributable to reduced use of the Mellach combined cycle gas turbine power plant for congestion management (for details please refer to the section entitled Electricity supply and sales volume).

Personnel expenses

Personnel expenses increased by €9.2m year-on-year to €322.8m in 2018. With respect to expenses for current employees, we were able to mitigate the effects of the 3% increase in pay rates under the collective bargaining agreement by systematically implementing our programmes to reduce costs and increase efficiency. With respect to employee benefits relating to pensions and termination benefits, additional expenses of €5.0m were reported due to the use of new mortality tables as well as updated calculations of provisions for partial retirement.

Other operating expenses

Other operating expenses rose by €26.6m to €239.8m. The increase was mainly due to an increase in goods and services purchased from third parties (maintenance of line systems and power plants, especially repairing storm damage), higher legal, audit and consulting expenses and changes in provisions.

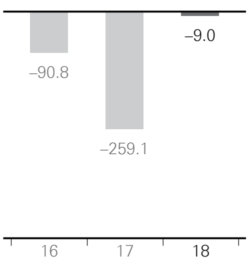
EBITDA

As a consequence of the above-mentioned factors, EBITDA declined by €58.1m, or 6.3%, to €864.2m.

Depreciation and amortisation

Amortisation of intangible assets and depreciation of property, plant and equipment declined by €14.0m to €327.3m. The reduction was mostly due to a decrease in the depreciation base for property, plant and equipment compared with the previous year, mainly as a result of fixed asset disposals and impairment losses.

Impairment losses €m



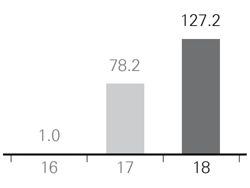
Impairment losses

Impairment losses amounted to €9.0m in financial year 2018 and related mainly to the Gries and Graz run-of-river power plants. In financial year 2017, impairment losses had amounted to €259.1m and resulted primarily from impairment losses recognised on the goodwill of the Inn River power plant group (€153.8m), the Grenzkraftwerke (€57.7m), the Mittlere Salzach power plant group (€21.4m) and the Mellach district heating plant (€10.5m). Further details on impairment testing are presented in the notes to the consolidated financial statements.

Reversals of impairment losses

Reversals of impairment losses amounted to €127.2m and resulted primarily from reversals of impairment losses recognised on the power plants of the Grenzkraftwerke (€55.8m), the Mittlere Salzach power plant group (€20.6m), the Gössendorf and Kalsdorf run-of-river power plants (€12.5m) and the wind farms in Romania (€26.5m). In financial year 2017, reversals of impairment losses had amounted to €78.2m and related solely to the Mellach combined cycle gas turbine power plant. Further details on impairment testing are presented in the notes to the consolidated financial statements.

Reversal of impairment losses €m



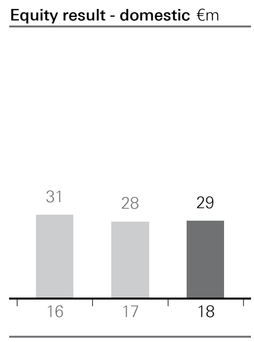
Financial result

€m

	2017	**2018**	Change
Result from interests accounted for using the equity method	27.9	**28.4**	1.9%
Other result from equity interests	11.2	**8.8**	–20.7%
Interest income	36.0	**32.1**	–10.9%
Interest expenses	–129.6	**–127.4**	–1.7%
Other financial result	38.2	**7.8**	–79.6%
Impairment losses	–5.2	**–2.2**	–58.3%
Reversals of impairment losses	0.0	**0.3**	–
Financial result	–21.6	**–52.1**	141.6%

Result from interests accounted for using the equity method

The result from interests accounted for using the equity method rose by €0.5m to €28.4m. The increase was mainly due to the earnings contributions from KELAG in the amount of €29.9m (2017: €28.2m).



Interest income and expenses

Interest income decreased by €3.9m to €32.1m compared with 2017. Interest expenses declined by €2.2m to €127.4m, due in particular to lower interest on credit facilities and bonds as a result of both scheduled and early repayments of principal.

Other financial result

The other financial result fell by €30.4m to €7.8m. The decrease was mainly due to measurement losses relating to measurement of an obligation to return an interest (€–23.9m), measurement of interest rate hedges (€–1.9m) and the discontinuation of measurement of a long position relating to VERBUND's share in Gemeinschaftskraftwerk Inn (+€4.3m).

Impairment losses in the financial result

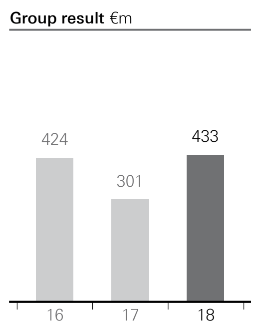
Impairment losses amounted to €2.2m (2017: €5.2m) and resulted from the impairment loss recognised on Ashta Beteiligungsverwaltung GmbH. Further details on impairment testing are presented in the notes to the consolidated financial statements.

Financial result

The financial result consequently deteriorated by €30.5m, declining from €–21.6m to €–52.1m.

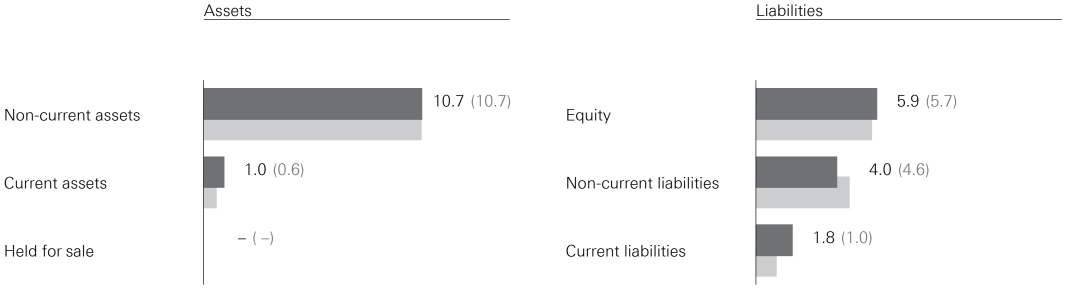
Group result

After taking account of an effective tax rate of 21.0% and non-controlling interests in the amount of €43.1m, the Group result amounted to €433.2m. This represents an increase of 43.7% compared with the previous year. Earnings per share amounted to €1.25 (2017: €0.87) for 347,415,686 shares. The Group result after adjustment for non-recurring effects was €342.2m, a decrease of 3.5% on the prior-year period.



Financial position

Balance sheet €bn



Figures in brackets are previous year's figures.

Consolidated balance sheet (condensed)

€m

	2017	Percent	**2018**	**Percent**	Change
Non-current assets	10,661.5	94%	10,702.7	91%	0.4%
Current assets	622.1	6%	1,002.1	9%	61.1%
Total assets	11,283.6	100%	**11,704.8**	**100%**	3.7%
Equity	5,690.8	50%	5,941.0	51%	4.4%
Non-current liabilities	4,584.7	41%	3,968.0	34%	– 13.5%
Current liabilities	1,008.1	9%	1,795.8	15%	78.1%
Total liabilities	11,283.6	100%	**11,704.8**	**100%**	3.7%

Assets

SDG 8

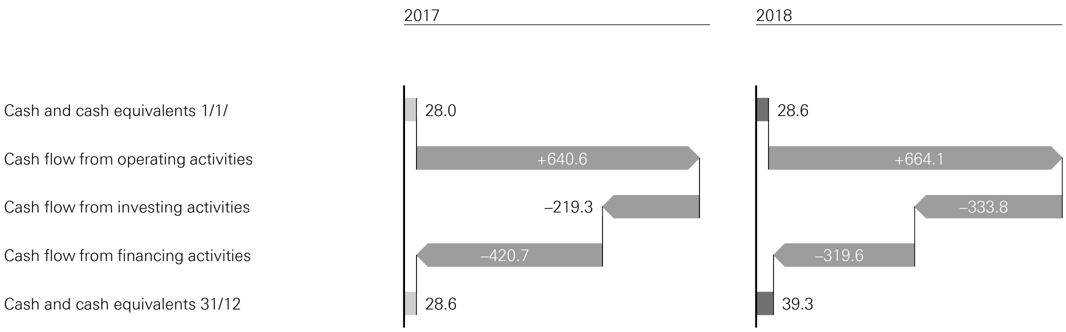
VERBUND's non-current assets did not change significantly from the prior-year level. With respect to property, plant and equipment, additions of €292.5m were offset by depreciation of €320.4m. Moreover, reversals of impairment losses totalling €85.6m were recognised on several Austrian and German run-of-river power plants. The items of property, plant and equipment were tested for impairment after deducting any contributions to building costs directly attributable to the relevant installations. Impairment tests performed on Romanian wind farms resulted in reversals of impairment losses in the amount of €26.5m. The main additions to property, plant and equipment related to investments in the Austrian transmission grid and replacement investments at Austrian hydropower plants. The increase in current assets resulted mainly from short- and medium-term investments of cash and cash equivalents as well as higher positive fair values for derivative hedging transactions.

Equity and liabilities

Equity increased by 4.4% compared with 31 December 2017. Profit for the period in 2018 was reduced mainly by dividend distributions as well as the effects on other comprehensive income of measuring hedging transactions and applying updated actuarial reports to pensions and similar obligations, which lowered equity. The increase in liabilities was primarily the result of higher negative fair values for derivative hedging transactions. In addition, a change in presentation arising from the maturity date for a bond led to a reclassification from non-current to current liabilities.

Cash flows

Cash flow statement €m



Cash flow statement (condensed)

€m

	2017	**2018**	Change
Cash flow from operating activities	640.6	664.1	3.7%
Cash flow from investing activities	–219.3	–333.8	52.2%
Cash flow from financing activities	–420.7	–319.6	–24.0%
Change in cash and cash equivalents	0.6	**10.8**	–
Cash and cash equivalents at the end of the period	28.6	39.3	37.6%

Cash flow from operating activities

Cash flow from operating activities amounted to €664.1m in the 2018 reporting period, up €23.5m on the prior-year figure. The increase was mainly due to lower cash outflows for congestion management and higher revenue from grid usage fees in the Grid segment. Higher income tax payments and lower revenue in the Renewable generation segment due to the lower water supply (hydro coefficient: 0.94; previous year: 0.99) and lower average sales prices obtained had a counteracting effect.

Cash flow from investing activities

Cash flow from investing activities amounted to €–333.8m in the 2018 reporting period (previous year: €–219.3m). The change compared with the prior year was mainly due to the increase of €90.2m in net cash outflows for investments and higher cash outflows from capital expenditure for intangible assets and property, plant and equipment (€–52.1m). The cash outflows were counteracted by higher cash inflows from the disposal of intangible assets and property, plant and equipment (€+42.1m), mainly due to the transfer of rights to purchase electricity from Gemeinschaftskraftwerk Inn.

Cash flow from financing activities

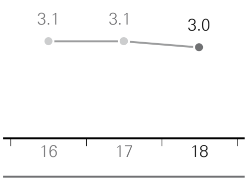
Cash flow from financing activities amounted to €–319.6m in the 2018 reporting period, a change of €101.1m. The main reasons for the change were issuance of a digital green Schuldschein (€100.0m), lower repayments of financial liabilities (€46.2m) and higher net payments from money market transactions (€10.4m). Higher dividend payouts (€–55.5m) had a counteracting effect.

Key performance indicators and financial governance

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

Net debt/EBITDA and free cash flow

Net Debt/EBITDA



VERBUND has targeted a net debt/EBITDA ratio of <3.0.

We reached that target in the reporting period with a ratio of net debt to EBITDA of 3.0 as at 31 December 2018 (2017: 3.1). Despite the lower EBITDA, the ratio improved slightly due to a decline in net debt. Information on the change in EBITDA is presented above under "Financial performance". The reduction in net debt resulted primarily from a decrease in liabilities due to the positive free cash flow.

Free cash flow before dividends amounted to €415.3m at the end of the reporting period (previous year: €416.1m). Higher cash outflows from capital expenditure for intangible assets and property, plant and equipment were counteracted in particular by payments received in connection with the disposal of VERBUND's investment in Gemeinschaftskraftwerk Inn GmbH. Cash flow from operating activities remained at approximately the prior-year level.

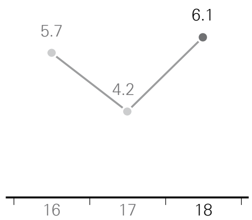
ROCE

ROCE is an indicator of the profitability of the Group's operating assets. At the end of 2018, ROCE amounted to 6.1% (previous year: 4.2%). The objective is for this figure to exceed 7.0% in the long term. ROCE is calculated by dividing net operating profit after taxes (NOPAT) by average capital employed.

NOPAT equates to operating profit before financing costs, including the result from equity interests net of income tax. At the end of financial year 2018, NOPAT stood at €535.6m (previous year: €368.7m). The improvement was primarily due to reversals of impairment losses in the operating divisions, by contrast with the previous year in which NOPAT was reduced by impairment losses in the operating divisions.

Capital employed corresponds to average total assets, net of those assets that do not contribute to performance or commercialisation, and less non-interest-bearing debt. Average capital employed amounted to €8,764.8m at the end of 2018 (previous year: €8,758.8m). The Group return exceeded the weighted average cost of capital (WACC) in 2018 (currently 4.75%).

ROCE



Source: VERBUND

Gearing

Gearing is determined as follows:

Interest-bearing net debt (condensed) €m

	2017	2018	Change
Financial liabilities	1,931.2	1,792.5	–7.2%
Interest-bearing provisions	813.7	812.9	–0.1%
Other interest-bearing liabilities	236.6	217.0	–8.3%
Cross-border leasing	45.6	32.1	–29.5%
Cash and cash equivalents	–28.5	–39.2	37.8%
Securities	–146.9	–211.5	44.0%
Other liquid financial assets	–8.0	–43.1	–
Interest-bearing net debt	2,843.8	**2,560.7**	–10.0%
Equity	5,690.8	**5,941.0**	4.4%
Gearing ratio	50.0%	**43.1%**	–

Financing

Financing strategy

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

Securing liquidity and ensuring suitable liquidity reserves

VERBUND gives top priority to ensuring that liquidity is secure at all times, especially in today's difficult market environment. As at 31 December 2018, VERBUND had an ESG-linked syndicated credit line in the amount of €500.0m at its disposal that had not been drawn down. The facility is linked to specific environmental, social and governance objectives and runs until 2023, with two extension options of one year each. It was taken out on 10 December 2018 with twelve domestic and international banks with good credit ratings. VERBUND also had access to uncommitted lines of credit amounting to approximately €582.0m at the end of 2018. None of the credit lines had been drawn down as at 31 December 2018.

"Green finance" is one of the flagship projects outlined in Austria's Climate and Energy Strategy. VERBUND is driving innovation.

Securing a solid, long-term credit rating

As at 31/12/2018: S&P: A–/ stable outlook Moody's: Baa1/ positive outlook

The better a company's credit rating, the easier and more inexpensive it is to benefit from full access to international capital markets. Having a solid credit rating gives VERBUND access to various financing instruments, including those in the capital market. As at 31 December 2018, VERBUND had a long-term rating of A– with a stable outlook from Standard & Poor's (S&P) and a rating of Baa1 with a positive outlook from Moody's. S&P raised its rating from BBB+ to A– with a stable outlook in September 2018. Moody's also raised its rating in September 2018, in this case from Baa2 to Baa1 with a positive outlook. For the long term, VERBUND is aiming for a solid "A" category rating. VERBUND is therefore focusing its management of the Group on optimising free cash flow and improving the two key rating-related performance indicators of FFO/net debt and RCF/net debt.

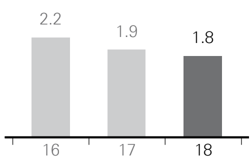
Financing measures

In 2018, VERBUND was again able to take advantage of its strong internal funding options to finance its ongoing investment programme and to continue to reduce Group debt. As at 31 December 2018, cash flow from operating activities amounted to €664.1m and free cash flow before dividends amounted to €415.3m. As part of active liquidity management, VERBUND subjects its financial liabilities to ongoing monitoring to ensure that opportunities to optimise interest expenses are taken advantage of (e.g. by making early repayments of principal).

Green finance initiatives: green bond, digital green Schuldschein and ESG-linked credit facility

After having issued the first green bond in the German-speaking region in 2014 in the amount of €500.0m (maturing in 2024, coupon of 1.5% p.a.), we stepped up our green finance activities significantly in 2018. VERBUND issued the world's first green Schuldschein over a digital platform in March 2018. The Schuldschein was issued in the volume of €100.0m with a coupon of 1.6% p.a. and matures in 2028. Moreover, the margin structure of the syndicated credit line that was refinanced in December 2018 was linked exclusively to VERBUND's ESG rating (sustainability rating). The ESG rating was determined by Sustainalytics, the leading agency in this field, and is reviewed each year. If VERBUND's ESG rating deteriorates, the Group's financing costs increase. If the ESG rating improves, the Group's financing costs decrease. This effectively decouples the Group from the established finance rating.

Financial liabilities €bn



Carrying amounts

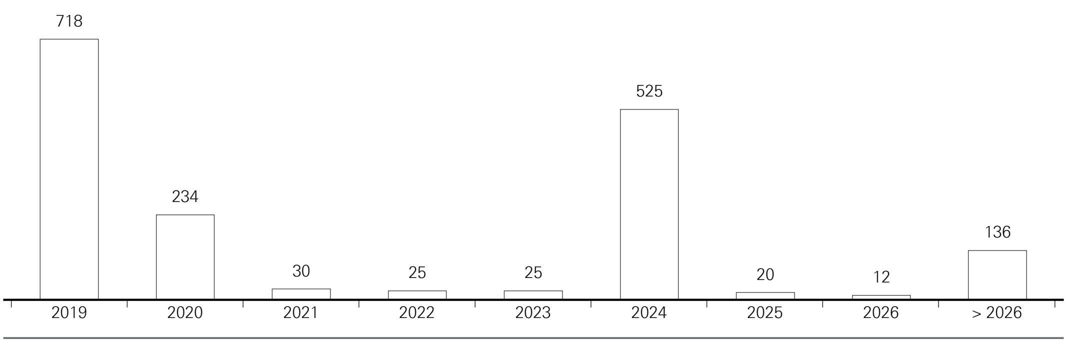
As at 31 December 2018, VERBUND's borrowing portfolio was composed as follows: 78.1% bonds and 21.9% loans.

The following key performance indicators refer to purely external financial liabilities, excluding former cross-border leasing transactions, exclusive financial guarantees and exclusive limited partnership interests. The carrying amount of VERBUND's financial liabilities was €1,789.7m as at 31 December 2018, 100% of which was denominated in euros. A total of 98% of these financial liabilities had fixed interest rates and 2% had variable interest rates. As at 31 December 2018, the duration of all liabilities was 3.3 years and the average term to maturity was 3.4 years. The effective interest rate was 3.75%.

Repayments of principal and repayment structure

In financial year 2018, notional amount payments of €252.2m were made on long-term borrowings. A total of €718.0m will fall due in 2019 and €233.5m is scheduled to be repaid in 2020.

Repayments €m



Segment report

Renewable generation

Hydropower and wind generation technologies are brought together under the Renewable generation segment. Around 95% of the electricity VERBUND generated in financial year 2018 came from these renewable sources.

VERBUND is already one of the largest producers of hydroelectricity in Europe. Hydropower is the basis for generating electricity from renewable energy sources. It has many advantages: it is renewable, clean, reliable and flexible and delivers high-value peak load and base load power. Generating electricity from hydropower is also cost effective. VERBUND's strong hydropower base represents a considerable competitive advantage. The Group's hydropower generation portfolio contains attractive flexibility products that VERBUND has designed to optimally reflect the needs of a modern energy market.

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

Climate-friendly electricity generated from renewable energy forms the basis of VERBUND's success.

Business performance

KPIs – Renewable generation segment

	Unit	2017	**2018**	Change
Total revenue	€m	965.9	**903.8**	–6.4%
EBITDA	€m	565.0	**514.5**	–8.9%
Result from interests accounted for using the equity method	€m	0.5	**0.0**	–
Capital employed	€m	6,769.7	**6,602.2**	–2.5%

EBITDA for the Renewable generation segment declined by €50.5m to €514.5m, mainly due to the decrease in revenue resulting from the lower water supply (hydro coefficient of 0.94 in 2018 and 0.99 in 2017) as well as the decline in the average price obtained for electricity. Lower grid expenses had a counteracting effect. The result from interests accounted for using the equity method for the Renewable generation segment was largely made up of the earnings contribution from Ashta Beteiligungsverwaltung GmbH. Capital employed for the Renewable generation segment fell by €167.5m to €6,602.2m. The reduction is largely due to the decline in intangible assets (transfer of rights to purchase electricity from Gemeinschaftskraftwerk Inn) and the decrease in property, plant and equipment (depreciation exceeded investments).

Energy supply

GRI EU1
GRI EU2

SDG 7

Energy generation overview

Electricity generation

	Number[1]	Maximum electrical capacity in MW[1]	Mean energy capability in GWh	2016 Generation in GWh	2017 Generation in GWh	**2018 Generation in GWh**
Hydropower[2]	128	8,215	29,039	29,809	29,687	28,684
Wind power	11[3]	418		835[4]	952	834
Total	139	8,633	29,039	30,644	30,639	**29,518**

[1] as at 31 December 2018 // [2] incl. purchase rights // [3] refers to the number of wind farms // [4] incl. the solar power generated in Spain that was available until the sale of the Spanish activities in mid-December 2016

VERBUND generated 29,518 GWh from renewable energy sources in 2018, which was more than 1 TWh below the previous year's level of 30,639 GWh. The decrease was mainly attributable to the low water supply in the second half of 2018. Generation from hydropower plants fell by 3.4% to 28,684 GWh. The hydro coefficient – the measure for generation from run-of-river and pondage power plants – came to 0.94 in 2018, or 6% below the long-term average and 5 percentage points below the previous year's figure. The hydro coefficients for the individual quarters varied significantly: quarter 1: 1.17; quarter 2: 1.03; quarter 3: 0.74; quarter 4: 0.86.

VERBUND's wind power plants generated 834 GWh in 2018, which was approximately the same as in 2016 but 12.4% less than in 2017.

VERBUND's hydropower plants had a capacity of 8,215 MW (maximum electrical capacity = maximum capacity for sustained operations) as at 31 December 2018. A total of 418 MW was installed at VERBUND's wind farm installations as at 31 December 2018.

GRI EU10
GRI EU1

SDG 7

Capacity changes 2017–2020[1]

MW

	2017	**2018**	2019	2020
Hydropower[2]	8,215	8,215	8,222	8,206
Wind power	418	418	418	418
Total	8,633	**8,633**	8,640	8,624

[1] as at 31/12 of each year // [2] incl. purchase rights

The planned changes in VERBUND's power plant portfolio up to 2019 are based on the current investment plan and include the Group's current new construction and efficiency improvement projects that will have been completed by then. In 2020, capacity will be reduced due to partial shutdown of the Bösdornau power plant after the water rights re-issuance procedure with simultaneous commissioning of the Lower Tuxbach diversion tunnel, which will increase mean energy capability. Additional increases in mean energy capability and capacity are expected after 2020 based on current projects and projects approved in autumn 2018.

Hydropower

Hydropower – our strong foundation

GRI EU30 SDG 7

In 2018, VERBUND generated hydroelectricity from 92 run-of-river power plants and 22 storage power plants. We also held purchase rights at 14 run-of-river power plants owned by Ennskraftwerke AG. The mean energy capability – i.e. annual generation potential assuming an average water supply (standard year) – was 29,039 GWh.

The Austrian power plants of VERBUND Hydro Power GmbH (run-of-river and storage power plants) had a high level of average availability of 95.1% in 2018. This represents a significant improvement on the average availability level of 91.8% for 2013–2017. In 2017, a figure of 94.3% was recorded. Plant availability has increased steadily in recent years. This is attributable to optimised maintenance cycles for run-of-river plants (from six to nine years) from autumn 2014 and a change in the inspection strategy for storage power plants from mid-2015.

The Grenzkraftwerke power plants on the Inn and Danube rivers (Bavaria/Austria) achieved a good level of availability of 93.9% in 2018 as a result of completing certain renovations in the year under review (principally renewing control systems). The 2018 figure was higher than the average for the last five years (92.9%) as well as the figure for 2017, when an availability level of 92.5% was reached due to a number of renovation projects.

The Bavarian run-of-river power plants of VERBUND Innkraftwerke GmbH achieved an availability level of 91.1% in 2018. Even though this figure was heavily impacted by an accelerated control systems renewal project, the scope of the renovations was already less in 2018 than in the previous years. The figure for 2018 was somewhat higher than the average for 2013–2017 (90.9%) and also surpassed the 2017 availability level (90.0%) due to extensive control system renovations.

New power plant projects

VERBUND continued working on the following key projects in 2018:

Gries run-of-river power plant

VERBUND and Salzburg AG are collaborating on a project to build a new Gries power plant on the Salzach. Work on the plant, which has been under construction since summer 2016, is progressing on schedule and will be finished by May 2019. Key milestones were reached in 2018. All of the groundwork and cement work was executed as planned and work to shore up fast-flowing streams in the reservoir area was completed. The weir was put into operation in mid-August 2018 and the impoundment facility was completed in early September 2018. Generator set 2 underwent trial operation from the beginning of September 2018 to the start of October 2018. Trial operation for generator set 1 began at the start of November 2018 and lasted until December 2018. Both test runs were successful. This allowed the timetable for commencing electricity generation to be pushed up by around five months, which facilitated additional generation of approximately 15 GWh.

GRI 413-1

The public relations activities accompanying the construction project have placed special emphasis on constructive cooperation with the local community and the state as well as the aspects of regionality and proximity to the local population. The platforms established for the construction site were utilised in the tried-and-tested manner in 2018 to enable an exchange of information with local residents. The high level of acceptance of the construction site and the power plant among the local population confirms the effectiveness of the public relations work.

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

Graz power plant on the Mur River

VERBUND and Energie Graz GmbH each have a stake of 12.5% in the Graz project to construct a power plant on the Mur with a mean energy capability of 78.9 GWh and a maximum electrical capacity of 17.7 MW. Energie Steiermark AG is the majority shareholder with a share of 75%. Under the construction agreement, Energie Steiermark Green Power GmbH is currently responsible for end-to-end project execution. Work on the powerhouse and the weir facility as well as in the reservoir is progressing on schedule. VERBUND Hydro Power GmbH will take over operation of the plant for a minimum of 20 years after commissioning, which is planned for mid-2019. Energie Steiermark, our project partner, is responsible for stakeholder engagement.

Further information is available at www.murkraftwerkgraz.at

Projects to expand and increase efficiency

Lower Tuxbach

In September 2016, it was decided to undertake an expansion project at the Lower Tuxbach. The planned measures, which will increase turbine capacity at the Stillup small-scale power plant by 1.7 MW and mean energy capability by 74 GWh, represent an energy upgrade of the Group's power plant portfolio in the Zillertal Valley from 2019. Excavation towards the Tuxertal Valley using a tunnel boring machine equipped with disc cutters began in 2017 and was completed in July 2018. However, the geological situation – in which certain sections of the tunnel were found to have heavy water ingress from mountain streams – necessitate additional injections. Tunnel boring towards Stillup commenced in September 2018 after successful assembly of the tunnel boring machine in the Zemm-Stillup branch and conversion of the conveyor installation. Tunnelling work at the desander, in the Elsbach diversion tunnel and in the flushing tunnel is proceeding as planned.

The effects of the geological situation on the time and financial expenditure needed to complete the project given the additional injections and the inner lining sections are currently being evaluated. At present, it appears that commissioning will be postponed until 2020.

GRI 413-1

SDG 15

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

Public relations activities were stepped up on issuance of the approval notice and on the signing of the second Zillertal agreement and the partnership agreements with the communities and the tourist board as well as on the signing of a partnership agreement between VERBUND and Stadtwerke Schwaz (which receives an annual electricity purchase right). As part of the project, informational events are held, press releases issued and project consultations held.

Töging

The project to upgrade and increase efficiency at the existing Inn power plant in Töging and the Jettenbach weir in Bavaria has been in the official approval process since October 2015. The approval notice for the entire project and the water rights permit are expected to be issued by mid-2019. In parallel with the approval process, an application for permission to start construction early was submitted in June 2018 with the intention of enabling adherence to the 2022 commissioning date given the economic advantages this will bring. The local authority in Mühldorf approved the request to move up construction by way of a notice dated 12 September 2018. On 18 September 2018, the responsible boards subsequently approved a resolution to start construction early as well as a resolution concerning the project as a whole – subject to approval of the entire project by the authorities. Construction then commenced in October 2018.

The project comprises construction of a new power plant and weir, raising the sealing capacity of the Inn channel and implementing flood protection measures at the Jettenbach reservoir and is expected to increase total generation by 139 GWh to 696 GWh in 2022 according to the current schedule. Installed power plant capacity will increase by 32.4 MW to 117.7 MW.

SDG 15

The project is accompanied by a variety of protective, preventative and compensatory environmental measures. These include standing water bodies for use as spawning habitats and fish habitats, grassland development along the embankments to promote biodiversity, establishment of reptile habitats and structural and hydromorphological improvements. Measures to permanently maintain the environmental function have already been implemented for smooth snakes, sand lizards and the dusky large blue butterfly.

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

GRI 413-1

To promote a continuous exchange of information on the project, we offer regular consultations. Most of the questions posed thus far have related to the further course of the project. It was noted that public interest was high around the time construction was set to commence.

Projects to increase efficiency

Ybbs-Persenbeug efficiency improvement project

Austria’s oldest Danube power plant at Ybbs-Persenbeug has been undergoing progressive modernisation since 2012. Work on the North power plant was completed in spring 2017 after overhaul of the third main generator. In 2018, the remaining work on generator set 5 was carried out and preparations were made for modernisation of the South power plant from autumn 2019. Once the measures to increase efficiency have been completed for all six generator sets, the plant will have an additional mean energy capability of 77 GWh and an additional maximum electrical capacity of 18 MW.

Additional efficiency improvement projects in the planning stages

In addition to the Ybbs project already mentioned, preparatory work has been initiated for a number of other efficiency improvement projects. The necessity of making technical improvements to generators and/or machines that are approaching the end of their useful lives has been taken as an opportunity to carry out various additional measures aimed at increasing efficiency. As a result, approximately 66 MW in turbine capacity and approximately 106 GWh in additional mean energy capability will become available over the next few years from run-of-river power plants. The flexibility portfolio in the area of storage power plants will moreover be expanded by around 112 MW in the area of turbine capacity, around 288 MW in the area of pump capacity and approximately 14 GWh in the area of additional mean energy capability.

Environmental measures: excellent track record in restoration maintained

VERBUND expects to incur total costs of around €280m by 2027 for implementing the requirements of the EU Water Framework Directive. This is in addition to the ongoing expenses for operation and maintenance. Selected nature conservation activities are presented on the VERBUND website.

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

SDG 15

The following are among the most extensive individual projects carried out in 2018: completion of the fish pass at the Greifenstein plant on the Danube as part of the LIFE+ Network Danube project, construction of a fish pass at the Edling plant on the Danube and an extensive restoration project at Grenzkraftwerk plant Ering-Frauenstein with semi-natural bypass channels and an extensive river branch system divided by islands around the power plant. At the Abwinden-Asten power plant on the Danube, work commenced to establish fish passability in connection with the LIFE+ Danube Network initiative. Work has also focused on planning additional fish ladders on the Danube and Drau rivers, the Inn River to the German border and the Inn River in Bavaria as well as on monitoring the fish ladders already constructed.

Multiple research projects focused on investigating outstanding issues relating to Water Framework Directive specifications. For example, at the beginning of 2018 the Vienna University of Natural Resources and Life Sciences initiated a project to systematically review options for improving river sedimentation along the bodies of water impacted by power plants in Austria as part of the "Sediment" CD Laboratory (Christian Doppler Research Association). The project will continue for several years. Research is also being conducted into the effects on the fish population of fish bypasses designed to divert fish around turbines and the impact on water ecology of measures to limit hydropeaking on pilot stretches such as on the central Salzach.

Our media work and public relations activities (such as Danube Day held at Vienna City Park) focused on VERBUND's work to protect the environment at its power plant sites. On special occasions – such as the April 2018 opening of the fish pass in Greifenstein and presentation of the Altenwörth fish pass project in October 2018 – citizens' events are held at which the interested public can obtain information from experts.

Sustainable planning and stakeholder management

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

GRI 102-43
GRI 103-2

In executing its projects, VERBUND also relies heavily on dialogue with citizens. The community is updated regularly and local council information sessions are held, as are meetings with mayors and tourism associations. We addressed the public directly at six selected sites at which open days or neighbourhood meetings were held in 2018.

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

Examination of the flooding on the Danube (2013) and the Drau (2012)

Four actions under civil law are still pending in Lower Austria in connection with the flooding on the Danube that occurred in 2013. On 24 September 2018, the complaint brought by the Klosterneuburg municipal authority was dismissed in its entirety by the Regional Civil Court of Vienna. The appeal lodged by the municipal authority is now pending before the Higher Regional Court of Vienna. The three other pending actions were resumed following a suspension of proceedings.

A total of 94 civil proceedings for damages are still pending in Austria and Slovenia as a result of the Drau flooding in 2012. The suspended proceedings have been resumed in Austria now that the criminal investigations against employees of VERBUND Hydro Power GmbH and the Group itself have been definitively discontinued based on a ruling by the Klagenfurt Regional Court on 3 October 2018. The Slovenian proceedings are currently in the first-instance evidentiary stage.

Flooding on the Drau River in 2018

At the end of October 2018, a massive high water event (HQ30[1]) occurred on the Drau. Based on early forecasts, it was possible to divert the flood water in VERBUND's area of influence without any major damage to the region by applying all possible technical options at the reservoirs and retaining around 10 million m^3 in the storage basins of the Malta power plant group.

In addition, temporary injunctions were obtained so that reservoir levels could be lowered well beyond the designated levels. The naturally occurring peak flows of around 2,100 m^3/s were limited to approximately 1,600 m^3/s based on the additional buffering ordered after thorough analysis. As a result of the measures implemented, the town of Lavamünd was spared from the flooding.

Staff was kept on site at the power plants, operational measures were discussed with the authorities and the crisis team in Vienna was on alert. The flooding led to extensive damage to river bank walls and fish passes as well as other areas of the power plant in the magnitude of around €8m. Renovation work is underway, but will not be completed until well into 2019.

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

Since 1979, VERBUND has operated Austria's most powerful hydropower plant in the Mölltal Valley in Carinthia: the Malta-Hauptstufe pumped storage power plant. In addition to four turbines, this power plant also has two pumps whose operation generates a low-frequency sound (75 Hz) in certain constellations. The local community increasingly finds this extremely disturbing.

GRI 102-44
GRI 413-1

Although there is general consensus that all official approvals have been obtained for operation of the power plant, VERBUND took on board and discussed the concerns raised by a citizens' initiative set up in 2015 and the local communities from the outset in the form of constructive dialogue. In 2016, an independent assessment of noise levels was conducted and an environmental health report compiled on this basis. Due to the necessity indicated in the report of reducing noise emissions in the medium term, both pumps were outfitted with resonators in 2017, which reduce sound by using interference to lower the pressure pulse (which is what causes the noise emissions).

In 2018, fine tuning was carried out on the resonators and the noise levels were re-measured. The most recent measurements indicated a reduction in interference frequency of 15–19 decibels at the

[1] "HQ30" refers to a high water event that occurs every 30 years statistically speaking.

nearest neighbour's, which represents a decrease of around 75% in perceived volume. A new environmental health report is being prepared on the basis of the new measurement results and is expected for March 2019.

Wind power

GRI EU30
GRI EU1
SDG 7

The perfect complement to hydropower

With wind power plants in Austria, Germany and Romania, VERBUND has 418 MW of installed capacity from wind power at its disposal. The Group's wind power plants had an average availability of 97.7% in 2018.

Twenty-five wind turbines in Austria are now being maintained by VERBUND's own personnel. In 2018, preparations began for taking over maintenance of another 19 turbines starting in 2019. The entire wind farm in Romania was transitioned from a full service contract to a partial service contract in 2018.

VERBUND also decided to enter the Romanian consumer market for large customers in cooperation with Axpo Romania S.R.L. This enabled delivery of nearly 1 TWh and transfer of approximately 330,000 green certificates in financial year 2018.

Environmental measures

At the Petronell-Carnuntum, Hollern II and Bruck-Göttlesbrunn wind farms, an expert conducts ornithological monitoring either annually or biennially in order to examine the effects on the habitat and the breeding behaviour of various bird species. In 2018, noise emission and noise pollution readings undertaken at the wind power plants after commissioning again ensured that the surrounding area was not adversely impacted to a significant degree.

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

VERBUND – a trans-regional opinion leader and market leader in customer-specific energy solutions that are environmentally friendly and cost-effective.

Stakeholder management

GRI 413-1

VERBUND also places strong emphasis on engaging with the local population in its wind power operations. At the Bruck/Leitha wind farm, guided tours of a wind turbine with an observation platform are offered. This gives interested individuals a unique opportunity to gain an alternate perspective on wind power.

For the 125th anniversary of the Hochsteinchen (Germany) observation tower, VERBUND permitted the grounds of the wind farm adjacent to the Rhineland-Palatinate state forest to be used for the festivities and also gave visitors an overview of current operations.

Sales

The Sales segment combines all of VERBUND's trading and sales activities. Through its trading in electricity, gas, guarantees of origin, CO_2 emission rights and transport capacity as well as in innovative green electricity and flexibility products, VERBUND has gained a strong presence in the most important OTC markets and in the exchange markets in Europe. This also gives VERBUND a decisive competitive advantage in optimally marketing its products. The expertise VERBUND has acquired strengthens its position in the electricity market and enables the Group to respond promptly to changes in the market. VERBUND is the leading provider of flexibility and green electricity products as well as comprehensive services for the energy markets in Austria and Germany.

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

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

Business performance

KPIs – Sales segment

	Unit	2017	**2018**	Change
Total revenue	€m	2,283.5	**2,091.8**	–8.4%
EBITDA	€m	108.0	**83.4**	–22.8%
Result from interests accounted for using the equity method	€m	0.0	**0.0**	–
Capital employed	€m	182.5	**290.9**	59.4%

EBITDA for the Sales segment decreased by €24.6m to €83.4m. The reduction was primarily the result of lower earnings contributions from balancing services and higher procurement prices in sales. Capital employed in the Sales segment was up €108.3m on the prior-year level, mainly due to changes in working capital.

Energy trading and sales

Electricity trading

Economic hub for the Group

Electricity trading has taken on a role of fundamental significance due to integration of the European electricity markets and ongoing development of renewable energy. The energy market is changing constantly and continues to gain momentum. As a result, both short-term and flexible marketing as well as optimal management of power plant capacities are becoming increasingly important.

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

An established player in the European energy market

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

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

Optimal marketing of VERBUND's own generation

In view of the dynamic changes in the energy markets, VERBUND is optimising its marketing activities so as to secure and market its own generation as cost-effectively as possible. The Group continuously refines and improves its diversified sales strategy. In its marketing strategy, VERBUND focuses among other things on the quantity of its own generation and follows the seasonal fluctuations in the water supply.

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

In addition, VERBUND Trading GmbH ensures market-driven management and optimisation of all of VERBUND's power plant operations. The precise inflow and weather forecasts required for this are prepared using models, some of which were developed within the Group, and highly qualified staff contribute their knowledge of the energy market and of meteorology. Optimisation models using the appropriate electricity pricing models round off the system landscape to enable the best possible marketing of assets.

VERBUND uses its expertise to market renewables

VERBUND pursues an ambitious growth strategy in the marketing of new forms of renewable energy on behalf of third-party plants. Last year, VERBUND kicked off a marketing campaign in the Renewable energy customer business with attractive pricing, targeted marketing activities and active customer management. The campaign focused in particular on wind power and small-scale hydropower, solar power and biomass. VERBUND is actively expanding these successful products as part of its marketing activities for third-party plants in line with the needs of customers. Its market share in Austria and Germany has grown steadily in spite of strong price pressure and intense competition in recent years. In Luxembourg, VERBUND has become the market leader in marketing electricity from wind power. In 2018, VERBUND already marketed more than 2,100 MW of electricity generated from new renewable energy sources, with the operators of the plants benefiting from VERBUND's expertise in the energy market.

Marketing green electricity – a classic

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

In Austria and Germany, VERBUND is one of the leading providers of certified renewable generation (hydropower from Austria and Germany) and supplies over 160 public utilities and resellers in these markets with its premium product – $H_2Ö$ electricity. In spite of rising pressure on prices in the green electricity segment, the level of sales remained stable in 2018 compared with the prior year.

Dynamic markets call for flexibility products

VERBUND is one of the leading providers of production flexibility. Highly flexible storage and pumped storage power plants allow near-term capacity adjustments to be made. The electricity is marketed on the day-ahead and intraday spot markets. In addition, system services such as primary, secondary and tertiary control are provided when needed by APG, the control area manager, to ensure short-term balancing between generation and consumption. VERBUND also supplies power plant output for grid services such as provision of reactive power, fault management and black-start capability.

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

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

Furthermore, intraday trading activities were reinforced back in 2015 in response to the challenges posed by the changes in the energy market in order to best exploit short-term intraday price fluctuations.

Innovative services and products

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

For the energy-related solutions it provides, VERBUND has developed a central customer platform called VISION that uses the existing order management system for Web-based communication with its large customers. VISION not only allows VERBUND customers to market electricity and gas products online and track their order status in real time up to fulfilment. The digital platform also provides demand response and fixed trading modules ("FixTrades"), a customer-specific document centre and information on the market to enable comprehensive management of energy data.

VERBUND's recent activities have focused on continuing to develop the Group's digitalisation and automation strategy for electricity trading. Here, particular emphasis is placed on customised solutions, such as VISION, that map the entire life cycle of electricity deliveries, from the enquiry to pricing and purchase on the stock market all the way to reporting and online invoicing, with a high degree of automation.

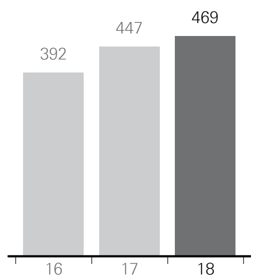
Electricity sales

Customer base recently expanded

The market remained highly competitive in the business and industrial customer segments in financial year 2018. VERBUND nonetheless succeeded in strengthening its long-standing, good relationships with customers and building further on its leading market position in the Austrian industrial customer segment. By offering new services and innovative products, VERBUND has positioned itself as an experienced and reliable service provider in the business and industrial customer segments.

In its household/agriculture and commercial customer segments, VERBUND achieved "Gold" status in the 2018 "Service Champions" study. Approximately 109,000 opinions were obtained in a broad-based survey of customer experience, with 17 companies tested in a comparison of energy suppliers. VERBUND again took first place and was named "industry winner". This award confirms the quality of VERBUND's services. Our goal for the future is to secure these highly favourable results and to improve even more.

End customers k



Household/agriculture and commercial

GRI EU3

VERBUND further increased its customer base in financial year 2018. At the end of the year, around 403,000 customers in the household/agriculture and commercial segments were already receiving VERBUND electricity generated exclusively from 100% Austrian hydropower. Market share in the household segment amounted to around 8% in 2018. Climate-neutral natural gas from VERBUND was supplied to approximately 66,000 customers in the household/agriculture and commercial segments in 2018. This represents an increase of 18% in the customer base.

The advertising campaign conducted in the spring and autumn of 2018 was responsible for this success. The campaign focused on continuing to expand direct sales by adding attractive offers for new customers. Increased customer loyalty also played a role in the success achieved.

Guarantees of origin for electricity from VERBUND power plants

GRI 417-1

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

VERBUND customers enjoy a secure supply of energy.

TÜV SÜD's guarantee of origin certification refers to specific generation sources. It provides a guarantee to customers that their electricity comes from renewable sources. A total of 128 hydropower plants in Austria and Bavaria meet "EE" and "EE+" criteria. The "Generation EE" standard comprises 'general requirements' concerning the organisation to be certified, 'special requirements' addressing the generation and the recording of the generation of the individual plants and 'optional requirements'. Optional requirements are defined for electrical work and power guarantees ("Generation EE+" module) and for furnishing acceptance as new plants ("Generation EEnew" module).

In 2017, VERBUND's entire electricity generation from hydropower certified by TÜV SÜD was 23,813 GWh. The figures for 2018 are not yet available because TÜV SÜD does not publish its calculations until the second quarter of the year following the reporting period. The net calculations from TÜV SÜD essentially correspond to gross generation from hydropower, less own use, easement agreements and power for pumping.

Clean electricity "Thank You Hydropower!"

The innovative products

- H2Ö-Austrian Hydro Power from Austrian hydropower plants certified by TÜV SÜD and
- H2Ö-German Hydro Power from German hydropower plants certified by TÜV SÜD

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

Electricity labelling in Austria

GRI 417-1

SDG 12

In Austria, the electricity label is displayed on the consumer's electricity bill. The electricity VERBUND supplies in its household/agriculture and commercial customer segments has always come exclusively from hydropower. In 2017, VERBUND also began supplying electricity generated from solar power installations owned by other VERBUND customers to its customers in these segments. However, this comprises less than approximately 0.01% of all sales and is therefore not disclosed in the electricity label.

All of the electricity VERBUND supplied in its business and industrial segments in 2017 came from renewable energy sources. Of the guarantees of origin issued, 63.13% related to electricity from hydropower, 12.30% to electricity from wind power, 12.68% to electricity from solid or liquid biomass, 9.69% to electricity from biogas and 2.19% to electricity from solar energy or other renewable energy sources.

The 2010 Electricity Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG 2010) and the Electricity Labelling Regulation (Stromkennzeichnungsverordnung, SKV) form the legal basis for electricity labelling in Austria. The Austrian electricity labelling model is an evidence-based system. All electricity volumes delivered to consumers in a calendar year must be assigned guarantees of origin (ban on "grey" electricity).

Electricity labelling in Germany

GRI 417-1

SDG 12

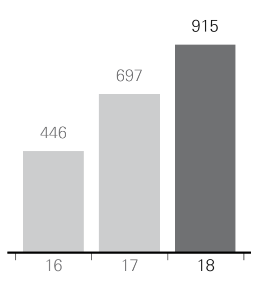
In 2017, 100% of the electricity that VERBUND supplied to standard load profile customers in Germany (household/agriculture and commercial customer segments) also came from hydropower.

The origin of the electricity volumes supplied by VERBUND to business and industrial customers in Germany in 2017 breaks down as follows: 39.8% renewable energy (subsidised in accordance with the Renewable Energy Sources Act), 4.6% other renewable energy sources, 2.4% other fossil fuels, 11.7% natural gas, 31.4% coal and 10.2% nuclear energy. That particular mix reflects the fact that demand for certified electricity is low among the majority of Germany's industrial customers. Therefore, the electricity supplied to those customers reflects the overall German generation mix, which includes electricity from coal-fired and nuclear power plants in addition to electricity from wind and solar power.

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

Climate-neutral natural gas

Gas sold in GWh



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

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

A total of 915 GWh of natural gas was sold in the reporting period. Carbon offsets for these sales amounted to 167 kt CO_2e.

Successful implementation of Energy Efficiency Act requirements

GRI EU DMA (formerly EU7)

Under the Austrian Energy Efficiency Act (Energieeffizienzgesetz, EEffG), VERBUND has been required since 2015 to furnish proof that its annual savings from the implementation of energy efficiency measures equal 0.6% of its energy sales in the previous year. VERBUND began meeting this obligation at an early stage, and exceeded the target by a wide margin in both 2018 and the prior years. Provisions have been made for the coming years as well. VERBUND's pioneering role in this area has thus paid off yet again. The stipulation that the household customer segment must account for at least 40% of all energy savings was met by cooperating with trading partners in the areas of refrigerator and freezer exchange and LED lighting, and that target was also exceeded by a wide margin. In addition, VERBUND industrial customers transferred responsibility to VERBUND for many of the measures required of industrial customers under the Energy Efficiency Act (EEffG). The measures are implemented on-site at the companies.

Expenses for energy efficiency measures decreased again in 2018 in all segments due to favourable purchasing conditions. The savings generated from VERBUND's energy efficiency measures were therefore well above the level that would require compensation payments of 20 cents/kWh under the Energy Efficiency Act.

Customer satisfaction and customer relationships

Working together to further improve customer satisfaction and loyalty

GRI 102-44

At VERBUND, our focus is always on our customers and their needs. We place high priority on ensuring that our customers are satisfied with the VERBUND brand and the VERBUND Group. Our goal is not to simply measure customer satisfaction and loyalty, but to improve it on an ongoing basis. That is why we make continuous improvements to the quality of our product and service portfolio for both residential and commercial customers.

Each year, we conduct an online survey of approximately 1,000 residential and commercial VERBUND customers. The survey measures key performance along the entire customer journey, which gives VERBUND a comprehensive picture of the quality of the products and services it offers. The Customer Loyalty Index (CLI) represents the weighted average of the various customer satisfaction values obtained and is VERBUND's most important indicator. The CLI remained stable in 2018 compared with 2017 at a very good level of 75 points on a scale from 0 to 100. In 2018, VERBUND also included the Net Promoter Score (NPS), an internationally recognised standard for measuring customer satisfaction, in the survey for the first time. As an international benchmark, the NPS will enable VERBUND to measure its performance even more accurately in the future and to integrate its findings into the entire customer management process in the interest of continuous improvement.

Customer relationships

VERBUND placed customers at the front and centre of its communications in several 2018 campaigns. The spring campaign, for instance, gave VERBUND customers the opportunity to sign up for free plant tours, among other things. In autumn 2018, focus was placed on promoting the Customer Club as an additional service for existing customers. In December of last year, customers were able to participate in several prize draws and redeem their Christmas bonuses as part of VERBUND's Christmas campaign. The campaigns aimed to reinforce customers' emotional ties to VERBUND and assure existing customers that they had chosen the right energy supplier.

Customer support

VERBUND's freephone customer service number (+43(0) 800 210 210) is available to our existing customers in Austria to answer all of their questions and to advise potential customers on switching their electricity and natural gas supplier.

The VERBUND website at www.verbund.at also provides an overview of the Group's product portfolio and details on facilitating the switch to VERBUND. Answers to frequently asked questions are provided in easily understandable explanatory videos.

Energy consulting

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

Late payment

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

In 2018, the electricity supply to 3,678 households had to be disconnected. This represents an increase of 1,112 disconnections compared with 2017. The gas supply to 1,117 households was disconnected in 2018, an increase of 385 disconnections over 2017. GRI EU27

Grid

Austrian Power Grid AG (APG), VERBUND's independent grid subsidiary, operates the supraregional electricity transmission network in Austria. Its main task is continuous system balancing, i.e. ensuring that electricity supply is matched exactly to demand at all times. The expansion of renewables is placing increasing demands on the power grid. Rapid implementation of APG's Network Development Plan, which defines the necessary expansion of the domestic power grid, is therefore crucial. Key lines being constructed such as the Salzburg line are important energy transition projects whose implementation is pivotal to the achievement of Austria's climate targets.

Business performance

KPIs – Grid segment

	Unit	2017	**2018**	Change
Total revenue	€m	787.9	902.5	14.5%
EBITDA	€m	158.6	242.4	52.8%
Result from interests accounted for using the equity method	€m	0.3	0.1	–
Capital employed	€m	1,257.1	1,311.9	4.4%

EBITDA for the Grid segment rose by €83.8m to €242.4m, mainly due to lower expenses from congestion management and a higher contribution margin from grid usage. Capital employed increased to €1,311.9m, primarily as a result of net capital expenditure for intangible assets and property, plant and equipment.

Technical developments

Power grid data – APG

GRI EU4

Voltage level	Power lines Route length/km	Power lines System length/km	Substations/ Switching stations
Overhead power lines			
380-kV	1,156	2,583	
220-kV	1,613	3,206	
110-kV	660	1,175	
Cable			
110-kV	3	6	
Total	3,432	6,970	64

Operational developments

As the control area manager in Austria, APG is responsible for identifying bottlenecks in the transmission grid and taking action to ensure safe operation of the national transmission grid. This necessitated extensive grid measures and redispatch measures at the power plants in the past financial year.

The dynamic developments in the energy market in Europe – especially in connection with the continuing expansion of wind and solar power generation in Germany and Northern Europe – are giving rise to a huge increase in long-range load flows. Since the required grid expansion is not keeping pace with these developments due to long administrative processes, congestion increased occurring both within and outside of the APG grid as a consequence. The above-mentioned intervention in the power plant portfolio (redispatch) is therefore necessary to prevent congestion in the existing grid infrastructure.

The grid situation was exacerbated further by the low hydraulic generation in the second half of 2018 caused by the drought. Changes in European load flows triggered by regulated network elements (phase-shifting transformers) north and south of Austria’s national border likewise had an impact.

In 2018, power plants in Austria also had to be frequently used for managing grid congestion outside of Austria, mainly in Germany.

Intraday stops and redispatch quantities

	2016	2017	**2018**
Intraday stops (in hours)	4,112	5,678	**3,890**[1]
Redispatch quantities (in GWh)	1,727.2	4,628.0[2]	**3,461.7**

[1] only Q1–3/2018; from 1 October 2018 transition to ATC (Available Transfer Capacity) // [2] only volumes from increased production

Interruptions to supply

GRI EU28
GRI EU29

One interruption to supply occurred in the APG grid in 2018, affecting consumers for 23 minutes. The effects on consumers of a component failure in APG's transmission grid are quantified using the "MWh not supplied" indicator. Counting starts from the time supply to consumers is interrupted if this can be clearly attributed to a preceding fault in the transmission grid.

In 2018, APG transmitted around 47,149 GWh at grid level 1; 6.1 MWh, i.e. 0.000013% of the volume transmitted, was not supplied. By comparison: one interruption in 2017, two interruptions in 2016 and no interruptions in 2015 and 2014.

Electricity transmission and grid loss

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

In financial year 2018, the transmission volume at grid level 1 (380-kV and 220-kV grid) decreased by 4.6% over the previous year. Domestic delivery came to 31.975 GWh. Based on the reported transmission schedules of the Austrian and international market participants, the APG control area imported 42,515 GWh and exported 30,795 GWh in 2018. On balance, this resulted in an import surplus of 11,720 GWh.

Electricity transmission TWh

Compared with the previous year, grid losses declined by 10.9%, primarily as a result of the 4.6% decrease in the transmission volume. Grid loss as a percentage of electricity transmitted came to 1.4%.

GRI EU12

Transmission losses

	Unit	2016	2017	**2018**
Electricity transmitted[1]	GWh	45,031	49,446	**47,149**
Grid loss[1]	GWh	636	760	**677**
Grid loss as a percentage of electricity transmitted	%	1.41	1.54	**1.44**

[1] grid level 1

Projects and stakeholder management

GRI 413-1

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

Since 2011, APG has been legally required to prepare an updated Network Development Plan each year that provides information on which important transmission infrastructures will have to be built or expanded in the next ten years (Section 37 of the Austrian Electricity Industry and Organisation Act (Elektrizitätswirtschafts-und -organisationsgesetz, ElWOG) of 2010). However, due to the long implementation periods for line construction projects, the rapidly growing challenges arising from the large-scale expansion of renewable sources and changes in the European electricity market, APG needs to plan far beyond the ten-year horizon.

APG's target grid concept provides for the closure of the 380-kV ring in addition to a highly efficient 380-kV axis in western Austria and strong interconnections to neighbouring countries. These measures will create important prerequisites for future grid and system security, grid integration of renewable energy sources and market integration.

Several APG line projects have been classified by the European Commission as TEN (Trans-European Networks for Energy) projects and within the scope of the European Energy Infrastructure Regulation as projects of common interest (PCIs), which makes them priority projects. In addition, the grid expansion and reinforcement projects defined in APG's long-term planning have been coordinated on a pan-European basis as part of the Ten-Year Network Development Plan of the European Network of Transmission System Operators for Electricity (ENTSO-E). APG's current 2018 Network Development Plan is based on APG's strategic long-term planning and the 2018 Ten-Year Network Development Plan.

Rapid expansion of the power grid is a critical success factor for maintaining the security of supply and system security, but also for facilitating the energy transition and achieving an integrated internal energy market in Europe. APG's 2018 Network Development Plan provides for investments of around €2.5bn in the next ten years. These investments will serve to develop the grid infrastructure such that it will provide a secure supply of electricity in Austria going forward.

In 2018, a total of €181.3m was invested in intangible assets and property, plant and equipment (2017: €115.3m). Most of the capital expenditure was for:

SDG 8

Investments in grid expansion	€m
Tauern substation: third 380-/220-kV transformer (necessitated by delays in the Salzburg line)	7.1
Ternitz substation: fourth 220-/110-kV transformer	5.1
Obersielach substation: third 380-/220-kV transformer	4.3

Maintenance CAPEX	€m
New construction of substation replacements	42.8
General overhaul of the 220-kV St. Peter–Ernsthofen line	41.5
Installation of TAL/HACIN cable for the 220-kV Malta-Lienz line	20.5

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

380-kV Salzburg line

Construction of the 114 kilometre-long 380-kV Salzburg line between the Salzburg and Tauern substations represents a significant step in the highly efficient connection of load centres to the major (pumped storage) power plant sites and the integration of renewable energy sources (such as wind power in eastern Austria) into the grid. The lack of a strong grid infrastructure, especially in the Salzburg line, also generated considerable redispatch expenses.

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

For the 380-kV Salzburg line project, a positive, legally valid assessment already exists for the section of the project that falls within Upper Austria. For the Salzburg part of the project, the state government of Salzburg granted the approval notice (following an environmental impact assessment in the first instance) on 14 December 2015. However, the environmental impact assessment (EIA) notice was appealed and the proceedings have been pending with the Federal Administrative Court since February 2016. The hearing took place in Vienna from 17 to 27 July 2017. APG is eagerly awaiting the Federal Administrative Court ruling. Given this situation, APG applied to the Federal Administrative Court on 11 December 2018 to set a deadline. Subsequently, the Austrian Supreme Administrative Court will issue an order for the Federal Administrative Court to issue a ruling or communicate why it was not possible to issue the ruling within the statutory period.

380-kV Germany line

The planned 380-kV Germany line between St. Peter and the national border will entail a further increase in interconnection capacity to Germany. An efficient connection of the renewable energy sources in Germany and Northern Europe to the pumped storage power plants in the Alps and the load centres is an important component of (European) energy transition implementation. In its legally effective approval notice from December 2015, the responsible authority in Upper Austria determined the environmental compatibility of the Germany line. After extensive agreements were reached with the German partner TSO (transmission system operator) TenneT GmbH last year, construction on the St. Peter substation began in Q4/2018 on the Austrian side. As a first step, construction of the first pylon base at the St. Peter substation was commenced. Due to the complexity of the project and the time needed to plan and build the 380-kV GIS installation at the St. Peter substation, commissioning is currently scheduled for the end of 2022.

New construction to replace APG’s Weinviertel line

Grid integration of wind power in the Weinviertel region necessitates replacement of the 220-kV line originally built in the 1950s from the Bisamberg substation in the direction of the areas with strong wind conditions in the northern Weinviertel region. For this, APG is planning a highly efficient 380-kV line on an optimised route from the Seyring junction to the new Zaya substation and a new 220-kV connection to the national border. The old 220-kV line, which was in need of renovation, will then be dismantled. The optimised line route and the dismantling of the existing line will ease the burden on the residential areas and important nature reserves and bird sanctuaries in the long term. As the project was in the approval phase in recent years, no updated stakeholder activities were organised in the year under review. During the planning phase in 2016, numerous suggestions for improvement had been generated in direct dialogue with landowners and at information evenings in the municipalities affected, which led to optimisation of the route. The new construction of the APG Weinviertel line replacement will therefore produce a significant improvement for both people and nature in the region.

In February 2018, the Weinviertel line was approved by the state of Lower Austria in the first instance in accordance with the Environmental Impact Assessment Act (Umweltverträglichkeitsprüfungsgesetz, UVP-Gesetz), confirming the environmental compatibility of the project submitted. Due to one remaining complaint, the matter was brought before the Federal Administrative Court. At the beginning of November 2018, the Federal Administrative Court rejected the complaint as unfounded, which means that the approval is now legally effective. Project implementation is scheduled to begin in summer 2019.

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

The line was built in 1941 and due to its age is in urgent need of renovation. Since large sections no longer meet the current static specifications for line masts, there was a general overhaul of the line along with installation of modern cabling on the existing 111 kilometre-long routes. After completion of the approval process in 2017, the first construction phase from the St. Peter substation to tower no. 189 in the municipality of Weibern was implemented starting in April 2018. Alongside the construction work, extensive project communication activities took place in addition to dialogue with the municipalities and landowners.

Sustainable route management

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

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

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

Developments in the European electricity market

European directives and regulations stipulate a range of measures for market integration. Important milestones were achieved last year with regard to implementation of the requirements for the allocation of long-term capacity as well as for capacity allocation for day-ahead and intraday markets. The required implementation of capacity allocation on the border with Germany was implemented in a timely manner. Implementation of international balancing cooperations for joint procurement and/or joint activation of balancing reserves is also well underway.

Congestion management on the border between Germany and Austria

On 15 May 2017, the regulatory authorities from Germany (BNetzA) and Austria (E-Control) agreed to introduce congestion management on the joint border effective 1 October 2018. In accordance with the agreed framework, APG adapted all required technical systems and processes, updated numerous contracts and performed the necessary tests and simulations in cooperation with a large number of external project partners and market participants. Since the agreement by the regulators provided for the integration of the bidding zone border into the regionally coordinated flow-based market coupling of the CWE (Central Western Europe) region, all modifications had to be agreed at a regional level and regulatory approval also obtained from all affected countries in the CWE region (besides Austria and Germany also France, Luxembourg, Belgium and The Netherlands). The requested split of the joint German-Austrian bidding zone was completed on schedule as at 1 October 2018. APG was thus able to implement all regulatory requirements for capacity allocation on the German-Austrian border.

Contractual safeguarding of systemically important power plants – maintaining reserve capacities to prevent congestion

System security in APG's power grid increasingly depends on the availability of flexible power plants in eastern Austria. However, due to the difficult market situation this is diminishing rapidly and must be contractually safeguarded to ensure that it can be used for necessary redispatch activation. To safeguard the necessary redispatch capacities in the medium term, the availability of the required power plants has been contractually safeguarded for the next three years (including an option to renew for two more years) by APG in close consultation with E-Control.

Go-live of the European cross-border intraday (XBID) platform

Within the framework of the XBID project, APG and 30 more Transmission System Operators as well as 16 power exchanges are implementing a central European intraday platform to create an integrated European intraday market. This project, which successfully went live in June 2018, integrates the intraday markets of a region stretching from Portugal to Finland, representing almost 70% of electricity consumption in the EU. Austria is currently connected to the integrated European intraday market through its border with Germany. Implementation projects on the borders to Italy, Slovenia, the Czech Republic and Hungary have already been initiated.

Optimising balancing services procurement and opening the balancing services market

APG collaborates with ten Transmission System Operators from seven countries as part of the international Frequency Containment Reserve (FCR) collaboration. Since 2016, there has also been a collaboration for the joint optimization of automatic Frequency Restoration Reserves (aFRR) with Germany, which is a unique pioneer achievement in Europe. Both of these collaborations lead to significant cost reductions for the APG control area, increasing the sales potential for Austrian market participants at the same time. Through these and a large number of other optimisation measures, the costs for balancing services were reduced from €203m per year in 2014 to around €67m in 2018. Implementation of coordinated activation of manual Frequency Restoration Reserves (mFRR) between Austria and Germany is also nearing completion and will further optimise the activation of control power.

To comply with European regulations on the integration of balancing services markets, it will be necessary to implement central European platforms for financial optimisation of activation of balancing reserves in the future. Initial draft concepts for the platforms have been drawn up and were submitted for regulatory approval at the end of 2018. Thanks to the long-standing international collaboration already in place, APG is able to enrich the European project groups with its valuable experience.

Green energy clearing and settlement and wind marketing

To reduce imbalances in wind power generation and in the entire APG control area, APG has been marketing volumes arising from deviations in the forecast of green electricitry generation on the EPEX Spot Intraday market since 2015. Since 2016, this process has been conducted around the clock (24/7). As a result, direct savings of around €6.5m were achieved for the OeMAG balancing group in 2018. In addition, wind marketing generated further indirect savings of €13.5m in 2018 due to lower activation of balancing reserves. This led to total savings of approximately €20m for 2018. These activities reduce costs for the OeMAG balancing group and also improve the control quality for APG.

REMIT Regulation and market transparency

Embedding the topic of transparency and REMIT in APG's existing compliance structure, including necessary staff training, ensures compliance with Regulation (EU) No 1227/2011 (REMIT Regulation), Regulation (EU) No 1348/2014 (REMIT Implementing Regulation) and Regulation (EU) No 543/2013 (Transparency Regulation – EMFIP).

Specifically, the obligations arising from Article 15 of REMIT Regulation for Persons Professionally Arranging Transactions (PPATs) have been implemented by APG with the introduction of operational market monitoring processes within the corresponding compliance structures.

All other segments

“All other segments” is a combined heading under which the Energy services, Thermal generation, Services and Equity interests segments are brought together because they are below the quantitative thresholds. VERBUND’s new services for the electricity market of the future are reported under the Energy services segment. Electricity and heat generation from coal and gas are reported under the Thermal generation segment. The primarily intra-Group business activities of VERBUND Services GmbH are reported under the Services segment. Interests accounted for using the equity method which have not been allocated to any other segment are reported under the Equity interests segment. As at the reporting date of 31 December 2018, this only comprised the equity interest in KELAG-Kärntner Elektrizitäts-Aktiengesellschaft.

Business performance

KPIs – All other segments

	Unit	2017	2018	Change
Total revenue	€m	272.4	**251.3**	–7.8%
EBITDA	€m	120.7	**57.3**	–52.5%
Result from interests accounted for using the equity method	€m	27.2	**28.4**	4.6%
Capital employed	€m	513.7	**502.7**	–2.1%

EBITDA for the other segments decreased by €63.4m to €57.3m. This was primarily due to the lower EBITDA reported in the Thermal generation segment and to a non-recurring effect from the sale of shares in SMATRICS GmbH & Co KG in the previous year. The other segments’ result from interests accounted for using the equity method related primarily to KELAG-Kärntner Elektrizitäts-Aktiengesellschaft and hovered around the prior-year level. Capital employed fell compared with the previous year as a consequence of changes in working capital.

Solutions for a sustainable energy supply

Decentralised, digital, renewable and interconnected

The full commitment of all market players is vital for achieving the climate goals at Austrian level and internationally. VERBUND takes its central role as an energy company very seriously and founded VERBUND Solutions GmbH (VSO) back in 2014. This company develops products tailored to commercial, industrial and residential customers based on its expertise in the energy market and in dialogue with customers. The range of services extends from decentralised plants for generating power from renewable sources (especially photovoltaic installations) across energy storage and optimisation, participation in the control reserve market and new green hydrogen-based solutions up to the area of electromobility. Here the focus is on digitalisation and decarbonisation through electrification of the industrial and mobility sectors. Sector coupling is another area of focus.

Green hydrogen – an opportunity

Experts agree that green hydrogen will play a primary role in an increasingly renewable energy system – as a process gas, a source of energy and a (long-term) storage medium. Electrolysers, which are used to produce hydrogen, can also be used in the control and balancing energy market. VERBUND is a leading player in the field of green hydrogen in Austria. This leadership is being advanced as part of several projects and collaborations.

Green hydrogen will be generated for the steel industry in the H2FUTURE research project. In the long term, hydrogen is expected to replace coke and coal as a reducing agent. In the course of the project, the 6 MW PEM electrolyser at the voestalpine site in Linz will be pre-qualified for all three control reserve markets. Test operation will start in 2019. The project coordinated by VERBUND will be subsidised by the EU (FCH JU), will run until mid-2021 and received the 2018 FCH JU Award in November of last year.

In 2018, Zillertaler Verkehrsbetriebe (ZVB) also decided to switch its train operation from diesel over to green hydrogen by the end of 2022. VERBUND entered into a cooperation agreement with ZVB under which green hydrogen will be supplied directly from VERBUND's hydropower plants in the Zillertal Valley.

Battery storage – a key technology for the future of energy

The future lies in smart connection of different electricity-based services. Increased volumes of volatile energy from renewable sources and growth in electromobility require greater flexibility in the power grid and more energy storage. These two components – flexibility and storage – are the core elements for connecting the previously discrete sectors of energy and mobility.

VERBUND is pushing the development of new services and business models with and for industrial, commercial and mobility customers. The reorganisation of the energy infrastructure requires new cross-sectoral solutions of this nature. In so doing, VERBUND is building the bridge connecting the two sectors with industry. This also entails establishing a connection with existing flexibility marketing products like those already in use by the VERBUND-Power-Pool in projects such as SYNERG-E. Application of photovoltaic technologies for large-scale industrial use is another focal area.

Flexibility for industry and mobility

Industrial customers and green electricity suppliers market their flexible energy options in the VERBUND-Power-Pool. The pool concentrates the largest portfolio of industrial loads and producers as well as green electricity plants in Austria. VERBUND combines the expertise from existing markets with continuous honing of the processes and visions for the markets of the future. All participants in the pool and the power grid benefit from this constellation. VERBUND's involvement in research and development products opens up new applications and business models as well as new energy market processes for the future of energy.

The mobility transition is gaining traction

E-mobility provider SMATRICS, a joint venture of OMV, VERBUND and Siemens, has positioned itself as a technology and service partner in large-scale customer projects and as a pace-setter for electromobility and the related digital business models. Well-known companies such as ÖBB, REWE International and a German automaker use customised charging solutions from SMATRICS – either for their own fleet or for their customers. These include services tailored to the customer's needs, from planning and installation through operation to user management and invoicing, also on behalf of the customer if desired. SMATRICS has a nationwide network of charging stations in Austria with 450 charging points, each within a maximum radius of 60 kilometres. The electricity for the network of high-performance charging stations is generated exclusively from Austrian hydropower. Over 250 charging points are fast charging stations with charging times of 20 minutes for 100 kilometres. Austria's first ultra-fast charging station for e-cars with 350 kW and charging times of three minutes for 100 kilometres opened in Vienna in mid-2018.

Electricity from the power of the sun

SOLAVOLTA (VERBUND share: 50%), a leading full-service provider for own-use photovoltaic installations, recorded growth in sold capacity of around 10% in 2018. The combination of a photovoltaic installation with a storage system and an e-car connection makes it possible to use self-generated energy in an efficient and cost-effective manner. In 2018, around 25% of photovoltaic installations were installed in combination with storage solutions. Unit sales growth of 55% for storage systems was recorded in 2018.

Thermal generation

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

Energy supply
Energy generation overview
Electricity generation

	Number[1]	Maximum electrical capacity in MW[1]	2016 Generation in GWh	2017 Generation in GWh	**2018 Generation in GWh**
Mellach CCGT (natural gas)	1	848	641	1,465	**915**
Mellach district heating power plant (hard coal)	1	246	710	761	**696**
Total	2	1,094	1,351	2,227	**1,611**

[1] as at 31 December 2018

GRI EU2

Generation from thermal power fell by 28% to 1,611 GWh in 2018, due in particular to a reduction in generation at the Mellach combined cycle gas turbine power plant (–38%). Generation at the Mellach coal-fired power plant decreased by 9%. At 813 GWh in 2018, generation of district heating was 14% lower than in the prior-year reporting period.

Capacity changes

The maximum electrical capacity of the thermal power plants VERBUND was operating as at 31 December 2018 – the Mellach combined cycle gas turbine power plant and the Mellach hard coal power plant – totalled 1,094 MW. The two generators of the Mellach CCGT are operated exclusively for congestion management purposes, underscoring the necessity of the thermal power plants for grid support. APG has contracted the Mellach CCGT and the Mellach coal-fired power plant for a period of three years (1 October 2018 until 30 September 2021) as part of its efforts to prevent congestion (grid reserve). GRI EU1

Restructuring of the thermal segment

The restructuring of the thermal segment, which was begun in 2014, continued in 2018. All outstanding issues with EVN AG relating to the final decommissioning of the Dürnrohr and Korneuburg power plants were settled. Work on the decommissioning still being carried out by VERBUND is being performed. Utilisation of the land still owned at the Pernegg, Korneuburg and St. Andrä sites is continuing.

The gas boiler plant built at the Werndorf site that will be used to fulfil the district heating supply agreement was handed over to the customer in November 2018. Dismantling of the former Neudorf-Werndorf power plant site is expected to begin in 2019. Socially responsible solutions were found for VERBUND employees working at all plant sites currently in the process of being decommissioned or that have already been shut down.

Proceedings relating to the restructuring of the thermal segment

All open proceedings between VERBUND and EVN were settled in financial year 2018.

