Growth through change.
Change through energy.

Annual Financial Report 2010

Verbund

VERBUND
Annual Financial Report 2010

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Part 1
Group

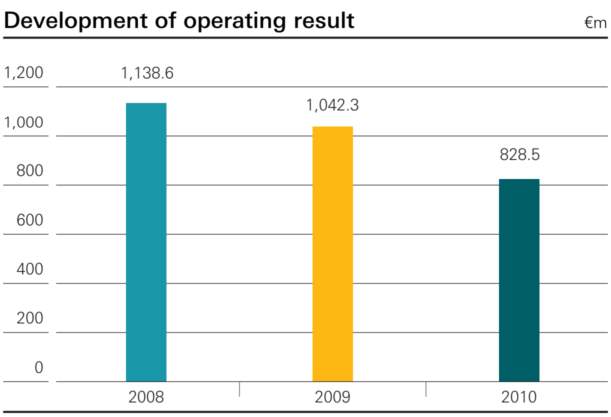
Five-year comparison

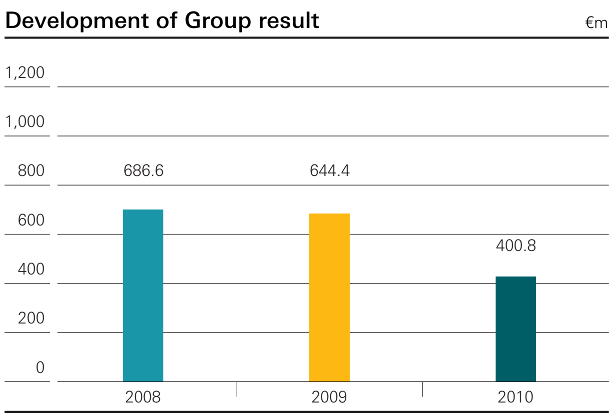
VERBUND Group 2010, IFRSs

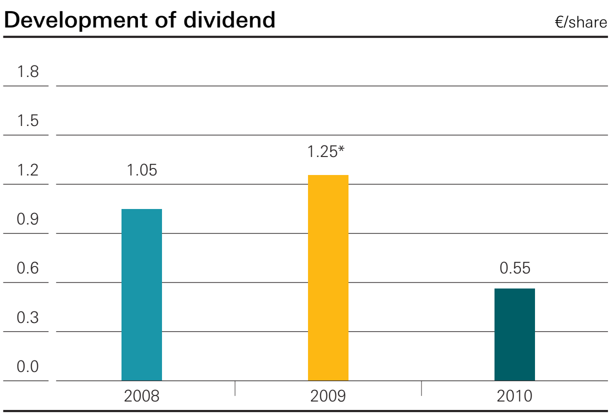
	Unit	2010	2009	2008	2007	2006
Revenue	€m	3.307,9	3,483.1	3,744.7	3,038.3	2,878.2
Operating result (EBIT)	€m	828,5	1,042.3	1,138.6	916.1	806.5
EBITDA	€m	1,059.2	1,251.5	1,321.8	1,099.1	984.0
Group result	€m	400.8	644.4	686.6	579.2	501.1
Balance sheet total	€m	11,291.0	10,345.2	8,293.8	7,339.8	6,440.2
Equity	€m	4,372.4	3,409.7	3,128.1	2,674.6	2,292.7
Net debt[1]	€m	4,233.9	4,788.9	2,753.2	2,119.5	1,986.0
Capital expenditure for property, plant and equipment	€m	635.7	471.9	440.3	249.4	201.2
Cash flow from operating activities	€m	778.2	968.0	934.2	807.6	753.9
Free cash flow	€m	–355.8	–1,075.7	-187.5	161.1	239.8
EBITDA margin	%	32.0%	35.9%	35.3%	36.2%	34.2%
Return on sales (ROS; EBIT margin)	%	25.0%	29.9%	30.4%	30.2%	28.0%
Return on capital employed (ROCE)[1]	%	8.2%	12.9%	16.7%	15.9%	15.7%
Return on equity (ROE)	%	12.9%	22.4%	27.3%	26.8%	26.8%
Equity ratio (adjusted)	%	39.9%	34.3%	41.3%	39.6%	39.6%
Gearing ratio[1]	%	96.8%	140.4%	88.0%	79.2%	86.6%
Gross debt coverage (FFO)[1]	%	17.6%	20.2%	36.3%	30.3%	35.2%
Gross interest cover (FFO)[1, 2]	X	3.6	4.8	7.1	8.1	7.7
Share price high[5]	€	32.12	38.13	59.30	49.95	41.58
Share price low[5]	€	24.24	23.73	29.74	31.21	30.05
Closing price[5]	€	27.88	29.71	32.56	47.88	40.42
Market capitalisation	€m	9,685.9	9,156.6	10,035.0	14,756.6	12,457.4
Earnings per share[5, 6]	€	1.28	2.09	2.23	1.88	1.63
Cash flow per share[5]	€	2.24	3.14	3.03	2.62	2.45
Carrying amount per share[5]	€	12.59	11.06	10.15	8.68	7.44
Price/earnings ratio (last trading day)[6]	X	21.71	14.21	14.61	25.48	24.86
Price/cash flow ratio	X	12.45	9.46	10.74	18.27	16.52
Price/book value ratio	X	2.22	2.69	3.21	5.52	5.43
(Proposed) dividend per share[5]	€	0.55	1.00	1.05	0.90	0.75
(Proposed) special dividend per share	€	–	0.25	–	–	–
Dividend yield	%	1.97	4.21	3.22	1.88	1.86
Payout ratio	%	47.67	59.79	47.13	47.89	46.13
Entity value/EBITDA[1]	X	13.14	11.14	9.67	15.35	14.68
Number of employees[3]		3,015	2,820	2,541	2,441	2,438
Electricity output[4]	GWh	55,729	51,289	56,057	57,038	55,472
Hydro coefficient		0.99	1.06	1.01	0.97	0.96

[1] Key ratio was revised, previous year's values adjusted. // [2] Interest expenses without the profit shares attributable to the limited partners. // [3] Due to the time-weighting of employment relationships when calculating the number of employees, the increase in personnel resulting from the expansion of the group of consolidated companies in 2009 was recorded proportionately. // [4] Electricity sales before netting for external electricity trading: Q1–4/2010: 141,369 GWh; Q1–4/2009: 111,962 GWh. // [5] The 1:10 stock split on 23 May 2006 was taken into account. // [6] For calculating the earnings per share, the average number of shares was determined exactly to the day.

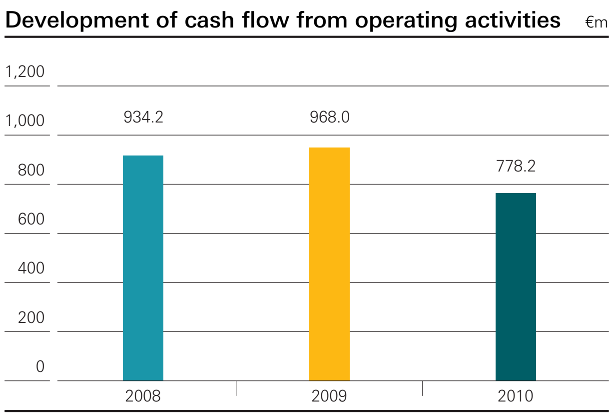
Highlights







* including a special dividend of €0.25/share



VERBUND
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Report of the Managing Board

Dear Shareholder,

In times of change, one thing is particularly important – a clear strategy. As far as the future is concerned, we feel sure that renewable energy is the way to go. Clean, sustainable hydropower has always been the backbone of our Group. And it will play an even more important role in the Europe of tomorrow. This is why VERBUND will continue to invest in expanding it, supplemented by low-carbon thermal power and wind power.

Capital increase drives investment in hydropower

A milestone in VERBUND's history was the increase in share capital of approx. €1bn 24 November 2010. 39,215,686 new shares were placed at a price of €25.50 per share. The subscription ratio was roughly 1:7.9. When the capital increase was registered, VERBUND's share capital rose from €308.2m to about €347.4m. The capital raised will enable us to implement the planned investments quickly on the basis of a sound capital structure and a credit rating in the A range. Over the coming six years, VERBUND is planning to invest €2.4 bn in growth projects, such as the large-scale pumped storage power plants Limberg II in Salzburg and Reisseck II in Carinthia. We will also drive expansion of the high-voltage grid in Austria and continue to invest in Turkey. Following last year's challenging economic situation, the capital increase will give VERBUND the strength to meet future needs.

Water supply, wholesale prices and one-off effects impact results

As predicted, the results for 2010 showed a decline. Revenue was down 5.0% to €3,307.9m. The drop in the operating result was, however, less than expected at the beginning of the year. It actually fell by 20.5% to €828.5m. The Group result was down 37.8% to €400.8m as expected. The reason was the one-off effects already communicated of allowances for the interest held in POWEO S.A. (Group) and exchange rate losses from a ¥ bond. Furthermore, interest expenses increased due to more funds being borrowed in 2009.

The lower water supply from the rivers compared with 2009 also impacted the results, as VERBUND generates 90% of electricity from hydropower in Austria. At 0.99, the hydro coefficient may only have been 1.0% below the long-term average, but 7.0 percentage points down on the previous year's level. The Bavarian power plants on the Inn River purchased in 2009, however, compensated for the run-of-river plants' lower output due to the weather. Compared with 2009, generation from annual storage power plants was down 9.7% due to a decline in water inflows.

Thermal generation, on the other hand, was up 56.9% to 4,258 GWh. What accounted for this was higher domestic thermal generation in Austria and the electricity supplied by POWEO's Pont-sur-Sambre plant, which has been in operation since the end of September 2009. All in all, VERBUND generated electricity totalling 31,078 GWh in 2010, up 3.9% on 2009.

In addition, the results were also significantly affected by the extremely weak developments in the wholesale prices. As a result, the prices applying to the 2010 fiscal year for year base 2010 forward contracts traded in 2009 were €49.2/MWh on average, 30% below the previous year's level. The prices for the front year peak contracts traded in 2009 dropped 30% on average over the year to €69.8/MWh.

Trading and sales further expanded
VERBUND continued to step up activities in electricity trading and sales also in 2010. In electricity trading, we operate in over 20 European countries and trade on all the major European electricity exchanges, the bilateral over-the-counter (OTC) market in many Central European countries and in Eastern and South-Eastern Europe. Trading enables us to optimise power plant utilisation and market our own electricity as well as possible. In 2010, VERBUND traded 141 TWh – which is twice the annual electricity consumption in Austria. This volume makes VERBUND one of Europe's leading electricity traders. We also succeeded in increasing the volume of business with resellers.

In sales, VERBUND is the most successful new electricity supplier in Austria and ranks among the top five suppliers to customers in the Austrian market. Our customer service also proved its worth with VERBUND coming out top in the 2010 test run by the Austrian consumer association's "Konsument" magazine.

Stable payout ratio of 47.7%
Still reeling from the financial market crisis, the international stock exchanges only started to pick up again in the second half of the year. The ups and downs on the stock market also affected the VERBUND share's performance: Having fallen 6.2%, it closed the year at €27.9. At the Annual General Meeting on 13 April 2011, we will propose a dividend of €0.55 per share. The proposed dividend will therefore remain unchanged at a payout ratio of 45–50% and will be 47.7% for 2010.

Restructuring and savings
In the period under review, the general economic situation remained difficult for VERBUND. The logical consequence was that we continued and intensified the ongoing cost-cutting programmes and measures for increasing efficiency and improving the capital structure. By far the most important of these measures was the successful capital increase in November. On 20 April 2010, we also signed contracts with EVN AG (Energie Versorgung Niederösterreich AG). Following approval by the Albanian and European authorities, they became effective on 27 August 2010. EVN consequently now holds a 50% share in the Ashta power plant project. In June 2010, we sold an interest tranche in the Inn River power plants purchased in 2009. The 17 partners in Innkraft Bayern GmbH & Co. KG acquired a share of 3.46%.

Forward-looking investments and projects for the future
At the same time as implementing the restructuring and cost-cutting measures, we continued to invest in Austria as planned. Here, we focused on expanding hydropower and increasing the security of Austria's electricity supply. The Limberg II pumped storage power plant in Salzburg and the combined cycle gas turbine power plant (CCGT) in Mellach, Styria, took priority. We are also dedicated to completing the 380-kV grid known as the Austrian Ring, which forms the backbone of electricity supply due to the rising share

Ltr: Dr. Johann Sereinig
Dipl.-Ing. Wolfgang Anzengruber
Dr. Ulrike Baumgartner-Gabitzer

of renewable wind power in Europe. The ground-breaking ceremony for the Reisseck II pumped storage power plant in Carinthia was held in Q4/2010. We are also working hard on gaining approval from the authorities for other hydropower projects, such as the Jochenstein-Riedl or Limberg III pumped storage plants and run-of-river plants like the Inn joint venture.

As pacesetter in the electricity sector, VERBUND promotes expanding the use of electric vehicles in Austria and Europe as well as application-oriented research in energy management and topics relevant to the future such as smart grids and smart meters.

Outlook: Strengthen market position

We see our Group as a driving force that shapes the current developments in the electricity sector. Our strength is hydropower supplemented by thermal and wind power. We develop forward-looking energy solutions for responsible people. In 2010, we repositioned and streamlined our corporate strategy and the VERBUND brand. The strong VERBUND brand is also intended to convey direction and trust to you, our customers and employees in the future.

Following the challenging economic situation last year, we feel confident and – thanks to the capital increase – strong enough to tackle 2011. Our goal is to implement the investments as planned with a view to consolidating the Group's strong position in the Austrian and European electricity market.

On the basis of an average water supply, we expect the operating result and the Group result to remain more or less the same in the 2011 fiscal year. Our dividend policy will continue to aim for a constant payout ratio of 45 to 50% of the Group result.

Dipl.-Ing. Wolfgang Anzengruber

Dr. Johann Sereinig

Dr. Ulrike Baumgartner-Gabitzer

Report of the Supervisory Board

VERBUND – Austria's foremost electricity company – was faced with extremely difficult conditions during the 2010 fiscal year. After a short delay, the consequences of the global economic crisis also affected the Group's results. However, despite the tense state of the market and a slightly below-average water supply, VERBUND was able to limit the damage with the help of restructuring and cost reductions while still continuing to pursue its strategy of profitable and sustainable growth.

The Supervisory Board actively monitored and fostered these positive developments. During the year under review, it did, during seven plenary meetings, perform the tasks and exercise the powers that are incumbent upon it by virtue of the law and the Articles of Incorporation. The overall attendance rate of all the members of the Supervisory Board exceeded 91%. In addition, the Chairperson of the Supervisory Board maintained regular contact with the members of the Supervisory Board in regard to important matters and obtained the opinion of individual members if they were absent. As a result, every member of the Supervisory Board was always involved in material matters.

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

Raising of share capital and investments

The fiscal year ended was, above all, moulded by the raising of share capital, which was approved by the shareholders in an Extraordinary General Meeting almost unanimously in September 2010. Subsequently, this raising of share capital in the amount of roughly €1bn was already decided upon and successfully carried out by the Managing Board in consultation with the Supervisory Board in November 2010. The raising strengthened the Company's capital structure and has given VERBUND added flexibility when it comes to rapidly putting its long-term investment plan into effect (including, above all, projects within Austria) in accordance with its strategy for further value enhancing growth.

Besides approving the Group budget, the other key Supervisory Board decisions that stand out were approving the construction of the Reisseck II pumped storage power plant and approving capital borrowings and the furnishing of guarantees to finance the Group's growth path and ensure that it has adequate liquidity. Other important matters included the amendment of the Articles of Incorporation – among other things to effect the new company name VERBUND AG – and the strategic further development of our foreign interests. The most noteworthy example of that development work was restructuring at POWEO S.A. (Group) in France, with a number of reports presented and appropriate measures decided upon. In addition, the termination of cross-border leases continued, considerably reducing our risks. Only one such lease is still in place.

New composition of the Supervisory Board and Managing Board

The terms of office of all the elected members having expired, the entirety of the Supervisory Board underwent re-election during the Annual General Meeting on 7 April 2010. The size of the Supervisory Board remained unchanged. Three new members were elected to the Supervisory Board. There was no change in the employee representatives. During the constitution of the Supervisory Board, which was appointed for five years, the previous Chairperson and his Vice-Chairpersons were confirmed in their offices.

The composition of the Managing Board also changed during the 2010 fiscal year. At his own request, Christian Kern retired from the Managing Board on 7 June 2010. Following the retirement of Christian Kern, the Supervisory Board put into force a new allocation of responsibilities for the Managing Board. Christian Kern is to be replaced in 2011.

The Supervisory Board thanks the retired members of the Board for their work on the Supervisory Board and thanks Christian Kern for his many years of successful work in senior management positions at VERBUND.

Code of Corporate Governance, Supervisory Board Committees

As the foremost listed enterprise in its industry, VERBUND committed early to complying with the Austrian Code of Corporate Governance. The Supervisory Board too sees itself as committed to the Code and reaffirmed its commitment with respect to the amended Code – which was revised as of January 2010 – at the beginning of the year ended. The Supervisory Board endeavours to consistently comply with the provisions of the Code that relate to the Supervisory Board. In this spirit, all rules relating to the Supervisory Board's collaboration with the Managing Board and the Supervisory Board itself are complied with in full with the exception of one minor, explained deviation.

In accordance with the requirements of the Code of Corporate Governance, the Supervisory Board also continuously strived to increase its organisational and operational efficiency. Key measures taken by the Supervisory Board included, in particular, reducing the size of its Working Committee from a total of nine to six members and introducing more efficient procedures for handling the documents used at meetings.

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

According to the Code of Corporate Governance and the rules of procedure, two other Supervisory Board committees – a Nomination Committee and a Remuneration Committee – were again set up in the fiscal year ended. The Remuneration Committee, which has the same members as the General Committee, held two meetings dealing with compensation of the members of the Managing Board and the retirement of one member of the Managing Board. The Nomination Committee met once to prepare the re-election of the Supervisory Board. In addition, the General Committee met regularly to discuss topics of current importance. In part, it did so with the Managing Board as a whole or with individual members of the Managing Board.

Further information about the composition and operation of the Supervisory Board and its committees and about the remuneration of its members is contained in the Corporate Governance Report (from page 212).

Annual financial statements, consolidated financial statements

The annual financial statements together with the Management Report, the consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRSs) and the Group Management Report for the 2010 fiscal year were audited by the Auditor Deloitte Audit Wirtschaftsprüfungs GmbH and given an unqualified auditors' report.

The Auditor reported on the results in writing and found that the Managing Board had provided the explanations and proofs that had been requested, that the accounts, annual financial statements and consolidated financial statements are in accordance with the legal requirements and, in conformity with the principles of proper accounting, present fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the Company and the Group and that the Management Report and Group Management Report are consistent with the annual financial statements and the consolidated financial statements. Following their in-depth examination and discussion by the Audit Committee and the Supervisory Board, the Supervisory Board approved the annual financial statements for the 2010 fiscal year presented by the Managing Board. As a result, they are final for the purposes of Section 96 (4) of the Austrian Stock Corporation Act (Aktiengesetz – AktG). The Management Report by the Managing Board was approved, as was the profit appropriation proposal. The consolidated financial statements and the Group Management Report were also acknowledged and approved by the Supervisory Board, as was the Corporate Governance Report submitted by the Managing Board.

Finally, the Supervisory Board thanks the Managing Board and all the employees for their high level of dedication and their successful work during the 2010 fiscal year.

The Supervisory Board thanks the Group's shareholders, customers and business associates for their trust.

Dr. Gilbert Frizberg,
Chairman of the Supervisory Board
Vienna, February 2011

Board members

Short version

For details on Managing Board and Supervisory Board members, see the Corporate Governance Report, from page 212.

Managing Board

Dipl.-Ing. Wolfgang Anzengruber	CEO and Chairman of the Managing Board
Dr. Johann Sereinig	Deputy CEO and Vice-Chairman of the Managing Board
Dr. Ulrike Baumgartner-Gabitzer	Managing Board Member
Mag. Christian Kern	Managing Board Member *(until 7 June 2010)*

Supervisory Board

Dr. Gilbert Frizberg	Chairman
Dr. Maximilian Eiselsberg	1st Vice-Chairman
Dkfm. Peter Püspök	2nd Vice-Chairman
o. Univ.-Prof. Dipl.-Ing. Dr. Günther Brauner *(until 7 April 2010)*	
Dipl.-Betriebswirt Alfred H. Heinzel	
Dr. Burkhard Hofer	
Mag. Harald Kaszanits *(from 7 April 2010)*	
Mag. Herbert Kaufmann	
Dr. Michael Losch *(until 7 April 2010)*	
Mag. Dr. Reinhold Süssenbacher *(from 7 April 2010)*	
Dipl.-Ing. Hansjörg Tengg *(until 7 April 2010)*	
Christa Wagner *(from 7 April 2010)*	
Ing. Siegfried Wolf	
Anton Aichinger	Chairman of the Group's employee representatives
Kurt Christof	Chairman of the Central Works Council
Harald Novak	Chairman of the Central Works Council
Dipl.-Ing. Ingeborg Oberreiner	Chairwoman of the Works Council
Ing. Joachim Salamon	Member of the Central Works Council

Strategy and markets

I
For the eight strategic pillars, see page 15.

Economic crisis, climate change, new technologies: the whole world is undergoing radical change. And the electricity sector is no exception. Given the fact that fossil resources are becoming increasingly scarce yet demand for energy is steadily rising, responsible citizens are calling for climate-friendly sources of energy and forward-looking solutions. VERBUND sees itself as a driving force that shapes such developments. We therefore streamlined our corporate strategy in 2010 and defined eight pillars as the basis for our work.

Creating values for the future

Management means creating values. We are dedicated to this principle for the benefit of the owners, our customers and employees. What links it to the VERBUND strategy is our clear commitment to value-based management and a stable credit rating in the A range. We therefore apply value-based and strategic criteria to all our investment and acquisition activities.

Focus on five markets

Our geographical focus is on five specific areas: the core markets of Austria and Germany as well as the interests in Italy, France and Turkey.

Austria and Germany, the two core markets

Austria, our domestic market, is of the greatest importance to us because its topography has made large volumes of water available as a resource here. This enables us to make full use of the climate-friendly form of generating electricity from hydropower.

After Austria, Germany is definitely by far our most important electricity market. Here, we will be stepping up our efforts. A major step in this direction was taking over 13 run-of-river power plants on the Inn in Bavaria from E.ON in 2009. They are an ideal supplement to the existing VERBUND generation facilities and are of particular strategic value due to their geographical proximity to the domestic market in Austria.

Italy, the sound and profitable market

In Italy, we founded Sorgenia S.p.A. (Group) together with the Italian industrial holding CIR in 1999. Italy has since proved to be a sound and profitable market. Given its lack of generation capacity with the resultant dependence on imports and limited transmission capacity, electricity prices in Italy were and still are among the highest in Europe. It is therefore possible to achieve attractive margins on the Italian market. Potential for expansion exists here above all in the area of gas and wind power.

France, the challenging market

Over the past year, France turned out to be our most challenging market. With a stake of 46%, we are the largest single shareholder in POWEO S.A. (Group). The previous strategy aimed at expanding thermal and renewable generation capacities and a strong consumer portfolio. While the generation segment is performing satisfactorily for VERBUND in line with the market conditions, our great hope of the electricity market being deregulated has not yet materialised. The enactment of the NOME law, which will provide for profitable activities on the end customer market, has been further delayed and is not expected to come into force until the first half of 2011. In the current situation, it is impossible to achieve positive margins as an alternative supplier in this market. This not only applies to POWEO S.A. (Group), but to all alternative suppliers. Given that the years of delays have led to high losses, POWEO S.A. (Group) has started an action programme to end the situation. VERBUND is supporting the Company's reorganisation by taking over the 60% share in POWEO S.A. (Group) Production S.A.S. held by POWEO S.A. (Group), which the Board of Directors at POWEO S.A. (Group) agreed to before Christmas. The transaction, also giving POWEO S.A. (Group) a call option for a limited period to buy back the shares, should be completed in the first quarter of 2011. In addition, the Board also decided to part with the renewables segment in the interest of focusing on the business model and has initiated the sale process.

Turkey, the unique growth market

Turkey is an attractive growth market with an anticipated long-term increase in electricity demand of around 6% p.a. In 2007, we therefore decided to enter the Turkish power market and acquired 50% of the shares in Enerjisa Enerji Üretim A.S. (Group), the Turkish Sabanci Group’s electricity generation company. Both in hydropower, where we bring our core competency to bear, and new renewable energies (e.g., wind, solar) as well as in modern thermal power plants Turkey still has great potential for expansion.

Hydropower is our core competency

Our most important source of power is water. We will therefore also invest in expanding hydropower in the future. Top priority for us is investment in hydropower projects in our core markets of Austria and Germany. In addition to building small to medium-sized run-of-river power plants, we primarily focus on expanding existing pumped storage power plants. Here, the projects Limberg II, Reisseck II and Limberg III are worth particular mention. The opportunity to “store” electricity in the pumped storage power plants and its flexible use gives us a significant competitive advantage in Europe. This is because pumped storage power plants are ideal for supplying the electricity required to balance demand, which is becoming increasingly valuable as the percentage of weather-dependent renewable technologies used – above all wind and solar power – is constantly growing. In addition to our hydropower projects in the core markets of Austria and Germany, we also make use of our expertise and comprehensive know-how in investment projects in our international interests. Hydropower, for example, accounts for half of the new power plant capacity planned in Turkey.

The eight strategic pillars for VERBUND

01

Profitable growth and excellent rating

We are committed to value-based management while maintaining an excellent rating for the Company.

02

Focus on five markets

We concentrate on five markets: In addition to Austria and Germany we focus in particular on Italy, France and Turkey.

03

Hydropower

Around 90% of VERBUND's electricity comes from environmentally friendly hydropower. We are further expanding hydropower in our markets.

04

Thermal and wind power to supplement supply

In addition to hydropower, we invest in low-carbon thermal power from natural gas and wind power. These two sources supplement VERBUND's environmentally friendly energy generation portfolio.

05

Trading

Trading is the central hub for energy at VERBUND and ensures the best possible marketing for the electricity we generate. Our aim is to further expand international trading.

06

Sales

Supplying consumers serves to secure our own electricity generation and positions VERBUND as an attractive service provider for industrial, commercial and household customers. Our goal here is to acquire more consumers.

07

Power grid

The VERBUND power grid is the most powerful in Austria and links the country up with the international electricity market. We are continuing to drive expansion of the grid in order to ensure security of supply.

08

Innovation and new applications

We play a leading role in developing new applications for electricity and promote research and development – for example in the area of electric vehicles.

Thermal and wind power to supplement supply

Investment in gas power plants and wind turbines is a low-carbon supplement to our generation portfolio, which primarily focuses on hydropower. Our showcase projects in this connection are the Mellach CCGT in Austria that will go online in 2012 and Bandirma in Turkey, which has been in operation since October 2010. In Romania, we are currently developing a 200-MW wind farm which is predicted to generate some 550 GWh of electricity annually. With projects such as this we aim to achieve a diversified optimum generation structure on the one hand and ensure a sustainable energy mix from eco-friendly sources on the other. In our natural gas and wind power projects, we attach particular importance to striking a balance in the overall portfolio regarding generation capacity and target countries in order to maximise earnings and minimise risks.

Further expanding trading and sales

A key link in VERBUND's value chain is international electricity trading. It is responsible for ensuring the best possible marketing of own generation, optimising daily power plant utilisation and access to the energy markets for our power plants and sales to consumers. With our comprehensive expertise in the area of risk management and the energy industry, trading is therefore the hub for the Group's national and international activities. VERBUND operates in over 20 countries through trading subsidiaries. They not only carry out both exchange and OTC transactions in Austria and abroad, but also keep in touch with resellers. A part of trading that is rapidly gaining importance is business with green electricity products, where Germany above all is a key sales market.

What is also strategically important in the electricity business is the end of the value chain with our own sales company. Access to our own customers is an important part of the Group's risk diversification strategy, especially in times of crisis with highly volatile wholesale markets. Our image in the consumer market also makes the VERBUND brand a benchmark in society and underscores VERBUND's positioning as a competition driver and attractive service provider.

Power grid – The backbone of power supply

For details on research and development, see page 42.

A critical factor in the energy industry is the high-voltage grid, the backbone of electricity supply. The steadily growing share of volatile renewables and the energy consequently required to balance supply and demand place constantly increasing demands on the grids. A cornerstone of our strategy is therefore to expand the Austrian high-voltage grid to adjust it in response to the changing requirements. Without high-capacity transmission lines, we will not be able to continue expanding power plants and ensure security of supply for the population. Furthermore, Austria is an important hub for the power grid in Europe and therefore a key partner in maintaining Europe's electricity supply.

Driving force for research and development

As Austria's leading utility, we help to shape new products and developments right from the outset. An area we centre on is electric mobility, which we promote with the association Austrian Mobile Power and the flagship project EmporA.

Investor relations

The stock exchanges still suffered from the financial market crisis in 2010 with some substantial losses on the international stock markets in the first half of the year. In the second half, the markets bounced back despite the difficult economic situation. As a whole, 2010 saw marked differences between the individual markets and also between the various sectors. Over the year, the US Dow Jones Industrial index was up 11.0%, while the Euro STOXX 50 and Japanese Nikkei 225 remained below the level at the end of the previous year. Having fallen 6.2%, the VERBUND share closed the year at €27.90.

International stock markets: Recovery in the second half of the year

Nervousness was still high on the international stock markets during the first half of 2010. Due to weak economic data, the fear of a double-dip recession started to grow in mid-January. In addition, US President Obama's plans for the banks and the financial problems in Greece and other EU countries led to falling prices. Predominantly positive macroeconomic data resulted in a recovery in prices from mid-February on, leading to annual highs on the international exchanges between mid and late April. Within a few weeks, these gains were, however, lost again, as the credit ratings for Europe's debtor nations were downgraded causing high risk aversion among investors. The EU's extensive stimulus package for refinancing government bonds succeeded in slowing down the decline on the stock markets, but could not reverse the trend. Over the last few weeks in the first half of the year, prices continued to slide with volatility running high. As a result, the key stock indices closed at the end of the first six months of 2010 below the figures at the end of 2009.

The beginning of the second half of 2010 saw a significant recovery in prices. As companies reported higher earnings, the market participants were not discouraged in the long term by weaker economic data in some areas. Trends were particularly encouraging in the US, but in Europe, too, the stock markets mostly reported gains in Q3/2010, especially in the EU's export-oriented core countries. In Q4/2010, the upward trends on the stock markets became stronger and more widespread, but share performance remained volatile on most of the exchanges. While the positive economic forecasts boosted the markets on the one hand, the European debt crisis remained a decisive dampening factor on the other. The decline in share prices towards the middle of the quarter was more than offset by a strong December.

Over the year, the US Dow Jones Industrial index rose 11.0% in 2010, while the Euro STOXX 50 fell 5.8% over the whole year. The Japanese Nikkei 225 index was down 3.0%.

In 2010, the Vienna stock exchange again performed very well. As in 2009, Vienna's leading index, the ATX, clearly outperformed most international stock exchanges. Share performance on the Vienna stock exchange showed high volatility in the first three quarters, primarily due to the uncertainties regarding future economic development and the impact of the European debt crisis. It was not until September that a continuous upward trend became apparent. At the end of the year, the ATX closed at 2,904.5 points, up 16.4%.

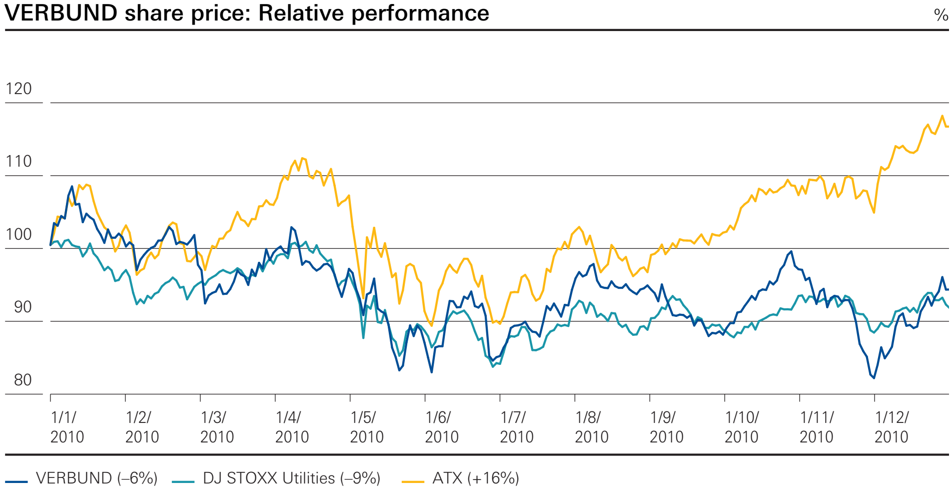
For the latest information on the VERBUND share, visit: www.verbund.com

VERBUND share performance: –6.2%

The VERBUND share's performance in 2010 was indicative of investors' continuing hesitation regarding utilities. In the first two months of the year, the share performed in relation to the ATX where it was weighted at 4.9% at the end of the year. As VERBUND's results for the 2009 fiscal year proved to be slightly below expectations and the outlook for 2010 muted, the share price fell again at the beginning of March. Following a brief upswing in March and early April, the share slid back down. Although the price recovered again briefly, it slumped again after the capital increase was announced at the end of the first half of 2010.

Due to the capital increase, the VERBUND share also showed a very volatile performance in the second half of 2010. It kept pace with the ATX in July and August, but in September, utility stocks came under pressure generally from low electricity prices and new taxes, which also had an adverse effect on the VERBUND share. Having recovered in October, it lost considerable ground in late November as a result of the poor market environment. In December, however, it made up for the losses to a great extent. At the end of the year, the VERBUND share closed at €27.90, down 6.2% over the year. Its performance was therefore weaker than the ATX (+16.4%), but slightly better than the sector index DJ STOXX Utilities (–8.7%).

VERBUND share price: Relative performance



Successful placement for capital increase of approx. €1bn

VERBUND successfully completed its capital increase on 24 November 2010 and placed 39,215,686 new shares. After the bid and offer period expired and the book-building process was completed, the final bid and offer price was set at €25.50 per share. The subscription ratio was roughly 1:7.9. The funds from the capital increase will be used to implement the long-term investment plan and strengthen the capital structure.

Existing shareholders exercised 84% of their subscription rights at the bid and offer price. The Republic of Austria and TIWAG-Tiroler Wasserkraft AG exercised all their subscription rights and the syndicate consisting of EVN AG and Wiener Stadtwerke Holding AG most of them. The remaining shares were placed with international and Austrian investors.

When the capital increase was registered, VERBUND's share capital rose from €308.2m to around €347.4m. The new shares started trading on the Vienna Stock Exchange on 26 November 2010. They are entitled to full dividends for the 2010 fiscal year. The capital increase was handled by Morgan Stanley as the global coordinator and sole bookrunner and together with Raiffeisen Centrobank as the joint lead manager.

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For further information on the shareholder and capital structure, see page 103.

Shareholder structure of VERBUND %

Republic of Austria	51
Syndicate of EVN and Wiener Stadtwerke	> 25
TIWAG	> 5
Free float	< 20

The Republic of Austria holds 51% of the shares and 49% are quoted on the stock exchange. Major shareholders include the EVN AG and Wiener Stadtwerke Holding AG syndicate and TIWAG-Tiroler Wasserkraft AG. Quoted on the Vienna Stock Exchange, the VERBUND share can also be purchased in Frankfurt, at the regional exchanges in Germany, in London and the US with an American Depositary Receipt.

Turnover, market capitalisation and dividend

Stock exchange turnover in VERBUND shares reached €3,122.8m in 2010. In the past business year, 454,682 shares were traded on average every day. As of 31 December 2010, the Group's total value based on market capitalisation was €9,685.9m and its ATX weighting 4.9%. At the Annual General Meeting on 13 April 2011, a dividend of €0.55/share will be proposed for the 2010 fiscal year. The payout ratio is 47.7%. Based on the share price as of 31 December 2010, the dividend yield is 2.0%.

Active communication with investors and analysts

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

In 2010, VERBUND held roadshows in Europe and the US and attended several investor conferences – e.g., the UniCredit Corporates in Kitzbühel and the RCB conference in Zürs. The Managing Board and investor relations team met investors from all over the world and used conference calls to give details of the key figures and VERBUND's operational and strategic development. The website www.verbund.com provides extensive information under "Investor Relations", such as download versions of financial reports, the financial calendar, current presentations, information on meetings for shareholders and a special online version of the annual report.

Coverage by 17 renowned Austrian and international investment banks ensured the VERBUND share's visibility in the financial community. The following investment banks covered VERBUND last year:

Barclays Capital *Peter Bisztyga*
CA Cheuvreux *Alfred Reisenberger*
Commerzbank *Tanja Markloff*
Deutsche Bank *James Brand*
Erste Group *Christoph Schultes*
Execution Noble *Lawson Steele*
Goldman Sachs *Deborah Wilkens*
HSBC *Adam Dickens*
Kepler Capital Markets *Ingo Becker*
Macquarie Research *Matthias Heck*
Bank of America Merrill Lynch *Christopher Kuplent*
Morgan Stanley *Sean B. Lee*
Nomura *John Musk*
Raiffeisen Centrobank AG *Teresa Schinwald*
Société Générale *John Honoré*
The Royal Bank of Scotland *Peter Crampton*
UniCredit *Lueder Schumacher*

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Change is the order of the day

ROUND TABLE
19 January 2011, Sofitel Vienna

Participants
Wolfgang Anzengruber
Chairman of the Managing Board of VERBUND

Brigitte Bach *Head of the Energy Department, Austrian Institute of Technology, area of expertise: sustainable energy systems*

Rolf Wüstenhagen *Holder of the chair in Good Energies for the management of renewable energies at the University of St. Gallen*

Gerald Gross *ORF journalist, anchorman of the "Zeit im Bild 1" evening news*

The power industry is facing big challenges. What do our customers need? What sources of energy will we be relying on in the future? And what might the energy system look like in 50 years' time? Journalist Gerald Gross talked to VERBUND's CEO Wolfgang Anzengruber and energy experts Brigitte Bach and Rolf Wüstenhagen.