Availability of existing thermal power plants

The average time availability of the thermal power plants (Mellach district heating power plant, Mellach combined cycle gas turbine power plant) was 91.4% in 2018. This is slightly higher than the prior-year figure of 89.0%. The level of reliability averaged 99.8% (2017: 99.0%). GRI EU30

Other project topics

Generator 20 of the Mellach combined cycle gas turbine power plant[2] was expanded to include a pressure reducing station in 2015. The goal is to capture the maximum district heating capacity of 230 MW with minimal use of combustible fuels, for which the steam turbine is bypassed. In this particular mode of operation, the plant's fuel utilisation factor increases to almost 91%. Modifications to the plant were made in 2018 to eliminate the causes of the pipe vibrations determined during commissioning (upwards of a district heating capacity of around 210 MW). Reconstruction

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

unfortunately did not bring about the desired improvement, so another suggestion for how to remedy this situation was implemented in November 2018 in conjunction with the supplier. Following an observation phase over the 2018/2019 heating period, the project will be brought to a conclusion at the beginning of 2019.

In the project for the gas boiler plant at the Werndorf site, which VERBUND was building for Energie Steiermark, construction began in early October 2017 once all official permits had been obtained. Plant engineering started on schedule in February 2018, commissioning took place at the beginning of October and test operation was completed in November 2018. Ever since the plant was handed over to the customer, it has been commercially operated by VERBUND Thermal Power GmbH & Co KG.

For the Mellach district heating power plant and the Mellach combined cycle gas turbine power plant a new demineralisation plant is to be built at the Mellach site to replace the existing one at the Werndorf site. The plant will be an extension to the building housing the cooling tower makeup water treatment system. The water rights permit required for the shaft well was obtained in October 2018 and the building permit for the extension was granted in November 2018. The plant is expected to commence operations in July 2019.

All "substances" accumulated at the site (fly ash, coarse ash, gypsum, calcareous mud from the cooling tower makeup water treatment system at the Mellach combined cycle gas turbine power plant, generator 20) will continue to be fully recycled. The filter press cakes from the waste water treatment plant at the Mellach district heating power plant continue to be classified as non-hazardous waste for the purpose of land-filling.

In autumn 2018, water rights to operate waste water treatment plants and discharge cooling water for the Neudorf/Werndorf steam power plant were again granted by the responsible authority for a limited period up to 31 December 2021.

Data was collected, sampling conducted and evidence preserved from the decommissioned sites in connection with the dismantling of tanks (Korneuburg site, Neudorf/Werndorf site) and after-care at the former coal store, block 1 (Dürnrohr site), from the St. Andrä soda ash landfill and at the site of the decommissioned Zeltweg power plant.

The revision of the Large Combustion Plant Directive was published in the EU Official Journal dated 17 August 2017. A comprehensive statement confirming maintenance of the state of the art in accordance with the new requirements was submitted to the authorities in a timely manner by mid-August 2018. Statements on legal issues have also been made through Austrian energy policymakers "Österreichs Energie".

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

Modification of the environment management system in line with ISO 14001:2015 and in accordance with Appendices I to III of the EMAS Directive, which have also been revised, was confirmed in October 2018 with a positive renewal audit.

Emission rights for thermal power plants

In 2018, 1,192 kt CO_2 emission rights were acquired for VERBUND's thermal power plants, either through auctions or in the market. Free emission rights allocations amounted to just 64 kt CO_2 in 2018, as only a small portion of the free allocations went to combined cycle power plants in the third phase of European emissions trading.

GRI EU5
Additional information on CO_2 emissions can be found in the Environmental performance section

KPIs – CO_2 emission rights[1]

	Unit	2016	2017	2018
Total CO_2 emission rights	kt CO_2	1,001	1,353	1,256
of which free allocations	kt CO_2	88	76	64

[1] for thermal power plants of VERBUND Thermal Power GmbH & Co KG, preliminary figures before audit

Services

In financial year 2018, VERBUND Services GmbH – the shared services company for the Group – once again developed and implemented key strategic measures for a forward-looking company. On 1 July 2018, structural changes were implemented in the IT area in connection with a comprehensive internal analysis on adapting the IT structure to meet the requirements of digitalisation. The new state-of-the-art IT structure is intended to enable VERBUND's IT area to focus IT more closely on the requirements of the individual stages of the value chain and the companies of the VERBUND Group. The increasing digitalisation of production and services units is integrating IT and business more closely. This will enable faster development and expansion of IT solutions with use of agile methodology.

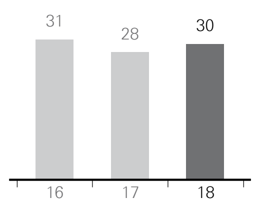
In order to meet the growing challenges and new regulatory requirements in the fields of information security, cyber security and data protection, a Group project was set up that was completed in May 2018. Before the EU General Data Protection Regulation entered into force on 25 May 2018, VERBUND implemented important tasks and measures – especially preparation of the records of processing activities and the privacy impact assessments, plus staff training – and is therefore one of the frontrunners in Austria in implementing the General Data Protection Regulation.

Equity interests

KELAG-Kärntner Elektrizitäts-Aktiengesellschaft

Due in particular to the improved energy market environment, the contribution from KELAG to the result from interests accounted for using the equity method in 2018 was up on the prior-year figure (2017: €28.2m) at €29.9m. The dividend attributable to VERBUND for 2018 was €14.1m. As at 31 December 2018, VERBUND held a 35.17% equity interest in KELAG.

Equity result - KELAG €m



Opportunity and risk management

GRI 102-11

Since efforts to liberalise the Austrian electricity market began in financial year 2000, opportunity and risk management at VERBUND has been a separate component of its comprehensive management system. VERBUND's structures, processes and products are subject to ongoing development as part of what is referred to as Enterprise Risk Management.

Due in particular to the energy transition, which poses challenges for the energy industry as a whole and also for VERBUND, the risk management system is continuously adapted to changes in internal and external requirements. Each year, VERBUND's auditor confirms the effectiveness of the Enterprise Risk Management based on the recommendations contained in the ISO 31000:2018 reference model.

Further development

Activities in recent months have focused mainly on refining the risk-return approach in the Group, developing a multi-year risk horizon and improving the calculation of the risk-bearing capacity. Our reporting processes have also been revised and expanded as part of the development of these approaches. As a result, the risk management agendas currently extend to strategic decision-making, project management and the management of ongoing operations.

Significant opportunities and risks as well as measures

The table below provides an overview of the main risks identified within VERBUND, classifies them as opportunities or risks and presents possible risk mitigation measures.

Category	Description/measures	Impact on earnings	
Financial statements impact		**Opportunity**	**Risk**
Value adjustment	Increase/decrease in assets (impairment losses/reversal of impairment losses on power plants as well as carrying amounts of equity interests) and provisions recognised to account for changes in the energy market and economic environment (long-term electricity price forecasts), the cost of capital and other assumptions for calculations (e.g. remaining lifetime expectation, pension obligations) Measures: - Conclusion of long-term agreements (customers, grid support)	X	X
Price risk		**Opportunity**	**Risk**
Price variation	Difference between expected (projected) and realised sales prices Measures: - Pricing-in strategy - Conclusion of long-term supply agreements - Options transactions	X	X

Category	Description/measures	Impact on earnings	
Volume risk		**Opportunity**	**Risk**
Fluctuations in volume water/wind TCFD[1]	Difference between expected and actual water supply/wind volume – necessary short-term purchase or sale of energy volumes Measures: - Balancing on the short-term futures and spot markets - Weather derivatives or weather insurance products	X	X
Contribution margin risk – Grid	Planning risk in relation to the electricity products congestion management, grid loss and control power in the Grid segment Measures: - Discussion/agreement with regulators - International collaborations	X	X
Flexible products	Variation in the contribution margin from congestion management, control power, intraday trading and pumping/turbining at our storage power plants Measures: - Participation in tenders for the provision of capacity for short-term and multiple-year stability of grid operation - Optimisation of trading activity	X	X
Asset/infrastructure risk		**Opportunity**	**Risk**
Asset/ infrastructure risk	Potential effects of outages, damage and consequential losses on power plants Measures: - Maintenance - Audits - Insurance policies		X
Legal risk		**Opportunity**	**Risk**
Pending legal disputes	Litigation risk from various pending legal actions/ legal disputes Measures: - Legal advice - Financial provisions - Insurance policies - Out-of-court talks	X	X
Regulatory risk	Opportunities and risks arising from changes in the political, legal or regulatory environment Measures: - Increased collaboration with national and international interest groups, associations and authorities	X	X

Category	Description/measures	Impact on earnings	
Financial risk		**Opportunity**	**Risk**
Counterparty risk	Payment default by business partners Measures: - Requesting of recent business reports - Realisation of existing collateral - Scoring of business partners - Regular monitoring		X
Securities risk	Currency gains/losses on investment positions (e.g. funds) Measures: - Monitoring through regular value-at-risk calculations	X	X
Equity interest risk	Holding gains/losses, deviations in the profit/dividend targets for equity interests Measures: - Monitoring and early warning systems	X	X
Rating risk	Changes in the rating lead to lower or higher refinancing costs Measures: - Continuous monitoring of the relevant financial ratios	X	X
Interest rate risk	Rising or falling interest expenses due to changes in market interest rates Measures: - Hedging instruments - Long-term fixed-interest agreements	X	X
Contingent liabilities	Financial losses caused by crystallisation of contingent liabilities (e.g. liabilities, guarantees) Measures: - Selective issue of contingent liabilities - Continuous monitoring		X
Operational risk		**Opportunity**	**Risk**
Flood risk TCFD	Possible effects of a flood on third parties and the Group's own plants Measures: - Structural protection measures - Regular training sessions and courses - Insurance policies		X
Cyber risk	Deliberate, targeted IT-based attack on data and IT systems. Possible consequences include loss of control (security of supply), data theft and cyber extortion Measures: - Internal Group projects - Insurance policies		X

Category	Description/measures	Impact on earnings	
Compliance risk	Violations of internal and external regulations (such as financial market compliance and competition law) Measures: - Compliance training, annual risk analysis - Defined processes, regulations and code of conduct in relation to compliance and competition law		X
Other risks		**Opportunity**	**Risk**
Reputational risk	Negative economic effects caused by damage to the Group's reputation Measures: - Brand Monitor - Internal guidelines (communication for investment and construction projects)		X
Project risk	Exceeding of or failure to meet projections with regard to time, costs and quality Measures: - Optimisation of contractual arrangements	X	X
Strategic risk		**Opportunity**	**Risk**
Technology/ innovation risk	Negative/positive effects from technological innovations and changing customer needs Measures: - Intensive collaboration with external research projects - Agile adaptation to new technologies - Investment in in-house research and development	X	X
Strategic risk business model TCFD	Negative/positive effects on the business model caused by changes in conditions in the energy industry or in climatic, legal or macroeconomic conditions Measures: - Regular monitoring - Holding of regular strategy meetings	X	X

1 TCFD = Task Force on Climate-related Financial Disclosures

Current opportunities and risks

Opportunities and risks arising from the business model

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

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

Weather- and climate-related opportunities and risks

GRI 201-2

SDG 13

TCFD

As the leading renewable energy producer, VERBUND is very much at the mercy of weather events like precipitation and wind, which cannot be influenced. This is particularly true for the VERBUND storage power plants as well as some of APG's ultra-high voltage lines located in high Alpine regions. Over the long term, climate change can affect both the seasonal and the annual water and wind supply. Geological conditions can also change significantly. Natural events such as floods, storms or avalanches may cause an unscheduled outage of electricity generation or transmission in the future as well as consequential damage. Output from run-of-river plants is subject to seasonal fluctuations in the water supply of rivers and can be controlled only to a minor extent (hydropeaking). Depending on the existing water supply, storage power plants are operated on a daily, monthly or yearly basis to optimise grid usage. Coverage of short-term electricity requirements due to volatile wind and solar power generation is also providing new revenue opportunities for VERBUND. In other words, energy amounts can be additionally generated or "stored" in pumped storage power plants and the grids stabilised with flexible power plant output. These flexible earnings contributions depend largely upon the frequency and absolute extent of short-term price fluctuations in the electricity markets.

The second half of 2018 was dominated by drought and the resulting low water supply. Owing to climate change there is a risk that the number of dry years will rise in the future. VERBUND is aware of this risk and believes that close observation of long-term climatic developments and proactive measures (e.g. participation in innovation and research projects and implementation of promising concepts as necessary) to counter the growing challenges are crucial for a secure future.

Opportunities and risks arising from technological development

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

Opportunities and risks arising from legal/regulatory developments

The strengthening of the ETS (Emissions Trading System) by the European Union is opening up new possibilities, but also creating impediments. For example, this transformation of the European energy system is bringing about a major change in the risk factors arising from politics, the economy, the energy market and the larger society that cannot be directly influenced. The future energy world requires electric utilities to radically change their business models and modify investment decisions. These could give rise to significant value adjustments (i.e. erratic changes in the assets and liabilities on the balance sheet). The highly regulated environment and excess capacities in Europe have overridden market pricing rules (variable production cost-based use). On the other hand, the business model of energy-related services is opening up new opportunities for VERBUND, though it also presents new risks. Issues relating to data protection legislation such as the implementation of the EU General Data Protection Regulation must additionally be considered in this context. TCFD

As a reliable and experienced companion, VERBUND accompanies people on their path to a clean energy future.

Opportunities and risks arising from economic development

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

Strategic opportunities and risks

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

Risk-bearing capacity

An improved calculation of the risk-bearing capacity was developed and implemented in 2018. The concept for the risk-bearing capacity focuses on the rating of VERBUND AG and the resulting liquidity of the Group. For the long term, VERBUND is aiming for a stable “A” category rating.

Forecast of development in the following year (sensitivity)

All else remaining equal, a change in the factors shown below would be reflected in the planned Group result for 2019 as follows (based on the hedging status as at 31 December 2018 for generation and interest rate):

+/–1% in generation from hydropower plants: €+/–8.5m
+/–1% in generation from wind power: €+/–0.3m
+/–1€/MWh in wholesale electricity prices (renewable generation): €+/–5.8m
+/–1 percentage point in interest rates: €+/–0.5m

Internal control and risk management system

In accordance with Section 243a(2) of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB), the internal control and risk management systems for the accounting process must be described. VERBUND's internal control system includes all measures for ensuring the reliability, effectiveness and profitability of this process, as well as compliance with external regulations. The structure of the risk management system is explained in detail in the Disclosures on Management Approach (DMA) and the risk position in the section entitled Opportunity and risk management of this integrated annual report.

GRI 102-11
GRI 103-2

Organisational framework

Group management acts in accordance with the principles defined in the corporate philosophy. The Executive Board bears responsibility for developing and implementing the entire internal control system and the risk management system, whose effectiveness is monitored by the Supervisory Board's Audit Committee.

Corporate philosophy on www.verbund.com > About VERBUND > Company > Corporate philosophy

Basic principles of the internal control and risk management system

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

GRI 103-3

Reporting in compliance with unbundling provisions

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

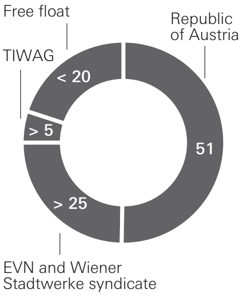
Periodic monitoring

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

Shareholder structure and capital information

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

Shareholder structure %



1. At the reporting date of 31 December 2018, the called and paid-in share capital of VERBUND AG comprised:
   170,233,686 no-par value shares (bearer shares category A), equivalent to 49% of share capital; 177,182,000 no-par value shares (registered shares category B), equivalent to 51% of share capital, authenticated by an interim certificate deposited with the Federal Ministry of Finance and made out in the name of the Republic of Austria. A total of 347,415,686 shares were in circulation at the reporting date. With the exception of the voting restriction described under point 2, all shares bear the same rights and obligations.

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

GRI 102-25

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

4. There are no shares with special control rights.

5. VERBUND does not offer any employee participation programmes.

6. In accordance with the rules of procedure for the Supervisory Board, the last nomination to the Executive Board must be prior to the nominee's 65th birthday. Pursuant to the Austrian Code of Corporate Governance, a Nomination Committee has been established within the Supervisory Board and prepares the content for the appointment of Executive Board members on behalf of the entire Supervisory Board. VERBUND AG complies with the rules of the Code with respect to the appointment and dismissal of the members of the Executive Board and the Supervisory Board. Apart from the above, there are no other regulations not derived directly from law that relate to the members of the Executive Board and the Supervisory Board, or to the amendment of the Articles of Association.

7. As part of an authorisation to buy back shares (which expired on 17 October 2015), the Annual General Meeting held on 17 April 2013 resolved to also authorise the Executive Board for a period of five years (i.e. until 17 April 2018), with the approval of the Supervisory Board, to decide upon a different type of sale of treasury shares other than in an exchange market or through a public offering, also with exclusion of the right of repurchase (reverse purchase right) of the shareholders, and to determine the terms of sale. Furthermore, the Executive Board is authorised, with the approval of the Supervisory Board, to reduce the share capital if necessary by retiring these treasury shares without an additional resolution by the General Meeting. As the deadline expired and there are no treasury shares, this authorisation is irrelevant. Apart from the above, there are no authorisations of the Executive Board within the meaning of Section 243a(1)(7) of the Austrian Commercial Code (UGB).

8. The Company is also not involved in any significant agreements that contain provisions referring to the stipulations under Section 243a(1)(8) of the Austrian Commercial Code (UGB). Furthermore, a public takeover bid is improbable under constitutional law.

9. There are no compensation agreements within the meaning of Section 243a(1)(9) of the Austrian Commercial Code (UGB).

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

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

Innovation, research and development

KPIs – IR&D

	Unit	2016	2017	**2018**
Number of IR&D projects	Number	68	85	**74**
Total project volume[1]	€m	139.1	179.8	**177.9**
of which EU projects[1]	€m	93.6	111.7	**104.5**
Total VERBUND share[1]	€m	22.1	53.5	**61.6**
Annual VERBUND expenses	€m	5.5	9.0	**10.5**

[1] over the entire duration of the projects

GRI EU-DMA, formerly EU8

SDG 7
SDG 9
SDG 12
SDG 17

The transition from fossil fuels to renewable energy is gaining traction in many spheres of economic activity and private life. Research, development and innovation play a crucial role in this endeavour. VERBUND also takes its responsibility for a climate-friendly and environmentally friendly energy future very seriously and provides the "raw material" for an all-electric society.

Electrification of mobility, sector coupling

VERBUND continues to work hard with strategic partners on European and Austrian development and innovation projects. For a number of years now, special emphasis has been placed here on electrifying the mobility sector. The development of new services for trade and industry is another area of focus. Additional potential for implementing a new energy system will be tapped through sector coupling.

Two projects are following on the heels of VERBUND's successfully completed e-mobility projects. They are fundamental for the rapid expansion of the fast-charging corridors for electric cars and are establishing a connection to international networks of charging stations in neighbouring countries. Under the EVA+ project, the network of fast charging stations in Austria was expanded through the installation of 20 more stations by the end of 2018. Roaming agreements allow customers to easily use the Austrian SMATRICS network as well as the charging networks in neighbouring countries.

SDG 11

Furthermore, VERBUND is using cutting-edge charging infrastructure technology to build four charging stations in Austria as part of the ultra-E project. The first of these stations, whose charging capacity of up to 350 kW caters to the latest generation of electric vehicles designed for long-distance journeys, has already been installed in Vienna. Others will follow in Graz, Innsbruck and Salzburg. Follow-up projects for implementation of this integrated high-performance charging infrastructure in Europe are already at the planning stage. This means that the SMATRICS charging network is equipped to cope with the latest models of electric vehicles designed for even higher ranges.

Combining energy and mobility

As the range of e-cars grows, so too does the charging capacity required. This makes e-car drivers happy but presents huge challenges for the power grid. Smart solutions are needed. In the SYNERG-E project, VERBUND is installing and operating a total of ten local buffer storage units at ultra-fast charging sites across Austria and Germany that will supply a capacity of 0.5 MW in each case. This will significantly weaken load peaks in the grid and reduce grid expenses. The first buffer battery was positioned in Vienna in 2018; others will follow in 2019 at selected locations. A particular challenge is local management of the battery and charging infrastructure to ensure optimal interplay of the components in situ. To this end, VERBUND has been testing the battery packs at the new test facility at the Mellach power plant since 2018.

Green hydrogen being tested

The aim of the H2FUTURE project that has been running since 2017 is to construct a proton exchange membrane electrolyser with a capacity of 6 MW at the voestalpine site in Linz in conjunction with industrial and research partners. All of the preliminary structural work and the work required to obtain the permits was completed in 2018. The electrolyser will be delivered in 2019. Following extensive testing, the installation will come on stream in the second half of 2019. Besides producing green hydrogen for steel production, the electrolyser will be used to support the electricity grid. Whether and how the concept can also be applied to other industrial sectors such as chemicals, oil & gas or fertilizers is additionally being examined within the scope of the project.

The WIVA Power & Gas energy model region was officially launched in 2018. Together with domestic partners from industry and research, VERBUND is developing hydrogen projects along the entire value chain. WIVA will give these hydrogen projects an organisational and substantive framework for several years. Here, VERBUND is working in particular on implementing other collaborative projects relating to the use of carbon-neutral hydrogen in industry.

VERBUND is becoming an enabler in the age of digitalisation and new storage technologies.

Hydropower: fish protection and migration measures

In the area of hydropower, VERBUND continued to develop mainly measures for fish protection and migration in 2018. Furthermore, in the year now ended VERBUND initiated a research project to examine the effects of key stimuli such as heat, sounds and light – as these occur at power plants – on fish.

How fish find the fish ladders based on flows is also being studied with the use of drones fitted with high-resolution camera and video sensors. A software tool for quantitative tracking analysis and visualisation of flows will be developed on this basis.

This will allow the flow behaviour of structural conditions on the installation and in the area of weirs to be mapped precisely. It will also facilitate optimisation of the modes of operation for power plants and optimisation of the fish ladders.

Wind power: ice forecasts add value for operations management

In the area of wind power, VERBUND focused its research activities in 2018 on operational improvements under icing conditions and developed new innovative operating concepts. For this purpose, VERBUND evaluated icing measurements at its Ellern wind farm in Hunsrück, Germany and verified these. Operation of the rotor blade heating system was also analysed and adjusted to the prevailing meteorological conditions at the site.

VERBUND is currently analysing how icing forecasts can add value for operations management. Here, the main objective is to avoid forecast icing events by starting up the rotor blade heating system ahead of time. This would involve a changeover from reactive operation to completely new preventive operation of the rotor blade heating system. VERBUND theoretically calculates the resulting economic value added using the cost-loss model. Going forward, this will enable VERBUND to prevent light icing on the rotor blades and substantially reduce icing-related idle times.

Digitalisation of hydropower and wind power

In the area of hydropower, VERBUND continued its two digitalisation initiatives, Digital Workforce Management and Digital Hydro Power Plant.

The Digital Workforce Management project addresses digital support of the administrative and operational processes for implementing potential improvements in the existing systems and for making new, mobile working methods possible. To this end, a mobile application was developed in 2018 that will now be tested and tailored to the requirements of operations.

In the Digital Hydro Power Plant project, activities for identifying new digital technologies that are suited to hydropower were successfully continued in 2018. These technologies will serve to provide support in operations and ultimately increase efficiency.

In the area of wind power, the project for the digitalisation of maintenance was concluded in 2018 and put into operation. As a result, all service technicians are now able to access digital information for troubleshooting and document fault repair using their smartphone. Implementation of further digitalisation measures for increasing efficiency in rotor blade inspections and rotor blade angle measurements was begun and will continue in 2019.

Electricity trading: improved inflow forecasting

Research activities in electricity trading in 2018 also covered inflow forecasting. High spatial resolution in the forecast values and stochastic optimisation methods facilitate optimised management of the storage systems and improved assessment of forecast uncertainties. This provides a better basis for estimating the effects on power plant use and for flood management.

Other areas of emphasis are new products with renewable energy and certificates as well as new opportunities for marketing virtual pumped storage power plants and flexibility options. Thus, VERBUND's electricity trading is part of the H2FUTURE and BlueBattery projects.

In light of digitalisation and the increasingly fragmented market environment, VERBUND's electricity trading segment also addresses future challenges with the Intraday Price Forecasting, Autotrader and Volery projects (optimisation/simulation of a large number of decentralised plants).

A safety system for the power grid

Europe's power plant portfolio is moving away from large generation units towards small to medium-sized plants for renewable energy sources. Frequency stability and regulation in the European transmission grid are therefore becoming increasingly important.

APG, VERBUND's independent grid subsidiary, was active in 2018 with 20 research projects, three of which at an international level. One of these is the FutureFlow project, an international project funded as part of Horizon2020 that incorporates neighbouring transmission system operators from south-eastern Europe and IT experts from the industry. The main task of FutureFlow is developing a central optimisation function for activation of balancing reserves and modification of power plant utilisation.

An Austrian project with international significance is "ABS for the power grid" – similar to the automatic safety system used in cutting-edge vehicles. In this project, which is sponsored by the Climate and Energy Fund, APG is collaborating with the Austrian Institute of Technology (AIT), the Vienna University of Technology and VERBUND on a smart support system for power grid operation. The core element of the project is a battery storage system with a capacity of 1 MW/500 kWh. Starting in June 2019, the pilot plant in the Vienna-South East substation will be tested in operation over a two-year period. At the end of April 2021, the results will show how fast it is possible to respond to frequency variations in the power grid.

Innovation within our own ranks

The internal pilot project dubbed the Idea Power Plant was launched in 2018. In the first stage of the project, some 300 employees were given a window of around three months to submit their ideas on the campaign topics of "Growth in the VERBUND Group – New solutions, new markets", "New Work – Striking out in new directions", "VERBUND services of the future – Exploit our full potential" and "Re-imagine our image: Improve the public perception of VSE". The Idea Power Plant was intended to encourage active participation by employees and make the most innovative ideas ready for implementation.

Prizes for the most promising ideas were awarded in June 2018. These concepts are being implemented at VERBUND Services GmbH (VSE) and refined in a new Group-wide format – "VERBUND Innovation Kit 2018" – with the assistance of internal and external experts. The VERBUND Innovation Kit 2018 uses state-of-the-art innovation methods such as Design Thinking and Lean Startup for rapid, efficient development of ideas.

Outlook

At +1.6%, the 2019 economic growth forecast issued by the International Monetary Fund (IMF) for the eurozone is slightly lower than the figure for 2018 (+1.8%). Although the IMF continues to expect strong consumer demand, this will be more moderate than in previous years. In addition, the IMF anticipates a cooling export business and weaker industrial production. Further uncertainties from the IMF's perspective are the effects of Brexit and the customs disputes between the US and China.

Austria's economy continues to perform well by international standards. The Austrian Institute of Economic Research projects economic growth of 2% in 2019. Household spending will continue to support economic growth but will not be sufficient to fully compensate for declining demand in foreign trade.

In December 2018, the OPEC countries agreed to cut oil production for six months starting in January 2019. Ten non-OPEC countries are also participating in the reduction. The countries intend to review the measures in April 2019. The cut already raised the price of oil from around $55/bbl to $62/bbl at the beginning of January 2019. Prices for NCG and coal front years, on the other hand, declined again at the beginning of 2019 after rising sharply during 2018.

Wholesale electricity prices have risen substantially in recent years. Prices are currently hovering at around €50 for base load. How they will develop will depend in particular on CO_2 prices and the trend in primary energy prices (especially coal and gas).

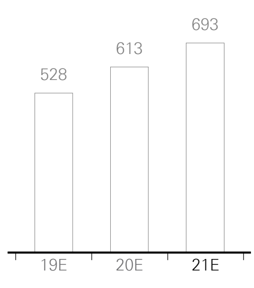
Due to the further expansion in volatile renewable energy, the importance of VERBUND's generation portfolio is growing, with its flexible power plant portfolio with pumped storage power plants and the Mellach combined cycle gas turbine power plant (CCGT) on the one hand and its reliable run-of-river power plants on the other. APG, our wholly owned subsidiary, plays a key role in connection with the security of supply as owner and operator of one of Europe's most technically advanced transmission grids. In addition, VERBUND's innovative products and services already offer customers solutions for the future of energy.

Investment plan 2019–2021

SDG 8

VERBUND's updated investment plan for the period 2019–2021 provides for capital expenditure in the amount of €1,834m. Of that total, around €875m will be spent on growth CAPEX and around €959m on maintenance CAPEX. Most of the growth CAPEX (approximately €614m) will go towards expanding the regulated Austrian high-voltage grid. In addition, VERBUND will be investing mainly in selected hydropower plant projects as well as in increasing the efficiency of existing power plants. The Töging run-of-river power plant in Germany deserves particular mention here. The investments will involve VERBUND's domestic markets of Austria and Germany. In financial year 2019, VERBUND plans to invest a total of approximately €528m, around €226m of which will be invested in growth and around €302m in maintenance.

Investment plan €m



Dividend

VERBUND plans to distribute a dividend of €0.42 per share for financial year 2018. The payout ratio for 2018 will thus amount to 42.6% based on the adjusted Group result.

Earnings projection for 2019

VERBUND's earnings performance is significantly influenced by the following factors: wholesale prices for electricity, the Group's own generation from hydropower and wind power, the contribution to earnings from flexibility products and ongoing developments in the energy market. Around 66% of the planned own generation for 2019 was already contracted as at 31 December 2018. The price achieved was approximately €7.6/MWh above the sales price reached in 2018. For those volumes not yet hedged, VERBUND has based its calculations on current market prices.

Events after the reporting date

There were no events requiring disclosure between the reporting date of 31 December 2018 and authorisation for issue on 14 February 2019.

Vienna, 14 February 2019

Executive Board

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

Mag. Dr. Michael Strugl
Vice-Chairman of the Executive Board

Dr. Peter F. Kollmann
Member of the Executive Board

Mag. Dr. Achim Kaspar
Member of the Executive Board

Report on non-financial information
(NFI Report)

Report on non-financial information

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

GRI 102-52

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

GRI 102-54

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

GRI 102-45
GRI 102-50

This report covers the activities of all of the companies included in the Group's consolidated financial statements. Significant events occurring at unconsolidated companies are also reported to provide a complete picture of the Group. The reporting period comprises the 2018 calendar year.

GRI 102-56

Sustainability information has been subjected to an external review in the scope specified by the Independent Assurance. The GRI Content Index at www.verbund.com > About VERBUND > Responsibility > Non-financial Information indicates where information on sustainability at VERBUND can be found. As provided for in the GRI guidelines, we have refrained from including information on topics of minor relevance in this integrated annual report. Supplementary information on sustainability topics is available in our Disclosures on Management Approach (DMA) document and on our website at www.verbund.com > About VERBUND > Responsibility > Non-financial Information.

VERBUND's business model

GRI 102-2

VERBUND is one of the largest producers of hydroelectricity in Europe. Its value chain comprises the generation, transportation, trading and sales of electrical energy and other energy sources as well as the provision of energy services. VERBUND's sustainable business model revolves around the generation of carbon-free electricity from hydropower and wind power. Details are provided in the Renewable generation section of the segment report. The Grid section of the segment report also supplies key information on sustainability. All ongoing projects and current events are presented in a condensed format and supplemented by a description of selected activities relating to the environment and society. For further details and background information, please refer to the additional sources referenced in the margins.

GRI 102-46

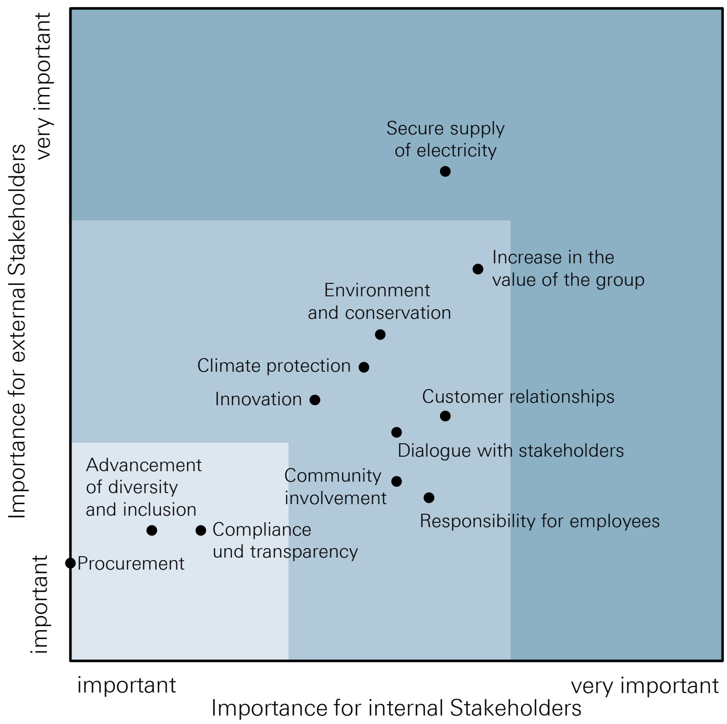
Since VERBUND operates in Europe, we regard Europe as a single region/regulatory regime. VERBUND's significant locations of operation are Austria and Germany. Maps plotting the power plant sites and grid facilities are provided at the end of the report.

Materiality and stakeholder engagement

GRI materiality analysis

A survey of the relevant internal and external stakeholder groups in Austria and Bavaria was conducted in order to identify material topics at VERBUND. The questions related, firstly, to stakeholders' expectations of the engagement with VERBUND and, secondly, to the Group's activities in terms of sustainability. GRI 102-46

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



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

The stakeholders surveyed were also asked to weight the objectives of the energy policy triangle on the basis of three focus areas: security of supply, profitability/affordability and climate and environmental protection. Security of supply was given the highest weighting compared to the other two focus areas. Profitability/affordability of the energy system took second place, closely followed by the energy policy objective of climate and environmental protection. The weightings by individual stakeholder groups showed significant differences – even between Austria and Bavaria. The focus areas SDG 7 described pose a constant challenge for responsible corporate governance at VERBUND. In this context, a holistic view of the European energy system is also necessary for an assessment of sustainable options for action.

GRI 102-49

SDG 12
SDG 13
SDG 15

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

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

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

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

Material topic at VERBUND/SDG	GRI standards	Sector supplements	Additional information
Secure supply of electricity (SDG 7, SDG 9, SDG 11)		EU1, EU2, EU10, EU30	Risk and crisis management
		EU4, EU28, EU29	Risk and crisis management
Increase in enterprise value (SDG 7, SDG 8)	GRI 201: Economic Performance GRI 203: Indirect Economic Impacts	EU10, EU11, EU21	Financial governance
Environmental protection and conservation (SDG 6, SDG 15)	GRI 304: Biodiversity		Number of fish passes
	GRI 301: Materials GRI 302: Energy GRI 303: Water GRI 306: Effluents and Waste		Percentage of sites certified to ISO 14001/EMAS, environmental costs
Climate protection (SDG 13)	GRI 201: Economic Performance GRI 305: Emissions	EU5	Emissions avoided through generation from renewable energy
Customer relations (SDG 12)	GRI 102: Stakeholder Engagement	EU3, EU27	

Material topic at VERBUND/SDG	GRI standards/ Sub-topics	Sector supplements	Additional information
Customer relations (SDG 12)	GRI 416: Customer Health and Safety GRI 417: Marketing and Labelling GRI 418: Customer Privacy		
Innovation (SDG 7, SDG 9, SDG 11, SDG 17)	Innovation, Research and Development	EU DMA, formerly EU8	Number of R&D projects, VERBUND's annual expense
Stakeholder engagement (SDG 12, SDG 17)	GRI 413: Local Communities GRI 102: Stakeholder Engagement		
Responsibility to employees (SDG 3, SDG 4, SDG 8)	GRI 403: Occupational Health and Safety		
	GRI 102: Organisational Profile GRI 201: Economic Performance GRI 401: Employment GRI 402: Labour/Management Relations		Percentage of university graduates, employee survey
	GRI 404: Training and Education	EU15	
Procurement (SDG 12)	GRI 204: Procurement Practices GRI 308: Supplier Environmental Assessment		
	GRI 414: Supplier Social Assessment	EU18	
Compliance and transparency (SDG 16)	GRI 205: Anti-corruption GRI 415: Public Policy GRI 206: Anti-competitive Behaviour GRI 406: Non-discrimination GRI 307: Environmental Compliance GRI 419: Socioeconomic Compliance		
Advancement of diversity and inclusion (SDG 5, SDG 10)	GRI 405: Diversity and Equal Opportunity[1]		
Commitment to society (SDG 1, SDG 4, SDG 11)	VERBUND Empowerment Fund run by Diakonie		Number of appliances purchased, number of consultations held
	VERBUND Electricity Relief Fund run by Caritas		Number of households supported
	VERBUND climate school, VERBUND electricity school		Number of participants, number of guided tours

[1] Report on information about wage equality only in the year in which the two-year income report was released

Sustainable topics and projects in 2018

The 17 sustainable development goals (SDGs) from Agenda 2030 adopted by the United Nations were a topic of discussion at VERBUND once again in 2018. A sustainability brochure focusing on the SDGs was devoted to VERBUND's contribution to these UN goals. The YBBS 2020 project, for example, is providing valuable support to SDG 7 "Affordable and clean energy" and SDG 13 "Climate action". In this connection, Austria's oldest power plant on the Danube, Ybbs-Persenbeug, is being completely modernised. Special mention should also be made of the LIFE+ Traisen project with the objective of successfully restoring the Traisen river landscape and resettling rare animal species (SDG 15). The VERBUND's women's network and the Women in Technology ("Frauen in die Technik – FIT") initiative support gender equality (SDG 5) and high-quality education (SDG 4). To achieve the UN targets, VERBUND also relies on successful partnerships (SDG 17) such as its collaboration with the climate school of the Hohe Tauern National Park.

Joining the UN Global Compact To send a clear sign of VERBUND's commitment to achieving the global sustainability goals, the Executive Board decided that the Company would join the UN Global Compact, the world's largest sustainability initiative. This aims to raise awareness for achievement of the UN goals and also focuses on ten principles that it has defined. Divided into the categories of human rights, labour, environmental and anti-corruption, these principles have already been signed by approximately 10,000 companies around the world. VERBUND signed the initiative in early 2019.

CSR certification Building on VERBUND's many years of experience in sustainability management, a CSR management system was implemented in 2018 and certified externally to the CSR standard ONR 192500. The objective here is to systematically establish topics related to sustainability in all business areas and continuously improve them based on the PDCA (Plan-Do-Check-Act) cycle. This will enable the sustainability principles to be integrated into the business processes to a greater extent and allow these processes to be continuously monitored and managed.

Task Force on Climate-related Financial Disclosures (TCFD) Capital markets, rating agencies, investors and banks are calling on companies to disclose more information about the impact of climate change on their business activity. The primary aim of this is to assess the resilience of the business model to risks arising from climate change. In response to this trend, VERBUND places emphasis on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) established by the Financial Stability Board in 2015. The TCFD has developed guidelines for companies on disclosing the financial impact of climate change. At a workshop, recommendations and the next steps for a multi-year implementation process were developed with regard to how VERBUND can progressively incorporate climate-related risks and opportunities into its strategic and financial planning.

Impact of activity

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

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

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

Environmental matters:	**Environmental protection and conservation, climate protection**
Impact of activity	Significant environmental impact under normal operations, principally through the effect of hydropower plants on habitats in relation to river morphology and biodiversity and through the effect of thermal power plants in relation to airborne emissions.
Significant risks	Under normal operations, no significant risks to the plants with potentially negative effects for the environment; the likelihood that these risks will arise is minimised by operating the facilities in compliance with the laws.
Management of the risks	Certified environmental management systems; for extreme events (severe flooding, earthquakes, etc.) there are specific emergency plans and a crisis management team.

Social matters:	**Secure supply of electricity, increase in enterprise value, customer relations, innovation, stakeholder engagement, commitment to society**
Impact of activity	System security in the Austrian transmission grid; direct economic value generated and distributed (wages and salaries, taxes, dividends, interest, capital expenditure); safe, affordable products and services for customers; consideration of concerns of stakeholders; long-term participation in social and education-related activities.
Significant risks	Failure of critical infrastructure; risks involving information security, cyber security and data protection.
Management of the risks	Group-wide organisational structures for opportunity and risk management as well as crisis management; implementation and refinement of Group-wide information security and data protection management systems (ISMS, DPMS).

Employee-related matters:	Responsibility to employees, advancement of diversity and inclusion in the Group
Impact of activity	Performance-based, productive corporate actions for securing the core business over the long term and exploiting new business opportunities with the goal of safeguarding and ideally creating skilled employment.
Significant risks	Risks can be minimised through extensive personnel management and continuous further development of the high safety standards as well as through the development of socially acceptable solutions (in the case of job cuts) in conjunction with the employee representatives.
Management of the risks	Group-wide management systems for occupational safety and occupational health management; incorporation of the employee representatives; personnel development; diversity strategy and concept; demographic and knowledge management; employer branding.

Respect for human rights:	Procurement practices, responsibility to employees, advancement of diversity and inclusion in the Group
Impact of activity	As a signatory to the UN Global Compact, VERBUND exercises a positive influence on its business partners in and outside Austria.
Significant risks	The aspects of “equal treatment” and “freedom of association” have been identified as human rights issues in the direct sphere of influence; there are no significant risks here. Consulting activities in emerging markets give rise to a risk of human rights being violated by third parties. Risks in the upstream supply chain cannot be ruled out entirely, which is why due diligence must be exercised in procurement.
Management of the risks	Code of Conduct prescribes equal opportunity; sanctions will be imposed for violations of the Code of Conduct; diversity management encourages equal opportunities for all people; workplace training sessions in the corporate values will be provided; hot spot analysis of the supply chain; regular evaluation of corporate policies and instructions for Procurement; review of the integrity of the business partners prior to collaboration on projects.

Anti-corruption and bribery matters:	Compliance and transparency
Impact of activity	Use of fair business practices has a positive impact on society.
Significant risks	The annual Group-wide compliance risk survey collects information on significant corruption risks.
Management of the risks	Group-wide management system for compliance and Group-wide opportunity and risk management, reviews of the integrity of business partners, compliance trainings.

Media analysis

We supplement our own reporting with the main topics addressed in media reports on VERBUND. The relevance of a specific topic is measured by the number of articles appearing on the matter, with the following picture emerging for 2018:

- In the future, VERBUND will expand the ÖBAG (formerly ÖBIB) investment portfolio, among others
- Changes in the composition of VERBUND's Executive Board from 2019: Wolfgang Anzengruber will remain as Chairman; Peter Kollmann will remain as CFO; Michael Strugl and Achim Kaspar have been appointed as new Board members
- Group result: upward trend in the share price in 2018
- Pilot plant for carbon-free hydrogen production
- Visit to the H2FUTURE plant
- Hydrogen Initiative
- Green finance: following the digital green Schuldschein, VERBUND is issuing the world's first green syndicated loan, whose price will be determined over its term using exclusively sustainability criteria
- New fish pass at the Greifenstein power plant
- "klima.schule": first online climate school set up by VERBUND and the Hohe Tauern National Park
- VERBUND invites visitors to the 50th anniversary of the Wallsee-Mitterkirchen power plant on the Danube.
- Turbine inspection at VERBUND's Ybbs power plant on the Danube
- Gries power plant: first turbine delivered
- Impact of the splitting up of the German-Austrian electricity price zone
- Impact of the dry summer on electricity generation

Definition of report content

GRI 102-46

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

Stakeholder engagement

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

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

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

Please refer to the DMA: "Endorsement of external initiatives"

On the other hand, VERBUND can also provide know-how for processes that are important for society as a whole. In 2018, for instance, VERBUND took part in the negotiations on the package of Clean Energy for all Europeans legislation for future EU energy policy and was actively involved in drafting an energy and climate strategy for Austria.

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

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

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

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

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

Selected stakeholder activities in 2018

GRI 413-1

During the year, member of the Austrian parliament Dr. Therese Niss, MBA, sector spokesperson of the Austrian People's Party for digitalisation, research and innovation, and a delegation from the Environment and Water Industries section of the Federal Ministry for Sustainability and Tourism visited VERBUND's headquarters in connection with the "One day at VERBUND" stakeholder format. On this occasion, there was an exchange of views on current energy policy and hydropower-related topics.

In addition, the stakeholder formats VERBUND had already established were successfully continued in 2018. These included the VERBUND Energy Breakfast, the Munich Energy Club, the Hydropower Dialogue, the Parliamentary Dialogues as well as dialogue with environmental organisations and the EU energy forums.

In November 2018, VERBUND also organised the presentation of the International Energy Agency's World Energy Outlook 2018 in Vienna, which attracted around 300 representatives from business, politics and the energy industry.

The ideas and demands of its stakeholders are always central to VERBUND's considerations.

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

In the case of the Gries power plant joint venture on the Salzach River, which is under construction, the project management team was available on the consultation days, as in the previous year. Regular updates on construction progress were provided through mailings. In the project to approve new construction at the Töging power plant on the Inn River in Bavaria, consultations and citizen information events with accompanying public relations were conducted along the same lines.

At the Malta pumped storage power plant in the Mölltal Valley, the manager of the power plant group continued to act as the direct point of contact for the initiative of the residents being bothered by the noise. The sound measures being implemented there are showing initial improvements and further optimisations are planned. On the occasion of the power plant's 50th anniversary, VERBUND extended invitations to an open day on 16 September 2018 with 3,500 visitors.

When the Greifenstein fish pass was being completed, VERBUND organised a neighbourhood event at the site. Further neighbourhood events took place at the Villach (Carinthia) and Kaprun (Salzburg) power plants. VERBUND welcomed 5,500 visitors at the open day at the Wallsee-Mitterkirchen power plant on 6 June 2018. At a citizen information event, VERBUND in conjunction with the municipality of Kirchberg am Wagram gave a presentation on the planned fish pass at the Altenwörth plant on the Danube. This fish pass will be combined with measures to improve the former Altenwörth tributary in collaboration with the municipality. Construction is expected to begin in autumn 2019.

Advocacy of interests

VERBUND also conducted a thorough review of regulatory conditions at EU level as well as in Austria and Germany in 2018.

For information on VERBUND's position on important topics, please refer to www.verbund.com > About VERBUND > Company > Advocacy of interests

Alongside efforts to maintain the German-Austrian price zone, key topics in the year under review were the negotiations for the European Commission's Clean Energy Package, the proposals for decarbonising transport and promoting electromobility, creation of an Austrian Climate and Energy Strategy #mission2030, preparations for the Renewable Energy Development Act (Erneuerbaren-Ausbau-Gesetz, EAG), the environmental package of the Austrian Federal Ministry of Sustainability and Tourism as well as the Act on the Development and Advancement of Austria as a Business Location (Standortentwicklungsgesetz, StEntG), the topic of sector coupling and incentives for using green hydrogen.

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

Compliance

Compliance management system, Code of Conduct

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

The VERBUND Code of Conduct can be viewed at www.verbund.com > About VERBUND > Company > Corporate philosophy

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

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

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

We continued to actively refine the compliance management system in financial year 2018. This process was underpinned in particular by intensified communication measures such as standardised compliance meetings as well as by ongoing exchanges of information and external consultations.

Compliance risk survey

GRI 205-1

SDG 16

A systematic Group-wide compliance risk survey was conducted again in 2018. All divisions at the holding company and the principal consolidated subsidiaries were involved in the survey in their capacity as risk owners. Using an updated, standardised questionnaire, they carried out a qualitative compliance risk assessment based on three criteria: materiality, probability of occurrence and maturity of existing measures.

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

In this way, corruption risks in particular in all areas of the Group were examined and documented in 2018. The findings indicated no significant risk of corruption for VERBUND.

Training, consulting and provision of information

GRI 205-2

VERBUND's compliance management system focuses on preventive measures. In this vein, conducting training sessions and presentations, providing one-on-one consulting on numerous occasions and disseminating information on specific matters were important focal points of VERBUND's compliance work again in 2018. The Chief Compliance Officer and the compliance officers of the Group companies provided information on correct conduct in person, by phone or by e-mail in response to all of the approximately 320 queries received. The most common topics were invitations, participation in events, gifts and other benefits and the handling of confidential information. This was an indication of the cautious manner in which both executives and employees handle compliance topics at VERBUND.

In order to further improve the ability to deal with compliance matters, the compliance rules were addressed in a tailored training programme throughout the Group. The Chief Compliance Officer conducted 18 classroom training sessions in the reporting period. In addition to standard compliance training (especially for new staff and new executives), a series of events on the Group's new Financial Markets Compliance Policy was held in all holding company units and for the assistants to the Executive Board. These focused more on issues relating to information security and the handling of company information. The compliance officers at the subsidiaries also held 51 classroom training sessions.

Another key pillar of the training programme in the reporting period was the intranet-based e-learning programme comprising two compliance courses on anti-corruption training and financial market compliance. All Group executives and all employees at the holding company as well as those in departments that are particularly affected (e.g. Key Account Management, Trading, Purchasing) are required to complete the relevant online surveys on an annual basis. In the year under review, successful completion of these surveys was included for the first time as a compliance target in the agreements on targets for all Group executives. During the year, a new e-learning programme was also developed in conjunction with the Training department. The first parts – the Compliance Principles and Anti-Corruption courses – were rolled out at the end of 2018.

VERBUND not only briefs all of its Board members and employees on anti-corruption strategies and measures internally but also provides information to all external stakeholders via its website. In addition, compliance and anti-corruption topics are communicated to suppliers over the ASTRAS electronic supplier platform as well as in the General Terms and Conditions of Purchase Orders.

Business partner integrity checks

GRI 205-3

VERBUND actively manages integrity risk by performing standardised checks of the integrity of its business partners on a Group-wide basis. Aside from the fulfilment of legal requirements, VERBUND's primary aim is to safeguard the Group's reputation. When performing such checks, VERBUND systematically and effectively collects relevant information. The results of the analysis underpin the more extensive assessment of business partners. The process for and the contents of the business partner integrity checks were developed further in the 2018 reporting period.

In the past financial year, no contracts with business partners were terminated due to infringements in connection with corruption.

Prevention of corruption, compliance incidents

VERBUND's objective is to avoid any compliance incidents. Corruption prevention therefore plays a key role in the Group's compliance management system and was once again the subject of extensive internal communication and a whole series of training measures in the past financial year. A total of 1,926 people (i.e. approximately 69% of all Group employees including executives) took part in anti-corruption training in the reporting period. Of the executives, 70 (i.e. 100%) completed the training. Apart from receiving information on strategies and measures to combat corruption, the members of the Supervisory Board did not take part in any further training in 2018.

When implementing the anti-corruption guidelines, the Chief Compliance Officer ensures strict compliance with the rules relating to giving and receiving benefits, gifts and invitations in particular. He monitors whether mandatory value limits and authorisations are being observed and whether the documentation requirements are met. He is supported in this by the officers at the individual Group companies. In 2018, the Chief Compliance Officer approved approximately 70 cases involving the giving or receiving of invitations or participation in events and denied a small number of these.

GRI 205-3

Five suspected compliance incidents in the Group were reported and thoroughly investigated in 2018. In two cases, warnings were issued, in another case the employment relationship was terminated and in the remaining cases no infringements were identified. No cases of corruption were identified and there were also no corresponding claims.

GRI 406-1

In addition, three cases of suspected discrimination were reported to the Diversity and Inclusion manager in 2018. The matter was investigated in all three cases. After the cases had been discussed with the parties affected/involved, solutions were developed for the parties affected.

GRI 415-1, GRI 102-25
Further information is provided in the Corporate Governance Report
SDG 16

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

Financial market compliance, market abuse law

VERBUND has developed a comprehensive set of regulations along with an internal organisational structure – both in place for many years now – that are designed to comply with EU market abuse and insider trading laws and the Austrian regulations by preventing the abuse of inside information.

Following the rescission of the Regulation on Compliance for Issuers (Emittenten-Compliance-Verordnung), the Group's Financial Market Compliance Policy was revised and rewritten. The changes were then communicated in an intensive training and information programme. The Executive Board and the Supervisory Board were also informed accordingly and reminded at the same time of the regulations governing proprietary trading by executives. New non-disclosure agreements were concluded with the Group companies.

Legal compliance

GRI 417-3

Alleging unfair competitive practices in relation to an advertisement comparing prices and the promotion of "free electricity and gas", a competitor brought an action for an injunction and asked the Vienna Commercial Court to issue a temporary injunction against VERBUND AG. The complaint was filed on 14 December 2018 and the defence was lodged in a timely manner.

There were no proceedings or incidents of non-compliance or complaints filed against VERBUND in the reporting period with regard to the following disclosures in the standards of the Global Reporting Initiative: GRI 206-1 (Legal actions for anti-competitive behaviour, anti-trust and monopoly practices), GRI 416-2 (Incidents of non-compliance concerning the health and safety impacts of products and services), GRI 417-2 (Incidents of non-compliance concerning product and service information and labelling), GRI 418-1 (Substantiated complaints regarding concerning breaches of customer privacy and losses of customer data) and GRI 419-1 (Non-compliance with laws and regulations in the social and economic area).

GRI 206-1
GRI 416-2
GRI 417-2
GRI 418-1
GRI 419-1

Other proceedings relating to the restructuring of the thermal segment are reported on in the section entitled All other segments. For information on the investigation of the flooding on the Danube and the Drau rivers and the associated proceedings, please refer to the Renewable generation section. For information on GRI 307-1 (Non-compliance with environmental laws and regulations), please refer to the Environmental performance section.

GRI-307-1

Environmental performance

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

The Environmental executive order and additional environmental provisions define the framework for the systematic planning, execution and measurement of and reporting on the environmental achievements of VERBUND. Existing structures, processes and responsibilities in environmental management ensure compliance with legal requirements, nationally and internationally accepted regulations and the Group's own, more stringent standards. To ensure this, VERBUND has established a decision-making body at the highest management level and a working team made up of in-house environmental experts.

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

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

SDG 16

Impacts on the environment

One key topic in VERBUND's environmental management has always been the impacts, both positive and negative, that our generation portfolio and our activities have on the environment. In transitioning to ISO 14001:2015 Revision, the focus has shifted to the analysis of the organisation's context and to risk- and opportunity-based thinking as additional aspects of the standard.

GRI 103-1
GRI 103-3

There are two primary ways that VERBUND's normal operations have a detrimental impact on the environment: through the effect of hydropower plants on habitats in relation to river morphology and biodiversity and through the effect of thermal power plants in relation to airborne emissions. The

Please refer to the DMA section entitled Crisis management

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

Certification of environmental management systems

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

VERBUND has implemented environmental management systems in accordance with ISO 14001 at generation and grid facilities and at major administrative sites. The transition to ISO 14001:2015 Revision throughout the Group was completed in 2018. The Mellach thermal generation facilities are also validated in accordance with the EMAS Directive. A separate environmental statement is published annually on the VERBUND website for these facilities. New facilities are incorporated into the environmental management system as quickly as possible after commissioning and included in the scope of the certificate for the next audit.

Sites with environmental management systems certified to ISO 14001 or EMAS

	Unit	2016	2017	**2018**
Percentage of certified sites[1]	%	93	100	**100**
Total certified sites	Number	187	198	**198**

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

Use of power

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

SDG 12
SDG 13

Compared with 2017, VERBUND's use of power from fuels decreased by 23% in 2018 as a result of reduced use of the thermal power plants. At around 8 million gigajoules (GJ) – equivalent to some 313 thousand tonnes – hard coal use at VERBUND's thermal power plants was lower than in the previous year. At 6.3 million GJ, natural gas use in 2018 was down around one-third on the figure for 2017 (9.9 million GJ). Use of power from diesel and petrol accounted for just 0.4% of all fuels used.

Electricity purchases at VERBUND comprise grid purchases for administration, power plants, pumps and grid facilities. Compared with financial year 2017, 15% less electricity was purchased in 2018 for pumping and turbining and for compensating grid losses.

In 2018, total energy consumption within VERBUND amounted to 24.3 million GJ. Energy intensity – the power use within the Group per amount of electricity and district heating generated – improved to 0.21 in 2018 (2017: 0.25).

Use of materials

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

Materials VERBUND uses include additives and consumables for flue gas treatment and for energy generation in power plants and grid facilities. Paper consumption in the administrative areas makes up a small share of materials used. Total material requirements fell by 8% in 2018. This decrease is primarily attributable to reduced thermal generation from natural gas, although the Mellach combined cycle gas turbine power plant uses only a negligible amount of additives and consumables compared to the hard coal power plant.

KPIs – generation, use of power and materials

	Unit	2016	2017	2018
Generation				
Electricity generation (net, total)[1]	GWh	31,995	32,866	**31,130**
Share of generation from renewables	%	96	93	**95**
Generation of district heating (net)	GWh	910	943	**813**
Direct power use[2]				
Total fuels from non-renewable sources	GJ	12,627,730	18,589,109	**14,277,037**
Hard coal	GJ	8,113,591	8,665,864	**7,871,731**
Natural gas	GJ	4,463,574	9,869,333	**6,350,795**
Fuels (diesel and petrol)	GJ	50,565	53,912	**54,511**
Total fuels from renewable sources	GJ	16,509	18,121	**10,327**
Electricity (grid purchase)[3]	GJ	8,850,619	11,687,568	**9,988,934**
District heating (grid purchase)	GJ	6,205	6,988	**6,605**
Total energy consumption within the Group	GJ	21,501,062	30,301,786	**24,282,903**
Energy intensity – power use per amount of electricity and district heating generated	GWh/GWh	0.18	0.25	**0.21**
Total use of materials	t	5,658	5,874	**5,429**
Use of additives and consumables	t	5,634	5,851	**5,409**
Use of copying paper	t	24	23	**20**

[1] incl. purchase rights // [2] own power used in all operating segments. The amounts stated relate to the condition at the time of delivery, i.e. damp material in the case of biomass. Fuels calculated based on heat units. From 2018 forward, "Fuels from renewable sources" now comprise only sewage sludge excluding the share of biogenic fuels which is included in "Fuels". // [3] volume used from grid for operating power plants, pumping, administration and grid losses, i.e. electricity purchased by Austrian Power Grid (APG) for the entire transmission grid operated by APG (all grid levels)

Greenhouse gas emissions

Electricity generated from hydropower and wind power produces no direct emissions. In this way, VERBUND customers are contributing to the avoidance of emissions as well as to SDG 13 "Climate action".

Due to the high proportion of renewable energy sources representing 95% of its generation, VERBUND is one of Europe's most environmentally friendly energy companies. The Group's focus on electricity generation from renewable energy is a crucial factor in both reducing and avoiding greenhouse gas emissions. In accordance with the Paris Agreement on climate change from 2015, VERBUND commits to reduce its worldwide emissions of greenhouse gases to a level intended to limit a rise in global temperatures to below 2 degrees (or, better still, to below 1.5 degrees). VERBUND's target of reducing greenhouse gas emissions by 90% measured beginning from the basis year 2011 (5 million tonnes CO_2e) until 2021 includes Scope 1, Scope 2 market-based and Scope 3 energy-related activities and air travel. The Science Based Targets Initiative validated this goal as science-based in October 2016, i.e. it meets global standards.

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

SDG 3
SDG 13

TCFD

KPIs – emissions

	Unit	2016	2017	**2018**
Greenhouse gas emissions (absolute)[1]				
Greenhouse gas emissions (Scope 1, 2 market-based, 3)[2]	kt CO_2e	1,536	2,048	1,692
Scope 1 direct emissions	kt CO_2e	1,007	1,358	1,070
Scope 2 indirect emissions (market-based)	kt CO_2e	273	312	284
Scope 2 indirect emissions (location-based)	kt CO_2e	342	452	411
Scope 3 other indirect emissions	kt CO_2e	255	378	338
Greenhouse gas emissions (specific)[1,3]				
Scope 1 emissions, relative to total electricity generated	g/kWh	31	41	34
Emissions avoided through generation from renewable energy[4]	kt CO_2	25,457	23,666	22,411

[1] preliminary data prior to ETS audit // [2] 2016 and 2017: changed due to recalculation of market-based Scope 2 emissions // [3] total electricity generated incl. purchase rights excluding electricity generated for district heating // [4] calculation using the share of thermal generation based on ENTSO-E mix

All CO_2 and SF_6 emissions are included in the direct greenhouse gas emissions in Scope 1 of 1.1 million tonnes. In 2018, this volume was down by 21% on the previous year. At over 99%, CO_2 emissions from the use of fuels in thermal power plants made up the largest share of Scope 1 emissions. The use of fuels by the VERBUND vehicle fleet and SF_6 emissions at grid facilities accounted for less than 1%. These quantities of direct emissions from fuels and SF_6 emissions will continue to occur even without operating thermal power plants.

Co-incineration of sewage sludge generates additional small amounts of direct emissions, which are therefore considered as biogenic. These biogenic emissions are reported separately in the NFI download. In contrast, no direct emissions arise from the generation of electricity using renewable energy sources.

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

The location-based figure is calculated using the carbon emission factor of the local electricity grid. This figure therefore changes only if there are modifications in the quantities of electricity purchased and/or in the European generation landscape. VERBUND's location-based figure amounted to 0.41 million tonnes CO_2e in 2018 (2017: 0.45 million tonnes CO_2e).

The market-based figure, however, can be reduced through strategic procurement of electricity generated from sources with lower emissions per kWh purchased. For several years now, VERBUND has been exclusively using electricity with guarantees of origin from 100% renewable energy to operate its pumped storage power plants and has thus sharply reduced the Group's market-based emission levels.

The figure is consistently low compared with previous years and was 0.28 million tonnes CO_2e for full-year 2018 (2017: 0.31 million tonnes CO_2e).

Further indirect emissions in Scope 3 of 0.34 million tonnes CO_2e (2017: 0.38 million tonnes CO_2e) relate to upstream and downstream activities in VERBUND's supply chain. VERBUND reports upstream emissions in Scope 3 in the relevant categories of fuel and energy-related activities (including upstream emissions from the production and transportation of fuels) and business travel. The downstream emissions from the combustion of natural gas by customers who are compensated by VERBUND are reported under downstream activities.

VERBUND is pushing climate-friendly technologies and promotes the conservation of natural resources.

Total greenhouse gas emissions (Scope 1–3, with Scope 2 market-based) decreased by 17% in 2018 to around 1.7 million tonnes CO_2e compared with the previous year (2017: 2.0 million tonnes CO_2e). Of this amount, 63% (1.1 million tonnes CO_2e) is attributable to greenhouse gas emissions in Scope 1, 17% (0.28 million tonnes CO_2e) to Scope 2 market-based and 20% to Scope 3 (0.34 million tonnes CO_2e).

VERBUND's strategic goal is to reduce the VERBUND-specific direct greenhouse gas emissions (Scope 1) to below 10 g CO_2e per kWh of total electricity generated by 2020. In 2018, this figure amounted to just 34 g CO_2e/kWh. VERBUND is thus already well below the specific figure for the 2017 Austrian production mix at 148 g CO_2/kWh and even further below the German figure at 488 g CO_2e/kWh. These results demonstrate VERBUND's success in its drive to decarbonise electricity generation.

Emissions avoided through generation from renewable energy

By generating electricity from renewable energy sources rather than from thermal generation, VERBUND avoided 22 million tonnes CO_2 during the reporting period. This is calculated based on average thermal generation emissions based on ENTSO-E.

Airborne emissions

The table below shows airborne emissions from our thermal power plants as absolute amounts. Lower use of the Mellach combined cycle gas turbine power plant reduced emissions of carbon monoxide (CO) by around one-third and nitrogen oxides (NO_x) by around 17%. Sulphur dioxide and dust emissions from operation of the Mellach hard coal power plant remained approximately the same.

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

SDG 13

Airborne emissions

	Unit	2016	2017	**2018**
CO	t	41	84	**58**
SO_2	t	142	129	**140**
NO_X	t	495	605	**515**
Dust	t	6	12	**14**

Conservation and biodiversity

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

GRI 304-1

SDG 15

Some of our power plants and grid facilities are located in nature conservation areas or other protected areas. Information on their geographic location can be found on the geodata portals for Austria and Bavaria.

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

Additional fish passes were completed in Austria in 2018 at the Greifenstein power plant on the Danube and the Edling power plant on the Drau and in Bavaria at the Wasserburg power plant on the Inn. With these, a total of 53 fish passes are now in operation.

Conservation and biodiversity

	Unit	2016	2017	**2018**
Sites in protected areas				
Sites in Natura 2000 areas	ha	2,746	2,793	**2,808**
Sites in Ramsar areas	ha	620	646	**646**
Sites in national parks	ha	68	68	**68**
Sites in conservation areas	ha	1,403	1,378	**1,378**
Fish passes[1]	Number	47	50	**53**

[1] 2016 and 2017 figures changed to account for revised counting method: fish passes that circumvent the transverse structure. Excluded: fish passes that connect tributaries, former branches, etc.

Water input and output

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

SDG 6

In 2018, water withdrawal at VERBUND sites was down by 17% on the previous year. Around 94% of the total water volume was used as cooling water at VERBUND's thermal power plants. Surface water is used for this purpose and returned chemically unchanged.

Details on other water discharge from thermal power plants – such as the treatment methods used and the water quality including compliance with limits – are published in the annual environmental statement.

KPIs – water input and output

	Unit	2016	2017	2018
Total water withdrawal by source	1,000 m^3	153,822	211,374	173,934
from surface water	1,000 m^3	143,423	201,973	164,261
from groundwater and well water	1,000 m^3	10,294	9,299	9,556
from public water supply	1,000 m^3	106	102	118
Total water discharge	1,000 m^3	153,822	211,374	173,934
of which cooling water from thermal power plants into surface water	1,000 m^3	141,645	200,331	162,697
other water discharge	1,000 m^3	12,177	11,043	11,237

Waste and by-products

GRI 306-2
GRI 306-2 EU-ADD

SDG 12

Approximately 63,000 tonnes of waste (2017: 84,000 tonnes) were handed over for treatment or disposal in 2018. At 55%, non-hazardous waste from projects made up the largest share of this amount and was mainly attributable to the disposal of waste associated with construction activities in 2018. Around 18% was non-hazardous waste from ongoing operations. As in the previous year, hazardous waste made up only 2% of the total waste volume.

Screened debris accounted for a share of 26% in the past financial year. This volume of waste depends primarily on water supply and on the occurrence of flooding in the reporting period. It is not caused by power plant operations and therefore cannot be prevented or influenced by VERBUND.

VERBUND's thermal power plants produce by-products such as ash and gypsum which qualify as by-products as defined by the Austrian Waste Management Act (Abfallwirtschaftsgesetz, AWG) and are used as secondary raw materials. At approximately 42,000 tonnes, the volume of by-products in 2018 was around 17% below that of the previous year.

KPIs – waste and by-products

	Unit	2016	2017	2018
Total waste	t	103,083	84,073	63,398
Total hazardous waste	t	2,313	1,783	979
from ongoing operations	t	823	590	599
from projects	t	1,490	1,193	380
Total non-hazardous waste	t	75,296	58,630	46,161
from ongoing operations	t	17,461	9,761	11,142
from projects	t	57,835	48,869	35,019
Screened debris – hydropower plants	t	25,475	23,660	16,258
By-products				
by-products – thermal power plants	t	49,653	50,794	42,065

Other environmental KPIs

GRI 307-1

SDG 16

One environmental fine of €500 was imposed in 2018. The fine was for missing a deadline for removal of an unauthorised manure storage area. No environmental fines were incurred in 2016 and 2017.

Additional details on environmental KPIs are available in the NFI download in the Environment section of the VERBUND website.

Other environmental KPIs

	Unit	2016	2017	2018
Environmental costs (total)	€m	66.5	61.9	74.9
of which for environmental management and provisions	€m	5.3	5.0	8.7
of which for plants and projects	€m	76.5	77.0	89.6
of which environmental revenue	€m	–15.3	–20.1	–23.3

Human resources and social responsibility

Employees acting in a performance-based, productive and entrepreneurial manner help safeguarding the core business in the long term and makes it possible for VERBUND to take advantage of new business opportunities. Generation and skills management programmes serve to support the performance of VERBUND employees, as do the year-round measures implemented as part of the health management and personnel development programmes. In an effort to simplify processes, we are constantly putting new digitalisation measures in place in compliance with data protection aspects.

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

The protection of employees and safety of its employees have been of great importance to VERBUND for decades. As a consistent continuation of this, VERBUND initiated a comprehensive safety culture project in 2018 in order to be able to achieve its ambitious goals in the field of occupational safety.

Sustainable cost management

The noticeable improvements in the cost structure confirm the effectiveness of the measures taken to improve efficiency since 2013. Restructuring efforts and divestments in the thermal segment both in Austria and abroad, the reductions in investments and the significant job cuts under the programmes to increase efficiency were necessary steps to improve the Group's cost structure and thus maintain its competitiveness.

VERBUND operates nearly exclusively in Central Europe, a region which has high standards in terms of labour law and social welfare. Employment of highly and very highly qualified employees entails corresponding personnel costs. Alongside the programmes to increase efficiency that have been mentioned, it is essential for VERBUND that the existing remuneration structures at Group and industry levels be modernised and adapted to market conditions. In addition to adapting internal guidelines on salary determination, the Group took a leading role at industry level in redesigning the collective agreement for electricity companies in Austria. The agreement was signed in December 2018 and is applicable from 1 February 2019. The industry together with employer and employee representatives reached a collective agreement that is fair and, at the same time, suited to modern working life. A comprehensive assessment demonstrated that the new pay levels can in some cases significantly reduce entry level compensation as well as final salaries. The new job descriptions based on industry wording make it possible to categorise employees more precisely and therefore set compensation more in line with the market, particularly in the lower wage brackets.

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

KPIs – employees

	Unit	2016	2017	**2018**
Average number of employees	Number	2,923	2,819	**2,742**
Number of employees under labour law[1]	Number	2,952	2,819	**2,784**
of which in Austria	Number	2,582	2,464	**2,429**
of which in Germany	Number	359	344	**343**
of which in other European countries	Number	11	11	**12**
Full-time employees	Number	2,788	2,657	**2,600**
Part-time employees	Number	164	162	**184**
New employee hires	Number	104	117	**172**
Employee turnover excluding retirements	Number	79	79	**59**
Employee turnover rate excluding retirements	Percent	2.7	2.8	**2.1**
Employee turnover including retirements	Number	227	227	**207**
Employee turnover rate including retirements	Percent	7.7	8.1	**7.4**
Average duration of employment[2]	Years	18.9	18.8	**18.1**
Percentage of university graduates	Percent	22.6	23.2	**25.1**

[1] as at 31 December, excl. members of the Executive Board and employees in partial retirement // [2] Personnel from acquired and newly consolidated companies are included in the duration of employment with the acquired/consolidated company and no longer in the duration of employment with the VERBUND Group.

Personnel planning and management

VERBUND has been using a modern, user-friendly planning and reporting tool for personnel data which was upgraded in 2018 to include additional features and can therefore be considered a state-of-the-art application. This integrated personnel and expense planning system makes the personnel planning process simple and transparent. Consistent and strict personnel planning promotes the optimal use of resources.

GRI 103-2

SDG 5
SDG 8
SDG 16

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

GRI 103-3, GRI 102-8
GRI 401-1
For information on age and gender, see the Diversity management section

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

Types of employment and benefits offered

VERBUND generally offers permanent contracts to all of its employees. Temporary employment contracts are only entered into when there are objective reasons for doing so (e.g. to replace employees on parental leave or in relation to key issues for the future such as digitalisation). VERBUND aims to achieve long-lasting employment relationships and gives opportunity for employees to work under various working-time models, including full-time, part-time and part-time during parental leave.

GRI 102-8

SDG 3

Temporary workers are also hired to cover capacity peaks, for project work and as temporary leave replacements. VERBUND engages external contractors for clearly defined construction, overhaul and maintenance contracts in particular. The employees at these firms are subject to the same safety regulations as VERBUND personnel and therefore receive the same safety briefings. Contractors awarded work related to the construction of plants are responsible for managing their own work. However, they are also required to comply with the safety standards defined in the VERBUND Group and are instructed in accordance with VERBUND's rules. The working hours incurred by contractors are included in calculating the occupational safety KPI.

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

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

Furthermore, VERBUND has declared its commitment to paying its employees in line with the market and according to employees' performance. To meet this commitment, we have had a performance-based remuneration model in place since 2010. This model uses targets based on both individual performance and the Group's profitability and ensures fair pay for employees at all levels.

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

By making specific investments in select employer branding measures, VERBUND took further steps in 2018 to mitigate the risk of losing its standing in the labour market as a highly attractive employer. Despite using even fewer funds, VERBUND continued to demonstrate a clear presence in the labour market – for example at education and job fairs and in print and online media, as well as on social media, focusing on IT experts and apprentices as target groups.

In 2018, the strategic focus in the area of employer branding was on maintaining long-term contact with top-performing students from the Vienna University of Technology (TU) and on measures for the advancement of women. In this connection, existing measures were also continued. These included the annual award of the VERBUND women's scholarship, the Women in Technology ("Frauen in die Technik," FIT) initiative and Girls! Tech up, as well as organising an alumnae event for all recipients of the women's scholarships.

Recruiting

To ensure that VERBUND also continues to be a future employer of choice for internal and external candidates, the ongoing updates were made to the presentation of VERBUND's career opportunities once again in 2018.