***Gross** In the wake of Obama's successful presidential campaign, it has become fashionable, in business, to talk about change. Is the much-cited change in the energy industry a marketing strategy or the order of the day?*

Anzengruber For us as an electricity utility company, it is clear that change is the order of the day. Because of a number of things that have happened, we can now no longer talk about energy solely from a growth perspective. The gas crisis two years ago raised the issue of supply security, and then came the problem of accessing resources and the ecological challenges. Change was already ripe for discussion before that – but now it's really here. I am certain that it will be a massive issue in decades to come.

***Gross** Is that also how the experts see it? People used to look the other way. Now we are looking it in the face and taking up the challenge.*

Wüstenhagen As I see it, change is right at the top of the agenda. Our energy system is fed by 20% renewable energy and 80% non-renewable energy that we are going to run out of at some point. This is an issue that is preoccupying many countries. In addition, a large part of the supply comes from a small corner of the world whose political situation is not particularly stable. Our goal must be to turn the ratio round from 20:80 to 80:20 by the middle of this century.

Bach Change affects many areas. Take the economic situation. We will have a completely different energy management system by the end of this century. It is becoming clear that we will have to use more and more renewable energy and enormously increase our energy efficiency. As a result, both ecological mechanisms and knowledge models will function differently.

Gross *We are at the end of an economic crisis and some people say it is already behind us. The energy industry is a good economic indicator because electricity contracts are concluded well in advance. How do you foresee developments?*

Anzengruber Electricity accounts for roughly 20% of Europe's energy portfolio. Electricity consumption by manufacturers fell sharply in 2008 and 2009, but there was little effect on the private sector. That was clearly made up for last year, and consumption should be back to pre-crisis levels by mid-2011. We believe that the economy is recovering. It remains to be seen whether the growth scenario will be a sustainable and robust one.

Wüstenhagen The evidence goes both ways. There are still sizable imbalances within the international system: the acute euro crisis – which is not yet over – and the exchange rate maladjustment between the United States and China. Are we already on the road back to normality or is a second wave heading for us? At the moment, there are a number of unanswered questions about the state of the economy.

Gross *As a layman, I have the impression that the energy experts do agree about one thing: Whatever happens in the future, electricity will play a more important role than it does now. Is that true?*

Bach Energy needs appear to be growing in many areas. In order to develop a new energy system, we need to substantially reduce consumption and boost energy efficiency. Within total energy needs, the possible uses for electricity are changing. This is because highly efficient modern buildings do not need lower temperatures for heating purposes, so other technologies are used. In addition, growing numbers of consumers are asking about energy-based services.

The global demand for energy will grow by 45% by 2030.

Gross *Wolfgang Anzengruber, how will the demand for electricity develop worldwide and how important will Austria's pumped storage power plants be for Europe?*

Anzengruber According to forecasts, the global demand for energy will grow by 45% by 2030. The economies of Southeast Asia, China and India have a massive energy appetite. Growth in Austria und Europe will be slower. However, the portion of the energy portfolio accounted for by electricity will grow to one third over the next 10 to 20 years. The new means of energy generation in Germany, wind power, is volatile. We therefore need the balancing capacities of pumped storage power plants. We should grasp this opportunity for Austria.

***Gross** … and as you see it, where does Austria stand in Europe?*

Bach Austria has built up an interesting position in the research field. We are very advanced in smart grids and demonstration projects in the renewable energy field. We are examining Austria's role in energy demand balancing and we are researching smart cities. Like electro-mobility, smart cities could help with the intermediate storage of renewable energy forms. Austria is one of the frontrunners in all these areas. It could profit both in the research field and economically.

Wüstenhagen Austria is in a unique position in Europe's electricity system when it comes to hydroelectric power and storable renewable energy. Only countries like Switzerland and Norway are in a similar situation. Storage will be needed to match the increase in fluctuating renewable energy within Europe – including, above all, wind and solar energy. If it is also possible to build socially acceptable power plants, this will certainly be a strategy with a future.

The transition to e-mobility is going to happen.

***Gross** E-mobility is likely to become one of the most important engines of demand for electricity in the future. It has been estimated that there could be 200,000 electric cars on Austria's roads in 2020. Do you think that is realistic?*

Anzengruber The transition to e-mobility is going to happen if we don't want to do without mobility. Today's mobility system is based on fossil fuels and only has an efficiency of about 15%. Moreover, we have to import the bulk of the energy. If demand in Asia's major economies increases, there will be a battle for the resources. Consequently, e-mobility will be important for economic reasons alone. We set up the Austrian Mobile Power platform to take account of the fact that e-mobility will create major challenges of an indirect and direct kind as well as creating just as many opportunities. Austria has a strong automotive industry, so this will also be an opportunity for the Austrian economy.

***Gross** Brigitte Bach, once, when talking about this, you described the car as the energy storage medium of the future. What form could that take?*

Bach Electric cars need batteries to run. They are charged where the car is standing – whether at work, at home or at a filling station. It will probably cease to be true that their fuel (i.e., electricity) will be especially cheap in the evening, at midday or in the morning. The price will be a little lower when there is an ample supply and one would like everybody to fill up. On the other hand, if there is a problem in the grid or a short-term demand peak, the energy can be drawn upon and that capacity used. The price will be a little lower if an ample supply coincides with low demand – and the price will rise if demand is high.

Gross *Rolf Wüstenhagen, that's still some way off. You are also an economist. When is the electric car actually going to become a reality?*

Wüstenhagen In marketing, you have to ask what the customer wants. Think about a washing machine that only starts running when electricity is cheaper. What customer would want to change his laundering habits just to save a couple of cents? We need to identify customers' needs. That is one part of the research we are doing into smart grids, and we are seeing the same thing in other areas. Mobile phones rapidly prevailed because they offered customers concrete benefits. A number of problems still need to be solved when it comes to electric cars, including range, cost and the network of electric filling stations. Only then can they rapidly penetrate the market.

Gross *If there are more and more decentralized suppliers, do grids need to be regulated differently. Have there already been changes in the way systems are managed?*

Anzengruber There have already been big changes in our transmission network. The issue now is to make distribution networks more intelligent and to ensure that bidirectional communication works. We need to see to it that the new forms of renewable energy are cost-effective. We must press ahead with their development where it makes economic sense and where hours of wind and sun are favourable. At the moment, competition is being distorted by massive supportive measures. We need Europe-wide synchronisation.

Wüstenhagen Few new technologies manage to effortlessly gain acceptance in the market. The Internet would not exist today if the Unites States Armed Forces had not invested a lot of government money in it. Start-up funding for new forms of renewable energy like solar and wind power is worthwhile if it makes them ready for the market. The challenge lies in achieving a balance. On the one hand, one wants to recoup one's investment. On the other, supplying industries will also develop. Classical mechanical engineering companies are occupying niches in the renewable energy industry. This too is a way in which society can achieve a return on its investment.

Bach The exciting challenge is not just to use these technical developments to meet renewable energy needs within Europe but also to become technical leaders and to thrive in export markets on a large scale.

We must be careful to ensure that electricity does not become a luxury.

Gross *How is the price of electricity going to develop in the future? It has been estimated that it could roughly quadruple by 2050. Could electricity ever become a luxury reserved for the upper classes?*

Anzengruber Europe's economic development has been possible because energy is available and cheap. We must be careful to ensure that electricity does not become a luxury. Energy is going to become more expensive per unit, but per capita consumption will fall. As a result, individual households' energy costs will stay the same. If we use less and become more efficient, we will also be able to afford more expensive energy. This will be renewable energy's big opportunity.

Bach At the same time, the demand for new, energy-linked services is growing. If we do nothing, consumption will increase massively. We must not just make existing services more energy-efficient, the same also applies to any future services. For instance, since the 1970s, there has been a 20% per capita increase in the residential space that requires heating, lighting and cooling.

Wüstenhagen I wonder whether there might be a "limit to growth" of a Club of Rome kind when it comes to consumption. Is it really true that we will always want to drive further and live in bigger and bigger residential units? Or will we eventually reach saturation point? Travelling a lot and spending a lot of time in one's car is not fun. There might possibly be a change in lifestyles that will take us in a different direction.

Gross *Austria is celebrating Bruno Kreisky's 100th birthday in 2011. His name is linked to Zwentendorf – the nuclear power plant that never went online. There has often been talk of a nuclear power renaissance in recent months. What is your view?*

Wüstenhagen One must distinguish between announcements and reality. Many countries are saying that they want to do something – from France and Finland to Italy, the United Kingdom, developing countries and emerging markets. In reality, very little is actually happening in Europe. We still haven't solved the final storage and armament problems, and cost-effectiveness is also an issue. According to a recent study by the IIASA in Laxenburg, nuclear energy – unlike most other technologies – has a negative learning curve. In other words, the more nuclear power plants you build, the more expensive it gets. I do not believe that nuclear energy has a future.

Gross *Let's look in our crystal ball. What will the energy model of the future be like?*

Bach The energy model of the future will be both exciting and active. There will be numerous energy-efficient technologies. For instance, houses will no longer need fossil energy for heating and air conditioning, and renewable energy will be a part of the model at every level, whether in cities, villages, regionally or across Europe. Everything will be integrated to create an intelligent system backed up by economic models whose parts communicate with one another and that actively incorporates all those involved – be they generator, consumer, storage or distribution network.

Gross *Wolfgang Anzengruber, scientists can dream, but you need to bring things into reality. Which energy model is it going to be?*

Anzengruber We will have much smarter technologies in 2050, and energy companies will change radically. Competition will not just be price-based. We will increasingly compete through services. VERBUND will be one of the biggest renewable energy producers in Europe. In the future, we will have powerful wind power plants in Europe's windy regions, solar-based technologies where it is sunny and storage capacities in the mountains. Many of the things we need have already been invented. All we have to do is combine them intelligently.

Management Report

Group

Human resources

VERBUND employed an average of 3,015 people in 2010. Due to our growth strategy in Austria and abroad, the number and scope of projects and the capital used is increasing. We will only be able to meet the upcoming challenges, however, if we have the best people working for us.

Forward-looking HR development

A key task in human resources (HR) management is to ensure that the right people are employed at all levels. VERBUND has established comprehensive HR planning and development with various options – starting with recruiting and ranging from training to performance-related pay and succession planning. A structured recruiting process is essential if the most suitable people for the job are to be found. We ensure this with a three-stage selection process. HR strategy also forms the basis for selecting the most important target groups for training and development.

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For further information, see www.verbund.com, section "Jobs & Career".

Key figures

	Unit	2009	2010
Average number of employees	persons	2,820	3,015
Of which apprentices	persons	118	147
New recruits	persons	232	164
Training per employee	hours	37.5	41.6
Average age of employees	years	44.2	44.3
Fluctuation rate	%	0.8	1.6

Savings achieved in human resources

It is extremely important to use human resources efficiently. VERBUND therefore took further action to save costs in HR in 2010. In light of the fact that the global economic situation is still difficult, we continued to implement our structured cost-cutting programme. It includes reducing overtime, decreasing unused holiday accruals, and cancelling or delaying plans for recruiting new personnel.

Where recruiting is necessary, VERBUND does so with the greatest cost-consciousness. Existing employees undergo consistent and targeted training while keeping the available budget in mind. VERBUND has also improved the efficiency of HR work by integrating various HR services, e.g., a shared operations centre will be responsible for HR administration from 1 January 2011.

Uniform performance-related pay scheme and careful succession planning

We introduced a new remuneration system for executives in 2009, followed by a Group-wide, performance-related pay scheme in 2010. As a result, all employees can now receive performance- and profit-related salary components. The percentage of variable components depends on the position. Gradings are based on the collective bargaining agreement for Austria's electricity companies. Comparing salaries with other companies on the market ensures that the pay is fair, competitive and takes costs into account. Not only does the new pay scheme guarantee consistent performance orientation but also assures quality and productivity.

Executives play a key role in a large group such as VERBUND. Careful succession planning is therefore of great significance to these positions. To identify suitable candidates, VERBUND develops detailed successor plans including HR development concepts in line with requirements. This process involves assessing the suitability, performance and potential of the talent existing in the Group. Regular reviews ensure that the plans are up to date.

Investing in training and development

The technical and industrial personnel constitute the basis of VERBUND in the plants and companies. Another important part of HR management is training apprentices. 2010 saw the opening of the new central and apprentice workshop in Kaprun/Salzburg. Together with the existing apprentice workshops in Ybbs-Persenbeug/Lower Austria and in Töging am Inn/Germany, it enables around 45 apprentices every year to start training as electrical and mechanical engineering technicians. A total of 147 young men and women are currently being trained.

Another focus is on training and development for skilled workers and masters. Providing apprenticeships in the dual profession of electrical and mechanical engineering technician, VERBUND expands this important Group's knowledge and the areas where they can then be employed. In addition, a training programme tailored to the specific workplace requirements is on offer every year.

Value-based management

The situation on the international financial and energy markets was also difficult in 2010. From Q3/2010 on, business operations were, however, much more stable again, but economic value added (EVA®) still dropped to €54.2m in 2010 (previous year: €350.4m*).

Creating values for the future

Management means creating values: VERBUND has been dedicated to this principle for many years now and therefore implements value-based management. EVA® was defined as the key performance indicator in 2003 to create greater transparency regarding value creation in the Group.

Increasing enterprise value in the long term is top priority for all decisions made. Given the investments VERBUND is planning in Austria and the international core markets, value-based management will focus more strongly in the future on managing the investment portfolio.

Economic value added still positive

Enterprise value increases in the long term if economic value added is positive. Unlike EBIT, cash flow or margin-based performance indicators, EVA® also takes risk-adjusted capital costs into account and helps prevent incorrect allocations. EVA® is calculated from the net operating profit after taxes (NOPAT), net of the cost of average working capital employed (capital charge).

NOPAT is profits derived from a company's operations before financing costs, including result from equity interests, and after deducting income taxes. In 2010, it was €677.3m (previous year: €876.5m). Working capital is the average total capital employed, net of the portions not involved in performance and commercialisation and the non-interest-bearing borrowed capital provided. It amounted to €8,307.9m in 2010 (previous year: €6,788.5m).

* The key figure was revised, the previous year's figures adjusted.

Weighted average cost of capital remained stable

The capital charge is determined by multiplying the capital employed by the weighted average cost of capital (WACC). WACC, which is the rate of return a company pays on average to investors and lenders in order to finance assets, is derived from the return expectations observed on the capital market. The capital asset pricing model (CAPM) is used to determine equity risk premiums. Equity and borrowing costs are weighted on the basis of the target capital structure.

The WACC for VERBUND is 7.5% and calculated as follows:

Weighted average cost of capital

market risk premium	5.6%	risk-free interest rate	4.0%
x beta coefficient	1.01	+ credit spread	1.6%
= equity risk premium	5.6%	= borrowing costs before tax	5.6%
+ risk-free interest rate	4.0%	– income tax rate	23.3%
= cost of equity	9.6%	= borrowing costs after tax	4.33%
equity ratio	60%	+ debt ratio	40%
	WACC	= 7.5%	

Uniform criteria for all projects

Future investment and acquisition projects are evaluated according to criteria and models that are uniform throughout the Group. Different capital costs are used for the segments, depending on the region. What determines the decisions here are value-based criteria. They are aimed at giving shareholders a capital market-oriented return, increasing market value and ensuring sustainable operating results.

To guarantee optimum capital allocation, the projects with the highest present value are implemented. Integrating EVA® in the decision-making process means that the periodic value contributions from completed projects are analysed using the same principles as are applied to future projects.

RENATE PRETSCHER
Sustainability officer

Business graduate / with VERBUND since 1983 / coordinates activities, projects and reports aimed at promoting the company's ecological and social commitment / thinks highly of the willingness to develop towards achieving greater sustainability

"If you want change, you have to help to achieve it yourself: in public, at the workplace and as a consumer. As the sustainability officer, my job is to support and motivate all the employees to act sustainably in their work." "Be the change you want to see in the world." (Mahatma Gandhi)

Sustainability

Sustainability reports can be downloaded from the following link: http://reports.verbund.com

With the focus on electricity generation from hydropower, sustainability has been firmly rooted in our core business since the Group was founded. Our commitment to sustainability was also confirmed and stressed when repositioning the brand in 2010: Eco-friendly hydropower is without doubt VERBUND's greatest strength.

Sustainability goals and strategy

In addition to our corporate strategy, VERBUND also developed a sustainability strategy in 2010. As a result, the implicit guidelines used to manage the Group sustainably for decades are now actually documented. The strategy is a guide with operating procedures for all employees and serves as the basis for defining goals aimed at improving our sustainability track record.

These goals are developed by a sustainability working group. It includes experts in the fields of business, environment and society from VERBUND AG as well as representatives of all the subsidiaries. The sustainability council then evaluates and prioritises the goals. Sitting on the council headed by VERBUND chairman Wolfgang Anzengruber are the members of the Managing Board and managers of the subsidiaries. This approach ensures ongoing development and improvement in sustainability at VERBUND. The goals are published every year in the sustainability report, which also gives details of the targets met over the preceding period.

Ongoing dialogue with politicians, authorities and industry

VERBUND remains constantly in touch with many different stakeholders. The aim is to make cooperation as constructive and responsible as possible. To achieve this, round table talks on the electricity industry's current concerns are held regularly at Managing Board and expert level with environmental and nature conservation organisations.

In 2010, VERBUND launched Power Facts, a new medium for providing decision makers in politics, administration and industry with concise information. At ONE DAY AT VERBUND, representatives of these stakeholders in the area of energy have the opportunity to spend the day at VERBUND headquarters and discuss various topics with executives and employees on the spot.

Responsibility to the environment

Power generation always involves a certain encroachment on Nature. Since the 1970s, we at VERBUND have been working to minimise the impact our business activities have on the environment.

Environmental management system and certification

Our environmental management system has undergone assessment to EMAS and ISO 14001 standards since 1995. All three thermal power plants in operation received certification. Since 2008, all the grid locations and lines have complied with the standards ISO 9001, ISO 14001, ISO 27001, OHSAS 18001 and EMAS.

Sustainability forms the core of the VERBUND brand: We strive for excellence in terms of economy and ecology at all levels of value creation in electricity, thus adding value for customers and other stakeholders. We evaluate our sustainability measures regularly and publish the results reviewed by experts in our annual reports.

VERBUND sustainability strategy

Environment

Our aim is to build and operate all our plants with as little environmental impact as possible and supply our customers with eco-friendly products.

In Austria and internationally we primarily rely on hydropower, supplemented with low-carbon thermal and wind power, for generating electricity. We constantly work on reducing our emissions – coal will not be of strategic importance in the future. With a high-capacity transmission network and pumped storage power plants, we can integrate new renewable energy sources, above all wind and solar.

We prevent or at least reduce the ecological impact of our operations and optimise environmental management at all our sites. Uniform environmental data management throughout the Group creates a sound basis for making decisions regarding our projects.

We do everything we can to conserve energy and use electricity efficiently, not only within the Company, but also outside with information and innovative solutions. Our climate strategy is defined with concrete performance indicators and targets.

In our research we focus on helping shape the energy systems of the future by developing innovative and forward-looking solutions.

Business

Our aim is to increase enterprise value with long-term and profitable growth.

Climate- and eco-friendly electricity generation – above all from renewable sources – is the backbone of our economic success. We are growing in Austria, Europe and Turkey on the basis of our core competency: electricity at all levels of value added. With our activities we increase productivity in many areas of life and contribute to regional value added.

Careful management and pro-active cost controlling in our projects and processes enable us to improve efficiency and maintain our competitiveness. Fair business practices and the principles of sustainability are a matter of course for us. We also look for them in our suppliers and other business partners.

Society

Our aim is to strike a social balance when carrying out Company activities.

We assume responsibility towards people and society for whom electricity is an important factor in their quality of life. We communicate actively, openly and respectfully with interest groups from all areas of society. We listen and give extensive information. Our success lies in providing customer-centric services with ecological orientation and competent, friendly advice.

We give our employees attractive, secure jobs and attach great importance to maintaining and developing their knowledge. It goes without saying that the workforce is entitled to co-determination as legally provided for and we adhere to the International Labour Organization’s standards. Occupational health and safety are also extremely important to us. Our comprehensive apprentice training ensures that we will have skilled people in the future. By fostering employee diversity, we bring different points of view to the Group.

We also assume social responsibility by supporting charitable organisations and passing on our knowledge to schools and universities.

Of the 123 hydropower plants, 45 were certified to EMAS (56% of standard capacity) and 89 to ISO 14001 (68% of standard capacity) in 2010. Since 2009, all the thermal and hydropower plants have also met TÜV (German product testing agency) criteria.

Supporting energy and climate policy

VERBUND actively supports the European energy and climate policy and contributed the Group's expert knowledge to the Austrian federal government's energy strategy presented in 2010. It focuses on improving energy efficiency, expanding renewables and securing the country's energy supply in the long term. The ultimate aim is to stabilise energy consumption at the 2005 level.

To help achieve this goal, VERBUND is generating electricity from hydropower, expanding high-capacity transmission networks and storage capacity in the Alps, increasing the share of renewable energies and promoting electric vehicles.

2010: Year of Biodiversity

The United Nations declared 2010 to be the International Year of Biodiversity. Its purpose is to make us more aware of the significance of the variety of species and diversity within the species. VERBUND encounters a wide range of ecosystems, regions and species in Europe. Although generation at VERBUND is primarily from hydropower, which ranks among the cleanest and most sustainable forms of producing electricity, building and operating power plants always encroaches on Nature. We have therefore adopted the latest measures for many years, such as fish passage facilities and recultivation, to minimise the impact on biodiversity.

Electricity generation: Emissions further reduced

Some 90% of electricity generated by VERBUND comes from emissions-free hydropower. The generation mix is supplemented with thermal power plants and wind turbines. In the past few years, VERBUND has succeeded in systematically reducing absolute and specific emissions. Greenhouse gas primarily consists of carbon emissions from thermal power plants. Direct carbon emissions amounted to around 3.2 million t CO_2 in 2010. In total generation, the specific emissions in 2010 amounted to 104 t CO_2/GWh (2009: 74 t/GWh). The reason for this is increased thermal generation, which is not least due to the first year-round utilisation of the state-of-the-art CCGT in Pont-sur-Sambre in France. As for the specific emissions from thermal generation (including purchase rights) the positive development was continued in 2010 with another reduction to 761 t/GWh in 2010 (2009: 818 t/GWh). By using the latest technologies, we will continue to reduce these emissions in the long term. Compared with similar European companies, VERBUND thus ranks amongst the leaders.

Since 2006, VERBUND has posted its carbon emissions, reduction targets, climate risks and opportunities in the Carbon Disclosure Project, the world's largest climate database. VERBUND was listed as one of the best companies of the 2,200 taking part in the project in 2010 . In addition, VERBUND tops the list of 14 utilities in the report with the greatest reductions in emissions over the past few years. When it comes to energy mix, VERBUND is also front runner by far with a very high percentage of renewables.

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The latest Carbon Disclosure Project report can be downloaded from the following link: www.cdproject.net

Key environmental figures

Electricity generation	Unit	2008	2009	2010
Generation (net, excl. own consumption)	GWh	28,660	29,918	31,078
Of which hydropower (incl. procurement rights)	GWh	25,308	27,099	26,708
Of which thermal power (incl. procurement rights)	GWh	3,352	2,714	4,258
Of which wind power and photovoltaics	GWh	0	106	112
Share of hydropower, wind power and photovoltaics	%	88.3	90.9	86.3

Fuel use (thermal power plants)	Unit	2008	2009	2010
Hard coal	t	1,022,090	734,434	1,078,808
Lignite	t	0	0	0
Heavy heating oil	t	70,029	46.353	45,588
Gas	1,000 m^3	13,532	9,481	10,007
Biomass and solid recovered fuels (sewage sludge)	t	21,184	13,877	14,250
Of which biogenic	t	21,184	13,877	14,250
Of which fossil	t	0	0	0

Airborne emissions (thermal power plants)	Unit	2008	2009	2010
CO_2 fossil (own generation)	kt	2,885	2,093	2,887
CO_2 fossil (procurement rights)	kt	0	127	354
CO_2 specific (total generation)	t/GWh	101	74	104
CO_2 specific (thermal power incl. procurement rights)	t/GWh	861	818	761

Emissions prevented by hydropower, wind power and photovoltaics (basis of comparison: Dürnrohr power plant)	Unit	2008	2009	2010
CO_2	kt	20,499	22,036	21,724

Transmission grid	Unit	2008	2009	2010
Electricity transmitted in APG grid	GWh	35,707	37,569	37,218
Grid loss	GWh	454	480	475
Share of grid loss in total electricity transmitted	%	1.3	1.3	1.3

Climate initiatives

VERBUND together with the Ministry of Agriculture, Forestry, Environment and Water Management and the association of local authorities ran a competition for the third year running to find Austria's top council for climate protection. First prizes for innovative projects in the categories of renewables, energy efficiency and raising awareness went to Auersbach, Murau and Thalgau councils in 2010.

In conjunction with the Hohe Tauern National Park, we set up the VERBUND climate school in 2010. It raises children's awareness of climate and climate protection. The scheme initially targets schools located in the national park, but the provinces with national parks – Carinthia, Salzburg and Tyrol – will also be involved in the future. During the projects, specially trained park rangers teach the children about the connections between climate, energy and climate protection.

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Information on the VERBUND climate school of the Hohe Tauern National Park can be downloaded from the following link: www.nationalpark-klimaschule.at

Electricity for a better life: Successful aid projects

In 2009, the Group started two major projects in Austria in cooperation with nationwide social services: the VERBUND electricity relief fund together with the Catholic charity Caritas and the VERBUND Empowerment Fund together with Diakonie, a Protestant aid organisation.

VERBUND employees are invited to take a personal interest in these projects. On their part, for example, they organise day trips to the power plants for mothers and children at Caritas homes. The cooperation with Diakonie is aimed at helping people keep in touch and promoting greater independence by using electronic media and assistive technologies for communication. VERBUND's contribution to society was acknowledged in 2010 with the Group receiving the SozialMarie award from the Unruhe private foundation for the electricity relief project with Caritas.

Research and development

In 2010, we restructured research and development at VERBUND. The Group-wide Competence Centre Innovation, which works at an international level, replaced the holding department set up in 2009. Specific research in the field remains at the VERBUND subsidiaries.

At present, VERBUND takes part in 73 research projects with a total volume of €74.3m. In 2010, VERBUND invested approx. €5m into these projects.

Clear allocation of tasks

The new Competence Centre Innovation is predominantly responsible for research projects that require cooperation between several VERBUND companies or with external partners and lead to useful products or services in the medium term. Examples are electric vehicles and energy management projects. The operating companies will continue to carry out specific research into hydroelectric, thermal and wind power, transmission and the electricity business. This division of tasks not only enables VERBUND to act quickly and effectively but also to gear operations to new market opportunities.

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For information on the Austrian Mobile Power association, visit: www.austrianmobilepower.at

Promoting research and sharing knowledge

VERBUND assumes responsibility for young talent and potential employees by promoting research work for dissertations and theses. The Group regularly sends speakers to events in the area of research and development, coordinated the European Forum Alpbach talks on electric vehicles in August 2010 and held a citizens' conference at the venue. During the Austria Tec Week from 12 to 15 October 2010 at the world expo in Shanghai, the Austrian Mobile Power platform initiated by VERBUND presented the new activities in the field of electric mobility.

Electric vehicles on the fast track

Having established the Austrian Mobile Power association in 2009, VERBUND again proved its innovation leadership in the field of electric mobility last year. Since the beginning of 2010, VERBUND has been leading Austria's first and largest flagship project in electric vehicles: EmporA (Electric Mobile Power Austria). Fifteen other partners are involved in the project, including industrial heavyweights such as Siemens, Magna and Infineon. The aim of EmporA is to develop the technical and organisational components of an overall system for electric mobility. It is subsidised by the Austrian federal government's climate fund. When new proposals were requested, an extended project for 2011 was submitted which the jury also put forward for sponsorship.

In addition, VERBUND also developed other projects with its strategic partners OMV, E.ON and Siemens that are set to start in 2011. The focus is on the development and installation of fast charging facilities for modern electric vehicles that will reduce charging time to 15 to 30 minutes.

Energy management for the future

An important issue in energy management for consumers is transparency. Customers want to know how much electricity they are using at any one time and from what sources the electricity is generated so that they can improve their energy efficiency. In the future, they will be able to access this information on the Internet or with mobile communication devices.

As many electricity customers will make the transition from being pure consumers to independent producers (prosumers), distributed generation will become increasingly important for new innovative services. Current tests include connecting distributed systems to form virtual large-scale power plants to explore the opportunities for controlling them in a smart grid. Furthermore, total solutions for heating, air conditioning, lighting, controlling electrical appliances and linking to electric vehicles will be an option in the future.

DIRK WESSOLLEK
Electrical control engineer

Electronic engineer / certified (Germany) / with VERBUND since 2009 / together with 25 others monitors construction of the Mellach CCGT appreciates the open communication, working on his own initiative and the high degree of personal responsibility

"The Mellach CCGT stands for a clear change: In late 2011 the ultramodern thermal plant will replace several old thermal plants that were shut down in recent years. It will be more climate friendly to operate, as it achieves a much higher level of efficiency. As an engineer, exciting tasks await me here and I'm looking forward to them."

Business development

Market and industry

The global economic situation began to improve in 2010 and the Austrian economy grew by an anticipated 2.0% in real terms (WIFO forecast in December 2010). At the same time, electricity consumption rose again. With an electricity consumption growth of 4.3% in 2010, the pre-crisis level was again reached in Austria.

General economic situation

Global economic recovery

The world economy climbed back from the deep recession in 2010. However, the rate of expansion varied considerably from region to region. Economic growth was particularly strong in the emerging markets of China, India and Brazil where there is great demand for capital goods.

According to the outlook by the International Monetary Fund (IMF) in January 2011, the US economy grew by 3.0% in real terms in 2010. The IMF outlook stated that economic growth was 1.8% in real terms both in the eurozone and the EU. In general, the economy has stabilised in Europe. However, the high public deficits and measures required for consolidation, the moderate investment dynamic, the need for reform in the financial sector and the overall economic imbalance in the eurozone continue to impact the situation.

The Austrian economy also returned to a growth curve in 2010. Economic performance rose by around 2.0% in real terms (WIFO). What chiefly fuelled recovery was merchandise exports. Private consumption also showed stable growth.

Outlook remains muted

Many industrialised nations are still feeling the full force of the economic and financial crisis. As the economic stimulus packages gradually came to an end, global growth tailed off in the second half of 2010. According to the IMF, the rate of global economic growth will slow down in 2011, but overall economic production will continue its marked upward trend. The upswing in the eurozone (+1.5% in real terms) and the EU (+1.7% in real terms) is likely to remain muted in 2011. In Austria, WIFO and IHS predict that GDP will grow by up to 2.2% in real terms.

Energy industry situation

Energy consumption reveals a sharp increase

The economic upturn and cold weather in 2010 resulted in Austria's energy consumption rising considerably. In fact, it showed much higher growth than economic output. This would indicate that the energy-intensive primary industries in particular have already recovered.

Natural gas consumption was up by just over 11% in 2010. This was mostly due to increased demand from industry and substantially higher use in power plants. Private households also consumed more gas because of the weather. The increase in hard coal consumption was particularly high. Austria's steel industry reported a rise in crude steel production by about 27% in 2010. It also accounted for the surge in the use of coal and coke. In electricity generation, hard coal use also saw an increase of about 30%. Oil consumption also went up, even though the higher price level curbed demand.

In 2010, the share of renewables in primary energy consumption was the same as the previous year. New renewable energy sources such as wind, solar, biomass and geothermal power enjoyed steady growth, but could not make up for the decline in hydropower caused by the weather. Over 70% of Austria's energy supply is still based on fossil fuels, i.e., oil, coal and gas.

Electricity demand on the increase

Positive economic development and the cold weather stimulated electricity demand in Austria. In 2010, electricity consumption was 4.3% higher on average than in 2009. The main reason for this was the increase in production in the energy-intensive industries where double-digit growth rates were also to be seen.

Due to the low water supply electricity generation from hydropower was down 5.4% in Austria for the year under review. In contrast, utilisation of thermal power plants rose by 18.7%. "Other generation" recorded a 2.9% rise. It covers electricity generation from other renewable energy sources (without biomass which comes under thermal generation) and from systems not yet included in the statistics.

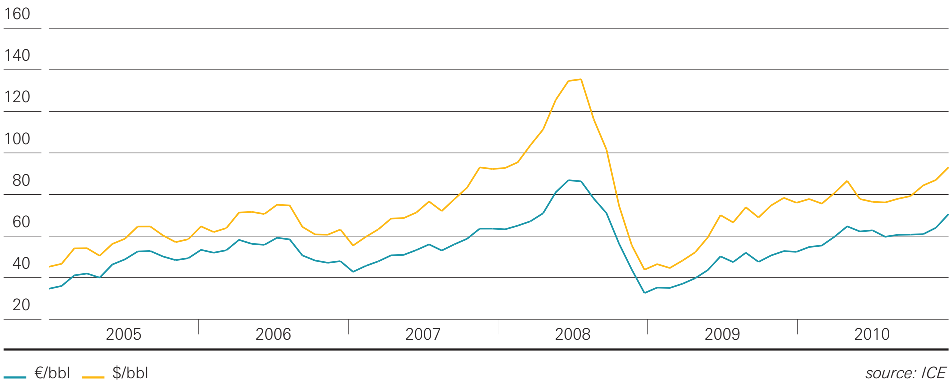
Overall, electricity generation in Austria was up 2.9% in 2010. To meet the higher domestic demand, Austria had to import some 3% of its net requirements in 2010. In comparison: Electricity trade was virtually balanced in 2009.

Crude oil prices much higher than in 2009

The brighter general economic perspective caused prices on the fuel markets to make a significant recovery in 2010. This applied in particular to the crude oil listings. Nevertheless, the prices were still well below the level seen just before the global economic and financial crisis.

Brent crude for short-term delivery (front month) was quoted at just over $80 per barrel (159 l) on average in 2010. Compared with 2009, it cost nearly $18 more. A contributing factor was the sustained high demand from the emerging Asian markets as the OPEC production quota has remained unchanged. The general expectation that crude oil consumption could rise due to market conditions also ensured more constant listings. The futures oil prices for 2011 tended to follow the trends for short-term delivery at a higher level.

Crude oil price development (average monthly Brent front prices)



source: ICE

Prices for gas and coal rising

The majority of natural gas imports to continental Europe are based on long-term contracts linked to the oil price. This generally affects developments on the gas market with some months' delay. As oil prices rose, the downward trend in Austrian import prices for natural gas came to an end in mid-2009. From January to October 2010, long-term import contracts for natural gas increased around 16% in price on average to €24.4/MWh.

In addition, trading freely available volumes at European centres (e.g., gas exchanges, physical and virtual hubs) has gained in importance over the past few years. Here the oil price does not immediately affect pricing. The most liquid trading markets in Europe are the Title Transfer Facility (TTF) hub in the Netherlands and the Net Connect Germany (NCG) hub. Given the fact that the two centres are physically close to each other, price correlation is very high. NCG contracts are listed on the EEX. The spot market price for natural gas (NCG) was 37% higher in 2010 than the year before. Long-term gas prices are also rising. On the EEX futures market, natural gas cost about 6% more in 2010 (NCG front year).

Due to the much greater increase in spot prices, the margin between the cross-border and market price was reduced again.

The prices for coal deliveries in the ARA area (Amsterdam, Rotterdam, Antwerp) also rose in 2010. Coal prices were up 36% from the previous year on the spot market and up 25% on the futures market (ARA front year) (both euro basis). All in all, the international price level was affected by the sharp rise in hard coal demand in Asia. Demand in Europe and North America remained moderate.

Regulatory framework

EU sets energy focus and defines energy infrastructure priorities

In November 2010, the European Commission adopted the communication “Energy 2020 – A strategy for competitive, sustainable and secure energy”. It defines five priorities for meeting the 2020 energy goals: achieving energy efficiency, building an integrated market, extending leadership in technology, empowering consumers and strengthening international partnerships. To improve the security of supply, the EU Commission is also set on expanding the power grids and harmonising national transmission systems for renewable energies. Research activities in the field of electricity storage and ambitious hydropower projects should help to develop Europe’s leadership in technology.

The European Commission’s main concern is achieving the energy efficiency objective defined in the EU energy and climate package: Europe has undertaken to reduce its primary energy consumption by 20% compared with the projections for 2020. Utilities are also required to encourage their customers to save energy. Energy efficiency should also become an essential criterion for the authorisation of new generation capacities.

If the EU energy and climate goals are to be achieved, further efforts need to be made to upgrade the energy infrastructure. The European Commission’s communication of mid-November 2010 “Energy infrastructure priorities for 2020 and beyond – A blueprint for an integrated European energy network”, for example, calls for the development of suitable connecting lines for improved linking of renewable generation capacity to pumped storage power plants in the Alps, rolling out smart meters throughout Europe and building European electricity highways. Projects of European interest will be defined by 2013 and subsequently promoted through a special financing scheme. In addition, the aim is also to make permit procedures shorter and more transparent.

Various EU legislation proposals will make energy distribution subject to new provisions in the future. In addition to new integrity and transparency rules for the energy area, financial market regulations will therefore also apply to energy trading companies in some cases.