Derived from VERBUND's new brand and product campaign, the first print and online job postings were revised and adapted to the new layout. The recruiting platform implemented in 2016 was an ideal complement. VERBUND continually strives to maintain its high degree of professionalism in recruitment quality and to reflect the state of the art even in the digital world.

This was recognised in the reporting period by the Golden Seal from the 2018 Best Recruiters Study conducted by the publishing house Career, in which VERBUND was awarded first place in the “Energy” category, and by a spot in the top 25 overall ranking and second place award from the trendence Employer Branding Awards 2018 in the “Best Employer Branding in Social Media” category.

Personnel development

GRI 404-2
GRI 404-1

VERBUND puts emphasis on the development of its employees. In 2018, each employee took part in 33.6 hours of training on average.

SDG 4

Personnel development focused on training in the areas of safety, technology and the energy market. The majority of employees in the fields of technology and safety are men. This is also reflected in the average training hours, which are slightly higher for men (34.5 hours) than for women (30.8 hours).

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

GRI 404-1
GRI 404-3

SDG 4

KPIs – skills development

	Unit	2016	2017	**2018**
Continuing education per employee (total workforce)[1]	Hours	35.2	36.0	**33.6**
Continuing education per employee (without executive function)	Hours	33.6	34.4	**32.0**
Continuing education per executive	Hours	71.2	79.2	**82.4**
Performance review ratio	Percent	96.2	96.3	**96.3**
Apprentices, total	Number	165	150	**151**
of which new apprentices taken on	Number	43	37	**41**

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

GRI 404-2

E-training – digitalising learning solutions

The digital transformation is affecting learning, too. Knowledge is becoming faster paced and more complex and increasingly on demand. Employees’ changing needs and expectations call for new learning formats.

As part of the Digital Learning Media 2.0 project, digital learning media are increasingly being offered in addition to classroom training to complement and enhance information. The contents are prepared in accordance with media education practices in a way that allows users to easily acquire new knowledge. In some cases, the digital learning media replaces classroom offerings, thus lowering costs and improving resource efficiency.

The Fit4Cyber, Fit4DSGVO and Compliance as well as Anti-corruption e-training courses have been available since the project first began. Additional e-training courses – particularly in the fields of occupational safety and energy market knowledge – are in the planning stages. The range is being expanded continuously.

With the new learning management system, VERBUND is making further progress towards digitalisation. Beginning in 2019, the classroom and online offerings will be managed in an innovative state-of-the-art system. For employees, this integrated system makes organising personnel development measures easy – from registration and participation to testing knowledge. The reporting function gives executives a quick overview of the status of their employees' training and continuing education.

Digital Workforce Management supports the administrative and operational work processes involved in the operation and maintenance of the power plants. Heterogeneous processes are standardised and digitalised so that the workflows can be optimised. Employees are actively involved, among other things through the exchange of information between plants. The power plant groups are directly responsible for implementation, thus reinforcing a new understanding of leadership among plant group managers, operations engineers and master craftsmen.

As part of the Digital Hydro Power Plant project, new trends are being tested at the Rabenstein pilot power plant. The virtual reality model is intended to focus on interactive visualisation of inspections, scheduling maintenance activities and documentation, as well as on use in training and continuing education. There are several advantages associated with the use of virtual reality in a training and continuing education setting. For difficult tasks performed at infrequent intervals, it allows employees to prepare best for the work in actual practice. In addition, the trainers, whether in the plant or in the apprentice workshops, can observe the entire process on a monitor and provide real-time tips and information.

Apprentice training

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

In 2018, VERBUND recruited 41 new apprentices in Austria and Germany. The high quality of our apprenticeship training is most evident in the outstanding achievements seen in the final apprenticeship examinations.

Further development of the leadership culture

Continuous professional development of executives at VERBUND serves to constantly improve the quality of leadership and thus guarantee the Group's success.

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

Regular feedback for executives is one such measure. Every two years, leadership behaviour is evaluated from the perspective of the direct work environment (supervisors, employees and colleagues) and compared with the executive's own appraisal. These structured and comprehensive feedback processes provide valuable information about developing executives' skills. Examination of the discrepancies between self-appraisals and appraisals by others and a comparison with the last feedback conducted aims to highlight personal improvement in addition to identifying strengths and areas requiring attention. Targeted individual development measures adapted to each executive's needs are then defined based upon these analyses. The second cycle of the VERBUND feedback process was completed in autumn 2018.

Maintaining a work-life balance

Maintaining a balance between work and private life is a tradition at VERBUND. VERBUND demonstrates its commitment to being a family-friendly company through its involvement in the Companies for Families network.

Since 2009, the Work and Family Audit has provided a way to better structure the measures. In this way, more opportunities can be created to meet specific needs and encourage a better work-life balance. VERBUND conducted this audit for the fourth time in 2018, earning the seal for the next three years. For the upcoming period, VERBUND aims to improve the flexibility of working hours, further simplify mobile working arrangements and inform its employees of new and existing offerings – particularly those related to looking after family members. Regular employee surveys indicate that satisfaction with the compatibility of work and personal life at VERBUND has been growing steadily since 2008.

What will change the world?
Our drive. Our energy.

Diversity management

SDG 10

In 2018, VERBUND continued to work towards the diversity strategy defined in 2016. In the previous year, VERBUND took another important step with the ZukunftVIELFALT® certification.

In addition to serving as a label for organisations with comprehensive diversity management systems, ZukunftVIELFALT® is a management concept for expanding such an existing system. VERBUND aims to embrace diversity within the Group and to systematically expand on and update its diversity strategy. In this manner, VERBUND promotes diversity within the Group and guarantees equal opportunities.

To support the leadership culture, VERBUND is relying more heavily on executive information and involvement. Initially, this involved initiatives such as enshrining equal opportunities in the corporate philosophy, appointment of an equal opportunities officer and a diversity and inclusion manager, Diversity Charter ("Charta der Vielfalt") premium membership and appointment of an accessibility manager. Particular emphasis has been placed on the dimensions of age, gender and disability, and planned measures were implemented mainly in these areas in 2018.

Focus on age

GRI 405-1

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

KPIs – age dimension, total

	Unit	2016	2017	**2018**
Total average age	Years	43.9	43.8	**43.4**
< 30 years	Percent	20.7	19.0	**19.2**
30–50 years	Percent	38.3	38.6	**40.5**
> 50 years	Percent	40.9	42.5	**40.3**

KPIs – age dimension, executives

	Unit	2016	2017	**2018**
< 30 years	Percent	0	0	**0**
30–50 years	Percent	38.1	39.5	**42.9**
> 50 years	Percent	61.9	60.5	**57.1**

The demographic trend which has already been observable for many years continued during the reporting period. Around 7% of VERBUND employees will retire over the next five years and 28% over the next ten years. The programmes to increase efficiency mean that not all of these positions will be filled again. However, a significant percentage of these departures concern positions that are essential to operations, which are necessary for maintaining ongoing operations and therefore must be staffed.

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

SDG 10

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

VERBUND has implemented structured succession planning at all levels (from apprentices through executives and board member candidates) as a personnel development measure that is critical for the Group's success. Its aim is to safeguard succession potential for the long term.

Focus on gender

Traditionally, the proportion of women in predominantly technical companies such as VERBUND has been low. That is why VERBUND has put measures in place to increase the proportion of women from currently 17.6% to 20% by 2025, just as the proportion of women at the executive level is to rise to 20%. In 2018, the proportion of women among new employee hires was 20.9%.

KPIs – gender dimension

	Unit	2016	2017	**2018**
Men	Number	2,434	2,327	**2,293**
Women	Number	518	492	**491**
Total proportion of women	Percent	17.5	17.5	**17.6**
Proportion of women among new employee hires	Percent	14.4	15.4	**20.9**
Proportion of women among executives	Percent	8.3	11.1	**9.5**
Proportion of women among apprentices	Percent	6.7	5.3	**3.3**

Based on the results of the employee survey, specific activities for the advancement of women were also agreed. To increase the visibility of female employees, greater consideration will be given to women especially when filling vacancies in bodies or committees or project manager positions. Since 2017, objectives for the advancement of women are agreed with the executives at the top management level in order to further promote awareness of equal opportunities for women.

In a survey conducted in 2017, around 11% of women at VERBUND stated their interest in a management position. To reinforce this target group in striving to attain management positions, the seminar entitled "Ensuring female success in leadership roles" held in 2018 signalled the start of the series on women's empowerment. The VERBUND women's network is another measure aimed at supporting women at VERBUND.

VERBUND is a pace-setter for the industry and is shaping the future of energy.

SDG 5
SDG 8

VERBUND also takes care to ensure equal pay. This is based on strict compliance with the classifications of the collective agreement and on a performance-related remuneration scheme. Nevertheless, socio-political and cultural aspects such as more part-time work among women, a low number of women in technical professions, and the difficulty women experience in advancing to more highly paid (management) positions are still also reflected within VERBUND.

Inspiring women to enter technical professions is important to VERBUND. VERBUND therefore participates in several initiatives such as Take Your Daughter to Work Day in Vienna, Women in Technology ("Frauen in die Technik," or FIT) and the amaZone Award.

FIT aims to generate interest among young girls to pursue technical professions, motivates female high school graduates to study technical subjects and presents successful women in technical professions as role models. In this way, we aim to alleviate doubts about pursuing an education in a technical or scientific field.

By awarding the VERBUND women's scholarship, VERBUND has also supported talented female students during their technical training since 2009. This scholarship is a means of enabling the winners to supplement their university education with additional personal and professional training. Another aim for the Group is to generate enthusiasm for the Company among technically qualified women and, ideally, to recruit them. VERBUND celebrated the tenth anniversary of the VERBUND women's scholarship in 2018 and a special scholarship was awarded on this occasion to a disabled student.

Focus on disabled persons

GRI 405-1

VERBUND assumes its social responsibility by ensuring equal opportunities as a Group. To send a visible signal, VERBUND's stated goal is to continue to fulfil the quotas stipulated in the Austrian Disabled Persons Employment Act (Behinderteneinstellungssgesetz, BEinstG) and to recruit and employ people with disabilities even beyond that. Together with the accessibility management programme, the diversity management programme continually works towards improving the employment of people with disabilities.

In this way, VERBUND exceeds the statutory quotas stipulated in Austria and Germany for the employment of disabled people. For VERBUND, the mandatory quota for Austria is 104. As at 31 December 2018, VERBUND employed 138 people who qualify under the Disabled Persons Employment Act (BEinstG). The corresponding mandatory quota for Germany is 18; here VERBUND employed 23 disabled people.

The main aspects of including disabled people at VERBUND are removing barriers and creating awareness among the workforce by providing ongoing information. During the Human Resources Day 2018, employees of the Human Resources department had an opportunity to address the topic of employing disabled people. It is these Human Resources employees in particular who play a crucial role in advising the workforce and the executives on this topic.

The accessibility implementation concept defines steps and measures for the upcoming years to further dismantle structural, organisational and communication barriers within VERBUND.

Training sessions for executives were also held in some subsidiaries. On Purple Light Up Day, a day aimed at highlighting the economic power of disabled people, VERBUND shared information about its disabled employees with the workforce.

In summer 2018, three more people with disabilities completed their seasonal internships at VERBUND. As a member of the DisAbility business forum, VERBUND also exchanges experiences with other companies and continually increases its knowledge on the topic of employing people with disabilities.

Health and safety

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

GRI 403-2

SDG 3

KPIs – occupational safety

	Unit	2016	2017	**2018**
Lost time injury frequency (LTIF)[1]	Number	8.9	10.1	**5.8**
Lost time injury frequency (LTIF incl. external contractors)[1]	Number	–	–	**5.4**
Injuries	Number	44	53	**32**
Injuries (incl. external contractors)	Number	–	–	**43**
Fatal injuries	Number	0	0	**1**
Fatal injuries (incl. external contractors)	Number	1	1	**0**
Injury severity[2]		17.2	21.5	**21.0**
Injury severity (incl. external contractors)[2]		–	–	**22.2**
Total injury-related lost days	Days	758	1,139	**671**
Total injury-related lost days (incl. external contractors)	Days	–	–	**955**

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

Accidents in 2018

The number of employees plus temporary staff and all employees of proportionately consolidated equity interests serves as the basis for calculating the occupational safety KPIs. The number of employees was 3,154 at the end of 2018. This figure includes 165 temporary staff and the entire workforce of Ennskraftwerke Aktiengesellschaft, VUM Verfahren Umwelt Management GmbH, VERBUND Tourismus GmbH, Lestin & Co Tauch-, Bergungs- und Sprengunternehmen Gesellschaft m.b.H, VERBUND Wind Power Austria GmbH and Energji Ashta Shpk.

The number of accidents underwent a positive trend in 2018. Fewer accidents occurred than in 2017, although this trend was overshadowed by one fatal accident.

When interpreting accident statistics, absolute accident figures must be considered in relation to the number of employees (injury frequency) and days of sick leave per accident (injury severity). The key performance indicator called lost time injury frequency (LTIF) is used as a benchmark for comparison with national and international companies. To allow the use of external contractors to be evaluated as well, since 2018 VERBUND also tracks their hours worked at all work sites and reports those in the "LTIF including external contractors KPI".

GRI 403-2 ADD

In comparison with other national and international companies, the LTIF including external contractors of 5.4 indicates that we are on the right track. Improvement measures are identified and implemented based on an analysis of each individual accident within the Group and by external contractors. As in previous years, neither third-party fault nor organisational shortcomings were identified as the cause of any workplace injury in 2018. This shows that safety standards within the Group are very high and that safeguards for employees are being effectively implemented.

Injury type

	Unit	2016	2017	2018
Impairment of sensory functions	Number	0	1	0
Unconsciousness, circulatory failure	Number	1	0	0
Electrification	Number	0	1	1
Foreign body injury	Number	3	1	1
Skin injury, wound	Number	11	10	12
Bone fracture	Number	2	5	4
Multiple types of injury	Number	0	2	0
Contusion, bruising	Number	14	14	10
Burn, scald, chemical burn, freezing	Number	1	0	0
Poisoning	Number	0	1	1
Loss of body part	Number	0	2	1
Sprain, pull, dislocation, ligament tear, meniscus injury, torn muscle	Number	12	16	13

Accident prevention

Preventive measures are based on the analyses of workplace injury statistics at VERBUND. In 2018, the annual continuing education measures focused on training sessions on the following topics: “Working in the tank,” “Securing loads,” “Moving loads,” “Practical exercises,” “We live safety” and “The Electromagnetic Fields Directive (Verordnung über elektromagnetische Felder, VEMF)”. Particular attention was given to practical implementation in day-to-day work. GRI 103-2

Every year, as was the case in financial year 2018, legally mandated safety briefings are successfully completed close to 100% of the workforce, either in person or via an e-learning programme that includes a final test.

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

Safety culture

The “We live safety” project aims to raise and refine awareness of safety at VERBUND. The objective of the project is as follows: all employees should come to work healthy, work free of accidents and return home healthy. This is intended to be achieved mainly by executives acting as role models in addition to “employees looking out for one another” and calling attention to any dangerous behaviour.

An employee survey was conducted to establish the current situation. Executives helped to develop measures for specific activities and departments based on the feedback from this survey. The first training sessions for executives began in November 2018 and are to run until the end of 2019.

VERBUND promotes personal responsibility and awareness of working safely.

Promoting health among employees

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

VERBUND's "Fit and Healthy" initiative is designed to promote a healthy lifestyle. The initiative motivates employees to do something for their health on a voluntary basis. In 2018, VERBUND focused on healthy working in office workspaces with the seminar entitled "Dynamic health and back fitness at PC workstations" and a visual training session. Lectures on time and stress management give participants the tools to better handle these issues.

Other important points of focus on the health management front included nutrition and exercise, handling shift work, and tips for safe lifting and carrying. In this context, employees are made aware of the direct relationship between health and performance in a working environment that is constantly changing.

Social responsibility

SDG 1
SDG 4
SDG 17

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

Caritas and Diakonie

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

SDG 11

Energy poverty and its negative consequences occur most frequently when incomes and standards of living are very low. The VERBUND Electricity Relief Fund in collaboration with Caritas provides assistance quickly, in an unbureaucratic manner and, above all, long-lasting by offering immediate financial assistance to pay outstanding electricity bills, professional on-site energy consulting and a free exchange service for old, inefficient electrical appliances.

Since the project began in 2009, the VERBUND Electricity Relief Fund has offered assistance to a total of 4,300 households with a total of 10,000 people living in these households. In the ninth period (1 January 2018 to 31 December 2018), 500 households (seeking assistance in the social advice centres run by Caritas) were referred to the VERBUND Electricity Relief Fund in collaboration with Caritas.

KPIs – VERBUND Electricity Relief Fund run by Caritas

	Unit	2016	2017	2018
Interim financing	Number	362	350	306
	€	52,200	50,600	44,200
Energy consulting	Number	292	305	405
Appliances exchanged	Number	207	203	276

Also in 2018, 744 disabled people received direct support for communication and assistive technologies with funds from the VERBUND Empowerment Fund which has been in existence since 2009 and is run by Diakonie. A total of 102 disabled people received direct financial assistance for the purchase of communication aids. The emergency aid fund spent around €60,000 on this, the same amount as in the previous year.

KPIs – VERBUND Empowerment Fund run by Diakonie

	Unit	2016	2017	2018
Individual assistance	Number	105	100	102
Consulting	Number	725	700	744

VERBUND climate school in the Hohe Tauern National Park

The training program offered since 2010 by VERBUND and Hohe Tauern National Park was named a decade project under the UN Decade of Education for Sustainable Development by UNESCO. Since the partnership began, over 24,000 school children have benefitted from the outreach work involving project lessons designed by specially trained park rangers and held in the classrooms. The stated goal is to teach skills for living consciously and being able to assess the impact of an individual's actions on the climate. The range of project lessons offered by rangers is available mainly in those states where the national parks are located: in Carinthia, Salzburg and Tyrol. The training program has also been available online at www.klima.schule since 2018. Teachers are the primary target group of the initial online range of lessons for teaching climate protection skills. Even in the lesson preparation stage, the greatest emphasis was placed on ensuring that the material could be integrated into lessons as easily as possible.

VERBUND climate school in the DMA and online: https://klima.schule/

The VERBUND electricity school kindles enthusiasm for technology

To support teachers in making their physics lessons exciting and interactive, VERBUND provides a range of physics teaching materials offered in combination with power plant tours. VERBUND also provides financial support for students taking part in tours as part of a school activity. For storage power plants, around 2,500 pupils took advantage of the offer for a school tour, as was the case in the previous year.

VERBUND electricity school on the VERBUND website and in the DMA

Human rights

Principles

For details on equality, see the section entitled Human resources and social responsibility

GRI 103-2

SDG 1
SDG 4
SDG 10

VERBUND is aware of its responsibility to protect human rights in all Group activities and beyond. ONR 192500 (Social Responsibility of Organisations) is the basis for the due diligence processes at VERBUND concerning respect for human rights. In 2018, the Group was certified in accordance with this standard for the first time.

The CSR standard rests on the careful handling of human rights issues at all levels. Relationships with partners involved in human rights violations are to be avoided, as is discrimination, particularly that of vulnerable groups. All types of civil, political, economic, social and cultural rights are to be respected. Fundamental labour rights and principles such as equal opportunity, freedom of association and collective bargaining are to be observed.

In this sense, VERBUND commits to uphold these ONR recommendations along with the Ten Principles of the UN Global Compact on human rights. The materiality analysis already identifies equal treatment and freedom of association as material topics. The topic of human rights gains even greater significance at VERBUND with the new international hydro consulting line of business.

Human rights outside of Europe

Hydro consulting is a new service segment VERBUND has engaged in since 2017 which also contributes to meeting the United Nations Sustainable Development Goals and the climate change targets under the Paris Agreement.

The international climate agreement stipulates voluntary reduction measures called Nationally Determined Contributions (NDCs). As a leading hydropower company, VERBUND makes a material contribution to reducing CO_2 emissions by using its expertise in the field of renewable energy in developing countries and emerging markets. Hydro consulting involves consultancy projects for local hydropower plant operators aimed at knowledge transfer and increasing capacity so as to reinforce expertise at the local level for efficient and safe plant operation.

VERBUND is aware that operating in countries outside of Europe creates new challenges with regard to human rights. Therefore, VERBUND takes a strong interest in this issue and defines steps for acting in a manner consistent with human rights. For VERBUND, one main aspect of this is the mutual commitment to fair business practices as a prerequisite for accepting orders. This is governed by the business partner integrity checks performed for both ongoing projects and comparable future activities. Furthermore, the International Hydro Power Association’s recommendations under the Hydropower Sustainability Assessment Protocol serve as a guideline for future project developments.

Equality and non-discrimination

The VERBUND Code of Conduct establishes the equal treatment of all people, regardless of their gender, age, disability, religious beliefs, culture, skin colour, education, social origin, sexual orientation or nationality. VERBUND firmly rejects any form of discrimination, bullying and sexual harassment. Executive development places high priority on teaching of these values.

VERBUND has had an equal opportunities officer since 2011, and diversity and inclusion management was introduced in financial year 2014. This function bundles all related activities within the Group. The responsible persons in this department also carry out and document the development and implementation of equality targets and the realisation of the corresponding measures.

The diversity and inclusion strategy adopted in 2016 enables VERBUND to promote diversity in an even more structured manner. The ZukunftVIELFALT® certification confirms that VERBUND has implemented a sustainable diversity management system.

For more information, please refer to the Compliance section

VERBUND is working on a sustainable energy system for the generations to come.

Freedom of association and collective bargaining

Industrial relations in Austria are based on a tradition of cooperation between employers and employees ("Sozialpartnerschaft"). This involves joint cooperation between employer and employee representatives to prepare and execute economic and socio-political measures. In so doing, taking an overall economic view is regarded as being of the utmost importance.

GRI 102-41

Trade unions enter into collective agreements with the respective employer associations. Due to the "outsider effect" anchored in labour law, all employees are subject to the collective agreements regardless of whether they themselves belong to the union or not. Collective agreements have a particular impact on labour-management relations within their scope of application. Company agreements and employment contracts must adhere to collective agreements and may not contain any provisions that are less advantageous than those contained in the respective collective agreement. Some of the areas governed by collective agreements are minimum salaries, working hours and supplemental payments (holiday and Christmas bonuses). Under the provisions of Austrian labour law, companies with five or more employees can elect a works council to represent the interests of employees. The same applies to Germany, where employees are subject to the provisions of German collective agreements. The social benefits provided for in these agreements are similar to Austria, with the exception of VERBUND's performance-based pay system.

Austrian labour law sets out a number of rights to which the works council is entitled in relation to information, participation and consent, as well as minimum notification periods for operational changes. VERBUND complies with these in full as a matter of course.

One of the ways in which cooperation takes place between management and the works council is through economic symposiums that are held each quarter and at which the Executive Board informs the staff representatives about the economic situation, all personnel management measures and other current developments in the Group. The economic symposiums give employees the opportunity to voice their suggestions, concerns and recommendations to the Executive Board via the works council.

Under the Austrian Labour Constitution Act, employees must be represented on the supervisory boards of stock corporations via the works council. At VERBUND as well, one-third of the Supervisory Board members are employee representatives who sit facing the Executive Board at the Supervisory Board meetings and are able to include employee concerns in the Supervisory Board's decision-making process.

Human rights in the supply chain

GRI 407-1
GRI 408-1
GRI 409-1

A hot spot analysis conducted in 2017 evaluated the sustainability risks of the VERBUND sourcing groups. This included an assessment of the risk of human rights violations in the supply chain. The analysis found slightly elevated risks in the "battery units, uninterruptible power supply, inverters/rectifiers" sourcing group. Additional measures were defined to mitigate risk in these areas.

Supply chain

GRI 102-9
GRI 102-10
For details on the supply chain and supplier assessment, please refer to the DMA

The supply chain at VERBUND is characterised by management and maintenance measures for existing properties and technical facilities. Depending on the investment or maintenance programme planned, the main services involve construction and construction-related work as well as electromechanical technology. Services are also outsourced in the following areas: information and communications technology, customer service, communications and marketing and other maintenance-related services.

Procurement of primary energy (coal and gas) for thermal generation is another aspect in the supply chain. However, due to the strategic orientation of VERBUND towards carbon-free generation, this product category is becoming less significant.

GRI 308-1
GRI 414-1

SDG 12

Most of VERBUND's procurement volume is transacted using formal tenders via an electronic supplier and tendering portal. When registering on the portal, each potential supplier also completes a questionnaire on the topics of sustainability, compliance, environmental protection and occupational safety. There are currently around 4,500 potential suppliers registered on the supplier portal. Around 200 were added in 2018, of which 51% have already responded to the questionnaire. The questionnaire must be completed in full for participation in VERBUND's tendering process. In addition, the information and documents provided by the A suppliers were reviewed in 2018. If information is missing or insufficient, VERBUND asks the supplier to resubmit or expand on the information.

Procurement statistics

The number of suppliers commissioned by VERBUND amounted to around 4,500 in 2018. VERBUND placed 86% of its order revenue in its core markets of Austria and Germany. The remaining 14% was sourced from suppliers in other countries (mainly within Europe). GRI 204-1

As a reliable and experienced companion, *VERBUND* accompanies people on their path to a clean energy future.

In 2018, total orders in the amount of approximately €480m were placed with suppliers in 33 countries: Austria, Germany, the Netherlands, Slovakia, the Czech Republic, Poland, Switzerland, France, the United States, Slovenia, the United Kingdom, Albania, Italy, Croatia, Ireland, Denmark, Spain, Belgium, Sweden, Liechtenstein, Luxembourg, Romania, Bulgaria, China, Serbia, Norway, Greece, Iceland, Japan, Moldavia, Brazil, Canada and Hungary.

Procurement statistics

	Unit	2016	2017	**2018**
Contracted suppliers, approx.	Number	4,000	4,500	4,500
Austria	%	83	80	50
Germany	%	12	10	36
Rest of the world	%	5	10	14
Order volume	€m	252	305	480

Risks in the supply chain

A hot spot analysis was conducted at VERBUND in 2017 to evaluate the risks in the following areas of the supply chain with the involvement of external and internal experts: work and safety conditions, corruption, human rights, legal compliance and environment. In 2018, the findings of this analysis led to an even greater awareness of the issue of risk in procurement processes. Due to the elevated risk classification of the “battery units, uninterruptible power supply, inverters/rectifiers” sourcing group, supplier meetings shifted their focus to the battery suppliers. These meetings served to discuss problems in the areas of sustainability and risk and define further measures to mitigate risk. GRI 103-2

Vienna, 14 February 2019

The Executive Board

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

Mag. Dr. Michael Strugl
Vice-Chairman of the Executive Board

Dr. Peter F. Kollmann
Member of the Executive Board

Mag. Dr. Achim Kaspar
Member of the Executive Board

Independent Assurance

Courtesy Translation of the Independent Assurance on Non-Financial Reporting *)

Introduction

We performed procedures to obtain limited assurance, if the non-financial report was prepared in accordance with the reporting principles. The reporting principles include the Sustainability Reporting Standards (GRI Standards: Core option) issued by the Global Sustainability Standards Board (GSSB) and if the reporting requirements of § 267a UGB are met.

GRI 102-56

Responsibility of the management

The preparation of the report in accordance with the reporting principles as well as the selection of the scope of the engagement is the responsibility of the management of VERBUND AG. The reporting principles include the Sustainability Reporting Standards (GRI Standards: Core option) issued by the Global Sustainability Standards Board (GSSB) and the reporting requirements mentioned in § 267a UGB.

This responsibility includes the selection and application of appropriate methods for preparing the report, making assumptions and estimates of individual non-financial disclosures that are plausible under the given circumstances. The responsibility of the management includes further designing, implementing and maintaining internal controls, which have been determined as necessary by management for the preparation of the report free from material – intended or unintended – misrepresentations.

Responsibility of the auditor

Our responsibility is to express a limited assurance opinion on the non-financial report based on our review, whether all the reporting requirements mentioned in the Sustainability Reporting Standards (GRI Standards: Core option) issued by the Global Sustainability Standards Board (GSSB) and § 267a UGB are met.

We conducted our engagement in accordance with the International Standard on Assurance Engagements ISAE 3000 (Revised), "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the International Auditing and Assurance Standards Board (IAASB) in order to obtain limited assurance on the subject matters.

ISAE 3000 (Revised) requires us to plan and perform the engagement in a way that enables us to obtain limited assurance that nothing has come to our attention that causes us to believe that the non-financial report has not, in any material aspect been prepared in accordance with the reporting criteria of GRI Standards: Core option and § 267a UGB.

In a limited assurance engagement, the evidence-gathering procedures are more limited than in a reasonable assurance engagement and therefore, less assurance can be obtained. The choice of audit procedures lies in the due discretion of the auditor.

As part of our audit, we have performed, inter alia, the following audit procedures and other activities as far as they are relevant to the limited assurance engagement:

- Interview of the employees named by VERBUND AG regarding the sustainability strategy, the sustainability principles and the sustainability management
- Interviewing employees to assess the methods of data collection, data processing and internal controls
- Site-Visit at the hydro power plant in Freudenau
- Matching the non-financial disclosures shown in the report, with the calculation documents provided
- Furthermore, we conducted procedures with regard to whether the reporting requirements of the § 267a UGB are met with the report. The contents thereof were not audited

Summarized Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the non-financial report has not, in any material aspects, been prepared in accordance with the reporting criteria of the Sustainability Reporting Standards (GRI Standards: Core option) issued by the Global Sustainability Board (GSSB).

Furthermore, nothing has come to our attention that causes us to believe that the reporting requirements of the § 267a UGB are not met with the consolidated non-financial report.

Engagement approach

The basis for this engagement are the "General Conditions of Contract for the Public Accounting Professions", as issued by the Chamber of Tax Advisors and Auditors in Austria on March 08, 2000 as amended on April 18, 2018 ("AAB 2018"). In accordance with chapter 8 AAB 2018, our liability shall be limited to intent and gross negligence. In cases of gross negligence, the maximum liability is limited to a maximum of five times the fee. This amount constitutes a total maximum liability cap, which may only be utilized once up to this maximum amount, even if there is more than one claimant or more than one claim has been asserted.

Vienna, 14.02.2018

Deloitte Audit Wirtschaftsprüfungs GmbH

*) The German text of the signed statement, which refers to the German version of the report, is the only binding one. The English translation is not binding and shall not be used for the interpretation of the English version of the report.

Consolidated financial statements

Income Statement

Of VERBUND

In accordance with IFRSs	Notes	2017	2018
			€k
Revenue		2,913,247	**2,847,923**
Electricity revenue	1	2,370,188	2,189,805
Grid revenue	1	416,409	537,168
Other revenue	1	126,650	120,951
Other operating income	2	78,350	65,492
Expenses for electricity, grid, gas and certificates purchases	3	–1,428,220	–1,360,723
Fuel expenses and other usage-/revenue-dependent expenses	4	–114,200	–125,781
Personnel expenses	5	–313,624	–322,834
Other operating expenses	6	–213,209	–239,831
EBITDA		922,345	**864,245**
Depreciation of property, plant and equipment and amortisation of intangible assets	7	–341,325	–327,337
Impairment losses[1]	8	–259,125	–8,977
Reversal of impairment loss[1]	8	78,212	127,183
Operating result		400,107	**655,114**
Result from interests accounted for using the equity method	9	27,900	28,437
Other result from equity interests	10	11,154	8,841
Interest income	11	36,035	32,090
Interest expenses	12	–129,634	–127,442
Other financial result	13	38,188	7,800
Impairment losses	14	–5,212	–2,175
Reversals of impairment losses		0	330
Financial result		–21,570	**–52,119**
Profit before tax		378,537	**602,995**
Taxes on income	15	–76,971	–126,750
Profit for the period		301,566	**476,245**
Attributable to shareholders of VERBUND AG (Group result)		301,440	433,177
Attributable to non-controlling interests		127	43,068
Earnings per share in €[2]	16	0.87	**1.25**

[1] The impairment losses and reversals of impairment losses have been reduced by the amount of any change in related deferred contributions to building costs and government grants. // [2] Diluted earnings per share correspond to basic earnings per share.

Statement of comprehensive income

of VERBUND

€k

In accordance with IFRSs	Notes	2017	2018
Profit for the period		301,566	**476,245**
Remeasurements of the net defined benefit liability	34	6,644	–25,477
Measurements of financial instruments	17, 33	–	–6,106
Other comprehensive income from interests accounted for using the equity method	21	4,986	–3,793
Total of items that will not be reclassified subsequently to the income statement		11,629	**–35,375**
Differences from currency translation	17	–3,241	–234
Measurements of available-for-sale financial instruments	17	30,971	–
Measurements of cash flow hedges	17, 33	–63,119	–27,881
Other comprehensive income from interests accounted for using the equity method	17	213	160
Total of items that will be reclassified subsequently to the income statement		–35,175	**–27,954**
Other comprehensive income before tax		–23,546	**–63,330**
Taxes on income relating to items that will not be reclassified subsequently to the income statement	18	–1,627	7,865
Taxes on income relating to items that will be reclassified subsequently to the income statement	18	7,966	6,970
Other comprehensive income after tax		–17,207	**–48,494**
Total comprehensive income for the period		284,359	**427,751**
Attributable to shareholders of VERBUND AG (Group result)		283,645	386,589
Attributable to non-controlling interests		715	41,161

Balance sheet

of VERBUND

€k

In accordance with IFRSs	Notes	31/12/2017	31/12/2018
Non-current assets		10,661,550	**10,702,655**
Intangible assets	19	675,587	644,250
Property, plant and equipment	20	8,871,326	8,957,118
Interests accounted for using the equity method	21	312,975	323,290
Other equity interests	22, 33	137,538	130,315
Investments and other receivables	23, 25, 33	664,124	647,682
Current assets		622,053	**1,002,143**
Inventories	24	10,487	35,964
Trade receivables, other receivables and securities	25, 33	582,973	926,831
Cash and cash equivalents	26	28,593	39,347
Total assets		11,283,602	**11,704,798**

€k

In accordance with IFRSs	Notes	31/12/2017	31/12/2018
Equity		5,690,827	**5,941,023**
Attributable to shareholders of VERBUND AG	27–30	5,064,051	5,305,296
Attributable to non-controlling interests	31	626,776	635,726
Non-current liabilities		4,584,668	**3,967,971**
Financial liabilities	32, 33	2,141,598	1,472,817
Provisions	34	821,802	816,805
Deferred tax liabilities	35	558,437	634,546
Contributions to building costs and grants	36	747,487	746,871
Other liabilities	33, 37	315,344	296,932
Current liabilities		1,008,108	**1,795,804**
Financial liabilities	32, 33	213,955	753,540
Provisions	34	53,602	42,903
Current tax liabilities	38	95,757	46,473
Trade payables and other liabilities	33, 39	644,794	952,888
Total liabilities		11,283,602	**11,704,798**

Statement of changes in equity

of VERBUND

In accordance with IFRSs	Called and paid-in share capital	Capital reserves	Retained earnings	Remeasure-ments of net defined benefit liability
Notes	27	28	29	34
As at 1/1/2017	347,416	954,327	3,987,214	–273,279
Profit for the period	–	–	301,440	–
Other comprehensive income	–	–	–	9,599
Total comprehensive income for the period	–	–	301,440	9,599
Dividend	–	–	–100,751	–
Other changes in equity	–	–	–440	0
As at 31/12/2017	347,416	954,327	4,187,462	–263,680
As at 1/1/2018	347,416	954,327	4,187,462	–263,680
Initial application of IFRS 9	–	–	49,922	–
As at 1/1/2018 adjusted	347,416	954,327	4,237,384	–263,680
Profit for the period	–	–	433,177	–
Other comprehensive income	–	–	–	–21,080
Total comprehensive income for the period	–	–	433,177	–21,080
Dividend	–	–	–145,915	–
Other changes in equity	–	–	765	0
As at 31/12/2018	347,416	954,327	4,525,411	–284,760

€k

Difference from currency translation	Measurement of financial instruments	Measurement of cash flow hedges	Equity attributable to the shareholders of VERBUND AG	Equity attributable to non-controlling interests	Total equity
30	17-18, 21-23, 33	17-18, 33		31	
–3,908	30,270	–160,443	4,881,597	647,904	5,529,501
–	–	–	301,440	127	301,566
–3,246	22,983	–47,130	–17,795	588	–17,207
–3,246	22,983	–47,130	283,645	715	284,359
–	–	–	–100,751	–21,843	–122,593
0	0	0	–440	0	–440
–7,154	53,253	–207,573	5,064,051	626,776	5,690,827
–7,154	53,253	–207,573	5,064,051	626,776	5,690,827
–	–50,116	–	–194	–42	–236
–7,154	3,137	–207,573	5,063,857	626,734	5,690,591
–	–	–	433,177	43,068	476,245
–293	–4,418	–20,797	–46,587	–1,907	–48,494
–293	–4,418	–20,797	386,589	41,161	427,751
–	–	–	–145,915	–32,169	–178,084
0	0	0	765	0	765
–7,447	–1,280	–228,370	5,305,296	635,726	5,941,023

Cash flow statement

of VERBUND

In accordance with IFRSs	Notes	2017	2018
			€k
Profit for the period		301,566	476,245
Depreciation of property, plant and equipment and amortisation of intangible assets (net of reversals of impairment losses)		521,622	208,440
Impairment losses on investments (net of reversals of impairment losses)		5,189	10,627
Result from interests accounted for using the equity method (net of dividends received)		–13,685	–16,689
Result from the disposal of non-current assets		–29,014	–626
Change in non-current provisions and deferred tax liabilities		–31,517	62,844
Change in contributions to building costs and grants		–2,292	–615
Other non-cash expenses and income		–50,318	–26,741
Subtotal		701,551	**713,484**
Change in inventories		–1,674	–25,477
Change in trade receivables and other receivables		–2,317	–225,838
Change in trade payables and other liabilities		–76,333	261,929
Change in current provisions and current tax liabilities		19,355	–59,983
Cash flow from operating activities[1]		640,582	**664,115**

[1] Cash flow from operating activities includes €81.6m in taxes paid on income (previous year: €34.2), €63.4m in interest paid (previous year: €68.9m), €0.2m in interest received (previous year: €5.3m) and €24m in dividends received (previous year: €20.2m).

€k

In accordance with IFRSs	Notes	2017	2018
Cash outflow from capital expenditure for intangible assets and property, plant and equipment		–243,452	–295,557
Cash inflow from the disposal of intangible assets and property, plant and equipment		4,670	46,741
Cash outflow from capital expenditure for investments		–136	–218
Cash inflow from the disposal of investments		5,369	5,273
Cash outflow from capital expenditure for interests accounted for using the equity method and other equity interests		–2,946	0
Cash inflow from the disposal of subsidiaries and interests accounted for using the equity method and other equity interests		17,200	0
Cash outflow from capital expenditure for current investments		0	–200,004
Cash inflow from the disposal of current investments		0	110,000
Cash flow from investing activities		–219,295	**–333,765**
Cash inflow from money market transactions		336	0
Cash outflow from money market transactions		0	10,695
Cash inflow from the assumption of financial liabilities (excluding money market transactions)		0	100,000
Cash outflow from the repayment of financial liabilities (excluding money market transactions)		–298,397	–252,208
Dividends paid	40	–122,593	–178,084
Cash flow from financing activities		–420,654	**–319,596**
Change in cash and cash equivalents		633	**10,754**
Cash and cash equivalents as at 1/1		27,960	**28,593**
Change in cash and cash equivalents		633	10,754
Cash and cash equivalents as at 31/12		28,593	**39,347**

Notes

of VERBUND

VERBUND AG with its registered office at Am Hof 6a, 1010 Vienna, Austria, is the parent company of the VERBUND energy group, which operates in Austria and abroad. VERBUND AG is entered in the commercial register at the Commercial Court of Vienna under number FN 76023z.

VERBUND generates, trades and sells electricity to market participants from energy exchanges, traders, electric utilities and industrial companies as well as household and commercial customers. In addition, VERBUND trades and sells gas to market participants from energy exchanges, traders and household customers and provides energy-related services. Furthermore, VERBUND operates the Austrian transmission grid through Austrian Power Grid AG and holds equity interests in foreign and domestic electric utilities.

Financial reporting principles

Basic principles

VERBUND prepares its consolidated financial statements in accordance with Section 245a(1) of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB) in compliance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union. The additional requirements of Section 245a(1) UGB were also satisfied. The separate financial statements of the consolidated subsidiaries included in VERBUND's consolidated financial statements are based on uniform accounting policies. The reporting date is 31 December 2018 for all consolidated subsidiaries.

VERBUND's consolidated financial statements comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the notes. With the exception of the notes, in which amounts are generally indicated in millions of euros (€m), VERBUND's consolidated financial statements are prepared in thousands of euros (€k).

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

Consolidation methods

All material companies controlled by VERBUND AG (subsidiaries) are included in the consolidated financial statements of VERBUND by means of consolidation. The requirements for control are met if VERBUND AG is exposed to variable returns from its investment in the investee and/or is entitled to them and is capable of influencing these returns by means of its power of disposal over the investee. Inclusion in the consolidated financial statements begins when control is achieved and ends when it ceases.

Initial consolidation of a subsidiary is effected upon acquisition by employing the acquisition method. The identifiable intangible and tangible assets, liabilities and contingent liabilities belonging to the acquiree as well as any non-controlling interest in the acquiree are recognised and measured. Positive consolidation differences between the consideration transferred plus any non-controlling interest as well as – in the case of a business acquisition in stages – any equity interest in the acquiree previously held by VERBUND and the fair value of the net assets are recognised as goodwill. Negative consolidation differences are recognised immediately in profit or loss.

Investees controlled together with a partner and in which VERBUND has rights to the entity's net assets (joint ventures) as well as investees in which VERBUND AG directly or indirectly exercises a significant influence (associates) are accounted for using the equity method. The equity method is a method of consolidation and/or measurement in which the equity interest is initially recognised at cost. The equity interest is subsequently adjusted for changes in VERBUND's share of the investee's net assets; the result is a “one-line consolidation”. As a rule, significant influence is presumed if the share of voting rights directly or indirectly attributable to VERBUND AG is at least 20%, but less than 50%. Investees accounted for using the equity method are recognised with their proportional IFRS profit or loss taken from (consolidated) interim or annual financial statements for which the reporting date is not more than three months prior to VERBUND’s reporting date. Significant events or transactions at investees accounted for using the equity method occurring between this reporting date and VERBUND’s reporting date result in corresponding adjustments.

Intra-Group transactions, receivables, liabilities and intercompany profits are eliminated taking account of deferred taxes. The carrying amounts of the transferred company are carried forward in intra-Group acquisitions and mergers of joint ventures – so-called transactions under common control.

In the case of investees that are controlled together with another joint operator, if VERBUND has rights to the assets attributable to the investee as well as obligations for its liabilities (joint operation), VERBUND recognises its share of the assets and liabilities and/or revenue and expenses.

Basis of consolidation

A list of all of VERBUND’s subsidiaries, joint ventures and associates is presented in the section entitled Group structure. The subsidiaries, joint ventures and associates included in VERBUND’s consolidated financial statements did not change in the 2018 reporting period:

Basis of consolidation

	Consolidation	Accounted for using the equity method	Accounted for as a joint operation
As at 31/12/2017	32	8	1
As at 31/12/2018	**32**	**8**	**1**
of which domestic companies	11	8	1
of which foreign companies	21	0	0

Currency translation

In the separate financial statements of Group companies, all transactions denominated in foreign currency are measured at the spot exchange rate on the transaction date. Monetary balance sheet items are subsequently measured at the respective spot exchange rate at the reporting date. Exchange gains and losses are recognised through profit or loss under other financial result.

The functional currency of VERBUND AG and the presentation currency of the Group is the euro. With the exception of the Romanian subsidiaries (VERBUND Wind Power Romania SRL and VERBUND Trading Romania SRL), the functional currency of the consolidated subsidiaries is also the euro. For the consolidated financial statements of VERBUND, the annual financial statements of these foreign subsidiaries are translated into euros using the functional currency method.

The functional currency of all investees recognised using equity method accounting is the euro.

Assets and liabilities of foreign Group companies with a functional currency other than the euro are translated using the foreign exchange reference rate of the European Central Bank (ECB) or exchange rates published by local national central banks prevailing at the reporting date. Expenses and income are translated at average monthly exchange rates. Translation differences at the reporting date are recognised in other comprehensive income and presented separately in equity.

The exchange rates underlying the currency translation changed as follows:

Foreign exchange rates used for currency translation

Country	Currency	31/12/2017 Closing rate	31/12/2018 Closing rate	2017 Average rate	2018 Average rate
Romania	€1 = RON	4.6585	4.6635	4.5711	4.6561

Accounting policies

Newly applicable or applied accounting standards

When preparing the consolidated financial statements, all International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) as well as all interpretations by the Standing Interpretations Committee (SIC) and the IFRS Interpretations Committee (IFRS IC) that have been endorsed by the European Union and whose application was mandatory on 31 December 2018 have been applied.

In the 2018 reporting period, the following new or amended standards and interpretations had to be applied for the first time or were applied early by VERBUND:

Newly applicable or applied accounting standards

Standard or interpretation		Published by the IASB (endorsed by the EU)	Mandatory application for VERBUND	Material effects on the consolidated financial statements of VERBUND
IAS 40	Amendments: Transfers of Investment Property	8/12/2016 (14/3/2018)	1/1/2018	None
IFRS 2	Amendments: Classification and Measurement of Share-based Payment Transactions	20/6/2016 (26/2/2018)	1/1/2018	None
IFRS 4	Amendments: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	12/9/2016 (3/11/2017)	1/1/2018	None

Newly applicable or applied accounting standards

Standard or interpretation		Published by the IASB (endorsed by the EU)	Mandatory application for VERBUND	Material effects on the consolidated financial statements of VERBUND
IFRS 9	Financial Instruments	24/7/2014 (22/11/2016)	1/1/2018	See below
IFRS 9	Amendments: Prepayment Features with Negative Compensation	12/10/2017 (22/3/2018)	1/1/2019	None
IFRS 15	Revenue from Contracts with Customers	28/5/2014 and 11/9/2015 (22/9/2016)	1/1/2018	See below
IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers	12/4/2016 (31/10/2017)	1/1/2018	See below
IFRIC 22	Foreign Currency Transactions and Advance Consideration	8/12/2016 (28/3/2018)	1/1/2018	None

The IASB published the final version of IFRS 9 on 24 July 2014 and amendments to IFRS 9 regarding prepayment features with negative compensation on 12 October 2017. The new provisions of IFRS 9 (including amendments) have been applied since 1 January 2018. IFRS 9 reforms the classification and measurement of financial instruments. The new categories specify recognition at cost or fair value (either through profit or loss for the period or through other comprehensive income) depending on the type of financial instrument or business model. The recognition of impairment losses on financial assets was also revised. In accordance with IFRS 9, impairment losses are to be recognised based on an expected credit loss model. In comparison with the rules under IAS 39 (incurred loss model), provisions are to be recognised earlier under the new rules. In the area of hedge accounting, many restrictions under IAS 39 were lifted, with a stronger emphasis on the economic aspect of the hedging relationship.

Compared with the previously applied accounting policies, there are differences with respect to subsequent measurement of shares of investment funds. In the past, such shares were accounted for as securities under the available-for-sale category (FAAFS). Changes in fair value were thus recognised in other comprehensive income. In accordance with IFRS 9, shares of investment funds are to be classified as measured at fair value through profit or loss (FVPL) because the payments made in connection with the fund do not constitute solely payments of principal and interest. Changes in fair value are therefore recognised under other financial result. In addition, equity instruments from the “at amortised cost” (FAAC) and “available for sale” (FAAFS) categories were classified as “at fair value through other comprehensive income” (FVOCI) under IFRS 9 because they are held over a longer term for strategic reasons. All measurement and disposal gains or losses for these equity instruments are recognised in other comprehensive income. However, dividends received in connection with these equity instruments must still be reported in other result from equity interests. Financial assets from the loans and receivables (LAR) category were classified as measured at amortised cost (AC) under IFRS 9, because the payments in connection with these financial assets constitute solely payment of principal and interest and they are held to collect contractual cash flows.As at 1 January 2018, the recognition of impairment losses on these financial assets using the expected credit loss model led to a decrease in the carrying amount of the securities – closed items on the balance sheet (€0.1m), other loans – closed items on the balance sheet (€0.1m) and loans to investees (€0.0m). With respect to other financial assets and liabilities, there was no change in subsequent measurement as a result of the new classification rules of IFRS 9. The cash flow hedges recognised as at 31 December 2017 were carried forward starting 1 January 2018 in compliance with the transition provisions.

The table below shows the original measurement category and the carrying amount that was determined under IAS 39 as well as the new measurement category and the carrying amount that was determined under IFRS 9 when IFRS 9 was applied for the first time:

Measurement categories and carrying amounts as at 1/1/2018 €m

	Measurement categories in accordance with IAS 39	Measurement category in accordance with IFRS 9	Carrying amount IAS 39	Carrying amount IFRS 9
Interests in unconsolidated subsidiaries	FAAC	FVOCI	0.6	0.6
Interests in unconsolidated subsidiaries	FAAC	FVPL	0.3	0.3
Interests in unconsolidated subsidiaries	FAAFS	FVOCI	10.8	10.8
Other equity interests	FAAFS	FVOCI	123.8	123.8
Other equity interests	FAAC	FVOCI	1.9	1.9
Securities	FAAFS	FVPL	138.3	138.3
Securities	FAAFS	FVOCI	7.5	7.5
Securities	FAAC	FVOCI	1.0	1.0
Securities – closed items on the balance sheet	LAR	AC	59.7	59.5
Other loans – closed items on the balance sheet	LAR	AC	274.9	274.7
Derivatives in the finance area – closed items on the balance sheet	FAHFT	FVPL	89.8	89.8
Loans to investees	LAR	AC	58.3	58.2
Other loans	LAR	AC	5.1	5.1
Trade receivables	LAR	AC	345.7	345.7
Receivables from investees	LAR	AC	27.9	27.9
Loans to investees	LAR	AC	4.9	4.9
Other loans	LAR	AC	0.2	0.2
Derivatives in the energy area	FAHFT	FVPL	104.7	104.7
Long position: Gemeinschaftskraftwerk Inn GmbH	FAHFT	FVPL	19.2	19.2
Cash and cash equivalents	LAR	AC	28.6	28.6
Other	LAR	AC	44.8	44.8
Total financial assets			**1,348.2**	**1,347.9**
Bonds	FLAAC	AC	1,395.0	1,395.0
Financial liabilities to banks and to others	FLAAC	AC	533.4	533.4
Financial liabilities to banks – closed items on the balance sheet	FLAAC	AC	106.3	106.3
Financial liabilities to banks – closed items on the balance sheet	FLAFVPL	FVPL	318.0	318.0
Obligation to return an interest	FLAAC	AC	78.3	78.3

Measurement categories and carrying amounts as at 1/1/2018 €m

Trade payables	FLAAC	AC	1.5	1.5
Other	FLAAC	AC	27.0	27.0
Trade payables	FLAAC	AC	171.5	171.5
Derivatives in the energy area	FLHFT	FVPL	264.0	264.0
Derivatives in the finance area	FLHFT	FVPL	18.6	18.6
Other	FLAAC	AC	115.1	115.1
Total financial liabilities			3,028.7	3,028.7

The table below shows the effects of the initial application of IFRS 9 on the components of equity:

Effects of the initial application of IFRS 9 €m

	Retained earnings	Measure-ments of financial instruments	Equity attributable to the share-holders of VERBUND AG	Equity attributable to non-controlling interests	Total equity
Reclassification of shares of investment funds from FAAFS to the FVPL category	11.4	−11.4	0.0	0.0	0.0
Reclassification of equity instruments from FAAFS/FAAC to the FVOCI category	38.7	−38.7	0.0	0.0	0.0
Recognition of impairment losses based on the expected credit loss model	−0.2	0.0	−0.2	0.0	−0.2
Total	49.9	−50.1	−0.2	0.0	−0.2

The IASB published the final version of IFRS 15 on 28 May 2014. The mandatory date of initial application was shifted with the publication dated 11 September 2015 to financial years beginning on or after 1 January 2018. In addition, clarifications to the rules under IFRS 15 were provided on 12 April 2016. IFRS 15 replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31. The new standard provides for a five-step model for the recognition of revenue. First the contract(s) with a customer are to be identified, followed by the company's own performance obligations. Afterwards, the transaction price is determined and allocated to the performance obligations in the contract. Revenue is recognised in the fifth step when the entity has satisfied its performance obligation. A large number of VERBUND's contracts entered into with customers fall under the scope of IFRS 9 because they are not own-use contracts. As a general rule, these contracts are excluded from the scope of IFRS 15. However, they will be treated as revenue as defined under IFRS 15 upon physical settlement. IFRS 15 has resulted in a change with respect to own-use transactions for which VERBUND bears the risk of default for the grid fees and levies charged to the customers. Since VERBUND bears the risk of default associated with these grid services, VERBUND was classified as the principal based on the risk and rewards approach under IAS 18; therefore, revenue was recognised and presented as a gross amount. Under IFRS 15, however, control over the goods or services before they are transferred to the customers is the crucial factor determining whether an entity is acting as a principal or as an agent. In this assessment, risk of default no longer plays a role. Therefore, VERBUND is to be considered an agent with respect to these payments. This means that revenue has no longer been realised for these payments since 1 January 2018 (net presentation). Beyond that, there have been no significant effects on the scope or timing of revenue recognition as a result of the initial application of IFRS 15. The initial application of IFRS 15 was carried out retrospectively, whereby the cumulative adjustments as of the initial application date will be recognised.

The table below shows the effects of the initial application of IFRS 15 on these consolidated financial statements:

Effects of the initial application of IFRS 15

€m	2018
Electricity revenue	–203.4
Expenses for electricity, grid, gas and certificates purchases	203.4
EBITDA	**0.0**

New accounting standards not yet applicable or applied

The IASB issued new standards that were not applied by VERBUND in the 2018 reporting period because they have either not yet been endorsed by the European Union or their application was not yet mandatory:

New accounting standards not yet applicable or applied

Standard or interpretation		Published by the IASB (endorsed by the EU)[1]	Mandatory application for VERBUND	Expected material effects on the consolidated financial statements of VERBUND
IAS 1 and IAS 8	Amendments: Definition of Material	22/10/2018 (expected in 2019)	1/1/2020	None
IAS 19	Amendments: Plan Amendment, Curtailment or Settlement	7/2/2018 (expected in Q1/2019)	1/1/2019	None
IAS 28	Amendments: Long-term Interests in Associates and Joint Ventures	12/10/2017 (11/2/2019)	1/1/2019	None
IFRS 3	Amendments: Definition of a Business	22/10/2018 (expected in 2019)	1/1/2020	Depending on the structure of any future transactions, it is possible that the acquisition of power plants in the form of a share deal could more likely be classified as the acquisition of a group of assets
IFRS 16	Leases	13/1/2016 (31/10/2017)	1/1/2019	See below
IFRS 17	Insurance Contracts	18/5/2017 (open)	1/1/2021	None
IFRIC 23	Uncertainty over Income Tax Treatments	7/6/2017 (23/10/2018)	1/1/2019	None
Various	Amendments to References to the	29/3/2018 (expected in	1/1/2020	None

New accounting standards not yet applicable or applied

Standard or interpretation		Published by the IASB (endorsed by the EU)[1]	Mandatory application for VERBUND	Expected material effects on the consolidated financial statements of VERBUND
	Conceptual Framework in IFRS Standards	2019)		
Various	Annual Improvements to IFRS Standards 2015–2017 Cycle	12/12/2017 (expected in Q1/2019)	1/1/2019	None

[1] Basis: EU Endorsement Status Report dated 11 February 2019

The IASB published the final version of IFRS 16 on 13 January 2016. This standard will replace IAS 17, IFRIC 4, SIC 15 and SIC 27 in the future. The new standard specifies that all leases and the associated contractual rights and obligations are to be recognised on the lessee's balance sheet. As part of the Group-wide IFRS 16 transition project, work was carried out in the 2018 reporting period on the integration of a centralised database solution for the management and future recognition of leases in VERBUND's IT landscape. Parallel to this, the contracts were assessed according to the criteria of IFRS 16. The new rules of IFRS 16 will lead to an increase in total assets, lower other operating expenses and, at the same time, higher depreciation charges and interest expenses, as well as to a shift of the expense from leases to the commencement of the respective lease term. The initial application of IFRS 16 will be carried out retrospectively, with the cumulative adjustments as of the date of initial application being recognised. IFRS 16 will not be applied to agreements that were classified as an arrangement not containing a lease under IAS 17 and IFRIC 4. A single discount rate will be applied to portfolios of similarly structured leases. In addition, the opportunity will be taken to forgo impairment testing for leases. Instead, an assessment will be conducted to determine whether a contract is onerous and the right of use is subsequently adjusted at most by the amount of any existing provision. Lease payments for leases whose contractual term is twelve months or less or whose remaining term at the initial application date is twelve months or less, as well as for leases for which the underlying asset is of low value, will continue to be recognised in part as an expense. According to currently available information regarding the implementation project, which has essentially been completed, VERBUND's non-current assets and net debt at the date of initial application of IFRS 16 will increase by around €160m. In addition, EBITDA will improve by around €30m for the 2019 reporting period due to the initial application. No significant effects are expected with respect to the Group result.

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) must be compared with the fair value of net assets acquired in order to ascertain any consolidation difference arising from the business combination. If the consolidation difference is positive, it is treated as goodwill; if it is negative, the determination of the value of the influencing factors on the difference arising from the business combination must be reassessed. If the consolidation difference is still negative following the reassessment, a gain is recognised in profit or loss.

Under IFRS 3, goodwill is not subject to amortisation, but must be tested for impairment at least annually. For this purpose, goodwill is allocated to those cash-generating units expected to profit from the synergies resulting from a business combination. These cash-generating units correspond to the lowest organisational level at which VERBUND's management monitors goodwill for internal management purposes. If goodwill cannot be assigned rationally to individual cash-generating units, this lowest level can also comprise a group of cash-generating units. The impairment test of goodwill compares a cash-generating unit's recoverable amount with its carrying amount including goodwill. The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount falls below the carrying amount of the cash-generating unit, goodwill is impaired first; any remaining impairment losses reduce the carrying amounts of other assets proportionately. Impairments of goodwill may not be reversed in subsequent periods. As a rule, VERBUND conducts its annual impairment tests of goodwill at the level of the (group of) cash-generating units on the basis of medium-term planning in the fourth quarter of each reporting period. In addition to the annually conducted impairment test, a qualitative analysis is conducted as at the reporting date of each of the consolidated interim financial statements (and also at the end of the reporting period, if necessary) to determine whether there is any indication of impairment. If there are indications of impairment, an (additional) impairment test is conducted.

Purchased intangible assets are measured in accordance with IAS 38 at cost, less straight-line amortisation and any impairment losses if their useful life is not classified as indefinite. The useful lives are mainly between 10 to 20 years; software is amortised over four years. Intangible assets with indefinite useful lives are recognised at cost and tested annually for impairment; however, they are not material in VERBUND's consolidated financial statements.

VERBUND's research and development costs in the 2018 reporting period amounted to €10.5m (previous year: €9.0m). Research costs are expensed as incurred. In contrast, development costs are to be recognised under certain conditions as internally generated intangible assets in accordance with IAS 38 and subsequently amortised over their useful lives. Development costs are expensed in the consolidated financial statements of VERBUND in the reporting period in which they are incurred as either the corresponding recognition criteria have not been met or the amounts are not material. Intangible assets must be tested annually for impairment as long as they are not yet available for use.

Property, plant and equipment

Property, plant and equipment used for more than one year in business operations is measured at cost (including dismantling and decommissioning costs that must be capitalised), net of straight-line depreciation charges and any impairment losses.

In addition to direct material and production costs, the cost of internally generated plant and equipment also includes appropriate indirect material and production costs. Borrowing costs are capitalised for qualifying assets. According to VERBUND's accounting policies, a project results in a qualifying asset only if the construction period for major projects lasts at least twelve months. The effective borrowing costs (less investment income from any temporary investments) are capitalised to the extent that the qualifying asset is financed by specific outside financing. If the Group has arranged for general financing, the average borrowing costs are capitalised. If the borrowing costs are compensated in the period in which they are incurred, they are not capitalised. VERBUND's average monthly borrowing costs in the 2018 reporting period were around 3.7% (previous year: around 3.7%).

Depreciation charges on finite-lived property, plant and equipment are based on the expected useful lives of its components. Specifically, the following useful lives are applied:

Useful life	In years
Residential, office, plant and other plant facilities	10 – 50
Hydroplant buildings	20 – 100
Machinery	10 – 80
Electrical installations	5 – 50
Power lines	50
Office and plant equipment	4 – 10

The expected useful life of hydropower plants is determined independently from the terms of water rights permits because it is presumed that these permits will be reissued when they expire. Based on experience, this also applies for those Bavarian run-of-river power plants with existing reversion rights for the benefit of the Free State of Bavaria. The expected useful life of the Jochenstein power plant on the Danube was also determined independently from the existing obligation to return 50% of the interest in Donaukraftwerk Jochenstein AG in 2050 (see: Other liabilities). That is to say, it is expected that VERBUND will also continue to be the owner and operator of the Jochenstein power plant on the Danube beyond 2050.

Leased assets

If substantially all risks and rewards associated with a leased asset are borne by VERBUND, an asset is recognised under non-current minimum lease payments value of the minimum lease payments (or the lower fair value, if applicable). A lease liability is recognised in the same amount. The asset is depreciated over the shorter of its useful life or the lease term. The lease liability is carried forward in subsequent periods based on the effective interest method.

All other lease agreements for which VERBUND acts as the lessee are accounted for as operating leases. As a rule, the lease payments are recognised as income or expense proportionately over the term of the lease.

Recoverability of non-financial assets

Under IAS 36, the carrying amounts, in particular, of property, plant and equipment and intangible assets are tested for impairment if there are indications thereof. Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually – regardless of whether there are indications of impairment (see: Goodwill and other intangible assets). An asset or cash-generating unit is impaired when the carrying amount exceeds the recoverable amount of the asset or the cash-generating unit.

The recoverable amount is the higher of fair value less costs of disposal and value in use. Fair values are to be determined primarily based on market prices and can, for example, be based on existing binding offers, secondary price formation on active markets or comparable recent transactions within the industry according to the measurement hierarchy in IFRS 13. If fair value cannot be determined based on market prices, valuation techniques based on a net present value approach are used. If a net present value approach is applied, the discounted cash flow method (DCF method) is used. Future investments to enhance or improve performance and restructuring expenditure are taken into account when determining fair value. Price quotes for energy futures are used in pricing as long as there is a liquid market. Accordingly, the most recent price quotes are applied to the average price forecasts of two reputable information service providers in the energy market by means of linear interpolation. The excess financial return expected in the period after the end of the applicability of the price forecasts by the two reputable information service providers in the energy market (= terminal value phase), is taken into account by way of terminal value calculation based on the assumed infinite existence of a power plant site (e.g. for hydropower plants); the calculation is based on an assumption that the excess financial return will grow at a rate of 2%.

As a rule, value in use is determined using net present value approaches. The discounted cash flow method (DCF) is used for determining these. The prices are determined using the VERBUND Energy Market Model (VEMM). The VEMM is an energy simulation tool for the development of medium and long-term electricity and natural gas price scenarios for energy markets. The cash flows are generally derived from the recent medium-term plans approved by management. The excess financial return expected in the period after the end of the applicability of the VEMM price forecasts (= terminal value phase) is taken into account by way of terminal value calculation based on the assumed infinite existence of a power plant site (e.g. for hydropower plants); the calculation is based on an assumption that the excess financial return will grow at a rate of 2%. The discount rate is an after-tax interest rate which reflects current market estimates, the time value of money and the specific risks associated with the asset (or cash-generating unit); the corresponding pre-tax interest rate is calculated iteratively.

If the reasons for impairment no longer apply in a subsequent period, a reversal is to be recognised in profit or loss. Both impairments as well as reversals of impairment losses are recognised in profit or loss, presented in the income statement and segment reporting as impairment losses and/or reversals of impairment losses and explained in the notes. If impairment losses or their reversal do not relate to continuing operations, they are presented in profit or loss after tax from discontinued operations and explained in the notes.

Equity interests

Equity interests in unconsolidated (for lack of materiality) subsidiaries, associates and joint ventures not accounted for using the equity method and other equity interests are accounted for in accordance with IFRS 9. If these investments are held for the long term due to strategic considerations, they are classified as "measured at fair value through other comprehensive income" (FVOCI). Otherwise they are classified as "measured at fair value through profit or loss" (FVPL). The fair value of the equity interests is derived, depending on the situation, from market quotations, comparable recent transactions, valuations based on the discounted cash flow or market multiples methods and/or cost.

The carrying amounts of interests accounted for using the equity method are adjusted based on VERBUND's ownership interest to reflect changes in the investee's net assets in accordance with IAS 28. The proportionate net assets are adjusted no later than one quarter following the underlying changes (see: Financial reporting principles). The carrying amount of the interest is increased or decreased by the share in profit or loss for the period and other comprehensive income attributable to VERBUND, as well as by dividends, the elimination of material intercompany profits or losses and by carrying forward the fair value adjustments for hidden reserves and liabilities identified upon share acquisitions. Goodwill included in the carrying amount of the interest is not amortised (see: Goodwill and other intangible assets) and is neither presented separately in accordance with IAS 28 nor tested annually for impairment in accordance with IAS 36. If VERBUND's share of losses from an investee accounted for using the equity method corresponds to or exceeds the carrying amount of the investment, additional losses are only taken into account and recognised as a liability to the extent that legal or constructive obligations were undertaken or payments were made for the equity-accounted interest. The carrying amount of the equity-accounted interest includes the share calculated based on equity method accounting plus all long-term equity interests that are to be allocated to the net investment in the equity-accounted interest based on their economic substance.

Recoverability of interests accounted for using the equity method

Net investments in associated companies and joint ventures are tested for objective indications of impairment at the reporting date. If there are any such indications, an impairment test must be conducted for interests accounted for using the equity method in accordance with IAS 36.

Impairment is tested based on the recoverable amount, which represents the higher of fair value less costs to sell and value in use. The primary methods used to determine the fair value of an equity interest are based on market prices; as an alternative, approaches to determine the net present value are applied. If alternative methods are applied, VERBUND bases the determination of fair value on the best available information that a hypothetical buyer would apply in an arm's length transaction. As a rule, the proportionate present value of estimated cash flows to be generated in the future from associates or joint ventures attributable to VERBUND is used to determine the value in use.

Investments, loans and receivables

Investments and loans are classified as “measured at amortised cost” (AC) if the payments in connection with these financial assets constitute solely payments of principal and interest and they are held to collect contractual cash flows. If payments in connection with these financial assets constitute solely payments of principal and interest and they are held to collect contractual cash flows or held for sale, they are classified as “measured at fair value through other comprehensive income” (FVOCI). If the payments in connection with these financial assets do not constitute solely payment of principal and interest, they are classified as “measured at fair value through profit or loss” (FVPL).

Acquisitions and disposals of investments are recognised at the trade date. The carrying amount of financial assets measured at amortised cost is determined based on the effective interest method in consideration of any impairment losses (see: Recoverability of financial assets). The carrying amount of financial assets measured at fair value in the balance sheet is derived primarily on the basis of exchange quoted prices (Level 1 measurements as defined in IFRS 13). If prices are not available from active markets, fair value is determined on the basis of either directly (on the basis of market prices) or indirectly (derived from market prices) observable input data using accepted valuation models (Level 2 measurements).

Trade receivables, receivables from unconsolidated subsidiaries and receivables from investees are classified as “measured at amortised cost” (AC) and accounted for at cost less any impairment losses (see: Recoverability of financial assets).

Current other receivables include mainly 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 “measured at amortised cost” (AC). The other assets included in other current receivables are likewise recognised at amortised cost. In addition, other current receivables include emission rights (see: Emission rights).

Recoverability of financial assets

Valuation allowances are recognised at every reporting date for expected credit losses for financial assets that were classified as “measured at amortised cost” (AC) and/or debt instruments that were classified as “measured at fair value through other comprehensive income” (FVOCI), receivables under leases, contract assets and financial guarantee contracts. The expected credit losses are recognised in multiple stages. For financial assets that exhibit low credit risk at the reporting date and financial assets whose credit risk has not increased significantly since they were first recognised, the valuation allowance is derived based on the expected 12-month credit loss (Stage 1). The credit risk is presumed to be low if the internal rating corresponds to an external investment grade rating (Standard & Poor’s: > BBB–; Moody’s: > Baa3). The credit risk is presumed to have increased significantly if the financial asset is more than 30 days past due. In these cases, the valuation allowance is measured as the amount of lifetime expected credit losses (Stage 2). Probabilities of default and collection rates depending on the rating category serve to determine the amount of impairment to be recognised. The valuation allowance is recognised in the amount of the present value of the expected credit losses. In addition, a test is conducted at every reporting date to determine whether a financial asset has meanwhile become credit-impaired (Stage 3). This is the case if, for example, the issuer or borrower is experiencing significant financial difficulties and/or the financial asset is 90 days past due. Interest income for Stage 1 and 2 financial assets is recognised based on the effective interest rate at the gross carrying amount and for Stage 3 financial assets by applying the effective interest rate to the amortised cost. For trade receivables, contract assets and receivables under leases, a simplified method is applied to measure the valuation allowance. For these receivables and assets, a valuation allowance is always recognised in the amount of the lifetime expected credit loss using a loss allowance table.

Emission rights

Emission rights held by VERBUND in connection with CO_2 emissions at thermal power plants are accounted for in accordance with the accounting requirements in IAS 38, IAS 20 and IAS 37.

Emission rights are recognised on the allocation or acquisition date at fair value (in the case of emission rights allocated without exchange of consideration) or at cost (in the case of emission rights acquired for consideration). For emission rights allocated without exchange of consideration, an item of deferred income for the grant received is recognised at fair value (Level 1) – as a rule, based on the price quoted on the European Energy Exchange (EEX) – and reversed to profit or loss under fuel expenses as emission rights are consumed, amortised or sold. CO_2 emissions result in the "consumption" of emission rights, which is measured based on the weighted average price method and recognised in profit or loss under fuel expenses. The obligation to return is taken into account by recognising a corresponding amount in other liabilities. If cover is insufficient, VERBUND recognises an additional provision in the amount of the fair value of the missing emission rights.

Emission rights held for trading by VERBUND are measured through profit or loss under other revenue. According to the brokerage exemption for raw materials and commodity dealers, the measurement benchmark is fair value less costs to sell.

Inventories

Inventories of primary energy sources such as natural gas, coal and heating oil as well as additives and consumables are measured at the lower of cost or net realisable value at the reporting date. Net realisable value is determined based on planned electricity revenue, net of production costs to be incurred. The use of primary energy sources and raw materials, additives and consumables is calculated using the moving average price method.

Inventories of natural gas held for trading by VERBUND are measured through profit or loss under other revenue. According to the brokerage exemption for raw materials and commodity dealers, the measurement benchmark is fair value (Level 1) less costs to sell. The fair value corresponds to the quoted price for front-month gas forwards on the Central European Gas Hub (CEGH) or NetConnect Germany (NCG).

Guarantees of origin and green electricity certificates

Guarantees of origin and green electricity certificates that are held for sale by VERBUND in the normal course of business are recognised in accordance with accounting requirements set forth under IAS 2 and IAS 20. Guarantees of origin and green electricity certificates are recognised as inventories when the legally enforceable rights are acquired (as a rule, production of electricity in certified power plants). Income from the allocation of certificates is presented under other operating income offset with the change in inventories from the disposal of certificates. Subsequent measurements are carried out at the lower net realisable value if necessary. Proceeds from the sale of guarantees of origin or green electricity certificates are recognised under other revenue.

Assets "held for sale" and discontinued operations

Non-current assets or disposal groups that include assets and liabilities are classified as "held for sale" if it is highly probable that their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The assets or components of a disposal group are remeasured immediately before classification as "held for sale" in accordance with the Group's other accounting methods. Afterwards, the assets and/or disposal groups are recognised at the lower of their carrying amount and their fair value less costs to sell.

An operating segment of VERBUND that (including its cash flows) can be clearly separated from the Group and which represents a separate major line of business or geographical area of operation, that is part of an individual coordinated plan to sell a separate major line of business or geographical area of operation, or that represents a subsidiary acquired solely with the intention of resale, is designated as a discontinued operation. The activities are classified as a discontinued operation when they are sold or as soon as the operating segment meets the criteria for classification as "held for sale" if this is the case sooner. If an operating segment is classified as a discontinued operation, the comparative information is adjusted in the income statement and statement of comprehensive income as if the operating segment had been classified as a discontinued operation from the beginning of the prior period.

Financial liabilities

Financial liabilities are initially recognised at their fair value (including transaction costs directly attributable to their issue), which as a rule corresponds to the actual amount received. Any premiums, discounts or other differences between the amount received and the redemption amount are allocated over the financing term and presented in interest expenses on an accrual basis using the effective interest method.

Individual financial liabilities originally incurred in connection with cross-border leasing transactions (see: Cross-border leasing transactions) were classified "at fair value through profit or loss" upon initial recognition and upon the initial application of IFRS 9 using the fair value option. As a result, measurement inconsistencies that would have otherwise arisen could be eliminated (see: Financial instruments and risk management).

Regulatory assets and liabilities

If grid tariffs are determined by a regulator on the basis of estimates of costs and/or revenues and lower or higher costs and/or revenues in the past are taken into account when determining tariffs in the future, the grid operator is entitled to charge the grid users higher prices as compensation for higher costs and/or lower revenues in future years; the grid operator is also obligated to refund the grid users for lower costs and/or higher revenues by charging lower prices. Such entitlements and/or obligations are referred to as regulatory assets and liabilities. Regulatory assets and liabilities may not be recognised in most cases because they mostly do not meet the general criteria for recognition under IFRSs.

With its Grid segment, VERBUND is subject to such a tariff structure regulated by Energie-Control Austria für die Regulierung der Elektrizitäts- und Erdgaswirtschaft (E-Control). If the general criteria for recognition under IFRSs are not met, neither regulatory assets nor regulatory liabilities are recognised in the consolidated financial statements of VERBUND.

Pensions and similar obligations, statutory termination benefits and partial retirement obligations

Due to labour-management agreements and contracts, VERBUND is obligated under certain conditions to make pension payments to (former) employees after they retire based on their final salary. These defined benefit obligations are partially covered by pension plan assets at APK Pensionskasse AG (pension fund) earmarked for this purpose. Contractual trust arrangements (CTA) were set up in order to secure the entitlements from the company pension plan for the employees of VERBUND Innkraftwerke GmbH, Innwerk AG and Grenzkraftwerke GmbH. VERBUND is obligated to provide additional funding to the extent the obligations are to be fulfilled through the pension fund; there is no such obligation to provide additional funding for the CTA. Both pension plan assets as well as the contractual trust arrangements are recognised as plan assets as defined under IAS 19 and offset with the provision for current pensions and vested pension benefits.

Provisions for current pensions, vested pension benefits and similar obligations are determined based on the projected unit credit method (PUC method) in accordance with IAS 19; remeasurements of the net liability – actuarial gains and losses and/or returns on plan assets, excluding expected interest income – are recognised under other comprehensive income in the year in which they arise.

With the exception of net interest expense, all expenses (and returns) related to these obligations are recognised under personnel expenses. Net interest expense is reported under interest expenses.

The pension obligations are determined on the basis of actuarial reports; the calculations are based on the mortality tables “AVÖ 2018 P – Actuarial Assumptions for Pension Insurance” and “Heubeck Mortality Tables 2018 G”.

Pension plan assets are invested in compliance with the provisions of the Austrian Pension Fund Act (Pensionskassengesetz, PKG) and the corresponding regulations of the Austrian Financial Market Authority (FMA).

Similar obligations relate to employer contributions for supplementary health insurance premiums to be paid after retirement. The provisions are determined in the same manner as provisions for pension obligations.

Employees whose service began on or before 31 December 2002 receive a lump sum termination benefit if their employment is terminated by the employer or when they retire, based on obligations under Austrian labour law. The amount of this payment depends on the number of years of service and the salary drawn at the time of termination or retirement. This obligation is measured in accordance with IAS 19 based on the PUC method with an accumulation period of 25 years, whereby remeasurements of the net liability are recognised immediately in other comprehensive income.

Employees whose service began in Austria after 31 December 2002 are no longer entitled to a direct claim against their employer for a statutory termination benefit. For 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 obligated to make regular contributions under this termination benefit model; therefore, it is recognised as a defined contribution plan in accordance with IAS 19.

In connection with partial retirement models, employees are offered the opportunity to retire from the Company before they are entitled to draw a pension under the Austrian General Social Security Act (Allgemeines Sozialversicherungsgesetz, ASVG) and continue receiving a salary until they reach the statutory retirement age. This obligation is measured in accordance with IAS 19 based on the PUC method, whereby remeasurements of the net liability are recognised immediately through profit or loss. The measurement parameters mainly correspond to those for obligations similar to pension obligations. The resulting expenses to be recognised are presented under pension expenses.

There are also contractual trust arrangements (CTAs) for the purpose of securing credit balances from partial retirement models of employees of VERBUND Innkraftwerke GmbH and Innwerk AG. There is no obligation to provide additional funding. The CTA is recognised as plan assets as defined under IAS 19 and offset against the provision for partial retirement.

Provisions

In accordance with IAS 37, provisions are recognised for legal and constructive obligations to external third parties resulting from past events whose settlement will probably lead to a future outflow of economic resources. It must be possible to reliably estimate the amount of the obligation. Otherwise, a provision is not recognised. Provisions are measured at the expected settlement amount. The settlement amount represents the best estimate of the expenditure with which a current obligation could be settled or transferred to a third party at the reporting date. Future cost increases that are foreseeable and probable on the reporting date are taken into account.

Provisions for dismantling costs are recognised at the discounted settlement amounts for obligations resulting from the dismantling or decommissioning of power plants in the reporting period in which they are incurred; at the same time, generally, the carrying amounts for the power plants are increased (see: Property, plant and equipment). In subsequent periods, the capitalised costs for dismantling or decommissioning are depreciated over the (remaining) useful life of the power plant facilities; interest is accrued on the provisions annually.

Provisions are recognised for expected losses from so-called onerous contracts in accordance with IAS 37 and measured in the amount of the unavoidable outflow of economic resources. This is the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil it. However, impairment losses on assets associated with the “onerous” contract are recognised before provisions for onerous contracts are recognised.

Non-current provisions are discounted if the present value of the expected settlement amount differs materially from the nominal value. In accordance with VERBUND’s accounting policies, all provisions to be utilised more than twelve months in the future are discounted as a general rule. The discount rate is a pre-tax interest rate adjusted to the specific risks of the liability. Accrued interest amounts are presented as interest expenses; any effects from changes in the interest rate are recognised in the operating result.

Other liabilities

Other liabilities are measured at amortised cost. This also applies to the obligation to supply electricity under a 20-year electricity supply agreement that was incurred in connection with the acquisition of Kraftwerksgruppe Inn GmbH (now VERBUND Innkraftwerke GmbH) in the 2009 reporting period. This obligation is increased periodically by accrued interest and redeemed on an ongoing basis to the extent in which VERBUND is released from the commitment to supply electricity through delivery and/or passage of time. An unscheduled repayment of 60% of the obligation was made in 2013 as part of the acquisition of (additional) Bavarian hydropower plant capacities.

The obligation to transfer the 50% interest in Donaukraftwerk Jochenstein AG to the Free State of Bavaria without exchange of consideration assumed as part of the acquisition of (additional) Bavarian hydropower plant capacities is also measured at amortised cost. The expected fair value of the interest at the transfer date (31 December 2050) is calculated periodically and discounted based on the original effective interest rate (corresponding to the weighted average cost of capital at the acquisition date). Changes in the expected fair value of the interest are recognised in the other financial result.

Government grants

Investment grants do not reduce the cost of assets for which they were granted, but instead lead to the recognition of an item of deferred income. They are recognised at fair value if it is sufficiently certain that VERBUND will meet the requirements for receiving the grant and that the grant will actually be provided. Amounts recognised as deferred income are reversed to profit or loss over the expected useful life of the respective asset.

Government grants related to income or expenses also lead to the recognition of a liability which is reversed to profit or loss in the periods in which the costs associated with the grant are incurred.

Contributions to building costs

Contributions to building costs that VERBUND receives from entities entitled to purchase electricity (in particular from provincial energy companies), e.g. for power plant projects, lead to the recognition of a liability. With the payment of the contribution to building costs, the entities entitled to purchase electricity receive the opportunity to purchase a volume of electricity equal to their share in exchange for reimbursement of the production costs. The liability is therefore reversed to profit or loss either over the contractual term or (for lack of such) over the useful life of the plant. The amounts reversed to profit or loss are presented under revenue.

Cross-border leasing transactions and/or closed items on the balance sheet

VERBUND entered into several cross-border leasing transactions in the reporting periods from 1999 to 2001. Power plants were leased to US investors and simultaneously leased back under finance leases.

Obligations under these transactions were entirely covered, i.e. both the equity portions and the loan portions, by a corresponding acquisition of securities (zero coupons, medium-term notes) or through loans to financial institutions.

With the beginning of the financial market crisis during the 2008 reporting period, the risk profile of the cross-border leasing transactions changed – mainly as a result of the deterioration in the credit rating of contractual parties (banks and insurance companies). At the same time, the willingness of these investors to terminate individual transactions early increased due to the increased liquidity requirements of American cross-border leasing investors and the agreements between these investors and the American tax authorities regarding the tax benefits to be approved.

A total of around 85% of the original volume of cross-border leasing transactions was terminated in the 2009 and 2010 reporting periods. The last remaining transaction of VERBUND (Freudenau power plant) has an off-balance sheet financing structure (see: Other obligations and/or entitlements and risks). An item of deferred income was recognised for the present value of the economic benefit associated with this transaction and is reversed to profit or loss over the contractual term. Reversals are presented under other operating income.

Some of the cross-border leasing transactions were terminated in their entirety; that is, all associated liabilities (A-loans and B-loans) and investments were repaid. Some of the cross-border leasing transactions were only partially terminated, whereby the transactions with investors and the associated A-loans were repaid, while VERBUND continued the existing B-loans. Consequently, the corresponding B-payment undertaking agreements and the corresponding investments were also continued. Therefore, balance sheet cover remains in place. The accounting balances denominated in foreign currency (exclusively US dollar) are measured at the exchange rate prevailing at the reporting date. Expenses and income from the measurement correspond to one another both in terms of value as well as with respect to the value date and are offset.

The financial investments and liabilities resulting from the cross-border leasing transactions that were terminated early continue to be presented separately in the notes to VERBUND's consolidated financial statements in order to improve clarity; with the exception of the valuation allowances recognised for expected credit losses, all items are closed on the balance sheet.

Taxes on income

The income tax expense presented in the income statement for the reporting period includes current taxes on income calculated for consolidated subsidiaries based on their taxable income and the respective income tax rate as well as changes in deferred tax liabilities and deferred tax assets.

In accordance with the balance sheet-oriented liability method in IAS 12 for the determination of deferred taxes, deferred taxes are recognised for temporary differences between the carrying amounts of assets and liabilities in the IFRS consolidated financial statements and their tax bases at the level of the subsidiary. Deferred tax liabilities and deferred tax assets are recognised for temporary differences leading to taxable or deductible amounts in the determination of taxable income in future reporting periods. Tax benefits from unused loss carryforwards are included in the determination of deferred taxes. Goodwill recognised upon initial consolidation of subsidiaries does not result in deferred taxes; in contrast, temporary differences which arise or change as a result of the amortisation of goodwill for tax purposes in subsequent periods are deferred. Temporary differences with respect to the carrying amounts of equity interests represent another exception to this comprehensive tax deferral as long as they do not result from impairment losses under tax law.

The income tax rates expected to apply when the temporary differences are likely to reverse are applied in the determination of deferred taxes. The corporate income tax rate applying to VERBUND AG is 25%. The following income tax rates are applied by consolidated subsidiaries (depending on the country in which they are located):

Income tax rates applicable to subsidiaries in %

	2017	2018
Austria	25.0	25.0
Germany – partnerships [1]	12.37 – 12.95	12.37 – 12.95
Germany – limited companies [2]	24.23 – 32.98	24.23 – 32.98
Romania	16.0	16.0

[1] The trade tax depends on the local multiplier, which varies from one municipality to another. // [2] The corporate income tax rate shown also includes the solidarity surcharge and municipal trade tax.

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

The tax group parent charges members of the tax group their attributable corporate tax amounts by means of tax allocation. In the event of a loss, domestic group members receive a tax credit. The allocated tax amounts are only adjusted subsequently if there are material differences. A liability from current tax liabilities is recognised in the amount of the expected future tax payment for the transfer of losses incurred by foreign group members if the requirements for subsequent taxation in the future are fulfilled. The expected future tax payment is not discounted.

The tax amortisation benefit resulting from the amortisation of goodwill (Section 9(7) of the 1988 Corporate Income Tax Act (Körperschaftsteuergesetz, KStG)) is treated as a temporary difference for shares in subsidiaries (outside basis difference).

Derivative financial instruments

Derivative financial instruments are recognised at fair value when the contract is entered into and are subsequently measured at fair value. As a rule, unrealised remeasurement gains or losses are recognised in the income statement if the requirements for the recognition of hedging relationships (hedge accounting) in accordance with IFRS 9 are not met. In order to be able to apply these special accounting policies, an economic relationship must exist between the hedged item and the hedge, the effects of the risk of default may not have a dominant influence on the changes in value resulting from this economic relationship, and the hedge ratio of the hedging relationship must correspond to the hedge ratio resulting from the volume of the underlying asset actually hedged by VERBUND and the volume of the hedge actually used by VERBUND to hedge this volume of the underlying asset.

In the case of the accounting treatment of so-called fair value hedges, the derivative hedging instrument and the hedged item with respect to the hedged risk are measured at fair value through profit or loss. However, if a derivative financial instrument is used as a hedging instrument in a cash flow hedge, the unrealised gains or losses from the hedging instrument are initially recognised in other comprehensive income. They are only reclassified (“recycled”) to the income statement when the hedged item affects profit or loss. If highly probable future transactions are hedged and these transactions lead to the recognition of a financial asset or a financial liability in subsequent periods, the amounts previously recognised in other comprehensive income are reclassified to the income statement in accordance with IFRS 9 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, which does not affect profit or loss at the initial recognition date.

Derivative financial instruments with positive fair values are recognised under trade receivables, other receivables and securities, while those with negative fair values are recognised under other financial liabilities or trade payables and other liabilities.

Own-use contracts entered into and held by VERBUND for the purpose of receiving or delivering non-financial items based on expected purchase, sales or usage requirements are not recognised as derivative financial instruments, but instead as executory contracts (own-use exemption). If the unavoidable costs of fulfilling such an own-use contract are higher than the economic benefits expected therefrom, a provision must be recognised for the own-use contract in accordance with IAS 37. If, however, supplier contracts that previously represented own-use contracts lead to a net settlement within the meaning of IFRS 9, the exemptions for own-use contracts no longer apply and the supplier contracts must be qualified as freestanding derivatives and recognised at fair value through profit or loss.

Hedging relationships 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 financial instruments related to closed items on the balance sheet (see: Cross-border leasing transactions), interest rate swaps (swaps from variable to fixed interest) have been entered into to hedge the existing interest rate swaps or carrying amounts for the long term. Some of these interest rate swaps have been designated as cash flow hedges (see: Derivative financial instruments). Those interest rate swaps that hedge intra-Group financing at the subsidiary level are recognised as derivatives in VERBUND's consolidated financial statements (measurement category: FVPL).

With respect to individual closed items on the balance sheet (see: Cross-border leasing transactions), the investments result in variable income that has to be seen alongside fixed expenses. In order to avoid risk, interest rate swaps have been entered into for the corresponding financial liabilities. These interest rate swaps exhibit a risk profile that perfectly opposes the corresponding profile of the associated balance sheet items. Therefore, the carrying amount of the associated financial liabilities is adjusted according to the hedged risk to balance out the fair value measurement of the interest rate swaps.

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

The fair value of forward exchange transactions is based on the respective rates (foreign exchange rates and interest rate curves) prevailing at the reporting date. These are Level 2 measurements as defined under IFRS 13.

The fair value of interest rate swaps corresponds to the amount that VERBUND would receive or have to pay if the transaction were terminated on the reporting date. When calculating that amount, current interest rates, yield curves and counterparty credit risk in particular are taken into account. These are Level 2 measurements as defined under IFRS 13.

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

Within the framework of cash flow hedge accounting, VERBUND employs derivative financial instruments to hedge the price risk of future sales and procurement transactions. Forward and futures contracts as well as options are used as hedging instruments as defined under IFRS 9. For derivative financial instruments that are designated as cash flow hedges, the portion that is identified as an effective hedge is recognised in other comprehensive income. In contrast, ineffective portions of the hedge are recognised in profit or loss.

Electricity, gas and CO_2 derivatives not designated as hedging instruments are allocated to the wholesale portfolio and measured at fair value through profit or loss.

Effective fair value changes of hedging instruments used within the framework of cash flow hedges are recognised without effect on profit or loss in other comprehensive income until the hedged item is realised.

If a framework agreement with a netting arrangement has been entered into with a counterparty, the positive and negative fair values of the transaction are offset on the balance sheet (see: Financial instruments and risk management). Subsequently, measurement effects are netted with the results from the hedged item; thus, profit for the period is not expected to be affected.

Fair value changes in (freestanding) electricity and gas derivatives in the wholesale portfolio that were not designated as hedging instruments are recognised in profit or loss net of previously realised futures and following the netting of positive and negative fair values (see: Financial instruments and risk management).

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 CO_2) are measured at fair value through profit or loss. The result from the measurement and realisation of these derivative energy trading contracts is presented on a net basis in electricity revenue or in other revenue (gas and CO_2).

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 reporting date because quoted prices are available for futures contracts at the respective exchanges (European Energy Exchange (EEX), Intercontinental Exchange (ICE), Central European Gas Hub (CEGH)) and forward contracts are measured with forward price curves derived from quoted prices based on a risk-free yield curve and taking counterparty credit risk into account. The options used by VERBUND are measured at the prices quoted on the EEX at the respective last trading day or derived from these quoted prices. The measurements of electricity, gas and CO_2 futures contracts are Level 1 measurements as defined under IFRS 13; the measurements of electricity, gas and CO_2 forward contracts are generally Level 2 measurements. The measurements of listed options are Level 1 measurements and OTC contracts are Level 2 measurements.

Revenue recognition

VERBUND generates revenue from contracts with customers primarily in connection with the delivery of electricity and gas to market participants of energy exchanges, traders, electric utilities and industrial companies as well as household and commercial customers. In addition, revenue is generated from contracts with customers by operating the Austrian transmission grid. Revenue is recognised for these contracts in the amount of the consideration that VERBUND (foreseeably) receives for these goods and/or services as soon as control of the goods and services is transferred to the customers.

As a rule, the consideration received for the contracts for the delivery of electricity and gas comprises a service price and a commodity price. Whereas the commodity price depends on the volume of electricity and gas purchased, the service price is independent of volume. Control is transferred for these contracts over the period in which the service is rendered. Revenue is realised in the amount in which VERBUND has fulfilled its obligations with respect to the delivery of electricity and gas (i.e. the customer could purchase electricity and/or gas at any given time and/or has done so) and a right to invoice the service already rendered has been established. With respect to electricity and gas deliveries to market participants from energy exchanges, traders and electric utilities, the period allowed for payment is typically 20 days, whereby there are frequently netting arrangements that enable a periodic netting of the corresponding contract items. For electricity and gas deliveries to industrial customers, the period allowed for payment is typically 14 to 60 days, for commercial and household customers 14 days. Therefore, there are no significant financing components. With some contracts to deliver electricity and gas, the customers are also billed for grid costs. Since VERBUND does not have any control over the grid services prior to the transfer to the customers, VERBUND should be regarded as an agent with respect to these services. Therefore, no revenue is realised for the grid services.

VERBUND's services in connection with the operation of the Austrian transmission grid comprise primarily system, control power and balancing energy as well as congestion management and redispatch services. The consideration received for these services in connection with the operation of the Austrian transmission grid depends largely on the electricity consumed by the customers and/or the costs incurred by VERBUND for each of these services. Control is transferred for these contracts over the period in which the service is rendered. Revenue is realised in the amount in which VERBUND has a right to invoice the services already rendered. The period allowed for payment is typically 14 days. Therefore, there are no significant financing components.

The realisation of derivative financial instruments in the energy area whose main purpose is the final physical delivery of energy is treated as revenue from customer contracts and presented under revenue.

The realisation of derivative financial instruments in the energy area 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; this corresponds to the result from trading with derivative financial instruments in the energy area.

Discretionary judgements and key assumptions concerning the future

The preparation of IFRS consolidated financial statements requires discretionary judgements in the evaluation of whether other entities are controlled or jointly managed by VERBUND or whether VERBUND can exert a significant influence on another entity and/or whether an entity represents a joint operation of VERBUND.

Other discretionary judgements relate to the application of accounting policies as well as the determination of assumptions regarding future developments on the part of management which can significantly influence the recognition and measurement of assets and liabilities, the disclosure of other commitments as at the reporting date and the presentation of income and expenses during the reporting period.

The primary discretionary judgements and key assumptions concerning the future on which the IFRS consolidated financial statements are based are described below.

Determination of the weighted average cost of capital

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

The cost of equity is determined from a reference rate, market risk premium and beta factor using the capital asset pricing model (CAPM). The reference rate represents a de facto risk-free rate for an investment with matching maturities and is determined based on the yield curve for government bonds issued by the Deutsche Bundesbank (“Svensson Method”). The market risk premium corresponds to the premium required by an equity investor over the reference rate to hold the market portfolio. The beta factor measures the relationship between the price trend of an equity instrument and the market as a whole, and thus is a measure of its systematic risk. Equity shares of electric utilities and transmission system operators generally exhibit different beta factors. Beta factors from electric utilities are normally less volatile than the market as a whole, while those of transmission system operators are even more stable.

The cost of debt before tax corresponds to the return on debt instruments traded on the market with an equivalent risk of default and matching maturities.

In order to adequately reflect country risk, corresponding premiums are taken into account on the cost of equity and debt. Every country exhibits default risk to a greater or lesser extent. The capital market reflects this default risk through different yields for government bonds.

In view of the volatile financial market environment, the development of capital costs (and in particular country risk premiums) is under continuous observation.

Impairment testing of goodwill

For the purpose of impairment testing, VERBUND's goodwill was allocated to the following cash-generating units or groups of cash-generating units:

Goodwill

€m	2017	2018
Renewable generation segment	287.0	287.0
Sales segment	13.0	13.0
Inn River run-of-river power plant group	126.6	126.6
Grenzkraftwerke run-of-river power plant group	161.1	161.1
Goodwill in VERBUND	587.7	**587.7**

Impairment testing of goodwill for the Renewable generation segment

	31/12/2017	31/12/2018
Group of cash generating units	All hydraulic and wind energy power plants of VERBUND plus goodwill and deferred tax accruals	All hydraulic and wind energy power plants of VERBUND plus goodwill and deferred tax accruals
Basis for recoverable amount	Fair value (Level 3) less costs of disposal	Value in use
Valuation technique	Sum-of-the-parts measurement based on a net present value approach (DCF method)	Sum-of-the-parts measurement based on a net present value approach (DCF method)
Derivation of cash flow	Budgets of VERBUND (based primarily on near-market data)	Budgets of VERBUND (based primarily on near-market data)
Volume	Average expected generation of the respective power plants	Average expected generation of the respective power plants
Price	External price forecasts (see: Accounting policies) and power plant-specific premiums or discounts (for example, the sale of guarantees of origin)	Internal price forecasts (see: Accounting policies) and power plant-specific premiums or discounts (for example, the sale of guarantees of origin)
Planning period	Detailed planning phase: up to a maximum of 6 years depending on the specific power plant; rough planning phase: up to a maximum of 25 years depending on the specific power plant; subsequent terminal value phase following rough planning phase depending on the specific power plant	Detailed planning phase: up to a maximum of 6 years depending on the specific power plant; rough planning phase: up to a maximum of 24 years depending on the specific power plant; subsequent terminal value phase following rough planning phase depending on the specific power plant
Key measurement assumptions	Electricity price, discount rate	Electricity price, discount rate
Discount rate	WACC after taxes: 4.75% to 10.50% depending on the location	WACC after taxes: 4.75% to 11.50% depending on the location[1]
Impairment during the period[2]	–	–

[1] The implicit input tax interest rate determined through a process of iteration amounted to 5.67%–10.44%. // [2] Management believes the carrying amount of the Renewable generation segment's assets including goodwill will not exceed the recoverable amount as a result of potential changes in the key measurement assumptions.

Impairment testing of goodwill for the Sales segment

	31/12/2017	**31/12/2018**
Group of cash generating units	All of VERBUND's sales activities plus goodwill	All of VERBUND's sales activities plus goodwill
Basis for recoverable amount	Value in use	Value in use
Valuation technique	Sum-of-the-parts measurement based on a net present value approach (DCF method)	Sum-of-the-parts measurement based on a net present value approach (DCF method)
Derivation of cash flow	Budgets of VERBUND (based primarily on near-market data)	Budgets of VERBUND (based primarily on near-market data)
Volume	Expected trading and distribution volumes	Expected trading and distribution volumes
Price	Expected trading and distribution volumes	Expected trading and distribution volumes
Planning period	Detailed planning phase of 6 years followed by a terminal value phase	Detailed planning phase of 6 years followed by a terminal value phase
Key measurement assumptions	Detailed planning phase of 6 years followed by a terminal value phase	Detailed planning phase of 6 years followed by a terminal value phase
Discount rate	WACC after taxes: 5.00%	WACC after taxes: 5.00%[1]
Impairment during the period[2]	–	–

[1] The implicit input tax interest rate determined through a process of iteration amounted to 7.28%. // [2] Management believes the carrying amount of the Sales segment's assets including goodwill will not exceed the recoverable amount as a result of potential changes in the key measurement assumptions.

Impairment testing of goodwill for the Inn River run-of-river power plant group

	31/12/2017	**31/12/2018**
Group of cash generating units	Run-of-river power plants of the Inn River power plant group[1] that also each represent a cash-generating unit, plus goodwill	Run-of-river power plants of the Inn River power plant group[1] that also each represent a cash-generating unit, plus goodwill and deferred tax items
Basis for recoverable amount	Fair value (Level 3) less costs of disposal	Value in use
Valuation technique	Net present value approach (DCF method)	Net present value approach (DCF method)
Derivation of cash flow	VERBUND Innkraftwerke GmbH budgets (based mainly on near-market data)	VERBUND Innkraftwerke GmbH budgets (based mainly on near-market data)
Volume	Annual output corresponding to the mean energy capability of 1,856 or 1,975 GWh (after conclusion of the Töging modernisation project)	Annual output corresponding to the mean energy capability of 1,856 or 1,975 GWh (after conclusion of the Töging modernisation project)

Impairment testing of goodwill for the Inn River run-of-river power plant group

	31/12/2017	**31/12/2018**
Price	External price forecasts (see: Accounting policies); discounts for generation characteristics and the hydrological forecast and availability risk; premium for additional proceeds from the sale of guarantees of origin (derived from quoted price); consideration of the water charges based on official notices; estimate of the maintenance costs by the managers responsible	Internal price forecasts (see: Accounting policies); discounts for generation characteristics and the hydrological forecast and availability risk; premium for additional proceeds from the sale of guarantees of origin (derived from quoted prices); consideration of the water charges based on official notices; estimate of the maintenance costs by the managers responsible
Planning period	Detailed planning phase: 6 years; rough planning phase: 17 years followed by a terminal value phase	Detailed planning phase: 6 years; rough planning phase: 16 years followed by a terminal value phase
Key measurement assumptions	Electricity price, discount rate	Electricity price, discount rate
Discount rate	WACC after taxes: 4.75%	WACC after taxes: 4.75%[2]
Recoverable amount	€767.7m	€1,008.7m
Impairment during the period	€153.8m	–

[1] The Inn River run-of-river power plant group comprises the following run-of-river power plants: Aubach, Feldkirchen, Gars, Jettenbach I, Jettenbach II, Neuötting, Perach, Rosenheim, Stammham, Teufelsbruck, Töging and Wasserburg. // [2] The implicit input tax interest rate determined through a process of iteration amounted to 5.55%.

Sensitivity analysis for the Inn River run-of-river power plant group 31/12/2018[1]

	Value assigned to the key valuation assumption	Change in value for the recoverable amount to equal the carrying amount
Price of electricity[2]	€50.5/MWh	– 14.59%
Discount rate	4.75%	+1.09 pp

[1] In the sensitivity analysis, one key measurement assumption was changed at a time while the other factors of influence remained constant. However, in reality changes to the key measurement assumptions can also occur simultaneously. This can result in the amplification or (at least partial) neutralisation of the effects. // [2] The electricity price shown relates to the year 2030. The sensitivity analysis varies the price of electricity steadily over time up to the planning horizon.

Impairment testing of goodwill for the Grenzkraftwerke run-of-river power plant group[1]

	31/12/2017	**31/12/2018**
Group of cash generating units	Grenzkraftwerke run-of-river power plant group[2] that each represent a cash-generating unit plus goodwill and deferred tax accruals	Grenzkraftwerke run-of-river power plant group[2] that each represent a cash-generating unit plus goodwill and deferred tax accruals
Basis for recoverable amount	Fair value (Level 3) less costs of disposal	Value in use
Valuation technique	Net present value approach (DCF method)	Net present value approach (DCF method)
Derivation of cash flow	Grenzkraftwerke GmbH's budgets (based primarily on near-market data)	Grenzkraftwerke GmbH's budgets (based primarily on near-market data)
Volume	The annual output corresponding to the mean energy capability of 3,957 GWh	The annual output corresponding to the mean energy capability of 3,957 GWh
Price	External price forecasts (see: Accounting policies); discounts for generation characteristics and the hydrological forecast and availability risk; premium for additional proceeds from the sale of guarantees of origin (derived from quoted price); consideration of the water charges based on official notices (GER); estimate of the maintenance costs by the managers responsible	Internal price forecasts (see: Accounting policies); discounts for generation characteristics and the hydrological forecast and availability risk; premium for additional proceeds from the sale of guarantees of origin (derived from quoted prices); consideration of the water charges based on official notices (GER); estimate of the maintenance costs by the managers responsible
Planning period	Detailed planning phase: 6 years; rough planning phase: 17 years followed by a terminal value phase	Detailed planning phase: 6 years; rough planning phase: 16 years followed by a terminal value phase
Key measurement assumptions	Electricity price, discount rate	Electricity price, discount rate
Discount rate	Austria: WACC after taxes: 5.00% Germany: WACC after taxes: 4.75%	Austria: WACC after taxes: 5.00% Germany: WACC after taxes: 4.75%[3]
Impairment losses in the period[4]	–	–

[1] The following notes relate to the second step of the two-step impairment test of the Grenzkraftwerke run-of-river power plant group. The recoverability of the individual run-of-river power plants was tested in the first step and reversals of impairment losses totalling €55.8m were recognised (see: Impairment testing of power plants). // [2] The Grenzkraftwerke run-of-river power plant group comprises the following power plants: Braunau-Simbach, Egglfing-Obernberg, Ering-Frauenstein, Jochenstein, Nußdorf, Oberaudorf-Ebbs, Passau-Ingling and Schärding-Neuhaus. // [3] The implicit input tax interest rate determined through a process of iteration amounted to 5.67%–5.71%. // [4] According to management, the carrying amount of the Grenzkraftwerke power plant group (less deferred tax liabilities) plus goodwill does not exceed the recoverable amount as a result of possible changes in key measurement assumptions.

Impairment testing of power plants

Impairment tests of the run-of-river power plants of the Grenzkraftwerke run-of-river power plant group[1]

	31/12/2017	**31/12/2018**
Cash-generating unit	Run-of-river power plants of the Grenzkraftwerke run-of-river power plant group[2], each representing a separate cash-generating unit	Run-of-river power plants of the Grenzkraftwerke run-of-river power plant group[2], each representing a separate cash-generating unit, plus deferred tax items
Indications of impairment	Updated electricity price forecasts and updated discount rate	Updated electricity price forecasts
Basis for recoverable amount	Fair value (Level 3) less costs of disposal	Value in use
Valuation technique	Net present value approach (DCF method)	Net present value approach (DCF method)
Derivation of cash flow	Grenzkraftwerke GmbH's budgets (based primarily on near-market data)	Grenzkraftwerke GmbH's budgets (based primarily on near-market data)
Volume	The annual output corresponding to the mean energy capability: Braunau-Simbach: 537 GWh; Jochenstein: 976 GWh; Nußdorf: 243 GWh; Passau-Ingling: 494 GWh; Schärding-Neuhaus: 538 GWh	The annual output corresponding to the mean energy capability: Braunau-Simbach: 537 GWh; Jochenstein: 976 GWh; Nußdorf: 243 GWh; Passau-Ingling: 494 GWh; Schärding-Neuhaus: 538 GWh
Price	External price forecasts (see: Accounting policies); discounts for generation characteristics and the hydrological forecast and availability risk; premium for additional proceeds from the sale of guarantees of origin (derived from quoted prices); consideration of the water charges based on official notices (GER); estimate of the maintenance costs by the responsible managers	Internal price forecasts (see: Accounting policies); discounts for generation characteristics and the hydrological forecast and availability risk; premium for additional proceeds from the sale of guarantees of origin (derived from quoted prices); consideration of the water charges based on official notices (GER); estimate of the maintenance costs by the managers responsible
Planning period	Detailed planning phase: 6 years; rough planning phase: 17 years followed by a terminal value phase	Detailed planning phase: 6 years; rough planning phase: 16 years followed by a terminal value phase
Key measurement assumptions	Electricity price, discount rate	Electricity price, discount rate
Discount rate	Austria: WACC after taxes: 5.00% Germany: WACC after taxes: 4.75%	Austria: WACC after taxes: 5.00% Germany: WACC after taxes: 4.75%[3]
Recoverable amount	Braunau-Simbach: €312.7m; Jochenstein: €643.7m; Nußdorf: €151.5m; Passau-Ingling: €330.8m; Schärding-Neuhaus: €350.3m	Braunau-Simbach: €361.9m; Jochenstein: €675.7m; Nußdorf: €167.2m; Passau-Ingling: €348.3m; Schärding-Neuhaus: €367.4m
Reversal of impairment losses (previous year: impairment) in the period[4]	Braunau-Simbach: €–32.6m; Jochenstein: €–6.7m; Nußdorf: €–5.5m; Passau-Ingling: €–5.8m; Schärding-Neuhaus: €–7.2m	Braunau-Simbach: €31.4m; Jochenstein: €6.5m; Nußdorf: €5.2m; Passau-Ingling: €5.6m; Schärding-Neuhaus: €7.0m

[1] The following notes relate to the first step of the two-step impairment test of the Grenzkraftwerke run-of-river power plant group. In the second step, the power plant group was tested including goodwill (see: Impairment testing of goodwill). // [2] The Grenzkraftwerke run-of-river power plant group comprises the following power plants: Braunau-Simbach, Egglfing-Obernberg, Ering-Frauenstein, Jochenstein, Nussdorf, Oberaudorf-Ebbs, Passau-Ingling and Schärding-Neuhaus. // [3] The implicit input tax interest rate determined through a process of iteration amounted to 5.67%–5.71%. // [4] As of 31 December 2018, the recoverable amount of the run-of-river power plants exceeded the amortised cost. Therefore, a reversal of impairment was recognised up to the amortised cost.

Impairment test Romanian wind farm[1]

	31/12/2018[1]
Cash-generating unit	Wind farm on the Romanian Black Sea coast (installed capacity: 226 MW)
Indications of impairment	Updated electricity price forecasts and estimate of output as well as revised estimate with respect to the sales potential of Romanian green electricity certificates and updated discount rate
Basis for recoverable amount	Value in use
Valuation technique	Net present value approach (DCF method)
Derivation of cash flow	VERBUND Wind Power Romania SRL's budgets (based primarily on near-market data)
Volume	Annually expected electricity generation volumes of 477 GWh and/or expected sales opportunities for Romanian green electricity certificates
Price	Internal price forecasts (see: Accounting policies); estimates of maintenance costs based on maintenance agreements entered into
Planning period	Detailed planning phase: 6 years Rough planning phase: 15 years
Key measurement assumptions	Electricity price, sales opportunities for green electricity certificates, discount rate
Discount rate	WACC after taxes: 9.50%[2]
Recoverable amount	€129.4m
Reversal of impairment losses in the period[2]	€26.5m

[1] As of 31 December 2017, no impairment was recognised for the Romanian wind farm. // [2] The implicit input tax interest rate determined through a process of iteration amounted to 10.44%.

Sensitivity analysis for the Romanian wind farm 31/12/2018[1]

	Value assigned to the key valuation assumption	Change in key valuation assumptions	Effects on the carrying amounts of assets
Price of electricity[2]	€61.9/MWh	± 5%	€+8.2m €–8.2m
Revenue from selling Romanian green electricity certificates[3]	€5.7m	± 5%	€+1.2m €–1.2m
Discount rate	9.50%	± 0.25 pp	€–2.3m €+2.4m

[1] In the sensitivity analysis, one key measurement assumption was changed at a time while the other factors of influence remained constant. However, in reality changes to the key measurement assumptions can also occur simultaneously. This can result in the amplification or (at least partial) neutralisation of the effects. // [2] The electricity price shown relates to the year 2030. The sensitivity analysis varies the price of electricity steadily over time up to the planning horizon. // [3] The stated revenues from the sale of Romanian green electricity certificates relate to the average over the course of the entire planning period.

Impairment test Mittlere Salzach power plant group

	31/12/2017	31/12/2018
Cash-generating unit	The run-of-river power plants of the Mittlere Salzach river group[1], which collectively represent a cash-generating unit due to the coordinated rise and fall of the depth of the river	The run-of-river power plants of the Mittlere Salzach river group[1], which collectively represent a cash-generating unit due to the coordinated rise and fall of the depth of the river, plus deterred tax items
Indications of impairment	Updated electricity price forecasts and updated discount rate	Updated electricity price forecasts
Basis for recoverable amount	Fair value (Level 3) less costs of disposal	Value in use
Valuation technique	Net present value approach (DCF method)	Net present value approach (DCF method)
Derivation of cash flow	VERBUND Hydro Power GmbH's budgets (based primarily on near-market data)	VERBUND Hydro Power GmbH's budgets (based primarily on near-market data)
Volume	The annual output corresponding to the mean energy capability of 305 GWh	The annual output corresponding to the mean energy capability of 305 GWh
Price	External price forecasts (see: Accounting policies); discounts for generation characteristics and hydrological forecast and availability risk; premium for additional proceeds from the sale of guarantees of origin (derived from quoted prices); estimate of maintenance costs by managers responsible	Internal price forecasts (see: Accounting policies); discounts for generation characteristics and hydrological forecast and availability risk; premium for additional proceeds from the sale of guarantees of origin (derived from quoted prices); estimate of maintenance costs by managers responsible
Planning period	Detailed planning phase: 6 years; rough planning phase: 17 years followed by a terminal value phase	Detailed planning phase: 6 years; rough planning phase: 16 years followed by a terminal value phase
Key measurement assumptions	Electricity price, discount rate	Electricity price, discount rate
Discount rate	WACC after taxes: 5.00%	WACC after taxes: 5.00%[2]
Recoverable amount	€135.2m	€154.5m
Reversal of impairment losses (previous year: impairment) in the period[3]	€–21.4m	€21.1m

[1] The Mittlere Salzach power plant group comprises the following power plants: Bischofshofen, Kreuzbergmaut, St. Johann, St. Veit, Urreiting, Wallnerau-Salzachstufe, Wallnerau-Unterwasserstufe, Werfen/Pfarrwerfen. // [2] The implicit input tax interest rate determined through a process of iteration amounted to 5.82%. // [3] As of 31 December 2018, the recoverable amount of the run-of-river power plants exceeded the amortised cost. Therefore, a reversal of impairment was recognised up to the amortised cost. The reversal of impairment (previous year: impairment) in the 2018 reporting period was reduced by the change in contributions to building costs in the amount of €0.5m (previous year: €0.6m).

Neither impairments nor reversals of impairment required recognition for the Mellach combined cycle gas turbine power plant in the 2018 reporting period (previous year: reversal of impairment after a change in deferred government grants in the amount of €78.2m). The following sensitivity analysis shows the effects of a change in key assumptions concerning the future on the carrying amount (31 December 2018: €105.3m) of the cash-generating unit of the Mellach combined cycle gas turbine power plant:

Sensitivity analysis for the Mellach combined cycle gas turbine power plant 31/12/2018[1]

	Value assigned to the key valuation assumption	Change in key valuation assumptions	Effects on the carrying amounts of assets
Clean spark spread[2]	€48.4/MWh	± 5%	€+6.7m €–6.7m
Discount rate	5.00%	± 0.25 PP	€–1.8m €+1.8m
Temporarily expected revenue from the grid reserve, congestion management and redispatch	–[3]	± 10%	€+22.6m €–23.8m

[1] In the sensitivity analysis, one key measurement assumption was changed at a time while the other factors of influence remained constant. However, in reality changes to the key measurement assumptions can also occur simultaneously. This can result in the amplification or (at least partial) neutralisation of the effects. // [2] The indicated clean spark spread relates to the average for the years 2025–2030. The sensitivity analysis varies the clean spark spread steadily over time up to the planning horizon. // [3] A statement of the value assigned to the temporarily expected revenue from the grid reserve, congestion management and redispatch is omitted because such a statement could harm VERBUND's position in the bidding process.

Sensitivity analysis for the Mellach combined cycle gas turbine power plant 31/12/2017[1]

	Value assigned to the key valuation assumption	Change in key valuation assumptions	Effects on the carrying amounts of assets
Clean spark spread[2]	€50.4/MWh	± 5%	€+10.1m €–10.1m
Discount rate	5.00%	± 0.25 pp	€–2.0m €+2.0m
Temporarily expected revenue from congestion management and redispatch	–[3]	± 10%	€+19.1m €–20.5m

[1] In the sensitivity analysis, one key measurement assumption was changed at a time while the other factors of influence remained constant. However, in reality changes to the key measurement assumptions can also occur simultaneously. This can result in the amplification or (at least partial) neutralisation of the effects. // [2] The indicated clean spark spread relates to the average for the years 2025–2030. The sensitivity analysis varies the clean spark spread steadily over time up to the planning horizon. // [3] A statement of the value assigned to the temporarily expected revenue from congestion management and redispatch is omitted because such a statement could harm VERBUND's position in the bidding process.

Measurement of pensions and similar obligations and statutory termination benefits

Existing provisions for pensions and similar obligations as well as obligations from termination benefits (carrying amount as at 31 December 2018: €699.4m; previous year: €694.9m) were measured based on assumptions and estimates as at the reporting date. The key factors of influence included the discount rate, the estimated retirement age and the estimated life expectancy as well as future increases in salaries and pension benefits:

Actuarial assumptions for pension obligations

	2017	2018
Discount rate or expected rate of return from plan assets	1.50%	1.75%
Pension increases	1–2%	1–2%
Salary increases	1.75%	1.75%
Employee turnover	None	None
Longevity based on mortality table	AVÖ 2008-P/ RT 2005 G from Kl.Heubeck	AVÖ 2018-P/ Heubeck Mortality Tables 2018 G

Actuarial assumptions for obligations similar to pensions

	2017	2018
Discount rate	1.75%	2.00%
Employee turnover (depending on duration of employment)	0.0%–4.0%	0.0%–3.3%
Trend of contributions based on hospital cost index for new contracts (with participation)/old contracts (without participation)	4.0%–6.5%	3.75%–6.0%
Longevity based on mortality table	AVÖ 2008-P/ RT 2005 G from Kl.Heubeck	AVÖ 2018-P/ Heubeck Mortality Tables 2018 G

Actuarial assumptions for termination benefit obligations

	2017	2018
Discount rate	1.50%	1.75%
Salary increases	1.75%	1.75%
Employee turnover (depending on duration of employment)	0.0%–4.0%	0.0%–3.3%
Longevity based on mortality table	AVÖ 2008-P/ RT 2005 G from Kl.Heubeck	AVÖ 2018-P/ Heubeck Mortality Tables 2018 G

VERBUND is exposed to investment risk, interest rate risk, life expectancy risk and salary risk as well as the risk of price increases and employee turnover risk based on the existing pension and similar obligations as well as obligations from statutory termination benefits. Investment risk is reduced by the investment strategy, which is based on the requirements of the Austrian Pension Fund Act (Pensionskassengesetz, PKG) and the corresponding regulations of the Austrian Financial Market Authority (FMA). Nevertheless, investment income below the level of returns on first class fixed interest corporate bonds can lead to an increase in obligations. A decrease in returns on first class fixed interest corporate bonds, an increase in life expectancy, salary increases and price increases in the area of medical care would also lead to an increase in obligations. Furthermore, obligations would increase if the future actual employee turnover rate were to be lower than currently anticipated.

The following sensitivity analyses for pensions and similar obligations as well as obligations from termination benefits show the effects resulting from changes in significant actuarial assumptions on the obligations. One significant factor of influence was changed in each case, while the remaining factors were held constant. However, in reality it is rather unlikely for changes in the primary factors of influence to occur in isolation. The change in the obligation was calculated in a manner comparable with the calculation of the actual obligation based on the projected unit credit method (PUC method) in accordance with IAS 19.

Sensitivity analysis for net pension liability 2018

	Change in assumption in percentage points or years	If assumption increases, change in net liability of	If assumption decreases, change in net liability of
Discount rate	± 0.25	–2.97%	3.13%
Pension increases	± 0.50	6.40%	–5.81%
Longevity based on mortality table	± 1 year	5.39%	–5.31%

Sensitivity analysis for obligations similar to pensions 2018

	Change in assumption in percentage points or years	If assumption increases, change in obligation of	If assumption decreases, change in obligation of
Discount rate	± 0.25	–4.02%	4.28%
Trend of contributions based on hospital cost index	± 0.50	8.54%	–7.63%
Longevity based on mortality table	± 1 year	6.79%	–6.49%

Sensitivity analysis for termination benefit obligations 2018

	Change in assumption in percentage points or years	If assumption increases, change in obligation of	If assumption decreases, change in obligation of
Discount rate	± 0.25	–1.90%	1.96%
Salary increases	± 0.50	3.93%	–3.72%
Longevity based on mortality table	± 1 year	0.07%	–0.08%

Sensitivity analysis for net pension liability 2017

	Change in assumption in percentage points or years	If assumption increases, change in net liability of	If assumption decreases, change in net liability of
Discount rate	± 0.25	–2.99%	3.16%
Pension increases	± 0.50	6.44%	–5.84%
Longevity based on mortality table	± 1 year	5.63%	–5.54%

Sensitivity analysis for obligations similar to pensions 2017

	Change in assumption in percentage points or years	If assumption increases, change in obligation of	If assumption decreases, change in obligation of
Discount rate	± 0.25	–4.21%	4.49%
Trend of contributions based on hospital cost index	± 0.50	8.91%	–7.93%
Longevity based on mortality table	± 1 year	6.30%	–5.62%

Sensitivity analysis for termination benefit obligations 2017

	Change in assumption in percentage points or years	If assumption increases, change in obligation of	If assumption decreases, change in obligation of
Discount rate	± 0.25	–1.82%	1.88%
Salary increases	± 0.50	3.71%	–3.52%
Longevity based on mortality table	± 1 year	0.06%	–0.07%

Measurement of provisions

Provisions for dismantling and decontamination costs (carrying amount as at 31 December 2018: €31.1m; previous year: €39.3m) were measured based on assumptions and estimates made on the reporting date. The primary factors of influence were the expected dismantling dates, any possible expert reports to ascertain the dismantling and decontamination costs or proceeds from the sale of scrap, the valorisation of these costs and the discount rate of 2.25% (previous year: 1.75%).

Contingent liabilities

Contingent liabilities not recognised in VERBUND's balance sheet are assessed quarterly with respect to their probability of occurrence. If the outflow of resources embodying economic benefits is neither sufficiently probable to justify recognition of a provision nor unlikely, the relevant obligations are reported as contingent liabilities. The assessment is carried out by the managers responsible, taking account of market-related inputs (to the extent possible) and expert opinions (in individual cases).

Joint operation: Ennskraftwerke Aktiengesellschaft

Due to the circumstances and fact that the operations of Ennskraftwerke Aktiengesellschaft (Ennskraftwerke) are solely geared towards supplying both parties with electricity produced at production cost (including a fixed profit margin) and therefore the liabilities entered into by Ennskraftwerke can essentially only be settled through the payments flowing to it as a result of the sale of the electricity to the parties, the equity interest in Ennskraftwerke (equity interest ratio of VERBUND and Energie AG Oberösterreich: 50:50) must be classified as a joint operation. As a result, Ennskraftwerke is being included in the consolidated financial statements with the share of assets and liabilities and/or revenue and expenses attributable to VERBUND. The size of the share is determined based on the relationship of electricity deliveries to both parties. Ennskraftwerke owns and operates hydropower plants along the Enns and Steyr rivers. The ratio of electricity deliveries to the two parties differs from power plant to power plant. From a cost-benefit perspective, the assets and liabilities and/or revenue and expenses of Ennskraftwerke based on the average ratio of total electricity deliveries (VERBUND 62% and Energie AG Oberösterreich 38%) are included in VERBUND's consolidated financial statements.

Segment reporting

Segmentation

In accordance with Section 8(3) of the Austrian Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und organisationsgesetz, ElWOG), integrated electricity companies must publish separate balance sheets and income statements for electricity generation, electricity trading and supply activities as well as for transmission activities. However, in accordance with IFRS 8, VERBUND's segment reporting is to be oriented towards internal management and reporting (management approach). The identification of operating segments and the contents of the report therefore correspond to the structure of internal reporting to the Executive Board as the chief operating decision maker, which results in the following identification of operating segments:

Hydropower and wind generation technologies are brought together under the Renewable generation segment. The Sales segment comprises all trading and sales activities, and the Grid segment comprises all activities of Austrian Power Grid (APG). The new services for the electricity market of the future (e.g. convenience services, energy optimisation and electromobility) are reported under the Energy services segment. The Thermal generation segment includes the electricity and heat generation of VERBUND Thermal Power GmbH & Co KG from coal and gas. The primarily intra-Group business activities of VERBUND Services GmbH are reported under the Services segment. Interests accounted for using the equity method which have not been allocated to any other segment are reported under the Equity interests segment. This currently only comprises the equity interest in KELAG-Kärntner Elektrizitäts-Aktiengesellschaft.

The Energy services, Thermal generation, Equity interests and Services segments have been combined in the “All other segments” category in the segment reporting below because they fall below the quantitative thresholds. The “Reconciliation/consolidation” column includes the activities of VERBUND AG and VERBUND Finanzierungsservice GmbH as well as unconsolidated equity interests that have not been allocated to a segment and consolidations which must be carried out at Group level.

Notes to the operating segment data

The internal measurement of the operating segments' performance is based primarily on earnings before interest, tax, depreciation and amortisation (EBITDA). EBITDA for each operating segment corresponds to the aggregate EBITDA of the subsidiaries included in the respective segment, taking inter-segmental revenue and expenses into account. Transactions between segments are carried out at arm's length.

Furthermore, the result from interests accounted for using the equity method is of significance for the Equity interests segment.

The measure used internally for the reporting of segment assets is capital employed. Capital employed corresponds to the total assets of an operating segment, net of those assets that do not (yet) contribute to VERBUND's performance and commercialisation processes (for instance, advance payments made, plants under construction, investments under closed items on the balance sheet) and less non-interest-bearing debt.

Other material non-cash items included in the operating result in addition to depreciation of property, plant and equipment and amortisation of intangible assets include, in particular, measurement effects from derivatives and hedging relationships in the energy area, reversals of the deferred income item from contributions to building costs, non-cash changes in provisions and any write-downs of primary energy sources in inventory.

Additions to intangible assets and property, plant and equipment include capital expenditure as well as increases due to any business acquisitions. Additions to equity interests accounted for using the equity method include capital increases as well as any share purchases.

All segment data are measured in accordance with IFRSs.

Operating segment data

Operating segment data

€m

	Renewable generation	Sales	Grid	All other segments	Recon-ciliation/ consoli-dation	Total Group
2018						
External revenue	179.1	1,789.2	849.9	26.7	3.0	2,847.9
Internal revenue	724.7	302.6	52.6	224.5	–1,304.4	0.0
Total revenue	903.8	2,091.8	902.5	251.3	–1,301.4	2,847.9
EBITDA	**514.5**	**83.4**	**242.4**	**57.3**	**–33.3**	**864.2**
Depreciation	–229.9	–1.1	–84.1	–11.8	–0.4	–327.3
Effects from impairment tests (operating result)	112.1	0.0	0.0	6.1	0.0	118.2
Other material non-cash items	52.4	–2.4	11.7	12.4	3.8	77.9
Result from interests accounted for using the equity method	0.0	0.0	0.1	28.4	0.0	28.4
Effects from impairment tests (financial result)	–2.2	0.0	0.0	0.3	0.0	–1.8
Capital employed	**6,602.2**	**290.9**	**1,311.9**	**502.7**	**185.2**	**8,892.8**
of which carrying amount of interests accounted for using the equity method	2.7	0.0	1.4	319.2	0.0	323.3
Additions to intangible assets and property, plant and equipment	106.5	2.2	181.3	19.7	1.6	311.3
Additions to interests accounted for using the equity method	0.0	0.0	0.0	0.0	0.0	0.0

Operating segment data

€m

	Renewable generation	Sales	Grid	All other segments	Recon-ciliation/ consoli-dation	Total Group
2017						
External revenue	177.8	1,993.5	713.7	25.0	3.3	2,913.2
Internal revenue	788.2	290.0	74.2	247.4	–1,399.7	0.0
Total revenue	965.9	2,283.5	787.9	272.4	–1,396.4	2,913.2
EBITDA	**565.0**	**108.0**	**158.6**	**120.7**	**–30.0**	**922.3**
Depreciation	–252.0	–1.0	–78.2	–9.6	–0.4	–341.3
Effects from impairment tests (operating result)	–244.1	0.0	0.0	63.1	0.0	–180.9
Other material non-cash items	45.6	–7.4	13.1	30.0	1.8	83.1
Result from interests accounted for using the equity method	0.5	0.0	0.3	27.2	0.0	27.9
Effects from impairment tests (financial result)	–4.1	0.0	0.0	–1.1	0.0	–5.2
Capital employed	**6,769.7**	**182.5**	**1,257.1**	**513.7**	**–86.2**	**8,636.8**
of which carrying amount of interests accounted for using the equity method	2.6	0.0	1.5	308.9	0.0	313.0
Additions to intangible assets and property, plant and equipment	112.8	1.2	115.3	26.4	1.3	257.0
Additions to interests accounted for using the equity method	0.0	0.0	0.0	13.4	0.0	13.4

Reconciliation

EBITDA in the total column corresponds to EBITDA in VERBUND's income statement; therefore, the reconciliation to profit before tax can be taken from the income statement.

The reconciliation from the total amount for capital employed to VERBUND's total assets results as follows:

Reconciliation from capital employed to total assets €m

	2017	2018
Capital employed	8,636.8	8,892.8
Assets not used in the performance and commercialisation process	520.1	935.3
Non-interest-bearing debt	2,126.7	1,876.7
Total assets of VERBUND	11,283.6	**11,704.8**

Entity-wide disclosures

Under IFRS 8, entity-wide disclosures include geographical segment reporting for revenue (based on the point of delivery) and non-current assets. In addition, information on major customers must be provided. Disclosures regarding revenue are presented under (1) Revenue in the section entitled Notes to the income statement. VERBUND does not have any customers for whom revenue equals or exceeds 10% of total revenue.

Geographical segment reporting: non-current assets €m

	2017	2018
Intangible assets and property, plant and equipment	9,546.9	**9,601.4**
of which in Austria	6,805.8	6,864.6
of which in Germany	2,641.4	2,616.5
of which in other EU countries	99.7	120.2
Interests accounted for using the equity method	313.0	**323.3**
of which in Austria	313.0	323.3
of which in Germany	0.0	0.0
of which in other countries[1]	0.0	0.0

[1] This includes the equity interest in (Austrian) Ashta Beteiligungsverwaltung GmbH, which holds an equity interest in the Albanian entity Energji Ashta Shpk.

Notes to the income statement

(1) Revenue

Revenue by segment €m

	2017 Domestic	2018 Domestic	2017 Foreign	2018 Foreign	2017 Total	2018 Total
Electricity revenue resellers	59.3	60.9	72.0	75.4	131.3	136.3
Electricity revenue traders	22.8	14.3	8.6	9.6	31.3	23.8
Electricity revenue – Renewable generation segment	82.1	**75.1**	80.5	**85.0**	162.6	**160.1**
Electricity revenue resellers	451.5	411.1	196.8	357.9	648.3	769.0
Electricity revenue traders	81.6	180.4	555.3	290.4	636.9	470.8
Electricity revenue consumers	245.3	250.4	383.6	234.0	629.0	484.4
Electricity revenue – Sales segment	778.4	**842.0**	1,135.8	**882.3**	1,914.2	**1,724.2**
Electricity revenue resellers	63.6	67.9	226.2	227.3	289.8	295.2
Electricity revenue traders	–3.9	6.7	6.7	3.6	2.9	10.2
Electricity revenue – Grid segment	59.7	**74.6**	232.9	**230.9**	292.7	**305.5**
Electricity revenue resellers	0.0	0.0	0.0	0.0	0.0	0.0
Electricity revenue traders	0.5	0.0	0.0	0.0	0.5	0.0
Electricity revenue – All other segments	0.5	**0.0**	0.0	**0.0**	0.5	**0.0**
Electricity revenue – reconciliation	0.2	**0.0**	0.0	**0.0**	0.2	**0.0**
Total electricity revenue	920.8	**991.6**	1,449.3	**1,198.2**	2,370.2	**2,189.8**
Grid revenue electric utilities	251.7	386.2	8.0	15.1	259.8	401.3
Grid revenue industrial customers	12.1	10.4	0.0	0.0	12.1	10.4
Grid revenue other	43.5	25.1	101.0	100.4	144.5	125.5
Total grid revenue – Grid segment	307.4	**421.7**	109.0	**115.5**	416.4	**537.2**
Other revenue – Renewable generation segment					15.3	**19.0**
Other revenue – Sales segment					79.2	**65.0**
Other revenue – Grid segment					4.6	**7.2**
Other revenue – All other segments					24.5	**26.7**
Other revenue – reconciliation					3.1	**3.0**
Total of other revenue					126.6	**121.0**
Total revenue					2,913.2	**2,847.9**

IFRS 15 was applied for the first time in the 2018 reporting period. As a result, VERBUND was classified as an agent in connection with recharged grid fees/cost allocations, and electricity revenue in the amount of €203.4m was therefore shown as netted with the corresponding procurement costs (for further details see the section entitled Newly applied or applicable accounting standards).

In the 2018 reporting period, €3.8m (previous year: €2.4m) in measurements of derivative financial instruments in the energy area and realisations of standard futures contracts in the trading area where the main purpose is not the final physical delivery of energy were recognised as revenue. To present business performance more accurately, revenue from energy trading is shown as a net amount, i.e. amounts realised and measured are each presented net of expenses. Without this net presentation, the electricity revenue (and expenses for the purchase of electricity) in the 2018 reporting period would have been €2,202.0m (previous year: €2,669.0m) and other revenue €2,151.3m (previous year: €1,323.9m) higher.

Other revenue comprised the following in the 2018 reporting period and the previous year:

Other revenue

€m	2017	2018
Sale of gas	58.5	42.8
Sale of proof of origin and green electricity certificates	24.1	34.8
District heating deliveries	17.4	20.1
Consulting or planning services as well as other services	13.8	13.2
User and management fees	6.7	7.7
Provision of personnel	2.7	1.5
Sale of waste products	1.2	0.9
Sale of emission rights	1.0	–1.0
Other	1.3	0.9
Other revenue	126.6	**121.0**

(2) Other operating income

Other operating income

€m	2017	2018
Changes in inventory and own work capitalised	29.4	30.6
Various goods and services	5.8	9.1
Disposal of property, plant and equipment and intangible assets	4.6	2.2
Reversals of contributions to building costs	3.3	2.9
Rent and lease income	2.3	2.5
Income from (insurance) compensation	3.3	1.5
Sale of materials	0.6	0.2
Change in status as a result of the sale of shares of SMATRICS GmbH & Co KG	22.7	0.0
Other	6.4	16.5
Other operating income	78.4	**65.5**

(3)
Expenses for electricity, grid, gas and certificates purchases

Expenses for electricity, grid, gas and certificates purchases		€m
	2017	**2018**
Expenses for electricity purchases	1,276.6	1,287.6
Expenses for gas purchases	54.5	38.3
Expenses for grid purchases (system use)	94.7	30.8
Purchase of emission rights (trade)	1.3	–0.2
Expenses for proof of origin and green electricity certificate purchases	1.1	4.4
Expenses for electricity, grid, gas and certificates purchases	1,428.2	**1,360.7**

IFRS 15 was applied for the first time in the 2018 reporting period. As a result, VERBUND was classified as an agent in connection with recharged grid fees/cost allocations, and electricity revenue in the amount of €203.4m was therefore shown as netted with the corresponding procurement costs (for further details see the section entitled Newly applied or applicable accounting standards).

(4)
Fuel expenses and other usage-/revenue-dependent expenses

Fuel expenses and other usage-/revenue-dependent expenses		€m
	2017	**2018**
Use of natural gas	71.6	62.3
Use of coal	14.9	26.1
Other revenue-dependent expenses	19.4	19.6
Emission rights acquired in exchange for consideration	7.2	16.4
Other usage-dependent expenses	1.1	1.4
Fuel expenses and other usage-/revenue-dependent expenses	114.2	**125.8**

(5)
Personnel expenses

Personnel expenses		€m
	2017	**2018**
Wages and salaries	237.7	241.2
Expenses for social security contributions as required by law as well as income-based charges and compulsory contributions	53.4	54.1
Other social expenses	3.6	3.6
Subtotal	294.6	**298.9**
Expenses for pensions and similar obligations	14.3	18.6
Expenses for termination benefits	4.7	5.4
Personnel expenses	313.6	**322.8**

The pension fund contributions to the defined contribution investment and risk association amounted to €7.2m (previous year: €7.3m) in the 2018 reporting period. Expenses for termination benefits included a total of €1.7m (previous year: €1.5m) in contributions to an employee pension fund.

(6) Other operating expenses

Other operating expenses €m

	2017	**2018**
Third-party maintenance of power plants and line systems	77.9	**82.7**
Other third-party services received	17.4	**26.4**
IT expenses	14.5	**15.9**
Advertising expenses	16.2	**15.1**
Costs for personnel provided	10.1	**11.7**
Expenses for supervision by E-Control	14.0	**11.6**
Legal, consulting and audit expenses	7.4	**11.4**
Travel expenses, advanced training	9.2	**9.1**
Rental, lease expenses	6.9	**6.9**
Fees	3.9	**5.9**
Material costs for motor vehicle operation and maintenance	6.1	**5.5**
Operating costs	5.2	**4.7**
Purchased telecommunication services	4.1	**4.7**
Insurance	3.7	**3.4**
Compensation payments	2.5	**3.3**
Usage fees	2.7	**2.9**
Membership fees	2.6	**2.9**
Concession fees	2.7	**2.7**
Expenses from the disposal of property, plant and equipment and intangible assets	0.3	**1.2**
Reversal of provisions	–5.2	**–1.4**
Other	10.8	**13.1**
Other operating expenses	213.2	**239.8**

(7) Depreciation of property, plant and equipment and amortisation of intangible assets

Depreciation of property, plant and equipment and amortisation of intangible assets €m

	2017	**2018**
Depreciation of property, plant and equipment	335.0	**320.4**
Amortisation of intangible assets	6.3	**7.0**
Depreciation of property, plant and equipment and amortisation of intangible assets	341.3	**327.3**

(8) Impairment losses and reversals of impairment losses

Impairment losses and reversals of impairment losses

	2017	2018
Power plants of the Grenzkraftwerke power plant group	–57.7	55.8
Romanian wind farms	0.0	26.5
Mittlere Salzach power plant group	–21.9	21.1
Accrued contributions to building costs for the Mittlere Salzach power plant group	0.6	–0.5
Gössendorf and Kalsdorf run-of-river power plants[1]	0.0	13.5
Deferred contributions to building costs for the Gössendorf and Kalsdorf run-of-river power plants	0.0	–1.0
Power plant facilities that have been shut down and land in Dürnrohr and Korneuburg[2]	0.0	6.2
Pernegg run-of-river power plant[1]	–5.9	5.7
Mellach combined cycle gas turbine power plant	80.3	0.0
Contributions to building costs for the Mellach combined cycle gas turbine power plant	–2.1	0.0
Goodwill of the Inn River power plant group	–153.8	0.0
Mellach district heating plant	–10.5	0.0
Contributions to building costs for the Graz power plant on the Mur River[1]	0.0	–4.3
Gries run-of-river power plant[1]	–6.2	–5.5
Deferred contributions to building costs for the Gries run-of-river power plant	1.0	0.9
Other	–4.6	–0.1
Impairment losses and reversals of impairment losses	– 180.9	**118.2**

[1] In the 2018 reporting period, the recoverability of the run-of-river power plants and contributions to building costs for the Graz power plant on the Mur River was to be tested based on updated electricity price forecasts. // [2] Impairment testing was performed due to the anticipated sale of the plants, which then occurred in quarter 3/2018.

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

In the 2018 reporting period and the previous year, the result from interests accounted for using the equity method can be mainly attributed to the positive result of KELAG-Kärntner Elektrizitäts-Aktiengesellschaft, which operates internationally and also provides electricity, gas and heat to customers throughout Austria with a focus on Carinthia.

(10) Other result from equity interests

Other result from equity interests

€m

	2017	2018
Income from equity interests and unconsolidated subsidiaries	9.1	9.4
Income from the disposal of equity interests and unconsolidated subsidiaries	2.5	0.0
Expenses arising from equity interests and unconsolidated subsidiaries	–0.4	–0.6
Other result from equity interests	11.2	**8.8**

(11) Interest income

Interest income

€m	2017	2018
Interest from investments under closed items on the balance sheet	29.3	29.8
Interest from money market transactions	0.1	0.1
Other interest and similar income	6.7	2.3
Interest income	36.0	**32.1**

(12) Interest expenses

Interest expenses

€m	2017	2018
Interest for bonds	50.4	49.7
Interest for financial liabilities under closed items on the balance sheet	29.3	29.8
Interest for other liabilities from electricity supply commitments	16.6	15.9
Interest for bank loans	14.0	11.8
Net interest expense on personnel-related liabilities	11.0	10.8
Interest on a share redemption obligation	6.5	4.9
Interest for other non-current provisions	1.7	1.6
Profit or loss attributable to limited partners	–0.3	0.1
Borrowing costs capitalised in accordance with IAS 23	–5.0	–3.2
Other interest and similar expenses	5.6	6.0
Interest expenses	129.6	**127.4**

(13) Other financial result

Other financial result

€m	2017	2018
Measurement of an obligation to return an interest	31.7	7.8
Income from securities and loans	2.5	2.4
Measurement of derivatives in the finance area	2.9	1.0
Foreign exchange gains	0.2	0.2
Change in expected credit losses	0.0	0.2
Measurement of the long position: Gemeinschaftskraftwerk Inn GmbH	–4.3	0.0
Foreign exchange losses	–0.1	–0.1
Measurement of non-derivative financial instruments	0.0	–6.3
Other	5.2	2.6
Other financial result	38.2	7.8

The result from the measurement of an obligation to return an interest relates to the obligation to transfer 50% of the interest in Donaukraftwerk Jochenstein AG back to the Federal Republic of Germany, specifically to the Free State of Bavaria. It results from the discounted change (with original effective interest rate) in fair value of the interest as at 31 December 2050.

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.

(14) Impairment losses

The impairment losses in the financial result in the 2018 reporting period and in the previous year related primarily to the interest in Ashta Beteiligungsverwaltung GmbH accounted for using the equity method. Impairment testing was performed in the 2018 reporting period as a result of the updated electricity price forecasts as well as an updated discount rate.

(15) Taxes on income

Taxes on income €m

	2017	**2018**
Current tax expenses[1]	68.7	22.2
Future tax expense for subsequent taxation of transfers of losses from foreign members of the tax group	8.4	12.8
Changes in deferred income taxes	–0.1	91.7
Taxes on income	77.0	**126.8**

[1] Current tax expenses include expenses from prior periods of €1.2m (previous year: income €1.8m).

The reasons for the difference between VERBUND's computed and recognised tax expense are as follows:

Tax reconciliation €m

	2017	2018
Computed income tax expense (25.0%)	94.6	150.7
Impairment testing of equity-accounted and other interests	0.2	0.5
Differing tax rates	–6.1	–2.9
Amortisation of goodwill under tax law	–2.9	–2.9
Interests accounted for using the equity method	–3.4	–3.6
Tax-exempt investment income	–5.8	–5.9
Deferred taxes not yet taken into account	0.0	–12.7
Differences from other line items (each <€2m)	–2.5	0.7
Income tax expenses for the period	74.1	124.0
Income tax expenses or income from prior periods (current and deferred)	2.9	2.7
Recognised income tax expenses	77.0	126.8
Effective tax rate	20.3%	21.0%

(16) Earnings per share

Determination of earnings per share €m

	2017	**2018**
Profit for the period	301.6	476.2
Profit for the period attributable to non-controlling interests	–0.1	–43.1
Group result	301.4	**433.2**
Weighted average number of shares in circulation	347,415,686	347,415,686
Earnings per share in €[1]	0.87	**1.25**

[1] There were no options on the issue of new shares or other facts or circumstances that could have a diluting effect; therefore, basic and diluted earnings per share were the same.