Reform of the national legal framework

To implement the requirements in the EU’s third internal energy market package, extensive reforms were needed in Austria’s energy industry legislation. At the end of 2010, the National Council therefore passed the Electricity Industry and Organisation Act 2010 (Elektrizitätswirtschafts- und -organisationsgesetz – ElWOG 2010) and the E-Control Act. The new laws focused in particular on unbundling the transmission grid operators, empowering consumers, reorganising and improving the regulatory authorities. The reforms were also used to make the changes that had been discussed for some time, including taking public interest in supply security into consideration in ElWOG 2010.

Austria's energy strategy: Requirements for the future of energy

At the end of March 2010, the Austrian federal government published its energy strategy. VERBUND contributed its expertise at the early stages. The principal aims of the strategy are to consistently improve efficiency, expand renewable energies and secure the electricity supply in the long term. Energy consumption is to be stabilised at the 2005 level by 2020, i.e., 1,100 petajoules. Whether Austria can achieve its energy and climate goals depends to a large extent on establishing the strategy and implementing the measures promptly.

National water management plan

The first national water management plan (NGP) published by the Ministry of Agriculture, Forestry, Environment and Water Management at the end of March 2010 and the supporting directives created an important basis for expanding hydropower in Austria. What they achieved was a sustainable compromise between protecting our rivers and lakes and enabling the energy industry to use them. The nationwide list of criteria ensures that projects can be assessed at the early stages and in relation to each individual case and a balance can be struck between use and protection interests.

International climate policy

UN climate change conference in Cancún

At the 16th United Nations Climate Change Conference in Cancún in Mexico, from 29 November to 11 December 2010, no follow-up agreement was reached for the Kyoto Protocol which expires in 2012. Assurance was, however, given that the Kyoto Protocol's Clean Development Mechanism (CDM) will also remain operational after 2012. The adoption of an interim agreement in Cancún restored faith in the multilateral climate change process. At the conference, the countries taking part agreed on the objective of limiting global warming to 2 degrees Celsius. In addition, the industrialised countries recognised that their emissions have to be reduced by 25–40% from the 1990 level by 2020. A Green Climate Fund proposed to be worth $100 billion a year by 2020 was set up for developing countries with a view to helping them fight climate change. The general consensus is that the probability of reaching a new agreement has risen. It still remains to be seen, however, whether the political reduction targets (–25% by 2020) will actually be defined in a binding treaty. This could either be achieved by extending the Kyoto Protocol (without the US) or adopting a new, international agreement with targets also set for the US and the emerging nations (such as China).

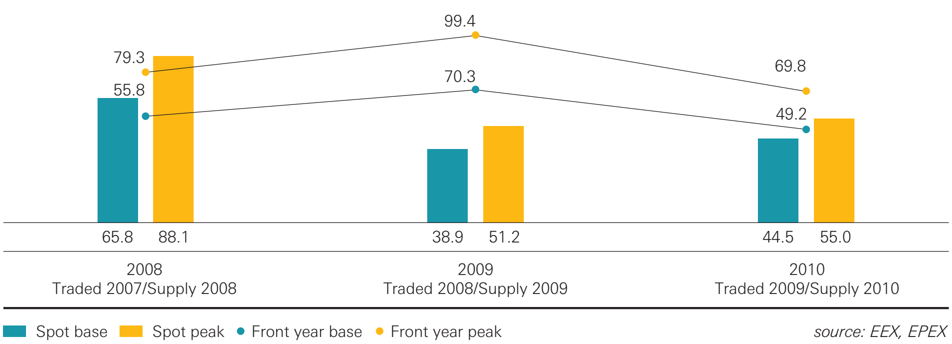
Factors influencing the result

VERBUND's result depends primarily on two factors, the wholesale prices for electricity and the hydro coefficient. Both of these figures were significantly lower in 2010 than in the previous year. The reasons for this decline can be found in the forward prices, which dropped substantially, as well as in the water supply, which was lower than the unusually high water supply in 2009. Furthermore, one-off effects had an adverse effect on the result.

Average sales prices under the previous year's level

The 2009 futures market prices for the 2010 fiscal year were characterised by an economic slump. The prices for forward contracts for base-load energy (front year base 2010) for the German and Austrian markets traded on the European Energy Exchange (EEX) and for peak-load energy (front year peak 2010) were both 30% lower than in the previous year. In contrast, prices on the spot market were somewhat higher in 2010. In 2010, the annual average base-load spot prices for the German and Austrian markets on the Paris EPEX Spot Exchange were at €44.5/MWh, about 14% higher than the previous year, with peak prices at €55.0/MWh, surpassing the previous year by just under 8%. In addition to the lower temperatures, increasing industrial production provided impetus for higher spot prices. Overall at €52.1/MWh, the average achieved contract price in 2010 was €9.2/MWh below the previous year's level.

Wholesale prices for electricity €/MWh



source: EEX, EPEX

Water supply significantly below the previous year's exceptionally high level

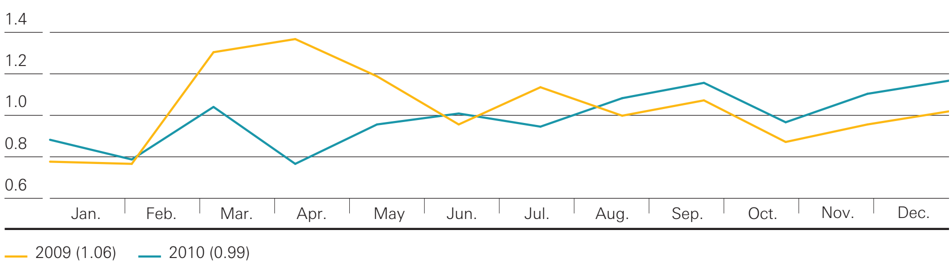
The hydro coefficient is the measured value for the generation from run-of-river and pondage power plants. At 0.99 in 2010, it was 1% below the long-term average and 7% below the outstanding figure of the previous year.

STEPHANIE AUER
Marketing manager in distribution

Business graduate / with VERBUND since 2006 / works in marketing at the distribution company / likes the range of projects and the young, dedicated team in distribution

"Since the electricity market opened up in Austria, the general situation has totally changed. VERBUND has seized the opportunity and promoted development in ecology and sustainability. The new brand strengthens the spirit among employees and creates a clear image for the consumers."

Hydro coefficient



The early part of the year was substantially colder than the long-term average and rainfall was low. As a result, January and February saw a water supply that was considerably below average. In March, the hydro coefficient rose to 1.04 due to snowmelt. While rainfall in April was still significantly lower than the long-term measurement series, rainfall in May and June was largely close to average. Thus the first half of 2010 saw a hydro coefficient of 0.92. A heat wave and a dry phase characterised the early part of July and the subsequent heavy rainfall – with local flooding – could only be partially utilised for power generation. Above-average rainfall in August and September resulted in a good water supply that was continuously utilised for power generation. October was comparatively cold and fairly dry, while November saw concentrations of rainfall especially in the south of Austria and extremely high temperatures. Although there were phases with temperatures that were considerably below the average, in December 2010, a hydro coefficient of 1.16 was achieved. Thus the hydro coefficient in 2010 was at 0.99.

Adverse one-off effects

VERBUND's result was again affected in 2010 by one-off effects. They had an adverse effect of about €30m on the operating result and about €30m on the financial result.

The negative effects on the operating result were due primarily to extensive non-recurring maintenance and provisions for regulatory risks relating to the grid segment. The one-off effects in the financial result are mainly due to the interests accounted for using the equity method. The impairment loss on the equity interest in the French company POWEO S.A. was offset only in part by the positive effect on earnings due to tax benefits on investments at the Italian company Sorgenia Holding S.p.A. Unrealised exchange rate losses from a ¥-denominated bond, which were due to the valuation approach, had an adverse effect on the financial result.

Earnings analysis

Result 2010 €m

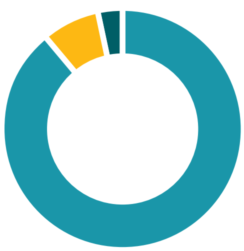
	2009	2010	Change
Revenue	3,483.1	3,307.9	–5.0%
EBITDA	1,251.5	1,059.2	–15.4%
Operating result	1,042.3	828.5	–20.5%
Group result	644.4	400.8	–37.8%
Earnings per share in € *	2.09	1.28	–38.8%

* For calculating the earnings per share, the average number of shares was determined exactly to the day.

Revenue fell by 5.0%

Compared to the previous year, VERBUND's revenue went down in 2010 by 5.0% to €3,307.9m, a result of lower electricity revenue.

Revenue 2010 €m



Electricity	2,948.2
Grid	249.7
Other revenue	109.9

Weak electricity prices adversely affect electricity revenue

For further information on electricity generation, see page 69.

At 31,078 GWh, the Group's own power generation in 2010 was 3.9% higher than in the previous year. The increase is primarily due to higher electricity generation from thermal plants in Austria and the pro rata procurement from the French power plant Pont-sur-Sambre (in operation since September 2009). Despite the less favourable water supply in comparison to the previous year, power generation from run-of-river power plants was maintained at the same level as a result of the acquisition of the Bavarian power plants on the Inn River. However, due to the significantly lower water inflows, electricity generation of the annual storage power plants went down by 9.7%.

VERBUND's total electricity sales in 2010 were 55,729 GWh (+8.7%). Thus externally purchased electricity amounted to 24,652 GWh in 2010, an increase of 15.4% compared to the previous year. Although the electricity sales rose, the overall electricity revenue fell by 6.8% to €2,948.2m. This decline is due to the forward market prices (contracted in prior reporting periods) that fell sharply.

Viewed in detail, electricity revenue with end customers (household, commercial and agricultural customers as well as industrial customers and their traders) rose by 2.9% to €749.1m. Electricity revenue with resellers and traders fell by 12.0% and 7.2%, respectively, to €1,149.8m and €1,049.3m, respectively. Electricity revenue generated in foreign countries, primarily Germany and France, came to 56.8% (2009: 55.4%).

Electricity revenue €m

	2009	2010	Change
End customers	728.2	749.1	2.9%
Resellers	1,305.9	1,149.8	–12.0%
Traders	1,130.8	1,049.3	–7.2%
Electricity revenue	3,164.9	2,948.2	–6.8%
Of which from Austria	1,410.4	1,272.1	–9.8%
Of which from foreign countries	1,754.5	1,676.1	–4.5%

Grid revenue lower

For further information on the grid, see page 80.

Compared to the previous year, grid revenue went down by 7.0% to €249.7m. The reduced international revenue from auctions and the inter-transmission system operator compensation that was trending downward had an adverse effect on grid revenue. Higher national grid revenue, however, partially compensated these effects.

Increase in other revenue, other operating income down

Other revenue rose from €49.7m in 2009 to €109.9m in 2010. The additional proceeds came mainly from construction services associated with the Albanian hydropower plant concession in accordance with IFRIC 12. The expenses associated with construction are largely recognised under other operating expenses. Other operating income fell by 28.2% to €37.8m. The change is predominantly due to the first-time application of IFRIC 18, which resulted in reversals of the deferred income item for contributions to building costs received being largely incorporated in revenue.

Expenses

€m

	2009	2010	Change
Expenses for electricity, grid and gas purchases as well as purchases of emission rights (trade)	1,608.3	1,611.3	0.2%
Fuel expenses and other usage-dependent expenses	118.9	118.3	–0.5%
Personnel expenses	304.0	308.4	1.4%
Depreciation of property, plant and equipment and amortisation of intangible assets	209.2	230.7	10.3%
Other operating expenses	253.1	248.6	–1.8%

Expenses for electricity and grid purchases unchanged

At €1,611.3m, expenses for electricity, grid and gas purchases as well as purchases of emission rights (trade) remained almost the same in 2010 as in 2009. Higher electricity sales made considerably larger electricity purchases necessary, however, this was compensated by positive price effects. Thus expenses for electricity purchases decreased slightly compared to 2009 by 0.7%. Expenses for grid purchases, however, rose in comparison to the previous year by 6.9% to €136.1m, due to an expansion of the end customer business.

Fuel expenses remained at the previous year's level

At €118.3m, fuel expenses and other usage-dependent expenses remained at approximately the same level in 2010 as in 2009. Higher fuel expenses due to increased thermal generation of the Mellach and Dürnrohr power plants were compensated by positive variances in the prices of primary energy sources and the utilisation of provisions for onerous contracts.

Personnel expenses up slightly

Personnel expenses, including expenses for severance payments and pensions, rose in comparison to the previous year slightly by 1.4% to €308.4m. Current personnel expenses increased by 6.1% to €270.7m, while expenses for severance payments and pensions went down by 23.1% to €37.6m.

Adjustments of wages, salaries and ancillary expenses under the collective agreement as well as an increase in personnel associated with the Group's growth strategy resulted in higher active personnel expenses. The purchase of the Inn power plants was also a crucial factor in the escalation of personnel expenses. Overall the average number of employees rose from 2,820 to 3,015, particularly due to the fact that the personnel of the Inn power plants was on the books for the entire fiscal year.

Higher depreciation and amortisation, other operating expenses lower

Depreciation of property, plant and equipment and amortisation of intangible assets rose by 10.3% to €230.7m. This is largely the result of the acquisition of 13 run-of-river power plants on the Inn River in Bavaria as at 31 August 2009.

Other operating expenses dropped in 2010 compared to the previous year by 1.8% to €248.6m. In comparison to 2009, expenses were reduced by Group-wide cost-cutting measures as well as by the fact that the renovation expenses for a hydropower plant had been a one-off expense in the previous year. Construction costs associated with the Albanian hydropower plant concession for Ashta as well as non-recurring maintenance expenses had the opposite effect.

Operating result better than expected

Based on the previously described influencing factors and developments, the operating result went down in 2010 by 20.5% to €828.5m, thus falling less sharply than predicted in the outlook that was reported within the scope of the earnings forecast.

Financial result €m

	2009	2010	Change
Result from interests accounted for using the equity method	51.9	22.1	–57.4%
Result from equity interests – other	9.5	15.5	63.2%
Interest income	49.5	30.8	–37.8%
Interest expenses	–216.7	–245.2	13.2%
Other financial result	45.2	–18.9	–141.8%
Financial result	–60.5	–195.7	223.5%

Financial result adversely affected by impairment in France

The result from interests accounted for using the equity method declined in 2010 by 57.4% to €22.1m. In particular the results from domestic interests can be compared to 2009 only to a limited extent due to the change in the method of evaluation of the pro-rata IFRS results. The results from foreign interests were reduced notably due to an impairment loss on the equity interest in the French company POWEO S.A. (Group). Based on impairment tests that were carried out because the share price has suffered a sustained fall, the valuation of the stake held by VERBUND was written down in 2010 by €56.2m. Foreign currency exchange rate gains at the Turkish company Enerjisa Enerji Üretim A.S. and the positive effect on earnings from tax benefits for investments at the Italian company Sorgenia Holding S.p.A. (Group) improved earnings.

In 2010, interest income went down by 37.8% to €30.8m, primarily as a result of reversal of investments from cross-border leasing transactions. Interest expenses rose by 13.2% to €245.2m, due to extensive borrowings in 2009 and accrued interest on the obligation to supply electricity under a long-term electricity supply agreement in connection with the acquisition of the Bavarian power plants on the Inn River. On the other hand, particularly lower interest expenses due to early terminations of cross-border leasing transactions had a positive effect.

Other financial results went down from €45.2m in 2009 to €–18.9m due to a negative change in the balance of €47.3m, resulting from non-realised, non-cash foreign currency exchange rate gains and losses. Changes in the result from early terminations of cross-border leasing transactions in the amount of €–38.2m had an adverse effect on the result. The fact that in comparison to 2009 no impairment losses had to be recognised for securities and investment funds offset the adverse effect somewhat.

Effective tax rate was 23.5%

The main reason for the effective tax rate of 23.5% (at a corporate tax rate of 25%) was the result from interests accounted for using the equity method that was mostly non-tax-effective.

Non-controlling interests in net profit or loss for the period fell by €25.0m from €108.5m to €83.5m largely due to lower profit at VERBUND Hydro Power AG.

Group result corresponds to the outlook

As expected, the Group result in accordance with IFRS standards dropped by 37.8% to €400.8m. The earnings per share dropped by 38.8% to €1.28 due to the capital increase in November and the associated increase in the number of shares. Thus the Group result corresponds to the expectations that were reported within the scope of the earnings forecast for Q3/2010.

Dividend of €0.55 will be proposed

The financial statement of exchange-listed VERBUND AG, which is relevant for the distribution of the dividend, was prepared in accordance with the provisions of the Austrian Commercial Code (UGB), and shows a net profit of €191.1m. A dividend of €0.55/share will be proposed at the Annual General Meeting on 13 April 2011. In the previous year, a dividend of €1.00/share and a special dividend of €0.25/share were paid. Thus the proposed dividend is still based on a payout ratio of 45 to 50% of the Group result; for 2010 it will be 47.7%.

Balance sheet analysis

Non-current assets rose due to capital expenditure

As at 31 December 2010, non-current assets rose by 3.8% to €9,722.2m compared to €9,364.1m as at 31 December 2009. This increase is primarily the result of investments in power plant and line construction projects and the business development of the interests accounted for using the equity method.

As at 31 December 2010, recorded goodwill amounted to €605.7m (31 December 2009: €605.7m), arising largely from the acquisition of the Bavarian power plants on the Inn River in 2009.

Property, plant and equipment rose from €5,553.8m to €5,958.7m. The reason for this increase were the investments in power plants and grids in the amount of €635.7m that were significantly higher than amortisation and depreciation (€225.6m).

Consolidated balance sheet (short version)

	2009	Percent	**2010**	Percent	Change
Assets	10,345.2	100%	**11,291.0**	100%	9.1%
Non-current assets	9,364.1	91%	9,722.2	86%	3.8%
Current assets	981.1	9%	1,568.7	14%	59.9%
Liabilities	10,345.2	100%	**11,291.0**	100%	9.1%
Equity	3,409.7	33%	4,372.4	39%	28.2%
Non-current liabilities	5,956.8	58%	6,041.7	54%	1.4%
Current liabilities	978.7	9%	876.8	8%	–10.4%

Interests accounted for using the equity method up

Interests accounted for using the equity method increased by 4.0% to €2,261.9m, with capital increases at the Turkish company Enerjisa Enerji Üretim A.S. of €71.0m and a change in the method of consolidation at the Albanian company Energji Ashta Shpk, which resulted in a gain of €21.1m (€16.0m of which from a capital increase), contributing to this growth. Moreover, results from interests accounted for using the equity method in the amount of €22.1m (including the impairment of POWEO S.A. (Group)) and foreign exchange differences resulting from interests in Turkey of €24.1m increased the equity interest. Dividend distributions had the opposite effect.

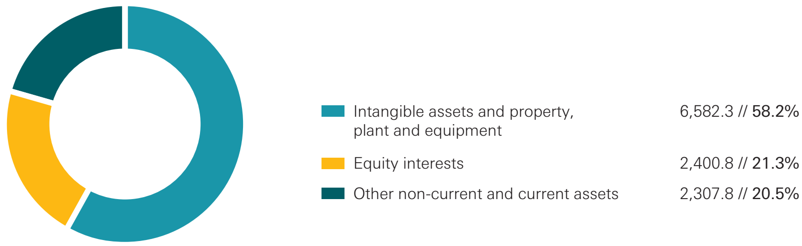
Investments and other non-current receivables fell by 14.5% to €739.1m. This was mainly due to reversals of investments within the scope of early terminations of cross-border leasing transactions and by way of disposals of investments.

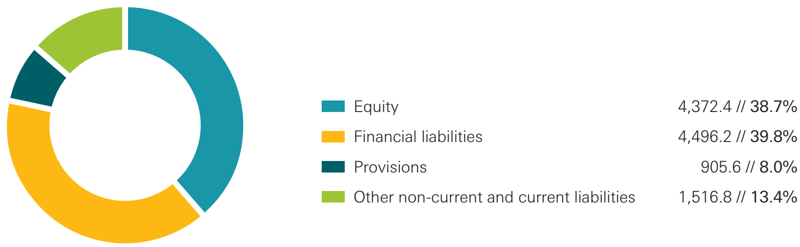
Current assets up significantly due to capital increase

Current assets jumped by 59.9% from €981.1m as at 31 December 2009 to €1,568.7m as at 31 December 2010. Cash and cash equivalents and current receivables went up sharply due to the capital increase of approx. €1bn, which was carried out in November 2010. Inventories declined due to reduced primary energy inventories.

Assets and liabilities

€m





Substantial rise in equity due to the capital increase

Equity rose by €962.7m to €4,372.4m, due particularly to the capital increase carried out in November 2010, with share capital rising as a result from €308.2m to €347.4m. Thus the equity ratio that was adjusted for closed balance sheet positions on the asset and liability side went up to 39.9% compared to 34.3% at the previous year's cut-off date.

Within the scope of the Bavarian-Austrian Regional Plan, 3.46% of the shares of VERBUND-Innkraftwerke GmbH (now VERBUND Innkraftwerke Deutschland GmbH) were sold to Innkraft Bayern GmbH & Co. KG, which is operated as a holding company, effective 28 June 2010. As a result, the stake of VERBUND in VERBUND-Innkraftwerke GmbH declined from von 99.7% to 96.4%. Due to this sale of shares, there was a shift between the shareholder groups, i.e., part of the stake attributable to the shareholders of VERBUND AG shifted to the stake attributable to non-controlling interests.

Financial liabilities rise

Non-current and current financial liabilities rose by €185.8m to €4,496.2m primarily due to loans from the European Investment Bank amounting to €200m in order to finance the CCGT in Mellach and grid construction in Salzburg. The repayment of financial liabilities within the scope of early terminations of cross-border leasing transactions had an offsetting effect. The equity and profit shares of VERBUND Thermal Power GmbH & Co KG in the amount of €129.8m (previous year: €125.9m) that are attributable to the limited partners are also recognised under non-current liabilities.

Non-current and current liabilities excluding financial obligations fell by 7.7% to €2,422.3m in comparison to 31 December 2009. The change is due mainly to lower current tax liabilities and changes in fair value of derivatives in the energy area.

Financial situation

In 2010, cash and cash equivalents increased by €363.0m.

Cash flow statement (short version) €m

	2009	2010	Change
Cash flow from operating activities	968.0	778.2	–19.6%
Cash flow from investing activities	–2,043.7	–1,134.0	–44.5%
Cash flow from financing activities	1,093.9	718.8	–34.3%
Change in cash and cash equivalents	18.2	363.0	n.a.
Cash and cash equivalents at the end of the period	126.0	489.0	288.2%

Cash flow from operating activities weaker

Cash flow from operating activities dropped in 2010 by €189.8m to €778.2m, due mainly to the reduced contribution margin from generation, which declined by €147.9m. The contribution margin from the grid segment (€–43.5m) and the increased net interest payments (€–73.6m) resulted in this decrease. The decline in payments from prior periods for energy derivatives (€131.9m) counteracted this trend.

Less cash flow from investing activities

Cash flow from investing activities amounted to €–1,134.0m (2009: €–2,043.7m). The decrease of €909.7m was primarily the result of the fact that there had been high payments for acquisitions of companies in the previous year, while there were no such acquisitions in 2010. On the other hand, investments in property, plant and equipment and intangible assets (€–217.2m) were higher. Payments for capital increases and acquired shares in interests accounted for using the equity method dropped by €535.8m. Moreover, payments (€–450m) for short- and/or long-term investments funded by proceeds from the capital increase are recognised under cash flow from investing activities.

Cash flow from financing activities goes down

Cash flow from financing activities came to €718.8m (2009: €1,093.9m). The decrease of €–375.1m is mainly the result of lower borrowings (€–1,907.2m) as well as higher dividend payments (€–52.5m). The capital increase (€976.8m) that was carried out in November 2010 and lower repayments for loans (€240.4m) had the opposite effect.

Investments lower than in 2009

Investments in intangible assets and property, plant and equipment amounted to €665.7m and were thus below the 2009 figure (€1,995.7m). The decline is due primarily to the fact that the acquisition of the Bavarian power plants on the Inn River took place in the previous year. Without acquisitions (Inn power plants, wind parks Bruck/Hollern/Petronell-Carnuntum), investments in 2009 amounted to €490.6m. This means that, in 2010, investments in intangible assets and property, plant and equipment were even greater than in 2009, namely by €175.1m. The three largest investment projects in 2010 were the construction of the CCGT in Mellach at €249.0m, the pumped storage power plant Limberg II at €74.7m and the 380-kV line in Salzburg at €52.0m.

Key figures

The key figures mirror the weak income trend that is due to the challenging market environment and the implementation of the capital increase of approx. €1bn that occurred in 2010. In its calculation of the key figures, VERBUND eliminates the effects of closed items on the balance sheet.

The relevant calculation methods for the determination of the key figures are explained in the glossary.

Key management figures

	Unit	2008	2009	2010
EBIT margin	%	30.4	29.9	25.0
Gearing*	%	88.0	140.4	96.8
Economic value added*	€m	467.3	350.4	54.2

* Key figure was revised. The previous year’s values were adjusted.

EBIT margin continues to be among the highest in Europe

The return on sales (EBIT margin) went down in 2010 compared to 2009 from 29.9% to 25.0%, however, it is still higher than the average figure among European utilities, which is about 20%. This decrease is due to substantially lower forward market prices and the lower level of VERBUND's own power generation from hydropower plants. The primary factor offsetting this decline were Group-wide cost-cutting measures.

Gearing ratio considerably lower

The gearing ratio fell sharply from 140.4% as at 31 December 2009 to 96.8% as at 31 December 2010, mainly the result of the capital increase that was completed in November. Gearing is the ratio of net debt to equity including non-controlling interests.

Interest-bearing net debt (short version)* €m

	31/12/2008	31/12/2009	31/12/2010
Current and non-current financial liabilities	2,054.1	3,788.9	4,033.8
Current and non-current financial liabilities – cross-border leasing	729.7	94.1	0.0
Current and non-current financial liabilities – closed items on the balance sheet	0.0	301.6	332.8
Capital attributable to limited partners	138.7	125.9	129.8
Other interest-bearing debts	933.2	1,219.2	1,183.3
Financial assets – Republic of Austria	–7.2	0.0	0.0
Financial assets – cross-border leasing	–709.8	–92.3	0.0
Financial assets – closed items on the balance sheet	0.0	–301.6	–332.8
Interest-bearing gross debt	**3,138.7**	**5,135.8**	**5,346.9**
Cash and cash equivalents	–106.3	–121.7	–488.7
Securities and loans	–269.1	–216.9	–581.9
Other	–10.1	–8.2	–42.4
Interest-bearing net debt	**2,753.2**	**4,789.0**	**4,233.9**
Equity attributable to shareholders of VERBUND AG	2,867.8	3,117.9	4,036.0
Equity attributable to non-controlling shareholders	260.3	291.8	336.4
Equity including non-controlling interests	**3,128.1**	**3,409.7**	**4,372.4**
Gearing	**88.0%**	**140.4%**	**96.8%**

* Key figure was revised. The previous year's values were adjusted.

EVA® continues to be positive

EVA® dropped by €296.2m, going from €350.4m to €54.2m. This key figure shows the value that was added after deduction of all cost elements, including risk-adjusted equity and borrowing costs.

On one hand, the change in EVA® is the result of a reduction of the net operating profit after tax (NOPAT), which was €677.3m in the 2010 fiscal year, down from €876.5m in fiscal 2009. The main reasons for this downward trend were the decline of the operating result due to significantly lower forward prices and one-off effects recognised in the balance sheet. On the other hand, average capital employed rose due to investment activity that increased by €1,519.4m from €6,788.5m to €8,307.9m as at 31 December 2010. The resulting rise in capital costs was only partially compensated by the reduction of the weighted average cost of capital (WACC) from 7.75% to 7.50%.

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For details on the economic value added (EVA®), see page 34.

Financing

Financial strategy

VERBUND's financial strategy is defined in five key points:

- **Needs-based, central Group financing of the subsidiaries**
  The medium- and long-term financing activities are carried out centrally by VERBUND International Finance B.V. and VERBUND AG, respectively, while VERBUND Finanzierungsservice GmbH oversees short-term equalisation of funds within the Group. As internal financial hubs, these companies borrow external capital or borrow within the Group and transmit funds on a needs-based basis to the Group's subsidiaries within the scope of a market-oriented transfer price system. This makes it possible to leverage the synergies of centralized Group financing, while at the same time passing market and risk impacts on to the subsidiaries.

- **Ensuring appropriate liquidity reserves**
  Ensuring sufficient liquidity at all times has absolute priority. To this end VERBUND has a syndicated loan that can be used at any time, as well as non-committed lines of credit, primarily with Austrian banks that can be deemed very reliable.

- **Ensuring an excellent credit standing**
  A crucial pillar of the strategy of VERBUND is to achieve a credit rating in the single "A" range. Therefore, the strategy is discussed and coordinated on an ongoing basis with Moody's Investors Services and Standard&Poor's. Great importance is placed on strict compliance with all principal ratio limits specified by the rating agencies. To manage its rating VERBUND is guided by the ratios FFO/net debt and RCF/total debt.

- **Ensuring extensive financial flexibility**
  Ensuring a credit rating in the single "A" range enables broad access to sources of funding. This provides support for the Group's growth strategy and enables access at any time to fresh capital, even in tense capital markets. VERBUND's financing portfolio comprises a balanced mix of bonds, loans, export credit financing and project financing.

- **Optimisation of the risk structure on the basis of specified limits**
  VERBUND's financial strategy is based on a conservative risk strategy with defined Value-at-Risk (VaR) and limit systems, with compliance being reviewed on an ongoing basis by the Group's risk management. Risk management of the borrowing portfolio is primarily based on the key ratios, duration, residual maturity, effective interest rate, currency limits, interest rate variability and VaR.

Borrowings and borrowing portfolio

To finance its capital expenditure program, VERBUND AG carried out a capital increase of about €1bn in 2010. For this reason the need for borrowed capital declined significantly compared to the previous year. VERBUND International Finance B.V. secured two loans from the European Investment Bank for partial refinancing of the funds needed for the CCGT in Mellach and the first stage of the 380-kV high-voltage grid in Salzburg.

Borrowings and borrowing portfolio

Instrument	Amount	Terms at time of borrowing	Maturity	Drawing
EIB loan for Mellach CCGT	€150m	6 M Euribor +39.3 BP	until 2025 annual repayment	May 2010
EIB loan for Salzburg grid	€50m	6 M Euribor +46.8 BP	until 2030 annual repayment	June 2010

As at 31 December 2010, 56.6% of VERBUND's borrowing portfolio consist of bonds, 23.1% of loans, 16.9% of export credit financing and 3.4% of other financial liabilities.

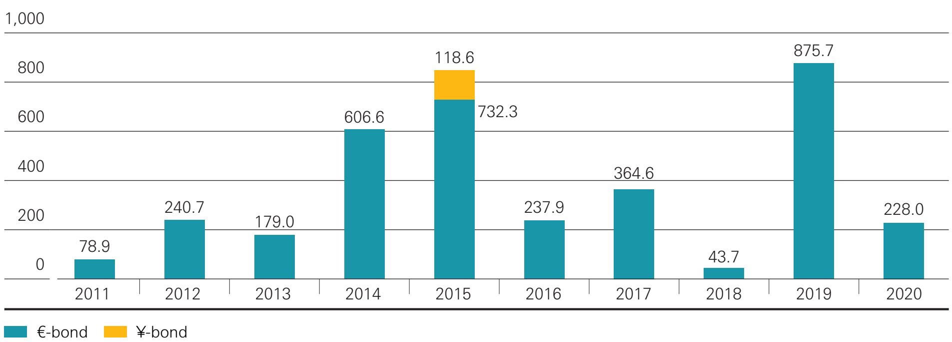
The carrying amount of VERBUND's financial liabilities is €4,496.2m. 97.3% thereof have been financed in € (without taking former cross-border leasing transactions into account) and 2.7% in ¥. The following key figures refer to the purely external financial liabilities, without taking former cross-border leasing transactions, financial guarantees and limited partnership interests into account. As at 31 December 2010, the duration for them is approximately 3.3 years and the average residual maturity is 5.6 years. The effective interest rate of these financial liabilities is 4.4%. As at 31 December 2010, 82.2% of these financial liabilities had a fixed interest rate and 17.8% had a variable interest rate.

Repayment structure

The repayment structure shows that only small repayments need to be made from 2011 to 2013. The refinancing requirement during this period of time is €498.6m and can be covered by cash and cash equivalents and the committed lines of credit. There are repayment spikes in 2014, 2015 and 2019 due to the maturity of €-denominated bonds.

Repayment structure

€m



JOHANNES GRILLITSCH
Responsible for dams, south

Civil engineer / with VERBUND since 1980 / monitors the dams and structures and is responsible for the safety of power plants in Styria and Carinthia / enjoys working outdoors, the varied tasks and the personal scope he has

"A dam is a structure that is completely exposed to the forces of nature for many decades. In our area, safety is always top priority. Change means finding the optimum solution for monitoring the dams time after time. I think the company is very open-minded. They are always ready to listen to new ideas."

Lines of credit

For VERBUND, ensuring liquidity has the highest priority. As at 31 December 2010, VERBUND had a syndicated credit lines in the amount of €750m at its disposal to ensure liquidity; this line of credit was not drawn upon. This line of credit was established in January 2005 with a number of national and international banks; it has a maturity date of January 2012 and it can be drawn upon at any time. Additionally, VERBUND had uncommitted lines of credit of €755.5m at its disposal as at 31 December 2010 primarily with domestic banks

Development of credit rating

The better the credit rating of a company is, the easier the access to international markets, the broader the possibilities for obtaining financing and the less expensive the borrowing. Ensuring the long-term sustainability of VERBUND's credit rating is of great importance, as the corporate risk premiums following the crisis on the financial markets are being increasingly differentiated according to the Company's rating category. In 2010, VERBUND's rating improved: Due to the capital increase Standard & Poor's deleted the negative outlook and upgraded the rating to A-/stable. Moody's left the rating unchanged at A2/negative outlook. With the current rating classifications VERBUND is in a better position than the average European stock-listed utilities.

Financial key figures

The development of the financial key figures is strongly affected by the rise in financial liabilities due to increased investing activity. However, the capital increase that was carried out in November 2010 had an offsetting effect with regard to gearing.

	Unit	2008	2009	**2010**
Net debt/EBITDA**	x	2.1	3.8	4.0
Gearing**	%	88.0	140.4	96.8
Gross interest coverage*, **	x	7.1	4.8	3.6
Gross debt coverage**	%	36.3	20.2	17.6

* Interest expenses without the profit/loss shares attributable to the limited partners
** Key figure was revised. The previous year's values were adjusted.

Business segments

Electricity

Austria generates about 70bn kWh of electricity p.a. Of this figure, around 40% come from VERBUND power plants. In generation, we attach great importance to sustainability: Hydropower accounted for 86% of the electricity produced in 2010. We have strengthened our commitment to renewables with wind power and photovoltaics. Combined cycle gas turbine power plants are an efficient, eco-friendly bridging technology and will replace existing coal-fired plants in the medium term.

Business development

Difficult environment affects results in the Electricity segment

In the Electricity segment – covering generation, trading and distribution – external sales were 5.8% down from the 2009 figure at €2,986.2m. This segment accounted for some 90% of the Group's total external revenue.

Weak developments in wholesale prices and the below-average water supply both had an adverse effect on the results. As a result, the prices applying to the 2010 fiscal year for electricity forward contracts with year base 2010 traded in 2009 were €49.2/MWh on average, 30% below the previous year's level. The prices for front year peak contracts traded in 2009 also dropped 30% on average over the year to €69.8/MWh. Even the slowly recovering spot market prices could not compensate for this decline. EBIT in the Electricity segment was down 18.7% to €821.3m in 2010, contributing 99% of consolidated EBIT.

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For further information on power generation, see www.verbund.com, section "Our Business Divisions".

Return on capital employed (ROCE), the interest on invested capital, reached a level of 13% in 2010. Capital employed fell 7.1% to €4,812.7m. The decrease in capital employed is primarily due to higher amortisation from the acquisition of Kraftwerksgruppe Inn GmbH in 2009 and the increase in capital tied up in assets under construction.

Electricity segment: Key figures

	Unit	2008	2009	2010	Change 2010/2009
External revenue	€m	3,426.4	3,168.6	2,986.2	–5.8%
EBITDA	€m	1,220.3	1,153.0	986.7	–14.4%
EBIT	€m	1,097.1	1,010.8	821.3	–18.7%
Capital employed *	€m	3,550.6	5,182.5	4,812.7	–7.1%
ROCE *	%	25.0	18.3	13.0	–
Investments	€m	274.3	1,816.2	490.3	–73.0%

* The figure was revised in 2010 and the previous year's figures adjusted.

Electricity provision

Focus: Hydropower supplemented with thermal and wind power

VERBUND electricity generated by hydropower not only comes from 82 run-of-river plants and 21 storage plants but also from the right to purchase electricity from Ennskraftwerke AG, Österreichisch-Bayerische Kraftwerke AG, Donaukraftwerke Jochenstein AG and E.ON Wasserkraft GmbH (with 20 run-of-river plants altogether). In electricity generation from hydropower, VERBUND's bottleneck capacity is 6,885 MW and average annual production 26,806 GWh (standard capacity).

Electricity generation: Key figures

	No. of power plants	Bottleneck capacity MW	Standard capacity GWh	2007 GWh	2008 GWh	2009 GWh	**2010 GWh**
Hydropower	103	6,294	23,776	21,406	22,221	23,858	23,825
Hydropower procurement rights	20	591	3,030	2,915	3,087	3,241	2,883
Wind/solar power	6	68		–	–	106	112
Thermal power	8	1,520		3,986	3,352	2,351	3,246
Thermal power procurement rights	1	165		–	–	363	1,012
Total	138	8,638	26,806	28,307	28,660	29,918	**31,078**

The second most important renewable source of power is wind. Twenty-five wind turbines at three sites in Lower Austria have a total capacity of 49 MW. Another wind farm in Bulgaria has a capacity of 16 MW. Two photovoltaic power plants in Spain together with 3 MW round off our renewable generation portfolio.

Electricity generation from renewable energy sources is supplemented by three thermal power plants with a bottleneck capacity of 815 MW. Five other thermal plants with a total capacity of 705 MW are currently offline, leased out or decommissioned. The thermal power plants can generate from base to peak loads, depending on demand. In addition, VERBUND obtained 40% of the electricity generated by POWEO at the French CCGT in Pont-sur-Sambre for marketing in 2010.

Marked increase in electricity provision

In 2010, VERBUND provided 55,729 GWh of own and third-party electricity, up 8.7% on the previous year. At 31,078 GWh, VERBUND generated 3.9% more than in 2009. Electricity purchased from third parties rose 15.4% to 24,652 GWh. The share of VERBUND-generated electricity was 56% and that of third-party 44% in 2010.

Total electricity provision: Key figures GWh

	2009	2010	Change
Hydropower*	27,099	26,708	–1.4%
Wind/solar power	106	112	+5.6%
Thermal power*	2,714	4,258	+56.9%
Own generation	**29,918**	**31,078**	**+3.9%**
Electricity purchased from third parties	21,371	24,652	+15.4%
Group procurement	**51,289**	**55,729**	**+8.7%**
Forward contracts	60,673	85,640	+41.2%

* including procurement rights

Acquisition of the Bavarian power plants on the Inn River in autumn 2009 enabled VERBUND to maintain generation from run-of-river plants at the previous year's level despite the lower hydro coefficient. The hydro coefficient, a measure of generation for run-of-river and pondage power plants, was 0.99. It was 1% below the long-term average but 7 percentage points down on the previous year's level. Because the water inflows were much lower, generation from annual storage power plants fell 9.7%. As a result, 26,708 GWh or some 86% of the electricity generated by VERBUND in 2010 were provided by hydropower plants. Other renewables (wind and solar power) contributed a further 112 GWh.

Electricity generated by thermal power plants was up 56.9% to 4,258 GWh in 2010. What accounted for this was the fact that the share of electricity purchased from the French CCGT in Pont-sur-Sambre was included for a whole year for the first time and utilisation of VERBUND thermal power plants was higher.

In 2010, VERBUND's thermal power plants again operated extremely efficiently: An availability factor of 87.5% and reliability of 99.8% are excellent results, also in international comparison.

Electricity sales

Sales up in all customer categories

VERBUND's electricity sales totalled 55,729 GWh in 2010 (after netting for third-party electricity trading), up 8.7% on the previous year.

Electricity sales by customer category GWh

	2009	2010	Change
End customer	10,288	11,451	+11.3%
Resellers	23,154	23,390	+1.0%
Traders	16,128	19,211	+19.1%
Own consumption	1,720	1,677	–2.5%
Group sales	51,289	55,729	+8.7%
Forward contracts	60,673	85,640	+41.2%

The volume of electricity supplied in export markets climbed 17.5% to 30,614 GWh. As a result, the share of electricity supplied abroad rose from 51% in 2009 to 55%. On the basis of the volume sold abroad, the largest market was Germany (69%), followed by France (23%). In the export business, the volumes sold showed an increase in all customer segments: resellers (+3.8%), traders (+21.8%) and consumers (+25.9%).

Electricity sales by country GWh

	2009	2010
Austria	25,245	25,115
Germany	19,718	21,258
France	5,488	6,915
Italy	396	839
Bulgaria	151	472
Hungary	–	432
Luxembourg	28	245
Others	263	452
Total	51,289	55,729

On the domestic market in Austria, the volume of electricity supplied was down 0.5% to 25,115 GWh. Higher electricity sales to consumers could not, however, compensate for the decline in electricity supplied to trading companies. Supplies to resellers in Austria stagnated.

Electricity distribution

Customer service and new business segments

VERBUND is the most successful new electricity supplier and ranks among the top five suppliers to consumers in the Austrian market. At the end of 2010, VERBUND had some 235,000 customers in Austria in the household/agriculture and commercial segment up to an annual electricity consumption of 100,000 kWh.

Our customer service also proved its worth with VERBUND coming out top in the 2010 test run by the Austrian consumer association's Konsument magazine. Konsument took a close look at 21 electricity suppliers, examining the type and quality of information provided on changing the electricity provider – in particular the website, hotline and annual electricity bill.

Developing new business areas is another part of our growth policy. The VERBUND solar electricity package helps to promote energy conservation among consumers. In the field of electric mobility, VERBUND helps develop sustainable solutions and together with partners operates Austrian Mobile Power, a company aimed at promoting electric mobility. The energy partnership with Almenland, an EU leader region in Styria, was developed in 2010. Almenland is to become a VERBUND test region for electric mobility in the future.

In the area of business and industrial customers, VERBUND has positioned itself as an innovation and information leader. The market share of electricity supplies for manufacturing goods was 24% in Austria alone in 2010. To drive business with industrial customers in Germany, the sales and trading activities are now the responsibility of VERBUND Trading & Sales Deutschland GmbH. A sales office was opened in Düsseldorf in June 2010. Expanding industrial customer sales to Germany is a key success factor for the consumer business.

Electricity trading

Position strengthened in European electricity and gas trading

Electricity supplies to trading companies were up 19.1% in the period under review.

In the area of Wholesale International West, many contracts were signed in 2010 for short-term delivery from cross-border capacity allocation and proof of origin, and distribution transactions concluded with industrial customers in France and Italy.

The activities in Wholesale International East centre on short-term business resulting from cross-border capacity allocation.

Trading floor activities in physical and financial electricity trading, the gas business, carbon credit trading and commodity hedging provide stable market access for marketing the electricity we generate and hedging our wholesale business. In view of the trading operations, VERBUND has a strong enough presence on the major OTC markets and exchanges in Europe required for the core business of generation.

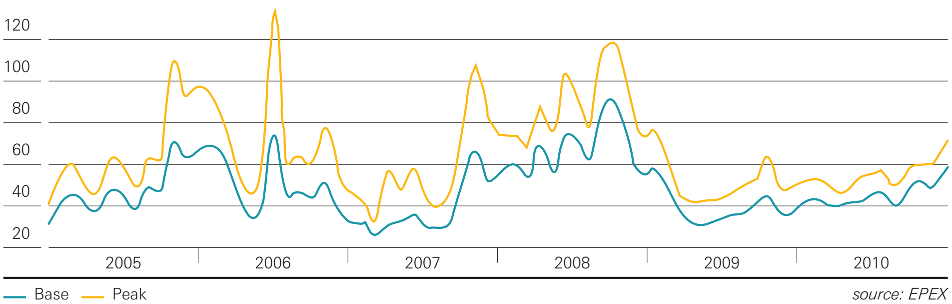
For details on trends at the European Energy Exchange, visit: www.eex.com

Electricity prices

Spot prices recovering, futures market under pressure

The prices on the spot market picked up in 2010: At the Paris electricity exchange EPEX, base load for the German/Austrian market cost €44.5/MWh on average for the year, about 14% up year on year. At €55.0/MWh, the peak prices were just under 8% above the average for 2009. The upswing in spot market prices came from the lower temperatures and industrial manufacture being on the increase again.

Spot market: Electricity price trends* €/MWh



source: EPEX

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

The electricity futures market remained under pressure because there are still adequate supplies on the marketplace. As a result, at €49.9/MWh in 2010, the average prices for base load (front year base 2010) on the Leipzig electricity exchange EEX for the German/Austrian market region were only 1% above the previous year's level (€49.2/MWh). The peak prices (front year peak), on the other hand, continued to fall and were down just under 8% to €64.5/MWh.

Futures market: Electricity price trends* €/MWh

source: EEX

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

Carbon credit prices rising again

VERBUND has to hold a certain number of carbon credits for the carbon emissions from our own power plants. The prices of these European Union allowances (EUAs) for emissions for delivery in December 2010 were €14.50 per tonne CO_2 on average in the 2010 trading year, which was about 8% above the price payable in 2009 for December 2009 contracts. The reason for the prices recovering is that emissions are rising because of the increase in industrial manufacture and higher electricity consumption.

Companies can meet part of their emission caps with certified emission reduction (CER) credits from projects in emerging markets and developing countries. The price of CER contracts due in December 2010 generally reflected the developments in EUA prices. Given the higher risk involved, the price level is lower here as a whole. The difference in price (spread) was €2 on average for the year.

Expansion in electricity generation

Hydropower contributes to achieving Austria's climate goals

Austria as an EU member committed to increasing its share of renewables to 34% by 2020. Hydropower is currently the only competitive renewable source of energy for generating electricity.

The national energy strategy therefore requires a 3.5-TWh increase in hydropower by 2015. From today's perspective, VERBUND will contribute about a quarter of it. Power plants with a standard capacity of some 770 GWh are scheduled to go into operation over the next few years, some of them in cooperation with regional partners.

Construction of the Limberg II pumped storage power plant in Salzburg continued to progress to the reduced schedule. With its 480 MW, it will increase the existing Kaprun power plant's turbine capacity to a total of 833 MW. In 2010, the final construction work, main assembly of machines and electrical installations and commissioning of individual components was completed. Both generator sets are scheduled to go into operation in mid-2011.

At the beginning of 2010, we submitted the environmental impact assessment (EIA) application for the Limberg III pumped storage power plant that is also being planned. After we provided more documentation, the hearing has now been set for spring 2011. Implementation of the Limberg III project largely depends on the 380-kV Salzburg line to Kaprun being completed.

As part of the cooperation between VERBUND and Energie Steiermark/STEWEAG-STEG GmbH (SSG), construction started on the two Mur River power plants in Gössendorf and Kalsdorf in 2009. Energie Steiermark/SSG is primarily handling the building, while VERBUND will run the plants after they are completed. In the Gössendorf project, all the construction work continued to schedule and routing back the Mur is planned for mid-2011. Work on the Kalsdorf project included rerouting the Mur at the end of 2010.

Following the positive EIA notice in early 2010, the ground-breaking ceremony for the Reisseck II pumped storage power plant in Carinthia took place in October 2010. The supporting and compensating ecological measures and the rock-fall and avalanche protection structures were completed on time at the end of 2010. With its 430 MW, the new plant will increase the Malta/Reisseck power plant group's turbine capacity to 1,459 MW. Commissioning is planned for autumn 2014.

Tyrol's provincial government granted the positive EIA for the cross-border Inn River power plant joint venture by VERBUND, TIWAG-Tiroler Wasserkraft AG and Engadiner Kraftwerke AG in July 2010. In October, the Swiss Department of the Environment, Transport, Energy and Communications in Berne then granted planning permission and the licence for using the hydropower. As the decision to build is expected to be taken in early 2012, commissioning is planned for late 2015. The power plant has an annual production of 414 GWh, of which VERBUND's share is 50%.

VERBUND continued to invest in increasing the efficiency of the existing facilities. In 2010, machine replacement was completed at the Aschach power plant on the Danube River. At the Jochenstein plant on the Danube, overhauling started on the last two of five generators.

The Pernegg power plant on the Mur River in Styria saw preparations starting in the first half of 2010 for rehabilitation, which began on time with the main conversion in the second half of the year. The first new generator set will go into operation in April 2011, while the other two sets will be converted in winters 2011/12 and 2012/13. Expansion of the Hieflau power plant on Styria's Enns River was completed in 2010. Having added a second penstock gallery and a new weir, the plant can now supply another 108 GWh p.a. of eco-friendly electricity.

Natural gas supplementing generation

On the road to the future, VERBUND relies on natural gas as an eco-friendly bridging technology. CCGTs are ideal in compensating for fluctuations in renewable sources such as wind and solar power. They can be controlled flexibly, are suitable for combined heat and power generation and operate efficiently. Compared with coal-fired plants, construction costs are only half as high, which means that CCGTs have much lower fixed costs. At the same time, they only emit half as much climate-damaging carbon dioxide.

Work on Austria's largest power plant construction site – the Mellach CCGT (832 MW) – is progressing rapidly, with the result that completion can be expected on time in late 2011. The main and all the auxiliary buildings are mostly finished. The large components, i.e., gas turbines, steam turbines, waste heat boilers, generators and transformers, are installed and now being integrated in the circuits. Quality assurance measures, mainly carried out by separate personnel, support the project.

In the EIA process for Klagenfurt's CCGT, the Carinthian Provincial Government granted permission at first instance in September 2010, provided that several requirements are met. VERBUND and project opponents appealed, firstly because of the restrictive requirements regarding power plant utilisation and secondly to clarify individual parts of the requirements. The proceedings are now at second instance.

At the Dürnrohr steam power plant, the pipe conveyor for transporting coal when delivered by ship went into operation in 2010. The joint VERBUND and EVN project reduces the number of lorries on the roads, making life easier for local residents and reducing environmental impact.

Commitment to wind power

We are also expanding electricity generation from wind power. In Romania, VERBUND is currently developing a 200-MW wind farm which is expected to generate some 550 GWh of electricity annually. Development work is very advanced, with planning permission for the project soon to be given. In Austria, we are also strengthening our commitment to wind power. Plans are for the existing wind farms in the east of the country to be expanded by around 33 MW. The projects are currently at the planning stage.

Outlook in the Electricity segment

Economic and ecological excellence in the energy market

VERBUND combines economic and ecological aspects at the highest level to achieve profitable growth. Economic excellence at all levels of value added, for example, means developing attractive customer solutions, exploiting market opportunities and optimising processes. Ecological excellence is reflected in VERBUND's dedication to eco-friendly, sustainable improvements in energy systems.

On the basis of our commitment in Austria, VERBUND aims to consolidate and expand our position among the most profitable electricity suppliers in Europe with targeted growth in the core markets. Our aim is therefore further optimisation along the entire value chain.

- In electricity generation, VERBUND primarily relies on hydropower, with natural gas and wind supplementing the generation portfolio in economic terms.
- We will expand trading and marketing electricity on the basis of our very good national and international wholesale position. VERBUND's strategy is to support trading and distribution in the core markets with our own electricity generation capacity. The power plants ensure that electricity can be supplied in these countries.
- Innovative products and services are essential for profitable growth in the long term. One example here is the area of electric mobility where VERBUND constantly develops new initiatives.

Grid

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

Business development

External revenue down in the Grid segment

External revenue in the Grid segment fell by 7.4% to €255.3m in 2010. The reason for this was lower international income from inter-TSO compensation – the mechanism for covering the costs incurred by transmission system operators (TSOs) – and from auctioning capacities on cross-border lines. In 2010, the Grid segment accounted for some 8.0% of external sales in the Group.

Reduced costs of purchasing electricity (secondary control and grid losses) because of lower market prices as well as less depreciation only partly compensated for the decline. EBIT therefore fell by 34.9% to €44.4m. In total, the Grid segment achieved 5.4% of Group EBIT. Given the lower result and higher capital employed, the return on capital employed (ROCE) dropped to 4.2% in 2010.

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

Grid segment: Key figures

	Unit	2008	2009	2010	Change
External revenue	€m	307.9	275.6	255.3	–7.4%
EBITDA	€m	141.7	127.6	101.4	–20.5%
EBIT	€m	88.0	68.2	44.4	–34.9%
Capital employed *	€m	672.8	801.0	828.8	+3.5%
ROCE *	%	10.1	7.0	4.2	–
Investments	€m	159.1	143.3	135.3	–5.6%

* The figure was revised in 2010 and the previous year's figures adjusted.

New tariffs from January 2011

In 2010, the regulatory authorities again examined the APG tariffs. At several hearings before the Energy Control Commission, APG submitted applications regarding interest on capital for grid investments, increasing grid costs (the EU's unbundling regulations) and compensation for the substantially reduced international income. Most of the applications were approved.

Generation companies are still charged grid tariffs for system losses and pumped electricity. As output has increased and the Tyrol control area was included, the tariff for system services fell considerably by 16%. Loss tariffs, however, rose slightly, despite lower purchase prices (new APG loss tender model from 2011). The reason for this was that international compensation for system losses was lower.

APG's pure grid use tariffs have remained stable. The gross component went up 9% due to the regulatory authorities' tariff considerations, while much lower tariffs were set for the net components, in particular net work. On balance, the tariff basis was reduced by 1.7% on average. The new tariffs apply from 1 January 2011. APG customers have initiated proceedings in many cases because they refuse to pay certain system use tariff components and intend to fight the applicable legal provisions and the system use tariffs directives based on them. As a result of the applications to review the directives, the courts responsible in most of the proceedings approached the Austrian Constitutional Court, which has now taken the decision to start a law review process.

Investments in the Grid segment still at a high level

In 2010, investments in tangible and intangible assets totalled €135.3m in the Grid segment. A major item was closing the gap in the St. Peter-Tauern section of the 380-kV Salzburg line by installing the first part from St. Peter to Salzburg, which costed €47.6m. Other major investments in grid expansion included projects in Lower Austria – such as extending and converting the Bisamberg substation (€9.3m), the second 380-kV circuit from south-east Vienna to Hungary with enlargement of the Sarasdorf substation (€10.6m) and two new transformers in the Wallsee substation (€5.1m).

Part of the plant investments involved replacing another transformer at the Hessenberg substation in Styria (€4.7m) and converting the systems at the Ernsthofen (€6.2m) and Ybbsfeld substations (€4.9m) in Lower Austria.

Security of supply

Volume of energy transmitted at the previous year's level

In 2010, electricity consumption in the APG control area almost reached the 2008 level again (before the crisis). Totalling 37,218 GWh, the volume of energy transmitted over the 220/380- kV grid (grid level 1) only showed a slight change of –0.9% compared with the previous year. The high degree of fluctuation in energy flow to the neighbouring national and international grid partners also continued throughout the year. In 2010, exchange with the neighbouring control areas ranged from a maximum import of 2,178 MW to a maximum export of 3,099 MW.

APG to operate the transmission network in Tyrol

On 1 January 2011, APG took over operation of the transmission network in Tyrol from TIWAG-Netz AG. As a result, there are now only two control areas in Austria: APG and Vorarlberg. Even after APG takes over the transmission network in Tyrol, the transmission facilities will still remain the property of TIWAG-Netz AG. In the future, the two companies will work together on expanding and maintaining the grid in Tyrol. Cooperation is aimed at improving the situation in the balancing energy markets and strengthening development of the Austrian electricity market.

Secure supply without interruptions

APG took various measures in 2010 to ensure security of supply as far as possible. They included line construction, coordinated grid operation, training and developing personnel as well as research and development. To meet the legal requirements (under ElWOG), APG has purchased the primary control reserve needed for its control area in a weekly tender since the beginning of 2010.

When the second circuit from south-east Vienna to Hungary went into operation, the international connection to the 380-kV grid was strengthened and the basis created for further expanding wind power in Burgenland. A step in the project was shutting down three 380-kV circuits simultaneously for a day in April 2010. Thanks to the various national and international adjustments and extensive congestion management measures, the shutdown went off successfully without putting the security of supply at risk.

During construction of the 380-kV Salzburg line, the engineers faced several challenges: One was disconnecting the double circuit 220-kV St. Peter-Salzburg line. To ensure the electricity supply in Salzburg, extensive grid measures were required.

Being able to respond quickly to exceptional grid situations requires regular coordination with the operators of transmission and distribution networks in the vicinity. APG has bilateral agreements with all the neighbouring grid partners and keeps in close touch with them, for example, by holding coordination meetings.

Equally important for the security of supply in Austria are the four operation regions. Personnel on site ensures proper management and maintenance of the substations, grid control systems and high-voltage overhead power lines. In the course of maintenance work, projects and crisis prevention, they get in touch with the authorities, emergency services and local residents.

Continuing research and development

In 2010, APG invested around €1.0m in research and development. The projects primarily focused on the integration of renewable energies, the potential danger from forces of nature, load controll and environmental protection. In addition, we also further developed new systems for efficient grid monitoring (e.g., thermal rating or iced line monitoring).

Worth particular mention is the Austrian Awareness System (AAS), which went into operation on 1 October 2010. It is aimed at sharing information on the state of the grid in the event of a major outage. The system was developed under the auspices of APG together with all the neighbouring distribution network operators.

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

Line construction projects

Given its great significance for Europe, the 380-kV Salzburg line is a Trans-European Energy Networks (TEN-E) project. It is a requirement for ensuring the security of supply in Austria and preventing bottlenecks. In addition, it also enables further expansion in electricity generation, especially in the area of renewables.

After the application for suspensive effect had been rejected and public interest confirmed, construction started on the first section of the 380-kV Salzburg line (Salzburg neu-St. Peter) in August 2009. The building work is nearing completion with commissioning scheduled for early 2011, which means another milestone for the Austrian 380-kV ring will be reached. The investment volume for the 46-km-long section together with substations is expected to be €119m.

For the second phase, in particular the 115-km-long Tauern-Salzburg section, a panel of experts developed a route corridor in an intensive dialogue process with local residents and the communities potentially affected. At the end of October 2010, APG submitted an application to the Federal Ministry of Economy, Family and Youth for approval of the groundwork for the 380-kV line. The earliest date for submitting the environmental impact statement is spring 2012.

New regulatory developments

Adopted in summer 2009, the EU's third energy deregulation package calls for extensive changes in the area of transmission networks. It focuses on the independence of transmission system operators. VERBUND remains the owner of Austrian Power Grid AG, but ensures that the grid subsidiary is an independent transmission operator (ITO).

The EU regulations must be implemented by March 2012. Implementation will be certified by the regulatory authorities and submitted to the European Commission for approval. At a national level, the EU directive will be adopted in ElWOG. In 2010, we appointed a project team to identify the measures necessary and start the initial implementation steps.

The European Network of Transmission System Operators for Electricity (ENTSO-E) established under the third legislative package is already fully operational. Its work focuses on developing a ten-year investment plan and the first network codes in cooperation with the European Commission and the European Regulators Group for Electricity and Gas (ERGEG). Another focus lies in harmonising the European target model that is to be implemented in cooperation with the European Commission, regulators and representatives of the electricity market over the next few years.

Another organisation, the Agency for the Cooperation of Energy Regulators (ACER) was established in Ljubljana (Slovenia) in 2010. It will create guidelines for the ENTSO-E network codes from March 2011. In a process led by the European Commission, the network codes will then become legally binding.

INGOMAR SEEBER
Trading expert in Turkey

Business graduate / with VERBUND since 2005 / trading specialist in Ankara / supports the Company in developing new marketplaces / likes working together with people with a different education, nationality, culture and religion

"Turkey is undergoing radical change, from an energy market regulated by the state to a completely liberalised one. This means new marketplaces, new players – and is a great opportunity for VERBUND. I value the Company's long-term and environmentally aware orientation, its use of up-to-date technologies and the fact that we help shape the energy markets of the future."

Expansion in the Grid segment

The European transmission system operators will have to continue preparing intensively for the growing challenges they will face, especially in light of a single European electricity market and the planned massive expansion of volatile renewable energies.

APG will carry on with the expansion programme defined in the 2009–2020 Grid Master Plan. The planned projects include the 380-kV Salzburg line, integration of wind power in Burgenland and Lower Austria, and strengthening the grid into Germany and in Carinthia. The Master Plan will be revised annually in the future to ensure that grid expansion planning meets requirements and is cost effective. At the next stage, detailed regional master plans will be developed with the grid companies in the provinces.

In 2011, the focus will be on commissioning the first part of the 380-kV Salzburg line and driving the planning process for the second part. All the other project work and programmes for improving maintenance, safety and efficiency will also go ahead as planned. What is also important is implementing the EU's third legislative package.

In addition, APG along with eleven other transmission system operators has owned the Capacity Allocation Service Company (CASC) since 2010. As a service provider, CASC coordinates auctions of cross-border capacities – for APG those to Italy and Switzerland. The Central Allocation Office set up by APG together with seven other system operators will start operations in 2011.

Equity interests

Since the electricity market opened up, VERBUND has consistently pursued a policy of internationalisation. In 2010, the Group concentrated on continuing to develop existing interests in Austria and in the markets of Italy, France and Turkey.

Business development

Result from equity interests: €37.6m

The result from equity interests totalled €37.6m in 2010. It was mainly attributable to our interests in Austria: STEWEAG-STEG GmbH (€15.9m) and KELAG (€28.3m). The Italian Sorgenia S.p.A. (Group) reported a result of €43.0m. Thanks to positive price and volume effects and an earlier increase in grid tariffs, Turkey's distribution network company, Enerjisa Elektrik Dagitim A.S., posted a €16.1m share in the result while the Turkish generation company, Enerjisa Enerji Üretim A.S. (Group), accounted for €19.3m of the total figure. The Turkish interests also benefited from the positive trends in foreign exchange rates in 2010. However, the lower share price for POWEO S.A. (Group) and the still difficult market conditions led to a negative result for the POWEO S.A. (Group) of €105.7m.

Equity Interests & Services segment: Key figures

	Unit	2008	2009	2010	Change
External revenue	€m	10.4	38.9	66.5	+71.0%
EBITDA	€m	–35.3	–28.9	–27.1	–6.2%
EBIT	€m	–42.8	–37.5	–36.5	–2.6%
Capital employed*	€m	3,945.0	6,022.0	7,112.8	+18.1%
Result from equity interests	€m	42.3	61.4	37.6	–38.8%
Investments in equity interests	€m	546.9	628.8	74.9	–88.1%

* The figure was revised in 2010 and the previous year's figures adjusted.

Foreign interests

Italy: On the road to success

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For information on Sorgenia, visit: www.sorgenia.it

VERBUND's share in Sogenia S.p.A. (Group) is currently around 45%. As a result, VERBUND actively participates in the growth of Sorgenia S.p.A. (Group).

In Q1–3/2010, EBITDA was €107.7m, up 12% on the same period the previous year. Profit after tax amounted to €57.6m in Q1–3/2010 compared with €21.1m in Q1–3/2009. The tremendous improvement of 173% was the result of tax breaks under the Tremonti-ter rules, a government measure to promote investment on the part of companies.

Modugno's CCGT has been in operation since Q4/2009. In October 2010, the Lodi CCGT with a capacity of 805 MW went online after completion on time and to budget. The 800-MW CCGT in Aprilia is currently under construction. It is scheduled for commissioning in Q1/2012.

When the 12-MW wind farm in San Martino in Pensilis went into operation in Q2/2010, it meant that Sorgenia now has 81 MW of capacity from wind turbines and 16 MW from solar power plants in Italy, with another 9 MW from photovoltaic systems being built.

Sorgenia France completed the wind farm in Leffincourt (32 MW) in the second half of 2010 and now has just under 140 MW of installed power.

Following the complicated approval processes, Sorgenia Romania obtained permission for wind projects totalling 106 MW.

France: Difficult year in 2010

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For information on POWEO, visit: www.poweo.com

VERBUND is the largest single shareholder in POWEO S.A. (Group) with 46%. In Q1–3/2010, POWEO S.A. (Group) posted a 43% year-on-year increase in revenue, which was not least due to the fact that the 412-MW CCGT in Pont-sur-Sambre was in operation for the first full year.

July 2010 marked an important milestone in the development of our generation portfolio: The decision to build another ultramodern CCGT in Toul with a capacity of 413 MW was taken. The portfolio is supplemented by the expansion of renewables. Some 98 MW of wind and photovoltaics is currently installed with more plants under development or construction. In the course of strategic focusing, the decision was, however, taken in 2010 to part with the renewables segment and the sale process initiated. Two small hydropower plants were also sold in 2010.

On the basis of impairment tests carried out because the POWEO S.A. (Group) share price had remained lower for a longer period, the stake's value had to be impaired by €56.2m in 2010.

The fact that the NOME law, which will open France's consumer electricity markets and should come into force in 2011, has been delayed several times is one of the main reasons why the POWEO S.A. (Group) results have not developed as planned. In view of the unacceptable situation, various options were examined concerning the future strategic orientation of POWEO S.A. (Group).

Successfully implemented measures for improving the results such as reducing the loss of customers or focussing on customers with higher credit rating could not compensate for these challenges.

As POWEO S.A. (Group) has already announced, POWEO S.A. (Group) will be realigned since the NOME law is expected to come into effect in 2011.

VERBUND is supporting the company's reorganisation with the offer of purchasing the 60% share in POWEO Production S.A.S. held by POWEO S.A. (Group).

For information on Enerjisa, visit: www.enerjisa.com

Turkey: Successful expansion in generation

VERBUND holds 50% of the shares in the Turkish generation company Enerjisa Enerji Üretim A.S. (Group). The company reported a revenue of €220.7m in Q1–3/2010, up 10.6% year on year. This was also due to the positive developments in the economy and higher demand for electricity in the Turkish market. At €18.5m for Q1–3/2010, earnings after tax were down 16.6% from the previous year. The main reason for this was the failure of two small CCGTs in the first half of the year and later commissioning of the Bandirma CCGT (919 MW) in October 2010. Enerjisa Enerji Üretim A.S. (Group) therefore had to purchase electricity at a loss on the balancing market in order to deliver the agreed volumes as planned.

The company is aiming for an installed capacity of around 5,000 MW by 2015. Its goal is a share of at least 10% and consequently market leadership in the Turkish electricity market. Implementation of the strategy is progressing rapidly: Construction of nine hydropower plants with a total capacity of 940 MW to go into operation by 2012 has, for example, been finalised. Another project in the pipeline is the Canakkale wind farm, with 30 MW in the first phase set to be connected to the grid in early 2011. Completion of the Arkun storage power plant with 237 MW is planned for 2014. In addition, Enerjisa Enerji Üretim A.S. (Group) is also working on other projects.

Together with our Turkish partner Sabanci, VERBUND operates the Baskent EDAS distribution network in the extensive, highly populated area round Ankara. Baskent EDAS had some 3.2m consumers at the end of Q3/2010. The business plan provides for further growth in electricity sales: Baskent EDAS intends to become a leading distribution network company in Turkey by 2012. Despite the difficult market environment, Baskent EDAS increased sales in Q1–3/2010 by 29.8% from the previous year to €808.4m. Decisive factors here were positive price and volume effects and an earlier increase in grid tariffs. The operating result for Q1–3/2010 subsequently improved by more than 100% to €29.4m. Earnings after tax totalled €31.7m in Q1–3/2010.

Albania: Construction started on Ashta power plant

Construction of the Ashta hydropower plant located on the Drin River south of the town of Shkoder in Albania began in February 2010.

In this project, the two plant stations are each fitted with 45 turbine/generator units using HYDROMATRIX® technology. The power plant will generate a total of 242m kWh from 2012, which will enable 100,000 households in Albania to be supplied with eco-friendly energy.

A syndicate agreement was signed with Energie Versorgung Niederösterreich AG (EVN) in Q2/2010. Following approval by the Albanian and European authorities, it became effective on 27 August 2010. EVN consequently holds a 50% share in the Ashta power plant project.

Domestic interests

SSG: Power plant construction progressing in Gössendorf and Kalsdorf

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

To improve results in the long term, SSG has been implementing the W.E.ST. restructuring project since 2009. By merging locations, the utility has achieved savings in the area of administration and reduced personnel expenses.

Construction of the power plants in Gössendorf und Kalsdorf is going to plan. Great importance is attached to meeting the requirements given in the environmental impact assessment. A priority was therefore replacing the forests in this area. The authorities responsible for freshwater ecology also praised the restoration of the Raaba stream.

KELAG: On board the Reisseck II power plant project

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For information on KELAG, visit: www.kelag.at

KELAG-Kärntner Elektrizitäts-Aktiengesellschaft provides electricity, gas and heat to customers throughout Austria. In the field of hydropower and wind power, KELAG also operates internationally. VERBUND has a 35.17% stake in the utility as of 31 December 2010. Kärntner Energieholding Beteiligungs GmbH holds 63.85% of the shares and the free float accounts for 0.98%.

KELAG is participating in VERBUND's Reisseck II power plant project, which will go into operation in 2014. The decision to build has been taken, planning permission obtained and the ground-breaking ceremony held. Work on the Feldsee pumped storage power plant and Koralpe power plant is also going according to plan.

Energie Klagenfurt: Important milestone reached for Klagenfurt's CCGT

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For information on Energie Klagenfurt, visit: ww.stw.at

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

In view of the medium-term income and expense trends, the management developed and implemented a cost-cutting programme. The initial effects can already be seen in the results.

Together with VERBUND, EKG is building a CCGT in Klagenfurt (400 MW). It is aimed at securing electricity and heat supplies for the city of Klagenfurt and province of Carinthia in the long term. After the EIA notice at first instance was received, VERBUND and project opponents appealed against it. This was firstly because of the restrictive requirements regarding power plant utilisation and secondly to clarify individual parts of the requirements. The proceedings are now at second instance.

Outlook in the Equity Interests segment

Over the past few years, VERBUND has acquired and developed various interests in Austria and abroad. In 2010, we restructured many interests because of the economic crisis. Our goal, particularly in the foreign interests, is to continue the investment projects and increase their profitability. The focus in the various countries and investees is on the following:

Plans abroad

- Italy: continuing the Aprilia construction project (800-MW CCGT) with commissioning planned for 2012 and significantly increasing the number of consumers (currently 500,000).
- France: implementing strategic realignment of POWEO S.A. (Group), closing the purchase of the 60% share in POWEO Production S.A.S., selling the renewables segment at POWEO Production S.A.S.
- Turkey: continuing the construction projects including the investment decision for the Bandirma II CCGT in the second half of 2011; developing Baskent EDAS into a leading distribution network company in Turkey.

Plans in Austria

- STEWEAG-STEG: continuing and implementing the W.E.ST. project for increasing efficiency and saving costs.
- KELAG: continuing investment in the Reisseck II power plant project and the two Feldsee and Koralpe power plants.
- EKG: completing the preparatory work for the CCGT in Klagenfurt.

Risk management

A Group-wide risk management system has been in place since 2001 to identify and assess the risks and opportunities at VERBUND as early as possible. In 2010, we streamlined the procedures and restructured the tasks involved. A tangible consequence of this process is the integration of risk and opportunity management in Group controlling.

Efficient new structure in risk management

Risks and opportunities are identified in the individual companies at VERBUND and form an integral part of the planning and reporting processes. The risk and opportunity management tasks include coordinating and monitoring these processes, aggregating the data collected in the system and submitting quarterly reports to the Managing and Supervisory Boards. Risk Management Committees review and update the risks and opportunities found. In the area of information security and data protection, risk management is the responsibility of the Chief Information Security Officer.

Risk and opportunity management at VERBUND

Company Risk Management

Company Risk Management

Operational Risk Management

Risk Identification
Risk Quantification

Risk Measures
Risk Control

Risk Reporting
Company/
Organisational Unit

Risk Management Committee

Risk Control

Risk Modelling

Holding Risk Management

VERBUND

Strategic Risk Management

Risk Principles

Overall Risk Control

Risk Reporting
Managing/
Supervisory Board

Significant risks and opportunities at VERBUND

Given the significance of market and financial risks, one focus of risk management is on trading, distribution and financing. Here we apply a strict policy of dual control.

VERBUND: Main risks along the value chain in the Group

VERBUND

Currency exchange rates
Foreign currency risk – primarily from financing in Japanese yen (JPY) and Turkish lira (TRY)

Security prices
Risk of price fluctuations for the securities held

Rating changes
Risk of borrowing capital becoming more expensive in an appropriate target capital structure

Interest changes
Risk of changes in interest rates

Generation

- **Own electricity**
Volume risk due to water supply and the price risk involved
- **Fuel**
Risk/opportunity due to changes in raw material prices
- **Facilities**
Risk of damage to the facilities

Trading/distribution

- **Counterparties**
Risk that business partners fail to meet their obligations or deliver late
- **Third-party electricity**
Risk/opportunity due to volatile prices on the electricity market
- **Legislation**
Risk due to international and national developments

Transmission

- **Facilities**
Risk of damage to the facilities
- **Grid construction**
Risk of investing in expanding the grid
- **Legislation**
Risk of loss due to new laws or amendments

Equity interests

- **Equity interests**
Risk of fluctuations in stake value and dividends/profit distribution; risk of contingent liabilities/receivables
- **Projects**
Risk of changes in the completion date, budget or quality
- **Legislation**
Risk due to international developments

All companies

Information security
Risk of information security and data protection

Human resources
Risks such as changes in employment law and employee absence

Legal
Risk of disputes

Management
Risk of wrong decisions

Before making investment decisions, we also take potential risks and opportunities into account. The basis for decisions are assessments by consultants and experts at VERBUND and specially set up centres of excellence.

Risks and opportunities for 2011

Operational risks

Our operations are mainly affected by the volume and price risk inherent in the electricity business. Given the high percentage of hydropower, the volume of electricity generated by VERBUND depends to a great extent on the weather and the water supply from the rivers. Fluctuations in wholesale prices also have a significant impact on earnings.

A change of 1% either way would be reflected as follows in the operating result for 2011, other things being equal:

- Greater or less generation from hydropower: €11.9m
- Wholesale prices: €5.3m

In thermal generation, the risk is determined by the wholesale prices for electricity, the cost of primary energy sources (i.e., heating oil, natural gas, hard coal) and carbon credits. The risks in this area will become more important when the Mellach CCGT goes online in 2011. In addition, the risks involved in contracts, personnel and facilities also affect the operating result.

Interest risks

As we continue to implement our growth strategy – by purchasing or establishing foreign subsidiaries and by investments in interests accounted for using the equity method in the foreign markets of Italy, France and Turkey – the risks involved may be higher, but they are offset by greater opportunities.

Risks exist in the significant fluctuations in results from equity interests (including foreign currency effects), particularly at the beginning of investment, and from changes in the stake's value. Liabilities and guarantees assumed by VERBUND can also have a negative effect. Opportunities are to be found in long-term investment in emerging markets with rising price levels and potentially favourable foreign currency effects.

Since investments in interests (accounted for using the equity method) mostly relate to VERBUND's core business with various levels of value added such as generation, trading and distribution, the structure of interest risks is similar to that of VERBUND's risk portfolio in Austria. Regular reporting and monitoring as well as developing and implementing an adequate risk management system in the relevant interests will ensure that our investments are secure in the long term as part of the international growth strategy. Furthermore, VERBUND's risk-return portfolio will feature newly developed, risk-based portfolio management in the future.