Notes to the statement of comprehensive income

(17) Reclassification adjustments to the income statement

Reclassification adjustments to the income statement

€m

	2017	2018
Measurement gains or losses recognised in equity	–3.2	–0.2
Reclassification adjustment to the income statement	0.0	0.0
Differences from currency translation	–3.2	**–0.2**
Measurement gains or losses recognised in equity	31.0	–
Reclassification adjustment to the income statement	0.0	–
Measurements of available-for-sale financial instruments	31.0	–
Measurement gains or losses recognised in equity	–153.6	–207.3
Reclassification adjustment to the income statement	90.5	179.5
Basis adjustments	0.0	0.0
Measurements of cash flow hedges	–63.1	**–27.9**
Measurement gains or losses recognised in equity	0.2	0.2
Reclassification adjustment to the income statement	0.0	0.0
Basis adjustments	0.0	0.0
Other comprehensive income from interests accounted for using the equity method	0.2	**0.2**
Other comprehensive income	–35.2	**–28.0**

(18)
Taxes on income on other comprehensive income

Taxes on income on other comprehensive income

€m

	2017 Before taxes	2017 Taxes	2017 After taxes	**2018 Before taxes**	**2018 Taxes**	**2018 After taxes**
Remeasurements of the net defined benefit liability	6.6	–1.6	5.0	–25.5	6.3	–19.1
Measurements of financial instruments	–	–	–	–6.1	1.5	–4.6
Other comprehensive income from interests accounted for using the equity method	5.0	–	5.0	–3.8	–	–3.8
Total of items that will not be reclassified subsequently to the income statement	11.6	–1.6	10.0	**–35.4**	**7.9**	**–27.5**
Differences from currency translation	–3.2	–	–3.2	–0.2	–	–0.2
Measurements of available-for-sale financial instruments	31.0	–7.8	23.2	–	–	–
Measurements of cash flow hedges	–63.1	15.8	–47.3	–27.9	7.0	–20.9
Other comprehensive income from interests accounted for using the equity method	0.2	–	0.2	0.2	–	0.2
Total of items that will be reclassified subsequently to the income statement	–35.2	8.0	–27.2	**–28.0**	**7.0**	**–21.0**
Other comprehensive income	–23.5	6.3	–17.2	**–63.3**	**14.8**	**–48.5**

Notes to the balance sheet

(19)
Intangible assets

Intangible assets €m

	Concessions, rights, licences	Goodwill	Total
2018			
Cost as at 1/1	170.8	766.8	937.6
Foreign exchange differences	0.0	0.0	0.0
Additions	18.8	0.0	18.8
Disposals	–39.7	0.0	–39.7
Reclassifications	–1.0	0.0	–1.0
Cost as at 31/12	**148.8**	**766.8**	**915.6**
Accumulated amortisation as at 1/1	82.9	179.1	262.0
Foreign exchange differences	0.0	0.0	0.0
Depreciation	7.0	0.0	7.0
Impairment losses	4.3	0.0	4.3
Reversals of impairment losses	–0.3	0.0	–0.3
Disposals	–1.7	0.0	–1.7
Reclassifications	0.0	0.0	0.0
Accumulated amortisation as at 31/12	**92.2**	**179.1**	**271.3**
Net carrying amount as at 31/12	**56.6**	**587.7**	**644.3**
Net carrying amount as at 1/1	87.9	587.7	675.6

Intangible assets €m

	Concessions, rights, licences	Goodwill	Total
2017			
Cost as at 1/1	148.8	766.8	915.6
Foreign exchange differences	–0.1	0.0	–0.1
Additions	26.0	0.0	26.0
Disposals	–3.5	0.0	–3.5
Reclassifications	–0.4	0.0	–0.4
Cost as at 31/12	**170.8**	**766.8**	**937.6**
Accumulated amortisation as at 1/1	79.0	25.3	104.3
Foreign exchange differences	–0.1	0.0	–0.1
Depreciation	6.3	0.0	6.3
Impairment losses	0.0	153.8	153.8
Reversals of impairment losses	–0.2	0.0	–0.2
Disposals	–2.1	0.0	–2.1
Accumulated amortisation as at 31/12	**82.9**	**179.1**	**262.0**
Net carrying amount as at 31/12	**87.9**	**587.7**	**675.6**
Net carrying amount as at 1/1	69.8	741.5	811.3

(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
2018							
Cost as at 1/1	7,791.4	4,601.4	3,699.8	1,355.9	183.9	290.4	17,922.5
Foreign exchange differences	–0.1	–0.3	0.0	0.0	0.0	0.0	–0.4
Additions	14.6	13.6	55.8	26.4	11.6	170.4	292.5
Disposals	–122.0	–92.4	–135.9	–0.2	–11.8	0.0	–362.3
Reclassifications	31.9	9.2	59.9	16.2	1.0	–117.2	1.0
Cost as at 31/12	**7,715.8**	**4,531.6**	**3,679.6**	**1,398.4**	**184.8**	**343.5**	**17,853.4**
Accumulated depreciation as at 1/1	3,216.7	2,627.8	2,317.7	745.3	135.8	8.0	9,051.2
Foreign exchange differences	0.0	–0.2	0.0	0.0	0.0	0.0	–0.2
Depreciation	89.9	84.6	107.0	26.6	12.3	0.0	320.4
Impairment losses	4.4	0.5	0.6	0.0	0.0	0.0	5.6
Reversals of impairment losses	–60.8	–52.7	–14.9	–0.1	0.0	0.0	–128.5
Disposals	–115.4	–90.6	–134.5	–0.1	–11.6	0.0	–352.1
Reclassifications	5.4	0.5	0.4	0.0	0.0	–6.3	0.0
Accumulated depreciation as at 31/12	**3,140.3**	**2,569.8**	**2,276.3**	**771.7**	**136.6**	**1.7**	**8,896.3**
Net carrying amount as at 31/12	**4,575.4**	**1,961.8**	**1,403.3**	**626.6**	**48.2**	**341.8**	**8,957.1**
Net carrying amount as at 1/1	4,574.6	1,973.6	1,382.0	610.6	48.1	282.4	8,871.3

Property, plant and equipment

€m

	Land and buildings	Machinery	Electrical installations	Power lines	Office and plant equipment	Plants under construction and projects	Total
2017							
Cost as at 1/1	7,759.1	4,593.7	3,639.6	1,319.7	176.4	247.3	17,735.4
Foreign exchange differences	–1.7	–6.8	–0.4	0.0	0.0	0.0	–8.9
Additions	25.2	11.3	37.9	9.3	10.7	136.4	231.0
Disposals	–0.7	–4.1	–18.7	–0.1	–5.3	–6.7	–35.5
Reclassifications	9.4	7.3	41.2	27.0	2.1	–86.6	0.4
Cost as at 31/12	**7,791.4**	**4,601.4**	**3,699.8**	**1,355.9**	**183.9**	**290.4**	**17,922.5**
Accumulated depreciation as at 1/1	3,075.7	2,571.7	2,217.0	722.7	128.9	9.2	8,724.8
Foreign exchange differences	–0.3	–5.9	–0.1	0.0	0.0	0.0	–6.3
Depreciation	90.8	93.4	113.6	25.3	12.0	0.0	335.0
Impairment losses	61.4	25.0	14.1	0.1	0.0	6.2	106.8
Reversals of impairment losses	–10.7	–53.4	–12.2	–2.7	0.0	–1.1	–80.1
Disposals	–0.1	–3.1	–14.5	0.0	–5.0	–6.4	–29.2
Reclassifications	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulated depreciation as at 31/12	**3,216.7**	**2,627.8**	**2,317.7**	**745.3**	**135.8**	**8.0**	**9,051.2**
Net carrying amount as at 31/12	**4,574.6**	**1,973.6**	**1,382.0**	**610.6**	**48.1**	**282.4**	**8,871.3**
Net carrying amount as at 1/1	4,683.5	2,022.0	1,422.7	597.0	47.5	238.1	9,010.7

Additions

€m

	2017	**2018**
General overhaul of substations	21.9	**43.4**
General overhaul of 220-kV St. Peter–Ernsthofen line	4.0	**41.8**
Mayrhofen power plant: modernisation of impellers, Lower Tuxbach diversion	18.5	**21.4**
Automation of hydropower plants	15.3	**11.8**
Werndorf boiler	4.0	**11.8**
General overhaul of power lines	15.0	**21.4**
Other additions (< €10.0m)	152.3	**140.9**
Total additions to property, plant and equipment	231.0	**292.5**

(21)
Interests accounted for using the equity method

Interests accounted for using the equity method

€m	2017	2018
Amortised cost as at 1/1	318.5	349.9
Additions	13.4	0.0
Dividends	–14.2	–14.2
Result from equity accounting	27.9	28.4
Other comprehensive income from equity accounting	4.9	–3.6
Disposals	0.0	–0.1
Amortised cost as at 31/12	349.9	**360.4**
Accumulated value adjustments as at 1/1	–52.5	–56.6
Impairment losses	–4.1	–2.2
Accumulated value adjustments as at 31/12	–56.6	**–58.8**
Net carrying amount as at 31/12	293.3	**301.6**
Net carrying amount as at 1/1	266.0	293.3
Net carrying amount as at 31/12	293.3	**301.6**
of which interests accounted for using the equity method	313.0	323.3
of which impairment losses on non-current loans	–19.6	–21.9

The carrying amount of the equity interest in Ashta Beteiligungsverwaltung GmbH was reduced to zero in 2013 by the recognition of negative results from interests accounted for using the equity method and impairment losses. However, VERBUND still holds non-current loans to Ashta Beteiligungsverwaltung GmbH, which in their economic substance represent an increase of the net investment in Ashta Beteiligungsverwaltung GmbH. The (residual) carrying amount of these loans was reduced by €0.1m (previous year: increase of €0.3m) in the 2018 reporting period as a result of the negative result obtained from using equity method accounting and by €2.2m as a result of the recognised impairment loss (previous year: decrease of €4.1m as a result of the recognised reversal of impairment). A summary of aggregated financial information for the equity-accounted joint ventures and associates is presented in the section entitled Subsidiaries, joint ventures and associates of VERBUND.

(22) Other equity interests

Other equity interests €m

	Interests in unconsolidated subsidiaries	Other equity interests	Total
2018			
(Amortised) cost as at 1/1	6.7	132.8	139.5
Disposals	– 0.5	0.0	– 0.5
(Amortised) cost as at 31/12	**6.2**	**132.8**	**139.0**
Accumulated value adjustments as at 1/1	5.2	– 7.1	– 2.0
Fair value measurement in OCI	2.5	– 9.6	– 7.1
Reversals of impairment losses	0.3	0.0	0.3
Accumulated value adjustments as at 31/12	**8.0**	**– 16.6**	**– 8.7**
Net carrying amount as at 31/12	**14.2**	**116.1**	**130.3**
Net carrying amount as at 1/1	11.9	125.7	137.5

Other equity interests €m

	Interests in unconsolidated subsidiaries	Other equity interests	Total
2017			
(Amortised) cost as at 1/1	5.4	133.2	138.6
Change in the basis of consolidation	1.4	0.0	1.4
Additions from acquisitions of interests and capital increases	0.0	1.1	1.1
Disposals	– 0.1	– 1.5	– 1.6
(Amortised) cost as at 31/12	**6.7**	**132.8**	**139.5**
Accumulated value adjustments as at 1/1	– 0.1	– 23.9	– 24.0
Impairment losses	– 1.1	0.0	– 1.1
Fair value measurement in OCI	6.3	15.3	21.5
Disposals	0.1	1.5	1.6
Accumulated value adjustments as at 31/12	**5.2**	**– 7.1**	**– 2.0**
Net carrying amount as at 31/12	**11.9**	**125.7**	**137.5**
Net carrying amount as at 1/1	5.3	109.3	114.6

(23) Investments and non-current other receivables

Investments and non-current other receivables €m

	2017	2018
Investments – closed items on the balance sheet	334.5	355.7
Interest rate swaps – closed items on the balance sheet	89.8	78.0
Other investments and other receivables	239.8	214.0
Total	664.1	647.7

Investments – cross-border leasing and closed items on the balance sheet €m

	Securities (loan stock rights) under closed items on the balance sheet	Other loans under closed items on the balance sheet	Total
2018			
Amortised cost as at 1/1	59.7	274.9	334.5
Foreign exchange differences	2.5	10.1	12.6
Additions	2.5	2.4	4.9
Capitalised interest	0.0	10.9	10.9
Change in expected credit losses	−0.1	−0.1	−0.1
Disposals	−1.4	−5.8	−7.2
Amortised cost as at 31/12	63.2	292.5	355.7

Investments – cross-border leasing and closed items on the balance sheet €m

	Securities (loan stock rights) under closed items on the balance sheet	Other loans under closed items on the balance sheet	Total
2017			
Amortised cost as at 1/1	67.1	308.0	375.1
Foreign exchange differences	−8.3	−39.5	−47.8
Additions	2.4	2.3	4.7
Capitalised interest	0.0	10.7	10.7
Disposals	−1.6	−6.6	−8.2
Amortised cost as at 31/12	59.7	274.9	334.5

As at 31 December 2018, the securities consisted of medium-term notes with a principal amount of $69.9m (previous year: $69.0m) and/or an amortised cost of €63.2m (previous year: €59.7m).

Securities in the amount of €63.2m (previous year: €59.7m) and loans in the amount of €292.5m (previous year: €274.9m) are pledged. The securities and loans all serve banks as collateral for borrowing.

Other investments and non-current other receivables

€m

	Loans to investees	Securities (loan stock rights)	Other loans	Total
2018				
Cost as at 1/1	77.8	145.0	5.1	228.0
Additions	0.0	0.0	0.1	0.1
Disposals	0.0	0.0	0.0	0.0
Reclassifications	–21.3	0.0	–0.1	–21.3
Cost as at 31/12	**56.6**	**145.0**	**5.2**	**206.8**
Accumulated value adjustments as at 1/1	–19.6	1.9	0.0	–17.6
Impairment losses	0.0	–5.7	0.0	–5.7
Change in expected credit losses	0.0	0.0	0.0	0.0
Fair value measurement in OCI	0.0	1.0	0.0	1.0
Result from interests accounted for using the equity method[1]	–0.1	0.0	0.0	–0.1
Impairment of equity interests accounted for using the equity method[1]	–2.2	0.0	0.0	–2.2
Accumulated value adjustments as at 31/12	**–21.9**	**–2.8**	**0.0**	**–24.6**
Net carrying amount as at 31/12	**34.7**	**142.2**	**5.2**	**182.1**
Net carrying amount as at 1/1	58.2	146.9	5.1	210.3
Net carrying amount of other non-current receivables as at 31/12[2]				**109.9**
Net carrying amount of other non-current receivables as at 1/1[2]				119.3
Net carrying amount total as at 31/12				**292.0**
Net carrying amount total as at 1/1				329.6

[1] The carrying amount of the equity interest in Ashta Beteiligungsverwaltung GmbH was already reduced to zero in 2013 by the recognition of negative results from interests accounted for using the equity method and impairment losses. VERBUND still holds non-current loans to Ashta Beteiligungsverwaltung GmbH, which in their economic substance represent an increase of the net investment in Ashta Beteiligungsverwaltung GmbH. Negative results and impairment losses reduce the carrying amount of the net investment. In contrast, positive results, reversals of impairment losses and shareholder contributions increase it. // [2] incl. carrying amount of interest rate swaps – closed items on the balance sheet

Other investments and non-current other receivables

€m

	Loans to investees	Securities (loan stock rights)	Other loans	Total
2017				
Cost as at 1/1	75.1	145.0	5.3	225.5
Additions	0.0	0.0	0.1	0.1
Disposals	0.0	0.0	–0.1	–0.1
Reclassifications	2.7	0.0	–0.2	2.5
Cost as at 31/12	**77.8**	**145.0**	**5.1**	**228.0**
Accumulated value adjustments as at 1/1	–15.8	–7.5	0.0	–23.3
Fair value measurement in OCI	0.0	9.4	0.0	9.4
Result from interests accounted for using the equity method[1]	0.3	0.0	0.0	0.3
Reversals of impairment losses on interests accounted for using the equity method[1]	–4.1	0.0	0.0	–4.1
Accumulated value adjustments as at 31/12	**–19.6**	**1.9**	**0.0**	**–17.6**
Net carrying amount as at 31/12	**58.2**	**146.9**	**5.1**	**210.3**
Net carrying amount as at 1/1	59.3	137.5	5.3	202.2
Net carrying amount of other non-current receivables as at 31/12[2]				**119.3**
Net carrying amount of other non-current receivables as at 1/1[2]				137.9
Total net carrying amount as at 31/12				**329.6**
Total net carrying amount as at 1/1				340.1

[1] The carrying amount of the equity interest in Ashta Beteiligungsverwaltung GmbH was already reduced to zero in 2013 by the recognition of negative results from interests accounted for using the equity method and impairment losses. VERBUND still holds non-current loans to Ashta Beteiligungsverwaltung GmbH, which in their economic substance represent an increase of the net investment in Ashta Beteiligungsverwaltung GmbH. Negative results and impairment losses reduce the carrying amount of the net investment. In contrast, positive results, reversals of impairment losses and shareholder contributions increase it. // [2] incl. carrying amount of interest rate swaps – closed items on the balance sheet

Securities in the amount of €142.2m (previous year: €146.9m) primarily include shares in investment funds to cover employee benefit obligations and were classified as “measured at fair value through profit or loss”.

Non-current other receivables contain derivative financial instruments measured at fair value in the amount of €78.0m (previous year: €89.8m) which relate to financial liabilities under closed items on the balance sheet.

(24) Inventories

Inventories

€m	2017	2018
Coal	16.0	19.1
Natural gas	1.4	6.6
Less write downs	–14.8	–7.4
Inventories of primary energy sources held for generation	2.6	**18.3**
Emission rights held for trading	1.6	3.7
Measurements of emission rights held for trading	1.5	8.2
Fair value of emission rights held for trading	3.1	**11.9**
Proof of origin and green electricity certificates	0.9	**1.8**
Additives and consumables	3.9	**3.9**
Other	0.0	**0.0**
Inventories	10.5	**36.0**

(25) Trade receivables, other receivables and securities

Trade receivables, other receivables and securities

€m	2017 Non-current	2018 Non-current	2017 Current	2018 Current
Trade receivables	0.0	0.0	345.7	394.3
Receivables from investees	0.0	0.0	27.9	29.6
Other loans	–	–	0.2	0.2
Loans to investees	–	–	4.9	21.6
Other receivables and assets	119.3	109.9	204.1	481.2
Trade receivables, other receivables and securities	119.3	**109.9**	583.0	**926.8**

Other receivables with a maturity of more than one year were recognised under investments and non-current other receivables (see: Note (23) Investments and non-current other receivables).

Other receivables and assets €m

	2017 Non-current	**2018 Non-current**	2017 Current	**2018 Current**
Derivatives in the energy area	0.0	0.0	104.7	293.2
Derivatives in the finance area	89.8	78.0	0.0	0.0
Securities	0.0	0.0	0.0	69.3
Guarantees in electricity trading	0.0	0.0	32.9	37.8
Money market transactions	0.0	0.0	0.0	20.0
Emission rights	–	–	7.9	19.9
Receivables from tax clearing	0.0	0.0	11.1	9.7
Long position: Gemeinschaftskraftwerk Inn GmbH	0.0	0.0	19.2	0.0
Receivables from accrued interest	0.0	0.0	0.4	0.4
Other	29.5	31.9	28.0	30.9
Other receivables and assets	119.3	109.9	204.1	481.2

(26) Cash and cash equivalents

Cash and cash equivalents €m

	2017	**2018**
Cash at banks	28.5	39.3
Cash in hand	0.1	0.0
Cash and cash equivalents	28.6	**39.3**

The lock-in period for all current financial investments reported in cash and cash equivalents was less than three months at the time the investment was made. Cash and cash equivalents correspond to the fund of cash and cash equivalents in the cash flow statement as defined in IAS 7.

(27) Called and paid-in share capital

Just as in the previous year, the share capital comprised 170,233,686 no-par value shares in the form of bearer shares (category A) and 177,182,000 no-par value shares in the form of registered shares (category B). Category B represents 51% of the share capital, authenticated by an interim certificate deposited with the Federal Ministry of Finance and made out in the name of the Republic of Austria. The share capital was paid in full.

(28) Capital reserves

The amount of €954.3m (previous year: €954.3m), which represents the portion of the reserves that was not retained from profit for the period in previous reporting periods, is recognised under capital reserves.

(29)
Retained earnings

Retained earnings comprise the retained profits and the effects on equity attributable to the shareholders of VERBUND AG from the shift between shareholder groups. Of the retained earnings, the amount that can be distributed to the shareholders of VERBUND AG is the item presented as profit for the period in the (separate) annual financial statements of VERBUND AG as at 31 December 2018 that are prepared in accordance with the Austrian Commercial Code (Unternehmensgesetzbuch, UGB). For financial year 2018, this profit for the reporting period that had not yet been approved amounted to €145.9m (previous year: €145.9m). The Annual General Meeting will recommend a dividend of €0.42 per share (previous year: €0.42 per share).

(30)
Reserve for differences from currency translation

The reserve for differences from currency translation includes mainly the currency translation of the consolidated Romanian subsidiaries VERBUND Wind Power Romania SRL and VERBUND Trading Romania SRL.

(31)
Non-controlling interests

Non-controlling interests in %

	2017	**2018**
VERBUND Innkraftwerke GmbH	29.73	**29.73**
VERBUND Hydro Power GmbH	19.46	**19.46**
VERBUND Wind Power Austria GmbH	19.46	**19.46**

The capital shares in the ten wind farm companies and two infrastructure companies in the Hunsrück area of Rhineland-Palatinate attributable to the limited partners were recognised under non-current financial liabilities in accordance with IAS 32.

(32)
Non-current and current financial liabilities

Non-current and current financial liabilities €m

	2017 Non-current	**2018 Non-current**	2017 Current	**2018 Current**
Bonds	1,374.0	**693.5**	21.0	**703.6**
Financial liabilities to banks	340.5	**342.6**	192.9	**49.9**
Financial liabilities to others	0.0	**0.0**	0.0	**0.0**
Capital shares attributable to limited partners	2.8	**2.9**	0.0	**0.0**
Subtotal	1,717.3	**1,039.0**	213.9	**753.5**
Financial liabilities to banks – closed items on the balance sheet	424.3	**433.9**	0.0	**0.0**
Non-current and current financial liabilities	2,141.6	**1,472.8**	213.9	**753.5**

Non-current and current financial liabilities[1]

€m	2017	2018
Carrying amount as at 1/1	2,230.5	1,931.2
Borrowings	0.0	100.0
Net change in money market transactions	0.3	10.7
Changes in capital shares attributable to limited partners	–0.9	0.1
Changes in interest accruals	–0.3	2.7
Unscheduled repayments	0.0	–66.7
Scheduled repayments	–298.4	–185.5
Carrying amount as at 31/12	1,931.2	**1,792.5**
of which non-current liabilities	1,717.3	1,039.0
of which current liabilities	213.9	753.5

[1] excl. financial liabilities from closed items on the balance sheet

Financial liabilities – closed items on the balance sheet

€m	2017	2018
Carrying amount as at 1/1	489.2	424.3
Foreign exchange gains or losses	–48.0	10.8
Capitalisation	29.3	29.8
Repayments and/or disposals	–21.8	–19.2
Market value changes	–24.3	–11.8
Carrying amount as at 31/12	424.3	**433.9**
of which non-current liabilities	424.3	433.9

VERBUND had no mortgage-backed liabilities on 31 December 2018 or in the previous year.

The share of the profit attributable to the limited partners in the 2018 reporting period related to the limited partners of ten wind farms and two infrastructure companies in the Hunsrück area of Rhineland-Palatinate.

Non-current and current financial liabilities 2018

	Longest maturity	Issue volume	Carrying amount as at 31/12	1 year or less
Bonds				
Euro currency	2024	1,540.0	1,397.1	703.7
Total bonds		**1,540.0**	**1,397.1**	**703.7**
of which at a fixed interest rate	2024	1,540.0	1,397.1	703.7
Financial liabilities to banks				
Euro currency	2037	703.8	392.5	49.9
Total financial liabilities to banks		**703.8**	**392.5**	**49.9**
of which at a fixed interest rate	2037	500.0	338.6	26.1
of which at a variable interest rate	2030	203.8	53.9	23.8
Financial liabilities to others				
Euro currency	2021	0.1	0.0	0.0
Total financial liabilities to others		**0.1**	**0.0**	**0.0**
of which at a fixed interest rate	2021	0.1	0.0	0.0
Financial liabilities to banks – closed items on the balance sheet[1]				
Foreign currencies ($)	2030		433.9	0.0
Total financial liabilities to banks – closed items on the balance sheet			**433.9**	**0.0**
of which at a fixed interest rate	2030		433.9	0.0
Capital shares attributable to limited partners		–	**2.9**	**0.0**
Total financial liabilities			**2,226.4**	**753.6**

[1] There is balance sheet cover on the asset side for these financial liabilities.

€m

› 1 to 2 years	› 2 to 3 years	› 3 to 4 years	› 4 to 5 years	› 5 years	Weighted nominal interest rate	Weighted effective interest rate	Fair value as at 31/12
199.6	0.0	0.0	0.0	493.9	3.59%	4.18%	1,458.4
199.6	**0.0**	**0.0**	**0.0**	**493.9**	**3.59%**	**4.18%**	**1,458.4**
199.6	0.0	0.0	0.0	493.9	3.59%	4.18%	1,458.4
33.9	30.1	25.1	25.1	228.3	2.11%	2.36%	422.5
33.9	**30.1**	**25.1**	**25.1**	**228.3**	**2.11%**	**2.36%**	**422.5**
27.6	27.6	22.6	22.6	212.1	2.42%	2.55%	368.9
6.3	2.5	2.5	2.5	16.3	0.20%	1.81%	53.6
0.0	0.0	0.0	0.0	0.0	3.00%	3.02%	0.0
0.0	**0.0**	**0.0**	**0.0**	**0.0**	**3.00%**	**3.02%**	**0.0**
0.0	0.0	0.0	0.0	0.0	3.00%	3.02%	0.0
0.0	0.0	0.0	0.0	433.9	–	–	465.7
0.0	**0.0**	**0.0**	**0.0**	**433.9**	**–**	**–**	**465.7**
0.0	0.0	0.0	0.0	433.9	–	–	465.7
2.9	**0.0**	**0.0**	**0.0**	**0.0**	**–**	**–**	
236.3	**30.1**	**25.1**	**25.1**	**1,156.1**			

Non-current and current financial liabilities 2017

	Longest maturity	Issue volume	Carrying amount as at 31/12	1 year or less
Bonds				
Euro currency	2024	1,540.0	1,395.0	21.1
Total bonds		**1,540.0**	**1,395.0**	**21.1**
of which at a fixed interest rate	2024	1,540.0	1,395.0	21.1
Financial liabilities to banks				
Euro currency	2037	888.4	533.4	192.9
Total financial liabilities to banks		**888.4**	**533.4**	**192.9**
of which at a fixed interest rate	2037	570.0	407.0	171.8
of which at a variable interest rate	2030	318.4	126.4	21.2
Financial liabilities to others				
Euro currency	2021	0.1	0.0	0.0
Total financial liabilities to others		**0.1**	**0.0**	**0.0**
of which at a fixed interest rate	2021	0.1	0.0	0.0
Financial liabilities to banks – closed items on the balance sheet[1]				
Foreign currencies ($)	2030		424.3	0.0
Total financial liabilities to banks – closed items on the balance sheet			**424.3**	**0.0**
of which at a fixed interest rate	2030		424.3	0.0
Capital shares attributable to limited partners		–	**2.8**	**0.0**
Total financial liabilities			**2,352.7**	**214.0**

[1] There is balance sheet cover on the asset side for these financial liabilities.

€m

› 1 to 2 years	› 2 to 3 years	› 3 to 4 years	› 4 to 5 years	› 5 years	Weighted nominal interest rate	Weighted effective interest rate	Fair value as at 31/12
681.6	199.4	0.0	0.0	492.9	3.59%	4.18%	1,499.2
681.6	199.4	0.0	0.0	492.9	3.59%	4.18%	1,499.2
681.6	199.4	0.0	0.0	492.9	3.59%	4.18%	1,499.2
43.7	42.2	38.5	33.5	182.6	2.46%	2.54%	570.0
43.7	42.2	38.5	33.5	182.6	2.46%	2.54%	570.0
22.6	27.6	27.6	22.6	134.7	3.15%	3.17%	442.3
21.1	14.6	10.8	10.8	47.9	0.27%	1.43%	127.7
0.0	0.0	0.0	0.0	0.0	3.00%	3.02%	0.0
0.0	0.0	0.0	0.0	0.0	3.00%	3.02%	0.0
0.0	0.0	0.0	0.0	0.0	3.00%	3.02%	0.0
0.0	0.0	0.0	0.0	424.3	–	–	459.3
0.0	0.0	0.0	0.0	424.3	–	–	459.3
0.0	0.0	0.0	0.0	424.3	–	–	459.3
2.8	0.0	0.0	0.0	0.0	–	–	
728.1	241.6	38.5	33.5	1,099.9			

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

Carrying amounts and fair values by measurement categories 2018

€m

Assets – balance sheet items	Measurement categories in accordance with IFRS 9	Level	Carrying amount as at 31/12	Fair value as at 31/12
Interests in unconsolidated subsidiaries	FVOCI	2	12.9	12.9
Interests in unconsolidated subsidiaries	FVPL	3	0.7	0.7
Interests in unconsolidated subsidiaries	FVOCI	AC	0.6	0.6
Other equity interests	FVOCI	1	22.0	22.0
Other equity interests	FVOCI	2	87.5	87.5
Other equity interests	FVOCI	AC	6.6	6.6
Other equity interests			**130.3**	
Securities	FVPL	1	132.7	132.7
Securities	FVOCI	3	8.5	8.5
Securities	FVOCI	AC	1.0	1.0
Securities – closed items on the balance sheet	AC	2	63.2	59.7
Other loans – closed items on the balance sheet	AC	2	292.5	313.2
Derivatives in the finance area – closed items on the balance sheet	FVPL	2	78.0	78.0
Loans to investees	AC	2	34.7	36.2
Other loans	AC	2	5.2	5.1
Other	–	–	31.9	–
Other investments and non-current other receivables			**647.7**	
Trade receivables	AC	–	394.3	–
Receivables from investees	AC	–	29.6	–
Loans to investees	AC	2	21.6	21.8
Other loans	AC	2	0.2	0.2
Other loans – closed items on the balance sheet	AC	2	0.0	0.0
Derivatives in the energy area	FVPL	1	10.1	10.1
Derivatives in the energy area	FVPL	2	283.1	283.1
Securities	FVPL	1	69.3	69.3
Money market transactions	AC	2	20.0	20.0
Emission rights	–	–	19.9	–
Other	AC	–	51.9	–
Other	–	–	26.9	–
Trade receivables, current other receivables and securities			**926.8**	
Cash and cash equivalents	**AC**	**–**	**39.3**	**–**

Carrying amounts and fair values by measurement categories 2018

€m

Assets – balance sheet items	Measurement categories in accordance with IFRS 9	Level	Carrying amount as at 31/12	Fair value as at 31/12
Aggregated by measurement categories				
Financial assets measured at amortised cost	AC		952.5	
Financial assets measured at fair value through profit or loss	FVPL		573.8	
Financial assets measured at fair value through other comprehensive income	FVOCI		139.2	

Carrying amounts and fair values by measurement categories 2018

€m

Liabilities – balance sheet items	Measurement categories in accordance with IFRS 9	Level	Carrying amount as at 31/12	Fair value as at 31/12
Bonds	AC	2	1,397.1	1,458.4
Financial liabilities to banks and to others	AC	2	392.5	422.5
Financial liabilities to banks – closed items on the balance sheet	AC	2	113.6	145.5
Financial liabilities to banks – closed items on the balance sheet	FVPL – D	2	320.2	320.2
Capital shares attributable to limited partners	–	–	2.9	–
Non-current and current financial liabilities			**2,226.4**	
Electricity supply commitment	–	–	155.8	–
Obligation to return an interest	AC	3	75.4	118.7
Trade payables	AC	–	1.3	–
Deferred income – cross-border leasing	–	–	32.0	–
Other	AC	–	32.4	–
Other non-current liabilities			**296.9**	
Trade payables	AC	–	188.0	–
Derivatives in the energy area	FVPL	2	528.8	528.8
Derivatives in the finance area	FVPL	2	15.8	15.8
Other	AC	–	145.7	–
Other	–	–	74.6	–
Trade payables and current other liabilities			**952.9**	
Aggregated by measurement categories				
Financial liabilities measured at amortised cost	AC		2,346.1	
Financial liabilities measured at fair value through profit or loss	FVPL		544.7	
Financial liabilities measured at fair value through profit or loss – designated	FVPL – D		320.2	

Carrying amounts and fair values by measurement categories 2017

€m

Assets – balance sheet items	Measurement categories in accordance with IAS 39	Level	Carrying amount as at 31/12	Fair value as at 31/12
Interests in unconsolidated subsidiaries	FAAC	–	1.0	–
Interests in unconsolidated subsidiaries	FAAFS	2	10.8	10.8
Other equity interests	FAAFS	1	20.5	20.5
Other equity interests	FAAFS	2	103.4	103.4
Other equity interests	FAAC	–	1.9	–
Other equity interests			**137.5**	
Securities	FAAFS	1	138.3	138.3
Securities	FAAFS	3	7.5	7.5
Securities	FAAC	–	1.0	–
Securities – closed items on the balance sheet	LAR	2	59.7	57.1
Other loans – closed items on the balance sheet	LAR	2	274.9	304.8
Derivatives in the finance area – closed items on the balance sheet	FAHFT	2	89.8	89.8
Loans to investees	LAR	2	58.3	60.4
Other loans	LAR	2	5.1	5.0
Other	–	–	29.5	–
Other investments and non-current other receivables			**664.1**	
Trade receivables	LAR	–	345.7	–
Receivables from investees	LAR	–	27.9	–
Loans to investees	LAR	2	4.9	5.1
Other loans	LAR	2	0.2	0.2
Derivatives in the energy area	FAHFT	2	104.7	104.7
Long position: Gemeinschaftskraftwerk Inn GmbH	FAHFT	3	19.2	19.2
Emission rights	–	–	7.9	–
Other	LAR	–	44.8	–
Other	–	–	27.5	–
Trade receivables, current other receivables and securities			**583.0**	
Cash and cash equivalents	**LAR**	**–**	**28.6**	**28.6**
Aggregated by measurement categories				
Financial assets at cost	FAAC		3.9	
Loans and receivables	LAR		850.1	
Available-for-sale financial assets	FAAFS		280.5	
Financial assets held for trading	FAHFT		213.8	

Carrying amounts and fair values by measurement categories 2017

€m

Liabilities – balance sheet items	Measurement categories in accordance with IAS 39	Level	Carrying amount as at 31/12	Fair value as at 31/12
Bonds	FLAAC	2	1,395.0	1,499.2
Financial liabilities to banks and to others	FLAAC	2	533.4	570.0
Financial liabilities to banks – closed items on the balance sheet	FLAAC	2	106.3	141.3
Financial liabilities to banks – closed items on the balance sheet	FLAFVPL	2	318.0	318.0
Capital shares attributable to limited partners	–	–	2.8	–
Non-current and current financial liabilities			2,355.5	
Electricity supply commitment	–	–	163.0	–
Obligation to return an interest	FLAAC	3	78.3	125.1
Trade payables	FLAAC	–	1.5	–
Deferred income – cross-border leasing	–	–	45.6	–
Other	FLAAC	–	27.0	–
Other non-current liabilities			315.3	
Trade payables	FLAAC	–	171.5	–
Derivatives in the energy area	FLHFT	2	264.0	264.0
Derivatives in the finance area	FLHFT	2	18.6	18.6
Other	FLAAC	–	115.1	–
Other	–	–	75.6	–
Trade payables and current other liabilities			644.8	
Aggregated by measurement categories				
Financial liabilities at amortised cost	FLAAC		2,428.2	
Financial liabilities at fair value through profit or loss	FLAFVPL		318.0	
Financial liabilities held for trading	FLHFT		282.6	

For financial liabilities (under closed items on the balance sheet) classified as FVPL (previous year: FLAFVPL) in the above table, the difference between the carrying amount as at 31 December 2018 and the amount that VERBUND would have to pay upon maturity is €47.9m (previous year: €46.9m). The amount due upon maturity was translated at the rate (€1=$) of 1.1450 on the reporting date (previous year: 1.1993). In the event of insolvency, derivative financial instruments in the finance area (under closed items on the balance sheet) can be netted against the financial liabilities classified as FLAFVPL (under closed items on the balance sheet) (see: Financial instruments and risk management).

Of the derivative financial instruments in the energy area classified as FVPL in the above table, positive fair values in the amount of €73.7m (previous year: €40.7m) and negative fair values in the amount of €370.5m (previous year: €326.7m) relate to hedging relationships designated as cash flow hedges.

These fair values represent gross amounts; following the inter-portfolio netting carried out in accordance with VERBUND's accounting policies (see: Financial instruments and risk management), cash flow hedges can no longer be isolated.

The interests in unconsolidated subsidiaries, other equity interests and other securities classified as FVOCI in the above table are held for the long term due to strategic considerations. Details regarding the fair value and the dividend distributions of the individual financial instruments classified as FVOCI can be taken from the following table:

Details regarding FVOCI interests 2018 €m

	Fair value as at 31/12	Dividend
Energie AG Oberösterreich	87.5	4.1
Burgenland Holding Aktiengesellschaft	22.0	1.0
Verfahren Umwelt Management GmbH	9.3	0.6
CEESEG Aktiengesellschaft	8.5	0.5
Gestionnaires de Réseau de Transport d'Électricité (HGRT)	4.8	0.6
VERBUND Tourismus GmbH	3.6	1.6
Other	3.5	1.0

Level 3 measurement of financial instruments: long position: GKI €m

	2017	**2018**
Carrying amount as at 1/1	4.3	**19.2**
Measurement gains or losses (recognised in other financial result)	–4.3	0.0
Measurement gains or losses (recognised as a measurement of cash flow hedges)	19.2	–0.6
Disposals	0.0	–18.6
Carrying amount as at 31/12	19.2	0.0

Effective 22 August 2014, VERBUND sold 40% of its 50% equity interest in Gemeinschaftskraftwerk Inn GmbH to TIWAG-Tiroler Wasserkraft AG. As part of this transaction, TIWAG-Tiroler Wasserkraft AG granted VERBUND a put and a call option: Between 1 June 2018 and 30 June 2018, VERBUND could sell its remaining 10% equity interest in Gemeinschaftskraftwerk Inn GmbH to TIWAG-Tiroler Wasserkraft AG or increase its 10% equity interest to 25% by acquiring interest from TIWAG-Tiroler Wasserkraft AG. The strike price for the two options corresponded to the investment costs incurred up to that point plus interest for the power plant joint venture on the Inn River. The put option was treated as a hedging instrument for the hedging of a highly probable forecast transaction (cash flow hedge). VERBUND exercised the put option on 4 June 2018 and sold the remaining 10% interest in Gemeinschaftskraftwerk Inn GmbH to TIWAG-Tiroler Wasserkraft AG. The transaction closed on 19 July 2018.

Valuation techniques and input factors for determining fair values

Level	Financial instruments	Valuation technique	Input factor
1	Energy forwards	Market approach	Settlement price published by the stock exchange
1	Securities, other equity interest in Burgenland Holding AG	Market approach	Stock exchange price
2	Securities and other loans under closed items on the balance sheet, long-term loans, liabilities to banks, bonds and other financial liabilities	Net present value approach	Payments associated with the financial instruments, yield curve, credit risk of the contracting parties (credit default swaps or credit spread curves)
2	Interests in unconsolidated subsidiaries, other equity interest in Energie AG Oberösterreich and HGRT	Market approach	Trading Multiple, transaction price
2	Non-listed energy forwards	Net present value approach	Forward price curve derived from stock exchange, yield curve, credit risk of the contracting parties
2	Other assets and liabilities measured at fair value in the finance area	Net present value approach	Cash flows already fixed or determined via forward rates, yield curve, credit risk of the contracting parties
3	Return obligation (obligation to transfer back the 50% interest acquired in Donaukraftwerk Jochenstein AG)	Net present value approach	Price forecasts for electricity, weighted average cost of capital after taxes
3	Securities (shares of CEESEG AG)	Net present value approach	Expected distribution of profits, cost of equity
AC	Other shares of unconsolidated subsidiaries, other equity interests and securities	–	Cost as the best estimate of fair value
–	Cash and cash equivalents, trade receivables and payables, current other receivables, other borrowing within current credit lines as well as current other liabilities	–	Carrying amount as the best estimate of fair value

Expected cash outflows as at 31/12/2018

€m

Maturity	2019	2020	2021–2023	From 2024
Bonds	733.2	217.3	22.5	507.5
Financial liabilities to banks	41.0	39.2	94.0	251.6
Financial liabilities to others	0.0	0.0	0.0	0.0
Financial liabilities to banks – closed items on the balance sheet[1]	20.1	23.4	58.4	449.2
Capital shares attributable to limited partners	0.0	2.9	0.0	0.0
Cash outflows on financial liabilities	**794.2**	**282.7**	**174.9**	**1,208.3**
Trade payables	188.0	0.3	1.2	0.1
Derivatives in the energy area	603.2	236.9	59.2	0.0
Derivatives in the finance area[2]	5.1	4.4	6.3	0.8
Other	145.7	6.3	4.5	97.0
Cash outflows on trade payables and other payables	**941.9**	**247.9**	**71.3**	**97.9**
Cash outflows on liabilities in accordance with IFRS 7	**1,736.1**	**530.6**	**246.2**	**1,306.2**

[1] Cash outflows under closed items on the balance sheet have to be seen alongside the corresponding cash inflows from associated investments. // [2] Cash outflows from interest rate swaps are accounted for as the net cash flow of both legs.

Expected cash outflows as at 31/12/2017

€m

Maturity	2018	2019	2020–2022	From 2023
Bonds	49.7	733.2	232.3	515.0
Financial liabilities to banks	196.7	47.9	124.5	200.9
Financial liabilities to others	0.0	0.0	0.0	0.0
Financial liabilities to banks – closed items on the balance sheet[1]	19.2	19.1	59.3	447.7
Capital shares attributable to limited partners	0.0	2.8	0.0	0.0
Cash outflows on financial liabilities	**265.6**	**803.1**	**416.0**	**1,163.6**
Trade payables	171.5	1.1	0.4	0.2
Derivatives in the energy area	418.9	138.4	109.5	0.0
Derivatives in the finance area[2]	5.8	4.9	7.3	1.4
Other	115.1	5.1	3.1	97.1
Cash outflows on trade payables and other payables	**711.4**	**149.4**	**120.3**	**98.7**
Cash outflows on liabilities in accordance with IFRS 7	**977.1**	**952.5**	**536.3**	**1,262.3**

[1] Cash outflows under closed items on the balance sheet have to be seen alongside the corresponding cash inflows from associated investments. // [2] Cash outflows from interest rate swaps are accounted for as the net cash flow of both legs.

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 2018 €m

	2018
Financial assets and liabilities measured at fair value through profit or loss	– 18.0
Financial assets and liabilities measured at fair value through profit or loss – designated	1.5
Financial liabilities measured at amortised cost	5.6
Financial assets measured at amortised cost	11.5
Financial assets measured at fair value through other comprehensive income	– 6.1
Total interest expenses from financial liabilities measured at amortised cost	– 102.2
Total interest income from financial assets measured at amortised cost	34.5

On the one hand, the net results in the “financial assets and/or liabilities measured at fair value through profit or loss” category arose from the measurement of derivative financial instruments in the energy area (wholesale and trading); this part was recognised in the operating result (electricity revenue). On the other hand, the net result also arose from the measurement of the (other) derivative and non-derivative financial instruments in the finance area; these net results were recognised under other financial result.

The net result of the “financial assets and/or liabilities measured at fair value through profit or loss – designated” can be attributed to the measurement of the financial liabilities to banks – items closed on the balance sheet. These net results have to be seen alongside an equal amount of opposing net results from financial assets and liabilities that are measured at fair value through profit or loss and net results from financial assets and liabilities that are measured at cost.

The net result of the “financial assets and liabilities measured at cost” relates primarily to net results from financial instruments in connection with items closed on the balance sheet that are recognised in the other financial result. In addition, these results also include valuation allowances on trade receivables that are presented in the operating result.

Total interest expenses were recognised under interest expenses; total interest income was recognised in part in interest income and in part under other financial result.

Net results by measurement categories 2017

	2017 Net result	2017 of which (reversal of) impairment losses
Financial assets at cost	1.4	–1.1
Available-for-sale financial assets	0.0	0.0
Loans and receivables	–48.4	–0.6
Financial liabilities at amortised cost	48.2	–
Financial liabilities at fair value through profit or loss	55.8	–
Financial assets and/or liabilities held for trading	–31.6	–
Total interest expenses		–105.7
Total interest income		38.6
Measurements in other comprehensive income[1]		31.0
Reclassifications from other comprehensive income recognised in the income statement[1]		0.0

[1] This net result relates to available-for-sale financial assets.

Disclosures regarding the accounting treatment of hedging relationships

VERBUND applies the special accounting policies for hedging relationships on the one hand for electricity futures and forwards. These hedging instruments are used to hedge the price for the sale of own generation and the price for the purchase of electricity to cover electricity deliveries to customers. On the other hand, the future payments from variable-rate financial liabilities are hedged by using interest rate swaps to convert variable interest payments to fixed interest payments.

The objective of the hedges with the electricity futures and forwards is to reduce the cash flow volatility resulting from market price fluctuations. The timing and amount of the hedging of future electricity deliveries depends in each case on the current price trend. As a general rule, the hedges are entered into successively. A portion of the entire volume anticipated is hedged corresponding to the risk management strategy. As a rule, once the relevant contractual terms (such as term, volumes, price basis, etc.) of the electricity futures and forwards entered into coincide with those of the underlying assets, VERBUND conducts a qualitative measurement of effectiveness. As a general rule, it can be hereby assumed that the changes in the value of the hedging instruments entirely offset the changes in the future cash flows. The exception to this rule is hedges of electricity deliveries on a market differing from the place of delivery. Such hedges exist beginning 1 October 2018 as a consequence of the restriction on unlimited trading on the German-Austrian electricity market. Due to the higher liquidity, the majority of Austrian electricity deliveries are hedged with German futures market products and/or German/Austrian futures market products. There is a close correlation between the German and Austrian prices. The Austrian price is made up of the German price plus a German/Austrian spread. Thus, German futures market products are used to hedge the German price component of Austrian electricity deliveries, which is why the key terms between the hedging instruments and the planned payment flows are in line with one another even in these cases. When hedging Austrian or German electricity deliveries with German/Austrian blended price futures contracts, a regression analysis is conducted to assess whether there is a corresponding correlation between the hedged item and the hedging instrument. Since the entire risk of a change in the market price for electricity with respect to the hedged item or the components of the hedged item is hedged, the hedge ratio amounts to 100%. Ineffective portions of the hedges can result from changes in the counterparty's or VERBUND'S credit risk or from shifts in the timing of the expected electricity deliveries, a reduced volume of the expected electricity delivery or from hedges of electricity deliveries with the German/Austrian blended price futures contract.

The goal of the hedges with interest rate swaps is to reduce the cash flow risk in connection with financial liabilities associated with an increase in market interest rates. After the relevant contractual terms (such as term, volumes, market interest rate, etc.) of the interest rate swaps entered into coincide with those of the underlying assets, VERBUND conducts a qualitative measurement of effectiveness. As a general rule, it can be assumed that the changes in the value of the hedging instruments entirely offset the changes in the future cash flows. Since the entire risk of an increase in the market interest rate with respect to variable-interest-bearing financial liabilities is hedged, the hedge ratio amounts to 100%. Ineffective portions of the hedges can only result from changes in the counterparty's or VERBUND'S credit risk.

Payments are made on interest rate swaps every six months. The underlying variable market interest rate is the 6-month EURIBOR. The future interest payments hedged by the interest rate swaps occur in the following eight years (2019 to 2026) and will be recognised in profit or loss accordingly.

Cash flow hedges – Hedging instruments 31/12/2018 €m

	Carrying amount	Balance sheet item	Notional amount	Change in the fair value for the measurement of ineffectiveness
Electricity futures and forwards – sales	0.7	Other receivables	1,093 GWh	0.7
Electricity futures and forwards – sales	–369.8	Other liabilities	19,033 GWh	–260.1
Electricity futures and forwards – procurement	73.0	Other receivables	–4,406 GWh	53.9
Electricity futures and forwards – procurement	–0.7	Other liabilities	–661 GWh	–0.7
Interest rate swaps	8.9	Other liabilities	100.7	1.7

Cash flow hedges – Hedged items 31/12/2018 €m

	Change in the fair value for the measurement of ineffectiveness	Carrying amount of the reserve for measurements of cash flow hedges
Future electricity sales volume	259.7	–368.7
Future electricity purchases	–53.2	72.3
Variable-rate financial liabilities	–1.7	–9.0

Cash flow hedges – effects on the statement of comprehensive income and balance sheet 2018

€m

	Gains/ losses recognised in other comprehensive income	Ineffective portion of the hedge recognised in profit or loss	Line items of the statement of comprehensive income in which the ineffective portion was recognised	Reclassifications from reserves to profit or loss	Line items of the statement of comprehensive income in which the reclassification was recognised
Electricity futures and forwards – sales	–259.4	–0.4	Revenue	–217.0	Revenue
Electricity futures and forwards – procurement	53.2	0.0	Electricity purchase	21.2	Electricity purchase
Interest rate swaps	–1.1	0.0	Other financial result	–2.9	Interest expenses

Notional amount and average price and/or interest rate as at 31/12/2018

€m

	2019	2020	2021	2022	>2022
Electricity futures and forwards – sales					
Notional amount	14,141 GWh	5,477 GWh	254 GWh	254 GWh	–
Average hedged price	33.0 €/MWh	43.9 €/MWh	28.0 €/MWh	28.0 €/MWh	–
Electricity futures and forwards – procurement					
Notional amount	–3,035 GWh	–1,494 GWh	–450 GWh	–88 GWh	–
Average hedged price	38.4 €/MWh	40.8 €/MWh	42.9 €/MWh	49.7 €/MWh	–
Interest rate swaps					
Average notional amount	93.4	78.8	64.1	49.5	18.5
Average fixed interest rate	2.5%	2.5%	2.6%	2.6%	2.6%

(34) Non-current and current provisions

Non-current and current provisions

€m

	2017 Non-current	**2018 Non-current**	2017 Current	**2018 Current**
Provisions for pensions	402.6	425.4	–	–
Provisions for obligations similar to pensions	156.0	146.4	–	–
Provisions for termination benefits	136.2	127.5	–	–
Provisions for partial retirement	10.4	7.9	6.8	5.0
Other personnel-related provisions	14.7	16.2	20.4	20.5
Other provisions	101.9	93.3	26.4	17.4
Non-current and current provisions	821.8	**816.8**	53.6	**42.9**

Provisions for pensions and similar obligations

Reconciliation from defined benefit obligation to provisions

€m

	2017 Pension obligations	**2018 Pension obligations**	2017 Obligations similar to pensions	**2018 Obligations similar to pensions**
Defined benefit obligation covered by plan assets	241.6	245.9	–	–
Fair value of plan assets	– 154.3	– 134.3	–	–
Net value of obligations covered by plan assets	87.3	**111.6**	–	**–**
Defined benefit obligation not covered by plan assets	315.2	313.7	156.0	146.4
Carrying amount of provisions as at 31/12	402.6	**425.4**	156.0	**146.4**

Pension expenses

€m

	2017 Pension obligations	**2018 Pension obligations**	2017 Obligations similar to pensions	**2018 Obligations similar to pensions**
Service costs (vested claims)	3.8	3.6	3.0	2.8
Net interest expense	6.0	5.8	2.8	2.7
Pension expenses (recognised in profit for the period)	9.8	**9.4**	5.8	**5.5**
Remeasurements of the net liability	0.4	35.5	– 7.2	– 10.8
Pension expenses (recognised in total comprehensive income for the period)	10.2	**44.9**	– 1.4	**– 5.3**

Reconciliation of defined benefit obligation

€m

	2017 Pension obligations	**2018 Pension obligations**	2017 Obligations similar to pensions	**2018 Obligations similar to pensions**
Defined benefit obligation as at 1/1	569.8	556.8	161.7	156.0
Service costs (vested claims)	3.8	3.6	3.0	2.8
Pension payments or contributions to supplementary health insurance (benefit payments)	–33.8	–33.5	–4.3	–4.3
Interest expenses	8.3	8.1	2.8	2.7
Remeasurements based on experience adjustments	8.7	3.6	–7.2	–5.2
Remeasurements arising from changes in demographic assumptions	0.0	38.6	0.0	10.6
Remeasurements arising from changes in financial assumptions	0.0	–17.5	0.0	–16.2
Defined benefit obligation as at 31/12	556.8	559.7	156.0	146.4

As at 31 December 2018, the weighted average duration of the pension obligation is 12 years (previous year: 13 years) and that of the obligations similar to pensions is 18 years (previous year: 18 years).

Reconciliation of plan assets

€m

	2017 Pension obligations	**2018 Pension obligations**	2017 Obligations similar to pensions	**2018 Obligations similar to pensions**
Fair value of plan assets as at 1/1	154.6	154.3	–	–
Contributions by VERBUND	0.2	0.0	–	–
Payouts (benefit payments)	–11.1	–11.2	–	–
Interest income	2.3	2.3	–	–
Other gains (+) or losses (–)	8.3	–10.9	–	–
Fair value of plan assets as at 31/12	154.3	**134.3**	–	**–**

The investment and risk association in the pension fund attributable to VERBUND realised a loss of €8.6m in the 2018 reporting period (previous year: gain of €10.6m). The deficit represents the portion of pension obligations not covered by plan assets; these relate primarily to direct commitments to pension recipients. In the 2019 reporting period, current contributions to the pension fund for coverage of defined contribution plans are expected in the amount of €12.8m (previous year: €0m).

Plan assets in %

	Quoted	Unquoted	2017 Total	Quoted	Unquoted	2018 Total
Shares	43.0	0.0	43.0	41.1	0.0	41.1
Bonds	44.1	0.0	44.1	45.6	0.0	45.6
Money market	7.6	0.0	7.6	6.2	0.0	6.2
Other investments	5.3	0.0	5.3	7.1	0.0	7.1
Total	100.0	0.0	100.0	**100.0**	**0.0**	**100.0**

VERBUND regularly coordinates the general investment guidelines with APK Pensionskasse AG. Risk management in APK Pensionskasse AG is guided by the provisions of the Austrian Pension Fund Act (Pensionskassengesetz, PKG) and the corresponding directives of the Financial Market Authority (FMA).

Provisions for termination benefits

Analysis of the provisions for termination benefits €m

	2017	2018
Provisions for statutory termination benefits	135.7	125.7
Provisions for termination benefits from special agreements in accordance with social plan	0.5	1.8
Carrying amount of provisions as at 31/12	136.2	**127.5**

Expense for termination benefit costs €m

	2017	2018
Service costs	1.2	1.0
Net interest expense	2.1	1.9
Expense for termination benefit costs (recognised in profit for the period)	3.3	**2.9**
Remeasurements of termination benefits	0.1	0.6
Expenses for termination benefit costs (recognised in total comprehensive income for the period)	3.4	**3.5**

Reconciliation of defined benefit obligation for statutory termination benefits €m

	2017	2018
Defined benefit obligation as at 1/1	144.9	135.7
Service costs (vested claims)	1.2	1.0
Interest expenses	2.1	1.9
Termination benefits (benefit payments)	–12.6	–13.5
Remeasurements based on experience adjustments	0.1	2.5
Remeasurements arising from changes in demographic assumptions	0.0	0.4
Remeasurements arising from changes in financial assumptions	0.0	–2.3
Defined benefit obligation as at 31/12	135.7	**125.7**

The weighted average duration of the termination benefits is 8 years as at 31 December 2018 (previous year: 8 years).

Provisions for partial retirement

Reconciliation from defined benefit obligation to provisions €m

	2017	2018
Defined benefit obligation covered by plan assets	18.7	15.2
Fair value of plan assets	–1.4	–2.4
Carrying amount of provisions as at 31/12	17.3	**12.8**

Expenses for partial retirement €m

	2017	2018
Service costs	0.9	0.9
Net interest expense	0.0	0.0
Remeasurements	–2.6	1.4
Expenses for partial retirement (recognised in profit for the period)	–1.7	**2.3**

Reconciliation of defined benefit obligation €m

	2017	2018
Defined benefit obligation as at 1/1	27.5	18.6
Service costs (vested claims)	0.9	0.9
Net interest expense	0.0	0.0
Payments for early retirement	–7.5	–6.8
Remeasurements	–2.2	2.4
Defined benefit obligation as at 31/12	18.6	**15.2**

Reconciliation of plan assets €m

	2017	2018
Fair value of plan assets as at 1/1	1.1	1.4
Other gains (+) or losses (–)	0.3	1.0
Fair value of plan assets as at 31/12	1.4	**2.4**

Plan assets in %

	2017	2018
Bonds	100.0	100.0
Total	100.0	**100.0**

Other personnel-related provisions

Analysis of other personnel-related provisions

€m

	2017 Non-current	2018 Non-current	2017 Current	2018 Current
Provision for bonuses from the performance-based remuneration system	–	–	20.3	20.4
Provision for anniversary bonuses	8.7	10.6	–	–
Other	6.0	5.5	0.1	0.1
Other personnel-related provisions	14.7	**16.2**	20.4	**20.5**

Reconciliation of other personnel-related provisions

€m

	2017	2018
Carrying amount as at 1/1	36.1	**35.1**
of which non-current	14.6	14.7
of which current	21.6	20.4
Change in the basis of consolidation	–0.2	0.0
New provisions	16.6	19.1
Interest accrued	0.2	0.2
Appropriation	–17.6	–17.5
Reversal	0.0	–0.2
Carrying amount as at 31/12	35.1	**36.7**
of which non-current	14.7	16.2
of which current	20.4	20.5

Other provisions

Reconciliation of other provisions 2018

€m

	Dismantling and decontamination costs	Other	Total
Carrying amount as at 1/1/2018	39.3	89.0	128.2
of which non-current	39.3	62.6	101.9
of which current	0.0	26.4	26.4
Change in the basis of consolidation	0.0	0.0	0.0
New provisions	0.2	13.5	13.7
Interest accrued	–0.4	0.7	0.3
Appropriation	–6.7	–17.1	–23.8
Reversal	–1.3	–6.4	–7.7
Currency translation	0.0	0.0	0.0
Carrying amount as at 31/12/2018	31.1	79.7	110.8
of which non-current	31.1	62.3	93.3
of which current	0.0	17.4	17.4

Reconciliation of other provisions 2017

€m

	Dismantling and decontamin-ation costs	Other	Total
Carrying amount as at 1/1/2017	26.6	106.0	132.6
of which non-current	24.8	59.3	84.1
of which current	1.8	46.7	48.5
Change in the basis of consolidation	0.0	–0.2	–0.2
New provisions	15.7	6.4	22.1
Interest accrued	0.1	0.9	1.0
Appropriation	–0.3	–4.6	–4.9
Reversal	–2.8	–19.6	–22.3
Currency translation	0.0	0.0	0.0
Carrying amount as at 31/12/2017	39.3	89.0	128.2
of which non-current	39.3	62.6	101.9
of which current	0.0	26.4	26.4

(35) Deferred tax liabilities

The differences between the tax bases and the carrying amounts in the IFRS balance sheet result in the following deferred taxes:

Deferred taxes

€m

	2017	**2018**
Deferred tax refund claims	417.9	**393.9**
of which from provisions for pensions and termination benefits	114.1	115.9
of which from allowances on receivables	34.9	20.2
of which from impairment losses from equity interests	24.4	11.5
of which from loss carryforwards	88.9	103.1
of which from the liquidation of subsidiaries	68.0	45.3
of which from financial instruments	62.4	73.4
of which from other items	25.3	24.6
Deferred tax liabilities	–976.3	**–1,028.5**
of which from property, plant and equipment (different useful lives, fair value adjustments on purchase price allocations)	–799.1	–807.4
of which from special tax deductions	–94.0	–92.2
of which from tax-deductible goodwill	–28.9	–42.2
of which from other items	–54.3	–86.7
Deferred tax refund claims (+) or tax liabilities (–) netted	–558.4	–634.5

In the 2018 reporting period and in the previous year, the net position for deferred taxes changed as follows:

Deferred taxes

€m	2017	2018
As at 1/1	–569.2	**–558.4**
Changes recognised in profit or loss	4.4	–92.1
Changes recognised in other comprehensive income	6.3	14.8
Other changes	0.0	1.2
As at 31/12	–558.4	**–634.5**

The changes recognised in other comprehensive income mainly concerned the measurements of financial instruments, the measurements of cash flow hedges and remeasurements of the net defined benefit liability.

At 31 December 2018 (and in the previous year), it could be assumed under present tax rules that the differences between the tax base of equity interests and the proportionate share of equity (outside basis differences) of the consolidated subsidiaries, branch offices, associates and joint arrangements included in VERBUND's consolidated IFRS financial statements, which result in particular from retained earnings and uncovered losses, will remain tax-free for the foreseeable future. Therefore, no tax liability was recognised at 31 December 2018 for temporary differences in the amount of €4,022.2m (previous year: €3,841.7m) in connection with these equity interests.

No current tax assets are recognised for tax losses of VERBUND Sales Deutschland GmbH or the Romanian subsidiary VERBUND Wind Power Romania SRL, because it is unlikely due to the earnings situation that a taxable net profit will be available in the next few years against which the deferred tax assets can be utilised.

(36) Contributions to building costs and grants

This deferred income item includes deferred contributions to building costs, particularly from provincial energy companies, e.g. for power plant projects, and deferred government grants (see: Accounting policies).

Contributions to building costs and grants

€m	2017	2018
Contributions to building costs	712.5	709.3
Government grants	35.0	37.6
Contributions to building costs and grants	747.5	**746.9**

(37) Other non-current liabilities

Other non-current liabilities €m

	2017	2018
Electricity supply commitment[1]	163.0	155.8
Obligation to return an interest[2]	78.3	75.4
Deferred income – cross-border leasing	45.6	32.0
Trade payables	1.5	1.3
Other	27.0	32.4
Other non-current liabilities	315.3	296.9

[1] The electricity supply commitment corresponds to the obligation arising from a 20-year electricity supply agreement, which was entered into in the 2009 reporting period as part of the consideration for the acquisition of Kraftwerksgruppe Inn GmbH (now VERBUND Innkraftwerke GmbH). // [2] This return obligation refers to the obligation to transfer the 50% interest in Donaukraftwerk Jochenstein AG newly acquired in the 2013 reporting period back to the Federal Republic of Germany and the Free State of Bavaria without exchange of consideration effective 31 December 2050.

(38) Current tax liabilities

Current tax liabilities €m

	2017	2018
Taxes on income	94.7	45.4
Other taxes	1.0	1.0
Current tax liabilities	95.8	**46.5**

(39) Trade payables and current other liabilities

Trade payables and current other liabilities €m

	2017	2018
Derivatives in the energy area	264.0	528.8
Trade payables	171.5	188.0
Outstanding receipts for investments	36.0	48.2
Other liabilities for maintenance expenses	31.7	38.5
Other personnel-related liabilities	32.0	33.7
Other liabilities from electricity and grid deliveries	23.4	31.6
Liabilities to tax authorities	19.3	19.1
Liabilities to ECRA	7.7	16.5
Derivatives in the finance area	18.6	15.8
Electricity supply commitment	7.0	7.2
Liabilities to unconsolidated subsidiaries and investees	9.3	4.6
Liabilities from social security (including social insurance institutions)	4.5	4.5
Other liabilities for legal, audit and consulting expenses	1.5	2.3
Other	18.2	14.0
Trade payables and current other liabilities	644.8	**952.9**

Notes to the cash flow statement

The indirect method has been used to prepare VERBUND's cash flow statement. The composition of the fund of cash and cash equivalents is disclosed in the notes to the balance sheet (see: Notes to the balance sheet).

Non-cash transactions

Outstanding items with respect to current liabilities arose in connection with additions to intangible assets and property, plant and equipment in the amount of €48.2m (previous year: €36.0m).

(40) Additional information on cash flow from financing activities

Additional information on cash flow from financing activities €m

	2017	2018
Dividends paid to non-controlling interests	–21.8	–32.2
Dividends paid to the shareholders of VERBUND AG	–100.8	–145.9

Financial instruments and risk management

VERBUND also uses primary and derivative financial instruments in both the finance and energy area for the purpose of risk management.

Finance area

VERBUND is exposed to considerable financial risks in its operating activities and the related financing transactions. These comprise mainly interest rate and liquidity risks, counterparty risks, price risks from securities, foreign exchange risks and the risk of a change in VERBUND's rating.

Therefore, in the finance area, VERBUND focuses on identifying, analysing and measuring risks and opportunities as well as on determining measures to be implemented in this context, which can secure profits and/or mitigate the adverse effects if a risk should materialise.

In the finance area, the Group has defined its own rules as part of its framework of Group guidelines in order to be able to correspondingly monitor and manage financial risks. Among other things, this refers to the calculation and measurement of KPIs in line with market conditions with respect to locking in interest rates, currency diversification and the duration of financial liabilities in order to suggest and introduce appropriate measures as needed. Sufficient liquidity is ensured at all times through liquidity planning which is generally focused on the current and subsequent reporting period and the resulting corresponding investments and/or borrowings.

Financial instruments

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

The derivative financial instruments used in the finance area comprise the following and are recognised under the balance sheet items listed:

Derivative financial instruments in other receivables €m

	Reference value[1]	Positive fair values 31/12/2017	**Positive fair values 31/12/2018**
Interest rate swaps – closed items on the balance sheet (fixed interest recipient)	\$260.7m (previous year: \$257.3m)	89.8	78.0
Forward exchange transactions	\$0.5m (previous year: \$0.0m)	0.0	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.

Derivative financial instruments in other liabilities €m

	Reference value[1]	Negative fair values 31/12/2017	**Negative fair values 31/12/2018**
Interest rate swaps – hedges (fixed interest recipient)	€100.7m (previous year: €115.3m)	10.6	8.9
Interest rate swaps relating to financial liabilities (freestanding)	€140.6m (previous year: €159.0m)	8.0	7.0

[1] The reference value includes the reference basis of the derivative instruments. The actual cash flows only represent a fraction of these values.

The derivative financial instruments listed serve exclusively to hedge financially against existing currency and interest rate risks.

The fluctuations in the value of interest rate swaps related to the closed items on the balance sheet (see: Accounting policies) serve to balance out the fluctuations in the value of the corresponding liabilities which are measured at fair value through profit or loss.

There are interest rate swaps for variable interest-bearing non-current financial liabilities in the amount of €100.7m (previous year: €115.3m) that were designated and accounted for as cash flow hedges. Further details regarding these interest rate swaps can be found under Note (33) Additional disclosures regarding financial instruments in accordance with IFRS 7.

Additional interest rate swaps (from variable to fixed interest rate) were also entered into with an outstanding notional value of €140.6m as at 31 December 2018 (previous year: €159.0m) as part of (intra-Group) project financing. From a financial perspective, these interest rate swaps also serve to hedge increases in interest rates, but from the Group perspective, these are freestanding derivatives and recognised at fair value through profit or loss.

Liquidity risk

In order to secure sufficient liquidity reserves, a five-year syndicated credit line in the amount of €500.0m with two renewal options to extend the term for one year each was entered into in the 2018 reporting period. The credit line was granted to VERBUND AG as part of an international banking syndicate. This credit line was not drawn down. The previously existing syndicated credit line over €500.0m was cancelled early. In addition, there are also liquidity reserves in the form of securities and investment funds.

For contractually agreed (non-discounted) cash outflows from financial liabilities in accordance with IFRS 7, see: Note (33) Additional disclosures regarding financial instruments in accordance with IFRS 7.

Credit risk

The amounts reported on the asset side also represent the maximum credit and default risk. The counterparty risk in the electricity and grid business as well as in the finance area is measured and monitored uniformly as part of Group-wide risk management. As a rule, transactions – with the exception of petty amounts – are only entered into with customers of sufficient creditworthiness either on the basis of an external investment grade rating from an international rating agency (Moody's, Standard & Poor's) or following an internal credit assessment to determine an equivalent rating. An individual limit is established for each counterparty and monitored across the Group. Money market investments are also only entered into with financial partners with confirmed creditworthiness. All counterparty risks and the customer structure portfolio are monitored on the basis of default probabilities calculated by international rating agencies. As a rule, if the credit assessment or the rating does not meet the requirements – i.e. an investment grade rating is not achieved – transactions are only entered into if sufficient collateral is provided (advance payments, bank guarantees, letters of comfort). Default risks are minimised as a result of this counterparty requirement. Risk is further reduced by entering into netting arrangements. An exception is made for the operating activities in the (regulated) Grid segment, where there are some trade receivables for which the debtor does not meet the requirements due to obligations to contract.

In 2017, a credit insurance policy was entered into for Austria and Germany in the consumer business area with a 10% deductible and two-year term. As at 31 December 2018, €36.2m of the trade receivables (previous year: €33.7m) are covered under this insurance policy; however, there is a maximum coverage of €10.0m per year. The table below provides an overview of the material financial instruments with credit risk by credit rating group:

Financial instruments with credit risk by assigned rating group 2018 €m

Credit rating group	Equivalent Moody's rating	Financial instruments – closed items on the balance sheet	Securities	Non-current and current other receivables[1]	Trade receivables	Derivatives in the energy area	Investments as well as cash and cash equivalents[2]
A	up to Aa3	236.3	0.0	0.0	16.9	11.7	0.2
B	up to A3	19.0	0.0	24.7	153.1	109.0	36.6
C1–C3	up to Baa3	178.4	0.0	0.0	141.8	171.0	27.8
D1–D5	below Baa3	0.0	0.0	0.0	1.1	1.5	0.0
Not rated		0.0	211.5	113.1	81.4	0.0	0.0
Total		433.7	211.5	137.8	394.3	293.1	64.6

[1] incl. receivables from investees and loans to investees // [2] Non-current and current other loans and money market transactions have been summarised as investments in this presentation.

Financial instruments with credit risk by assigned rating group 2017 €m

Credit rating group	Equivalent Moody's rating	Financial instruments – closed items on the balance sheet	Securities	Non-current and current other receivables[1]	Trade receivables	Derivatives in the energy area	Investments as well as cash and cash equivalents[2]
A	up to Aa3	221.1	0.0	0.0	6.6	3.9	0.1
B	up to A3	18.0	0.0	0.0	97.9	70.9	22.7
C1–C3	up to Baa3	185.3	0.0	0.0	128.7	21.6	10.7
D1–D5	below Baa3	0.0	0.0	0.0	39.4	8.4	0.0
Not rated		0.0	146.9	155.1	73.2	0.0	0.4
Total		424.4	146.9	155.1	345.7	104.7	33.9

[1] incl. receivables from investees and loans to investees // [2] Non-current and current other loans and money market transactions have been summarised as investments in this presentation.

Securities and loans related to closed items on the balance sheet are not exposed to price or foreign exchange risk from VERBUND's perspective. These investments were either carried out on the basis of matching currencies and maturities or they were adjusted to maturity, interest rates and currencies of the corresponding financial liabilities through corresponding derivatives. The remaining risk is thus a credit risk or default risk of the partner with whom the investments were carried out. This was in turn minimised in that investments were only carried out with partners with original first-class ratings (group A), whereby the credit rating and the solvency of the partner is constantly monitored in order to be able to react in a quick and timely manner according to the terms of the agreement in the event of impending default (see also: Accounting policies, other obligations and risks).

The other securities without assigned ratings are, in particular, domestic investment funds (funds for institutional investors) acquired to cover personnel-related provisions and shares of money market funds.

With respect to trade receivables, the amounts presented as "not rated" related on the one hand to the expansion of the consumer business, which led to a large number of receivables that individually lie below the de minimis limit (< €0.1m). On the other hand, it also includes receivables for which no credit assessments were carried out due to special circumstances (e.g. legal obligations to accept contracts).

The table below contains information regarding the default risk and recognised expected credit losses for financial instruments that were classified as "measured at amortised cost", with the exception of trade receivables and receivables from investees, which are primarily also related to trade receivables. For all financial instruments, the valuation allowance was recognised in the amount of the expected 12-month credit loss, because there is a low risk of default.

Expected credit losses 2018 €m

	Equivalent Moody's rating	Probability of default	Loss ratio	Gross carrying amount	Valuation allowance	Net carrying amount
A	up to Aa3	0.02%	0.60%	236.4	0.0	236.4
B	up to A3	0.07%	0.70%	43.8	0.0	43.8
C1–C3	up to Baa3	0.12%–0.31%	0.80%	100.5	–0.1	100.4
Loans portion of a net investment[1]	–	–	–	51.6	–21.9	29.8
No recognition of expected credit losses[2]	–	–	–	118.3	–	118.3
Total				550.6	–22.0	528.6

[1] Non-current loans which in their economic substance represent an increase in the net investment in Ashta Beteiligungsverwaltung GmbH (see: Note (21) Interests accounted for using the equity method). // [2] Guarantees in energy trading in the amount of €37.8m are maintained as a special asset pool, which is why there is no default risk. No expected credit losses are recognised for the other remaining financial instruments due to the low amount of exposure to default risk, the short term and/or the borrower's good creditworthiness.

For trade receivables and receivables from investees that are primarily related to trade receivables, the credit losses expected over the term are measured using a valuation allowance matrix:

Expected credit losses 2018 €m

	Loss ratio	Gross carrying amount	Valuation allowance	Net carrying amount
Not past due	0%	410.2	0.0	410.2
1–30 days past due	0%	11.9	0.0	11.9
31–120 days past due	10-50%	0.7	-0.1	0.7
> 120 days past due	90%	3.8	-2.7	1.1
Total		426.6	-2.7	423.9

Interest rate risk

VERBUND regards fluctuations in interest rates as a significant cash flow risk. As at 31 December 2018, the portion of financial liabilities (taking interest rate swaps into account) for which VERBUND was exposed to a corresponding interest rate risk was 2.0% (previous year: 6.5%).

A 1.0% increase in the interest rate would result in a decrease of €0.6m p.a. (previous year: €1.3m p.a.) in profit before taxes with the loan portfolio in existence as at the reporting date, including the money market transactions. As a rule, hedging instruments are used in an attempt to further reduce the effects of short-term market price fluctuations on profit or loss. However, prolonged negative market price changes can have a negative impact on performance.

At 31 December 2018, there were interest rate swaps (notional amount: $260.7m; previous year: $257.3m) related to closed items on the balance sheet. The fair value of these derivatives, together with the related securities, loans and receivables, in each case form a micro hedge that exactly equates to the fair value recognised for the related financial liability. The changes in fair value of the interest rate swaps correspond to the fluctuations in the value of the hedged financial liabilities measured at fair value induced by changes in interest rates.

At 31 December 2018, there were additional interest rate swaps over a total notional amount of €100.7m (previous year: €115.3m). These swaps exchange variable interest for a fixed interest rate in order to also secure the existing low interest level for the long term. These interest rate swaps were designated as cash flow hedges in accordance with IFRS 9 (see: Note (33) Additional disclosures regarding financial instruments in accordance with IFRS 7).

In addition, interest rate swaps (from variable to fixed interest) were entered into as part of intra-Group project financing with a notional amount of €140.6m (previous year: €159.0m) for which no hedging relationships could be presented from a Group perspective (for the fair value of the non-current financial liabilities, see: Note (33) Additional disclosures regarding financial instruments in accordance with IFRS 7). The average remaining term for the entire portfolio is 3.4 years (previous year: 3.7 years).

Foreign exchange risk

There are no assets exposed to significant foreign exchange risks because deliveries are settled almost entirely in euros; the same generally applies to other primary financial instruments.

Since securities and loans under closed items on the balance sheet as well as the associated liabilities are denominated exclusively in US dollars, no foreign exchange risk is incurred.

Risk from cross-border leasing transactions

With the beginning of the financial market crisis during the 2008 reporting period, the risk profile of cross-border leasing transactions changed for VERBUND – mainly as a result of the deterioration in the credit rating of contractual parties (banks and insurance companies). At the same time, due to the increased liquidity requirements of American cross-border leasing investors and the agreements between these investors and the American tax authorities regarding tax benefits to be approved, their willingness to terminate individual transactions early increased. VERBUND took advantage of these opportunities and was able to terminate a total of about 85% of the original volume of cross-border leasing transactions in the 2009 and 2010 reporting periods. The remaining transaction volume (Freudenau power plant) amounts to around $966.0m, corresponding to around 15% of the original transaction volume. The original net present value benefit associated with this transaction was €75.9m. This last remaining transaction has an off-balance sheet financing structure. Any potential liabilities on the part of VERBUND that could arise from this transaction are still hedged in part by means of counter-guarantees (see: Other obligations and/or entitlements and risks).