The profit or loss of investees with registered offices in the eurozone are largely affected by the risks and opportunities on the European energy market and regulatory aspects. However, where investees have registered offices outside the eurozone, the financial risk mainly derives from exchange and interest rate fluctuations alongside the risks inherent in the specific country and the energy industry. As VERBUND has interests in Italy, France and Turkey, our international growth strategy will increase the risks but also expand the opportunities in the future.

Financial risks

In terms of liquidity, VERBUND is well positioned and has adequate liquidity reserves. The capital increase and long-term hedging of the historically low interest rates in 2009 guarantee VERBUND low capital costs in the medium term.

VERBUND's investment strategy is conservative: Available funds are invested in a broad investment portfolio at banks with good to prime credit ratings. As security for electricity trading activities, the Group holds money-market-related bonds and securities from partners with high credit ratings.

As over 80% of financial liabilities have fixed interest rates, the risk of interest rate changes is of less significance to VERBUND. The capital increase in November 2010 has also had a positive impact on VERBUND's credit rating.

The risks from cross-border leasing transactions are only of minor importance now, as around 85% of contracts were terminated early.

Information security risk

A key success factor at VERBUND is to be found in all areas of information technology (IT) – from computing to control technology and telecommunications. To ensure that personnel grasp the issues involved in using these technologies and handling sensitive Company information and act accordingly, we hold regular wide-ranging information events and training courses and use the latest media to support and raise awareness regarding information security.

In addition, VERBUND also has a well-developed information security organisation. Its structure is defined in an Information Security Policy that applies to the whole Group and describes the duties and responsibilities involved. Forming the basis for creating consistent awareness of information security, it defines a standard for economically appropriate action for the inherent risk. A chief information security officer (CISO) plans and constantly controls all aspects of information security at VERBUND. The CISO has the authority to issue instructions and is responsible for ensuring that the applicable internal and external requirements are met. Overall coordination of information security is, however, the responsibility of the Risk Management Committee for Information Security.

Grid risk

At its quarterly meetings, the Risk Management Committee responsible for the grid discusses and controls all the major risks and opportunities for the grid. The focus is on line projects (especially those for closing the gap in the 380-kV ring), trading risks (counterparty risks), legal and regulatory risks. VERBUND's risk management is also involved in many special projects such as implementing unbundling or analysing and evaluating the potential impact of climate change on the transmission grid.

Other risks

Long investment cycles are a feature of the energy industry. Following deregulation, uncertainty is increasing due to the radical changes in the market. The economic and financial crisis has made market participants keenly aware that effective risk and opportunity management is necessary to exploit existing and future potential for success.

The main sources of risks and opportunities in this area:

- Implementing EU guidelines: When the third EU internal market package is implemented, it will change the conditions for bottleneck/cross-border capacity and contain various approaches to the subject of water charges.
- Economic development of the foreign markets: What is important for VERBUND is to develop the international markets of Germany, France, Italy and Turkey.
- Changes in the technological environment: Innovations and new technological developments, such as the increased use of renewable energies or distributed electricity generation, impact VERBUND's business.
- Changing consumer behaviour: Demographic development, technological trends and social issues, such as electric mobility and climate change, affect consumer behaviour in the medium term.

Outlook

In 2010, the global economy emerged from the crisis. The market region relevant for VERBUND also experienced a recovery of the economy. According to the forecast of the International Monetary Fund (IMF), both the eurozone and the EU experienced real economic growth of 1.8%.

The brighter prospects of the economic situation overall resulted in a significant recovery of the prices on the fuel markets. Q 4/2010 in particular saw increases in the prices of oil, gas and coal, some of which were quite considerable. At the same time, electricity consumption in Europe was again on the rise. In Austria, electricity consumption climbed by 4.3% in 2010 as a result of the economic recovery and cooler weather. This brought sales back up to the pre-crisis level.

Economic outlook cautious

Despite the recovery in 2010, the economic outlook for 2011 is cautious. In many industrialized countries, the after-effects of the economic and financial crisis are still being keenly felt. The gradual discontinuation of economic stimulus programmes was already noticeable in the second half of 2010 as global growth slackened. According to the IMF, economic growth will slow worldwide in 2011, however, total economic output will continue to trend steadily higher. The upswing in the eurozone (in real terms +1.5%) and in the EU (in real terms +1.7%) will probably remain restrained.

Based on the framework conditions previously described, we are anticipating stable primary energy and CO_2 prices in 2011. Along with the predicted slight economic growth, electricity demand should continue to recover and exceed the pre-crisis level.

Stable electricity prices

In 2010, electricity prices mirrored the previously depicted positive influencing factors only in part. The annual average base-load spot prices for the German and Austrian markets on the Paris EPEX Spot Exchange were about 14% higher than the previous year, with peak prices surpassing the average figures of the previous year by just over 8%. The electricity futures market remained under pressure, as the market is still being adequately supplied. The average prices for base-load energy (front year base) on the Leipzig-based European Energy Exchange (EEX) for Germany and Austria were only 1% above the previous year's level. The prices for peak-load energy (front year peak), however, continued to drop and ultimately fell by just under 8%.

In 2011, we are expecting a stable development of wholesale prices. The higher prices for primary energy and the rising electricity demand point toward an increase in electricity prices. The life-span extension of nuclear reactors in Germany and in particular the massive expansion of renewable energy sources are exerting pressure on the electricity prices. Due to our continuing hedging strategy, we anticipate the average achieved contract price in 2011 to be slightly higher than the price in 2010. Based on the current forward prices, we anticipate slightly rising prices for the following years.

Capital increase drives investments in hydropower plants

A milestone in VERBUND's history was the capital increase in the amount of approx. €1bn that was completed on 24 November 2010. This new capital will enable a rapid implementation of the planned investments based on a solid capital structure and a rating in the "A" range. In the next six years, we will invest about €2.4 bn in growth projects, in particular hydropower in Austria. We will also continue to pursue the expansion of the high-voltage grid in Austria and will also proceed with the investments in Turkey.

After the challenging economic situation in the past year, we are moving forward into the future in a position of strength now that the capital increase has been completed. Nevertheless we continue to work on measures to optimise our capital structure and improve our result, for example, with the planned sale of up to 30% of the Inn power plants, which were acquired in August 2009. In 2010, we already sold 3.46% of the shares to Innkraft Bayern GmbH & Co. KG.

Operating result expected to remain consistent in 2011

Based on the previously described influencing factors and an average water supply, we expect the operating result and Group result to remain approximately the same in the 2011 fiscal year. Our dividend policy continues to target a constant payout ratio of 45 to 50% of the Group result.

Internal control and risk management system

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

The following section describes the key features of the internal control and risk management system applied to the accounting process in accordance with Section 243a (2) of the Austrian Commercial Code (UGB).

Control environment

Code of Conduct

VERBUND is Austria's leading utility and one of the largest companies generating electricity from hydropower in Europe. The VERBUND Managing Board is consequently aware of its responsibility towards shareholders, employees, business partners, society and the environment. Group management acts according to the principles defined in the Code of Conduct.

Controlling

Our Managing Board is responsible for developing and implementing an internal control and risk management system for the entire accounting process, which has to meet the Group's demands. As a centre of business excellence, VERBUND Group controlling ensures that the tasks in controlling, accounting and financial reporting comply with the applicable rules and regulations and are carried out uniformly throughout the Group.

The controlling departments in the VERBUND subsidiaries are supported by Group controlling and have access to the Group manuals for their work. VERBUND Management Service GmbH provides such important services as financial accounting, purchasing and IT for the accounting process. This applies to all companies in which VERBUND holds a direct majority or has an indirect determining interest through interests or agreements.

Budgeting, revised and medium-term planning

VERBUND controls the Group on the basis of the operating results and key performance indicators derived from them. Our Internal Control System (ICS) for accounting therefore uses detailed short and medium-term planning and analysis of the deviations from the actual results.

The income statement is rolled over and consolidated monthly in the revised plan for the current year (approved budget for the previous year). If the revised plan is presented quarterly in the Supervisory Board report, the balance and cash flow are also planned and performance indicators for the budget determined. Budgeting for the following business year starts in July when the premises are sent out and ends with the version finalised in mid-October. During budgeting, we carry out medium-term planning at the same time.

Financial reporting

VERBUND runs a fast-close programme every year to prepare the consolidated financial statements to IFRSs and the individual financial statements to UGB and IFRSs. In the case of fully consolidated companies, the figures from the individual financial statements are adopted in the SAP EC-CS module for consolidation to IFRSs. The carrying amounts of equity interests of companies consolidated using the equity method are carried forward at Group level in SAP EC-CS.

Risk assessment

VERBUND has used a Group-wide risk management system for many years that includes software for recording, evaluating and defining action for all the risks and opportunities identified. Group controlling has set up a special department for this purpose. Holding Risk Management coordinates and monitors the processes, aggregates the data collected locally and reports to the Managing and Supervisory Boards quarterly on the Group-wide risk and opportunity portfolio, paying particular attention to potential deviations from the Group result.

There are special Risk Management Committees (RMCs) for all the key areas involving risks or opportunities. They meet regularly under the auspices of Holding Risk Management. The RMCs are primarily responsible for reviewing and updating risks and opportunities regularly, evaluating and implementing control measures and raising awareness of the risks among Group employees.

Control measures

Process manual for accounting

The Internal Control System has to be evaluated regularly to ensure it is still appropriate and monitored with control measures. To this end, VERBUND started a project in 2009 – called "Accounting process – Corporate Law Amendment Act (Unternehmensrechts-Änderungsgesetz – URÄG)" – that determined the actual processes, assessed the risks and identified key internal controls. In addition, it specified the timing of the controls in a risk control matrix and included them together with the flow charts from the process map in a process manual. An updated version is released every year.

As part of risk management, all those responsible for processes are required to review and update the relevant processes once a year. Furthermore, the auditing department also ensures ongoing control with its activities.

Executive orders, Group guidelines, standard operating procedures

VERBUND has a whole set of executive orders, guidelines and standard operating procedures to ensure that structures, roles, functions and processes are clearly defined for all concerned. The organisation team implements continuous improvements to make sure they are up to date and the range meets requirements.

IT systems

SAP is mainly used throughout the Group for financial accounting and budgeting. VERBUND Trading AG also uses host systems for recording wholesale and trading transactions, e.g., Endur as the ETRM software and Eulvis as the customer accounting system. Interfaces automatically transfer the balances to SAP.

The VERBUND Sales GmbH business – all the electricity sales to consumers – is initially also processed in Eulvis and then automatically transferred to SAP. Professional Planner is available for the budgeting and planning of foreign interests. Original vouchers are archived in SAP, while contracts and other important documents are stored in the document management system (DMS).

Information and communication

Internal reporting

The VERBUND companies' controlling departments send monthly reports to the relevant board members and managers. Once they have been approved, the reports are forwarded to Group controlling where the data is aggregated and presented to the VERBUND Managing Board. Plans and budgets are reviewed and supported by deviation analyses and target achievement checks. Similarly, the financial management also reports to the VERBUND Managing Board on liquidity, financial liabilities and highlights in the areas of financing and investor relations.

In addition to the income statement, quarterly reporting contains additional information such as the balance sheet per quarter, year to date and whole year compared with the budget and the previous year. Another part is segment information with contribution margins and details of potential results and target achievement. Financial management also reports on the general conditions applying to exchange rates and interest, on the amortisation outlook, investment performance and risk monitoring in the area of financing. Holding Risk Management provides an overview of the risk horizon for the current and following year and the results achieved by the Risk Management Committees.

External reporting

Quarterly external reporting to the Supervisory Board is basically the same as quarterly internal reporting, but with more segment information. Other external reports to the Supervisory Board include the annual report on VERBUND investments and the Managing Board's report on the annual budget, including the financial and liquidity plan, human resources and investment plan.

Legal unbundling

Since legal unbundling, Company codes are kept strictly separate and reports only accessible to specific people to prevent information from being shared between VERBUND companies and Austrian Power Grid AG, which would not be permitted. This ensures that VERBUND companies cannot access the grid company's sensitive data and vice versa. The only exception to the rule are shared services, such as Group controlling, financial accounting and IT.

Monitoring

The auditing department monitors operations, business processes and the internal control and risk management system. Its work follows the auditing programme approved by the VERBUND Managing Board supplemented by short and special audits. The audit reports include various recommendations and measures. After the Managing Board instructs them to be implemented, they are subject to six-monthly follow-ups.

One of the priorities in auditing is ensuring that all the corporate procedures and processes are consistent with the Group-wide rules and regulations, the VERBUND companies' articles of association or partnership agreements and the applicable laws. Another side to the work is seeing to it that tasks and functions are kept separate as appropriate and the policy of dual control is observed. Where information technologies are used in particular, the audit department checks whether applicable authorisation systems or additional controls in documented form are implemented.

Shareholder structure and capital information

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

1. At the balance sheet date, the share capital comprises: 170,233,686 individual share certificates (bearer shares category A), equivalent to 49% of the share capital; 177,182,000 individual share certificates (registered shares category B), equivalent to 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. There were 347,415,686 shares in circulation at the balance sheet date. With the exception of the voting restriction described under Point 2, all shares have the same rights and obligations. During the fiscal year a capital increase of 19,215,686 individual share certificates (bearer shares category A) and 20,000,000 individual share certificates (registered shares category B) was carried out.

2. In accordance with constitutional law, which regulates the ownership structure of the companies in the Austrian electricity sector (Federal Law Gazette I [BGBl] 1998/143 Art. 2) and also forms the basis for the Company's Articles of Incorporation, the following voting restriction applies: "With the exception of regional authorities and companies in which regional authorities hold an interest of at least 51%, the voting right in the Annual General Meeting is restricted to 5% of the share capital." We are not aware of any other restrictions that affect voting rights or the transfer of shares.

3. The shareholder structure of VERBUND AG is largely defined by the majority holding of the Republic of Austria. 51% of the share capital of VERBUND AG is owned by the Republic of Austria under constitutional law. A syndicate comprising the state energy companies Wiener Stadtwerke Holding AG and EVN AG owns more than 25% of the share capital. More than 5% of the share capital is owned by TIWAG-Tiroler Wasserkraft AG. Less than 19% of the share capital is in free float.

4. There are no shares with special control rights.

5. VERBUND does not have any employee participation programmes.

6. In accordance with the rules of procedure for the Supervisory Board, the last nomination to the Managing Board must be prior to the nominee's 65th birthday. A Nomination Committee has been established within the Supervisory Board pursuant to the Austrian Corporate Governance Code, which makes arrangements for the appointment of Managing Board members on behalf of the Supervisory Board. Apart from the above, there are no other regulations extending beyond the legal requirements that relate to the members of the Managing Board and the Supervisory Board. Moreover, there are no applicable requirements derived directly from the law regarding amendment of the articles of incorporation.

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For further details, see the Corporate Governance Report, page 223.

7. The authorisation granted to the Managing Board at the 62nd Ordinary General Meeting held on 25 March 2009 in accordance with Section 65 (1) (8) of the Stock Corporation Act (AktG) relating to the purchase of Treasury shares is valid until 25 September 2011. The Managing Board has not issued a decision on a buyback programme to date. In the Extraordinary General Meeting held on 24 September 2010, new authorised capital was resolved, whereby the Managing Board was authorised under Section 169 of the Stock Corporation Act to increase the share capital with the approval of the Supervisory Board by 23 September 2015 by up to €154,00,000.00 by issuing up to 154,100,000 new bearer or registered ordinary shares (individual share certificates) against a cash contribution – if applicable, made in several instalments – and to determine the issue amount, the terms of issue and the further details of the implementation of the capital increase with the approval of the Supervisory Board. This with the proviso that the federal government subscribes for new shares within the scope of a capital increase from the authorised capital, thus ensuring that the shareholding of the federal government in the company does not fall below 51% of the Company's share capital even after completion of a capital increase from authorised capital. Subsequently, the Managing Board resolved a capital increase with the Supervisory Board's approval on 24 November 2010 by issuing 39,215,686 individual share certificates, whereby the share capital rose to €347,415,686.00. After this capital increase, the Managing Board is authorised to increase the share capital with the approval of the Supervisory Board by 23 September 2015 from the current nominal value of €347,415,686.00 by up to €114,884,314.00 by issuing up to 114,884,314 new bearer or registered ordinary shares (individual share certificates) against a cash contribution – if applicable made in several instalments – and to determine the issue amount, the terms of issue and the further details. The Managing Board has no additional powers within the meaning of Section 243a No. 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 No. 8 of the Austrian Commercial Code (UGB). Furthermore, in our opinion, a public takeover bid is not possible at this time under constitutional law.

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

Events after the balance sheet date

Additional financing requirements arose during the course of the programme to restructure POWEO S.A. (Group). On 21 December 2010, VERBUND communicated an offer to POWEO S.A. (Group) for the purchase of (an additional) 60% of shares of POWEO Production S.A.S. in order to cover these needs. This offer was accepted by the management of POWEO S.A. (Group) on 3 January 2011; the agreement is expected to be finalised and closed during Q1/2011.

Vienna, 1 February 2010
Managing Board

Dipl.-Ing. Wolfgang Anzengruber
Chairman

Dr. Johann Sereinig
Vice-Chairman

Dr. Ulrike Baumgartner-Gabitzer
Member

Consolidated Financial Statements

Income statement

According to IFRSs	Notes	2010	2009
			€k
Revenue		**3,307,891**	3,483,110
Electricity revenue	1	2,948,242	3,164,905
Grid revenue		249,719	268,523
Other revenue	2	109,929	49,682
Other operating income	3	37,801	52,675
Expenses for electricity, grid and gas purchases as well as purchases of emission rights (trade)	4	–1,611,299	–1,608,253
Fuel expenses and other usage-dependent expenses	5	–118,309	–118,874
Personnel expenses	6	–308,356	–303,988
Amortisation of intangible assets and depreciation of property, plant and equipment	7	–230,706	–209,226
Other operating expenses	8	–248,557	–253,135
Operating result		**828,464**	1,042,311
Result from interests accounted for using the equity method	9	22,089	51,914
Result from equity interests – other	10	15,544	9,466
Interest income	11	30,787	49,485
Interest expenses	12	–245,228	–216,657
Other financial result	13	–18,878	45,243
Financial result		**–195,686**	–60,549
Profit before tax		**632,778**	981,762
Taxes on income	14	–148,396	–228,914
Profit for the period		**484,382**	752,848
attributable to the shareholders of VERBUND AG (Group result)		400,833	644,382
attributable to non-controlling interests		83,549	108,466
Earnings per share in €[1]	15	**1.28**	2.09

[1] Diluted earnings per share correspond to basic earnings per share.

Statement of comprehensive income

According to IFRSs	2010	2009
		€k
Profit for the period	**484,382**	752,848
Other comprehensive income from		
Foreign exchange differences	23,919	–7,009
Available-for-sale financial instruments	–1,161	34,498
Cash flow hedges	–126,424	–112,538
Interests accounted for using the equity method	–32,276	–28,373
Other comprehensive income before tax	**–135,943**	–113,422
Taxes on income	36,313	25,316
Other comprehensive income after tax	**–99,630**	–88,106
Total comprehensive income for the period	**384,752**	664,742
attributable to the shareholders of VERBUND AG	300,980	555,266
attributable to non-controlling interests	83,772	109,476

Balance sheet

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According to IFRSs	Notes	31/12/2010	31/12/2009
Non-current assets		**9,722,235**	9,364,094
Intangible assets	16	623,624	633,344
Property, plant and equipment	17	5,958,695	5,553,841
Interests accounted for using the equity method	18	2,261,908	2,174,290
Equity interests	19, 30	138,866	138,553
Investments and other receivables	20, 22, 30	739,143	864,066
Current assets		**1,568,745**	981,122
Inventories	21	92,279	127,080
Trade receivables and other receivables	22, 30	987,484	728,058
Cash and cash equivalents	23, 30	488,982	125,984
Total assets		**11,290,979**	10,345,216

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According to IFRSs	Notes	31/12/2010	31/12/2009
Equity		**4,372,400**	3,409,691
attributable to the shareholders of VERBUND AG	24–27	4,036,025	3,117,916
attributable to non-controlling interests	28	336,375	291,775
Non-current liabilities		**6,041,742**	5,956,847
Financial liabilities	29, 30	4,267,425	4,153,715
Provisions	31	631,321	672,047
Deferred tax liabilities	32	168,333	174,081
Contributions to building costs and grants	33	430,222	401,864
Deferred income – cross-border leasing	34	56,788	74,129
Other liabilities	30, 35	487,653	481,011
Current liabilities		**876,838**	978,678
Financial liabilities	29, 30	228,792	156,741
Provisions	31	274,281	284,451
Current tax liabilities	36	49,670	151,391
Trade payables and other liabilities	30, 37	324,095	386,095
Total liabilities		**11,290,979**	10,345,216

Statement of changes in equity

According to IFRSs	Share capital	Capital reserves	Retained earnings
Notes	24	25	26
As at 1/1/2009	308,200	10,936	2,505,457
Changes in the group of consolidated companies	0	0	18,877
Total comprehensive income for the period	0	0	644,382
Dividends	0	0	–323,610
As at 31/12/2009	308,200	10,936	2,845,105
As at 1/1/2010	**308,200**	**10,936**	**2,845,105**
Capital increase	39,216	943,391	0
Shift between shareholder groups	0	0	19,772
Total comprehensive income for the period	0	0	400,833
Dividends	0	0	–385,250
As at 31/12/2010	**347,416**	**954,327**	**2,880,460**

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Difference from currency translation	Measurement of available-for-sale financial instruments	Measurement of cash flow hedges	Other components of other comprehensive income	Equity attributable to the shareholders of VERBUND AG	Equity attributable to non-controlling interests	Total equity
27					28	
–52,459	–20,480	114,302	1,830	2,867,786	260,299	3,128,085
0	86	–488	0	18,474	1,175	19,649
–7,348	24,013	–109,156	3,375	555,266	109,476	664,742
0	0	0	0	–323,610	–79,175	–402,785
–59,808	3,619	4,658	5,205	3,117,916	291,775	3,409,691
–59,808	**3,619**	**4,658**	**5,205**	**3,117,916**	**291,775**	**3,409,691**
0	0	0	0	982,607	0	982,607
0	0	0	0	19,772	30,898	50,670
24,144	450	–119,025	–5,421	300,980	83,772	384,752
0	0	0	0	–385,250	–70,070	–455,320
–35,664	**4,069**	**–114,367**	**–216**	**4,036,025**	**336,375**	**4,372,400**

Cash flow statement

€k

According to IFRSs	Notes	**2010**	2009
Profit for the period		484,382	752,848
Amortisation of intangible assets and depreciation of property, plant and equipment (net of reversals of impairment losses)		230,602	209,223
Impairment losses on investments (net of reversals of impairment losses)		85	24,745
Result from interests accounted for using the equity method (net of dividends received)		4,429	– 19,605
Result from the disposal of non-current assets		– 9,367	– 9,592
Change in non-current provisions and deferred tax liabilities		– 13,466	4,922
Income from the reversal of deferred income from contributions to building costs		– 12,159	– 16,839
Cash inflow from contributions to building costs received		40,517	0
Income from the reversal of deferred income and result from the termination of cross-border leasing transactions		17,169	– 21,630
Other non-cash expenses and income		44,507	32,144
		786,698	956,216
Change in inventories		34,801	– 60,604
Change in trade receivables and other receivables		85,052	84,544
Change in trade payables and other liabilities		– 21,576	– 22,608
Change in current provisions and current tax liabilities		– 106,776	10,469
Cash flow from operating activities	38	**778,200**	968,018
Cash outflow from capital expenditure for intangible assets and property, plant and equipment		– 678,175	– 460,986
Cash inflow from the disposal of intangible assets and property, plant and equipment		2,164	3,147
Cash outflow from capital expenditure for financial investments		– 76,448	– 57,900
Cash inflow from the disposal of financial investments		90,648	103,585
Cash outflow from capital expenditure for subsidiaries		0	– 992,493
Cash outflow from capital expenditure for interests accounted for using the equity method		– 90,781	– 626,568
Cash inflow from the disposal of subsidiaries and interests accounted for using the equity method	39	5,005	0
Cash inflow (outflow) from the disposal of (capital expenditure for) current financial investments		– 366,820	108
Cash inflow (outflow) from decreases (increases) in non-current receivables		– 19,605	– 12,618
Cash flow from investing activities		**– 1,134,011**	– 2,043,724

€k

According to IFRSs	Notes	2010	2009
Cash inflow from capital increases		976,811	0
Cash inflow from shifts between shareholder groups		51,424	0
Cash inflow (outflow) from money market transactions		45,456	– 112,397
Cash inflow from the assumption of financial liabilities (excluding money market transactions)		200,000	2,107,111
Cash outflow from the repayment of financial liabilities (excluding money market transactions)		– 64,224	– 333,260
Cash outflow from capital expenditure for financial investments under cross-border leasing transactions		– 1,055	– 48,487
Cash inflow (outflow) from the disposal (repayment) of financial investments (liabilities) under cross-border leasing transactions		– 34,283	– 133,094
Cash inflow from contributions to building costs received		0	16,820
Dividends paid		– 455,320	– 402,785
Cash flow from financing activities	40	**718,809**	1,093,908
Change in cash and cash equivalents		**362,998**	18,202
Cash and cash equivalents at the beginning of the period		**125,984**	107,782
Cash and cash equivalents at the end of the period		**488,982**	125,984

Notes

VERBUND AG (formerly Österreichische Elektrizitätswirtschafts-Aktiengesellschaft – the company name was changed upon entry in the commercial register on 18 May 2010) with its registered office at Am Hof 6a, A-1010 Vienna, is the parent company of the energy group VERBUND, which operates in Austria and abroad. VERBUND AG is entered in the commercial register at the Commercial Court of Vienna under number FN 76023z.

VERBUND generates, trades and sells electrical energy to power exchange buyers, traders, energy supply companies and industrial companies as well as households and commercial customers. In addition, VERBUND operates the Austrian high-voltage grid and holds interests in foreign and domestic energy supply companies. VERBUND's foreign equity interests concentrate on the core markets in Turkey, Italy and France.

Financial reporting principles

Basic principles

VERBUND prepares its consolidated financial statements in accordance with Section 245a (1) of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB) in compliance with the International Financial Reporting Standards (IFRSs) as endorsed by the European Union. The separate financial statements of the consolidated companies included in VERBUND's consolidated financial statements are based on uniform accounting policies. The balance sheet date is 31 December 2010 for all consolidated companies.

VERBUND's consolidated financial statements comprise the income statement, the statement of comprehensive income, the balance sheet, the cash flow statement, the statement of changes in equity 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).

Due to the use of EDP devices, rounding differences may arise in the addition of rounded amounts and the calculation of percentages.

Consolidation methods

All material companies controlled by VERBUND AG (subsidiaries) are included in the consolidated financial statements of VERBUND by means of full consolidation. VERBUND AG asserts control when it is in a position to directly or indirectly govern a subsidiary's financial and operating policies in order to obtain benefits from its activities. Inclusion in the consolidated financial statements begins when control is achieved and ends when it ceases.

First-time consolidation of a subsidiary is effected upon acquisition by employing the acquisition method. The identifiable intangible and tangible assets, liabilities and contingent liabilities belonging to the acquiree as well as any non-controlling (minority) interest in the acquiree are recognised and measured. The amount by which the consideration transferred, plus any non-controlling interest and – in the case of a step acquisition – any equity interest previously held by VERBUND exceeds the fair value of the net assets is recognised as goodwill.

Companies controlled jointly with another company (joint ventures) and companies over which VERBUND AG has a significant direct or indirect influence (associates) are accounted for using the equity method. The equity method is a method of consolidation or measurement in which the equity interest is initially recognised at cost. The equity interest is subsequently adjusted for changes in VERBUND's share of the investee's net assets; the result is a "one-line consolidation". As a rule, significant influence is presumed if the share of voting rights directly or indirectly attributable to VERBUND is at least 20%, but less than 50%. Interests accounted for using the equity method are recognised with their proportional profit or loss under IFRSs from (consolidated) interim or annual financial statements for which the reporting date is not more than three months prior to VERBUND's balance sheet date. Significant events or transactions at investees accounted for using the equity method occurring between this reporting date and VERBUND's balance sheet date result in corresponding adjustments.

Intragroup transactions, receivables, liabilities and intercompany profits are eliminated under consideration of deferred taxes.

Group of consolidated companies

A list of all subsidiaries, joint ventures and associates is presented in the table "Group companies" at the end of the notes. The group of subsidiaries, joint ventures and associates included in VERBUND's consolidated financial statements in the 2010 reporting period changed as follows:

	Full consolidation	Accounting using the equity method
As at 31/12/2009	26	19
Change in consolidation method	– 1	+1
As at 31/12/2010	25	20
Of which domestic companies	18	9
Of which foreign companies	7	11

The change in consolidation methods relates to the loss of control over Energji Ashta Shpk. Effective 27 August 2010, EVN AG acquired a 50% equity interest in the Albanian project company for €5.1m. The former subsidiary of VERBUND thereby became a jointly controlled entity accounted for using the equity method.

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

The assets and liabilities of foreign Group companies with a functional currency other than the euro are translated using the foreign exchange reference rate of the European Central Bank (ECB) prevailing at the balance sheet date. The expenses and income of consolidated subsidiaries are translated using average monthly rates, while those of investees accounted for using the equity method are translated using average quarterly rates. Translation differences at the reporting date are recognised in other comprehensive income (OCI) and presented separately within equity.

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

Foreign exchange rates used for currency translation

Country	Currency	**31/12/2010** ECB foreign exchange reference rate	31/12/2009 ECB foreign exchange reference rate	**2010** Average rate	2009 Average rate
Bulgaria[1]	1€ = BGN	1.9558	1.9558	1.9558	1.9558
Romania	1€ = RON	4.2620	4.2363	4.2184	4.2249
Turkey	1€ = TRY	2.0694	2.1547	2.0115	2.1665

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

Accounting policies

New accounting policies applicable or applied

When preparing the consolidated financial statements, all IASs (International Accounting Standards) and IFRSs (International Financial Reporting Standards) as well as all interpretations by the SIC (Standing Interpretations Committee) and the IFRIC (International Financial Reporting Interpretations Committee) that have been endorsed by the European Union and whose application was mandatory as at 31 December 2010 were taken into account.

VERBUND applied the new or amended standards and interpretations for the first time as required or on a voluntary basis as follows in the 2010 reporting period:

Newly applicable or applied IFRSs and IFRICs

Standard or Interpretation		Published by the IASB (endorsed by the EU)	Mandatory application for VERBUND	Effects on the consolidated financial statements of VERBUND
IAS 27	Amendments: Consolidated and Separate Financial Statements	10/1/2008 (3/6/2009)	1/1/2010	Accounting for acquisitions and disposals of shares without change of control as pure equity transactions; change in the accounting for share disposals resulting in loss of control
IAS 32	Amendments: Classification of Rights Issues	8/10/2009 (23/12/2009)	1/1/2011	none
IAS 39	Amendments: Eligible Hedged Items	31/7/2008 (15/9/2009)	1/1/2010	none
IFRS 1	Amendments: First-time Adoption of IFRSs	27/11/2008 (25/11/2009)	1/1/2010	none
IFRS 1	Amendments: Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	28/1/2010 (30/6/2010)	1/1/2011	none
IFRS 1	Amendments: Additional Exemptions for First-time Adopters	23/7/2009 (23/6/2010)	1/1/2010	none
IFRS 2	Amendments: Group Cash-settled Share-based Payment Transactions	18/6/2009 (23/3/2010)	1/1/2010	none

Newly applicable or applied IFRSs and IFRICs

Standard or Interpretation		Published by the IASB (endorsed by the EU)	Mandatory application for VERBUND	Effects on the consolidated financial statements of VERBUND
IFRS 3	Amendments: Business Combinations	10/1/2008 (3/6/2009)	1/1/2010	Change in the accounting for step acquisitions; option between accounting for goodwill in proportion to the share in net assets and full-goodwill method; acquisition-related costs to be expensed as incurred
IFRIC 18	Transfers of Assets from Customers	29/1/2009 (27/11/2009)	1/1/2010	Recognition of contributions to building costs received as deferred revenue
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	12/11/2009 (23/7/2010)	1/1/2011	none
Various	Improvements to IFRSs	16/4/2009 (23/3/2010)	1/1/2009 and/or 1/1/2010	none

As a result of the amendments to IAS 27, acquisitions and disposals of shares without a change of control must now be accounted for as pure equity transactions; goodwill recognised in proportion to the share in net assets may no longer be reduced. This accounting rule was applied to the sale of 3.46% of the interest in VERBUND Innkraftwerke Deutschland GmbH as part of the "Bavarian/Austrian Regional Plan". As a result of the amendments to IAS 27, if a sale of shares leads to a loss of control, the remaining shares must be remeasured at fair value with the effect recognised in profit or loss following deconsolidation. This accounting rule was applied to the sale of 50% of the equity interest in Energji Ashta Shpk to EVN AG (see: Financial reporting principles). Other amendments to IAS 27 relate in particular to the accounting for losses attributable to non-controlling interests. The allocation of losses can result in a deficit balance of equity attributable to non-controlling interests.

The amendments to IAS 32 clarify that foreign currency denominated rights issues are to be presented as equity in the issuer's balance sheet if both the number and foreign currency amount of equity instruments to be acquired are fixed and the rights are issued pro rata to all existing holders of the same class of equity instruments. The amendment of this standard had no effect on VERBUND's consolidated financial statements.

The amendments to IAS 39 provide guidance on the requirements under which inflation risk can be designated as hedged item in hedging relationships, as well as on the possibility of hedging one-sided risks using options. The amendments clarify that, as a rule, inflation risks may not be designated as hedged items. However, if the inflation component represents a contractually specified portion of the cash flows of a financial instrument, inflation can be hedged. The amendment of this standard had no effect on VERBUND's consolidated financial statements.

The amendments to IFRS 1 in 2008 were intended to facilitate the use of the standard. Obsolete transition guidelines were deleted; minor changes were made to the text. In 2009, additional exceptions from the retrospective application of IFRSs related to the accounting for oil and natural gas reserves and the reassessment of leases were included for first-time adopters. Additional amendments in the 2010 reporting period exempt first-time adopters from disclosing certain comparative information for measurements at fair value and liquidity risk. These amendments did not apply to VERBUND, since VERBUND already prepares consolidated financial statements in accordance with IFRSs.

The amendments to IFRS 2 specify that, in addition to Group-wide equity-settled share-based payment transactions, those settled in cash must also be presented in a subsidiary's separate IFRSs financial statements. Accordingly, a subsidiary must recognise goods or services received in a share-based payment transaction in its separate IFRSs financial statements in accordance with accounting rules for share-based payment – regardless of which Group company pays the compensation (in cash or in equity instruments). In addition, IFRIC 8 and IFRIC 11 were incorporated in the standard. The amendments of this standard had no effect on VERBUND's consolidated financial statements.

The amendments to IFRS 3 provide the option of accounting for goodwill either in proportion to the share in the net assets or the application of the so called full-goodwill method when accounting for a business combination. In addition, acquisition-related costs of a business combination must now be expensed as incurred. Moreover, the accounting rules for business combinations were supplemented with specifications related to the recognition and measurement of assets, liabilities and contingent liabilities as well as the recognition of pre-existing relationships with the acquiree and reacquired rights. As a rule, subsequent adjustments to the measurement of contingent consideration must now be recognised in profit or loss and no longer have an effect on goodwill. When a business combination is achieved in stages (step acquisition), as a result of the amendments to this standard, acquisition accounting is carried out uniformly for all share at the acquisition date. Those shares held by an acquirer prior to achieving control must be remeasured at fair value with the effect recognised in profit or loss. The value of these shares thus determined is included in the fair value of consideration transferred.

IFRIC 18 regulates the accounting for transactions in which a company receives an asset or the funds to purchase or produce such an asset from the customer. In exchange, the customer is connected to a network or receives ongoing access to a supply of goods or services. In the consolidated financial statements of VERBUND, contributions to building costs received, for instance, for power plant projects (in particular from provincial energy companies) fall within the scope of this interpretation. The rights to purchase electricity and the rights to use granted in return result in the recognition of an item of deferred income which is either reversed in profit or loss over the period of the agreement or (if no period is specified) over the useful life of the assets. Previously, the reversals of the deferred income item have been presented under other operating income. In contrast, IFRIC 18 now specifies recognition as revenue. This accounting rule has been applied prospectively (i.e., to all contributions to building costs received by VERBUND since 1 January 2010). The reversals resulting from contributions to building costs received in prior periods were presented accordingly under revenue; comparative information was not adjusted. Cash inflows from contributions to building costs received were previously reported under cash flow from financing activities in the cash flow statement. Due to the first-time application of IFRIC 18, contributions to building costs received will be presented under cash flow from operating activities starting with the 2010 reporting period.

IFRIC 19 clarifies the accounting for debt for equity swaps. If a company repays a financial debt partially or completely by issuing equity instruments, they must be measured at fair value. Any difference between the carrying amount of the financial debt and the initial measurement of the issued equity instruments must be recognised in profit or loss. The amendment of this interpretation had no effect on VERBUND's consolidated financial statements.

Minor specific changes were made to a number of individual standards and interpretations as a result of the Annual Improvements to IFRSs in 2009. These amendments are intended to substantiate the standards and eliminate unintended inconsistencies within the IFRSs. This collection of amendments had no effect on VERBUND's consolidated financial statements.

The remaining accounting policies have not been changed since the 2009 reporting period.