Some of the cross-border leasing transactions had been terminated early in their entirety; that is, all associated liabilities (A-loans and B-loans) and investments were also repaid. Some of the cross-border leasing transactions were only partially terminated, whereby the transactions with investors and the associated A-loans were repaid, while VERBUND continued the existing B-loans. For these transactions that are designated as partially terminated, the existing B-payment undertaking agreements and the corresponding investments as well as the related derivatives (interest rate swaps, fair value hedges) were continued. Therefore, balance sheet cover remains in place. Expenses and income from the measurement of these items correspond to one another in terms of both value and value date, and are offset. The reference value of the interest rate swaps amounts to $260.7m (previous year: $257.3m).

The financial assets and liabilities related to closed items on the balance sheet are not netted on the balance sheet (if there is no current legally enforceable right to offset the amounts recognised). In the event of insolvency, the interest rates swaps (€78.0m; previous year: €89.8m) can be netted against the financial liabilities to banks recognised at fair value (€320.2m; previous year: €318.0m). The net liability from both of these items therefore amounted to €242.2m as at 31 December 2018 (previous year: €228.2m).

Due to adverse changes in the energy market environment, VERBUND AG experienced several credit rating downgrades, falling below the required minimum ratings in some cases. Corresponding provisions were recognised for the expected expenses. However, it was possible to reverse a portion of the provisions already in the previous year thanks to rating improvements. There was a further improvement in the credit rating by the rating agencies in the 2018 reporting period; as a result, all of the provisions that had been recognised were remeasured and largely reversed.

In addition, there is still a risk that the investing financial institutions would have to be exchanged or additional collateral would have to be provided if the rating of the investing financial institutions were to be downgraded below a certain threshold amount. The same applies to two transactions that had been terminated early for which the financial liabilities were continued if the rating of either VERBUND or the issuer of the investments were to be downgraded by a certain amount. In such case, corresponding measures would have to be implemented.

The ratings of contractual parties as well as VERBUND's rating exceeded the contractually agreed thresholds on 31 December 2018. Thus there is currently no need for VERBUND to switch individual contractual parties or investments. This risk is also reduced not least of all by the existence of guarantors' liabilities from regional authorities for individual contractual parties.

Energy area

Within its core business, VERBUND is active in international energy markets and is thus exposed to market, counterparty and operational risks that have to be seen alongside corresponding opportunities. Sustained economic activity in these markets requires appropriate structures and processes as well as strict intra-Group regulations. Dealing with market risks is managed by means of rule books and the limits established in them. Counterparty risk is approached using separate guidelines both at the Group level as well as at the level of the subsidiaries. There is a procedure manual for the management of operational risks.

The current utilisation of the various limits for market risk (value at risk, stress limit, stop-loss limits and exposure limits) is monitored, managed and reported on a daily basis, as is the risk position of the (derivative) financial instruments in the energy area.

At 31 December 2018, the derivative financial instruments in the energy area (electricity futures as well as electricity forwards and options, gas futures and gas forwards, CO_2 futures and CO_2 forwards) comprised the following:

Sales and procurement (cash flow hedges) as at 31/12/2018

€m

	Positive fair values	Negative fair values	Net
Futures	39.9	229.5	–189.6
Forwards	33.7	141.0	–107.2
Total before netting	**73.7**	**370.5**	**–296.8**
of which current	63.0	335.6	–272.6
of which non-current	10.7	34.9	–24.2
of which in other comprehensive income			–296.8

Wholesale as at 31/12/2018

€m

	Positive fair values	Negative fair values	Net
Futures	228.8	19.1	209.7
Forwards	279.2	418.4	–139.2
Options	1.0	0.3	0.6
Swaps	0.1	0.8	–0.7
Total before netting	**509.0**	**438.6**	**70.4**
of which current	352.9	302.7	50.2
of which non-current	156.1	135.9	20.2
Futures already realised	107.6	168.3	–60.7
Total			**9.7**

Trading as at 31/12/2018

€m

	Positive fair values	Negative fair values	Net
Futures	11.2	16.5	–5.2
Forwards	753.9	753.1	0.8
Total before netting	**765.1**	**769.6**	**–4.5**
of which current	658.6	663.5	–4.9
of which non-current	106.5	106.1	0.4

Total as at 31/12/2018 €m

	Positive fair values	Negative fair values	Net
Futures	279.9	265.0	14.9
Forwards	1066.8	1312.5	–245.7
Options	1.0	0.3	0.6
Swaps	0.1	0.8	–0.7
Total before netting	**1,347.7**	**1,578.6**	**–230.9**
Including netting agreements	–1,049.8	–1,049.8	0.0
Total after netting	**298.0**	**528.8**	**–230.9**
EEX/ECX clearing variation margins of futures	–4.8		–4.8
Recognised under other receivables or liabilities	**293.1**	**528.8**	**–235.7**

At 31 December 2017, the derivative financial instruments in the energy area (electricity futures as well as electricity forwards and options, gas futures and gas forwards, CO_2 futures and CO_2 forwards) comprised the following:

Sales and procurement (cash flow hedges) as at 31/12/2017 €m

	Positive fair values	Negative fair values	Net
Futures	25.5	247.4	–221.9
Forwards	15.2	79.2	–64.1
Total before netting	**40.7**	**326.7**	**–286.0**
of which current	33.4	283.6	–250.1
of which non-current	7.3	43.1	–35.9
of which in other comprehensive income			–286.0

Wholesale as at 31/12/2017 €m

	Positive fair values	Negative fair values	Net
Futures	208.4	4.6	203.8
Forwards	79.6	176.6	–97.0
Options	1.3	0.3	1.0
Swaps	1.2	1.4	–0.2
Total before netting	**290.5**	**182.9**	**107.5**
of which current	209.8	104.5	105.3
of which non-current	80.6	78.4	2.2
Futures already realised	50.3	149.3	–99.0
Total			**8.5**

Trading as at 31/12/2017

€m

	Positive fair values	Negative fair values	Net
Futures	14.0	14.3	– 0.3
Forwards	365.1	364.4	0.7
Total before netting	**379.0**	**378.6**	**0.4**
of which current	316.6	316.7	– 0.1
of which non-current	62.4	61.9	0.5

Total as at 31/12/2017

€m

	Positive fair values	Negative fair values	Net
Futures	247.9	266.3	– 18.5
Forwards	459.9	620.2	– 160.4
Options	1.3	0.3	1.0
Swaps	1.2	1.4	– 0.2
Total before netting	**710.2**	**888.2**	**– 178.1**
Including netting agreements	– 605.4	– 605.4	0.0
Total after netting	**104.7**	**282.8**	**– 178.1**
EEX/ECX clearing variation margins of futures		– 18.9	18.9
Recognised under other receivables or liabilities	**104.7**	**264.0**	**– 159.2**

Derivative financial instruments in the energy area with positive fair values are recognised under trade receivables and other receivables; those with negative fair values are recognised under trade payables and other liabilities. If a framework agreement with a netting clause has been entered into with a counterparty, the positive and negative fair values of the transactions for this counterparty are netted for accounting purposes because the aim is to settle on a net basis.

The effects of potential price fluctuations on the electricity market were measured (–10.0% to +10.0%) on the operating result (wholesale portfolio, trading portfolio) as well as on the equity (cash flow hedges). At present, a 10.0% increase in the market price would have an impact on the operating result in the amount of €+2.1m (previous year: €+2.1m) and on the provisions for measurements of cash flow hedges in equity (not including deferred taxes) in the amount of €–81.4m (previous year: €–90.4m). At present, a 10.0% decline in the market price would have an impact on the operating result in the amount of €–2.1m (previous year: €–2.1m) and on the provision for measurements of cash flow hedges in equity (not including deferred taxes) in the amount of €+81.4m (previous year: €+90.4m). The future sales and procurement transactions hedged by cash flow hedges will occur over the next four years (2019 to 2022) and be recognised in profit or loss accordingly.

Further details regarding the electricity futures and forwards designated as cash flow hedges can be found under Note (33) Additional disclosures regarding financial instruments in accordance with IFRS 7.

Capital management

The goals of VERBUND's capital management are to ensure liquidity, to guarantee adequate liquidity reserves, to optimise the capital structure (balance sheet equity and debt) and to ensure a strong rating in the long term. As part of capital management, the Executive Board regularly monitors the following KPIs: net debt/EBITDA ratio, free cash flow (before dividends) and ROCE.

The Group strives for a net debt/EBITDA ratio of < 3.0, a free cash flow (before dividends) of > €250m and a ROCE of > 7.0% in order to support the rating. These targets are based on the existing asset and value chain structure.

Net debt/EBITDA €m

	2017	**2018**
Net debt	2,843.8	2,560.7
EBITDA	922.3	864.2
Net debt/EBITDA	3.1	**3.0**

Free cash flow €m

	2017	**2018**
Cash flow from operating activities	640.6	664.1
Cash flow from investing activities excluding cash inflows and outflows from investments and/or disposals in investments	–224.5	–248.8
Free cash flow	416.1	**415.3**

Return on capital employed (ROCE) €m

	2017	**2018**
NOPAT	368.7	535.6
Average capital employed	8,758.8	8,764.8
Return on capital employed (ROCE)	4.2%	**6.1%**

Other obligations and/or entitlements and risks

Contingent liabilities

At 31 December 2018, around 85% 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 2018, VERBUND's secondary liability amounted to €519.3m (previous year: €504.1m) for the non-redeemed portion of the leasing liability from this cross-border leasing transaction. Of the rights of recourse against the primary debtors, €324.0m (previous year: €327.9m) is secured through counter-guarantees from financial institutions, entities entitled to purchase electricity and regional authorities (from guarantors' liabilities). In addition, €264.7m (previous year: €240.2m) is covered by off-balance sheet investments in zero coupons of the European Investment Bank which are also secured by a guarantee from the Financial Security Assurance Inc. (FSA).

Court proceedings pending

In connection with the flooding of the Drau River in 2012, several parties filed claims for damages. The civil claims for damages currently amount to around €108.5m (previous year: €109.9m). VERBUND is contesting both the amounts and merits of these claims. No disclosures have been provided in respect of any contingent liabilities or provisions that may arise in relation to these claims for damages because it is likely that such note disclosures would seriously prejudice VERBUND's position in the proceedings.
In connection with the proceedings between VERBUND and EVN AG (shutdown of the power plant block at the Dürnrohr site), outstanding issues were settled in the 2018 reporting period. The provision recognised in the past in the amount of €12.0m was utilised as intended.

In connection with the amortisation of goodwill described in previous years for the investment in VERBUND Innkraftwerke GmbH claimed for tax purposes for the years 2014–2023, the appeal against the 2014 notice of assessment for the group parent remains pending. The tax benefit for these years (reduction of future tax payments in the amount of €8.2m per year) is recognised in accordance with VERBUND's accounting policies if it is reasonably likely.

Contracts and purchase commitments

Contracts and purchase commitments 2018 €m

	Commitment within one year	Commitment for longer than one year and up to five years	Commitment for longer than five years
Rental and lease contracts	32.2	72.2	76.5
Purchase commitments for property, plant and equipment and intangible assets as well as other commitments	385.2	445.0	4.4

Purchase contracts

As part of a basic contract which can be terminated yearly, Weglokoks S.A. offers VERBUND Thermal Power GmbH & Co KG 450,000 tonnes of hard coal annually at negotiable prices. There is also a framework contract that can be terminated yearly with OKD A.S. for a volume of at least 600,000 tonnes of hard coal per year at negotiable prices. So far a volume of 200,000 tonnes has been contracted with OKD for delivery in the 2019 reporting period.

In addition, there are further customary purchase contracts for business activities that include, in particular, the delivery of electricity and primary energy sources, but also property, plant and equipment, as well as maintenance and repair services.

Other commitments

Provincial energy companies have acquired (proportionate) electricity purchase rights by providing contributions to building costs for power plants on the Danube and Drau rivers and for the Malta power plant group. Due to these electricity supply agreements, VERBUND is obligated to deliver a portion of the electricity generated in these power plants to the provincial energy companies in exchange for reimbursement of 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 for the Wasserburg, Teufelsbrück and Gars run-of-river power plants into so-called contingent reversion rights – these are only triggered in the event that VERBUND permanently ceases to operate the power plants or permanently shuts them down. In exchange, VERBUND undertook to implement certain water management measures and environmental and infrastructure measures on the Bavarian Inn River by 2021.

There is a district heating supply and purchase agreement between VERBUND Thermal Power GmbH & Co KG and Energie Steiermark Wärme GmbH to meet the district heating demand of the metropolitan area of Graz. District heating plants have been authorised at the Mellach site to satisfy the resulting delivery obligations.

As is typical for the energy industry, payments for losses are made to land owners for economic disadvantages associated with the construction of power plants and lines. The total present value of these commitments is not material to VERBUND.

Average number of employees

Average number of employees

	2017	**2018**	Change
Salaried employees	2,664	2,597	–67
Wage earners	2	0	–2
Apprentices	153	145	–8
Average number of employees[1]	2,819	**2,742**	–77

[1] Part-time employees were taken into account proportionately based on their working hours.

As at the reporting date, 61 (previous year: 84) employees had a letter of loyalty granting them a higher degree of employment protection. The prerequisite was at least 20 years of service at VERBUND and a minimum age of 45.

Provision of personnel

In the 2018 reporting period there was a total average of 16 secondments (previous year: 16) to unconsolidated subsidiaries of VERBUND. In addition, 2 employees were assigned on average to PÖYRY Austria GmbH (previous year: 14).

Expenses for services provided by the Group auditor

The expenses for services provided by the Group auditor refer to VERBUND's consolidated subsidiaries that are audited by the Group auditor/the Group auditor's network; the corresponding expenses for subsidiaries that are not consolidated due to lack of materiality are not included here. VERBUND's Group auditor in both 2018 and 2017 was Deloitte Audit Wirtschaftsprüfungs GmbH.

Expenses for services provided by the Group auditor €k

	Deloitte[1] 2017	**Deloitte[1] 2018**	Network 2017	**Network 2018**
Audit services relating to consolidated and separate financial statements	281.6	308.4	157.3	150.2
Other assurance services	51.0	95.8	1.2	0.9
Tax consulting services	0.0	0.0	0.0	0.0
Other advisory services	80.4	141.3	0.0	0.0
Total expenses	413.0	**545.6**	158.5	**151.1**

[1] Deloitte Audit Wirtschaftsprüfungs GmbH

The following expenses for Group auditor/Group auditor network services were incurred by VERBUND's joint ventures: €31.0k (previous year: €25.4k) for audit services relating to the consolidated and separate financial statements (of which to Deloitte Audit Wirtschaftsprüfungs GmbH: €31.0k; previous year: €25.4k).

Transactions with related parties

Related parties of VERBUND include all subsidiaries, associates and joint ventures. In addition, related parties include the members of VERBUND's Executive Board and Supervisory Board, companies controlled or significantly influenced by them or their close family members. Due to its position as the majority shareholder, the Republic of Austria is a related party. Consequently, companies over which the Republic of Austria has a controlling or significant influence are also considered to be related parties.

Transactions between related parties are carried out at arm's length. Transactions with unconsolidated subsidiaries, joint ventures or associates are not presented due to lack of materiality.

Transactions with joint ventures

Material transactions with equity-accounted joint ventures had the following effect on VERBUND's income statement and balance sheet:

Transactions with joint ventures €m

	2017	2018
Income statement		
Electricity revenue	2.6	0.4
Other revenue	2.8	0.6
Other operating income	0.3	0.3
Expenses for electricity, grid, gas and certificates purchases	–0.4	–0.1
Fuel expenses and other usage-/revenue-dependent expenses	0.0	0.0
Other operating expenses	–0.1	–0.3
Interest income	1.4	1.3
Interest expenses	0.0	0.0
Other financial result	2.1	1.9

Transactions with joint ventures €m

	31/12/2017	31/12/2018
Balance sheet		
Investments and non-current other receivables	33.6	27.1
Trade receivables and current other receivables	10.9	7.3
Contributions to building costs	1.0	0.9
Trade payables and current other liabilities	1.1	1.1

Investments at 31 December 2018 included a non-current loan to Energji Ashta Shpk in the amount of €26.3m (previous year: €32.1m) as well as a current other receivable in the amount of €3.5m (previous year: €3.5m). Both mainly served the financing of construction services relating to an Albanian hydropower plant concession.

Transactions with associates

KELAG-Kärntner Elektrizitäts-Aktiengesellschaft has acquired (proportionate) electricity purchase rights by providing contributions to building costs for power plants on the Danube and Drau rivers and for the Malta and Reißeck power plant groups. Based on these electricity supply agreements, VERBUND is obligated to deliver a portion of the electricity generated in these power plants to KELAG-Kärntner Elektrizitäts-Aktiengesellschaft in exchange for reimbursement of the contractually-stipulated recognised expenses (excluding depreciation, amortisation and interest).

Material transactions with equity-accounted associates had the following effect on VERBUND's income statement and balance sheet:

Transactions with associates

€m

	2017	**2018**
Income statement		
Electricity revenue	57.8	73.6
Grid revenue	24.7	35.9
Other revenue	–0.4	–0.4
Other operating income	1.6	3.8
Expenses for electricity, grid, gas and certificates purchases	–11.9	–18.5
Other operating expenses	–0.7	–0.6
Interest income	0.2	0.2
Interest expenses	0.0	0.0

Transactions with associates

€m

	31/12/2017	**31/12/2018**
Balance sheet		
Trade receivables, other receivables and securities	19.1	26.1
Contributions to building costs	282.0	275.3
Trade payables and current other liabilities	0.3	0.2

Electricity revenue was realised with KELAG-Kärntner Elektrizitäts-AG (€61.8m; previous year: €43.4m) and OeMAG Abwicklungsstelle für Ökostrom AG (€11.8m; previous year: €14.4m). Electricity revenue was offset by electricity purchases from KELAG-Kärntner Elektrizitäts-Aktiengesellschaft in the amount of €18.0m (previous year: €11.3m). Grid revenue was only realised with KELAG-Kärntner Elektrizitäts-Aktiengesellschaft. KELAG-Kärntner Elektrizitäts-Aktiengesellschaft made contributions to building costs of €3.9m (previous year: €3.0m) in the 2018 reporting period.

Transactions with the Republic of Austria and companies under its controlling influence

Electricity deliveries from companies controlled or significantly influenced by the Republic of Austria amounted to a total of €62.3m (previous year: €51.0m) in the 2018 reporting period. The primary buyers of this electricity were ÖBB, OMV, Telekom Austria and Bundesbeschaffung GmbH. Electricity purchased from companies controlled or significantly influenced by the Republic of Austria amounted to a total of €2.9m in the 2018 reporting period (previous year: €16.1m). The electricity deliveries were carried out by ÖBB. Gas trading contracts with OMV and gas deliveries on the part of OMV resulted in a total expense of €50.5m in other revenue and purchased gas, respectively (previous year: €16.9m). VERBUND's expense for monitoring by E-Control amounted to a total of €11.6m (previous year: €14.0m) in the 2018 reporting period.

Disclosures regarding the governing bodies of the Group

Detailed disclosures regarding the Boards of VERBUND AG are presented in the Corporate Governance Report. The following disclosures focus on the remuneration of members of the Executive Board and the Supervisory Board.

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

	2017			2018		
	Fixed remun-eration	Variable remun-eration	Other	Fixed remun-eration	Variable remun-eration	Other
Dipl.-Ing. Wolfgang Anzengruber	827,375	499,972	0	849,770	563,457	0
Dr. Johann Sereinig	790,919	342,214	0	813,641	385,665	598,682
Dipl.-Ing. Dr. Günther Rabensteiner	587,845	254,348	0	604,733	286,643	229,334
Dr. Peter F. Kollmann	783,585	339,040	0	806,096	382,089	0

Remuneration of the Executive Board members amounted to a total of €5,599,347 in the 2018 reporting period (previous year: €4,485,156), including €79,237 (previous year: €59,858) in remuneration in kind. Other remuneration in the amount of €828,016 (previous year: €0) relates to compensation in lieu of holiday for the former members of the Executive Board.

Because it is only possible to ascertain at the end of the year whether targets have been achieved, variable remuneration components are paid out in the following year. Therefore, the total amount includes variable remuneration components granted to members of the Executive Board in the 2018 reporting period for the 2017 reporting period as well as subsequent payments for bonuses from 2016.

Variable remuneration depends upon performance and is limited to a specific percentage of the respective fixed remuneration. For the 2017 reporting period (as well as for the current 2018 reporting period), this percentage rate was between 50% and 70%. The level of performance-based remuneration components depends on the extent to which the targets agreed for the financial year are achieved. 50% of the target agreement in the 2017 reporting period was based on the achievement of the Group result, 30% on the achievement of free cash flow (three-year target) and 20% on other intermediate (two-year, qualitative) goals, such as the settlement of legacy issues (for example, the successful resolution of contentious issues such as pending complaints and arbitration proceedings) and the optimisation and adaptation of structures, processes and business models based on technological development (digitalisation) and the disruptive changes resulting from competition in the energy industry. The principles underlying the Executive Board's share of profit were unchanged from the previous year.

A company pension plan has been set up for members of the Executive Board in the form of a defined contribution pension fund agreement. In the 2018 reporting period, contributions to the pension fund were paid for the Executive Board in the amount of €225,992 (previous year: €219,681).

Statutory regulations apply, taking account of the requirements of Rule 27a of the Austrian Code of Corporate Governance, with respect to the claims of members of the Executive Board upon termination of their position. In the 2018 reporting period, €376,224 (previous year: €361,817) was paid out for pensions and €2,189,150 (previous year: €0) for termination benefits in favour of beneficiaries.

Profit or loss for the period included expenses for termination benefits and pensions and similar obligations – i.e. post-employment benefits – in the amount of €45,486 (previous year: €37,715). Expenses for pensions and similar obligations for former members of the Executive Board and their surviving dependants included in the profit or loss for the period amounted to a total of €47,481 (previous year €50,769). In addition, remeasurement expenses in the amount of €657,762 (previous year: expenses amounting to €66,807) were recognised in other comprehensive income.

Remuneration for members of the Supervisory Board (including the reimbursement of recharged business/travel expenses) amounted to a total of €348,934 (previous year: €380,801). As in the previous year, no loans or advances were paid out to members of the Group's or subsidiaries' boards. As in the previous year, VERBUND does not have a stock option programme for either the members of the Executive Board or senior management staff.

Subsidiaries, joint ventures and associates of VERBUND

Subsidiaries with significant, non-controlling interests

The following tables contain condensed financial information for each of the Group's subsidiaries with significant, non-controlling interests before intra-Group adjustments:

Subsidiaries with significant, non-controlling interests: Statement of comprehensive income

€m

	2017 VERBUND Hydro Power GmbH	2017 VERBUND Innkraftwerke GmbH	2018 VERBUND Hydro Power GmbH	2018 VERBUND Innkraftwerke GmbH
Revenue	654.0	72.4	617.1	72.6
Profit or loss after tax from continuing operations	167.7	–109.7	**212.7**	**9.6**
Profit or loss for the period	167.7	–109.7	**212.7**	**9.6**
Ownership interest of non-controlling interests	19.46%	29.73%	19.46%	29.73%
Profit or loss for the period attributable to non-controlling interests	32.6	–32.6	**41.4**	**2.9**
Other comprehensive income	3.3	–0.2	–12.5	1.2
Total comprehensive income for the period	171.0	–109.9	**200.2**	**10.8**
Ownership interest of non-controlling interests	19.46%	29.73%	19.46%	29.73%
Total profit or loss for the period attributable to non-controlling interests	33.3	–32.7	**39.0**	**3.2**

Subsidiaries with significant, non-controlling interests: Balance sheet €m

	31/12/2017 VERBUND Hydro Power GmbH	31/12/2017 VERBUND Innkraftwerke GmbH	31/12/2018 VERBUND Hydro Power GmbH	31/12/2018 VERBUND Innkraftwerke GmbH
Non-current assets	4,619.9	767.7	4,617.9	754.7
Current assets	13.7	28.9	34.6	49.2
Non-current liabilities	–2,383.1	–23.5	–2,400.3	–25.9
Current liabilities	–142.5	–8.4	–93.4	–12.5
Net assets	2,108.0	764.7	**2,158.8**	**765.5**
Ownership interest of non-controlling interests	19.46%	29.73%	19.46%	29.73%
Net assets attributable to non-controlling interests	410.3	227.4	**420.2**	**227.6**

Subsidiaries with significant, non-controlling interests: Cash flows €m

	31/12/2017 VERBUND Hydro Power GmbH	31/12/2017 VERBUND Innkraftwerke GmbH	31/12/2018 VERBUND Hydro Power GmbH	31/12/2018 VERBUND Innkraftwerke GmbH
Cash flow from operating activities	278.4	38.5	277.3	40.8
Cash flow from investing activities	–79.0	–9.4	–72.6	–9.4
Cash flow from financing activities	–199.5	–29.1	–204.7	–31.4
Change in cash and cash equivalents	0.0	0.0	**0.0**	**0.0**
Dividends paid to non-controlling interests	19.5	2.4	**29.2**	**3.0**

There is a shareholder agreement at VERBUND Innkraftwerke GmbH that specifies that the entire profit for the year is to be approved as net profit for the period and distributed to the shareholders except in the following cases: the shareholders agree unanimously to a different payout ratio; the distribution of the entire profit violates statutory provisions; equity as a percentage of assets will fall below 25% as at the respective reporting date if the entire profit is distributed; there are insufficient cash and cash equivalents available to distribute the entire profit; a distribution of the entire profit would not leave enough cash and cash equivalents for approved capital expenditure, maintenance and restructuring measures and/or actions that must be taken due to force majeure; or reserves are to be recognised for the reversal of impairment losses.

Joint ventures

The tables below show a summary of aggregated financial information for the joint ventures of VERBUND accounted for using the equity method broken down according to material joint ventures and joint ventures that are individually immaterial. The reference date for investee financial reporting data is 30 September 2018 (see: Financial reporting principles); the data are based on disclosed financial statements and/or on data updated to the best of VERBUND's knowledge. SMATRICS GmbH & Co KG has only been accounted for using the equity method since 6 December 2017. Since the proportionate net assets are adjusted no later than one quarter following the underlying changes in accordance with VERBUND's accounting policies, a result from interests accounted for using the equity method was not yet recognised for SMATRICS GmbH & Co KG in the previous year.

Individually material joint ventures: Statement of comprehensive income €m

	2017		2018	
	Ashta Beteiligungs-verwaltung GmbH	SMATRICS GmbH & Co KG	Ashta Beteiligungs-verwaltung GmbH	SMATRICS GmbH & Co KG
Revenue	0.2	–	0.1	1.7
Depreciation and amortisation	–0.1	–	–0.1	–0.6
Interest income	10.4	–	10.1	0.0
Interest expense	–6.8	–	–6.5	0.0
Taxes on income	–0.8	–	–1.9	0.0
Profit or loss after tax from continuing operations	0.7	**–**	**–0.3**	**–3.5**
Ownership interest of VERBUND	50.01%	–	50.01%	40.00%
Profit or loss for the period attributable to VERBUND	0.3	**–**	**–0.1**	**–1.4**
Differences due to the application of the equity method of accounting	0.0	–	0.0	0.0
Result from joint ventures accounted for using the equity method	0.3	**–**	**–0.1**	**–1.4**
		–		
Profit or loss after tax from continuing operations	0.7	**–**	**–0.3**	**–3.5**
Other comprehensive income	0.0	–	0.0	0.0
Total comprehensive income for the period	0.7	**–**	**–0.3**	**–3.5**
Ownership interest of VERBUND	50.01%	–	50.01%	40.00%
Total comprehensive income for the period attributable to VERBUND	0.3	**–**	**–0.1**	**–1.4**
Differences due to the application of the equity method of accounting	0.0	–	0.0	0.0
Total comprehensive income for the period from joint ventures accounted for using the equity method	0.3	**–**	**–0.1**	**–1.4**
Dividends received from joint ventures	0.0	**–**	**0.0**	**0.0**

At Ashta Beteiligungsverwaltung GmbH, resolutions on the distribution of dividends are to be unanimously approved with the joint venture partners.

At SMATRICS GmbH & Co KG, assigned profit shares are to be distributed in full after covering any existing losses from prior years insofar as it is legally allowed and the company's equity ratio amounts to 30% (even after the distribution).

Individually immaterial joint ventures: Statement of comprehensive income

€m

	2017	2018
Profit or loss after tax from continuing operations	–1.4	0.2
Profit or loss for the period attributable to VERBUND	–0.8	**0.0**
Differences due to the application of the equity method of accounting	–0.1	0.0
Result from joint ventures accounted for using the equity method	–0.9	**0.0**
Profit or loss after tax from continuing operations	–1.4	**0.2**
Other comprehensive income	0.0	0.0
Total comprehensive income for the period	–1.4	**0.2**
Total comprehensive income for the period attributable to VERBUND	–0.8	**0.0**
Differences due to the application of the equity method of accounting	–0.1	–0.1
Total comprehensive income for the period from joint ventures accounted for using the equity method	–0.9	**0.0**

Individually immaterial joint ventures: Balance sheet

€m

	31/12/2017		31/12/2018	
	Ashta Beteiligungs-verwaltung GmbH	SMATRICS GmbH & Co KG	Ashta Beteiligungs-verwaltung GmbH	SMATRICS GmbH & Co KG
Non-current assets	128.9	4.5	120.7	5.6
Current assets	2.3	11.9	5.3	7.5
Non-current liabilities	–101.3	–1.9	–94.8	–1.7
Current liabilities	–9.9	–1.2	–11.5	–1.6
Net assets	20.0	13.3	**19.8**	**9.8**
Ownership interest of VERBUND	50.01%	40.00%	50.01%	40.00%
Net assets attributable to VERBUND	10.0	5.3	**9.9**	**3.9**
Differences due to the application of the equity method of accounting	–10.0	7.0	–9.9	7.0
Carrying amount of joint ventures accounted for using the equity method	0.0	12.3	**0.0**	**10.9**

Individually material joint ventures: Details regarding net assets

€m

	31/12/2017		31/12/2018	
	Ashta Beteiligungs-verwaltung GmbH	SMATRICS GmbH & Co KG	Ashta Beteiligungs-verwaltung GmbH	SMATRICS GmbH & Co KG
Cash and cash equivalents	0.7	8.2	1.2	6.1
Non-current financial liabilities	105.0	0	98.0	0.0
Current financial liabilities	7.7	0	7.6	0.0

Until further notice, there is a cash management agreement in place between VERBUND and Energji Ashta Shpk (wholly owned subsidiary of Ashta Beteiligungsverwaltung GmbH) with a limit of €9.0m (previous year: €9.0m). As at 31 December 2018, €1.9m (previous year: €4.3m) of the limit had been drawn down.

Individually immaterial joint ventures: Balance sheet €m

	31/12/2017	**31/12/2018**
Net assets	9.4	**9.6**
Net assets attributable to VERBUND	3.4	**3.4**
Differences due to the application of the equity method of accounting	0.9	0.8
Carrying amount of joint ventures accounted for using the equity method	4.3	**4.2**

Associates

The tables below show a summary of aggregated financial information for the associates of VERBUND accounted for using the equity method broken down according to material associates and individually immaterial associates. The reference date for investee financial reporting data is 30 September 2018 (see: Financial reporting principles); the data are based on disclosed financial statements and/or on data updated to the best of VERBUND's knowledge.

Individually material associates: Statement of comprehensive income €m

	2017 KELAG-Kärntner Elektrizitäts-Aktien-gesellschaft	**2018** KELAG-Kärntner Elektrizitäts-Aktien-gesellschaft
Revenue	1,147.5	1,160.1
Profit or loss after tax from continuing operations	80.1	**85.1**
Ownership interest of VERBUND	35.17%	35.17%
Profit or loss for the period attributable to VERBUND	28.2	**29.9**
Differences due to the application of the equity method of accounting	0.0	0.0
Share of profit or loss from associates accounted for using the equity method	28.2	**29.9**
Profit or loss after tax from continuing operations	80.1	**85.1**
Other comprehensive income	14.0	–11.3
Total comprehensive income for the period	94.2	**73.7**
Ownership interest of VERBUND	35.17%	35.17%
Total comprehensive income for the period attributable to VERBUND	33.1	**25.9**
Differences due to the application of the equity method of accounting	0.0	0.0
Total comprehensive income for the period from associates accounted for using the equity method	33.1	**25.9**
Dividends received from associates	14.1	**14.1**

KELAG-Kärntner Elektrizitäts-Aktiengesellschaft's resolutions on the distribution of dividends must be approved with a simple majority. Kärntner Energieholding Beteiligungs GmbH holds 51% of the interest in KELAG-Kärntner Elektrizitäts-Aktiengesellschaft and therefore determines their distribution policy.

Individually immaterial associates: Statement of comprehensive income

€m

	2017	2018
Profit or loss after tax from continuing operations	1.1	0.3
Profit or loss for the period attributable to VERBUND	0.3	**0.1**
Differences due to the application of the equity method of accounting	0.0	0.0
Share of profit or loss from associates accounted for using the equity method	0.3	**0.1**
Profit or loss after tax from continuing operations	1.1	**0.3**
Other comprehensive income	0.0	0.0
Total comprehensive income for the period	1.1	**0.3**
Total comprehensive income for the period attributable to VERBUND	0.3	**0.1**
Differences due to the application of the equity method of accounting	0.0	0.0
Total comprehensive income for the period from associates accounted for using the equity method	0.3	**0.1**

Individually material associates: Balance sheet

€m

	31/12/2017 KELAG-Kärntner Elektrizitäts-Aktien-gesellschaft	**31/12/2018** KELAG-Kärntner Elektrizitäts-Aktien-gesellschaft
Non-current assets	1,621.3	1,623.4
Current assets	338.2	359.5
Non-current liabilities	−842.4	−851.1
Current liabilities	−272.1	−252.5
Equity attributable to non-controlling interests	−7.1	−7.7
Net assets	837.8	**871.6**
Ownership interest of VERBUND	35.17%	35.17%
Net assets attributable to VERBUND	294.6	**306.5**
Differences due to the application of the equity method of accounting	0.3	0.3
Carrying amount of associates accounted for using the equity method	294.9	**306.8**

Individually immaterial associates: Balance sheet

€m

	31/12/2017	31/12/2018
Net assets	6.0	5.8
Net assets attributable to VERBUND	1.5	**1.4**
Differences due to the application of the equity method of accounting	0.0	0.0
Carrying amount of associates accounted for using the equity method	1.5	**1.4**

List of Group companies

The following list of Group companies prepared in accordance with Section 245a(1) in conjunction with Section 265(2) of the Austrian Commercial Code (UGB) comprises VERBUND's subsidiaries, joint ventures and associates. In addition, this list also includes unconsolidated subsidiaries and other joint ventures and equity interests of VERBUND not accounted for using the equity method with an interest of ≥ 20%.

Segment: Renewable Generation

Company	Headquarters (2017)	Consolidation method (2017)	Parent company (2017)	Parent company's share of equity (2017)	Headquarters (2018)	Consolidation method (2018)	Parent company (2018)	Parent company's share of equity (2018)
VERBUND AG (VH) – Renewable generation activities	Vienna	CS	–	–	Vienna	CS	–	–
Donaukraftwerk Jochenstein Aktiengesellschaft	Passau	CS	VH VHP-IW	50.00% 50.00%	Passau	CS	VH VHP-IW	50.00% 50.00%
Grenzkraftwerke GmbH	Simbach	CS	VH VHP-IW	50.00% 50.00%	Simbach	CS	VH VHP-IW	50.00% 50.00%
Innwerk AG (VHP-IW)	Stammham	CS	VH	100.00%	Stammham	CS	VH	100.00%
Österreichisch-Bayerische Kraftwerke Aktiengesellschaft	Simbach	CS	VH VHP-IW	50.00% 50.00%	Simbach	CS	VH VHP-IW	50.00% 50.00%
VERBUND Wind Power Austria GmbH (VRP-AT)	Vienna	CS	VHP	100.00%	Vienna	CS	VHP	100.00%
VERBUND Wind Power Deutschland GmbH (VRP-DE)	Wörrstadt	CS	VH	100.00%	Wörrstadt	CS	VH	100.00%
VERBUND Wind Power Romania SRL	Bucharest	CS	VH VFS	99.98% 0.02%	Bucharest	CS	VH	100.00%
Windpark Dichtelbach GmbH & Co. KG	Wörrstadt	CS	VH	95.00%	Wörrstadt	CS	VH	95.00%
Windpark Dörrebach GmbH & Co. KG	Wörrstadt	CS	VH	95.00%	Wörrstadt	CS	VH	95.00%
Windpark Eichberg GmbH & Co. KG	Wörrstadt	CS	VH	95.00%	Wörrstadt	CS	VH	95.00%
Windpark Ellern GmbH & Co. KG	Wörrstadt	CS	VH	95.00%	Wörrstadt	CS	VH	95.00%
Windpark Hochfels GmbH & Co. KG	Wörrstadt	CS	VH	95.00%	Wörrstadt	CS	VH	95.00%

Segment: Renewable Generation

Company	2017 Head-quarters	2017 Consoli-dation method	2017 Parent company	2017 Parent company's share of equity	2018 Head-quarters	2018 Consoli-dation method	2018 Parent company	2018 Parent company's share of equity
Windpark Rheinböllen GmbH & Co. KG	Wörr-stadt	CS	VH	95.00%	Wörr-stadt	CS	VH	95.00%
Windpark Schönborn GmbH & Co. KG	Wörr-stadt	CS	VH	95.00%	Wörr-stadt	CS	VH	95.00%
Windpark Seibersbach GmbH & Co. KG	Wörr-stadt	CS	VH	95.00%	Wörr-stadt	CS	VH	95.00%
Windpark Stetten I GmbH & Co. KG	Wörr-stadt	CS	VH	95.00%	Wörr-stadt	CS	VH	95.00%
Windpark Utschenwald GmbH & Co. KG	Wörr-stadt	CS	VH	95.00%	Wörr-stadt	CS	VH	95.00%
Infrastruktur Oberheimbach I GmbH & Co. KG	Wörr-stadt	CS	VH	81.00%	Wörr-stadt	CS	VH	81.00%
VERBUND Hydro Power GmbH (VHP)	Vienna	CS	VH	80.54%	Vienna	CS	VH	80.54%
VERBUND Innkraftwerke GmbH	Töging	CS	VH	70.27%	Töging	CS	VH	70.27%
Infrastrukturgesell-schaft Bischheim GmbH & Co. KG	Wörr-stadt	CS	VH	61.26%	Wörr-stadt	CS	VH	61.26%
Ennskraftwerke Aktiengesellschaft	Steyr	JO	VH	50.00%	Steyr	JO	VH	50.00%
Ashta Beteiligungs-verwaltung GmbH (VHP-AL-HII)	Vienna	EM[1]	VHP	50.01%	Vienna	EM[1]	VHP	50.01%
Energji Ashta Shpk	Bushat	EM[1]	VHP-AL-HII	100.00%	Bushat	EM[1]	VHP-AL-HII	100.00%
Kraftwerk Nußdorf Errichtungs- und Betriebs GmbH & Co KG	Vienna	EM[1]	VHP	33.33%	Vienna	EM[1]	VHP	33.33%
Kraftwerk Nußdorf Errichtungs- und Betriebs GmbH	Vienna	EM[1]	VHP	33.33%	Vienna	EM[1]	VHP	33.33%
Lestin & Co Tauch-, Bergungs- und Sprengunterneh-men Gesellschaft m.b.H. (LESTIN)	Vienna	UC	VHP	100.00%	Vienna	UC	VHP	100.00%

Segment: Renewable Generation

Company	2017 Head-quarters	Consoli-dation method	Parent company	Parent company's share of equity	2018 Head-quarters	Consoli-dation method	Parent company	Parent company's share of equity
Lestin & Co. Tauch- und Bergungs-unternehmen GmbH	Passau	UC	LESTIN	100.00%	Passau	UC	LESTIN	100.00%
VERBUND Tourismus GmbH	Vienna	UC	VHP LESTIN	99.90% 0.10%	Vienna	UC	VHP LESTIN	99.90% 0.10%

Segment: Sales

Company	2017 Head-quarters	Consoli-dation method	Parent company	Parent company's share of equity	2018 Head-quarters	Consoli-dation method	Parent company	Parent company's share of equity
VERBUND AG (VH) – Sales activities	Vienna	CS	–	–	Vienna	CS	–	–
VERBUND Sales GmbH (VSA)	Vienna	CS	VH	100.00%	Vienna	CS	VH	100.00%
VERBUND Sales Deutschland GmbH	Munich	CS	VSA	100.00%	Munich	CS	VSA	100.00%
VERBUND Trading GmbH (VTR)	Vienna	CS	VH	100.00%	Vienna	CS	VH	100.00%
VERBUND Trading Romania S.R.L.	Bucha-rest	CS	VTR VH	99.00% 1.00%	Bucha-rest	CS	VTR VH	99.00% 1.00%
VERBUND Trading & Sales Deutschland GmbH	Munich	UC	VTR	100.00%	Munich	UC	VTR	100.00%
VERBUND Trading Czech Republic s.r.o.	Prague	UC	VTR	100.00%	Prague	UC	VTR	100.00%
VERBUND Trading Serbia d.o.o.	Belgrade	UC	VTR	100.00%	Belgrade	UC	VTR	100.00%
smart Energy Services GmbH	Vienna	UC[1]	VSA	50.00%	Vienna	UC[1]	VSA	50.00%

Segment: Grid

Company	2017 Head-quarters	Consoli-dation method	Parent company	Parent company's share of equity	2018 Head-quarters	Consoli-dation method	Parent company	Parent company's share of equity
Austrian Power Grid AG (APG)	Vienna	CS	VH	100.00%	Vienna	CS	VH	100.00%
OeMAG Abwicklungsstelle für Ökostrom AG	Vienna	EM	APG	24.40%	Vienna	EM	APG	24.40%

All other segments: Energy services

Company	2017 Head-quarters	Consoli-dation method	Parent company	Parent company's share of equity	2018 Head-quarters	Consoli-dation method	Parent company	Parent company's share of equity
VERBUND AG (VH) – Energy services activities	Vienna	CS	–	–	Vienna	CS	–	–
VERBUND Solutions GmbH (VSO)	Vienna	CS	VH	100.00%	Vienna	CS	VH	100.00%
SOLAVOLTA Energie- und Umwelttechnik GmbH	Sankt Marga-rethen im Bgld.	EM[1]	VSO	50.00%	Sankt Marga-rethen im Bgld.	EM[1]	VSO	50.00%
SMATRICS GmbH & Co KG	Vienna	EM[1]	VSO	40.00%	Vienna	EM[1]	VSO	40.00%
VERBUND GETEC Energiecontracting GmbH	Vienna	EM[1]	VSO	50.00%	Vienna	EM[1]	VSO	50.00%
AQUANTO GmbH i. L.	Unter-föhring	UC	VH	100.00%	Unter-föhring	UC	VH	100.00%
E-Mobility Provider Austria GmbH	Vienna	UC	VSO	40.00%	Vienna	UC	VSO	40.00%

All other segments: Thermal generation

Company	2017 Head-quarters	Consoli-dation method	Parent company	Parent company's share of equity	2018 Head-quarters	Consoli-dation method	Parent company	Parent company's share of equity
VERBUND Thermal Power GmbH & Co KG	Neudorf ob Wildon	CS	VH	100.00%[2]	Neudorf ob Wildon	CS	VH VTP GmbH	100.00% 0.00%[2]
VERBUND Thermal Power GmbH (VTP GmbH)	Neudorf ob Wildon	CS	VH	100.00%	Neudorf ob Wildon	CS	VH	100.00%

All other segments: Services

Company	2017 Head-quarters	2017 Consoli-dation method	2017 Parent company	2017 Parent company's share of equity	2018 Head-quarters	2018 Consoli-dation method	2018 Parent company	2018 Parent company's share of equity
VERBUND Services GmbH	Vienna	CS	VH	100.00%	Vienna	CS	VH	100.00%

All other segments: Equity interests

Company	2017 Head-quarters	2017 Consoli-dation method	2017 Parent company	2017 Parent company's share of equity	2018 Head-quarters	2018 Consoli-dation method	2018 Parent company	2018 Parent company's share of equity
KELAG-Kärntner Elektrizitäts-Aktiengesellschaft	Klagen-furt	EM	VH	35.17%	Klagen-furt	EM	VH	35.17%

Other Group companies

Company	2017 Head-quarters	2017 Consoli-dation method	2017 Parent company	2017 Parent company's share of equity	2018 Head-quarters	2018 Consoli-dation method	2018 Parent company	2018 Parent company's share of equity
VERBUND AG (VH) – All other activities	Vienna	CS	–	–	Vienna	CS	–	–
VERBUND Finanzierungs-service GmbH	Vienna	CS	VH	100.00%	Vienna	CS	VH	100.00%
VUM Verfahren Umwelt Manage-ment GmbH	Klagen-furt	UC	APG	100.00%	Klagen-furt	UC	APG	100.00%

CS = Consolidated subsidiary / EM = Investee accounted for using the equity method / JO = Joint operation, proportionate inclusion of assets and liabilities as well as income and expenses / UC = Unconsolidated entities due to immateriality or lack of significant influence

[1] Joint ventures // [2] The other limited partners of VERBUND Thermal Power GmbH & Co KG held a combined share of < 0.01% in the previous year. This interest was transferred to VTP GmbH in the 2018 reporting period.

Events after the reporting date

There were no events requiring disclosure between the reporting date of 31 December 2018 and authorisation for issue on 14 February 2019.

Vienna, 14 February 2019

Executive Board

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

Mag. Dr. Michael Strugl
Vice-Chairman of the Executive Board

Dr. Peter F. Kollmann
Member of the Executive Board

Mag. Dr. Achim Kaspar
Member of the Executive Board

Responsibility statement of the legal representatives

We confirm that, to the best of our knowledge, the consolidated financial statements of VERBUND, prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, give a true and fair view of the assets and liabilities, financial position and profit or loss of VERBUND.

We also confirm that, to the best of our knowledge, the Group management report of VERBUND presents the development of the business, performance of the business and position of the Group so as to give a true and fair view of the assets and liabilities, financial position and profit or loss of VERBUND, and that the Group management report describes the significant risks and uncertainties to which VERBUND is exposed.

Vienna, 14 February 2019

Executive Board

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

Mag. Dr. Michael Strugl
Vice-Chairman of the Executive Board

Dr. Peter F. Kollmann
Member of the Executive Board

Mag. Dr. Achim Kaspar
Member of the Executive Board

Independent Auditor's Report

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of VERBUND AG, Vienna, and its subsidiaries (the Group), which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet as at 31 December 2018, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements comply with legal requirements and give a true and fair view of the consolidated financial position as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU, and the additional requirements under section 245a UGB as well as the special legislation of the Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG).

Basis for Opinion

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

Key audit matters

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

Goodwill and the carrying amount of power plant facilities

Description and Issue

The Group reports goodwill unchanged from the previous year in the amount of around €587.7m as at 31 December 2018 related to the Renewable generation and Sales segments as well as the Inn and Grenzkraftwerke power plant groups. The carrying amounts of property, plant and equipment total around €8,957.2m as at 31 December 2018 and comprise, among other things, hydraulic, thermal and wind energy power plants.

Due to the current operating environment in the energy industry, the Group tested the carrying amounts of reported goodwill and the power plant facilities for impairment.

Wholesale electricity prices rose sharply in 2018 on the one hand because they were characterised by considerable price increases in the primary energy and CO_2 markets and on the other hand are influenced by the separation of the joint price zone of Germany and Austria beginning on 1 October 2018. The agreement over the reform of the emissions trading regime reached at the beginning of 2018 also has the effect of supporting prices on the emissions trading market. Numerous inputs flow into the valuation model based on net present value methods applied in the test for impairment in order to assess the market. Due to the resulting complexity, the dependence of results on the assessment of market developments by management and the sensitivity to the cost of capital and to the key assumptions regarding the medium- and long-term electricity price trends for the energy markets, this is a key audit matter.

Details regarding the impairment tests and the key valuation assumptions are presented in the notes to the consolidated financial statements in the sections entitled Accounting policies and “Discretionary judgements and key assumptions concerning the future” under the paragraphs on “Impairment testing of goodwill” and “Impairment testing of power plants”.

Audit approach

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

We reviewed and comprehend the changes in valuation parameters compared with the previous year as a result of slightly higher capital costs as well as an expected higher increase in electricity prices.

The evaluation of assumptions regarding the medium- and long-term price trend on the energy markets was carried out based on the price quotations on the electricity exchanges up to the year 2021 and the available price forecasts for the years beyond 2021 under special consideration of the current trend in the energy market environment. We consulted internal experts in order to corroborate the capital costs by means of comparative analysis. We assessed the consistency of the future cash flows applied in the calculations by comparing the planning data used therein with the medium term plans approved by the Supervisory Board, contractual bases and electricity price scenarios specific to VERBUND.

Other provisions, other obligations and/or entitlements and risks

Description and issue

The Group continues to consider itself confronted with claims for damages in the amount of around €108.5m related to floods.

In our view, this matter is of particular importance because the recognition and measurement as well as explanatory notes to the consolidated financial statements regarding any resulting provisions are based to a significant degree on estimates by the management with respect to the likelihood of potential claims, the amount of potential payments to compensate losses and the length of the process on which the claims are based and as a result an increased risk of erroneous disclosures and/or presentations in the accounting.

Details regarding the development of other provisions are presented in the paragraph on other provisions under the balance sheet disclosures in the notes to the consolidated financial statements. More detailed comments on the pending proceedings are provided in the consolidated financial statements in the section entitled “Other obligations and/or entitlements and risks”.

Audit approach

We have assessed the adequacy and comprehensibility of underlying assumptions and measurements as well as their explanations in the notes, in particular based on the statement of facts and contractual bases presented to us as well as the legal expertise obtained by us and reviewed the compliance with the stipulated disclosure obligations.

Other Information

Management is responsible for the other information. The other information includes all the information in the integrated annual report and in the supplement to the 2018 Integrated Annual Report (Disclosures on Management Approach, DMA), with the exception of the consolidated financial statements, the Group management report, our auditor's report thereon and the independent certification of certain non-financial standard disclosures. The integrated annual report and the DMA are expected to be made available to us after the date of the auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance thereon. Please refer to the "Report on the audit of the Group management report" regarding the Group management report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

The Company's management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the additional requirements under section 245a UGB as well as the special legislation of the Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG). Furthermore, the management is responsible for the internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

In addition:

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

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

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

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

Report on the Audit of the Group Management Report

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

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

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

Opinion

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

Statement

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

Additional Information required under Article 10 of the EU Audit Regulation

We were elected by the Annual General Meeting held on 23 April 2018 as the auditor for the financial year ended 31 December 2018 and engaged by the Supervisory Board on 3 May 2018 to audit the annual financial statements. We have been the Group's auditor continuously since the financial year ending on 31 December 2007.

We declare that the audit opinion included in the "Report on the Audit of the Annual Financial Statements" is in line with the additional report to the Audit Committee and complies with Article 11 of the EU Audit Regulation.

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

Engagement Partner

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

Vienna, 14 February 2019

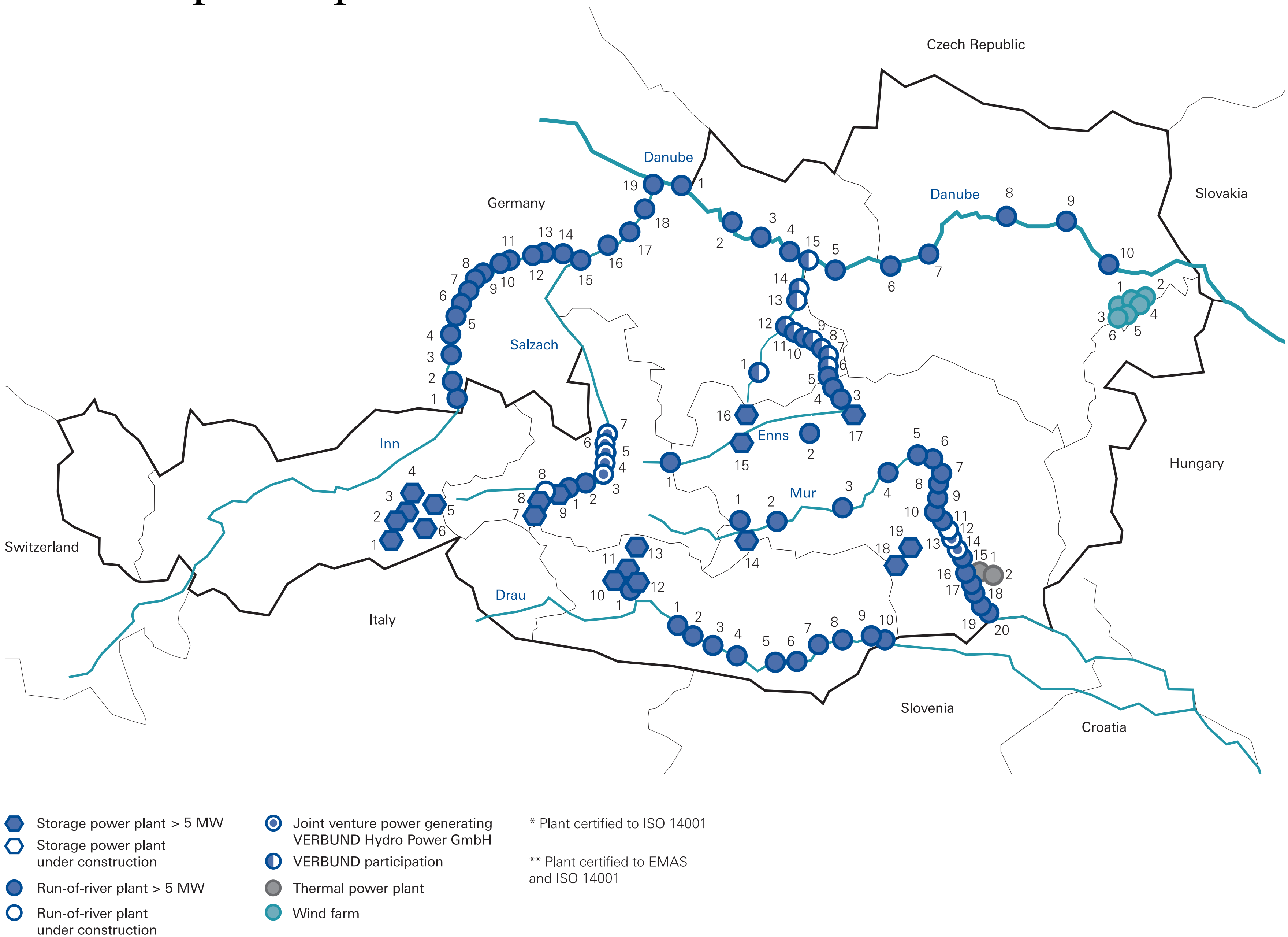
Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Gerhard Marterbauer	Mag. Christof Wolf
Wirtschaftsprüfer	**Wirtschaftsprüfer**
(Austrian Certified Public Accountant)	**(Austrian Certified Public Accountant)**

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

VERBUND power plants and APG grid facilities

VERBUND power plants



Storage power plants

1 Roßhag *
2 Bösdornau *
3 Mayrhofen *
4 Gerlos *
5 Häusling *
6 Funsingau *
7 Kaprun Oberstufe *
8 Kaprun Hauptstufe *
9 Schwarzach *
10 Reißeck-Kreuzeck *
11 Reißeck II *
12 Malta Hauptstufe *
13 Malta Oberstufe *
14 Bodendorf-Paal *
15 Sölk *
16 Salza *
17 Hieflau *
18 St. Martin *
19 Arnstein *

Run-of-river plants on the Inn

1 Oberaudorf-Ebbs *
2 Nußdorf *
3 Rosenheim *
4 Feldkirchen *
5 Wasserburg *
6 TW Wasserburg *
7 Teufelsbruck *
8 Gars *
9 TW Gars *
10 Jettenbach 2 *
11 Töging *
12 Neuötting *
13 Perach *
14 Stammham *
15 Braunau-Simbach *
16 Ering-Frauenstein *
17 Egglfing-Obernberg *
18 Schärding-Neuhaus *
19 Passau-Ingling *

Run-of-river plants on the Salzach

1 Wallnerau *
2 St. Veit *
3 St. Johann
4 Urreiting
5 Bischofshofen
6 Kreuzbergmaut
7 Werfen/Pfarrwerfen
8 Gries

Run-of-river plants on the Danube

1 Jochenstein *
2 Aschach *
3 Ottensheim-Wilhering *
4 Abwinden-Asten *
5 Wallsee-Mitterkirchen *
6 Ybbs-Persenbeug *
7 Melk *
8 Altenwörth *
9 Greifenstein *
10 Freudenau *

Run-of-river plants on the Enns

1 Mandling *
2 Triebenbach *
3 Landl *
4 Krippau *
5 Altenmarkt *
6 Schönau *
7 Weyer *
8 Großraming *
9 Losenstein *
10 Ternberg *
11 Rosenau *
12 Garsten-St. Ulrich *
13 Staning *
14 Mühlrading *
15 St. Pantaleon *

Run-of-river plant on the Steyr

1 Klaus *

Run-of-river plant on the Möll

1 Malta Unterstufe *

Run-of-river plants on the Mur

1 Bodendorf-Mur *
2 St. Georgen *
3 Fisching *
4 Leoben *
5 Dionysen *
6 Pernegg *
7 Laufnitzdorf *
8 Rabenstein *
9 Peggau *
10 Friesach *
11 Weinzödl *
12 Graz-Puntigam
13 Gössendorf *
14 Kalsdorf *
15 Mellach *
16 Lebring *
17 Gralla *
18 Gabersdorf *
19 Obervogau *
20 Spielfeld *

Run-of-river plant on the Drau

1 Paternion *
2 Kellerberg *
3 Villach *
4 Rosegg-St. Jakob *
5 Feistritz-Ludmannsdorf *
6 Ferlach-Maria Rain *
7 Annabrücke *
8 Edling *
9 Schwabeck *
10 Lavamünd *

Thermal power plants

1 FHKW Mellach **
2 GDK Mellach **

Wind farm

1 Petronell Carnuntum *
2 Petronell Carnuntum II *
3 Hollern *
4 Hollern II *
5 Bruck/Leitha *
6 Bruck/Göttlesbrunn *

Additional VERBUND-Wind farms (not shown):

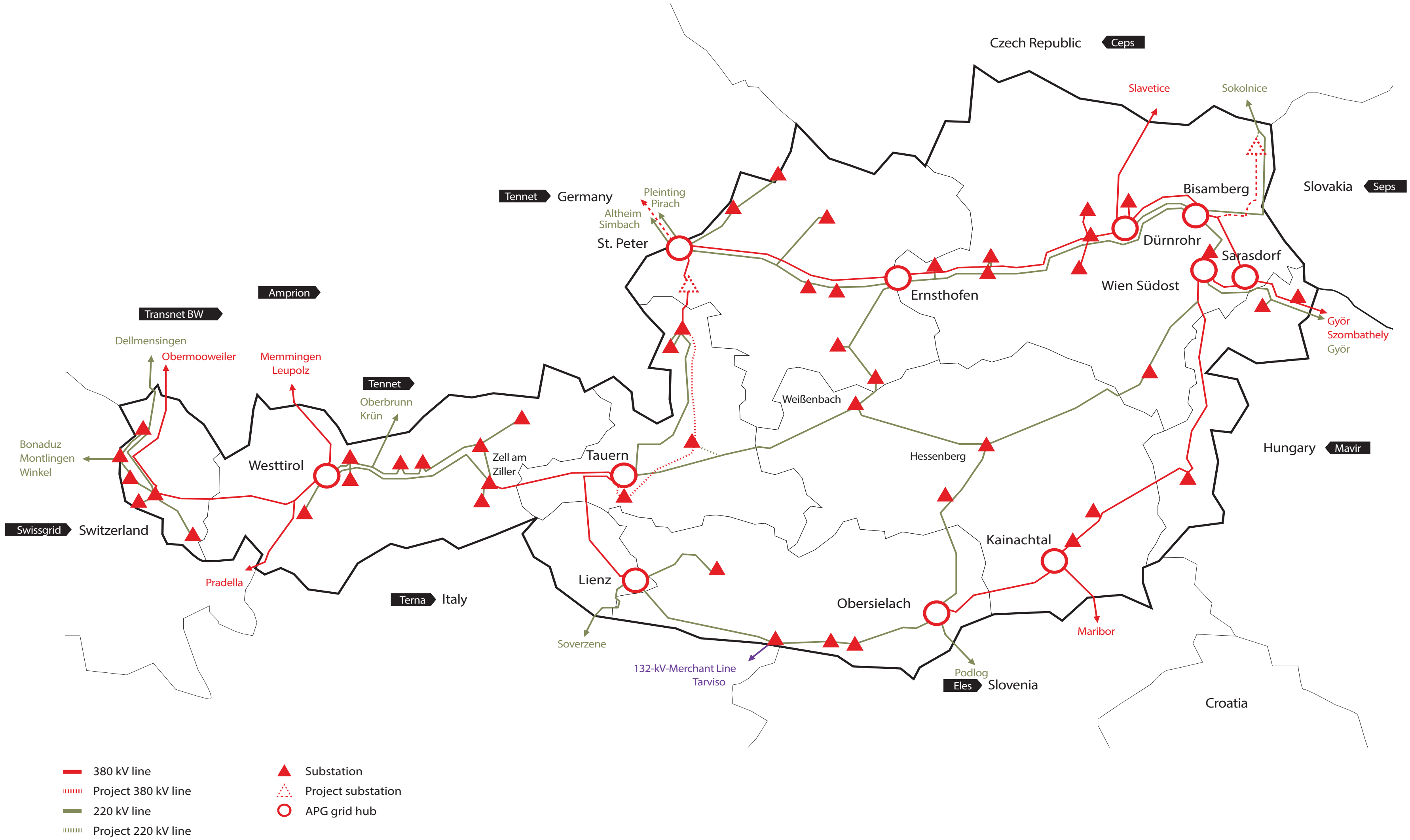
Germany

Ellern
Stetten

Romania

Alpha Nord 1+3
Casimcea Süd 2
Ventus Nord 2

Grid facilities 220/380 kV



Glossary

Glossary

ACER

Agency for the Cooperation of Energy Regulators

Adjusted EBITDA

The adjustments include effects from restructuring expenses arising from Group-wide cost-cutting programmes as well as other expenses and income of a non-recurring or rare nature in EBITDA. EBITDA from any discontinued operations is also reflected in adjusted EBITDA. EBITDA is our most important internal earnings performance indicator and an indicator of the sustainable profitability of our business.

Adjusted Group result

The adjustments include – in addition to the effects adjusted from adjusted EBITDA – effects from impairment tests and effects from business acquisitions, as well as other expenses and income of a non-recurring or rare nature (after taxes and non-controlling interests). Beyond that, special tax effects are not taken into account in the adjusted Group result.

Average number of employees

Calculated according to actual effective dates of hires and resignations and number of hours worked.

Balancing services market

Control power is necessary for balancing out sudden large changes in load – too much or too little electricity in the grid. This means that a certain percentage of power plant capacity is held at the ready as reserves for rapid stabilisation of the grid. The control area manager procures the necessary capacities through market mechanisms and also compensates the providers for the quantities of electricity actually used.

Base (base load)

Base refers to the load profile for electricity deliveries supplied at a constant rate throughout 24 hours of each day of the supply period.

Capital employed

Total assets less those assets that do not (yet) contribute to the performance and commercialisation processes (e.g. advance payments, assets under construction, investments under closed items on the balance sheet), and less non-interest-bearing debt.

Cash flow

Net balance of the inflow and outflow of cash and cash equivalents; made up of cash flow from operating, investing and financing activities.

Clean dark spread

Generation margin for electricity from coal-fired power plants representing the difference between the electricity price and the fuel costs (coal) for generating electricity taking into account the cost of emission rights.

Clean spark spread

Generation margin for electricity from gas power plants representing the difference between the electricity price and the fuel costs (gas) for generating electricity taking into account the cost of emission rights.

Climate-neutral natural gas

CO_2 emissions result from the use of natural gas by our customers. To achieve climate neutrality, these emissions must be saved elsewhere. VERBUND therefore promotes sustainable and clean energy generation, such as with the Ashta hydropower plant in Albania, thus compensating for the CO_2 emissions for VERBUND natural gas. So, precisely that volume of CO_2 released through the use of VERBUND natural gas is balanced out by the sustained promotion of clean energy generation.

Closed items on the balance sheet

Closed items on the balance sheet include (rolled over) financial liabilities and related investments from cross-border leasing transactions that have been terminated early; previously, financial liabilities relating to cross-border leasing transactions and to the Republic of Austria, as well as associated investments, were treated in the same way.

Corporate Social Responsibility (CSR)

This concept contributes to sustainable performance at the Group level and incorporates economic, environmental and social aspects into the core business. Attention is also given to the effects of business activities and stakeholder requirements in all business processes.

Cross-border leasing

International leasing transactions in which the lessor and lessee are based in different countries.

DMA (Disclosures on Management Approach)

Disclosures on management approach are a Global Reporting Initiative (GRI) requirement. These explain how the Group manages the economic, environmental and social impacts of its activities on the material Aspects it has identified. VERBUND combines those processes and management systems in one document and publishes it on the website (www.verbund.com > Investor Relations > Financial reports).

Earnings before interest and tax (EBIT)

Operating result.

Earnings before interest, taxes, depreciation and amortisation (EBITDA)

Operating result before interest, taxes, depreciation of property, plant and equipment and amortisation of intangible assets and effects from impairment testing.

EBIT margin

Ratio of earnings before interest and tax (EBIT) to revenue.

E-Control (Energie-Control Austria)

Energie-Control GmbH (E-Control) was established in 2001. On 3 March 2011, E-Control was transformed into a public authority (Sections 2 and 43 of the Energy Regulatory Authorities Act or Energie-Control Gesetz). E-Control is tasked with monitoring and supporting the implementation of the deregulation of the Austrian electricity and gas market and intervening for regulatory purposes if necessary.

Electricity standard load profile

Standard load profiles (SLP) are used for electricity customers without recorded power measurement. SLPs use a calculated, sufficiently precise forecast of electricity purchases on a quarter-hourly basis in place of the non-existent load profile curve of end users. SLPs are representative load profiles used for household, agricultural and commercial customer groups with electricity consumption of up to 100,000 kWh per year, featuring similar usage patterns.

ElWOG

Austrian Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG). ElWOG 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.

Employee turnover

Employee turnover refers to the percentage of employees who left the Company due to termination, mutual agreement, early retirement or departures during the probationary period. The percentage is calculated based on the actual number of employees as at the reporting date.

Equity method

Method used to account for investees upon which a significant influence can be exercised and for joint ventures. Under the equity method, the carrying amount of the equity interest is basically adjusted for changes in the proportionate share in the investee's net assets; the result is a "one-line consolidation." The changes are either recognised in profit or loss or in other comprehensive income (i.e. directly in equity).

Equity ratio (adjusted)

Ratio of equity to total capital adjusted for closed items on the balance sheet.

ESG rating

ESG stands for environmental, social and governance. It refers to the analysis and assessment of companies according to environmental and social aspects as well as by the management style applied as opposed to a score based purely on financial KPIs.

Free cash flow before dividends

Operating cash flow plus cash flow from investing activities excluding cash inflows and outflows from investments in or disposals of financial investments; represents cash available for financing activities (e.g. repayment of financial liabilities) and cash inflows and outflows for financial investments.

Funds from operations (FFO)

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

Gearing

Ratio of net debt to equity.

Global Reporting Initiative (GRI)

The GRI has developed guidelines and standards for companies to prepare sustainability reports since 1997 using an international participative process.

Gross debt

Non-current and current financial liabilities plus interest-bearing provisions and other interest-bearing liabilities net of closed items on the balance sheet.

Gross debt coverage

Ratio of funds from operations (FFO) to gross debt.

Gross interest cover

Ratio of FFO to interest expenses (including interest related to personnel expenses).

Hydro coefficient

The hydro coefficient is the quotient of the actual electricity generation of one (or a series of) hydropower plant(s) in a given period and the average (calculated based on historical water supply) generation potential of the (series of) hydropower plant(s) in the same period. This long-term average = 1; consequently, for example, a hydro coefficient of 1.1 signifies a 10% increase in generation.

Inter-TSO compensation (ITC)

ITC is the compensation for transmission charges relating to cross-border flows of electricity in transmission grids.

Investments in machinery and equipment

This capital expenditure is for machinery and equipment, operating and office equipment, and vehicles. Fixed elements of structures such as lifts, heating systems, pipelines and other similar equipment are not included, though permanently installed machinery or components of complex manufacturing facilities are.

Maximum electrical capacity

The maximum capacity at which a power plant can sustain operation under normal conditions.

Mean energy capability

Average generation potential of a hydropower plant calculated based on historical water supply.

NaDiVeG

Austrian Sustainability and Diversity Improvement Act (Nachhaltigkeits- und Diversitätsverbesserungsgesetz, NaDiVeG) for the transposition into national law of EU Directive 2014/95/EU regarding the disclosure of non-financial information and information related to diversity by certain large companies. See also NFR Directive.

Net debt

Gross debt less cash and cash equivalents, short-term investments and loans as well as securities held in current and non-current assets.

NFR Directive

The Austrian federal government has implemented EU Directive 2014/95/EU for the disclosure of non-financial information – the NFR Directive – in its Sustainability and Diversity Improvement Act (Nachhaltigkeits- und Diversitätsverbesserungsgesetz, or NaDiVeG), which applies to financial years beginning after 31 December 2016. This law requires large public interest entities with over 500 employees (incl. listed companies, insurance companies and banks) to include a non-financial statement in their management report. This statement includes information on environmental matters, social and employee-related matters, respect for human rights and anti-corruption matters. In addition, companies required to prepare a corporate governance report are also required to include information on their diversity policy in this report.

Number of employees under labour law (LLE)

All employment relationships with the company under labour law. LLE is measured at the end of the month at each reporting date; calculation is based on headcount including employees on unpaid leave and excluding members of the Executive Board, employees in early retirement and seasonal interns.

Operator model

Operator models are public private partnerships (PPPs) for which the planning, financing, construction and independent operation of the plant-specific infrastructure are assigned to an operating company.

Payout ratio

Ratio of (proposed) dividend payment to Group result.

Peak (peak load)

Peak refers to the load profile for electricity deliveries supplied at a constant rate throughout twelve hours from 8 a.m. until 8 p.m. of each working day of the supply period.

Performance

Describes the performance of a security or portfolio, e.g. over a period of one year.

RCF/net debt

Retained cash flow (RCF): funds from operations (FFO) less dividends distributed.

Redispatch

The term redispatch refers to the short-term changes to power plant utilisation to avoid or remedy grid congestion.

Return on capital employed (ROCE)

Ratio of net operating profit after tax (NOPAT) (profit or loss for the period less interest expenses net of any tax effects) to average capital employed.

Return on equity (ROE)

Ratio of net profit or loss for the period (adjusted for results from the termination of cross-border leasing transactions) to average equity.

Sustainable Development Goals (SDGs)

The 17 goals and 169 targets for sustainable development set by the UN member nations, applicable since 2016 for all nations worldwide. These aim to end poverty, promote the equal treatment of women, improve healthcare and combat climate change by the end of 2030.

System Usage Rates Directive (SNT-VO)

The System Usage Rates Directive (Systemnutzungstarife-Verordnung, SNT-VO) dictated the principles for determining and allocating costs, the criteria for calculating rates as well as the rates for grid usage fees. The Energy Control Commission issued the directive annually. Since 2012, the E-Control Commission has issued the System Usage Rates Directive.

Task Force on Climate-related Financial Disclosures (TCFD)

The TCFD was established in 2015 by the Financial Stability Board (FSB). The Task Force was commissioned to develop recommendations on climate-related risk disclosures for use by companies in demonstrating to the capital markets their resilience to climate change. Recommendations have been developed in four areas (governance, strategy, risk management, and metrics and targets) with the objective of identifying, measuring, managing and reporting on climate-related risks and opportunities.

Total heating degree days

Total number of heating degree days for a certain period. A heating degree day (HDD), or degree day, is determined based on the temperature difference between a specific constant room temperature and the average daily air temperature to the extent that this temperature is the same as or lower than an assumed heating threshold temperature. A room temperature of 20°C and a heating threshold temperature of 12°C are (normally) used to calculate HDD in Austria.

UN Global Compact

The United Nations Global Compact is the world's largest corporate social responsibility (CSR) and sustainable performance initiative. This global movement of businesses, policymakers and civil society aims to make globalisation more socially just and environmentally sustainable. Key elements of the UN Global Compact are its ten universal Principles and support of the United Nations' 17 Sustainable Development Goals (SDGs).

Value at risk (VaR)

A method applied to calculate the potential trading position loss arising from price changes. The loss potential is calculated based on an assumed probability (e.g. 95%) and on the basis of market-oriented price changes.