New accounting policies not yet applicable or applied

The IASB and the IFRIC have issued new standards and interpretations that were not (yet) applied by VERBUND in the 2010 reporting period, because they have either not been endorsed yet by the European Union or are not yet mandatory:

New IFRSs and IFRICs not yet applicable or applied

Standard/Interpretation		Published by the IASB (endorsed by the EU)[1]	Mandatory application for VERBUND	Effects on the consolidated financial statements of VERBUND
IAS 12	Amendments: Recovery of Underlying Assets	20/12/2010 (expected for Q3/2011)	1/1/2012	none
IAS 24	Amendments: Related Party Disclosures	4/11/2009 (19/7/2010)	1/1/2011	Simplification of notes disclosures on transactions with companies controlled or significantly influenced by the Republic of Austria
IFRS 1	Amendments: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters	20/12/2010 (expected for Q3/2011)	expected 1/1/2012	none
IFRS 7	Amendments: Financial Instruments—Disclosures	7/10/2010 (expected for Q2/2011)	expected 1/1/2012	currently being examined
IFRS 9	Financial Instruments	12/11/2009 (postponed)	expected 1/1/2013	currently being examined
IFRIC 14	Amendments: Prepayments of a Minimum Funding Requirement	26/11/2009 (19/7/2010)	1/1/2011	none
various	Improvements to IFRSs	6/5/2010 (expected for Q1/2011)	1/1/2011	currently being examined

[1] Basis: Endorsement Status Report dated 17 Jan. 2011

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

The amendments to IAS 24 revised the definition of related parties. In addition, the amendments provide for some relief from notes disclosure requirements to companies that are controlled or significantly influenced by the government (government-related entities). Until now, parties related to the government such as VERBUND had to provide detailed information regarding all transactions with companies that are controlled by the government. Due to greater emphasis on the principle of materiality, future notes disclosures can be limited to such transactions that are collectively but not individually significant. The amendment of this standard is not expected to have a significant effect on VERBUND's consolidated financial statements.

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

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

IFRS 9 reforms the classification and measurement of financial instruments. This standard represents the end of the first phase of a three phase project with the goal of replacing IAS 39 in its current form. Under IFRS 9, there are only two categories of financial assets: debt instruments that are held as part of a business model to collect contractual cash flows and recognised at amortised cost; and all other debt instruments and equity instruments that are, as a rule, measured at fair value through profit or loss. There is an option to recognise changes in the fair value of equity instruments not held for trading in other comprehensive income. For financial liabilities, the accounting rules according to IAS 39 have been retained substantially. However, if a financial liability is recognised at fair value through profit or loss, IFRS 9 specifies that the amount of the fair value change being attributable to changes in a company's own credit risk must be isolated and recognised separately in other comprehensive income. The expected effects of this new standard on VERBUND's consolidated financial statements are currently being examined; however, a final assessment can only be made when the second and third phases ("impairment methodology" and "hedge accounting") are completed. Phases two and three are currently expected to be finalised in Q2/2011.

As a result of the amendments to IFRIC 14, companies that must meet minimum funding requirements related to pension plans may now recognise the economic benefit from prepayments for future contributions as an asset. The amendment of this interpretation is not expected to have an effect on VERBUND's consolidated financial statements.

The Annual Improvements to IFRSs in 2010 include minor specific changes to a number of individual standards and one interpretation. These amendments are intended to substantiate the standards and eliminate unintended inconsistencies within the IFRSs. The future effects of this collection of amendments on VERBUND's consolidated financial statements are currently being examined.

Goodwill and other intangible assets

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

In accordance with IFRS 3, goodwill is not subject to scheduled amortisation, but must be tested for impairment at least annually. For this purpose, goodwill is allocated to those cash-generating units expected to profit from the synergies resulting from a business combination. These cash-generating units correspond to the lowest organisational level at which VERBUND's management monitors goodwill for internal management purposes. The impairment test of goodwill compares a cash-generating unit's recoverable amount with its carrying amount, including goodwill. The recoverable amount is the higher of net realisable value (fair value less 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. VERBUND conducts its annual impairment tests of goodwill at the level of the cash-generating units on the basis of medium-term planning in Q4 of the reporting period. In addition to the annually conducted impairment test, a qualitative analysis is conducted as at the balance sheet date of each of the interim financial statements (and also at the end of the reporting period, if necessary) to determine whether there is any indication of impairment. If there are indications of impairment, an (additional) impairment test is conducted.

Intangible assets acquired separately are measured at cost in accordance with IAS 38, less any impairment, and amortised according to the straight-line method if their useful life is not classified as indefinite. The useful lives are mainly between 10 to 20 years; software is amortised over 4 years. Intangible assets with indefinite useful lives are recognised at cost and tested annually for impairment; however, they are not material in VERBUND's consolidated financial statements.

VERBUND's research and development costs in the 2010 reporting period amounted to €4.8m. (previous year: €4.3m). Research costs are expensed as incurred. In contrast, development costs are to be recognised under certain conditions as internally generated intangible assets in accordance with IAS 38 and subsequently amortised over their useful lives. Development costs are expensed as incurred in the consolidated financial statements of VERBUND, as either the corresponding recognition criteria have not been met or the amounts are not material. Nevertheless, internally-generated intangible assets may be recognised in accordance with IFRIC 12 in connection with service concession arrangements (see: Service concession arrangements). Borrowing costs attributable to the period of development of such intangible assets are to be capitalised in the case of qualified assets (see: Property, plant and equipment). As long as intangible assets are not yet available for use, they must be annually tested for impairment.

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), less scheduled straight-line depreciation charges and any impairment losses.

In addition to direct material and manufacturing costs, the cost of internally generated plant and equipment also includes appropriate indirect material and personnel expenses. Borrowing costs are capitalised for qualified assets. In accordance with VERBUND's accounting policies, a project results in a qualified asset only if the construction period is at least 12 months and its carrying amount (net of borrowing costs) is at least €7.0m. VERBUND's average monthly borrowing costs in the 2010 reporting period were between 4.2% and 4.5% (previous year: between 4.2% and 4.9%).

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

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

Assets leased and leased out

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

Conversely, an asset is recognised under non-current assets at the present value of the minimum lease payments (or the lower fair value if applicable) if substantially all risks and rewards associated with a leased asset are carried by VERBUND. A leasing liability is recognised in the same amount. The asset is depreciated over the shorter of its useful life or the lease term. The leasing liability is carried forward in subsequent periods according to the effective interest method.

All other lease agreements for which VERBUND acts as the lessor or lessee are accounted for as operating leases. As a rule, the lease payments are recognised as income or expense proportionately over the term of the lease.

Service concession arrangements

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

The construction services rendered as part of an Albanian hydropower plant concession were accounted for as specified under IFRIC 12 in accordance with the accounting rules included in IAS 11 for construction contracts. Expenses and income were recognised based on the percentage-of-completion method (POC) at the fair value of the consideration receivable. The stage of completion was determined based on the cost-to-cost method. Income from the (future) operation services to be rendered will be recognised in accordance with IAS 18. In the 2010 reporting period, VERBUND recognised €42.2m (previous year: €28.2m) in revenue from construction services and a profit of €0.2m (previous year: €0.2m) in its consolidated financial statements.

The consideration receivable from the power plant concession was recognised as a financial asset to the extent associated with the 15-year fixed electricity purchase agreement with KESH. An intangible asset was recognised for the consideration receivable subject to demand risk and resulting from the 17-year period in which the generated volume of electricity is expected to be sold on the open market.

As a consequence of EVN AG's 50% acquisition of Energji Ashta Shpk, the Albanian project company was deconsolidated (see: Financial reporting principles). Therefore, VERBUND's consolidated balance sheet no longer included any assets from the Albanian hydropower plant concession as at 31 December 2010.

Impairment of non-financial assets

In accordance with IAS 36, the carrying amounts, in particular of property, plant and equipment and intangible assets are tested for impairment if there are indications thereof. Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually – regardless of whether there are indications of impairment (see: Goodwill and other intangible assets). An asset or a cash-generating unit is impaired when the carrying amount exceeds the recoverable amount of the asset or the cash-generating unit.

The recoverable amount is the higher of net realisable value (fair value less costs to sell) and value in use. Fair values are to be determined primarily based on market prices and can, for instance, be based on existing binding offers, secondary price formation on active markets, or comparable recent transactions within the industry according to the measurement hierarchy in IAS 36. If fair value cannot be determined based on market prices, methods used to determine the net present value can be applied. As a rule, value in use is determined using methods to determine net present values. The discounted cash flow method (DCF) is used for this calculation. The cash flows are generally derived from the recent medium-term plans approved by management. Consistent with IAS 36, neither future investments to enhance or improve the asset's performance, nor restructuring expenditures (not including existing obligations) are included in the calculation of value in use. The discount rate is a pre-tax interest rate which reflects the current market estimates, the time value of money and the specific risks associated with the asset (or cash-generating unit). Impairment losses are recognised in profit or loss as well as separately disclosed in segment reporting. If impairment no longer persists in a subsequent period, a reversal is to be recognised in profit or loss.

Equity interests

Equity interests in non-consolidated subsidiaries (for a lack of materiality) as well as associates and joint ventures not accounted for using the equity method as well as other investees are classified as financial assets available for sale measured at fair value with the effect in other comprehensive income in accordance with IAS 39.

Those interests for which the fair value cannot be derived from comparable recent transactions in the reporting period or for which the fair value cannot be determined using the DCF method, as cash flows cannot be reliably estimated, are recognised at cost less any impairment losses.

The carrying amount of interests accounted for using the equity method is adjusted based on VERBUND's ownership interest to reflect changes in the investee's net assets in accordance with IAS 28. Carrying forward of the proportionate net assets is effected no later than one quarter following the underlying changes (see: Financial reporting principles). The carrying amount of the interest is increased or decreased by the share in the profit or loss for the period and other comprehensive income attributable to VERBUND, as well as by dividends, the elimination of material intercompany profits or losses and by carrying forward the fair value adjustment of 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.

Impairment of equity interests

As at the balance sheet date, net investments in associated companies and joint ventures as well as other equity interests are reviewed for indications of impairment as defined under IAS 39 (see: Impairment of financial assets). If there are any such indications, an impairment test must be conducted for interests accounted for using the equity method in accordance with IAS 36.

Impairment is tested based on the recoverable amount, which represents the higher of fair value less costs to sell and value in use. The primary methods used to determine the fair value of an equity interest are based on market prices; as an alternative, methods to determine the net present value can be applied. If alternative methods are applied, VERBUND bases the determination of fair value on the best available information that an (hypothetical) buyer would apply in an arm's length transaction. In order to determine value in use, as a rule, VERBUND's proportionate share in the present value of the estimated entire future cash flows expected to be generated by the associates or the joint venture is applied; alternatively, the proportionate present value of estimated future dividends and liquidation proceeds could be applied in accordance with IAS 28.

For the purposes of impairment testing, every interest accounted for using the equity method is considered separately, unless the associated company or joint venture does not generate any cash flows from continuing use that are largely independent of those of other assets held by VERBUND. With respect to the joint ventures managed together with Sabanci Holding A.S., this can be the case with the continuing deregulation of the Turkish electricity industry.

In the 2010 reporting period, there was an indication that POWEO S.A. (Group) was impaired: The share price of the company, which is listed on the Euronext Paris exchange, was below the (average) cost per share for the entire reporting period. The impairment tests conducted at 30 September 2010 and 31 December 2010, in which the respective fair value less (estimated as not material) costs to sell was the measurement benchmark, resulted in the recognition of impairment losses totalling €56.2m (see: Discretionary judgements and key assumptions concerning the future). The impairment losses were presented under the result from interests accounted for using the equity method.

Investments and other non-current receivables

Investments and other non-current receivables mainly include debt instruments and investment fund units as well as investments related to early terminated cross-border leasing transactions whose B-loans were nevertheless continued. Interest income calculated using the effective interest method is recognised under financial result.

Debt instruments and investment fund units are classified as available-for-sale. As a rule, financial instruments fall under this category if they do not represent loans and receivables and are neither held to maturity nor measured at fair value through profit or loss.

Acquisitions and disposals of financial assets are recognised as at the trade date. They are recognised in the balance sheet at fair value, which, as a rule, is determined on the basis of quoted prices, and are thus Level 1 measurements as defined under IFRS 7. If prices are not available from active markets, fair value is determined on the basis of either directly (on the basis of market prices) or indirectly (derived from market prices) observable input data using accepted valuation models (Level 2 measurement). Market-induced changes in value are recognised in accordance with IAS 39 in other comprehensive income until disposal or impairment is incurred. In contrast, any impairment losses are recognised in profit or loss (see: Impairment of financial assets).

Interest-bearing loans are classified as loans and receivables and measured at amortised cost less any impairment losses using the effective interest method. In the case of impairment, measurement is based on the present value of expected payments using the original effective interest method. The medium term notes once acquired in connection with the cross-border leasing transactions are also classified as loans and receivables.

The securities and loans related to the early terminated cross-border leasing transactions are presented as closed items on the balance sheet together with the associated financial liabilities in the consolidated financial statements of VERBUND (see: Cross-border leasing transactions).

Trade receivables and other receivables

Trade receivables, receivables from non-consolidated subsidiaries and receivables from investees are classified as loans and receivables and recognised in accordance with IAS 39 at cost net of any allowance for anticipated uncollectible amounts. As part of an impairment test, receivables which may need to be written down are tested collectively for impairment based on comparable default risk characteristics (in particular the aging of accounts receivable) and any impairment losses are recognised in profit or loss. Impairment losses recognised in the form of specific valuation allowances via allowance accounts sufficiently reflect expected default risks; specific defaults result in the derecognition of the relevant receivables.

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

Other current receivables include derivatives and financial and energy hedging instruments as well as interim investments in the form of money market transactions related to the capital increase of VERBUND AG. The latter are classified as loans and receivables. The other assets included in other current receivables are recognised at amortised cost. In addition, other current receivables include emission rights (see: Emission rights).

Impairment of financial assets

At every balance sheet date, the carrying amounts of financial assets not classified as at fair value through profit or loss are reviewed for objective substantial indications of impairment as defined under IAS 39. Such indications would include, for instance, significant financial difficulties on the part of the debtor or issuer, the high probability of insolvency proceedings initiated against the debtor or issuer, the loss of an active market for the financial asset or a considerable detrimental change in the debtor's or issuer's technological, economical, legal environment and/or market environment.

In the case of equity instruments classified as available-for-sale, objective indications of impairment include in particular a significant (more than 20%) or prolonged (longer than 9 months) decrease in the fair value below cost. Any impairment is recognised in profit or loss.

Emission rights

Emission rights held by VERBUND in connection with CO_2 emissions at thermal power plants are accounted for in accordance with accounting rules set forth under IAS 38, IAS 20 and IAS 37.

Emission rights are recognised on the allocation date at fair value (in the case of emission rights allocated without exchange of consideration) or at cost (in the case of emission rights acquired for a consideration). For emission rights allocated without exchange of consideration, an item of deferred income for the grant received is recognised at fair value – based on the quoted price on the European Energy Exchange (EEX) – and reversed to profit or loss under fuel expenses as emission rights are consumed, amortised, or sold. The CO_2 emission results in the "consumption" of emission rights, which is measured based on the weighted average price method and recognised in profit or loss under fuel expenses. The obligation to return is taken into account by recognising a provision in the corresponding amount. In the event of a shortfall, VERBUND recognises an additional provision equal to the fair value of the rights required to cover the shortfall.

VERBUND measures emission rights held for trading in accordance with IAS 2 in profit or loss under purchases of emission rights (trade); the measurement benchmark is the lower of cost and net realisable value.

Inventories

Inventories of the primary energy sources coal and heating oil as well as additives and consumables are measured at the lower of cost or net realisable value as at the balance sheet date. The latter is determined based on planned electricity revenue less production costs. The use of primary energy sources and raw materials, additives and consumables is measured using the moving average price method.

Financial liabilities

Financial liabilities are recognised at the amount actually received (at cost net of transaction costs). Any premiums, discounts, or other differences between the amount received and the redemption amount are allocated over the financing term and presented in interest expenses on an accrual basis using the effective interest method.

Individual financial liabilities originally incurred in connection with cross-border leasing transactions (see: Cross-border leasing transactions) were classified at fair value through profit or loss upon initial recognition using the fair value option. As a result, measurement inconsistencies that would have otherwise arisen could be eliminated (see: Financial instruments and risk management).

Financial guarantee contracts

A financial guarantee as defined under IAS 39 is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due.

If VERBUND is the issuer, the receivable from the debtor of guarantee payments to be made is recognised at fair value based on the guarantee payments to be made; a guarantee liability is also recognised in the same amount. The receivables from guarantee payments to be made are classified as loans and receivables and carried forward according to the effective interest method. The guarantee liabilities are measured at the higher of the amount to be recognised based on the accounting rules for provisions set forth in IAS 37 and the initial measurement amount less accumulated amortisation already recognised in profit or loss in accordance with IAS 18 (amortised cost).

In contrast, if VERBUND is the holder, there is normally a contingent asset which may not be recognised.

Pensions and similar obligations and statutory severance payments

Due to labour-management agreements and contracts, VERBUND is obligated under certain conditions to make pension payments to (former) employees after they retire. These defined benefit obligations are partially covered by pension plan assets earmarked for this purpose by BAV Pensionskassen AG (pension fund). In order to secure the entitlements to retirement benefits of employees of Kraftwerksgruppe Inn GmbH (now VERBUND Innkraftwerke Deutschland GmbH), which was acquired in the 2009 reporting period, a contractual trust arrangement (CTA) was set up with Helaba Pensions Trust e.V. through Landesbank Hessen-Thüringen. VERBUND is obliged to provide additional funding to the extent the obligations are to be fulfilled through the pension fund; there is no such obligation for the CTA. Both pension plan assets as well as the CTA are recognised as plan assets as defined under IAS 19 and offset with the provision for current pensions, vested pension benefits and similar obligations.

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

The pension obligations are calculated on the basis of actuarial reports for the 1 January 2010 and 31 December 2010 dates; the calculations are based on "AVÖ 2008-P – Actuarial Assumptions for Pension Insurance – Pagler & Pagler".

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

The 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 commitments.

Employees whose service began on or before 31 December 2002 receive a lump sum severance payment if their employment is terminated by the employer or when they retire based on obligations under Austrian labour law. The amount of this payment depends on the number of years in service and the salary drawn at the time of termination or retirement. This obligation is measured in accordance with IAS 19 according to the projected unit credit method with an accumulation period of 25 years, whereby actuarial gains or losses are recognised immediately in profit or loss (without application of the corridor method). Insofar as the assumptions underlying the calculation differ from the assumptions applied to pension provisions, they are presented in the respective notes disclosures to the balance sheet.

Employees whose service began in Austria after 31 December 2002 are no longer entitled to a direct claim against their employer for a statutory severance payment. For these employment contracts, the employer pays 1.53% of gross salary monthly in an employee pension fund in which the contributions are deposited in an account of the employee. The employer is only obliged to make regular considerations under this severance payment model; therefore, it is recognised as a defined contribution plan in accordance with IAS 19.

In connection with partial retirement models, employees are offered the opportunity to retire from the Company before they are entitled to draw a pension under the Austrian General Social Security Act (Allgemeines Sozialversicherungsgesetz, ASVG) and continue receiving a salary until they reach the statutory retirement age. This obligation is measured in accordance with IAS 19 according to the projected unit credit method, whereby actuarial gains or losses are recognised immediately in profit or loss (without application of the corridor method). The measurement parameters mainly correspond to those for similar obligations. The resulting expenses to be recognised are presented under pension expenses.

In order to secure credit balances from partial retirement models for employees of Kraftwerksgruppe Inn GmbH (now VERBUND Innkraftwerke Deutschland GmbH), which was acquired in the 2009 reporting period, another CTA was set up with Helaba Pension Trust e.V. through Landesbank Hessen-Thüringen. An aliquot allocation is made twice a year in line with the accumulated credit balances; there is no obligation to provide additional funding. The CTA is recognised as plan assets as defined under IAS 19 and offset from the provision for partial retirement.

Provisions

In accordance with IAS 37, provisions are recognised for legal and constructive obligations to external third parties resulting from past events whose settlement will probably lead to a future outflow of economic resources. There must be a reliable estimate for the amount of the obligation. Otherwise, a provision is not recognised. Provisions are measured at the expected settlement amount. The settlement amount represents the best possible estimate of the expenditure with which a current obligation could be settled or transferred to a third party as at the balance sheet date. Future cost increases that are foreseeable and probable as at the balance sheet date are taken into account.

Provisions for dismantling costs are recognised at the discounted settlement amounts for obligations resulting from the dismantling or decommissioning of thermal power plants and wind power plants in the reporting period in which they are incurred – this is normally the case upon acquisition or construction; at the same time, the carrying amounts for the power plants are increased (see: Property, plant and equipment). In subsequent periods, the capitalised costs for dismantling or decommissioning are depreciated over the (remaining) useful life of the power plant facilities; interest is accrued on the provisions annually.

Provisions are recognised for expected losses from so-called onerous contracts in accordance with IAS 37 and measured in the amount of unavoidable outflow of economic resources. This is the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil it.

Non-current provisions are discounted if the present value of the expected settlement amount differs materially from the nominal value. As a rule, all provisions whose settlement lies more than 12 months in the future are discounted in accordance with the accounting policies of VERBUND. The discount rate is a pre-tax interest rate adjusted to the specific risks of the liability. Accrued interest amounts are presented as interest expense; any effects from changes in the interest are recognised under 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 arose in connection with the acquisition of Kraftwerksgruppe Inn GmbH (now VERBUND Innkraftwerke Deutschland 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.

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 expenses and income also lead to the recognition of an item of deferred income that is reversed to profit or loss on an accrual basis as the associated expenses are incurred.

Contributions to building costs

Contributions to building costs received by VERBUND (in particular from provincial energy companies), for instance for power plant projects, are recognised in accordance with IFRIC 18 (see: New accounting policies applicable or applied). The rights to purchase electricity and the rights to use granted in return result in the recognition of deferred income which is either reversed to profit or loss over the period of the agreement or, if no period is specified, over the useful life of the assets. The amounts reversed to profit or loss are presented under revenue.

Cross-border leasing transactions

VERBUND entered into several cross-border leasing transactions between 1999 and 2001. Power plants were leased to US investors and simultaneously leased back under finance leases.

Obligations under cross-border leasing transactions entered into before the end of 2000 were entirely, i.e., both the equity portions and the loan portions, covered by the corresponding acquisition of securities (zero coupons, medium-term notes) or through loans to financial institutions. With respect to one transaction entered into in 2001, at first neither corresponding securities were acquired, nor were payments to financial institutions made. The funds received were utilised entirely for financing. Corresponding hedging relationships were entered into in order to avoid the currency risk associated with this transaction.

With the beginning of the financial market crisis during the 2008 reporting period, the risk profile of the cross-border leasing transactions changed – mainly as a result of the deterioration in credit rating of contractual parties (banks and insurance companies). At the same time, the willingness of these investors to early terminate individual transactions increased due to the increased liquidity requirements of American cross-border leasing investors as well as due to agreements between these investors and the American tax authorities regarding the tax benefits to be approved.

Therefore, about 77% of the original volume of cross-border leasing transactions had been terminated in the 2009 reporting period, with approximately an additional 8% following in the 2010 reporting period. VERBUND's last remaining transaction has an off-balance sheet financing structure (see: Other liabilities and risks). An item of deferred income was recognised for the present value of the economic benefit associated with this transaction and reversed to profit or loss over the contractual term. Reversals are presented under other operating result.

Some of the cross-border leasing transactions were early terminated completely; that is, all associated liabilities (A-loans and B-loans) and investments were also repaid. However, some of the cross-border leasing transactions were only partially terminated, whereby the transactions with the investors and the associated A-loans were repaid, while VERBUND continued the existing B-loans. Consequently, the corresponding B-payment undertaking agreements and the corresponding investments are also being continued accordingly. Therefore, cover is still provided on the balance sheet. The accounting balances denominated in foreign currency (exclusively US dollar) are measured at the exchange rate prevailing at the balance sheet date. Expenses and income from the measurement correspond to one another both in terms of value as well as with respect to the value date and are netted. The net result from the complete and partial terminations of cross-border leasing transactions was recognised under financial result.

For a better understanding, investments and liabilities resulting from the early terminated cross-border leasing transactions for which cover is still provided in the balance sheet are presented separately. These balance sheet items are presented as closed items on the balance sheet.

Taxes on income

The income tax expense presented in the income statement for the reporting period includes current taxes on income calculated for (consolidated) subsidiaries based on their taxable income and the respective income tax rate as well as changes in deferred tax liabilities and deferred tax assets.

In accordance with the balance sheet-oriented liability method in IAS 12 for the determination of deferred taxes, deferred taxes are recognised for temporary differences between the carrying amounts of assets and liabilities in the IFRSs consolidated financial statements and their tax bases at the level of the subsidiary. Deferred tax liabilities and deferred tax assets are recognised for temporary differences leading to taxable or deductible amounts in the determination of taxable income in future reporting periods. Tax benefits from unused loss carryforwards are included in the determination of deferred taxes. Goodwill recognised upon first-time consolidation of subsidiaries does not result in deferred taxes; in contrast, temporary differences which arise or change as a result of the amortisation of goodwill for tax purposes in subsequent periods are deferred. Temporary differences related to the carrying amounts of equity interests are another exception to this rule provided they do not result from amortisation affecting taxable income.

The income tax rates expected to apply when the temporary differences are likely to reverse are applied in the determination of deferred taxes. The corporate income tax rate applying to VERBUND AG is 25%. The following income tax rates are applied by consolidated subsidiaries (depending on the country in which they are located):

Income tax rates applicable to subsidiaries %

	2010	2009
Austria	25	25
Albania	10	10
Bulgaria	10	10
Germany[1]	27	27
Italy[2]	27.5 (+ 4.8176)	27.5 (+ 4.8176)
The Netherlands[3]	20 / 25,5	20 / 25,5
Romania	16	16
Spain[3]	25 / 30	25 / 30

[1] This tax rate also includes the solidarity surcharge and municipal trade tax . The trade tax depends on the local multiplier, which varies from one municipality to another.
[2] In addition to corporate income tax, there is also a regional tax (Imposta regionale sulle attività produttive, IRAP).
[3] The Netherlands and Spain have staggered tax rates.

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

Members of the tax group are charged their attributable corporate tax amounts by means of tax allocation. Group members receive a credit in the event of a loss. The offsetting of allocated tax amounts results in a corresponding adjustment of tax expense in the parent’s income statement. The allocated tax amounts are only adjusted subsequently if there are material differences.

Derivative financial instruments

Derivative financial instruments are recognised at cost when the contract is concluded and subsequently measured at fair value. As a rule, unrealised gains or losses are recognised in the income statement if the requirements for the accounting for hedging relationships (hedge accounting) in accordance with IAS 39 are not met. In this case, these special accounting rules are applied. The requirements under IAS 39 for hedge accounting include, in particular, the documentation of hedging relationships between hedged item and hedging instrument and the hedging strategy as well as the regular measurement of both retrospective and prospective effectiveness. A hedging relationship qualifies as highly effective if the fair value changes of the hedging instrument fluctuate within a range of 80% to 125% of the offsetting changes in fair value of the hedged item.

With respect to the accounting treatment of fair value hedges, both the derivative hedging instrument as well as the hedged item are measured at fair value through profit or loss with respect to the hedged risk. However, if a derivative financial instrument is used as a hedging instrument in a cash flow hedge, the unrealised gains or losses from the hedging instrument are recognised in other comprehensive income for the time being. They are only reclassified to the income statement when the hedged item affects profit or loss. If highly probable future transactions are hedged and these transactions lead to the recognition of a financial asset or a financial liability in subsequent periods, the amounts previously recognised in other comprehensive income are reclassified to the income statement in accordance with IAS 39 in the same period in which the asset or liability affects profit or loss for the period. If the transaction leads to the recognition of non-financial assets or liabilities, the amounts recognised in other comprehensive income are included in the initial measurement of the asset or liability (basis adjustment), which does not affect profit or loss at the initial recognition date.

Derivative financial instruments with positive fair value are recognised under trade receivables and other receivables; those with negative fair value are recognised under other financial liabilities or trade payables and other liabilities.

Own-use contracts concluded by VERBUND and which are held for the purpose of receiving or delivering non-financial items based on expected purchase, sales, or usage requirements are not recognised as derivative financial instruments, but instead as executory contracts (own-use exemption). If the unavoidable costs of fulfilling such an own-use contract are higher than the economic benefits expected therefrom, a provision is to be recognised for the own-use contract in accordance with IAS 37.

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

With respect to individual closed items on the balance sheet (see: Cross-border leasing transactions), the investments result in variable income offset by fixed expenses. In order to avoid risk, interest rate swaps were entered into for the corresponding financial liabilities. Since the risk profiles of the items related to the interest rate swaps precisely offset one another with respect to interest rate and exchange rate risk, the carrying amounts of the associated financial liabilities are adjusted according to the hedged risk to offset the fair value measurement of the interest rate swaps.

With respect to one financial liability originally incurred in connection with cross-border leasing transactions, cover is not yet provided on the balance sheet; therefore, it is not presented as a closed items on the balance sheet in the notes to VERBUND's consolidated financial statements. Corresponding derivative transactions were entered into in order to eliminate the foreign currency risk of these financial liabilities denominated in US dollars. The fair value changes of these derivative transactions compensate the foreign-currency measurement of the hedged financial.

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

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

The fair value for interest rate swaps corresponds to the amount that VERBUND would receive or have to pay if the transaction were unwound as at the balance sheet date, whereby current market relationships – in particular the current interest rates and yield curves – are taken into account. These are Level 2 measurements as defined under IFRS 7.

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

VERBUND assesses monthly whether the cumulative changes in the hedged item in relation to those of the hedging instruments lie within the range of 80% to 125% specified under IAS 39 for hedge accounting. Any ineffective portions of fair value changes in the hedging instrument lying in this range, but deviating from 100%, are recognised in profit or loss.

Electricity and gas derivatives not designated as hedging instruments are allocated to the wholesale portfolio and measured at fair value through profit or loss.

The fair value changes of hedging instruments used within the framework of cash flow hedges are recognised in other comprehensive income until the hedged item is realised. If a framework agreement with a netting clause has been concluded with a counterparty, the positive and negative fair values of the transaction are offset on the balance sheet (see: Financial instruments and risk management). Subsequently, measurement effects are netted with the results from the hedged item; thus, profit for the period is not expected to be affected.

Fair value changes in (freestanding) electricity and gas derivatives in the wholesale portfolio that were not designated as hedging instruments are recognised in profit or loss net of previously realised futures and following the netting 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 net in electricity or gas revenue or in other revenue (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 balance sheet date, because quoted prices are available for futures contracts at the respective exchanges (European Energy Exchange (EEX), Intercontinental Exchange (ICE), Italian Derivatives Energy Exchange (IDEX), Central European Gas Hub (CEGH)) and forward contracts are measured with forward price curves derived from quoted prices and discounted based on the EURIBOR.

Consequently, electricity, gas and CO_2 futures contracts involve Level 1 measurements as defined under IFRS 7; electricity, gas and CO_2 forward contracts involve Level 2 measurements.

Revenue recognition

As a rule, revenue is realised at the time of delivery to the customer or when the service has been rendered. A delivery is regarded as having been performed when the significant opportunities and risks associated with ownership are transferred to the buyer in accordance with the contractual agreement, payment – this is the fair value of the consideration received or receivable – has been specified by contract and the settlement of the trade receivable is probable.

Revenue results mainly from the sale of electricity to industrial and domestic customers, to energy supply companies, traders and electricity exchanges as well as from the rendering of grid services. Revenue from the delivery of electricity to large customers is realised in the same way as revenue from energy trading and grid services, that is, at the performance date. In the small customer area, revenue is recognised when the customer can be billed for receipt of a partial delivery.

The realisation of standard futures contracts with traders where the main purpose is not the final physical delivery of energy, but the management of a trading position, is presented under revenue, whereby the underlying revenues are offset by procurement costs and presented as net amounts under revenues; this corresponds to the result from trading with derivative financial instruments in the energy area.

Revenue is presented net of any sales deductions, exclusive of value added tax and after the elimination of intragroup transactions.

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

Discretionary judgements and key assumptions concerning the future

The preparation of IFRSs consolidated financial statements requires discretionary judgements for the application of accounting policies as well as the determination of assumptions regarding future developments on the part of management which can significantly influence the recognition and measurement of assets and liabilities, the disclosure of other commitments as at the balance sheet date and the presentation of income and expenses during the reporting period.

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

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 methods. These correspond to the average weighted return on equity and debt.

The cost of equity is determined using the capital asset pricing model (CAPM) based on a reference rate and an equity premium. The reference rate represents a risk-free rate for matching maturities and is calculated based on the yield curve for government bonds issued by the Deutsche Bundesbank. The equity premium is based on the beta factor and the market risk premium. The beta factor is an indicator for the operating risk associated with a specific company.

Risk premiums dependent on the credit rating are taken into account when determining cost of debt.

Impairment testing of goodwill

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

Goodwill €m

	2010	2009
Bruck/Hollern/Petronell-Carnuntum wind farms	25.3	25.3
Run-of-river power plant group on the Inn River	280.4	280.4
Electricity segment	300.0	300.0
Goodwill in VERBUND	**605.7**	605.7

Bruck/Hollern/Petronell-Carnuntum wind farms

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

The recoverable amount for Bruck/Hollern/Petronell-Carnuntum wind farms was determined on the basis of fair value less costs to sell. Neither a concluded sale agreement, nor a binding offer was available. Since there are no market prices for the shares in VERBUND Wind Power Austria GmbH and analogy methods could not be employed for lack of comparable recent transactions, the fair value was determined using a net present value method. The calculation was carried out based on the DCF method; the discount rate was 6.5% (previous year: 7.5%).

The cash flows of relevance to measurement were derived from recent planning on the part of VERBUND Wind Power Austria GmbH and are based on near-market data. The planning data reflects VERBUND's medium-term plan to expand the wind farm by 33 MW of installed capacity; corresponding pre-projects are already under way. Some aspects of the planning data were adjusted for the determination of fair value, in order to simulate the measurement perspective of a typical market participant. The fair value of the wind farms in operation was based on the average output in the years 2008–2010. The wind power plants to be constructed as part of the wind farm expansion are based on the expected output. The prices were based on feed-in tariffs fixed for up to the first 13 years of the planning period (depending on the wind farm); the electricity prices for the period beyond that were calculated using electricity price forecasts available on the market. The forecast electricity revenue was reduced by 13.0% to reflect balance energy costs; the percentage rate was estimated based on the average balance energy costs of the Eco Balance Group (Ökobilanzgruppe) over the last three years.

The forecast period is divided into a detailed planning phase and a continuation phase. The detailed planning phase comprises a period of 10.5 to 15 years for the wind farms in operation as well as 25 years for the wind power plants to be constructed as the wind farms are expanded. The calculation for the subsequent continuation phase is based on the assumption of an infinite cycle of reinvestment in comparable wind power plants.

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

The recoverable amount was compared to the carrying amount of the Bruck/Hollern/Petronell-Carnuntum wind farms, including goodwill. In this manner, it was possible to confirm the recoverability of goodwill allocated to the wind farms for the 2010 reporting period. According to the present valuation assumptions, the recoverable amount of the wind farms exceeds the carrying amount including goodwill by €0.5m.

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

Sensitivity analysis for the wind farms

	Value assigned to the key valuation assumption	Change in value for the recoverable amount to equal the carrying amount
Price of electricity when the fixed feed-in tariffs end[1]	€60.34 per MWh	–0.2%
Annual output of wind power plants in operation [2]	104.0 GWh	–0.5 GWh
Annual output of wind power plants to be constructed[3]	99.4 GWh	–0.3 GWh
Specific investment costs for wind power plants to be constructed[4]	€1.67m	€+0.01 m
Discount rate[5]	6.5%	+0.03 percentage points

[1] The electricity prices were calculated based on the forecasts of reputable market research institutes and information service providers in the energy industry. The base price indicated relates to the year 2017. This is the first full year following the end of the fixed feed-in tariffs for the two largest wind farms, Hollern and Petronell-Carnuntum.
[2] The annual output of the wind farms in operation corresponds to the average annual output for the years 2008–2010.
[3] The forecasted annual output is based on data from wind measurements and the resulting forecast model calculations.
[4] The specific investment costs for the wind power plants to be constructed are based on the price list of a leading wind power plant manufacturer (including installation and grid connection contract).
[5] The discount rate corresponds to the weighted average cost of capital after taxes. The parameters to determine the discount rate were derived from market data and/or a peer group.

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

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

Within the scope of the "Bavarian/Austrian Regional Plan", 3.46% of the shares in Kraftwerksgruppe Inn GmbH (now VERBUND Innkraftwerke Deutschland GmbH) were sold to Innkraft Bayern GmbH & Co KG, which is operated as a holding company, effective 28 June 2010. As a result, VERBUND's equity interest in VERBUND Innkraftwerke Deutschland GmbH decreased from 99.7% to 96.5% (see: Notes to the balance sheet). Due to this sale of shares, there was a shift between the shareholder groups, i.e., part of the interest attributable to the shareholders of the parent company shifted to the interest attributable to non-controlling interests. Goodwill did not change as a result (see: Financial reporting principles).

The recoverable amount for the run-of-river power plant group on the Inn River was determined on the basis of fair value less costs to sell. The purchase price from the 3.46% sale of shares in the 2010 reporting period may be indicative of the fair value, but the transaction was not completed close to the balance sheet date. Since there are no market prices for the shares in VERBUND Innkraftwerke Deutschland GmbH and analogy methods could not be applied for lack of comparable recent transactions, the fair value was determined using a net present value method. The calculation was carried out based on the DCF method; the discount rate was 6.25% (previous year: 7.0%).

The cash flows of relevance to measurement were derived from recent planning on the part of VERBUND Innkraftwerke Deutschland GmbH and are based on near-market data. Some aspects of the planning data were adjusted for the calculation of fair value in order to simulate the measurement perspective of a typical market participant.

The fair value was based on constant output over the planning period corresponding to the standard capacity. The prices were calculated based on electricity price forecasts available on the market. The extrapolation of electricity revenue (from 2031 on) was based on the assumption of a sustained rate of increase of 2%. The forecasted electricity revenue was reduced by a discount for electricity generation characteristics and hydrological forecast and availability risk. This discount, derived based on recent experience, corresponds to the percentage difference from the pure base price and serves the modelling of the earnings potential of electricity production. The material annual expenses from the planning were carried forward with a 2.0% rate of increase.

The forecast period is divided into a detailed planning phase and a rough planning phase. The detailed planning phase comprises a period of six years. The rough planning phase has a (nearly infinite) horizon of approximately 100 years, reflecting the long-term investment, maintenance and repair cycles of run-of-river power plants. The calculation of the fair value of the run-of-river power plant group on the Inn River reflects both the (theoretical) possibility that the Free State of Bavaria will exercise its reversion rights as well as the present earnings potential of electricity production.

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

The recoverable amount was compared to the carrying amount of the run-of-river power plant group on the Inn River, including goodwill. In this manner, it was possible to confirm the recoverability of goodwill allocated to the power plant group for the 2010 reporting period. According to the present valuation assumptions, the recoverable amount of the power plant group exceeds the carrying amount including goodwill by €132.0m.

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

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

	Value assigned to the key valuation assumption	Change in value for the recoverable amount to equal the carrying amount
Price of electricity[1]	€44.70 per MWh	– 4.9 %
Rate of increase of electricity revenue from 2031 on	2.0 %	– 0.74 percentage points
Discount rate[2]	6.25 %	+0.75 percentage points

[1] The electricity prices were calculated based on the forecasts of reputable market research institutes and information service providers in the energy industry. The base price indicated relates to the year 2011.
[2] The discount rate corresponds to the weighted average cost of capital after taxes. The parameters to determine the discount rate were derived from market data and/or a peer group.

Electricity segment

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

Goodwill did not change as a result of the sale of 3.46% of shares in Kraftwerksgruppe Inn GmbH (now VERBUND Innkraftwerke Deutschland GmbH) in the 2010 reporting period.

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

The fair value for the Electricity segment was determined based on market price. The starting point was VERBUND's quoted price, which was €27.88 per share on the last trading day of the year. The fair value of the Electricity segment was determined by applying analogy methods that place operating and/or value-based performance figures in relation to VERBUND's overall entity value (market capitalisation plus net debt).

The recoverable amount was compared to the carrying amount of the Electricity segment, including goodwill. In this manner, it was possible to confirm the recoverability of goodwill allocated to the Electricity segment for the 2010 reporting period. Management believes the carrying amount of the Electricity segment including goodwill will not exceed the recoverable amount as a result of potential changes in the key valuation assumptions.

Impairment testing of power plants

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

In the years 1998 and 1999, impairment losses totalling €732.3m and €145.4m as well as provisions for expected losses for onerous contracts in the amount of €321.1m were recognised as a result of the deregulation of the electricity market.

If there is any indication that the reasons for impairment no longer persist as at the balance sheet date, the recoverable amount is to be determined in order to assess the recoverability of formerly impaired hydrologic and thermal power plants and/or power plant groups (carrying amount net of construction grants as at 31 December 2010: €989.2m; previous year: €1,015.6m). The recoverable amount is determined based on value in use according to the DCF method. The discount rate corresponds to the weighted average cost of capital before taxes and amounts to about 8.5% (previous year: 8.75%–9.0%). Cash flows of relevance to measurement are generally derived from the recent medium-term plan approved by management.

Considering the negative electricity price trend on the energy markets in the 2010 reporting period and due to the persistent uncertainties regarding their future development, the impairment losses have not yet been reversed. Key valuation assumptions in the area of hydrologic generation include the fees to be paid by electricity suppliers to the grid, generation value, forecast and availability risks as well as the potential risk of plant-specific fees. Key valuation assumptions in the area of thermal generation include the recent development of the clean dark spread – which reflects the difference between the price of electricity and the prices of coal and CO_2 – and the fees to be paid by electricity suppliers to the grid.

Combined cycle gas turbine power plant Mellach

A combined cycle gas turbine power plant has been under construction at the power plant site in Mellach since the 2009 reporting period; the thermal power plant is expected to become fully operational in 2012. The recoverable amount of the thermal power plant was calculated based on the value in use. The value in use was determined using a net present value method. The calculation was carried out based on the DCF method; the discount rate before taxes was 8.4% (previous year: 8.6%).

The cash flows of relevance to measurement were derived from the recent planning of VERBUND Thermal Power GmbH & Co KG. The value in use was determined based on the installed capacity of the thermal power plant of 832 MW (electric); the maximum heat extraction was assumed to be 400 MW (thermal). The operation of the thermal power plant in the 35-year planning period was determined using an optimisation model and amounted to around 5,700 full capacity hours per year. In addition, the planning was based on the assumption of a heat extraction of up to 150 GWh per year for the metropolitan area of Graz. The prices were determined based on the VERBUND energy market model (VEMM). The VEMM is an energy simulation tool for the development of medium and long-term electricity price scenarios for European electricity markets. The material annual expenses from the planning were carried forward with a 2.0% rate of increase.

The key valuation assumptions underlying the determination of the recoverable amount include the terms of the long-term gas supply agreement for the thermal power plant (see: Other financial liabilities and risks), the development of the clean spark spread – which reflects the difference between the prices of electricity and the prices of gas and CO_2 – and the discount rate.

The recoverable amount was compared with the carrying amount of the combined cycle gas turbine power plant under construction in Mellach. In this manner, it was possible to confirm the recoverability of the thermal power plant for the 2010 reporting period.

Impairment testing of interests accounted for using the equity method

Following indications of impairment, the equity interest in POWEO S.A. (Group) had already been tested for impairment on 30 September 2010 in accordance with IAS 39; the quoted price of the company, which is listed on the Euronext Paris exchange, was below the (average) cost per share for the entire reporting period. The recoverable amount was determined on the basis of value less (estimated as not material) costs to sell. The measurement benchmark was the quoted price of POWEO S.A. (Group) of €9.10 per share as at 30 September 2010. The resulting impairment has amounted to 42.8m and was recognised under result from interests accounted for using the equity method in the Equity Interests & Services segment.

The carrying amount of the equity interest in POWEO S.A. (Group) was carried forward in accordance with VERBUND's consolidation methods until 31 December 2010. The investment in POWEO S.A. (Group) was once again tested for impairment on the balance sheet date; the measurement benchmark was the quoted price of POWEO S.A. (Group) of €4.14 per share as at 31 December 2010. The resulting impairment amounted to an additional €13.4m in Q4/2010 and was recognised in the same way as the previous impairment had been in Q3/2010. Thus, the impairment losses recognised on the equity interest in POWEO S.A. (Group) totalled €56.2m in the 2010 reporting period.

These impairment losses were mainly attributable to the difficult situation on the French consumer market. This was (and still is) characterised by low, regulated electricity rates, high electricity procurement costs and the dominant market position of Électricité de France S.A. In addition, the equity interest in POWEO S.A. (Group) was negatively impacted by the uncertainties regarding the contents and date of resolution of "Loi NOME", a law promoting a more competitive reorganisation of the French electricity market.

Following indications of impairment – which can be seen, in particular, in the difficult environment for POWEO S.A. (Group) – the equity interest accounted for using the equity method in POWEO Production S.A.S. with a carrying amount of €83.0m (previous year: €94.8 m) was tested for impairment. The recoverable amount was determined using a sum-of-the-parts approach based on the fair value less costs to sell the equity interests in the wholly-owned subsidiaries held by POWEO Production S.A.S. (the generation companies POWEO ENR Production S.A.S., POWEO Pont-sur-Sambre Production S.A.S. and POWEO Toul Production S.A.S.). The sum of the individual fair value measurements was increased by synergy effects arising at the level of the parent company (e.g., tax loss carryforwards) and reduced by corporate overheads (e.g., administrative expenses incurred carrying out corporate functions). Neither concluded sale agreements, nor binding offers, nor market prices were available for the shares in POWEO Production S.A.S.; the same also applies to the shares in its wholly-owned subsidiaries. Therefore, the fair values were determined using analogy methods (in the case of POWEO ENR Production S.A.S.) or net present value methods (in the case of POWEO Pont-sur-Sambre Production S.A.S. and POWEO Toul Production S.A.S.).

The fair value of POWEO ENR Production S.A.S. was determined based on transaction multiples per MW derived from comparable transactions involving shares in French energy companies operating in the renewable energies sector. The transaction multiples were differentiated for projects in operation and under development. The measurement focused primarily on the onshore wind farms of POWEO ENR Production S.A.S. An average probability of success was assumed for the projects under development.

The fair value of shares in POWEO Pont-sur-Sambre Production S.A.S. and POWEO Toul Production S.A.S. was measured based on the DCF method. The discount rate was 6.0% and corresponds to the weighted average cost of capital after taxes. The parameters to determine the discount rate were derived from market data and/or a peer group.

The cash flows of relevance to measurement are based mainly on near-market data. The fair value measurement was based on the installed capacities in the respective amount of 412 MW and 413 MW for the two combined cycle gas turbine power plants in Pont-sur-Sambre (in operation) and Toul (under construction). The operation of the thermal power plants during the forecast period was determined using an optimisation model. The prices were determined using the electricity price forecasts of reputable market research institutes and information service providers in the energy industry. The extrapolation of electricity revenue (from 2031 on) was based on the assumption of a sustained rate of increase of 2%. The forecast period is divided into a detailed planning phase and a continuation phase. The detailed planning phase comprises 30 years (for Pont-sur-Sambre) and 34 years (including the remaining construction time for Toul). The calculation for the subsequent continuation phase is based on the assumption of an infinite cycle of reinvestment in comparable thermal power plants. The key valuation assumptions underlying the determination of the recoverable amounts include the transfer of the electricity off-take agreements for the case of a hypothetical sale to a typical market participant, the development of the clean spark spread – which reflects the difference between the price of electricity and the prices of gas and CO_2 – and the discount rate.

The recoverable amount determined using a sum-of-the-parts approach was compared to the carrying amount of the equity interest in POWEO Production S.A.S. In this manner, it was possible to confirm the recoverability of the carrying amount of the interest accounted for using the equity method for the 2010 reporting period.

Measurement of provisions

Assumptions regarding the discount rate, retirement age, life expectancy and future increases in salary and pension benefits were applied for the measurement of existing pension and similar obligations, severance obligations and partial retirement models (carrying amount as at 31 December 2010: €492.4m; previous year: €507.5m).

Provisions for dismantling costs (carrying amount as at 31 December 2010: €32.1m; previous year: €30.0m) were measured based on assumptions and estimates as at the balance sheet date, whereby the key factors of influence were dismantling dates, any expert's reports calculating the dismantling costs, the valorisation of these costs and the discount rate of 5.25% (previous year: 5.5%).

Provisions for onerous contracts (carrying amount as at 31 December 2010: €92.7m; previous year: €102.4m) were measured based on assumptions and estimates as at the balance sheet date. Provisions for onerous contracts were recognised for onerous rental and electricity supply agreements and in particular in connection with the obligation to provide district heating to Steirische Gas-Wärme GmbH. They key factors of influence were the electricity and primary energy prices as well as the costs for emission rights and the discount rate of 5.25% (previous year: 5.5%).

Contingent liabilities

The contingent liabilities not recognised on VERBUND's balance sheet are assessed quarterly with respect to their probability of occurrence. If the outflow of resources embodying economic benefits is neither sufficiently probable to justify recognition of provisions, nor unlikely, the relevant obligations are disclosed as contingent liabilities. The estimation is carried out by the responsible managers, taking market-related inputs (to the extent possible) and reports (in individual cases) into account.

Segment reporting

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

Segmentation

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

Electricity

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

Grid

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

Equity Interests & Services

The Equity Interests & Services segment includes in particular the management and control functions related to VERBUND's foreign and domestic equity interests. These include in particular the equity interests in the core foreign markets Turkey, Italy and France held by VERBUND International GmbH. In addition, it includes VERBUND's (foreign) project companies until their generation capacities are put into operation. Therefore, VERBUND Renewable Power GmbH – the managing company for project developments in the renewable energies sector – is also included in the Equity Interests & Services segment. In addition, those subsidiaries that provide typical corporate functions such as financing services, shared-service-centre services and telecommunications services are also included in this segment.

Notes to the operating segment data

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

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

The internally reported measure of segment assets is the capital employed. Capital employed corresponds to the total assets of an operating segment net of those assets that do not (yet) contribute to VERBUND's performance and commercialisation processes (for instance, advance payments, plants under construction, investments under closed items on the balance sheet) and less non-interest-bearing debt. The determination of this measure of assets was subjected to a minor revision; previous year's figures were adjusted correspondingly.

Other material non-cash items included in operating result in addition to depreciation of property, plant and equipment and amortisation of intangible assets include in particular measurement effects of 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, property, plant and equipment and interests accounted for using the equity method as well as to other equity interests include capital expenditures and increases resulting from any business combinations.

All segment data are measured consistent with IFRSs.

Operating segment data

€m

	Electricity	Grid	Equity Interests & Services	Elimination	Total Group
2010					
External revenue	2,986.2	255.3	66.5	–	3,307.9
Internal revenue	138.6	63.4	103.9	–306.0	0.0
Total revenue	3,124.8	318.7	170.4	–306.0	3,307.9
Operating result	**821.3**	**44.4**	**–36.5**	**–0.8**	**828.5**
Depreciation and amortisation	–165.4	–57.0	–9.4	1.1	–230.7
Of which impairment losses	–0.7	0.0	–0.1	0.0	–0.8
Other material non-cash items	–90.1	6.3	1.4	–0.6	–83.1
Result from equity interests	–	–	37.6	0.0	37.6
Of which result from interests accounted for using the equity method	–	–	22.1	0.0	22.1
Capital employed	**4,812.7**	**828.8**	**7,112.8**	**–4,071.5**	**8,682.8**
Of which carrying amount of interests accounted for using the equity method	23.6	1.3	2,237.0	0.0	2,261.9
Additions to intangible assets and property, plant and equipment	490.3	135.3	40.1	0.0	665.7
Additions to equity interests	21.1	0.3	74.9	0.0	96.3

€m

	Electricity	Grid	Equity Interests & Services	Elimination	Total Group
2009					
External revenue	3,168.6	275.6	38.9	–	3,483.1
Internal revenue	144.4	74.9	83.3	–302.6	0.0
Total revenue	3,313.0	350.5	122.2	–302.6	3,483.1
Operating result	**1,010.8**	**68.2**	**–37.5**	**0.8**	**1,042.3**
Depreciation and amortisation	–142.2	–59.4	–8.6	1.0	–209.2
Of which impairment losses	–1.2	0.0	0.0	0.0	–1.2
Other material non-cash items	97.1	–0.1	–1.9	–0.3	94.9
Result from equity interests	–	–	61.4	0.0	61.4
Of which result from interests accounted for using the equity method	–	–	51.9	0.0	51.9
Capital employed	**5,182.5**	**801.0**	**6,022.0**	**–4,072.5**	**7,933.0**
Of which carrying amount of interests accounted for using the equity method	2.3	1.3	2,170.7	0.0	2,174.3
Additions to intangible assets and property, plant and equipment	1,816.2	143.3	36.2	0.0	1,995.7
Additions to equity interests	0.0	0.0	628.8	0.0	628.8

Reconciliation

The operating result in the total column corresponds to the operating result recognised in VERBUND's income statement; therefore, the reconciliation to profit before tax can be taken from the income statement.

The reconciliation from the total amount for capital employed to VERBUND's balance sheet total is shown below:

Reconciliation from capital employed to the balance sheet total

€m

	2010	2009
Capital employed	8,682.8	7,933.0
Assets not used in the performance and commercialisation process	1,378.8	1,028.6
Non-interest-bearing debt	1,229.4	1,383.6
Total assets of VERBUND	**11,291.0**	10,345.2

Entity-wide disclosures

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

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

Geographical segment reporting: revenue €m

	2010	2009
Domestic deliveries of electricity	**1,272.1**	1,410.4
Electricity deliveries abroad	**1,676.1**	1,754.5
Of which in Germany	1,147.2	1,364.3
Of which in France	387.7	309.4
Of which in other EU countries	125.3	41.4
Of which in other countries	15.8	39.4
Electricity revenue	**2,948.2**	3,164.9
Domestic grid services	**200.6**	197.9
Foreign grid services	**49.1**	70.6
Of which in EU member states	27.2	46.5
Of which in other countries	21.9	24.1
Grid revenue	**249.7**	268.5
Other revenue	**109.9**	49.7
Total revenue	**3,307.9**	3,483.1
Of which domestic	1,540.5	1,658.0
Of which foreign	1,767.4	1,825.1

Geographical segment reporting: non-current assets €m

	2010	2009
Intangible assets and property, plant and equipment	**6,582.3**	6,187.2
Of which in Austria	5,176.1	4,738.0
Of which in Germany	1,348.6	1,381.9
Of which in other EU countries	57.6	53.9
Of which in other countries	0.0	13.4
Interests accounted for using the equity method	**2,261.9**	2,174.3
Of which in Austria and Germany	625.3	602.9
Of which in Turkey	793.1	685.3
Of which in Italy	708.0	664.7
Of which in France	114.2	221.4
Of which in other countries[1]	21.4	0.0

[1] This includes the investment in the Albanian project company Energji Ashta Shpk.

Notes to the income statement

(1) Electricity revenue

Electricity revenue by customer areas

€m

	2010 Domestic	2009 Domestic	2010 Foreign	2009 Foreign
Electricity deliveries to consumers	505.2	527.1	243.9	201.1
Electricity deliveries to resellers	718.1	838.9	431.7	467.0
Electricity deliveries to traders	48.9	44.4	1,000.5	1,086.4
Total electricity revenue	**1,272.1**	1,410.4	**1,676.1**	1,754.5

(2) Other revenue

€m

	2010	2009
Revenue from construction services related to a hydropower plant concession[1]	42.2	0.0
Revenue from consulting or planning services as well as from other services	21.0	14.3
Revenue from district-heating deliveries	14.3	15.3
Provision of personnel	12.8	9.1
Revenue from the sale of emission rights	7.9	1.8
User and management fees	5.2	5.1
Revenue from the sale of waste products	2.5	1.5
Other	4.0	2.6
Other revenue	**109.9**	49.7

[1] This revenue arose from construction services related to the Albanian hydropower plant concession recognised in accordance with IFRIC 12 (see: Accounting policies). In the previous year, a total of €28.2m in construction services was recognised under electricity revenue. The corresponding construction expenses were mainly included in other operating expenses. The recognition of income and expenses in VERBUND's consolidated financial statements ended with the deconsolidation of Energji Ashta Shpk effective 27 August 2010.

(3) Other operating income

€m

	2010	2009
Changes in inventory and own work capitalised	21.3	16.8
Income from various goods and services	7.5	6.8
Rental and lease income	1.9	1.3
Income from the disposal and reversal of impairment losses of property, plant and equipment and intangible assets	1.4	2.3
Reversals of contributions to building costs[1]	0.8	16.8
Income from the reversal of write-downs of receivables	0.4	3.0
Other (< €1.0m)	4.4	5.7
Other operating income	**37.8**	52.7

[1] As a result of the first-time application of IFRIC 18, the majority of the amounts reversed from deferred income from building costs received was recognised under revenue (see: Accounting policies).

(4) Expenses for electricity, grid and gas purchases as well as purchases of emission rights (trade)

€m

	2010	2009
Expenses for electricity purchases	1,469.3	1,479.5
Expenses for grid purchases (system use)	136.1	127.3
Expenses for gas purchases[1]	–2.4	–0.3
Purchase of emission rights (trade)	8.3	1.8
Expenses for electricity, grid and gas purchases as well as purchases of emission rights (trade)	**1,611.3**	1,608.3

[1] The negative expenses for gas purchases mainly result from the measurement of freestanding derivatives in the energy area. These are related to the purchase of gas for the combined cycle gas turbine power plant under construction in Mellach.

(5) Fuel expenses and other usage-dependent expenses

€m

	2010	2009
Fuel expenses	100.7	113.9
Emission rights acquired in exchange for consideration[1]	11.0	–1.3
Other usage-dependent expenses	6.6	6.3
Fuel expenses and other usage-dependent expenses	**118.3**	118.9

[1] The negative expenses from emission rights acquired in exchange for consideration in the 2009 reporting period result from the reversal of a provision recognised in the 2008 reporting period for the expected shortfall of emission rights.

(6) Personnel expenses

€m

	2010	2009
Wages and salaries	218.1	206.4
Expenses for social security contributions as required by law as well as income-based charges and compulsory contributions	48.9	45.3
Other social expenses	3.7	3.4
Subtotal	**270.7**	255.1
Expenses for pensions and similar obligations	32.2	34.9
Expenses for severance payments	5.5	14.0
Personnel expenses	**308.4**	304.0

The pension fund contributions to the defined contribution investment and risk association amounted to €7.3m (previous year: €7.2m) in the 2010 reporting period. Expenses for severance payments include a total of €0.9m (previous year: €0.5m) in contributions to an employee provision fund.

(7) Amortisation of intangible assets and depreciation of property, plant and equipment

€m

	2010	2009
Amortisation of intangible assets	4.3	3.9
Depreciation of property, plant and equipment	225.6	204.2
Impairment losses	0.7	1.2
Amortisation of intangible assets and depreciation of property, plant and equipment	**230.7**	209.2

(8) Other operating expenses

€m

	2010	2009
Maintenance of power plants	49.2	79.3
External services received in connection with PPPs[1)]	42.2	28.0
External services received	28.2	22.6
Advertising expenses	15.7	14.3
Legal, consulting and auditing expenses	15.5	18.7
Material costs for motor vehicle operation and maintenance	12.2	11.0
Costs for provided personnel, temporary personnel	11.1	11.5
Travel expenses, advanced training	10.2	9.5
Expenses for supervision by Energie Control GmbH	9.9	9.3
IT expenses	7.9	7.1
Compensation payments	7.4	3.6
Concession fees	7.0	1.0
Fees	4.7	4.2
Rent, lease expenses	4.3	3.7
Insurance	4.1	3.9
Purchased telecommunication services	3.6	4.0
Operating costs	3.4	3.9
Membership fees	2.7	2.7
Other operating taxes	1.4	1.0
Expenses arising from allowances for receivables	0.7	4.4
Other (< €1.0 m)	7.2	9.4
Other operating expenses	**248.6**	253.1

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

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

€m

	2010	2009
Income from interests accounted for using the equity method	78.2	51.9
Impairment losses on interests accounted for using the equity method[1]	–56.2	0.0
Result from interests accounted for using the equity method	**22.1**	51.9

[1] The impairment losses in the 2010 reporting period concerned POWEO S.A. (Group) and were mainly attributable to the difficult situation on the French consumer market (see: Discretionary judgements and key assumptions concerning the future).

The following table shows a summary of aggregated data from the income statement for joint ventures and associates of VERBUND accounted for using the equity method. All companies accounted for using the equity method are recognised at their proportional profit or loss of the period under IFRSs from interim or annual financial statements whose reporting date is no more than three months prior to the balance sheet date of the parent company (see: Financial reporting principles). The income statement data of the investees thus relates to the period from 1 October 2009 to 30 September 2010 and is based on published financial statements or data updated to the best of VERBUND's knowledge.

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

Joint ventures 2010 €m

	Austria and Germany	Turkey	Other
Revenue	217.2	1,491.4	1.7
Profit or loss for the period – 100%	5.7	58.2	0.2
Profit or loss for the period attributable to VERBUND	2,8	29.1	0.1
Differences due to the application of the equity method of accounting	0,0	7.1	0.2
Result from joint ventures accounted for using the equity method	**2.8**	**36.2**	**0.3**

Joint ventures 2009 €m

	Austria and Germany	Turkey	Other
Revenue	218.3	874.9	–
Profit or loss for the period – 100%	5,3	7.5	–
Profit or loss for the period attributable to VERBUND	2.6	3.7	–
Differences due to the application of the equity method of accounting	3,3	– 11.0	–
Result from joint ventures accounted for using the equity method	**5.9**	**– 7.3**	**–**

Associates 2010 €m

	Austria	Italy	France
Revenue	2,761.2	2,539.3	691.6
Profit or loss for the period – 100%	117.4	117.5	– 81.8
Profit or loss for the period attributable to VERBUND	39.5	46.3	– 36.8
Differences due to the application of the equity method of accounting	6.0	– 3.3	– 68.8
Result from associates accounted for using the equity method	**45.5**	**43.0**	**– 105.7**

Associates 2009 €m

	Austria	Italy	France
Revenue	2,257.0	2,390.1	586.0
Profit or loss for the period – 100%	154.0	61.7	– 64.4
Profit or loss for the period attributable to VERBUND	53.9	20.9	– 25.4
Differences due to the application of the equity method of accounting	27.2	– 7.2	– 16.1
Result from associates accounted for using the equity method	**81.2**	**13.6**	**– 41.5**

The current accounting policy (recognition of proportional profit or loss for the period under IFRSs from interim or annual financial statements whose reporting date is no more than three months prior to the balance sheet date of the parent company) was implemented in the 2009 reporting period. This resulted in a non-recurring positive effect on profit for the period in the amount of €29.0m the 2009 reporting period.

(10) Result from equity interests – other

€m

	2010	2009
Income from the disposal of other equity interests	6.4	0.8
Income from non-consolidated subsidiaries	4.8	5.2
Income from other equity interests	4.5	3.9
Expenses arising from other equity interests	0.0	–0.4
Losses upon deconsolidation of consolidated subsidiaries	–0.2	0.0
Result from equity interests – other	**15.5**	9.5

(11) Interest income

€m

	2010	2009
Interest from investments under closed items on the balance sheet or cross-border leasing transactions	26.7	43.9
Interest from money market transactions	1.6	2.9
Other interest and similar income	2.5	2.7
Interest income	**30.8**	49.5

(12) Interest expenses

€m

	2010	2009
Interest for bonds	107.3	69.8
Interest for bank loans	53.4	54.9
Interest for other liabilities	45.1	14.8
Interest for financial liabilities under closed items on the balance sheet or cross-border leasing	29.3	46.3
Interest for other non-current provisions	7.7	15.3
Profit or loss attributable to limited partners	7.6	8.9
Borrowing costs capitalised in accordance with IAS 23	–17.0	–6.1
Other interest and similar expenses	11.8	12.8
Interest expenses	**245.2**	216.7

(13) Other financial result

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

Other financial result €m

	2010	2009
Reversals from (+) and/or allocations to (-) provisions for interest rate differences relating to investments under cross-border leasing transactions	15.1	–13.3
Income from financial instruments	13.7	31.4
Income from the disposal of financial instruments	8.3	10.1
Foreign exchange gains	0.4	27.0
Impairment losses on financial instruments	–0.3	–27.8
Foreign exchange losses	–22.2	–1.5
Result from the termination of cross-border leasing transactions	–33.8	19.6
Other expenses from financial instruments	0.0	–0.3
Other financial result	**–18.9**	45.2

Allocations to provisions for interest rate differences in the 2009 reporting period are related to a cross-border leasing transaction still being in existence as at 31 December 2009 for which the investment at a financial institution was replaced by US treasuries in the 2009 reporting period.

The net effect on other financial result from the (complete and partial) early termination of cross-border leasing transactions amounted to €–18.8m in the 2010 reporting period (previous year: €19.6m). This net effect on profit includes the reversal of a provision for interest differences arising from investments due to the early termination of the cross-border leasing transaction for which it was recognised, as well as the proportional amounts reversed to profit or loss from deferred income from cross-border leasing. In the 2010 reporting period, the net effect also included foreign exchange losses.

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 under other financial result. However, the net effects on profit of these two items offset each other and were therefore not included in the table above.

(14) Taxes on income

€m

	2010	2009
Current tax expenses (of which tax income from prior periods €1.1m; previous year: income €0.8m)	120.9	219.1
Changes in deferred income taxes	27.5	9.8
Taxes on income	**148.4**	228.9

Taxes on income in the 2010 reporting period in the amount of €148.4m are €9.8m lower than the computed tax expense of €158.2m that would have been incurred by multiplying profit before tax in the amount of €632.8m by the 25% income tax rate applicable to VERBUND AG. The reasons for the difference between VERBUND's computed and recognised tax expense are as follows:

Tax reconciliation

€m	2010	2009
Computed income tax expenses	158.2	245.4
Different foreign tax rates	0.7	0.2
Tax reductions due to tax-exempt result from equity interests	–7.9	–16.2
Tax reductions due to the amortisation of goodwill in accordance with Section 9 (7) of the Austrian Corporate Income Tax Act (Körperschaftsteuergesetz, KStG)	–0.5	–0.5
Tax reductions due to other line items	–0.5	–0.5
Tax reductions due to tax-exempt premiums	–0.1	–0.2
Tax increases due to other line items	0.7	1.8
Income tax expenses for the period	**150.7**	230.0
Income tax expenses or income from prior periods (current and deferred)	–2.3	–1.1
Reported income tax expenses	**148.4**	228.9
Effective tax rate	**23.5%**	23.3%

(15) Earnings per share

VERBUND's earnings per share are calculated by dividing profit for the period attributable to the shareholders of VERBUND AG (Group result) by the weighted average number of shares in circulation during the 2010 reporting period.

Calculation of earnings per share

€m	2010	2009
Profit for the period	484.4	752.8
Net of profit for the period attributable to non-controlling interests	83.5	108.5
Group result	**400.8**	644.4
Weighted average number of shares in circulation[1]	312,067,848	308,200,000
Earnings per share	**1.28**	2.09

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

There are no options on the issue of new shares or other facts or circumstances that could have a diluting effect; therefore, basic and diluted earnings per share correspond to one another.

Notes to the statement of comprehensive income

Components of other comprehensive income; reclassification adjustments to the income statement

Other comprehensive income – reclassification adjustments

€m

	2010	2010	2009	2009
From foreign exchange differences[1]		23.9		–7.0
From available-for-sale financial instruments				
Measurement gains or losses recognised in equity	3.1		12.6	
Reclassification adjustment to the income statement	–4.2	–1.2	21.9	34.5
From cash flow hedges				
Measurement gains or losses recognised in equity	–81.3		236.0	
Reclassification adjustment to the income statement	–45.1		–357.8	
Basis adjustments	0.0	–126.4	9.3	–112.5
Interests accounted for using the equity method				
Measurement gains or losses recognised in equity	–57.5		–24.9	
Reclassification adjustment to the income statement	20.0		–3.5	
Basis adjustments	5.3	–32.3		–28.4
Other comprehensive income		**–135.9**		–113.4

[1] No subsidiaries or interests accounted for using the equity method with a functional currency other than the euro were sold in the 2010 reporting period; therefore, no reclassification adjustments were recognised in the income statement.

Components of other comprehensive income; taxes on income

Other comprehensive income – taxes

€m

	2010 Before taxes	**2010** Taxes	**2010** After taxes	2009 Before taxes	2009 Taxes	2009 After taxes
From foreign exchange differences	23.9	0.0	23.9	–7.0	0.0	–7.0
From available-for-sale financial instruments	–1.2	0.3	–0.9	34.5	–8.6	25.9
From cash flow hedges	–126.4	31.7	–94.8	–112.5	28.1	–84.4
From interests accounted for using the equity method	–32.3	4.4	–27.9	–28.4	5.8	–22.6
Other comprehensive income	**–135.9**	**36.3**	**–99.6**	–113.4	25.3	–88.1

Notes to the balance sheet

(16) Intangible assets

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

Intangible assets €m

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

Intangible assets €m

	Concessions, rights, licences	Goodwill	Total
2009			
Acquisition costs as at 1/1	52.7	0.0	52.7
Changes in the group of consolidated companies	0.7	0.0	0.7
Additions from acquisitions	0.0	605.7	605.7
Additions	18.6	0.0	18.6
Disposals	–1.1	0.0	–1.1
Acquisition costs as at 31/12	**71.0**	**605.7**	**676.7**
Accumulated amortisation as at 1/1	40.2	0.0	40.2
Changes in the group of consolidated companies	0.4	0.0	0.4
Amortisation	3.9	–	3.9
Disposals	–1.1	0.0	–1.1
Accumulated amortisation as at 31/12	**43.4**	**0.0**	**43.4**
Net carrying amount as at 31/12	**27.6**	**605.7**	**633.3**
Net carrying amount as at 1/1	12.5	0.0	12.5

(17) Property, plant and equipment

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

Property, plant and equipment €m

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

Property, plant and equipment

€m

	Land and buildings	Machinery	Electrical installations	Power lines	Office and plant equipment	Prepayments, plants under construction and projects	Total
2009							
Acquisition and production costs as at 1/1	5,262.1	1,744.1	1,980.7	949.0	112.9	596.4	10,645.1
Change in the group of consolidated companies	6.9	0.1	0.0	0.0	4.8	0.0	11.8
Additions from acquisitions	54.6	729.3	69.9	0.4	12.8	15.0	882.0
Additions	31.1	28.2	57.6	33.3	13.3	325.7	489.2
Disposals	–29.7	–12.2	–26.4	0.0	–5.0	0.0	–73.3
Reclassifications	83.7	12.0	86.0	114.5	1.0	–297.3	0.0
Acquisition and production costs as at 31/12	**5,408.7**	**2,501.5**	**2,167.8**	**1,097.1**	**139.8**	**639.8**	**11,954.7**
Accumulated depreciation as at 1/1	2,623.0	1,499.4	1,564.7	474.6	83.3	10.1	6,255.1
Change in the group of consolidated companies	6.7	0.1	0.0	0.0	4.1	0.0	10.9
Depreciation	67.7	39.1	66.1	23.2	8.1	0.0	204.2
Impairment losses	0.0	0.5	0.2	0.0	0.0	0.5	1.2
Disposals	–28.9	–11.7	–25.2	0.0	–4.7	0.0	–70.5
Reclassifications	4.9	0.0	0.5	0.0	0.0	–5.4	0.0
Accumulated depreciation as at 31/12	**2,673.5**	**1,527.3**	**1,606.4**	**497.7**	**90.8**	**5.2**	**6,400.9**
Net carrying amount as at 31/12	**2,735.2**	**974.2**	**561.4**	**599.4**	**49.0**	**634.6**	**5,553.8**
Net carrying amount as at 1/1	2,639.1	244.7	416.0	474.4	29.6	586.3	4,390.0

Additions for the reporting period 2010 in detail are as follows:

€m	**2010**	2009
Combined cycle gas turbine power plant Mellach	249.0	104.3
Kaprun Limberg II power plant	74.7	84.4
380-kV Tauern – Pongau – Salzach – St. Peter line	52.0	29.7
Pernegg power plant (revitalisation)	24.3	2.0
Reisseck II power plant	21.0	0.0
Gössendorf power plant	20.0	3,0
Automation of hydropower plants	11.4	12.1
380-kV Southeast Vienna – Györ line (2nd system)	10.7	5.2
380-kV Kainachtal – Southern Burgenland line	7.4	39.9
Hieflau power plant (expansion)	5.2	20.4
Wind farms in Bulgaria	4.0	17.2
Other additions (< €10.0m)	156.0	171.0
Total additions to property, plant and equipment	**635.7**	489.2

In the 2002 reporting period, the Triebenbach power plant was taken over on the basis of a financial lease arrangement. As at 31 December 2010 it was recognised under property, plant and equipment with a net carrying amount of €15.9m (previous year: €16.9m).

(18) Interests accounted for using the equity method

In April and September, capital increases were carried out at the Turkish company Enerjisa Dogalgaz Toptan Satis A.S. VERBUND's share of these capital increases amounted to a total of €0.7m. VERBUND's interest share in Enerjisa Dogalgaz Toptan Satis A.S., which is operated jointly with Sabanci Holding A.S., is 50%.

In June, October and December, capital increases were carried out at the Turkish company Enerjisa Enerji Üretim A.S. VERBUND's share of these capital increases amounted to a total of €71.0 m. VERBUND's interest share in Enerjisa Enerji Üretim A.S., which is operated jointly with Sabanci Holding A.S., is 50%.

Deconsolidation of Energji Ashta Shpk resulted in the addition of an interest accounted for using the equity method in the amount of €5.1m in August. In October, a capital increase was carried out at the Albanian project company. VERBUND's share of this capital increase amounted to a total of €16.0m. VERBUND's (calculated) interest share in Energji Ashta Shpk which is operated jointly with EVN AG amounts to 40.17% – VERBUND Hydro Power AG holds 50% of the Albanian project company (see: Group companies).

In February and July, VERBUND acquired shares of the Italian company Sorgenia S.p.A. (Group) in the amount of €2.9m. The acquisition of interests results from the exercise of put options on shares that were issued within the scope of a share-based remuneration programme for members of the management of Sorgenia S.p.A. (Group) (see: Other liabilities and risks). VERBUND's interest share in Sorgenia S.p.A. (Group) remained unchanged at 44.8%.

Interests accounted for using the equity method

€m

	2010	2009
Amortised acquisition costs as at 1/1	2,224.3	1,582.2
Change in the group of consolidated companies	0.0	26.1
Additions from acquisitions of interests and capital increases	95.9	626.6
Increases – profits/losses	183.8	101.2
Decreases – profits/losses	–109.3	–79.1
Disposals	–0.5	–0.3
Dividend distributions	–26.0	–32.3
Amortised acquisition costs as at 31/12	**2,368.1**	2,224.3
Accumulated value adjustments as at 1/1	50.0	50.0
Change in the group of consolidated companies	0.0	0.0
Impairment losses	56.2	0.0
Disposals	0.0	0.0
Accumulated value adjustments as at 31/12	**106.2**	50.0
Net carrying amount as at 31/12	**2,261.9**	2,174.3
Net carrying amount as at 1/1	2,174.3	1,532.2

The following tables show a summary of aggregated balance sheet data for VERBUND's joint ventures and associates accounted for using the equity method. The reference date for investee balance sheet data is 30 September 2010 (see: Financial reporting principles); data are based on disclosed financial statements and/or on data updated to the best of VERBUND's knowledge.