Variation margin

The variation margin represents an amount paid or credited daily on the price fluctuations of futures contracts (i.e. paid to or from the futures exchange). In contrast to the initial margin, the variation margin does not represent collateral. Although the amounts are debited or credited to a margin account on a daily basis, the variation margin represents unrealised gains or losses. The position per se remains pending.

Part 2
Parent company

Three-year comparison

€m, %	2016	2017	**2018**
Revenue	420.9	282.0	259.6
Earnings before interest and taxes (EBIT)	356.8	–33.5	641.3
Earnings before taxes	267.0	–113.8	564.7
Net income/net loss	272.5	–167.1	563.0
Net profit	100.8	145.9	145.9
Total assets	5,473.8	4,690.7	4,915.3
Fixed assets	4,871.3	4,384.3	4,676.3
Capital expenditure for property, plant and equipment	0.7	1.3	1.6
Depreciation of property, plant and equipment	1.5	1.4	1.4
Equity	2,465.2	2,197.4	2,614.5
Return on sales (ROS)	84.8%	–11.9%	247.1%
Return on equity (ROE)	11.5%	–4.6%	25.7%
Return on investment (ROI)	6.4%	–0.6%	13.7%
Return on capital employed (ROCE)	5.3%	–0.5%	10.4%
Equity ratio	45.0%	46.8%	53.2%
Debt repayment period	6.5	6.3	8.5
Cash flow from operating activities	126.6	281.4	178.7
Gearing	107.7%	103.9%	84.0%
Working capital	–227.7	–140.1	–915.8
Net debt	2,653.8	2,283.2	2,196.8
Current liabilities	915.4	598.2	1,091.1
Current assets	687.8	458.1	175.2
Share price high	15.8	21.8	44.8
Share price low	10.0	14.7	20.0
Closing price	15.2	20.1	37.2
(Proposed) dividend per share	0.29	0.42	0.42
Dividend yield	1.91%	2.08%	1.13%
Average number of employees	140	123	115
Group electricity sales volume (GWh)[1]	58,855	63,264	**63,195**

[1] Including system requirements

Board members

Executive Board

Name	Year of birth	Date of initial appointment	End of current term of office
Dipl.-Ing. Wolfgang Anzengruber CEO and Chairman of the Executive Board	1956	1/1/2009	31/12/2020
Dr. Johann Sereinig Deputy CEO and Vice-Chairman of the Executive Board	1952	1/1/1994	31/12/2018
Mag. Dr. Michael Strugl Deputy CEO and Vice-Chairman of the Executive Board	1964	1/1/2019	31/12/2021
Dr. Peter F. Kollmann CFO and Member of the Executive Board	1962	1/1/2014	31/12/2021
Dipl.-Ing. Dr. Günther Rabensteiner Member of the Executive Board	1953	1/4/2011	31/12/2018
Mag. Dr. Achim Kaspar Member of the Executive Board	1965	1/1/2019	31/12/2021

Supervisory Board

Name	Year of birth	Date of initial appointment	End of current term of office
Dr. Gerhard Roiss Chairman Board of directors of SULZER AG Switzerland	1952	5/4/2017	AGM 2020
Dipl.-Ing. Dr. Michael Süß 1st Vice-Chairman Member of the supervisory board of Herrenknecht AG and the board of directors of Oerlikon AG (chairman); Renova AG (asset director); Süß Management Systems and Süß Film (shareholder)	1963	22/4/2015	AGM 2020
Mag. Elisabeth Engelbrechtsmüller-Strauß 2nd Vice-Chairwoman CEO of Fronius International GmbH; member of the supervisory board of Wels Betriebsansiedlungs-GmbH (chairwoman); member of the board of trustees of the Institute of Science and Technology and the University Council of Johannes Kepler University in Linz	1970	22/4/2015	AGM 2020
Mag. Harald Kaszanits Austrian Economic Chambers	1963	7/4/2010	AGM 2020
Dipl.-Ing. Dr. Peter Layr	1953	13/4/2011	23/4/2018
Mag. Werner Muhm Member of the supervisory boards of Wiener Städtische Versicherung, AWH Beteiligungsges.m.b.H., KA Finanz AG; member of the managing board of Leopold Museum Privatstiftung, vice-chairman of the board of trustees of the Austrian National Library	1950	22/4/2015	AGM 2020

Name	Year of birth	Date of initial appointment	End of current term of office
Dr. Susanne Riess CEO of Bausparkasse Wüstenrot AG; member of the supervisory boards of Wüstenrot Versicherungs-AG (chairwoman), Wüstenrot stambena štedionica d.d., Croatia (chairwoman), Wüstenrot životno osiguranje d.d., Croatia (chairwoman), Wüstenrot Fundamenta-Lakáskassza Zrt., Hungary (vice-chairwoman), Wüstenrot stavebná sporiteľňa a.s., Slovakia (vice-chairwoman), Wüstenrot poisťovňa a.s., Slovakia (member), SIGNA Development Selection and Prime Selection (member), Einlagensicherungsgesellschaft Austria GmbH (member) and IHAG Privatbank Zürich (member of the board of directors)	1961	22/4/2015	AGM 2020
Mag. Jürgen Roth Managing partner at Tank Roth GmbH; member of the supervisory boards of ICS Internationalisierungscenter Steiermark GmbH (chairman) and ELG (Erdöl-Lagergesellschaft m.b.H.)	1973	22/4/2015	AGM 2020
Mag. Stefan Szyszkowitz Spokesman of the managing board of EVN AG; member of the supervisory boards of Burgenland Holding Aktiengesellschaft (chairman), EVN Macedonia AD (chairman), RAG-Beteiligungs-Aktiengesellschaft (chairman) and RAG Austria AG (chairman), Energie Burgenland AG (vice-chairman) and Netz Niederösterreich GmbH (vice-chairman); member of the supervisory boards of Österreichische Post AG and Wiener Börse AG/CEESEG AG	1964	23/4/2018	AGM 2020
Christa Wagner Managing partner at Wagner – Josko Immobilien GmbH; partner in Josko Fenster und Türen GmbH; member of the supervisory boards of Eurosun a.s. and exceet Card Group AG	1960	7/4/2010	AGM 2020
Dipl.-Ing. Peter Weinelt Managing director of Wiener Stadtwerke GmbH and Wiener Stadtwerke Planvermögen GmbH; member of the supervisory boards of Wien Energie GmbH (chairman), Wiener Netze GmbH (chairman) and Burgenland Holding Aktiengesellschaft (member)	1966	5/4/2017	AGM 2020

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

Employee representatives

Name	Year of birth	Date of initial appointment	
Anton Aichinger Chairman of the Group's employee representatives	1955	from 25/10/2006 until 5/4/2018	appointed by the employee representatives
Doris Dangl Chairwoman of the Group’s employee representatives	1963	since 5/4/2018	appointed by the employee representatives
Kurt Christof Chairman of the Central Works Council Member of the supervisory boards of Stadtwerke Voitsberg GmbH and of Sparkasse Voitsberg/Köflach Bankaktiengesellschaft	1964	since 8/3/2004	appointed by the employee representatives
Dr. Isabella Hönlinger Chairwoman of the Works Council	1971	since 1/9/2016	appointed by the employee representatives
Ing. Wolfgang Liebscher Chairman of the Central Works Council	1966	since 1/11/2013	appointed by the employee representatives
Dipl.-Ing. Hans Pfau Chairman of the Works Council	1953	since 1/9/2016	appointed by the employee representatives

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

Report of the Supervisory Board

As Austria's leading utility, VERBUND succeeded in remaining on a profitable and sustainable trajectory in financial year 2018. The Group once again generated very good results in a market climate that remained volatile and in which water supply was poor. The Supervisory Board actively monitored and supported this strong performance.

Performance of duties. In financial year 2018, the Supervisory Board discharged the responsibilities and exercised the powers incumbent upon it by virtue of the law and the Articles of Association at six plenary meetings. The overall attendance rate for all Supervisory Board members was 91%. The Chairman additionally kept in regular contact with the Board members to discuss matters of importance as they arose. The Executive Board provided the Supervisory Board with regular and comprehensive real-time information, both verbally and in writing, on all relevant matters relating to the performance as well as the position and strategy of the Group and all significant Group companies; information was also provided on the Group's risk position and its risk management activities.

The Supervisory Board monitored the Executive Board's management of the Company based on the reports received from the Executive Board. Supervision took place in the context of open and constructive discussions between the Executive Board and the Supervisory Board, with the Supervisory Board paying particularly close attention to the Group's structure, business processes and strategy. This involved the Supervisory Board working to advance the ongoing strategy process and adopting a new version of the rules of procedure for the Executive and Supervisory Boards. The main resolutions adopted by the Supervisory Board are presented in the 2018 Consolidated Corporate Governance Report. Between meetings, the Chairman of the Supervisory Board conversed regularly with the members of the Executive Board, particularly the Chairman.

Changes in the Executive and Supervisory Boards. In addition to approving the annual financial statements and the Group budget, one of the Supervisory Board's most important decisions during the reporting period involved the (re-)appointment of Executive Board members. The Supervisory Board extended the Executive Board appointments of Dipl.-Ing. Wolfgang Anzengruber as CEO and Dr. Peter Kollmann as CFO. It also appointed Mag. Dr. Michael Strugl to the Executive Board as member and Vice-Chairman, and Mag. Dr. Achim Kaspar as a member of the Executive Board effective 1 January 2019. Effective 31 December 2018, Dr. Johann Sereinig and Dipl.-Ing. Dr. Günther Rabensteiner left the Executive Board and entered retirement. The Supervisory Board would like to thank Dr. Johann Sereinig and Dipl.-Ing. Dr. Günther Rabensteiner for their many years of successful work on the Executive Board.

There were two personnel changes on the Supervisory Board as well. Mag. Stefan Szyszkowitz was appointed to the Supervisory Board to replace Dipl.-Ing. Dr. Peter Layr as a shareholder representative at the Annual General Meeting held on 23 April 2018. With respect to the employee representatives, Doris Dangl was appointed to replace Anton Aichinger effective 5 April 2018.

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

Pursuant to the requirements of the Code (Rule 36), the Supervisory Board again conducted a self-evaluation of its activities in the reporting period, particularly of its organisation and work procedures. The evaluation was undertaken in the form of a comprehensive written questionnaire that was completed by the Board members. In addition, the Supervisory Board again discussed at length possible conflicts of interest when dealing with the approval of contracts with companies where individual Supervisory Board members are related parties. No conflicts of interest were identified that would require any action to be undertaken beyond that taken at the meetings.

Adopted on 23 April 2018, the amended rules of procedure for the Supervisory Board provide for changes involving the Supervisory Board committees as well as modified regulations for Supervisory Board meetings. For example, the Working Committee, which did not meet in the reporting period, was dissolved. In lieu of the Working Committee, the rules of procedure established the previously temporary Strategy Committee as a standing Supervisory Board committee. The Strategy Committee is responsible above all for coordinating corporate strategy with the Executive Board, conducting the annual strategy review and supervising any modifications to be made. During the reporting period, the Strategy Committee held five meetings for the purpose of monitoring revision of the Group's strategy.

The Audit Committee held three meetings in the year under review. It dealt above all with the semi-annual financial statements and preparation of the resolution to approve the annual financial statements, as well as with the appointment of the auditor and examination of the auditor's work. In addition, the Audit Committee concentrated on opportunity and risk management as well as the Group's internal control and audit procedures and on the audits performed by the internal audit function. The number of Audit Committee members was reduced under the new rules of procedure, as was the number of Strategy Committee members. The same applies to the Emergencies Committee provided for in the rules of procedure, which did not meet in the reporting period.

In accordance with the Code of Corporate Governance and the rules of procedure, two other Supervisory Board committees – a Nomination Committee and a Remuneration Committee – were again formed in the past financial year. The Remuneration Committee convened seven times, mainly to discuss the agreements on targets and the variable remuneration paid to the Executive Board as well as the termination agreements with former members of the Executive Board and the new Executive Board contracts. The Nomination Committee held five meetings to prepare for the Supervisory Board elections as well as for the call for applicants to the Executive Board and the Executive Board appointments in June 2018.

Further information on the composition, work procedures and meetings of the Supervisory Board and its committees as well as on the remuneration paid to its members is contained in the Group's Consolidated Corporate Governance Report for 2018.

Annual financial statements and consolidated financial statements. The annual financial statements, together with the management report, the consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRSs) and the Group management report for financial year 2018 were audited by Deloitte Audit Wirtschaftsprüfungs GmbH and issued with an unqualified auditor's report. The auditor prepared the additional report required to be made to the Audit Committee under Article 11 of the Regulation on the statutory audit of public-interest entities and reported its findings in writing. The auditor found that the Executive Board had provided the explanations and evidence requested, that the book-keeping, annual financial statements and consolidated financial statements fulfilled the legal requirements and, in conformity with generally accepted accounting principles, gave a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group. The auditor also confirmed that the management report and the Group management report were consistent with the annual financial statements and the consolidated financial statements.

Following in-depth examination and discussion by the Audit Committee and the Supervisory Board, the Supervisory Board approved the annual financial statements for financial year 2018 as presented by the Executive Board. As a result, they are final for the purposes of Section 96(4) of the Austrian Stock Corporation Act (Aktiengesetz, AktG). The management report prepared by the Executive Board was approved, as was the proposal for the appropriation of profit. The Supervisory Board also approved the consolidated financial statements and the Group management report along with the Consolidated Corporate Governance Report submitted by the Executive Board and the separate Non-Financial Report. There were no grounds for any material objections.

In conclusion, the Supervisory Board would like to thank the Executive Board and all employees for their high level of dedication and their successful work during financial year 2018. The Supervisory Board would also like to thank the Group's shareholders, customers and business partners for their trust.

Vienna, March 2019

Dr. Gerhard Roiss
Chairman of the Supervisory Board

Management report

Report on business performance and economic position

General conditions

Prices for crude oil, natural gas and coal increased in financial year 2018 before falling again in October 2018. CO_2 prices also rose significantly in 2018 fuelled by concerns about shortages in the supply of CO_2 emission rights in connection with the launch of the market stability reserve in 2019. The increases in CO_2 and raw materials prices pushed up prices for wholesale electricity.

Demand for electricity increased slightly in 2018. The somewhat higher level of demand starting in the second quarter of 2018 compared with 2017 compensated for the lower demand experienced in the winter months of 2018.

VERBUND's clear strategic positioning as an energy supplier focusing on sustainable renewable energy in combination with timely implementation of organisational and structural measures has given VERBUND an excellent foundation for the Group's continued growth. Challenges such as digitalisation, decarbonisation and decentralisation of the energy system present a multitude of opportunities for continued growth at VERBUND.

General economic environment

Global economy in stable growth phase

The steady growth trend since mid-2016 was sustained in 2018 with global economic growth of 3.7%, as in the previous year. In the US, gross domestic product continued to rise sharply despite global trade disputes and the resulting loss of investor confidence. Economic growth in 2018 was 2.9% in the US and 1.8% in the eurozone. In Japan, economic growth declined to 0.9% in 2018, down from 1.9% in 2017 (all figures from the January 2019 forecast published by the International Monetary Fund (IMF)).

The Chinese economy registered its slowest rate of growth since 2009 at 6.6% in 2018, with the trade dispute between the United States and China being the main factor in the decline. China has attempted to keep the country's growth levels relatively stable through monetary and budgetary easing. While growth in Russia and Brazil was lower by comparison, both countries posted growth rates surpassing the 2017 figures.

Growth in the eurozone economy slipped to 1.8% in 2018 compared with the prior-year reporting period (2017: 2.4%). Since the start of the year in 2018, the economies in key eurozone countries have been negatively impacted by the slowdown in foreign trade. The German economy recorded growth of 1.5% in 2018. For 2019, the IMF is projecting GDP growth of 1.3% for Germany. According to the IMF experts, the lower forecast is based on declining exports and weaker industrial production.

Austria's economy performed well in 2018 by international standards. Economic growth picked up to 2.7% (January 2019 economic forecast by the Austrian Institute of Economic Research) on the back of strong industrial activity. The aforementioned uncertainties will likewise curb growth in Austria in 2019, however, with the growth rate projected to drop to approximately 2.0% in 2019. Although household spending continues to support economic growth, it is not sufficient to fully compensate for declining demand in foreign trade.

Energy market environment

Electricity consumption increases in Austria

According to initial data from E-Control[1], electricity consumption in Austria rose by 0.3% in 2018 (total supply of electricity: domestic electricity consumption less pumped storage consumption).

[1] Energie-Control Austria für die Regulierung der Elektrizitäts- und Erdgaswirtschaft

Electricity generation from hydropower dropped 2.2% below the 2017 level in 2018. In the first half of 2018, electricity generation from hydropower was still well above the 2017 generation levels (+24%) with the exception of the month of March. In the second half of 2018, generation from hydropower fell to nearly one-quarter below the 2017 level due to the prolonged drought.

Average annual electricity generation from thermal power plants decreased by as much as 7.0% in 2018 compared with 2017 levels. Only in March and in the months from September to December 2018 did generation levels exceed the prior-year figures.

Generation from wind power plants was down 10.3% on the previous year's level due to lower wind supply. "Other generation" increased by 4.5%. Other generation includes electricity produced from other renewable energy sources (excluding biomass, which comes under the category of thermal generation) and from power plants that cannot yet be allocated for statistical purposes. Total electricity production in Austria decreased by 3.7% in 2018.

Decreases were seen in both imports (–4.4%) and exports (–16.2%) of electricity in 2018. Net imports came to 8,947 GWh in 2018, or around 2,401 GWh less than in the prior year.

Oil price up sharply compared with 2017

The average price for one barrel of Brent crude oil (front month) rose by more than 30% in 2018 to just under $72/bbl, compared with approximately $55/bbl in 2017.

In 2018, the oil market was impacted in particular by the emerging trade dispute between the US and China as well as the withdrawal of the United States from the Iran nuclear deal and the announced imposition of sanctions on Iran by the US. The price of Brent crude fluctuated between $60/bbl and $70/bbl for quite some time at the start of the year, after which it rose on the back of OPEC production cuts and announcement of the re-imposition of sanctions against Iran coupled with unchecked demand for oil. By the end of May 2018, the price had nearly reached the $80/bbl mark. Crude oil prices then underwent a correction in the face of reports of OPEC discussions with Russia on increasing production as well as robust growth in US production levels and an increase in crude oil inventories in the US. By mid-June 2018, the price had fallen to around $70/bbl. In the ensuing period, the threat of sanctions against Iran proved to be the determining factor for the price of oil, which rose to over $85/bbl at the start of October. Oil prices fell substantially from mid-October onwards, dipping to below $60/bbl at times once it emerged that the production cuts arising from the Iran sanctions would be less far-reaching than imagined (eight key oil buyers were exempted from the prohibition on buying Iranian oil) in combination with production expansions in Saudi Arabia, Russia and the US. The decision of OPEC and Russia to cut production led to a brief stabilisation of the price of oil at just under $60/bbl. Oil prices dropped further at the end of 2018 to close the year at below $55/bbl.

Increase in gas prices

The average spot price for natural gas at the European NCG trading point increased by over €5/MWh year-on-year to nearly €23/MWh in 2018. In futures trading, supplier contracts for the coming year (NCG front year) were invoiced at around €21/MWh, or nearly €4/MWh more than had to be paid for the NCG front year in 2017. European gas prices received a boost in 2018 from strong oil prices as well as rising LNG prices.

Further increase in steam coal prices

Steam coal prices also increased substantially in 2018 compared with the previous year. Coal prices on the spot market (ARA front year) were up by more than $13, or nearly 20%, on the prior year at an average of $87/t.

Coal prices were also up on the spot market with an increase of 8% in 2018 compared with the average listing in 2017. The price of coal benefited above all from the general upward trend on the commodities markets as well as from sustained high demand in the EU, Japan and Korea. Key exporter Indonesia, however, did not meet its planned export targets.

EU implements emissions trading reforms

Prices on the emissions trading market benefitted from the agreement on reforming the emissions trading regime reached at the start of 2018 by the Council of the European Union and the European Parliament. The agreement stipulates stricter climate targets for installations in the power sector and energy-intensive industry that are subject to the EU ETS. Greenhouse gas emission allowances for such installations will be lowered by 2.2% per year – more than has hitherto been the case – between 2021 and 2030. At the same time, pollution allowances will be taken off the market in order to lower the supply.

CO_2 prices nearly tripled in 2018 as a result. Whereas the 2017 average was just below €6/t, this figure rose to around €16/t in 2018 (futures market front year). The price even surpassed €25/t for a short period, although this was followed by a downward correction. Not until the end of 2018 did CO_2 prices again approach the previous high.

Substantial increase in wholesale electricity prices

In 2018, the market for wholesale electricity was impacted on the one hand by a sharp price increase in connection with price hikes in the markets for primary energy and CO_2 and on the other by the split of the German-Austrian joint bidding zone effective 1 October 2018. The physical incapacity of the grid to transport the rapidly rising quantities of electricity generated from wind farms in the north of Germany to the demand centres in the south in sufficient capacities led to unscheduled power flows ("loop flows") via Poland and Czech Republic. To reduce these unplanned loop flows, Germany pushed introduction of a congestion management procedure at the German-Austrian border.

The congestion management procedure introduced at the border between Austria and Germany at the start of October 2018 increased electricity prices in Austria as expected. The price increase was due to the relatively inexpensive excess power generated from German renewables no longer being able to be supplied to Austria in the accustomed quantities. The average price of electricity on the Austrian spot market during the first three months of market separation (October to December 2018) was approximately €7.3/MWh above the price in Germany. It remains to be seen how the price will evolve in the future.

The average price for base load electricity deliveries on EPEX SPOT, the European power exchange, increased by approximately 34% year-on-year to €46.3/MWh in 2018 (reflecting the prices in the Austrian market area from 1 October 2018). Peak-load prices were at €54.0/MWh, or 25% higher than the 2017 average. The average price for immediate base load electricity deliveries in the German market area (from 1 October 2018) was €44.5/MWh, and the price for peak-load energy was €52.1/MWh. The price increases were driven mainly by higher prices for steam coal and CO_2.

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

In the futures market at the European Energy Exchange (EEX), base load for 2019 (front year base) was traded at an average price of €46.64/MWh in 2018 for the Austrian bidding zone, and peak-load (front year peak) was traded at €56.84/MWh. In 2017, front year base contracts cost €32.38/MWh on average and front year peak contracts cost €40.51/MWh (for the joint German-Austrian market area). In the German market area, front year base traded at an average of €43.84/MWh and front year peak at €53.95/MWh in 2018. The higher prices were due to the rise in CO_2, gas and coal prices.

VERBUND sells most of the electricity it generates in advance on the futures markets so as to reduce short-term selling and price risks. The price trend in the futures market in 2018 had only a minor influence on revenue during the reporting period. The trend will positively impact earnings in subsequent periods, however.

Political and regulatory framework

In 2018, the Council of the European Union and the European Parliament succeeded in clearing up the last remaining issues with the Clean Energy Package (CEP) during the term of the Austrian presidency following extensive negotiations.

In Austria, the federal government presented its Climate and Energy Strategy (#mission2030) which sets the objectives of a reduction of 25–30% in primary energy intensity by 2030 compared with 2015 and covering 100% of total electricity consumption (national balance) from national renewable energy sources by 2030. The strategy package includes reforms involving the topics of system charges and Österreichische Beteiligungs AG, among other things.

EU energy policy

"Clean Energy for All Europeans": negotiations on the legislative package concluded

After two years of negotiations, the European legislators succeeded in bringing the negotiations on the Clean Energy for All Europeans package to a close in the second half of 2018 during the term of the Austrian Council presidency. In essence, the package defines new targets for developing renewable energy and improving energy efficiency by 2030, dismantles a number of internal energy market barriers and facilitates access to the energy market for consumers and new market players alike.

Specifically, the share of energy from renewables is to reach 32% of the EU's gross final consumption by 2030, with 14% of all fuels used in the transport industry to come from renewables. An energy efficiency headline target of 32.5% has been set for 2030. In 2023, the targets for both renewables expansion and energy efficiency are to be revisited and possibly raised. The reporting duties set out in the new policy framework's Governance Regulation are intended to ensure adherence to the targets defined in national energy and climate plans. Any deviations are to be met with appropriate countermeasures. The Renewable Energy Directive (RED II) specifies that support for electricity from renewable sources is to be granted by means of tendering procedures and in a market-based way. RED II also stipulates a framework for renewables self-consumption. The single market directive and regulation are dismantling barriers in energy trading markets, introducing rules for market-based capacity mechanisms in the event of supply shortages, defining a new process for the introduction of price zones, strengthening regional cooperation between transmission system operators (TSOs) and aligning the statutory framework for distribution system operators (DSOs) to changed market conditions. They are also creating a level playing field for all generation technologies, including flexibility instruments such as storage capacity and demand response tools. In the future, storage systems will continue to be managed by market players as a rule, and by regulated TSOs in exceptional cases only. In addition, European regulator ACER has been given a stronger role.

Europe's long-term decarbonisation strategy: A Clean Planet for All

At the end of November 2018, the European Commission published a set of documents outlining its vision for transitioning to a climate-neutral economy by 2050. The scenarios proposed in the documents are to be discussed among EU institutions during 2019. The new European Commission will then present its final strategy after broad consultation and on the basis of the European Council's findings of May 2019.

Low-carbon mobility

A number of legislative proposals aimed at reducing carbon emissions in the mobility sector were under discussion in 2018. New CO_2 standards are to be introduced from 2021 for passenger cars as well as for both light and heavy commercial vehicles. The standards are intended to bring about significant decarbonisation in the transport sector by 2030. The Clean Vehicles Directive is designed to incentivise public procurers to invest a significant portion of their resources in carbon-free drive technologies when awarding contracts for new vehicles.

Hydropower: environmental guidance and initiation of EU Water Framework Directive revision process

Upon conclusion of a process extending over several years, in May 2018 the European Commission published its "Guidance on the requirements for hydropower in relation to Natura 2000", which includes guidance on the construction and operation of hydropower installations. The new guidance provides more detail on existing Natura 2000 legislation in relation to hydropower, presents good practice examples and aims to harmonise national application.

Work on revising the Water Framework Directive began in 2018 with a public consultation, which is expected to continue until March 2019.

New legal framework for the energy sector in Austria

Climate and Energy Strategy #mission2030

In May 2018, the Austrian federal government approved a new Climate and Energy Strategy (#mission2030). The Federal Ministry for Sustainability and Tourism and the Federal Ministry for Transport, Innovation and Technology are responsible for overseeing the #mission 2030 project, which introduces a structured framework for implementing the necessary action plans in the area of climate and energy policy. The objectives of the strategy are decarbonisation of the energy system by 2050, a reduction of 25–30% in primary energy intensity by 2030 compared with 2015 and covering 100% of total electricity consumption (national balance) from national renewable energy sources by 2030. The Climate and Energy Strategy is currently being transposed into legislation and administrative law. The central element of the strategy in the area of electricity is the Renewable Energy Development Act (Erneuerbaren-Ausbau-Gesetz, EAG), which is intended to restructure support schemes for renewable electricity generation. The Green Electricity Act (Ökostromgesetz, ÖkostromG) as well as the Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG) and the

Natural Gas Act (Gaswirtschaftsgesetz, GWG) will be amended in the process, too.

Act on the Development and Advancement of Austria as a Business Location

The Act on the Development and Advancement of Austria as a Business Location (Standort-Entwicklungsgesetz, StEntG) presented by the Federal Ministry for Digital and Economic Affairs was approved by the Austrian Parliament in December 2018.

The StEntG is intended to enable the Austrian federal government to designate specific projects that serve the development or advancement of Austria as a business location to an exceptional degree as being in the public interest of the Republic of Austria in order to accelerate environmental impact assessment (EIA) procedures for such projects. If the EIA authorities do not issue a decision within twelve months of application, the project applicant may file a complaint transferring the matter to the Austrian Federal Administrative Court for decision.

Change in system charges

The grid tariffs for 2019 have been established by E-Control in the amended System Charges Order (SNE-VO). The new System Charges Order brings significant relief with regard to the "system services fees" generation rate component based on the EU regulation establishing a guideline on electricity balancing.

Renewable Energy Development Act

The Federal Ministry for Sustainability and Tourism began working on a new Renewable Energy Development Act (EAG) in 2018. In December 2018, a preliminary contract for the EAG containing the main elements of the new support regime for renewable energy was submitted in the form of an address to the Council of Ministers. The bill is expected to be presented in the second quarter of 2019. The primary purpose of the EAG is to restructure public subsidies for renewables based on the specifications laid out in the European Commission's guidelines on public support for environmental protection and energy as well as those set forth in the EU Renewable Energy Directive (RED II), such as the provisions on transitioning from feed-in tariffs to market-based premiums. The EAG also addresses the topics of market design, system responsibility and sector coupling.

Austrian environmental package

In autumn 2018, the Federal Ministry for Sustainability and Tourism adopted an environmental package consisting of the Aarhus Participation Act (Aarhus-Beteiligungsgesetz), the Federal Act on Environmental Liability (Bundesumwelthaftungsgesetz, B-UHG) and the Environmental Impact Assessment Act (Umweltverträglichkeitsprüfungsgesetz, UVP-G). The Aarhus Participation Act implements an ECJ ruling concerning the legal remedies available to recognised environmental organisations as well as the provisions of the third pillar of the Aarhus Convention by way of three special administrative laws, including the Water Rights Act (Wasserrechtsgesetz, WRG). The amended Federal Act on Environmental Liability (B-UHG) aligns the legal situation in Austria with the ECJ's finding that, in the future, exceptions from liability for environmentally hazardous activities causing damage to water as defined by the B-UHG shall only apply if the water rights permit was granted in accordance with Section 104a of the Water Rights Act (WRG), which provides for exceptions from the requirement to prevent deterioration of the status of a body of surface water. The amended Environmental Impact Assessment Act (UVP-G) provides for various mechanisms to expedite environmental procedures, such as the requirement to use a so-called “Business Hub Ombudsman” (*Standortanwalt*) and requiring official decisions to be made within six weeks. In addition, the right to participate in environmental proceedings has been restricted to NGOs fulfilling certain minimum requirements.

Network and Information Security Act (NISG)

The Network and Information Security Act (Netz- und Informationssystemsicherheitsgesetz, NISG) adopted at the end of 2018 transposes the EU’s Network and Information Security Directive into Austrian law. The legislation is intended to ensure a high level of security in network and information systems. Specifically, it provides for the establishment of national coordination structures to prevent and handle security incidents and the formation of computer security incident response teams (CSIRTs) to support operators of essential services, which include energy sector services. As an operator of essential services, VERBUND is affected by the new legislation and in the future will cooperate closely with the authorities in matters of cybersecurity. VERBUND is also a founding member of the Computer Emergency Response Team (CERT) working group. In recent years, the CERT working group has established an Austrian Energy CERT (E-CERT), one of whose roles will be to act as a computer security incident response team (CSIRT) for the energy sector as provided for in the Network and Information Security Act (NISG).

Österreichische Beteiligungs AG (ÖBAG)

The “Federal act amending the ÖIAG Act of 2000, the Austrian Real Estate Act and the Financial Market Stability Act” provides for a transformation of Österreichische Bundes- und Industriebeteiligungen GmbH into a stock corporation operating under the new name of Österreichische Beteiligungs AG (ÖBAG). The legislation also assigns ÖBAG to supervise the Austrian federal government’s investment in VERBUND AG. The specifics of ÖBAG’s duties with respect to VERBUND AG will be stipulated in a management agreement between the Republic of Austria and ÖBAG. VERBUND AG’s ownership structure will not be impacted.

New legal framework for the energy sector in Germany

Creation of a Commission on Growth, Structural Change and Employment

On 6 June 2018, the German federal government approved the establishment of a Commission on Growth, Structural Change and Employment. The Commission was tasked with coming up with a fossil fuel phase-out plan suitable for achieving short-, medium- and long-term climate protection targets. It was also assigned to put forward proposals for structural development designed to promote growth and employment in the affected regions. On 26 January 2019, the Commission published its final report in which it recommended that the German federal government draw up a road map for the gradual withdrawal from coal-fired electricity generation by 2038 at the latest by pushing rapid expansion of energy storage and sector coupling technologies. Structural aid is to be offered to the regions that rely on brown coal and hard coal mining to give them a future-proof perspective. In addition, an accelerated approvals process for new gas power plants is intended to facilitate the transition from coal to gas. The Commission recommends checking the implementation and effectiveness of the proposed measures through regular monitoring with a view to electricity prices, security of supply and climate protection.

Regulation on Gradual Introduction of Standardised National Transmission System Fees

The Regulation on Gradual Introduction of Standardised National Transmission System Fees entered into force on 29 June 2018. The Regulation provides for gradual standardisation of grid usage fees across Germany. The implementation process will be completed by 1 January 2023. In October 2018, transmission system operators published their grid usage fees for 2019 for the first time on the basis of the new regulations. The standardised fee share for 2019 has been set at 20% of the relevant cost basis of the respective TSO.

Finance

Factors affecting the result

Wholesale electricity prices

VERBUND contracted most of its own generation for 2018 on the futures market back in 2016 and 2017. Prices for front-year base load contracts averaged €32.4/MWh in 2017 and front-year peak load was traded at an average of €40.5/MWh in 2017. This represents a year-on-year increase of 21.8% for base load and 20.9% for peak load. Price levels in the electricity futures market largely mirrored the trend in prices for gas, coal and emission rights.

In the German spot market, wholesale trading prices for electricity in 2018 were well above the prior-year level. Prices for base load electricity increased by an average of 30.0% to €44.5/MWh and prices for peak load rose by 22.0% to €52.1/MWh. Since the split of the joint German-Austrian price zone in October 2018, separate, higher prices have prevailed in Austria. Wholesale electricity traded at €46.3/MWh for base load and €54.0/MWh for peak load on average in Austria in 2018. In the fourth quarter of 2018, the average spot market price in Austria was €7.3/MWh higher than in the German market. Spot market prices in 2018 followed the trend in prices for emission rights in particular.

Water supply

The water supply in rivers is of particular significance for VERBUND since around 90% of its electricity is produced using hydropower. Water supply is measured by means of a hydro coefficient, with the value of 1.00 representing the long-term average. In the 2018 reporting period, the hydro coefficient for run-of-river and pondage power plants was 0.94, which is considerably lower than the long-term average and 5 percentage points below the prior-year level. The hydro coefficients for the individual quarters varied significantly: quarter 1: 1.17; quarter 2: 1.03; quarter 3: 0.74; quarter 4: 0.86.

Electricity supply and sales volumes

VERBUND's own generation decreased by 1,736 GWh to 31,130 GWh in quarters 1–4/2018. This represents a year-on-year decline of 5.3%. Generation from hydropower fell by 1,003 GWh compared with the prior-year period. The hydro coefficient for the run-of-river power plants dropped to 0.94, or 5 percentage points below the prior-year figure and 6 percentage points below the long-term average. Despite lower generation from turbining and the lower water supply, generation from annual storage power plants increased by 5.5% due to the high reservoir levels as at 31 December 2017.

VERBUND's wind power installations generated 118 GWh less electricity in quarters 1–4/2018 than in the prior-year period due to less windy conditions.

Generation from thermal power plants decreased by 615 GWh in quarters 1–4/2018. The Mellach combined cycle gas turbine power plant produced 550 GWh less electricity in 2018 due to the significant reduction in the use of this plant for congestion management compared with the prior year. Generation at the Mellach hard coal-fired power plant declined by 65 GWh.

Purchases of electricity from third parties for trading and sales rose by 1,403 GWh. Electricity purchased from third parties for grid loss and control power volumes increased by 264 GWh in the reporting period.

Group electricity supply GWh

	2017	**2018**	Change
Hydropower[1]	29,687	28,684	–3.4%
Wind power	952	834	–12.4%
Thermal power	2,227	1,611	–27.6%
Own generation	32,866	**31,130**	–5.3%
Electricity purchased from third parties (trading)	25,635	27,039	5.5%
Electricity purchased for grid loss and control power volumes	4,763	5,026	5.5%
Electricity supply	63,264	**63,195**	–0.1%

[1] including purchase rights

VERBUND's electricity sales volume increased by 390 GWh in quarters 1–4/2018. Electricity volumes delivered to consumers rose by 596 GWh. Here, a sharp rise in sales to international customers more than compensated for the slight decline in sales to domestic customers. As at 31 December 2018, our residential customer base comprised approximately 469,000 electricity and gas customers. Sales to resellers rose by 697 GWh year-on-year due to a significant rise in sales to German municipal utilities. Electricity deliveries to trading firms decreased by 904 GWh, with increases in deliveries to France and Austria unable to fully compensate for lower deliveries to Germany. Own use of electricity declined by 506 GWh due to reduced turbining operations.

Group electricity sales volume and own use GWh

	2017	**2018**	Change
Consumers	11,894	12,490	5.0%
Resellers	27,757	28,455	2.5%
Retailers	18,867	17,964	–4.8%
Electricity sales volume	58,518	**58,908**	0.7%
Own use	3,651	3,145	–13.8%
Control power volume	1,095	1,141	4.2%
Total electricity sales volume and own use	63,264	**63,195**	–0.1%

In 2018, approximately 49% of the electricity sold by VERBUND went to the Austrian market. The lower share of sales to Austria was attributable primarily to the new position of Austrian customers as a result of the price zone split. Austrian customers now purchase electricity in Germany and transfer it to

Austria themselves through exchange trading. International trading and sales activities focused on the German market, which accounted for around 86% of all volumes sold abroad.

Electricity sales volume by country

GWh

	2017	2018	Change
Austria	31,559	28,615	–9.3%
Germany	23,485	26,022	10.8%
France	2,599	3,036	16.8%
Romania	719	1,044	45.2%
Other	156	192	23.1%
Electricity sales volume	58,518	**58,908**	0.7%

Financial performance

Revenue and result

	Unit	2017	2018
Revenue	€k	281,990.7	259,550.3
Earnings before interest and taxes (EBIT)	€k	–33,524.4	641,333.9
Earnings before taxes	€k	–113,750.4	564,663.4
Net income for the year	€k	–167,079.2	563,049.7
Net profit	€k	145,914.6	145,914.6
Return on equity (ROE)	%	–4.6	25.7
Return on investment (ROI)	%	–0.6	13.7
Return on capital employed (ROCE)	%	–0.5	10.4
Return on sales (ROS)	%	–11.9	247.1

Revenue

Revenue from electricity deliveries decreased by 13.1% or €30,753.2k. This is mainly attributable to invoicing of associates directly by VERBUND Hydro Power GmbH (VHP), a change implemented as at 1 January 2018. In the previous year, deliveries to associates amounting to €14,972.6k had been included in electricity revenues. In addition, the average futures market prices obtained for the 2018 supply year for volumes hedged for the long term were below those for the 2017 supply year. In 2018, revenue from electricity sales based on purchase rights of hydropower producers was below that of the previous year due to the lower water supply, although the 2018 spot market prices were above the level of the previous year. This resulted in lower electricity revenue from purchase rights of €28,821.6k. By contrast, electricity revenue in the consumer segment increased by €13,814.0k.

Revenue from gas deliveries rose by 46.1%, boosted by the expansion of the customer base and the resulting increase in deliveries. Total revenue thus decreased by a total of €22,440.4k or 8.0%.

Expenses for electricity purchases

Expenses for the purchase of electricity increased by 4.0%, from €141,969.8k to €147,580.6k. Electricity purchases from purchase rights are based on reimbursement of costs and therefore remained at approximately the same level as in the previous year despite lower volumes. Electricity purchased for the consumer business is procured at market prices and therefore increased in financial year 2018 as a result of higher sales volumes and higher purchase prices. The changeover to the invoicing of deliveries to associates directly by VHP also led to a reduction in electricity purchases similar to the effect in electricity revenue. In the previous year, deliveries to associates amounting to €14,972.6k had been included in electricity purchases.

Expenses for gas purchases

Expenses for the purchase of gas rose by 60.7% to €22,342.3k as a result of the increase in consumer business volume.

Personnel expenses

Personnel expenses increased by €3,338.3k, or 14.1%, to €27,040.3k. The 3.0% increase in salaries and ancillary expenses under the collective agreement and the biennial pay rises stipulated by the collective agreement contributed to an increase in personnel expenses, while the reduction in the average number of employees by 8 to 115 had the opposite effect. Employee benefit expenses increased by €3,240.6k, of which €2,207.7k resulted from the change in underlying calculation parameters.

Other operating expenses

Other operating expenses increased by €2,512.9k, or 7.4%, to €36,489.1k. This increase is primarily attributable to higher consulting expenses (€1,428.6k) along with greater use of temporary personnel and provision of personnel (€384.8k) and to the increase in intra-Group invoicing.

Earnings before taxes

Earnings before taxes increased from €–113,750.4k to €+564,663.4k as a result of the influencing factors described above and the significant year-on-year improvement in the financial result of €566,043.5k (previous year: decrease of €152,553.2k). The financial result changed primarily due to impairment loss reversals of equity interests in the amount of €349,918.7k (previous year: €27,363.6k). Investment income fell by €110,470.6k from €382,592.5k to €272,121.9, of which €57,895.7k (previous year: €215,414.7k) concerned the reversal of a provision relating to an equity interest. Transfers of losses in the amount of €5,164.4k (previous year: €0.0k) had a counteracting effect. In addition, there were depreciation, amortisation and provisions for equity interests of €11,073.8k (previous year: €526,037.5k).

Financial position

Financial position

	Unit	2017	2018
Fixed assets	€k	4,384,286.2	4,676,287.1
Current assets	€k	71,070.5	64,251.7
Working capital	€k	–140,109.1	–915,848.3
Net debt	€k	2,283,190.1	2,196,806.2
Equity	€k	2,197,351.3	2,614,486.4
Current liabilities	€k	598,230.5	1,091,066.3
Current assets	€k	458,121.4	175,218.0
Average capital employed	€k	4,799,622.1	4,645,854.7
Equity ratio	%	46.8	53.2

Fixed assets

Intangible assets and property, plant and equipment fell by €32,220.1k. In financial year 2018, the disposal of an electricity purchase right led to a reduction in the carrying amount of €35,277.8k. Additions primarily related to an electricity purchase right of €3,214.9k, to office and plant equipment and electrical installations of €1,564.1k and to investments in buildings of €759.2k. Amortisation of intangible assets and depreciation of property, plant and equipment amounted to €1,737.0k in the financial year.

Investments relating to equity interests rose by €338,873.2k, due on the one hand to impairment loss reversals of foreign equity interests (€349,882.5k) and the impairment loss reversal of an Austrian equity interest (€36.4k) and on the other hand to additions to equity interests amounting to €48.3k and the disposal of a domestic equity interest amounting to €20.0k. Impairment losses of €11,073.8k were recognised for one domestic equity interest.

Other investments decreased in total by €14,652.2k. Loans were granted in the amount of €367,712.8k, while loans of €382,146.8k were repaid. The carrying amount of securities under fixed assets decreased due to impairment losses amounting to €218.2k.

Current assets

The decrease of €6,818.8k in current assets mainly resulted from the contractual transfer of invoicing of the associate KELAG-Kärntner Elektrizitäts-Aktiengesellschaft from VERBUND AG to VERBUND Hydro Power GmbH, which included the transfer of receivables as of 1 January 2018. Trade receivables decreased by €4,166.4k. Other receivables from affiliated companies increased by €10,806.8k, of which an amount of €4,350.6k concerns the increase in corporate income tax allocations which are not yet due.

Equity

Due to the net income for the year in the amount of €563,049.7k, reduced by the distribution for financial year 2017 of €145,914.6k, equity increased by €2,614,486.4k. The equity ratio rose from 46.8% to 53.2%, mainly as a result of this.

Liabilities

Non-current and current liabilities decreased by €83,256.2k to €2,207,486.7k. In financial year 2018, repayments to banks amounted to €252,202.8k. A loan taken out in the amount of €100,000.0k had a counteracting effect. Liabilities to affiliated companies rose by €70,883.9k due to intra-Group invoicing. Trade payables fell by €2,410.9k to €38,959.7k.

Financing

Financing strategy

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

Securing liquidity and ensuring suitable liquidity reserves

For VERBUND, ensuring that liquidity is secure at all times – and particularly in a difficult market environment – has the highest priority. As at 31 December 2018, VERBUND AG had an ESG-linked (environmental social governance) syndicated credit line in the amount of €500.0m at its disposal that had not been drawn down. The facility runs until 2023 with two additional extension options of one year in each case. It was taken out on 10 December 2018 with twelve domestic and international banks with good credit ratings. In addition, VERBUND AG also had uncommitted lines of credit amounting to approximately €582.0m at the end of 2018. None of the credit lines had been drawn down as at 31 December 2018.

Securing a solid, long-term credit rating

The better a company's credit rating, the easier and more inexpensive it is to fully access international capital markets. A solid credit rating gives VERBUND AG access to various financing instruments, including those in the capital market. As at 31 December 2018, VERBUND AG had a long-term rating of "A– with stable outlook" from Standard & Poor's (S&P) and "Baa1 with a positive outlook" from Moody's. S&P raised its rating from "BBB+" to "A– with stable outlook" in September 2018. In September 2018, Moody's also raised its rating from "Baa2" to "Baa1" with a "positive" outlook.

For the long term, VERBUND AG is aiming for a solid "A" category rating. VERBUND is therefore focusing its management of the Group on optimising free cash flow and improving the two key rating-related performance indicators of FFO/net debt and RCF/net debt.

Financing measures

In 2018, VERBUND AG was again able to take advantage of its strong internal funding options to finance its ongoing investment programme and to continue to reduce Group debt. As part of its active liability management, VERBUND AG continuously monitors its financial liabilities to evaluate options for reducing interest expenses (e.g. by making early repayments of principal).

After having issued the first green bond in the German-speaking region in 2014 in the amount of €500.0m (maturing in 2024, coupon of 1.5% p.a.), we stepped up our green, sustainable finance activities significantly in 2018. VERBUND AG issued the world's first green Schuldschein over a digital platform in March 2018. The Schuldschein was issued in the volume of €100.0m with a coupon of 1.6% p.a. and matures in 2028. Moreover, the margin structure of the syndicated loan that was refinanced in December 2018 was linked exclusively to VERBUND's ESG rating (sustainability rating). The ESG rating was determined by Sustainalytics, the leading agency in this field, and is reviewed each year. If VERBUND's ESG rating deteriorates, the Group's financing costs increase. If the ESG rating improves, the Group's financing costs decrease. This effectively decouples the Group from the established financial ratings.

KPIs – finance

	Unit	2017	2018
Cash flow from operating activities	€k	281,399.4	178,731.0
Cash flow from investing activities	€k	179,331.3	64,265.1
Cash flow from financing activities	€k	–460,730.5	–243,012.3
Financial result	€k	–152,553.2	566,043.5
Gearing	%	103.9	84.0
Debt repayment period	years	6.3	8.5

Compared with the previous year, the financial result improved by €718,596.8k to €566,043.5k. The main reason for this was the recognition of high impairment loss reversals of equity interests amounting to €349,918.7k in the financial year (previous year: €27,363.6k) whereas in financial year 2017 amortisation of equity interests had been recognised in the amount of €526,037.5k (current year: €11,073.8k). In contrast, provisions related to equity interests were reduced by €57,895.7k (previous year: €215,414.8k). Investment income from distributions increased by €47,048.5k to €214,226.2k. Losses amounting to €5,164.4k were transferred in 2018 (previous year: €0.0k). In relation to investments, there was also income from the disposal of investments of €9.2k (previous year: €965.5k). Interest income improved by €3,667.7k, while income from loans decreased by €5,655.4k.

A decline of €86,383.9k in interest-bearing net debt and the simultaneous increase of €417,135.1k in equity reduced the gearing by 19.9 percentage points to 84.0%. Weaker cash inflow from earnings before taxes of €269,208.5k (previous year: €396,323.6k) accompanied by a lower reduction in debt of 7.7% (reduction in previous year: 17.1%) increased the debt repayment period from 6.3 years in the previous year to 8.5 years.

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

Cash flow statement

(1) Cash flow from operating activities

Cash flow from operating activities was determined using the indirect method and resulted in a cash inflow of €178,731.0k (previous year: €281,399.4k).

The change in trade receivables and other receivables is primarily attributable to the decrease in deferred tax assets of €57,083.3k and the decrease in other accruals and deferrals in the amount of €3,119.1k. As a result of the transfer of electricity invoicing with one national company directly to VHP, receivables from this company fell by €13,524.2k. Receivables from electricity and gas deliveries to consumers decreased by €3,911.2k. The increase in receivables from affiliated companies in the amount of €11,089.0k is mainly attributable to higher open tax allocations and value added tax recharges than in the previous year.

The change in trade payables and other liabilities is mainly the result of the decrease in liabilities from the electricity and gas business of €5,159.5k. Under other liabilities related to payroll, there was an increase of €1,590.0k. Liabilities from value added tax to the financial authorities rose by €6,399.5k.

The change in current provisions and tax liabilities is largely attributable to the reversal of a provision in connection with an equity interest in the amount of €57,895.7k and the reversal of corporate income tax provisions, an item in which prepayments are netted, including provisions recognised for the subsequent taxation of foreign losses, in the amount of €49,061.8k.

(2) Cash flow from investing activities

Net cash flow from investing activities consisted of an inflow of €64,265.1k (previous year: €179,331.3k), resulting primarily from the repayment of loans amounting to €382,146.8k and the disposal of an electricity purchase right in the amount of €39,014.1k. These contrast with the granting of loans in the amount of €351,323.4k.

Capital expenditure for intangible assets and property, plant and equipment primarily comprised capital expenditure relating to rights in the amount of €3,214.9k, relating to office and plant equipment in the amount of €1,457.7k, investments in buildings in the amount of €759.2k and relating to electrical equipment in the amount of €106.4k.

(3) Cash flow from financing activities

As part of the dividend distribution approved for financial year 2017, €145,914.6k was paid out to shareholders. This was equivalent to a dividend of €0.42 per share. Group clearing resulted in a cash inflow of €55,105.0k (previous year: cash outflow of €61,742.6k).

Repayments at maturity in the amount of €138,000.0k, scheduled payments by instalment in the amount of €47,536.1k and early payments of instalments of €66,666.7k took place in financial year 2018. One loan was taken out in the amount of €100,000.0k.

Cash flow statement

€k

	Notes	2017	2018
Net income/net loss for the year		–167,079.2	563,049.7
Amortisation of intangible assets and depreciation of property, plant and equipment		1,727.3	1,737.0
Amortisation and reversal of impairment of investments		498,549.1	–338,627.0
Result from disposal of non-current assets		–975.3	–3,748.3
Change in non-current provisions and deferred tax liabilities		–2,759.8	–743.2
Income from the reversal of contributions to building costs		–35.1	–35.1
Other non-cash expenses and income		–4,361.3	–4,214.1
Change in inventories		58.5	10.7
Change in trade receivables and other receivables[1]		102,573.1	66,712.0
Change in trade payables and other liabilities[2]		23,954.2	2,284.5
Change in current provisions		–170,252.3	–107,695.4
Cash flow from operating activities	(1)	281,399.4	**178,731.0**
Cash outflow from capital expenditure on intangible assets and property, plant and equipment		–12,788.6	–5,557.4
Cash inflow from the disposal of intangible assets and property, plant and equipment		31.1	39,017.9
Cash outflow from capital expenditure on investments		–221,675.2	–351,371.6
Cash inflow from the disposal of investments		413,763.9	382,176.2
Cash flow from investing activities	(2)	179,331.3	**64,265.1**
New non-current loans		0.0	100,000.0
Cash outflow from the repayment of financial liabilities (excluding money market transactions)		–298,237.3	–252,202.8
Cash inflow (outflow) from increases (decreases) in Group clearing balances		–61,742.6	55,105.0
Dividends paid		–100,750.5	–145,914.6
Cash flow from financing activities	(3)	–460,730.5	**–243,012.3**
Change in cash and cash equivalents		0.2	–16.3
Cash and cash equivalents as at 1/1/		16.1	16.3
Cash and cash equivalents as at 31/12/[3]		16.3	**0.0**

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

Report on the environment, research, development and social aspects

Environmental performance

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

The Environmental executive order and additional environmental provisions define the framework for the systematic planning, execution and measurement of and reporting on the environmental achievements of VERBUND. Existing structures, processes and responsibilities in environmental management ensure compliance with legal requirements, nationally and internationally accepted regulations and the Group's own, more stringent standards. To ensure this, VERBUND has established a decision-making body at the highest management level and a working team made up of in-house environmental experts.

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

Impacts on the environment

One key topic in VERBUND's environmental management has always been the impacts, both positive and negative, that our generation portfolio and our activities have on the environment. In transitioning to ISO 14001:2015 Revision, the focus has shifted to the analysis of the organisation's context and to risk- and opportunity-based thinking as additional aspects of the standard.

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

Certification of environmental management systems

VERBUND has implemented environmental management systems in accordance with ISO 14001 at generation and grid facilities and at major administrative sites. The transition to ISO 14001:2015 Revision throughout the Group was completed in 2018. The Mellach thermal generation facilities are also validated in accordance with the EMAS Directive. A separate environmental statement is published annually on the VERBUND website for these facilities. New facilities are incorporated into the environmental management system as quickly as possible after commissioning and included in the scope of the certificate for the next audit.

Greenhouse gas emissions

Electricity generated from hydropower and wind power produces no direct emissions. In this way, VERBUND customers are contributing to the avoidance of emissions as well as to SDG 13 "Climate action".

Due to the high proportion of renewable energy sources representing 95% of its generation, VERBUND is one of Europe's most environmentally friendly energy companies. The Group's focus on electricity generation from renewable energy is a crucial factor in both reducing and avoiding greenhouse gas emissions. In accordance with the Paris Agreement on climate change from 2015, VERBUND commits to reduce its worldwide emissions of greenhouse gases to a level intended to limit a rise in global temperatures to below 2 degrees (or, better still, to below 1.5 degrees). VERBUND's target of reducing greenhouse gas emissions by 90% measured beginning from the basis year 2011 (5 million tonnes CO_2e) until 2021 includes Scope 1, Scope 2 market-based and Scope 3 energy-related activities and air travel. The Science Based Targets Initiative validated this goal as science-based in October 2016, i.e. it meets global standards.

Total greenhouse gas emissions (Scope 1–3, with Scope 2 market-based) decreased by 17% in 2018 to around 1.7 million tonnes CO_2e compared with the previous year (2017: 2.0 million tonnes CO_2e). Of this amount, 63% (1.1 million tonnes CO_2e) is attributable to greenhouse gas emissions in Scope 1, 17% (0.28 million tonnes CO_2e) to Scope 2 market-based and 20% to Scope 3 (0.34 million tonnes CO_2e).

VERBUND's strategic goal is to reduce the VERBUND-specific direct greenhouse gas emissions (Scope 1) to below 10 g CO_2e per kWh of total electricity generated by 2020. In 2018, this figure amounted to just 34 g CO_2e/kWh. VERBUND is thus already well below the specific figure for the 2017 Austrian production mix at 148 g CO_2/kWh and even further below the German figure at 488 g CO_2/kWh. These results demonstrate VERBUND's success in its drive to decarbonise electricity generation.

Emissions avoided through generation from renewable energy

By generating electricity from renewable energy sources rather than from thermal generation, VERBUND avoided 22 million tonnes CO_2 during the reporting period. This is calculated based on average thermal generation emissions based on ENTSO-E.

Airborne emissions

Lower use of the Mellach combined cycle gas turbine power plant reduced emissions of carbon monoxide (CO) by around one-third and nitrogen oxides (NO_x) by around 17%. Sulphur dioxide and dust emissions from operation of the Mellach hard coal power plant remained approximately the same.

Conservation and biodiversity

Some of our power plants and grid facilities are located in nature conservation areas or other protected areas. Information on their geographic location can be found on the geodata portals for Austria and Bavaria.

Please refer to the Renewable generation section of the 2018 Group Integrated Annual Report for current examples of capital expenditure for the environment and biodiversity such as the construction of fish passes to re-establish river continuity and restoration measures implemented at water bodies. The wide range of measures that VERBUND has already implemented and those that are still at the planning stage in the areas of conservation and biodiversity are described on the web pages of the respective LIFE projects and on the VERBUND website.

Additional fish passes were completed in Austria in financial year 2018 at the Greifenstein power plant on the Danube and the Edling power plant on the Drau and in Bavaria at the Wasserburg power plant on the Inn. With these, a total of 53 fish passes are now in operation.

Please refer to the 2018 Group Integrated Annual Report for detailed environmental information as well as further information on generation, use of materials, energy consumption, waste and by-products, and other environmental KPIs.

Innovation, research and development

KPIs – IR&D

	Unit	2016	2017	**2018**
Number of IR&D projects	Number	68	85	**74**
Total project volume[1]	€m	139.1	179.8	**177.9**
of which EU projects[1]	€m	93.6	111.7	**104.5**
VERBUND's total share[1]	€m	22.1	53.5	**61.6**
Annual VERBUND expenses	€m	5.5	9.0	**10.5**

[1] over the entire duration of the projects

The transition from fossil fuels to renewable energy is gaining traction in many spheres of economic activity and private life. Research, development and innovation play a crucial role in this endeavour. VERBUND also takes its responsibility for a climate-friendly and environmentally friendly energy future very seriously and provides the “raw material” for an all-electric society.

Electrification of mobility, sector coupling

VERBUND continues to work hard with strategic partners on European and Austrian development and innovation projects. For a number of years now, special emphasis has been placed here on electrifying the mobility sector. The development of new services for trade and industry is another area of focus. Additional potential for implementing a new energy system will be tapped through sector coupling.

Two projects are following on the heels of VERBUND's successfully completed e-mobility projects. They are fundamental for the rapid expansion of the fast-charging corridors for electric cars and are establishing a connection to international networks of charging stations in neighbouring countries. Under the EVA+ project, the network of fast charging stations in Austria was expanded through the installation of 20 more stations by the end of 2018. Roaming agreements allow customers to easily use the Austrian SMATRICS network as well as the charging networks in neighbouring countries.

Furthermore, VERBUND is using cutting-edge charging infrastructure technology to build four charging stations in Austria as part of the ultra-E project. The first of these stations, whose charging capacity of up to 350 kW caters to the latest generation of electric vehicles designed for long-distance journeys, has already been installed in Vienna. Others will follow in Graz, Innsbruck and Salzburg. Follow-up projects for implementation of this integrated high-performance charging infrastructure in Europe are already at the planning stage. This means that the SMATRICS charging network is equipped to cope with the latest models of electric vehicles designed for even higher ranges.

Combining energy and mobility

As the range of e-cars grows, so too does the charging capacity required. This makes e-car drivers happy but presents huge challenges for the power grid. Smart solutions are needed. In the SYNERG-E project, VERBUND is installing and operating a total of ten local buffer storage units at ultra-fast charging sites across Austria and Germany that will supply a capacity of 0.5 MW in each case. This will significantly weaken load peaks in the grid and reduce grid expenses. The first buffer battery was positioned in Vienna in 2018; others will follow in 2019 at selected locations. A particular challenge is local management of the battery and charging infrastructure to ensure optimal interplay of the components in situ. To this end, VERBUND has been testing the battery packs at the new test facility at the Mellach power plant since 2018.

Green hydrogen being tested

The aim of the H2FUTURE project that has been running since 2017 is to construct a proton exchange membrane electrolyser with a capacity of 6 MW at the voestalpine site in Linz in conjunction with industrial and research partners. All of the preliminary structural work and the work required to obtain the permits was completed in 2018. The electrolyser will be delivered in 2019. Following extensive testing, the installation will come on stream in the second half of 2019. Besides producing green hydrogen for steel production, the electrolyser will be used to support the electricity grid. Whether and how the concept can also be applied to other industrial sectors such as chemicals, oil & gas or fertilizers is additionally being examined within the scope of the project.

The WIVA Power & Gas energy model region was officially launched in 2018. Together with domestic partners from industry and research, VERBUND is developing hydrogen projects along the entire value chain. WIVA will give these hydrogen projects an organisational and substantive framework for several years. Here, VERBUND is working in particular on implementing other collaborative projects relating to the use of carbon-neutral hydrogen in industry.

Hydropower: fish protection and migration measures

In the area of hydropower, VERBUND continued to develop mainly measures for fish protection and migration in 2018. Furthermore, in the year now ended VERBUND initiated a research project to examine the effects of key stimuli such as heat, sounds and light – as these occur at power plants – on fish.

How fish find the fish ladders based on flows is also being studied with the use of drones fitted with high-resolution camera and video sensors. A software tool for quantitative tracking analysis and visualisation of flows will be developed on this basis.

This will allow the flow behaviour of structural conditions on the installation and in the area of weirs to be mapped precisely. It will also facilitate optimisation of the modes of operation for power plants and optimisation of the fish ladders.

Wind power: ice forecasts add value for operations management

In the area of wind power, VERBUND focused its research activities in 2018 on operational improvements under icing conditions and developed new innovative operating concepts. For this purpose, VERBUND evaluated icing measurements at its Ellern wind farm in Hunsrück, Germany and verified these. Operation of the rotor blade heating system was also analysed and adjusted to the prevailing meteorological conditions at the site.

VERBUND is currently analysing how icing forecasts can add value for operations management. Here, the main objective is to avoid forecast icing events by starting up the rotor blade heating system ahead of time. This would involve a changeover from reactive operation to completely new preventive operation of the rotor blade heating system. VERBUND theoretically calculates the resulting economic value added using the cost-loss model. Going forward, this will enable VERBUND to prevent light icing on the rotor blades and substantially reduce icing-related idle times.

Digitalisation of hydropower and wind power

In the area of hydropower, VERBUND continued its two digitalisation initiatives, Digital Workforce Management and Digital Hydro Power Plant.

The Digital Workforce Management project addresses digital support of the administrative and operational processes for implementing potential improvements in the existing systems and for making new, mobile working methods possible. To this end, a mobile application was developed in 2018 that will now be tested and tailored to the requirements of operations.

In the Digital Hydro Power Plant project, activities for identifying new digital technologies that are suited to hydropower were successfully continued in 2018. These technologies will serve to provide support in operations and ultimately increase efficiency.

In the area of wind power, the project for the digitalisation of maintenance was concluded in 2018 and put into operation. As a result, all service technicians are now able to access digital information for troubleshooting and document fault repair using their smartphone. Implementation of further digitalisation measures for increasing efficiency in rotor blade inspections and rotor blade angle measurements was begun and will continue in 2019.

Electricity trading: improved inflow forecasting

Research activities in electricity trading in 2018 also covered inflow forecasting. High spatial resolution in the forecast values and stochastic optimisation methods facilitate optimised management of the storage systems and improved assessment of forecast uncertainties. This provides a better basis for estimating the effects on power plant use and for flood management.

Other areas of emphasis are new products with renewable energy and certificates as well as new opportunities for marketing virtual pumped storage power plants and flexibility options. Thus, VERBUND's electricity trading is part of the H2FUTURE and BlueBattery projects.

In light of digitalisation and the increasingly fragmented market environment, VERBUND's electricity trading segment also addresses future challenges with the Intraday Price Forecasting, Autotrader and Volery projects (optimisation/simulation of a large number of decentralised plants).

A safety system for the power grid

Europe's power plant portfolio is moving away from large generation units towards small to medium-sized plants for renewable energy sources. Frequency stability and regulation in the European transmission grid are therefore becoming increasingly important.

Austrian Power Grid AG (APG), VERBUND AG's independent grid subsidiary, was active in 2018 with 20 research projects, three of which at an international level. One of these is the FutureFlow project, an international project funded as part of Horizon2020 that incorporates neighbouring transmission system operators from south-eastern Europe and IT experts from the industry. The main task of

FutureFlow is developing a central optimisation function for activation of balancing reserves and modification of power plant utilisation.

An Austrian project with international significance is "ABS for the power grid" – similar to the automatic safety system used in cutting-edge vehicles. In this project, which is sponsored by the Climate and Energy Fund, APG is collaborating with the Austrian Institute of Technology (AIT), the Vienna University of Technology and VERBUND on a smart support system for power grid operation. The core element of the project is a battery storage system with a capacity of 1 MW/500 kWh. Starting in June 2019, the pilot plant in the Vienna-South East substation will be tested in operation over a two-year period. At the end of April 2021, the results will show how fast it is possible to respond to frequency variations in the power grid.

Innovation within our own ranks

The internal pilot project dubbed the Idea Power Plant was launched in 2018. In the first stage of the project, some 300 employees were given a window of around three months to submit their ideas on the campaign topics of "Growth in the VERBUND Group – New solutions, new markets", "New Work – Striking out in new directions", "VERBUND services of the future – Exploit our full potential" and "Re-imagine our image: Improve the public perception of VSE". The Idea Power Plant was intended to encourage active participation by employees and make the most innovative ideas ready for implementation.

Prizes for the most promising ideas were awarded in June 2018. These concepts are being implemented at VERBUND Services GmbH (VSE) and refined in a new Group-wide format – "VERBUND Innovation Kit 2018" – with the assistance of internal and external experts. The VERBUND Innovation Kit 2018 uses state-of-the-art innovation methods such as Design Thinking and Lean Startup for rapid, efficient development of ideas.

Please refer to the 2018 Group Integrated Annual Report for further information as well as additional details on innovation, research and development.

Human resources and social responsibility

Employees acting in a performance-based, productive and entrepreneurial manner helps to safeguard the core business in the long term and makes it possible for VERBUND to take advantage of new business opportunities. Generation and skills management programmes serve to support the performance of VERBUND employees, as do the year-round measures implemented as part of the health management and personnel development programmes. In an effort to simplify processes, we are constantly putting new digitalisation measures in place in compliance with data protection aspects.

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

The protection of employees and safety of its employees have been of great importance to VERBUND for decades. As a consistent continuation of this, VERBUND initiated a comprehensive safety culture project in 2018 in order to be able to achieve its ambitious goals in the field of occupational safety.

Sustainable cost management

The noticeable improvements in the cost structure confirm the effectiveness of the measures taken to improve efficiency since 2013. Restructuring efforts and divestments in the thermal segment both in Austria and abroad, the reductions in investments and the significant job cuts under the programmes to increase efficiency were necessary steps to improve the Group's cost structure and thus maintain its competitiveness.

VERBUND operates nearly exclusively in Central Europe, a region which has high standards in terms of labour law and social welfare. Employment of highly and very highly qualified employees entails corresponding personnel costs. Alongside the programmes to increase efficiency that have been mentioned, it is essential for VERBUND that the existing remuneration structures at Group and industry levels be modernised and adapted to market conditions. In addition to adapting internal guidelines on salary determination, the Group took a leading role at industry level in redesigning the collective agreement for electricity companies in Austria. The agreement was signed in December 2018 and is applicable from 1 February 2019. The industry together with employer and employee representatives reached a collective agreement that is fair and, at the same time, suited to modern working life. A comprehensive assessment demonstrated that the new pay levels can in some cases significantly reduce entry level compensation as well as final salaries. The new job descriptions based on industry wording make it possible to categorise employees more precisely and therefore set compensation more in line with the market, particularly in the lower wage brackets.

Personnel planning and management

VERBUND has been using a modern, user-friendly planning and reporting tool for personnel data which was upgraded in 2018 to include additional features and can therefore be considered a state-of-the-art application. This integrated personnel and expense planning system makes the personnel planning process simple and transparent. Consistent and strict personnel planning promotes the optimal use of resources.

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

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

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

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

Types of employment and benefits offered

VERBUND generally offers permanent contracts to all of its employees. Temporary employment contracts are only entered into when there are objective reasons for doing so (e.g. to replace employees on parental leave or in relation to key issues for the future such as digitalisation). VERBUND aims to achieve long-lasting employment relationships and gives opportunity for employees to work under various working-time models, including full-time, part-time and part-time during parental leave.

Temporary workers are also hired to cover capacity peaks, for project work and as temporary leave replacements. VERBUND engages external contractors for clearly defined construction, overhaul and maintenance contracts in particular. The employees at these firms are subject to the same safety regulations as VERBUND personnel and therefore receive the same safety briefings. Contractors awarded work related to the construction of plants are responsible for managing their own work. However, they are also required to comply with the safety standards defined in the VERBUND Group and are instructed in accordance with VERBUND's rules. The working hours incurred by contractors are included in calculating the occupational safety KPI.

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

Furthermore, VERBUND has declared its commitment to paying its employees in line with the market and according to employees' performance. To meet this commitment, we have had a performance-based remuneration model in place since 2010. This model uses targets based on both individual performance and the Group's profitability and ensures fair pay for employees at all levels.

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

By making specific investments in select employer branding measures, VERBUND took further steps in 2018 to mitigate the risk of losing its standing in the labour market as a highly attractive employer. Despite using even fewer funds, VERBUND continued to demonstrate a clear presence in the labour market – for example at education and job fairs and in print and online media, as well as on social media, focusing on IT experts and apprentices as target groups.

In 2018, the strategic focus in the area of employer branding was on maintaining long-term contact with top-performing students from the Vienna University of Technology (TU) and on measures for the advancement of women. In this connection, existing measures were also continued. These included the annual award of the VERBUND women's scholarship, the Women in Technology ("Frauen in die Technik," FIT) initiative and Girls! Tech up, as well as organising an alumnae event for all recipients of the women's scholarships.

Recruiting

To ensure that VERBUND also continues to be a future employer of choice for internal and external candidates, the ongoing updates were made to the presentation of VERBUND's career opportunities once again in 2018.

Derived from VERBUND's new brand and product campaign, the first print and online job postings were revised and adapted to the new layout. The recruiting platform implemented in 2016 was an ideal complement. VERBUND continually strives to maintain its high degree of professionalism in recruitment quality and to reflect the state of the art even in the digital world.

This was recognised in the reporting period by the Golden Seal from the 2018 Best Recruiters Study conducted by the publishing house Career, in which VERBUND was awarded first place in the "Energy" category, and by a spot in the top 25 overall ranking and second place award from the trendence Employer Branding Awards 2018 in the "Best Employer Branding in Social Media" category.

Personnel development

VERBUND puts emphasis on the development of its employees. In 2018, each employee took part in 33.6 hours of training on average.

Personnel development focused on training in the areas of safety, technology and the energy market. The majority of employees in the fields of technology and safety are men. This is also reflected in the average training hours, which are slightly higher for men (34.5 hours) than for women (30.8 hours).

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

E-training – digitalising learning solutions

The digital transformation is affecting learning, too. Knowledge is becoming faster paced and more complex and increasingly on demand. Employees' changing needs and expectations call for new learning formats.

As part of the Digital Learning Media 2.0 project, digital learning media are increasingly being offered in addition to classroom training to complement and enhance information. The contents are prepared in accordance with media education practices in a way that allows users to easily acquire new knowledge. In some cases, the digital learning media replaces classroom offerings, thus lowering costs and improving resource efficiency.

The Fit4Cyber, Fit4DSGVO and Compliance as well as Anti-corruption e-training courses have been available since the project first began. Additional e-training courses – particularly in the fields of occupational safety and energy market knowledge – are in the planning stages. The range is being expanded continuously.

With the new learning management system, VERBUND is making further progress towards digitalisation. Beginning in 2019, the classroom and online offerings will be managed in an innovative state-of-the-art system. For employees, this integrated system makes organising personnel development measures easy – from registration and participation to testing knowledge. The reporting function gives executives a quick overview of the status of their employees' training and continuing education.

Digital Workforce Management supports the administrative and operational work processes involved in the operation and maintenance of the power plants. Heterogeneous processes are standardised and digitalised so that the workflows can be optimised. Employees are actively involved, among other things through the exchange of information between plants. The power plant groups are directly responsible for implementation, thus reinforcing a new understanding of leadership among plant group managers, operations engineers and master craftsmen.

As part of the Digital Hydro Power Plant project, new trends are being tested at the Rabenstein pilot power plant. The virtual reality model is intended to focus on interactive visualisation of inspections, scheduling maintenance activities and documentation, as well as on use in training and continuing education. There are several advantages associated with the use of virtual reality in a training and continuing education setting. For difficult tasks performed at infrequent intervals, it allows employees to prepare best for the work in actual practice. In addition, the trainers, whether in the plant or in the apprentice workshops, can observe the entire process on a monitor and provide real-time tips and information.

Apprentice training

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

In 2018, VERBUND recruited 41 new apprentices in Austria and Germany. The high quality of our apprenticeship training is most evident in the outstanding achievements seen in the final apprenticeship examinations.

Further development of the leadership culture

Continuous professional development of executives at VERBUND serves to constantly improve the quality of leadership and thus guarantee the Group's success.

Regular feedback for executives is one such measure. Every two years, leadership behaviour is evaluated from the perspective of the direct work environment (supervisors, employees and colleagues) and compared with the executive's own appraisal. These structured and comprehensive feedback processes provide valuable information about developing executives' skills. Examination of the discrepancies between self-appraisals and appraisals by others and a comparison with the last feedback conducted aims to highlight personal improvement in addition to identifying strengths and areas requiring attention. Targeted individual development measures adapted to each executive's needs are then defined based upon these analyses. The second cycle of the VERBUND feedback process was completed in autumn 2018.

Maintaining a work-life balance

Maintaining a balance between work and private life is a tradition at VERBUND. VERBUND demonstrates its commitment to being a family-friendly company through its involvement in the Companies for Families network.

Since 2009, the Work and Family Audit has provided a way to better structure the measures. In this way, more opportunities can be created to meet specific needs and encourage a better work-life balance. VERBUND conducted this audit for the fourth time in 2018, earning the seal for the next three years. For the upcoming period, VERBUND aims to improve the flexibility of working hours, further simplify mobile working arrangements and inform its employees of new and existing offerings – particularly those related to looking after family members. Regular employee surveys indicate that satisfaction with the compatibility of work and personal life at VERBUND has been growing steadily since 2008.

Diversity management

In 2018, VERBUND continued to work towards the diversity strategy defined in 2016. In the previous year, VERBUND took another important step with the ZukunftVIELFALT® certification.

In addition to serving as a label for organisations with comprehensive diversity management systems, ZukunftVIELFALT® is a management concept for expanding such an existing system. VERBUND aims to embrace diversity within the Group and to systematically expand on and update its diversity strategy. In this manner, VERBUND promotes diversity within the Group and guarantees equal opportunities.

To support the leadership culture, VERBUND is relying more heavily on executive information and involvement. Initially, this involved initiatives such as enshrining equal opportunities in the corporate philosophy, appointment of an equal opportunities officer and a diversity and inclusion manager, Diversity Charter ("Charta der Vielfalt") premium membership and appointment of an accessibility manager. Particular emphasis has been placed on the dimensions of age, gender and disability, and planned measures were implemented mainly in these areas in 2018.

Focus on age

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

The demographic trend which has already been observable for many years continued during the reporting period. Around 7% of VERBUND employees will retire over the next five years and 28% over the next ten years. The programmes to increase efficiency mean that not all of these positions will be filled again. However, a significant percentage of these departures concern positions that are essential to operations, which are necessary for maintaining ongoing operations and therefore must be staffed.

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

VERBUND has implemented structured succession planning at all levels (from apprentices through executives and board member candidates) as a personnel development measure that is critical for the Group's success. Its aim is to safeguard succession potential for the long term.

Focus on gender

Traditionally, the proportion of women in predominantly technical companies such as VERBUND has been low. That is why VERBUND has put measures in place to increase the proportion of women from currently 17.6% to 20% by 2025, just as the proportion of women at the executive level is to rise to 20%. In 2018, the proportion of women among new employee hires was 20.9%.

Based on the results of the employee survey, specific activities for the advancement of women were also agreed. To increase the visibility of female employees, greater consideration will be given to women especially when filling vacancies in bodies or committees or project manager positions. Since 2017, objectives for the advancement of women are agreed with the executives at the top management level in order to further promote awareness of equal opportunities for women.

In a survey conducted in 2017, around 11% of women at VERBUND stated their interest in a management position. To reinforce this target group in striving to attain management positions, the seminar entitled "Ensuring female success in leadership roles" held in 2018 signalled the start of the series on women's empowerment. The VERBUND women's network is another measure aimed at supporting women at VERBUND.

VERBUND also takes care to ensure equal pay. This is based on strict compliance with the classifications of the collective agreement and on a performance-related remuneration scheme. Nevertheless, socio-political and cultural aspects such as more part-time work among women, a low number of women in technical professions and the difficulty women experience in advancing to more highly paid (management) positions are still also reflected within VERBUND.

Inspiring women to enter technical professions is important to VERBUND. VERBUND therefore participates in several initiatives such as Take Your Daughter to Work Day in Vienna, Women in Technology ("Frauen in die Technik," or FIT) and the amaZone Award.

FIT aims to generate interest among young girls to pursue technical professions, motivates female high school graduates to study technical subjects and presents successful women in technical professions as role models. In this way, we aim to alleviate doubts about pursuing an education in a technical or scientific field.

By awarding the VERBUND women's scholarship, VERBUND has also supported talented female students during their technical training since 2009. This scholarship is a means of enabling the winners to supplement their university education with additional personal and professional training. Another aim for the Group is to generate enthusiasm for the Company among technically qualified women and, ideally, to recruit them. VERBUND celebrated the tenth anniversary of the VERBUND women's scholarship in 2018 and a special scholarship was awarded on this occasion to a disabled student.

Focus on disabled persons

VERBUND assumes its social responsibility by ensuring equal opportunities as a Group. To send a visible signal, VERBUND's stated goal is to continue to fulfil the quotas stipulated in the Austrian Disabled Persons Employment Act (Behinderteneinstellungssgesetz, BEinstG) and to recruit and employ people with disabilities even beyond that. Together with the accessibility management programme, the diversity management programme continually works towards improving the employment of people with disabilities.

In this way, VERBUND exceeds the statutory quotas stipulated in Austria and Germany for the employment of disabled people. For VERBUND, the mandatory quota for Austria is 104. As at 31 December 2018, VERBUND employed 138 people who qualify under the Disabled Persons Employment Act (BEinstG). The corresponding mandatory quota for Germany is 18; here VERBUND employed 23 disabled people.

The main aspects of including disabled people at VERBUND are removing barriers and creating awareness among the workforce by providing ongoing information. During the Human Resources Day 2018, employees of the Human Resources department had an opportunity to address the topic of employing disabled people. It is these Human Resources employees in particular who play a crucial role in advising the workforce and the executives on this topic.

The accessibility implementation concept defines steps and measures for the upcoming years to further dismantle structural, organisational and communication barriers within VERBUND.

Training sessions for executives were also held in some subsidiaries. On Purple LightUpDay, a day aimed at highlighting the economic power of disabled people, VERBUND shared information about its disabled employees with the workforce.

In summer 2018, three more people with disabilities completed their seasonal internships at VERBUND. As a member of the DisAbility business forum, VERBUND also exchanges experiences with other companies and continually increases its knowledge on the topic of employing people with disabilities.

Health and safety

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

Accidents in 2018

The number of employees plus temporary staff and all employees of proportionately consolidated equity interests serves as the basis for calculating the occupational safety KPIs. The number of employees was 3,154 at the end of 2018. This figure includes 165 temporary staff and the entire workforce of Ennskraftwerke Aktiengesellschaft, VUM Verfahren Umwelt Management GmbH, VERBUND Tourismus GmbH, Lestin & Co Tauch-, Bergungs- und Sprengunternehmen Gesellschaft m.b.H., VERBUND Wind Power Austria GmbH and Energji Ashta Shpk.

The number of accidents underwent a positive trend in 2018. Fewer accidents occurred than in 2017, although this trend was overshadowed by one fatal accident.

When interpreting accident statistics, absolute accident figures must be considered in relation to the number of employees (injury frequency) and days of sick leave per accident (injury severity). The key performance indicator called lost time injury frequency (LTIF) is used as a benchmark for comparison with national and international companies. To allow the use of external contractors to be evaluated as well, since 2018 VERBUND also tracks their hours worked at all work sites and reports those in the “LTIF including external contractors” KPI.

In comparison with other national and international companies, the LTIF including external contractors of 5.4 indicates that we are on the right track. Improvement measures are identified and implemented based on an analysis of each individual accident within the Group and by external contractors. As in previous years, neither third-party fault nor organisational shortcomings were identified as the cause of any workplace injury in 2018. This shows that safety standards within the Group are very high and that safeguards for employees are being effectively implemented.

Accident prevention

Preventive measures are based on the analyses of workplace injury statistics at VERBUND. In 2018, the annual continuing education measures focused on training sessions on the following topics: “Working in the tank,” “Securing loads,” “Moving loads,” “Practical exercises,” “We live safety” and “The Electromagnetic Fields Directive (Verordnung elektromagnetische Felder, VEMF)”. Particular attention was given to practical implementation in day-to-day work.

Every year, as was the case in financial year 2018, legally mandated safety briefings are successfully completed by close to 100% of the workforce, either in person or via an e-learning programme that includes a final test.

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

Safety culture

The "We live safety" project aims to raise and refine awareness of safety at VERBUND. The objective of the project is as follows: all employees should come to work healthy, work free of accidents and return home healthy. This is intended to be achieved mainly by executives acting as role models in addition to "employees looking out for one another" and calling attention to any dangerous behaviour.

An employee survey was conducted to establish the current situation. Executives helped to develop measures for specific activities and departments based on the feedback from this survey. The first training sessions for executives began in November 2018 and are to run until the end of 2019.

Promoting health among employees

VERBUND's "Fit and Healthy" initiative is designed to promote a healthy lifestyle. The initiative motivates employees to do something for their health on a voluntary basis. In 2018, VERBUND focused on healthy working in office workspaces with the seminar entitled "Dynamic health and back fitness at PC workstations" and a visual training session. Lectures on time and stress management give participants the tools to better handle these issues.

Other important points of focus on the health management front included nutrition and exercise, handling shift work, and tips for safe lifting and carrying. In this context, employees are made aware of the direct relationship between health and performance in a working environment that is constantly changing.

Social responsibility

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

Caritas and Diakonie

Energy poverty and its negative consequences occur most frequently when incomes and standards of living are very low. The VERBUND Electricity Relief Fund in collaboration with Caritas provides assistance quickly, in an unbureaucratic manner and, above all, long-lasting by offering immediate financial assistance to pay outstanding electricity bills, professional on-site energy consulting and a free exchange service for old, inefficient electrical appliances.

Since the project began in 2009, the VERBUND Electricity Relief Fund has offered assistance to a total of 4,300 households with a total of 10,000 people living in these households. In the ninth period (1 January 2018 to 31 December 2018), 500 households (seeking assistance in the social advice centres run by Caritas) were referred to the VERBUND Electricity Relief Fund in collaboration with Caritas.

Also in 2018, 744 disabled people received direct support for communication and assistive technologies with funds from the VERBUND Empowerment Fund which has been in existence since 2009 and is run by Diakonie. A total of 102 disabled people received direct financial assistance for the purchase of communication aids. The emergency aid fund spent around €60,000 on this, the same amount as in the previous year.

VERBUND climate school in the Hohe Tauern National Park

The training programme offered since 2010 by VERBUND and Hohe Tauern National Park was named a decade project under the UN Decade of Education for Sustainable Development by UNESCO. Since the partnership began, over 24,000 school children have benefitted from the outreach work involving project lessons designed by specially trained park rangers and held in the classrooms. The stated goal is to teach skills for living consciously and being able to assess the impact of an individual's actions on the climate. The range of project lessons offered by rangers is available mainly in those states where the national parks are located: in Carinthia, Salzburg and Tyrol. The training programme has also been available online at www.klima.schule since 2018. Teachers are the primary target group of the initial online range of lessons for teaching climate protection skills. Even in the lesson preparation stage, the greatest emphasis was placed on ensuring that the material could be integrated into lessons as easily as possible.

The VERBUND electricity school kindles enthusiasm for technology

To support teachers in making their physics lessons exciting and interactive, VERBUND provides a range of physics teaching materials offered in combination with power plant tours. VERBUND also provides financial support for students taking part in tours as part of a school activity. For storage power plants, around 2,500 pupils took advantage of the offer for a school tour, as was the case in the previous year.

Human rights

Principles

VERBUND is aware of its responsibility to protect human rights in all Group activities and beyond. ONR 192500 (Social Responsibility of Organisations) is the basis for the due diligence processes at VERBUND concerning respect for human rights. In 2018, the Group was certified in accordance with this standard for the first time.

The CSR standard rests on the careful handling of human rights issues at all levels. Relationships with partners involved in human rights violations are to be avoided, as is discrimination, particularly that of vulnerable groups. All types of civil, political, economic, social and cultural rights are to be respected. Fundamental labour rights and principles such as equal opportunity, freedom of association and collective bargaining are to be observed. In this sense, VERBUND commits to uphold these ONR recommendations along with the Ten Principles of the UN Global Compact on human rights. The materiality analysis already identifies equal treatment and freedom of association as material topics. The topic of human rights gains even greater significance at VERBUND with the new international hydro consulting line of business.

Human rights outside of Europe

Hydro consulting is a new service segment VERBUND has engaged in since 2017 which also contributes to meeting the United Nations Sustainable Development Goals and the climate change targets under the Paris Agreement.

The international climate agreement stipulates voluntary reduction measures called Nationally Determined Contributions (NDCs). As a leading hydropower company, VERBUND makes a material contribution to reducing CO_2 emissions by using its expertise in the field of renewable energy in developing countries and emerging markets. Hydro consulting involves consultancy projects for local hydropower plant operators aimed at knowledge transfer and increasing capacity so as to reinforce expertise at the local level for efficient and safe plant operation.

VERBUND is aware that operating in countries outside of Europe creates new challenges with regard to human rights. Therefore, VERBUND takes a strong interest in this issue and defines steps for acting in a manner consistent with human rights. For VERBUND, one main aspect of this is the mutual commitment to fair business practices as a prerequisite for accepting orders. This is governed by the business partner integrity checks performed for both ongoing projects and comparable future activities. Furthermore, the International Hydro Power Association's recommendations under the Hydropower Sustainability Assessment Protocol serve as a guideline for future project developments.

Equality and non-discrimination

The VERBUND Code of Conduct establishes the equal treatment of all people, regardless of their gender, age, disability, religious beliefs, culture, skin colour, education, social origin, sexual orientation or nationality. VERBUND firmly rejects any form of discrimination, bullying and sexual harassment. Executive development places high priority on teaching of these values.

VERBUND has had an equal opportunities officer since 2011, and diversity and inclusion management was introduced in financial year 2014. This function bundles all related activities within the Group. The responsible persons in this department also carry out and document the development and implementation of equality targets and the realisation of the corresponding measures.

The diversity and inclusion strategy adopted in 2016 enables VERBUND to promote diversity in an even more structured manner. The ZukunftVIELFALT® certification confirms that VERBUND has implemented a sustainable diversity management system.

Freedom of association and collective bargaining

Industrial relations in Austria are based on a tradition of cooperation between employers and employees ("Sozialpartnerschaft"). This involves joint cooperation between employer and employee representatives to prepare and execute economic and socio-political measures. In so doing, taking an overall economic view is regarded as being of the utmost importance.

Trade unions enter into collective agreements with the respective employer associations. Due to the "outsider effect" anchored in labour law, all employees are subject to the collective agreements regardless of whether they themselves belong to the union or not. Collective agreements have a particular impact on labour-management relations within their scope of application. Company agreements and employment contracts must adhere to collective agreements and may not contain any provisions that are less advantageous than those contained in the respective collective agreement. Some of the areas governed by collective agreements are minimum salaries, working hours and supplemental payments (holiday and Christmas bonuses). Under the provisions of Austrian labour law, companies with five or more employees can elect a works council to represent the interests of employees. The same applies to Germany, where employees are subject to the provisions of German collective agreements. The social benefits provided for in these agreements are similar to Austria, with the exception of VERBUND's performance-based pay system.

Austrian labour law sets out a number of rights to which the works council is entitled in relation to information, participation and consent, as well as minimum notification periods for operational changes. VERBUND complies with these in full as a matter of course.

One of the ways in which cooperation takes place between management and the works council is through economic symposiums that are held each quarter and at which the Executive Board informs the staff representatives about the economic situation, all personnel management measures and other current developments in the Group. The economic symposiums give employees the opportunity to voice their suggestions, concerns and recommendations to the Executive Board via the works council.

Under the Austrian Labour Constitution Act, employees must be represented on the supervisory boards of stock corporations via the works council. At VERBUND as well, one-third of the Supervisory Board members are employee representatives who sit facing the Executive Board at the Supervisory Board meetings and are able to include employee concerns in the Supervisory Board's decision-making process.

Please refer to the 2018 Group Integrated Annual Report for further information as well as additional details on human resources and social responsibility.

Report on significant risks and uncertainties

Opportunity and risk management

Since efforts to liberalise the Austrian electricity market began in financial year 2000, opportunity and risk management at VERBUND has been a separate component of its comprehensive management system. VERBUND's structures, processes and products are subject to ongoing development as part of what is referred to as Enterprise Risk Management.

Due in particular to the energy transition, which poses challenges for the energy industry as a whole and also for VERBUND, the risk management system is continuously adapted to changes in internal and external requirements. Each year, VERBUND's auditor confirms the effectiveness of the Enterprise Risk Management based on the recommendations contained in the ISO 31000:2018 reference model.

Further development

Activities in recent months have focused mainly on refining the risk-return approach in the Group, developing a multi-year risk horizon and improving the calculation of the risk-bearing capacity. Our reporting processes have also been revised and expanded as part of the development of these approaches. As a result, the risk management agendas currently extend to strategic decision-making, project management and the management of ongoing operations.

Current opportunities and risks

Opportunities and risks arising from the business model

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

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

Weather- and climate-related opportunities and risks

As the leading renewable energy producer, VERBUND is very much at the mercy of weather events like precipitation and wind, which cannot be influenced. This is particularly true for the VERBUND storage power plants as well as some of APG's ultra-high voltage lines located in high Alpine regions. Over the long term, climate change can affect both the seasonal and the annual water and wind supply. Geological conditions can also change significantly. Natural events such as floods, storms or avalanches may cause an unscheduled outage of electricity generation or transmission in the future as well as consequential damage. Output from run-of-river plants is subject to seasonal fluctuations in the water supply of rivers and can be controlled only to a minor extent (hydropeaking). Depending on the existing water supply, storage power plants are operated on a daily, monthly or yearly basis to optimise grid usage. Coverage of short-term electricity requirements due to volatile wind and solar power generation is also providing new revenue opportunities for VERBUND. In other words, energy amounts can be additionally generated or "stored" in pumped storage power plants and the grids stabilised with flexible power plant output. These flexible earnings contributions depend largely upon the frequency and absolute extent of short-term price fluctuations in the electricity markets.

The second half of 2018 was dominated by drought and the resulting low water supply. Owing to climate change there is a risk that the number of dry years will rise in the future. VERBUND is aware of this risk and believes that close observation of long-term climatic developments and proactive measures (e.g. participation in innovation and research projects and implementation of promising concepts as necessary) to counter the growing challenges are crucial for a secure future.

Opportunities and risks arising from technological development

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

Opportunities and risks arising from legal/regulatory developments

The strengthening of the ETS (Emissions Trading System) by the European Union is opening up new possibilities, but also creating impediments. For example, this transformation of the European energy system is bringing about a major change in the risk factors arising from politics, the economy, the energy market and the larger society that cannot be directly influenced. The future energy world requires electric utilities to radically change their business models and modify investment decisions. These could give rise to significant value adjustments (i.e. erratic changes in the assets and liabilities on the balance sheet). The highly regulated environment and excess capacities in Europe have overridden market pricing rules (variable production cost-based use). On the other hand, the business model of energy-related services is opening up new opportunities for VERBUND, though it also presents new risks. Issues relating to data protection legislation such as the implementation of the EU General Data Protection Regulation must additionally be considered in this context.

Opportunities and risks arising from economic development

VERBUND manages counterparty risk in the form of possible defaults in performance or payment by its business partners with effective financial management. Adhering to the principle of dual control, counterparty limits are awarded and managed centrally. In addition to cash flows from the operating business, VERBUND AG possesses sufficiently high credit lines to be able to access liquid funds at short notice. Long-term agreements have been concluded with customers, suppliers and co-owners of individual power plants. However, the changing conditions have affected the profitability of some of these agreements, leading them to be adapted accordingly in recent years. VERBUND has optimised its internal structures in several projects to increase efficiency. This has led to shut-downs of sites, terminations of purchase or supply agreements as well as implementation of personnel measures in a socially responsible manner.

Strategic opportunities and risks

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

Risk-bearing capacity

An improved calculation of the risk-bearing capacity was developed and implemented in 2018. The concept for the risk-bearing capacity focuses on the rating of VERBUND AG and the resulting liquidity of the Group. For the long term, VERBUND is aiming for a stable “A” category rating.

Financial instruments

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

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

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

As at 14 February 2019, no risks were foreseeable for 2019, the effects of which – either individually or in interaction with other risks – could pose a threat to the continued existence of VERBUND AG.

Report on branch offices

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

Internal control and risk management system

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

Internal control and risk management system

In accordance with Section 243a(2) of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB), the internal control and risk management systems for the accounting process must be described. VERBUND's internal control system includes all measures for ensuring the reliability, effectiveness and profitability of this process, as well as compliance with external regulations. The structure of the risk management system is explained in detail in the Disclosures on Management Approach (DMA) and the risk position in the section of the VERBUND integrated annual report entitled Opportunity and risk management.

Organisational framework

Group management acts in accordance with the principles defined in the corporate philosophy. The Executive Board bears responsibility for developing and implementing the entire internal control system and the risk management system, whose effectiveness is monitored by the Supervisory Board's Audit Committee.

Basic principles of the internal control and risk management system

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

Reporting in compliance with unbundling provisions

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

Periodic monitoring

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

Shareholder structure and capital information

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

1. At the reporting date of 31 December 2018, the called and paid-in share capital of VERBUND AG comprised:
   170,233,686 no-par value shares (bearer shares category A), equivalent to 49% of share capital; 177,182,000 no-par value shares (registered shares category B), equivalent to 51% of share capital, authenticated by an interim certificate deposited with the Federal Ministry of Finance and made out in the name of the Republic of Austria. A total of 347,415,686 shares were in circulation at the reporting date. With the exception of the voting restriction described under point 2, all shares bear the same rights and obligations.

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

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

4. There are no shares with special control rights.

5. VERBUND does not offer any employee participation programmes.

6. In accordance with the rules of procedure for the Supervisory Board, the last nomination to the Executive Board must be prior to the nominee's 65th birthday. Pursuant to the Austrian Code of Corporate Governance, a Nomination Committee has been established within the Supervisory Board and prepares the content for the appointment of Executive Board members on behalf of the entire Supervisory Board. VERBUND AG complies with the rules of the Code with respect to the appointment and dismissal of the members of the Executive Board and the Supervisory Board. Apart from the above, there are no other regulations not derived directly from law that relate to the members of the Executive Board and the Supervisory Board, or to the amendment of the Articles of Association.

7. As part of an authorisation to buy back shares (which expired on 17 October 2015), the Annual General Meeting held on 17 April 2013 resolved to also authorise the Executive Board for a period of five years (i.e. until 17 April 2018), with the approval of the Supervisory Board, to decide upon a different type of sale of treasury shares other than in an exchange market or through a public offering, also with exclusion of the right of repurchase (reverse purchase right) of the shareholders, and to determine the terms of sale. Furthermore, the Executive Board is authorised, with the approval of the Supervisory Board, to reduce the share capital if necessary by retiring these treasury shares without an additional resolution by the General Meeting. As the deadline expired and there are no treasury shares, this authorisation is irrelevant. Apart from the above, there are no authorisations of the Executive Board within the meaning of Section 243a(1)(7) of the Austrian Commercial Code (UGB).

8. The Company is not involved in any significant agreements that contain provisions referring to the stipulations under Section 243a(1)(8) of the Austrian Commercial Code (UGB). Furthermore, a public takeover bid is improbable under constitutional law.

9. There are no compensation agreements within the meaning of Section 243a(1)(9) of the Austrian Commercial Code (UGB).

The Consolidated Corporate Governance Report is available in the 2018 Group Integrated Annual Report on the VERBUND website.

Report on the expected performance of the Company

Outlook

At +1.6%, the 2019 economic growth forecast issued by the International Monetary Fund (IMF) for the eurozone is slightly lower than the figure for 2018 (+1.8%). Although the IMF continues to expect strong consumer demand, this will be more moderate than in previous years. In addition, the IMF anticipates a cooling export business and weaker industrial production. Further uncertainties from the IMF's perspective are the effects of Brexit and the customs disputes between the US and China.

Austria's economy continues to perform well by international standards. The Austrian Institute of Economic Research projects economic growth of 2% in 2019. Household spending will continue to support economic growth but will not be sufficient to fully compensate for declining demand in foreign trade.

In December 2018, the OPEC countries agreed to cut oil production for six months starting in January 2019. Ten non-OPEC countries are also participating in the reduction. The countries intend to review the measures in April 2019. The cut already raised the price of oil from around $55/bbl to $62/bbl at the beginning of January 2019. Prices for NCG and coal front years, on the other hand, declined again at the beginning of 2019 after rising sharply during 2018.

Wholesale electricity prices have risen substantially in recent years. Prices are currently hovering at around €50 for base load. How they will develop will depend in particular on CO_2 prices and the trend in primary energy prices (especially coal and gas).

Due to the further expansion in volatile renewable energy, the importance of VERBUND's generation portfolio is growing, with its flexible power plant portfolio with pumped storage power plants and the Mellach combined cycle gas turbine power plant (CCGT) on the one hand and its reliable run-of-river power plants on the other. APG, our wholly owned subsidiary, plays a key role in connection with the security of supply as owner and operator of one of Europe's most technically advanced transmission grids. In addition, VERBUND's innovative products and services already offer customers solutions for the future of energy.

Investment plan 2019–2021

VERBUND's updated investment plan for the period 2019–2021 provides for capital expenditure in the amount of €1,834m. Of that total, around €875m will be spent on growth CAPEX and around €959m on maintenance CAPEX. Most of the growth CAPEX (approximately €614m) will go towards expanding the regulated Austrian high-voltage grid. In addition, VERBUND will be investing mainly in selected hydropower plant projects as well as in increasing the efficiency of existing power plants. The Töging run-of-river power plant in Germany deserves particular mention here. The investments will involve VERBUND's domestic markets of Austria and Germany. In financial year 2019, VERBUND plans to invest a total of approximately €528m, around €226m of which will be invested in growth and around €302m in maintenance.

Dividend

VERBUND plans to distribute a dividend of €0.42 per share for financial year 2018. The payout ratio for 2018 will thus amount to 42.6% based on the adjusted Group result.

Earnings projection for 2019

VERBUND's earnings performance is significantly influenced by the following factors: wholesale prices for electricity, the Group's own generation from hydropower and wind power, the contribution to earnings from flexibility products and ongoing developments in the energy market.

Around 66% of the planned own generation for 2019 was already contracted as at 31 December 2018. The price achieved was approximately €7.6/MWh above the sales price reached in 2018. For those volumes not yet hedged, VERBUND has based its calculations on current market prices.

Based on the forecast at the beginning of the year, VERBUND AG expects clearly positive earnings before taxes for financial year 2019.

Vienna, 14 February 2019
Executive Board

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

Mag. Dr. Michael Strugl
Vice-Chairman of the Executive Board

Dr. Peter F. Kollmann
Member of the Executive Board

Mag. Dr. Achim Kaspar
Member of the Executive Board

Annual financial statements

Balance sheet

Assets

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	Notes	2017	2018
A. Fixed assets			
I. Intangible assets	(1)	32,673.0	312.5
II. Property, plant and equipment		22,811.3	22,951.6
III. Investments	(2)	4,328,802.0	4,653,023.0
		4,384,286.2	**4,676,287.1**
B. Current assets			
I. Inventories	(3)	36.4	25.6
II. Receivables and other assets	(4)	71,017.9	64,226.1
of which due in more than one year		0.0	0.0
III. Cash in hand	(5)	16.3	0.0
		71,070.5	**64,251.7**
C. Prepayments and accrued income	(6)	72,468.0	**68,999.4**
D. Deferred tax assets	(7)	162,883.4	**105,800.1**
		4,690,708.2	**4,915,338.4**
Rights of recourse	(8)	866,579.0	896,564.6
less counter-guarantees from cross-border leasing		−390,937.2	−391,698.2
		475,641.8	**504,866.4**

Liabilities

€k

	Notes	2017	2018
A. Equity			
I. Called and paid-in share capital	(9)	347,415.7	347,415.7
II. Capital reserves	(10)	971,720.3	971,720.3
III. Revenue reserves	(11)	732,300.7	1,149,435.8
IV. Net profit	(12)	145,914.6	145,914.6
of which profit carried forward		0.0	0.0
		2,197,351.3	**2,614,486.4**
B. Provisions	(13)	201,332.2	**92,131.9**
C. Liabilities	(14)	2,290,742.8	**2,207,486.7**
of which due within one year		435,759.1	1,037,065.3
of which due in more than one year		1,854,983.7	1,170,421.4
D. Accruals and deferred income	(15)	1,281.9	**1,233.5**
		4,690,708.2	**4,915,338.4**
Contingent liabilities	(16)	866,579.0	896,564.6
less counter-guarantees from cross-border leasing		−390,937.2	−391,698.2
		475,641.8	**504,866.4**

Income statement

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	Notes	2017	2018
1. Revenue	(17)	281,990.7	259,550.3
2. Other operating income	(18)	368.9	4,318.6
3. Operating income (subtotal of lines 1 and 2)		282,359.6	**263,868.8**
4. Expenses for electricity, grid/gas purchases and purchases of emission rights and other purchased production services and other services		−184,151.2	−199,982.5
5. Personnel expenses	(19)	−23,702.1	−27,040.3
6. Depreciation and amortisation	(20)	−1,727.3	−1,737.0
7. Other operating expenses	(21)	−33,976.2	−36,489.1
8. Operating result (subtotal of lines 3 to 7)		38,802.9	**−1,380.2**
9. Income from equity interests		382,592.5	272,121.9
10. Income from other securities and loans classified as financial assets		39,881.9	34,226.5
11. Other interest and similar income		2,781.9	2,894.1
12. Income from the disposal and reversal of impairment losses on investments		28,453.9	349,927.9
13. Expenses from investments		−526,037.5	−16,456.3
14. Interest and similar expenses		−80,225.9	−76,670.5
15. Financial result (subtotal of lines 9 to 14)	(22)	−152,553.2	**566,043.5**
16. Earnings before taxes (subtotal of lines 8 and 15)		−113,750.4	**564,663.4**
17. Taxes on income and profit	(23)	−53,328.8	−1,613.7
18. Net income/net loss for the year		−167,079.2	**563,049.7**
19. Disposal of revenue reserves		312,993.7	0.0
20. Allocation to revenue reserves		0.0	−417,135.1
21. Net profit		145,914.6	**145,914.6**

Statement of changes in fixed assets

	As at 1/1/2018	Additions	Disposals	Reclassifications	
I. Intangible assets					
1. Industrial property rights, electricity purchase rights, usage fees and similar rights and benefits as well as licences derived therefrom	353,008.6	3,234.1	349,233.1	0.0	
	353,008.6	3,234.1	349,233.1	0.0	
II. Property, plant and equipment					
1. Land, land rights and buildings, including buildings on third-party land					
a. with residential buildings	77.6	0.0	0.0	0.0	
b. with plant and other plant facilities	27,363.9	759.2	0.0	0.0	
2. Electrical installations	6,109.5	106.4	10.5	20.5	
3. Office and plant equipment	20,355.3	696.0	146.9	0.0	
4. Effected advance payments and plants under construction	20.5	0.0	0.0	−20.5	
	53,926.8	1,561.6	157.4	0.0	
Property, plant and equipment and intangible assets	406,935.4	4,795.7	349,390.5	0.0	
III. Investments					
1. Shares in affiliated companies	3,581,948.5	48.3	3.8	0.0	
2. Loans to affiliated companies	1,457,088.5	351,317.6	378,628.9	16,389.5	
3. Equity interests	282,663.0	0.0	20.0	0.0	
4. Loans to equity interests	65,000.0	0.0	0.0	0.0	
5. Securities (loan stock rights) under fixed assets	8,384.8	0.0	0.0	0.0	
6. Other loans	55,163.2	5.7	3,517.8	0.0	
	5,450,247.9	351,371.6	382,170.5	16,389.5	
Fixed assets	5,857,183.3	356,167.4	731,561.0	16,389.5	

€k

As at 31/12/2018	Accumulated amortisation as at 31/12/2018	**Net carrying amount as at 31/12/2018**	Accumulated amortisation as at 31/12/2017	Net carrying amount as at 31/12/2017
7,009.6	6,697.1	312.5	320,335.6	32,673.0
7,009.6	6,697.1	**312.5**	320,335.6	32,673.0
77.6	77.6	0.0	77.6	0.0
28,123.0	19,150.7	8,972.3	18,700.6	8,663.3
6,225.9	3,973.7	2,252.2	3,579.5	2,530.0
20,904.4	9,177.4	11,727.1	8,757.8	11,597.5
0.0	0.0	0.0	0.0	20.5
55,331.0	32,379.4	**22,951.6**	31,115.5	22,811.3
62,340.6	39,076.5	**23,264.2**	351,451.1	55,484.3
3,581,993.0	759,120.6	2,822,872.4	1,109,006.6	2,472,941.8
1,446,166.7	0.0	1,446,166.7	0.0	1,457,088.5
282,643.0	23,206.2	259,436.8	12,168.9	270,494.1
65,000.0	0.0	65,000.0	0.0	65,000.0
8,384.8	488.6	7,896.1	270.4	8,114.3
51,651.1	0.0	51,651.1	0.0	55,163.2
5,435,838.4	782,815.4	**4,653,023.0**	1,121,445.9	4,328,802.0
5,498,179.0	821,891.9	**4,676,287.1**	1,472,897.0	4,384,286.2

Statement of changes in depreciation and amortisation of fixed assets

	Accumulated amortisation as at 1/1/2018	Additions from amortisation and depreciation
I. Intangible assets		
1. Industrial property rights, electricity purchase rights, usage fees and similar rights and benefits as well as licences derived therefrom	320,335.6	316.7
	320,335.6	316.7
II. Property, plant and equipment		
1. Land, land rights and buildings, including buildings on third-party land		
a. with residential buildings	77.6	0.0
b. with plant and other plant facilities	18,700.6	450.1
2. Electrical installations	3,579.5	404.2
3. Office and plant equipment	8,757.8	566.0
4. Effected advance payments and plants under construction	0.0	0.0
	31,115.5	1,420.3
Property, plant and equipment and intangible assets	351,451.1	1,737.0
III. Investments		
1. Shares in affiliated companies	1,109,006.6	0.0
2. Loans to affiliated companies	0.0	0.0
3. Equity interests	12,168.9	0.0
4. Loans to equity interests	0.0	0.0
5. Securities (loan stock rights) under fixed assets	270.4	0.0
6. Other loans	0.0	0.0
	1,121,445.9	0.0
Fixed assets	1,472,897.0	1,737.0

€k

	Additions from impairment losses	Disposals	Reversal of impairment	Reclassifications	**Accumulated amortisation as at 31/12/2018**
	0.0	313,955.3	0.0	0.0	6,697.1
	0.0	313,955.3	0.0	0.0	**6,697.1**
	0.0	0.0	0.0	0.0	77.6
	0.0	0.0	0.0	0.0	19,150.7
	0.0	10.0	0.0	0.0	3,973.7
	0.0	146.4	0.0	0.0	9,177.4
	0.0	0.0	0.0	0.0	0.0
	0.0	156.4	0.0	0.0	**32,379.4**
	0.0	314,111.7	0.0	0.0	**39,076.5**
	0.0	3.8	349,882.3	0.0	759,120.6
	0.0	0.0	0.0	0.0	0.0
	11,073.8	0.0	36.4	0.0	23,206.2
	0.0	0.0	0.0	0.0	0.0
	218.2	0.0	0.0	0.0	488.6
	0.0	0.0	0.0	0.0	0.0
	11,292.0	3.8	349,918.7	0.0	**782,815.4**
	11,292.0	314,115.4	349,918.7	0.0	**821,891.9**

Maturity schedule 2018

				€k
				Residual term to maturity as at 31/12/2018
	< 1 year	> 1 year	> 5 years	Total
Loans				
1. Loans to affiliated companies	57,312.8	329,570.5	1,059,283.4	1,446,166.7
2. Loans to equity interests	45,000.0	20,000.0	0.0	65,000.0
3. Other loans	3,519.0	48,130.9	1.2	51,651.1
	105,831.8	397,701.4	1,059,284.6	1,562,817.7
Receivables and other assets				
1. Trade receivables	27,619.5	0.0	0.0	27,619.5
2. Receivables from affiliated companies	35,842.4	0.0	0.0	35,842.4
3. Receivables from investees	95.0	0.0	0.0	95.0
4. Other receivables and assets	669.2	0.0	0.0	669.2
	64,226.1	0.0	0.0	64,226.1
Liabilities				
1. Bonds	707,938.5	200,450.9	627,823.0	1,536,212.4
2. Liabilities to banks	38,703.9	113,870.5	228,226.3	380,800.7
3. Trade payables	38,956.2	3.5	0.0	38,959.7
4. Liabilities to affiliated companies	242,213.5	0.0	0.0	242,213.5
5. Other liabilities	9,253.2	47.2	0.0	9,300.4
	1,037,065.3	314,372.1	856,049.3	2,207,486.7

Maturity schedule 2017

€k

			Residual term to maturity as at 31/12/2017	
	< 1 year	> 1 year	> 5 years	Total
Loans				
1. Loans to affiliated companies	378,628.9	350,405.4	728,054.2	1,457,088.5
2. Loans to equity interests	0.0	65,000.0	0.0	65,000.0
3. Other loans	3,536.7	51,625.1	1.3	55,163.2
	382,165.7	467,030.5	728,055.5	1,577,251.7
Receivables and other assets				
1. Trade receivables	31,785.9	0.0	0.0	31,785.9
2. Receivables from affiliated companies	25,035.6	0.0	0.0	25,035.6
3. Receivables from investees	13,671.3	0.0	0.0	13,671.3
4. Other receivables and assets	525.2	0.0	0.0	525.2
	71,017.9	0.0	0.0	71,017.9
Liabilities				
1. Bonds	26,699.2	887,339.4	627,823.0	1,541,861.5
2. Liabilities to banks	192,429.4	157,372.1	182,445.8	532,247.3
3. Trade payables	41,367.0	3.5	0.0	41,370.5
4. Liabilities to affiliated companies	171,329.6	0.0	0.0	171,329.6
5. Other liabilities	3,934.0	0.0	0.0	3,934.0
	435,759.1	1,044,714.9	810,268.8	2,290,742.8

Notes
to the annual financial statements

Notes

I. General notes

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

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

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

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

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

II. Accounting policies

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

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

Fixed assets

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

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

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

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

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

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

In 2016, a reversal provision for tax purposes in accordance with Section 124b(270)(a) of the Austrian Income Tax Act (EStG) was recognised for the impairment reversals not carried out in past years and included in accruals and deferred income in accordance with Section 906(32) of the Austrian Commercial Code (UGB).

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

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

Current assets

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

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

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

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

Deferred tax assets

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

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

Provisions

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

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

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

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

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

The calculations as at 31 December 2018 and 2017 have been based on the following assumptions:

		%
	2017	**2018**
Interest rate:		
Pensions and similar obligations	1.50 or 1.75	1.75 or 2.00
Termination benefits	1.50	1.75
Trend:		
Pension increases	1.75	1.75
Salary increases	1.75	1.75
Contributions to obligations similar to pensions – old contracts	6.50	6.00
Contributions to obligations similar to pensions – new contracts	4.00	3.75
Employee turnover	0.00–3.30	0.00–3.30
Retirement age – women	56.5–65 y.	56.5–65 y.
Retirement age – men	61.5–65 y.	61.5–65 y.
Expected non-current return on plan assets	1.50	1.75

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

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

Liabilities

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

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

Accruals and deferred income

In 2016, a reversal provision for tax purposes in accordance with Section 124b(270)(a) of the Austrian Income Tax Act (EStG) was recognised in accruals and deferred income and presented under this item in accordance with Section 906(32) of the Austrian Commercial Code (UGB).

Derivative financial instruments

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

Taxes on income

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

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

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

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

Notes on assets

A. Fixed assets

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

(1) I. Intangible assets

The net carrying amount of the rights of use of plants acquired by affiliated companies is €286.4k (previous year: €572.9k).

(2) III. Investments

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

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

Loans For details see separate "Maturity schedule".

In the presentation of intra-Group relationships in connection with the cross-border leasing of VERBUND Hydro Power GmbH (VHP), €16,389.4k (as at 31 December 2017) was moved from Group clearing to loans to affiliated companies (remaining term of more than five years) in the financial year.

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

B. Current assets

(3) I. Inventories

€k

	2017	**2018**
Goods	36.4	**25.6**

(4) II. Receivables and other assets

For details see separate "Maturity schedule".

Of the receivables from affiliated companies, €689.1k (previous year: €349.4k) related to trade receivables and €35,153.3k (previous year: €24,686.2k) to other receivables.

Of the receivables from investees, €14.1k (previous year: €13,590.8k) related to trade receivables and €80.8k (previous year: €80.4k) to other receivables.

Other receivables and assets	2017	2018
		€k
Accrued interest income and commissions from bonds and loans	393.3	373.2
Tax authorities	16.4	35.1
Payroll	4.3	5.3
Effected advance payments	1.9	1.9
Other	109.3	253.7
	525.2	**669.2**

(5) III. Cash in hand

	2017	2018
		€k
Cash in hand	16.3	0.0

(6) C. Prepayments and accrued income

	2017	2018
		€k
Prepayments for electricity purchases	21,963.1	20,516.9
Discounts, flotation costs and commitment fee relating to bonds and non-current loans	6,540.7	6,191.1
Other	43,964.3	42,291.4
	72,468.0	**68,999.4**

(7) D. Deferred tax assets

	2017	2018
		€k
Social capital	6,236.0	6,430.1
Valuation of fixed assets	–5.5	–10.3
Special tax deductions	–273.6	–254.8
Loss carried forward	0.0	656.2
Other	156,926.4	98,978.9
Deferred tax receivables (+) respectively liabilities (–) balanced	162,883.4	105,800.1

Deferred tax assets are the result of differences between the financial and taxable result in respect of line items affected by expenses for tax purposes in income statements of future periods. The calculation was based on tax rates of 15.83% and 25%.

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

(8) Rights of recourse

Rights of recourse amounted to a total of €896,564.6k (previous year: €866,579.0k). In addition to rights of recourse vis-à-vis Group companies, rights of recourse exist primarily vis-à-vis financial institutions, state energy companies and regional authorities from cross-border leasing transactions carried out at

VERBUND Hydro Power GmbH in the amount of €391,698.2k (previous year: €390,937.2k). See also note (16) Contingent liabilities.

Notes on equity and liabilities

A. Equity

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

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

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

As part of an authorisation to buy back shares (which expired on 17 October 2015), the Annual General Meeting held on 17 April 2013 resolved to also authorise the Executive Board for a period of five years (i.e. until 17 April 2018), with the approval of the Supervisory Board, to decide upon a different type of sale of treasury shares other than in an exchange market or through a public offering, also with exclusion of the right of repurchase (reverse purchase right) of the shareholders, and to determine the terms of sale. Furthermore, the Executive Board is authorised, with the approval of the Supervisory Board, to reduce the share capital if necessary by retiring these treasury shares without an additional resolution by the General Meeting. As the deadline expired and there are no treasury shares, this authorisation is irrelevant.

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

(10) II. Capital reserves

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

(11) III. Revenue reserves

€k

	2017	**2018**
Statutory reserves	19,884.0	**19,884.0**
Distributable reserves	712,416.7	**1,129,551.8**
	732,300.7	**1,149,435.8**

(12) IV. Net profit

	€k
As at 31/12/2017	145,914.6
Distribution of dividends	–145,914.6
Profit carried forward	0.0
Net loss for the year	563,049.7
Changes in reserves	–417,135.1
As at 31/12/2018	145,914.6

(13) B. Provisions

1. Provisions for termination benefits

€k	2017	2018
Premium reserve based on actuarial calculations	8,322.3	5,802.3
Taxed proportion of provisions	8,322.3	5,802.3

In 2002, the provision permitted under Section 14 of the Austrian Income Tax Act (EStG) was transferred tax-free to a reserve qualifying as taxed (Section 124b(68) of the Austrian Income Tax Act (EStG)).

2. Provisions for pensions

€k	2017	2018
Provisions for pension obligations	29,654.4	31,337.8
of which obligations similar to pensions	6,472.1	6,129.9

3. Provisions for taxes

€k	2017	2018
Corporate income tax (including prior reporting periods)	93,333.6	44,271.8
Other tax provisions	956.4	1,010.6
	94,290.0	**45,282.4**

4. Other provisions

€k	2017	2018
Trade receivables not yet billed	2,640.9	1,980.6
Other	57,895.7	2.0
	60,536.6	**1,982.6**

Of the provisions, €0.0k (previous year: €57,895.7k) related to affiliated companies. The prior-year amount related to VERBUND AG’s legal commitment to provide funds to cover costs in connection with handling the liquidation of VERBUND Thermal Power GmbH & Co KG. The liquidation status was rescinded in April 2018 on the basis of the resolution to continue the company.

Other personnel-related provisions	2017	2018
		€k
Bonuses	3,940.9	3,647.5
Unused holidays	2,767.6	2,130.7
Holiday allowance	616.6	701.9
Death grant	507.2	496.9
Compensatory time credit	98.8	105.9
Early retirement benefits	165.5	92.0
Other	432.2	551.7
	8,528.8	**7,726.8**

(14) C. Liabilities

For details see separate "Maturity schedule".

Of the liabilities to affiliated companies, €241,510.5k (previous year: €170,016.0k) related to financial liabilities and €703.1k (previous year: €1,313.6k) to other liabilities.

In the presentation of intra-Group relationships in connection with the cross-border leasing of VHP, €16,389.4k (as at 31 December 2017) was moved from Group clearing to loans to affiliated companies (remaining term of more than five years) in the financial year.

Other liabilities	2017	2018
		€k
From taxes	1,959.9	7,267.8
Payroll	338.7	42.1
Related to social security	288.0	252.6
From financing contributions	243.4	516.0
Other	1,104.0	1,221.9
	3,934.0	**9,300.4**

(15) D. Accruals and deferred income

	2017	2018
		€k
Contributions to building costs	666.6	631.5
Revaluation reserve	508.5	508.5
From electricity business	93.4	80.0
Other	13.4	13.4
	1,281.9	**1,233.5**

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

(16) Contingent liabilities

Contingent liabilities that are recognised below the line are primarily for letters of comfort and liabilities assumed for subsidiaries as part of the financing that VERBUND AG carries out centrally as well as other assumptions of liabilities, excluding the contingent liabilities in connection with cross-border leasing transactions in the total amount of €21,478.3k (previous year: €27,924.0k). Of this, €21,474.8k (previous year: €27,920.5k) is attributable to affiliated companies and €0.0k (previous year: €0.0k) to investees.

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

Beginning in 2009, and continuing during the 2010 reporting period, due also to the financial market crisis, about 85% of the original volume of the transactions was terminated. The last remaining transaction (Freudenau power plant) has an off-balance sheet financing structure. Some of the transactions were terminated early in their entirety; that is, all associated liabilities were repaid. However, some of the transactions were only partially terminated, whereby the transactions with the investors and the associated A-loans were repaid, while VHP continued the existing B-loans and the corresponding investments.

In connection with these cross-border leasing transactions, VERBUND AG issued guarantee bonds for VHP, which for the most part still exist for the transaction that has not been terminated as well as for the liabilities transferred to VHP totalling €875,086.2k (previous year: €838,655.1k). Of the rights of recourse against the primary debtors, €391,698.2k (previous year: €390,937.2k) were secured through counter-guarantees from financial institutions, state energy companies and regional authorities (from guarantors' liabilities). These counter-guarantees are presented under total rights of recourse (see note (8)). Thus, a total of €483,388.0k (previous year: €447,717.8k) remains in contingent liabilities from cross-border leasing transactions after deducting these counter-guarantees.

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

As a result of the deteriorating energy market environment, VERBUND AG's credit rating was downgraded numerous times until 2016, in some cases falling below the required minimum rating. Corresponding provisions were recognised at VHP for the anticipated expenses. A portion of the provisions was able to be reversed as early as financial year 2017 on the basis of rating upgrades. The rating agencies further upgraded the credit rating in the reporting period to the extent that the provisions recognised at VHP were completely remeasured and were able to be almost fully reversed.

In addition, there is still a risk that the investing banks would have to be replaced or VHP would have to provide additional collateral if the rating of the investing banks were downgraded below a certain threshold. The same applies to two transactions which were terminated early and for which the financial liabilities were continued if the rating of either the investing bank or VERBUND AG were to deteriorate by a certain amount.

The ratings of the contractual partners as well as the rating of VERBUND AG exceeded the contractually agreed thresholds as at 31 December 2018, with the exception of the situation described above. Thus there is currently no need for VERBUND AG or VHP to exchange individual contractual parties or investments. This risk is also reduced not least by the existence in some cases of guarantors' liabilities from regional authorities for individual contractual parties.

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

Notes to the income statement

(17) 1. Revenue

€k

		2017	2018
Revenue from electricity deliveries			
Domestic	Energy supply companies	35,650.1	19,852.8
	Industrial customers and consumers	84,263.1	93,688.1
	Other customers	114,474.0	90,093.2
		234,387.1	**203,634.0**
Invoicing of grid tariffs; user and management fees		3,064.9	3,022.2
Other revenue (including gas trading)		44,538.7	52,894.1
		281,990.7	**259,550.3**

(18) 2. Other operating income

€k

	2017	2018
a) Income from disposal of fixed assets with the exception of investments	10.4	3,793.4
b) Income from reversal of provisions	18.9	7.2
c) Other	339.6	517.9
	368.9	**4,318.6**

(19) 5. Personnel expenses

€k	2017	2018
a) Salaries	18,944.1	18,423.7
b) Expenses for termination benefits and payments to employee pension funds		
Termination benefits	1,118.2	3,174.9
Contributions to employee pension funds	159.2	160.3
Change in the provision for termination benefits	–1,144.0	–2,632.5
Expenses/income and takeovers/transfers within the Group	378.9	223.1
	512.4	**925.8**
c) Expenses for pensions and similar obligations		
Early retirement benefits and pension payments	2,270.3	2,266.0
Change in the provisions for pensions and similar obligations	–2,214.3	1,244.4
Expenses/income and takeovers/transfers within the Group	97.2	292.2
Change in the provisions for early retirement benefits	–126.1	–73.8
Pension fund contributions	858.7	811.2
	885.8	**4,539.9**
d) Expenses for social security contributions as required by law as well as income-based charges and compulsory contributions	3,158.8	2,950.8
e) Other social security expenses	201.0	200.1
	23,702.1	**27,040.3**

The effect of changing the adjusted mortality tables resulted in an expense of €3,696.7k in the financial year which is partly offset by a positive effect from interest rate changes of €1,488.9k. The effect of the changes in parameters was recognised in full in the financial year.

(20) 6. Depreciation and amortisation

€k	2017	2018
a) Amortisation of intangible assets and depreciation of property, plant and equipment		
Depreciation and amortisation	1,667.6	1,699.8
Immediate write-off of low-value assets in accordance with Section 13 of the Austrian Income Tax Act (EStG)	59.7	37.2
	1,727.3	**1,737.0**

(21) 7. Other operating expenses

€k	2017	**2018**
a) Taxes other than taxes on income	182.6	105.3
b) Other		
Advertising and market development costs	10,271.0	10,328.4
Other administrative expenses	5,422.0	4,832.2
Legal, audit and consulting expenses	3,227.4	4,656.0
Operating costs for buildings, rent and leasing	3,168.7	3,218.3
IT support, electronic data processing	2,380.8	2,523.0
Temporary personnel and provision of personnel	608.7	993.5
Membership fees	709.1	778.4
Training and further education	476.9	552.3
Telecommunications services, data services	549.1	545.0
Other	6,979.9	7,956.6
	33,793.6	**36,383.8**
	33,976.2	**36,489.1**

(22) 15. Financial result

€k	2017	**2018**
Income from equity interests		
from affiliated companies	363,811.7	252,209.6
of which from profit pools	14,762.4	10,150.9
Income from other securities and loans in financial assets		
from affiliated companies	37,480.1	31,904.7
Other interest and similar income		
from affiliated companies	2,427.5	2,782.1
Income from disposals and impairment loss reversals of investments		
disposal of shares in affiliated companies	0.0	0.0
reversal of impairment of shares in affiliated companies	12,080.9	349,882.3
Expenses relating to investments		
impairments on affiliated companies	526,037.5	0.0
expenses from affiliated companies	0.0	5,164.4
of which from profit pools	0.0	5,164.4
Interest and similar expenses		
of which interest for long-term personnel provisions	610.8	565.9
from affiliated companies	17,308.0	16,238.8

(23) 17. Taxes on income and profit

€k	2017	2018
Consolidated taxes on income	57,072.3	21,697.4
of which recharged to members of the Group[1]	–82,098.5	–79,665.5
Future tax expense for subsequent taxation of losses from foreign members of the tax group	12,346.3	12,404.0
Additional amounts/credit notes from previous periods	–36.5	–9,905.4
Change in deferred taxes	66,045.2	57,083.3
	53,328.8	**1,613.7**

[1] tax allocation rate of 15% or 25% // [2] tax rate of 15.83% or 25%

IV. Other disclosures

1. Total amount of other financial obligations

€k

Material items	Total commitment	2019	2019–2023
Rent, lease and insurance agreements	[1]	3,048.1	14,097.1
Purchase commitments	4,434.6	3,733.7	4,434.6
of which to affiliated companies	[1]	25.2	125.1

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

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

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

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

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

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

There are contractor agreements with VERBUND Trading GmbH and VERBUND Sales GmbH in the sales segment.

Due to labour-management agreements and contracts, VERBUND is obligated under certain conditions to make pension payments to employees after they retire. The employer is obligated to provide additional funding to the extent that these pension obligations are required to be fulfilled by APK Pensionskasse AG. As a result of the trend on the financial markets, APK Pensionskasse AG reported an obligation for additional funding in the amount of €1,108.9k (previous year: €0.0k) to cover defined benefit obligations.

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

2. Disclosures regarding financial instruments

Finance area

There are interest rate swaps to hedge increases in interest rates for financial liabilities bearing variable interest with an outstanding principal amount of €100,687.5k (previous year: €115,312.5k) as at 31 December 2018. These interest rate hedges consist of the interest rate swaps and the underlying loans. As there is a documented hedge strategy and detailed hedge documentation, and ongoing measurements of effectiveness are conducted, it is not necessary to recognise a separate provision for onerous contracts for the negative fair values amounting to €8,885.4k (previous year: €10,628.9k). The future interest payments hedged by these hedging instruments will occur in the following eight years (2019 to 2026) and will be recognised in profit or loss accordingly.

To avoid fluctuations in future cash flows from interest payments for loans granted to Group companies at variable rates of interest amounting to a total principal amount of €140,600.0k (previous year: €159,025.0k), interest rate hedges were entered into with banks in late 2012 and during the first half of 2013. At the same time, the outstanding credit agreements with the Group companies involved in this hedging transaction were converted to the fixed interest rate terms contractually agreed with the respective bank. As here, too, there is a documented hedge strategy and detailed hedge documentation, and ongoing measurements of effectiveness are conducted, recognition of a separate provision for onerous contracts for the negative fair values is not required. The reporting date measurement of these transactions resulted in a negative fair value totalling €6,963.5k (previous year: negative fair value of €7,968.0k) as at 31 December 2018.

3. Number of employees

Average	2017	**2018**
Salaried employees	123	115

4. Expenses for termination benefits and pensions

€k

	2017	**2018**
Members of the Executive Board, former members of the Executive Board and their surviving dependants[1]	736.8	3,542.1
Other employees[1]	661.4	1,923.6
	1,398.2	**5,465.7**

[1] previous year's values adjusted (previous year: €155.3k and €1,242.9k, respectively)

A company pension plan has been set up for members of the Executive Board in the form of a defined contribution pension fund agreement. In financial year 2018, contributions to the pension fund were paid for the Executive Board in the amount of €225,992 (previous year: €219,681).

Statutory regulations apply, taking account of the requirements of Rule 27a of the Austrian Code of Corporate Governance, with respect to the claims of members of the Executive Board upon termination of their position. In financial year 2018, €376,226 was paid out for pensions (previous year: €361,817) and €2,189,150 for termination benefits in favour of beneficiaries (previous year: €0).

Expenses for termination benefits and pensions and similar obligations (post-employment benefits) amounted to €256,551 (previous year: €4,718). Expenses for pensions and similar obligations for former members of the Executive Board and their surviving dependants amounted to a total of €494,178 (previous year: €150,573).

5. Board members

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

Remuneration of members of the Executive Board €

Name	Fixed remuneration	Variable remuneration[1]	Other	Total
Dipl.-Ing. Wolfgang Anzengruber	849,770	563,457		1,413,227
Dr. Johann Sereinig	813,641	385,665	598,682	1,797,988
Dipl.-Ing. Dr. Günther Rabensteiner	604,733	286,643	229,334	1,120,710
Dr. Peter F. Kollmann	806,096	382,089		1,188,185

[1] Variable remuneration is always paid at the beginning of the following year, because whether or not goals have been achieved can only be determined at the end of the year. Consequently, the variable components paid to the members of the Executive Board in 2017 were paid in respect of the financial year 2016.

Remuneration for the four members of the Executive Board totalled €5,599,347 in 2018 (previous year: €4,485,156), which included €79,237 of payments in kind (previous year: €59,858). The other remuneration of €828,016 (previous year: €0) relates to payment in lieu of holiday for members of the Executive Board who have resigned.

Variable remuneration depends upon performance and is limited to a specific percentage of the respective fixed remuneration. This percentage rate was between 50% and 70% for financial year 2017 (and for the current financial year 2018). The level of performance-based remuneration components depends on the extent to which the targets agreed for the financial year are achieved. In the 2017 reporting period, 50% of the agreed goals related to the attainment of the Group result, 30% to the attainment of the free cash flow (three-year target) and 20% to other medium-term (two-year, qualitative) targets, such as the concluding of old business (e.g. successfully ending disputes like pending actions and arbitration proceedings) and the optimisation and adaptation of structures, processes and business models to technological advancement (digitalisation) and the disruptive changes in the competitive landscape in the energy market. The principles underlying the Executive Board's share of profit were unchanged from the previous year.

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

Remuneration paid to members of the Supervisory Board (including reimbursement of costs/travel expenses recharged) amounted to a total of €348,934 (previous year: €380,801).

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

		€
	2017	**2018**
Chairman	25,000	25,000
Vice-Chairpersons (two)	15,000	15,000
Members	10,000	10,000
Attendance fee	500	500

These arrangements also apply mutatis mutandis to the Supervisory Board's Working Committee and Audit Committee.

6. Transactions with related parties

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

During financial year 2018, no agreements which were not at arm's length were entered into with members of the Supervisory Board or with enterprises with which a member of the Supervisory Board is associated. Services were rendered for various companies in the VERBUND Group; these contracts were approved by the Supervisory Board.

7. Intra-Group relationships

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

There are profit and loss transfer agreements with VERBUND Finanzierungsservice GmbH, VERBUND Services GmbH, VERBUND Sales GmbH, VERBUND Solutions GmbH and VERBUND Trading GmbH.

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

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

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

Electricity deliveries Ennskraftwerke Aktiengesellschaft, Innwerk AG, Österreichisch-Bayerische Kraftwerke Aktiengesellschaft, Donaukraftwerk Jochenstein Aktiengesellschaft, KELAG-Kärntner Elektrizitäts-Aktiengesellschaft

Electricity trading and sales VERBUND Trading GmbH, VERBUND Sales GmbH

Telecommunications VERBUND Services GmbH

Services VERBUND Services GmbH

Financing VERBUND Finanzierungsservice GmbH

Provision of personnel VERBUND Hydro Power GmbH, VERBUND Trading GmbH, VERBUND Services GmbH, VERBUND Sales GmbH

9. Proposed appropriation of profits

The Executive Board proposes (in accordance with section 96(1) of the Austrian Stock Corporation Act (AktG)) to distribute a dividend of €0.42 per share to 347,415,686 no-par value shares from the distributable profit of financial year 2018, i.e. a total of €145,914,588.12.

10. Events after the reporting date

There were no events requiring disclosure between the reporting date of 31 December 2018 and authorisation for issue on 14 February 2019.

11. Disclosures in accordance with Section 78 of the Austrian Electricity Industry and Organisation Act (ElWOG)

Result of the documentation of electricity by source	Proportion	**2018 kWh**
Hydropower	100.0%	1,584,011,586
Solar energy	0.0%	36,944
Total volume of electricity supplied in Austria to consumers for their own use	100.0%	1,584,048,530

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

Environmental impact of electricity generation for the volume of electricity supplied to consumers for their own use		**2018**
Radioactive waste (mg/kWh)		0.0
CO_2 emissions (g/kWh)		0.0

Vienna, 14 February 2019
Executive Board

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

Mag. Dr. Michael Strugl
Vice-Chairman of the Executive Board

Dr. Peter F. Kollmann
Member of the Executive Board

Mag. Dr. Achim Kaspar
Member of the Executive Board

Disclosure of equity interests

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

€k

	Head-quarters	% share-holding as at 31/12/2018	Most recent annual financial statements	(+) (–)	Net income/loss for the year	Equity[1]
Consolidated affiliated companies[2]						
Austrian Power Grid AG	Vienna	100.00	2018	+	38,741.4	460,163.1
Innwerk AG	Stammham	100.00	2018	+	17,865.8	145,631.9
VERBUND Finanzierungsservice GmbH	Vienna	100.00	2018	–	198.6	218.1
VERBUND Sales GmbH	Vienna	100.00	2018	+	1,991.1	10,353.9
VERBUND Services GmbH	Vienna	100.00	2018	+	8,159.7	7,420.6
VERBUND Solutions GmbH	Vienna	100.00	2018	–	4,965.8	11,933.5
VERBUND Thermal Power GmbH	Neudorf on Wildon	100.00	2018	+	843.9	7,282.9
VERBUND Trading GmbH	Vienna	100.00	2018	+	45,828.2	255,453.9
VERBUND Wind Power Deutschland GmbH	Wörrstadt	100.00	2018	+	12.3	43.5
VERBUND Thermal Power GmbH & Co KG	Neudorf on Wildon	99.99	2108	+	87,911.8	30,016.1
VERBUND Wind Power Romania S.R.L.[3, 4]	Bucharest	99.98	2018	–	2,255.6	116,017.7
Windpark Dichtelbach GmbH & Co. KG	Wörrstadt	95.00	2018	+	91.7	2,921.1
Windpark Dörrebach GmbH & Co. KG	Wörrstadt	95.00	2018	+	181.1	3,232.5
Windpark Eichberg GmbH & Co. KG	Wörrstadt	95.00	2018	–	18.3	4,644.1
Windpark Ellern GmbH & Co. KG	Wörrstadt	95.00	2018	–	222.0	5,058.0
Windpark Hochfels GmbH & Co. KG	Wörrstadt	95.00	2018	+	55.9	3,347.8
Windpark Rheinböllen GmbH & Co. KG	Wörrstadt	95.00	2018	–	55.2	4,607.3
Windpark Schönborn GmbH & Co. KG	Wörrstadt	95.00	2018	–	86.8	4,575.6
Windpark Seibersbach GmbH & Co. KG	Wörrstadt	95.00	2018	+	297.5	4,997.7
Windpark Stetten I GmbH & Co. KG	Wörrstadt	95.00	2018	–	125.6	4,275.5
Windpark Utschenwald GmbH & Co. KG	Wörrstadt	95.00	2018	+	61.0	1,620.1
Infrastruktur Oberheimbach I GmbH & Co. KG	Wörrstadt	81.00	2018	–	18.2	50.0
VERBUND Hydro Power GmbH	Vienna	80.54	2018	+	158,111.2	1,563,131.5
VERBUND Innkraftwerke GmbH	Töging	70.27	2018	+	5,924.4	291,512.2

€k

	Head-quarters	% share-holding as at 31/12/2018	Most recent annual financial statements	(+) (–)	Net income/loss for the year	Equity[1]
Infrastrukturgesellschaft Bischheim GmbH & Co. KG	Wörrstadt	61.26	2018	–	0.0	43.4
Donaukraftwerk Jochenstein Aktiengesellschaft	Passau	50.00	2018	+	833.2	15,752.6
Grenzkraftwerke Gesellschaft mit beschränkter Haftung	Simbach	50.00	2018	+	2,330.1	13,293.3
Österreichisch-Bayerische Kraftwerke Aktiengesellschaft	Simbach	50.00	2018	+	3,248.9	58,255.2
Non-consolidated affiliated companies						
AQUANTO GmbH in Liqu.	Munich	100.00	2017	–	2,101.5	53.6
Associates						
Ennskraftwerke Aktiengesellschaft[5]	Steyr	50.00	2018	+	392.3	26,669.2
KELAG-Kärntner Elektrizitäts-Aktiengesellschaft[6]	Klagenfurt	35.17	2017	+	65,670.5	833,285.8

[1] Equity as defined by Section 224(3)a of the Austrian Commercial Code (UGB) or local law // [2] Consolidation in accordance with Sections 253–261 of the Austrian Commercial Code (UGB) // [3] Annual financial statements in accordance with local law // [4] Figures translated using the exchange rate at the reporting date // [5] Accounted for using the equity method in accordance with Sections 263–264 of the Austrian Commercial Code (UGB) // [6] Proportionate consolidation in accordance with Section 262 of the Austrian Commercial Code (UGB)

Independent auditor's report

Report on the audit of the annual financial statements

Opinion

We have audited the annual financial statements of VERBUND AG, Vienna, which comprise the balance sheet as at 31 December 2018, the income statement for the financial year then ended and notes to the annual financial statements.

In our opinion, the accompanying annual financial statements comply with legal requirements and give a true and fair view of the Company's financial position as at 31 December 2018 and its financial performance for the year then ended in accordance with Austrian Generally Accepted Accounting Principles and the special legislation of the Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG).

Basis for opinion

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

Key audit matters

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

Carrying amounts of shares in affiliated companies

Description and issue

As at 31 December 2018, VERBUND AG reported shares in affiliated companies in the amount of around €2,822.9m. Due to the current operating environment in the energy industry, the Company tested the recoverability of the carrying amounts of equity interests.

Wholesale electricity prices rose sharply in 2018 on the one hand because they were characterised by considerable price increases in the primary energy and CO_2 markets and on the other hand because they were influenced by the separation of the joint German-Austrian price zone beginning on 1 October 2018. The agreement on the reform of the emissions trading regime reached at the beginning of 2018 also has the effect of supporting prices on the emissions trading market. Numerous inputs flow into the valuation model based on net present value methods applied in the test for impairment in order to assess the market. Due to the resulting complexity, the dependence of results on the assessment of market developments by management and the sensitivity to the cost of capital and to the key assumptions regarding the medium- and long-term electricity price trends for the energy markets, this is a key audit matter.

Details regarding the impairment tests are presented in the notes to the annual financial statements in section II “Accounting policies”.

Audit approach

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

We reviewed and comprehend the changes in valuation parameters compared with the previous year as a result of slightly higher capital costs as well as an expected higher increase in electricity prices.

The evaluation of assumptions regarding the medium- and long-term price trend on the energy markets was carried out based on the price quotations on the electricity exchanges up to the year 2021 and the available price forecasts for the years beyond 2021 under special consideration of the current trend in the energy market environment. We consulted internal experts in order to corroborate the capital costs by means of comparative analysis. We assessed the consistency of the future cash flows applied in the calculations by comparing the planning data used therein with the medium term plans approved by the Supervisory Board, contractual bases and electricity price scenarios specific to VERBUND.

Other information

Management is responsible for the other information. The other information contains all information in the annual report and in the annual financial report (excluding the annual financial statements, the management report and our auditor’s report thereon). The annual report and the annual financial report are expected to be made available to us after the date of the auditor’s report.

Our opinion on the annual financial statements does not cover the other information, and we will not express any form of assurance conclusion thereon. Please refer to the “Report on the audit of the management report” regarding the management report.

In connection with our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

The Company’s management is responsible for the preparation of the annual financial statements and that these give a true and fair view of the Company’s assets, liabilities, financial position and financial performance in accordance with Austrian Generally Accepted Accounting Principles and the special legislation of the Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG). Furthermore, the management is responsible for such internal control as management determines is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

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

The audit committee is responsible for overseeing the Company’s financial reporting process.

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

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

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

In addition:

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

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

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

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

Report on the audit of the management report

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

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

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

Opinion

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

Statement

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

Additional information required under Article 10 of the EU Audit Regulation

We were elected by the Annual General Meeting held on 23 April 2018 as the auditor for the financial year ended 31 December 2018 and engaged by the Supervisory Board on 3 May 2018 to audit the annual financial statements. We have been the Company's auditor continuously since the financial year ending on 31 December 2007.

We declare that the audit opinion included in the "Report on the Audit of the Annual Financial Statements" is in line with the additional report to the Audit Committee and complies with Article 11 of the EU Audit Regulation.

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

Engagement Partner

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

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

Vienna, 14 February 2019
Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Gerhard Marterbauer
Certified Public Accountant

Mag. Christof Wolf
Certified Public Accountant

Glossary

Glossary

Cash flow

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

EBIT

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

Equity ratio

Ratio of equity to total capital.

FFO (Funds from operations)

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

Gearing

Ratio of net debt to equity.

Net debt

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

Notional debt repayment period

Ratio of debt to surplus funds from earnings before taxes.

RCF (Retained cash flow)

Funds from operations (FFO) less dividends paid.

ROCE (Return on capital employed)

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

ROE (return on equity)

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

ROI (return on investment)

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

ROS (return on sales)

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

Working capital

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

Part 3
Statement of all legal representatives

Statement of all legal representatives

according to para 124 (1) Stock exchange act

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group as required by the applicable accounting standards and that the Group management report gives a true and fair view of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties the Group faces.

We confirm to the best of our knowledge that the financial statements of the parent company give a true and fair view of the assets, liabilities, financial position and profit or loss of the parent company as required by the applicable accounting standards and that the management report gives a true and fair view of the development and performance of the business and the position of the parent company, together with a description of the principal risks and uncertainties the parent company faces.

Vienna, March 2019

The Executive Board

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

Mag. Dr. Michael Strugl
Vice-Chairman of the Executive Board

Dr. Peter F. Kollmann
Member of the Executive Board

Mag. Dr. Achim Kaspar
Member of the Executive Board

VERBUND Group structure

as at 31 December 2018 GRI 102-45

100.00% Energji Ashta Shpk

100.00% Lestin & Co. Tauch- und Bergungsunternehmen Gesellschaft m.b.H

Legend

Consolidated (100%)

Proportionately consolidated

Accounted for using the equity method

Joint venture, accounted for using the equity method

Not consolidated

– – – Profit and loss transfer agreement

100.00% VERBUND Wind Power Deutschland GmbH

61.26% Infrastrukturgesellschaft Bischheim GmbH & Co KG

81.00% Infrastruktur Oberheimbach I GmbH & Co KG

95.00% Windpark Dörrebach GmbH & Co KG

95.00% Windpark Utschenwald GmbH & Co KG

95.00% Windpark Seibersbach GmbH & Co KG

95.00% Windpark Stetten I GmbH & Co KG

95.00% Windpark Schönborn GmbH & Co KG

95.00% Windpark Rheinböllen GmbH & Co KG

95.00% Windpark Hochfels GmbH & Co KG

95.00% Windpark Dichtelbach GmbH & Co KG

95.00% Windpark Eichberg GmbH & Co KG

95.00% Windpark Ellern GmbH & Co KG

*) in liquidation

**) the company has entered into a proportionate loss absorption agreement with its shareholder(s)

1) VERBUND AG holds a 99.9972% share in VERBUND Thermal Power GmbH & Co KG and VERBUND Thermal Power GmbH holds a 0.0028% share.

EDITORIAL DETAILS

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Shareholder structure:
– Republic of Austria (51.0%)
– Syndicate (>25.0%) consisting of EVN AG (the shareholders of which are: Niederösterreichische Landes-Beteiligungsholding GmbH, 51%, EnBW Trust e.V., 30.0%) and Wiener Stadtwerke (the sole shareholder is the City of Vienna)
– TIWAG-Tiroler Wasserkraft AG (>5.0%; the sole shareholder is the province of Tyrol)
– Free float (<20.0%): no further information is available concerning proprietors of shares in free float.

Legal and statutory limitations of voting rights:
With the exception of regional authorities and companies in which regional authorities hold an interest of at least 51%, the voting rights of each shareholder in the Annual General Meeting are restricted to 5% of the share capital.

Regulatory body/trade associations:
E-Control GmbH/E-Control Kommission
Bundesministerium für Finanzen
Wirtschaftskammer Österreich
Oesterreichs Energie

Object of the Group:
The Group focus is the generation, transportation, trading with and sale of electrical energy and energy from other sources as well as the provision and performance of energy services.

Executive Board:
Wolfgang Anzengruber (Chairman),
Michael Strugl (Vice-Chairman),
Peter F. Kollmann,
Achim Kaspar

Supervisory Board:
Gerhard Roiss (Chairman), Michael Süß (1st Vice-Chairman), Elisabeth Engelbrechtsmüller-Strauß (2nd Vice-Chairwoman), Harald Kaszanits, Werner Muhm, Susanne Riess, Jürgen Roth, Stefan Szyszkowitz, Christa Wagner, Peter Weinelt, Doris Dangl, Isabella Hönlinger, Kurt Christof, Wolfgang Liebscher, Hans Pfau

Specific laws applicable:
Austrian Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG) with associated regulations and implementation laws. The legal bases listed can be accessed online via the legal information system of the Federal Chancellery of the Republic of Austria at www.ris.bka.gv.at.

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Verbund
Power for the Future