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

Joint ventures 2010

€m

	Austria and Germany	Turkey	Other
Total assets	560.6	3,122.1	80.5
Total liabilities	322.8	1,689.0	69.7
Equity – 100%	237.7	1,433.2	10.7
Equity – VERBUND's share	116.5	716.6	5.4
Differences due to the application of the equity method of accounting	8.8	76.5	16.0
Carrying amount of joint ventures accounted for using the equity method as at 31/12/2010	125.3	793.1	21.4

Joint ventures 2009

€m	Austria and Germany	Turkey	Other
Total assets	539.1	2,753.4	–
Total liabilities	298.8	1,456.3	–
Equity – 100%	240.3	1,297.2	–
Equity – VERBUND's share	117.7	648.6	–
Differences due to the application of the equity method of accounting	8.8	36.7	–
Carrying amount of joint ventures accounted for using the equity method as at 31/12/2009	**126.5**	**685.3**	**–**

Associates 2010

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

Associates 2009

€m	Austria	Italy	France
Total assets	2,617.0	2,932.3	1,005.4
Total liabilities	1,542.1	1,959.4	712.3
Equity – 100%	1,074.8	972.9	293.1
Equity – VERBUND's share	375.2	406.4	184.0
Differences due to the application of the equity method of accounting	101.2	258.4	37.4
Carrying amount of associates accounted for using the equity method as at 31/12/2009	**476.4**	**664.7**	**221.4**

(19) Equity interests

€m

	Interests in non-consolidated subsidiaries	Other equity interests	Prepayments on equity interests	Total
2010				
(Amortised) acquisition costs as at 1/1	2.7	138.4	0.0	141.1
Additions from acquisitions of interests and capital increases	0.1	0.3	0.0	0.4
Disposals	–0.1	–0.5	0.0	–0.6
(Amortised) acquisition costs as at 31/12	**2.7**	**138.2**	**0.0**	**140.9**
Accumulated value adjustments as at 1/1	0.0	2.5	0.0	2.5
Impairment losses	0.0	0.0	0.0	0.0
Disposals	0.0	–0.5	0.0	–0.5
Accumulated value adjustments as at 31/12	**0.0**	**2.0**	**0.0**	**2.0**
Net carrying amount as at 31/12	**2.7**	**136.2**	**0.0**	**138.9**
Net carrying amount as at 1/1	2.7	135.9	0.0	138.6

€m

	Interests in non-consolidated subsidiaries	Other equity interests	Prepayments on equity interests	Total
2009				
(Amortised) acquisition costs as at 1/1	12.5	152.6	36.7	201.8
Change in the group of consolidated companies	–6.0	–12.5	–36.7	–55.2
Additions from acquisitions of interests and capital increases	0.0	2.2	0.0	2.2
Disposals	–3.9	–3.9	0.0	–7.8
(Amortised) acquisition costs as at 31/12	**2.7**	**138.4**	**0.0**	**141.1**
Accumulated value adjustments as at 1/1	2.3	10.8	0.0	13.1
Change in the group of consolidated companies	0.0	–4.9	0.0	–4.9
Impairment losses	0.0	0.5	0.0	0.5
Disposals	–2.3	–3.9	0.0	–6.2
Accumulated value adjustments as at 31/12	**0.0**	**2.5**	**0.0**	**2.5**
Net carrying amount as at 31/12	**2.7**	**135.9**	**0.0**	**138.6**
Net carrying amount as at 1/1	10.2	141.8	36.7	188.7

Additions to other equity interests in the amount of €0.3m primarily relate to CASC Capacity Allocation Service Company CWE S.A. Disposals of other equity interests particularly relate to Plinsko parna elektrarna, d.o.o. (acquisition cost: €0.5m; accumulated value adjustments: €0.5m). Disposals of interests in non-consolidated subsidiaries relate to APT Austrian Power Trading Polska Sp.z o.o. (acquisition cost: €0.1m; accumulated value adjustments: €0,0m).

(20) Investments and other receivables

€m

	2010	2009
Investments – cross-border leasing	0.0	88.0
Investments – closed items on the balance sheet	253.5	234.0
Subtotal	**253.5**	322.0
Interest rate swaps – closed items on the balance sheet	79.3	64.6
Other investments and other receivables	406.3	477.5
Total	**739.1**	864.1

Investments — cross-border leasing and closed items on the balance sheet

€m

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

Investments — cross-border leasing and closed items on the balance sheet €m

	Securities (loan stock rights) under cross-border leasing	Securities (loan stock rights) under closed items on the balance sheet	Other loans under cross-border leasing	Other loans under closed items on the balance sheet	Total
2009					
Amortised acquisition costs as at 1/1	47.1	0.0	543.4	0.0	590.5
Foreign exchange differences	–0.3	0.0	–11.1	0.0	–11.4
Additions	41.8	0.0	3.7	0.0	45.5
Capitalised interest	0.3	0.0	26.3	0.0	26.6
Reclassification	–46.3	46.3	–190.7	190.7	0.0
Disposals	0.0	0.0	–326.1	0.0	–326.1
Amortised acquisition costs as at 31/12	**42.6**	**46.3**	**45.5**	**190.7**	**325.1**
Of which non-current assets	42.4	46.3	45.5	187.8	322.0
Of which current assets	0.2	0.0	0.0	2.9	3.1

Current assets related to cross-border leasing transactions and closed items on the balance sheet in the 2009 reporting period are included in other current receivables.

As at 31 December 2010, the securities consist of medium-term notes with a nominal value of $65.8m (previous year: $64.8m) or €50.7m (previous year: €46.3m). The US Treasury Strips in the amount of $61.3m or €42.5m held in the previous year were sold in the course of early terminations of cross-border leasing transactions.

The amount of €50.7m (previous year: €88.8m) of the securities and €202.8m (previous year: €236.2m) of the loans has been pledged. Securities and loans have all been pledged to banks as collateral for credits.

Other non-current investments and other non-current receivables €m

	Loans to investees	Securities (loan stock rights)	Other loans	Total
2010				
Acquisition costs as at 1/1	39.9	267.0	183.2	490.1
Additions	25.6	2.3	50.2	78.1
Disposals	0.0	–113.8	0.0	–113.8
Reclassifications	–35.5	0.0	–19.1	–54.6
Acquisition costs as at 31/12	**30.0**	**155.5**	**214.3**	**399.8**
Accumulated value adjustments as at 1/1	0.0	55.0	0.0	55.0
Impairment loss through the income statement	0.0	0.0	0.0	0.0
Valuation decreases through equity	0.0	0.0	0.0	0.0
Value increases	0.0	–3.1	0.0	–3.1
Reclassification adjustments	0.0	4.2	0.0	4.2
Disposals	0.0	–29.5	0.0	–29.5
Accumulated value adjustments as at 31/12	0.0	26.6	0.0	26.6
Net carrying amount as at 31/12	**30.0**	**128.9**	**214.3**	**373.2**
Net carrying amount as at 1/1	39.9	212.1	183.2	435.2
Net carrying amount of other non-current receivables as at 31/12				**112.4**
Net carrying amount of other non-current receivables as at 1/1				106.8
Net carrying amount total as at 31/12				**485.6**
Net carrying amount total as at 1/1				542.0

Other non-current investments and other non-current receivables €m

	Loans to investees	Securities (loan stock rights)	Other loans	Total
2009				
Acquisition costs as at 1/1	40.6	355.6	157.8	554.0
Change in the group of consolidated companies	0.0	0.3	0.0	0.3
Additions	0.0	29.7	26.0	55.8
Disposals	– 0.1	– 118.6	0.0	– 118.7
Reclassifications	– 0.6	0.0	– 0.6	– 1.2
Acquisition costs as at 31/12	**39.9**	**267.0**	**183.2**	**490.2**
Accumulated value adjustments as at 1/1	0.0	89.1	0.0	89.1
Change in the group of consolidated companies	0.0	0.1	0.0	0.1
Impairment loss through the income statement	0.0	27.7	0.0	27.7
Value decreases through equity	0.0	0.0	0.0	0.0
Value increases	0.0	– 15.1	0.0	– 15.1
Reclassification adjustments	0.0	– 21.9	0.0	– 21.9
Disposals	0.0	– 24.9	0.0	– 24.9
Accumulated value adjustments as at 31/12	0.0	55.0	0.0	55.0
Net carrying amount as at 31/12	**39.9**	**212.1**	**183.2**	**435.2**
Net carrying amount as at 1/1	40.6	266.5	157.8	464.9
Net carrying amount of other non-current receivables as at 31/12				**106.8**
Net carrying amount of other non-current receivables as at 1/1				147.6
Net carrying amount total as at 31/12				**542.0**
Net carrying amount total as at 1/1				612.6

Securities in the amount of €128.9m (previous year: €212.1m) include primarily shares in investment funds and government bonds (Austria and France) and were classified as available-for-sale. Of the securities, €59.2m (previous year: €100.6m) were pledged as collateral primarily in connection with trading on the power exchanges and balancing energy management.

The other loans in the amount of €214.3m (previous year: €183.2m) were largely related to the financing of the construction of the combined cycle gas turbine power plant of POWEO Pont-sur-Sambre Production S.A.S. (see: Transactions with related parties) as well as to an interim investment made by VERBUND in the amount of €50.0m. Loans to POWEO Pont-sur-Sambre Production S.A.S were reduced in the 2010 reporting period by €8.9m.

The electricity costs prepayment to Österreichisch-Bayerische Kraftwerke AG in the amount of €24.1m (previous year: €25.9m), which was recognised under other non-current receivables, declined in the 2010 reporting period by €1.8m.

Other non-current receivables in the 2009 reporting period contained the present value of future leasing payments (€0.7m) for plants leased out by VERBUND to a major customer. The finance lease agreement according to IAS 17 expired on 30 September 2010; repayment was on schedule.

Other non-current receivables contain derivative financial instruments measured at fair value in the amount of €79.3m (previous year: €64.6m), which relate to financial liabilities under closed items on the balance sheet.

(21) Inventories

€m

	2010	2009
Primary energy sources	89.4	124.1
Less impairments	–0.1	–0.1
Subtotal	**89.2**	124.0
Additives and consumables	3.1	3.1
Inventories	**92.3**	127.1

(22) Trade receivables and other receivables

€m

	2010 Non-current	2009 Non-current	**2010** Current	2009 Current
Trade receivables	0.0	0.0	251.4	248.3
Receivables from investees	0.0	0.0	103.0	41.8
Other loans	0.0	0.0	10.4	7.2
Loans to investees	9.0	0.0	42.1	0.6
Receivables from non-consolidated subsidiaries	0.0	0.0	4.9	1.6
Other receivables and assets	103.4	106.8	575.7	428.6
Trade receivables and other receivables	**112.4**	106.8	**987.5**	728.1

In the 2009 reporting period, €0.2m in securities and €2.9m in other loans under closed items on the balance sheet were recognised under other current receivables.

Other receivables with a maturity of more than one year are recognised in VERBUND's balance sheet under investments and other non-current receivables.

Other receivables and assets

€m

	2010 Non-current	2009 Non-current	**2010** Current	2009 Current
Money market transactions	0.0	0.0	400.5	0.0
Derivatives in the energy area	0.0	0.0	98.7	367.3
Derivatives in the finance area	79.3	64.6	0.1	0.1
Emission rights	0.0	0.0	36.4	20.0
Electricity costs prepayment Österreichisch-Bayerische Kraftwerke AG	24.1	25.9	1.8	0.0
Receivables from PPPs (in accordance with IFRIC 12)	0.0	15.4	0.0	0.0
Receivables from tax clearing	0.0	0.0	1.9	5.2
Receivables from accrued interest	0.0	0.0	2.8	4.3
Guarantees in electricity trading	0.0	0.0	3.5	3.5
Other receivables from payroll	0.0	0.0	0.4	0.5
Receivables from lock operations and maintenance	0.0	0.0	3.7	4.5
Other	0.0	0.7	25.9	23.2
Other receivables and assets	**103.4**	106.8	**575.7**	428.6

VERBUND's most significant allowances and/or payment defaults (past due payments) are as follows:

Allowances €m

	Receivables net (carrying amount)	Of which: impaired as at balance sheet date	Allowance	Receivables gross
2010				
Trade receivables	251.4	7.6	5.9	257.3
Receivables from investees	103.0	0.0	0.0	103.0
Receivables from non-consolidated subsidiaries	4.9	0.0	0.0	4.9
Loans	52.5	0.0	0.0	52.5
Other receivables and assets	575.7	0.0	0.0	575.7
Total	987.5	7.6	5.9	993.4
2009				
Trade receivables	248.3	26.5	11.6	259.9
Receivables from investees	41.8	0.0	1.4	43.2
Receivables from non-consolidated subsidiaries	1.6	0.0	0.0	1.6
Loans	7.8	0.0	0.0	7.8
Other receivables and assets	428.6	0.1	0.0	428.6
Total	728.1	26.6	13.0	741.1

Past due amounts 2010 €m

	Carrying amount	Of which not impaired or past due as at balance sheet date	Of which not impaired but past due in the indicated periods			
			< 30 days	31 to 120 days	121 to 360 days	> 360 days
Trade receivables	251.4	237.6	3.9	1.3	1.0	0.0
Receivables from investees	103.0	102.0	0.7	0.1	0.3	0.0
Receivables from non-consolidated subsidiaries	4.9	4.9	0.0	0.0	0.0	0.0
Loans	52.5	52.5	0.0	0.0	0.0	0.0
Other receivables and assets	575.7	527.4	5.4	38.7	0.2	4.0
Total	987.5	924.4	10.0	40.1	1.5	4.0

Past due amounts 2009

	Carrying amount	Of which not impaired or past due as at balance sheet date	Of which not impaired but past due in the indicated periods			
			< 30 days	31 to 120 days	121 to 360 days	> 360 days
Trade receivables	248.3	208.1	3.7	0.8	8.9	0.3
Receivables from investees	41.8	40.6	0.8	0.3	0.0	0.1
Receivables from non-consolidated subsidiaries	1.6	1.6	0.0	0.0	0.0	0.0
Loans	7.8	7.8	0.0	0.0	0.0	0.0
Other receivables and assets	428.6	419.3	5.1	2.0	1.7	0.4
Total	728.1	677.4	9.6	3.1	10.6	0.8

€m

In the 2010 and 2009 reporting periods, none of the allowances to receivables from investees apply to interests accounted for using the equity method (see: Transactions with related parties).

(23) Cash and cash equivalents

€m

	2010	2009
Cash in banks	488.9	125.8
Cash balance	0.1	0.2
Cash and cash equivalents	**489.0**	126.0

The lock-in period for all current financial investments was less than three months at the time the investment was made. Cash and cash equivalents correspond to the fund of cash and cash equivalents in the cash flow statement in accordance with IAS 7.

(24) Share capital

Effective 26 November 2010 (first trading day of the new shares), VERBUND AG carried out a capital increase. A total of 39,215,686 new shares were issued.

The share capital now comprises: 170,233,686 (previous year: 151,018,000) no-par shares (bearer shares category A) and 177,182,000 (previous year: 157,182,000) no-par shares (registered shares category B). The registered shares category B represent 51.0% of the share capital, authenticated by an interim certificate deposited with the Federal Ministry of Finance and made out in the name of the Republic of Austria. The share capital was paid in full.

(25) Capital reserves

The amount of €954.3m (previous year: €10.9m), which represents the portion of the reserves that was not retained form profit for the period in previous reporting periods, is recognised under capital reserves. The change in the capital reserves is due to the capital increase that was carried out in the 2010 reporting period.

(26) Retained earnings

The retained earnings comprise the retained profit. Of these profits, the amount that can be distributed to the shareholders of VERBUND AG is the item presented as profit for the period in the annual financial statements of VERBUND AG as at 31 December 2010 that are prepared in accordance with Austrian Commercial Code (Unternehmensgesetzbuch, UGB).

For the 2010 reporting period, this not yet approved profit for the reporting period amounts to €191.1m (previous year: €385.3m). A dividend of €0.55 per share (previous year: €1.00 plus a special dividend of €0.25 per share) will be recommended to the Annual General Meeting.

(27) Reserve for foreign exchange differences

The reserve for foreign exchange differences primarily contains the currency translation of the joint ventures held with the Turkish company Sabanci Holding A.S., which are accounted for using the equity method.

(28) Non-controlling interests

%

	2010	2009
VERBUND Hydro Power AG	19.67	19.67
VERBUND Thermal Power GmbH	40.51	40.51
VERBUND Tourismus GmbH	16.10	16.10
Alpha Wind SRL	49.93	49.93
VERBUND Innkraftwerke Deutschland GmbH	3.54	0.26

Capital shares in VERBUND Thermal Power GmbH & Co KG attributable to limited partners of 44.35% (previous year: 44.35%) and in VERBUND Kraftwerke Beteiligungsholding GmbH & Co KG of 5.1% (previous year: 5.1%) are presented under non-current financial liabilities in accordance with IAS 32.

(29) Non-current and current financial liabilities

€m

	2010 Non-current	2009 Non-current	**2010** Current	2009 Current
Bonds	2,214.6	2,190.9	56.8	52.9
Financial liabilities to banks	1,475.6	1,319.7	128.6	98.8
Financial liabilities to others	93.1	124.4	43.0	2.0
Capital shares attributable to limited partners	129.8	125.9	0.0	0.0
Subtotal	**3,913.1**	3,760.9	**228.4**	153.7
Financial liabilities to banks – closed items on the balance sheet	332.5	298.6	0.3	3.0
Financial liabilities to banks – early terminated cross-border leasing transactions[1]	21.9	0.0	0.1	0.0
Financial liabilities to others – cross-border leasing	0.0	94.1	0.0	0.0
Non-current and current financial liabilities	**4,267.4**	4,153.6	**228.8**	156.7

[1] Financial liabilities to banks resulting from early terminated cross-border leasing transactions, but for which there is (currently) no cover on the balance sheet, are recognised under financial liabilities to banks under note (30) Additional information on financial instruments in accordance with IFRS 7.

Financial liabilities

€m	2010	2009
As at 1/1	3,914.6	2,194.1
Changes in the group of consolidated companies	0.0	32.4
Net change in money market transactions	46.3	– 116.8
Changes in interest accruals	7.1	35.3
Scheduled repayments	– 62.0	– 302.5
Borrowings	209.7	2,092.4
Changes in capital shares attributable to limited partners	3.9	– 12.8
Foreign exchange gains or losses	21.9	– 7.5
As at 31/12	**4,141.5**	3,914.6
Of which non-current liabilities	3,913.1	3,760.9
Of which current liabilities	228.4	153.7

Financial liabilities – closed items on the balance sheet

€m	2010	2009
As at 1/1	301.6	–
Foreign exchange gains or losses	14.8	–
Capitalisation	24.8	–
Repayments and/or disposals	– 23.1	–
Reclassifications	0.0	301.6
Market value changes	14.7	–
As at 31/12	**332.8**	301.6
Of which non-current liabilities	332.5	298.6
Of which current liabilities	0.3	3.0

Financial liabilities – cross-border leasing

€m	2010	2009
As at 1/1	94.1	728.6
Exchange gains/losses	0.0	– 15.1
Capitalisation	4.5	46.3
Repayments and/or disposals	– 78.0	– 310.0
Reclassifications to financial liabilities under closed items on the balance sheet	0.0	– 301.6
Reclassifications to financial liabilities from early terminated cross-border leasing transactions	– 21.9	0.0
Market value changes	1.3	– 54.1
As at 31/12	**0.0**	94.1
Of which non-current liabilities	0.0	94.1
Of which current liabilities	0.0	0.0

Other non-current liabilities contained the fair value of a derivative financial instrument related to the terminated cross-border leasing transactions in the amount of €10.2m (previous year: €11.6m). Any claims arising from this financial instrument are pledged to a bank.

Capital shares attributable to limited partners

€m

	2010	2009
As at 1/1	**125.9**	138.7
Other comprehensive income attributable to limited partners	0.1	4.9
Profit or loss shares attributable to limited partners	7.6	8.9
Distributions	–3.9	–26.6
Other changes	0.2	0.0
As at 31/12	**129.8**	125.9

The shares attributable to limited partners relate to the capital and profit shares of VERBUND Thermal Power GmbH & Co KG and VERBUND Kraftwerke Beteiligungsholding GmbH & Co KG..

In the 2010 reporting period, new non-current financial liabilities in the total amount of €200.0m were incurred. These borrowings were all from the European Investment Bank and have a variable interest rate.

Repayments of financial liabilities (excluding cross-border leasing transactions) in the amount of €62.0m were made on schedule; there were no unscheduled repayments. Additionally a loan in the amount of €40.0m, which had been obtained for the acquisition of foreign investments within the scope of refinancing transactions by the Österreichische Kontrollbank AG, was extended until 2018. With regard to current financial liabilities (cash advances), €0.1m were repaid and €46.4m of new borrowings were obtained on the money market.

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

With regard to financial liabilities from early terminated cross-border leasing transactions, capitalisations in the amount of €29.3m (previous year: €46.3m) were recognised. Repayments and disposals, largely due to early terminations, came to €101.1m (previous year: €310.0m).

Within one year, payments of €1.0m will be paid toward the liability from the finance lease agreement for the Triebenbach power plant, with repayment of €18.8m in the subsequent four years. The total of non-discounted lease payments (including payment of the residual value) is €19.3m (previous year: €21.6m). The lease agreement will expire on 30 April 2015.

As at 31 December 2010, VERBUND had no mortgage-backed liabilities.

Non-current and current financial liabilities 2010

	Maturity	Issue volume	Residual liability as at 31/12/2010
Bonds			
Euro currency	2020	2,112.7	2,149.9
Foreign currencies (¥)	2015	126.1	121.5
Total bonds		**2,238.8**	**2,271.4**
Of which at a fixed interest rate	2020	2,238.8	2,271.4
Of which at a variable interest rate		–	–
Financial liabilities to banks			
Euro currency	2030	1,667.4	1,604.1
Foreign currencies		–	–
Total financial liabilities to banks		**1,667.4**	**1,604.1**
Of which at a fixed interest rate	2026	867.7	888.0
Of which at a variable interest rate	2030	799.7	716.1
Financial liabilities to banks – early terminated cross-border leasing transactions[1]			
Euro currency		–	–
Foreign currencies ($)	2027		21.9
Total financial liabilities to banks – early terminated cross-border leasing transactions			**21.9**
Of which at a fixed interest rate	2027		21.9
Of which at a variable interest rate			–
Financial liabilities to others			
Euro currency	2021	142.7	136.1
Foreign currencies		–	–
Total financial liabilities to others		**142.7**	**136.1**
Of which at a fixed interest rate	2021	118.8	119.3
Of which at a variable interest rate	2015	23.9	16.8
Financial liabilities to banks – closed items on the balance sheet			
Euro currency		–	–
Foreign currencies ($)	2030		332.8
Total financial liabilities to banks – closed items on the balance sheet			**332.8**
Of which at a fixed interest rate	2030		332.8
Of which at a variable interest rate			–
Capital shares attributable to limited partners			**129.8**
Total financial liabilities			**4,496.1**

[1] For these financial liabilities there is balance sheet cover on the assets side or appropriate hedging relationships were carried out. Therefore, certain information is of limited informative value.

€m

1 year or less	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 31/12/2009
53.9	0.0	0.0	497.2	497.6	1,101.2	4.61%	4.97%	2,303.50
2.9	0.0	0.0	0.0	118.6	0.0	4.10%	4.22%	136.6
56.8	**0.0**	**0.0**	**497.2**	**616.2**	**1,101.2**	**4.58%**	**4.84%**	**2,440.10**
56.8	0.0	0.0	497.2	616.2	1,101.2	4.58%	4.84%	2,440.10
–	–	–	–	–	–	–	–	–
128.6	239.8	177.7	77.8	219.9	760.3	2.86%	3.68%	1,648.0
–	–	–	–	–	–	–	–	–
128.6	**239.8**	**177.7**	**77.8**	**219.9**	**760.3**	**2.86%**	**3.68%**	**1,648.0**
18.0	184.4	122.7	22.7	164.7	375.5	3.67%	4.23%	916.2
110.3	55.4	55.2	55.2	55.2	384.8	1.86%	2.92%	731.9
–	–	–	–	–	–	–	–	–
0.0	1.3	0.0	0.0	0.0	20.6	7.36%	7.17%	26.9
0.0	**1.3**	**0.0**	**0.0**	**0.0**	**20.6**	**7.36%**	**7.17%**	**26.9**
0.4	1.3	0.0	0.0	0.0	20.6	7.36%	7.17%	26.9
–	–	–	–	–	–	–	–	–
43.0	2.1	2.3	70.3	13.8	4.6	3.15%	3.81%	127.2
–	–	–	–	–	–	–	–	–
43.0	**2.1**	**2.3**	**70.3**	**13.8**	**4.6**	**3.15%**	**3.81%**	**127.2**
41.9	1.0	1.2	69.2	1.4	4.6	2.93%	3.47%	110.4
1.1	1.1	1.1	1.1	12.4	0.0	4.77%	4.60%	16.8
–	–	–	–	–	–	–	–	–
0.4	0.0	0.0	0.0	0.0	332.4			407.8
0.4	**0.0**	**0.0**	**0.0**	**0.0**	**332.4**			**407.8**
0.4	0.0	0.0	0.0	0.0	332.4			407.8
–	–	–	–	–	–	–	–	–
0.0	**129.8**	**0.0**	**0.0**	**0.0**	**0.0**			**–**
228.8	**373.0**	**180.0**	**645.3**	**849.9**	**2,219.1**			

Non-current and current financial liabilities 2009

	Maturity	Issue volume	Residual liability as at 31/12/2009
Bonds			
Euro currency	2020	2,112.7	2,144.7
Foreign currencies (¥)	2015	126.1	99.1
Total bonds		2,238.8	2,243.8
Of which at a fixed interest rate	2020	2,238.8	2,243.8
Of which at a variable interest rate		–	–
Financial liabilities to banks			
Euro currency	2026	1,482.1	1,418.5
Foreign currencies		–	–
Total financial liabilities to banks		1,482.1	1,418.5
Of which at a fixed interest rate	2026	867.7	864.2
Of which at a variable interest rate	2020	614.4	554.3
Financial liabilities to others			
Euro currency	2021	132.0	126.4
Foreign currencies	2009	–	–
Total financial liabilities to others		132.0	126.4
Of which at a fixed interest rate	2021	108.0	108.6
Of which at a variable interest rate	2015	24.0	17.8
Financial liabilities – closed items on the balance sheet and/or cross-border leasing[1]			
Euro currency		–	–
Foreign currencies ($) – to banks			301.6
Foreign currencies ($) – to others			94.1
Financial liabilities – closed items on the balance sheet and/or cross-border leasing			395.7
Of which at a fixed interest rate			395.7
Of which at a variable interest rate			–
Capital shares attributable to limited partners			125.9
Total financial liabilities			4,310.3

[1] For these financial liabilities there is balance sheet cover on the assets side or appropriate hedging relationships were carried out. Therefore, certain information is of limited informative value.

€m

1 year or less	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 31/12/2009
50.6	0.0	0.0	0.0	496.5	1,597.6	4.61%	4.95%	2,258.9
2.3	0.0	0.0	0.0	0.0	96.8	4.10%	3.43%	112.5
52.9	**0.0**	**0.0**	**0.0**	**496.5**	**1,694.4**	**4.58%**	**4.71%**	**2,371.4**
52.9	0.0	0.0	0.0	496.5	1,694.4	4.58%	4.71%	2,179.8
–	–	–	–	–	–	–	–	–
98.8	57.4	227.2	157.4	57.4	820.3	3.44%	4.03%	1,459.1
–	–	–	–	–	–	–	–	–
98.8	**57.4**	**227.2**	**157.4**	**57.4**	**820.3**	**3.44%**	**4.03%**	**1,459.1**
12.2	14.5	184.3	114.6	14.6	524.1	3.81%	4.24%	877.9
86.6	42.9	42.9	42.8	42.8	296.3	2.87%	3.63%	581.2
2.0	40.0	1.1	1.1	69.8	12.5	3.16%	4.43%	127.6
–	–	–	–	–	–	–	–	–
2.0	**40.0**	**1.1**	**1.1**	**69.8**	**12.5**	**3.16%**	**4.43%**	**127.6**
1.0	39.0	0.0	0.0	68.6	0.1	2.89%	4.30%	109.7
1.0	1.0	1.1	1.1	1.2	12.4	4.77%	4.54%	17.8
–	–	–	–	–	–	–	–	–
3.0	0.0	0.0	0.2	0.0	298.4			318.4
0.0	0.0	0.0	1.1	0.0	93.0			114.7
3.0	**0.0**	**0.0**	**1.3**	**0.0**	**391.4**			**433.1**
3.0	0.0	0.0	1.3	0.0	391.4			433.1
–	–	–	–	–	–	–	–	–
0.0	**125.9**	**0.0**	**0.0**	**0.0**	**0.0**			
156.7	**223.3**	**228.3**	**159.8**	**623.7**	**2,918.6**			

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

Carrying amounts and fair values by measurement categories 2010

€m

Assets – balance sheet items	Measurement categories in accordance with IAS 39 or measurement in accordance with other IFRSs	Level	Carrying amount as at 31/12/2010	Fair value as at 31/12/2010
Interests in non-consolidated subsidiaries	FAAC		2.7	–
Other equity interests	FAAC		136.2	–
Other equity interests			**138.9**	**–**
Securities	FAAFS	1, 2	128.9	128.9
Securities – closed items on the balance sheet	LAR		50.7	43.9
Other loans – closed items on the balance sheet	LAR		202.8	189.3
Loans to investees	LAR		30.0	27.8
Other loans	LAR		214.3	220.8
Derivatives in the finance area – closed items on the balance sheet	FAHFT	2	79.3	79.3
Receivables from financial guarantees	LAR		9.0	9.0
Other	–		24.1	–
Other non-current investments and other non-current receivables			**610.2**	**–**
Trade receivables	LAR		251.4	251.4
Receivables from investees	LAR		103.0	103.0
Receivables from non-consolidated subsidiaries	LAR		4.9	4.9
Loans to investees	LAR		42.1	43.7
Other loans	LAR		10.4	10.6
Derivatives in the energy area	FAHFT	1.2	98.7	98.7
Derivatives in the finance area	FAHFT	2	0.1	0.1
Guarantees in electricity trading	LAR		3.5	3.5
Money market transactions	LAR		400.5	400.5
Emission rights	IAS 38 and/or IAS 2		36.4	–
Other	–		36.5	–
Trade receivables and other current receivables			**987.5**	**–**
Cash and cash equivalents	**LAR**		**489.0**	**489.0**
Aggregated by measurement categories				
Financial assets at cost	FAAC		138.9	
Loans and receivables	LAR		1,811.6	
Available-for-sale financial assets	FAAFS		128.9	
Financial assets held for trading	FAHFT		178.1	

Carrying amounts and fair values by measurement categories 2010

€m

Liabilities – balance sheet items	Measurement categories in accordance with IAS 39 or measurement in accordance with other IFRSs	Level	Carrying amount as at 31/12/2010	Fair value as at 31/12/2010
Bonds	FLAAC		2,271.4	2,440.1
Liabilities to banks and to others	FLAAC		1,762.2	1,801.9
Financial liabilities to banks – closed items on the balance sheet	FLAAC		63.6	85.2
Financial liabilities to banks – closed items on the balance sheet	FLAFVPL	2	269.2	269.2
Capital shares attributable to limited partners	IAS 32		129.8	–
Non-current and current financial liabilities			**4,496.2**	–
Derivatives in the finance area	FLHFT	2	10.2	10.2
Electricity supply commitment	–		472.3	–
Trade payables	FLAAC		0.8	0.8
Other	FLAAC		4.4	4.4
Other non-current liabilities			**487.7**	–
Trade payables	FLAAC		114.9	114.9
Liabilities to investees	FLAAC		16.7	16.7
Liabilities to non-consolidated subsidiaries	FLAAC		1.5	1.5
Derivatives in the energy area	FLHFT	1.2	91.1	91.1
Derivatives in the finance area	FLHFT	2	12.2	12.2
Other	FLAAC		6.2	6.7
Other	–		81.5	–
Trade payables and other current liabilities			**324.1**	–

Aggregated by measurement categories				
Financial liabilities at amortised cost	FLAAC		4,241.7	
Financial liabilities at fair value through profit or loss	FLAFVPL		269.2	
Financial liabilities held for trading	FLHFT		113.5	

Carrying amounts and fair values by measurement categories 2009

€ m

Assets – balance sheet items	Measurement categories in accordance with IAS 39 or measurement in accordance with other IFRSs	Level	Carrying amount as at 31/12/2009	Fair value as at 31/12/2009
Interests in non-consolidated subsidiaries	FAAC		2.7	–
Other equity interests	FAAC		135.9	–
Other equity interests			**138.6**	**–**
Securities	FAAFS	1, 2	212.1	212.1
Securities – cross-border leasing	LAR		42.4	34.8
Securities – closed items on the balance sheet	LAR		46.3	39.6
Other loans – cross-border leasing	LAR		45.5	53.0
Other loans – closed items on the balance sheet	LAR		187.8	126.0
Loans to investees	LAR		39.9	40.3
Other loans	LAR		183.2	193.1
Derivatives in the finance area – closed items on the balance sheet	FAHFT	2	64.6	64.6
Lease receivables	LAR		0.7	–
Receivables from PPPs (in accordance with IFRIC 12)	LAR		15.4	–
Other	–		26.1	–
Other non-current investments and other non-current receivables			**864.0**	**–**
Trade receivables	LAR		248.3	248.3
Receivables from investees	LAR		41.8	41.8
Receivables from non-consolidated subsidiaries	LAR		1.6	1.6
Other loans	LAR		4.2	4.4
Derivatives in the energy area	FAHFT	1.2	367.5	367.5
Derivatives in the finance area	FAHFT	2	0.1	0.1
Guarantees in electricity trading	LAR		3.2	3.2
Emission rights	IAS 38 and/or IAS 2		20.0	–
Other	–		41.4	–
Trade receivables and other current receivables			**728.1**	**–**
Cash and cash equivalents	LAR		**126.0**	**126.0**

Aggregated by measurement categories				
Financial assets at cost	FAAC		138.6	
Loans and receivables	LAR		986.3	
Available-for-sale financial assets	FAAFS		212.1	
Financial assets held for trading	FAHFT		432.2	

Carrying amounts and fair values by measurement categories 2009

€m

Liabilities – balance sheet items	Measurement categories in accordance with IAS 39 or measurement in accordance with other IFRSs	Level	Carrying amount as at 31/12/2009	Fair value as at 31/12/2009
Bonds	FLAAC		2,243.8	2,371.4
Liabilities to banks and to others	FLAAC		1,544.9	1,586.7
Financial liabilities to others – cross-border leasing	FLAAC		94.1	114.7
Financial liabilities to banks – closed items on the balance sheet	FLAAC		58.6	75.4
Financial liabilities to banks – closed items on the balance sheet	FLAFVPL	2	243.0	243.0
Capital shares attributable to limited partners	IAS 32		125.9	–
Non-current and current financial liabilities			**4,310.3**	–
Derivatives in the finance area – cross-border leasing	FLHFT	2	11.6	11.6
Electricity supply commitment	–		465.0	–
Trade payables	FLAAC		1.3	1.3
Other	FLAAC		3.1	3.1
Other non-current liabilities			**481.0**	
Trade payables	FLAAC		115.0	115.0
Liabilities to investees	FLAAC		13.8	13.8
Liabilities to non-consolidated subsidiaries	FLAAC		2.6	2.6
Derivatives in the energy area	FLHFT	1.2	163.7	163.7
Derivatives in the finance area	FLHFT	2	2.9	2.9
Other	FLAAC		6.7	6.7
Other	–		81.4	–
Trade payables and other current liabilities			**386.1**	–

Aggregated by to measurement categories		
Financial liabilities at amortised cost	FLAAC	4,083.9
Financial liabilities at fair value in profit or loss	FLAFVPL	243.0
Financial liabilities held for trading	FLHFT	178.2

Since the 2009 reporting period, measurement levels must be disclosed in accordance with IFRS 7 for those financial instruments that are measured systematically at fair value.

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

If prices are not available on active markets, the fair values are determined using generally accepted measurement models on the basis of input data being either directly (on the basis of market prices) or indirectly (derived from market prices) observable (Level 2 measurement).

If fair value measurement of assets is performed using input parameters that cannot be observed on the market, this is equivalent to a Level 3 measurement. At present, VERBUND does not employ Level 3 measurements for financial instruments that are measured systematically at fair value.

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

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

The fair values of non-current loans presented in the table above correspond to the present values of the payments related to the assets, taking into consideration the current interest rate parameters, which reflect market-related and counterparty-related changes (credit default swaps) in terms and expectations.

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

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

The fair values of liabilities to banks, bonds and other financial liabilities are determined as present values of the debt-related payments employing the applicable yield curve and the credit spread curve differentiated by currencies.

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

The fair values of quoted energy futures correspond to the daily settlement prices published by the individual stock exchanges on the balance sheet date. The fair values of electricity, gas and CO_2 futures contracts are therefore based on Level 1 measurements. The fair values of non-quoted energy forwards are measured with a forward price curve that is derived from the quoted prices using an EURIBOR-based discounting method. The fair values of electricity, gas and CO_2 forward contracts are therefore based on Level 2 measurements.

Of the derivative financial instruments in the energy area classified as FAHFT and FLHFT in the above table, positive fair values in the amount of €15.3m (previous year: €153.7m) and negative fair values in the amount of €89.7m (previous year: €111.0m) relate to hedging relationships designated as cash flow hedges. These fair values are not netted values; following the inter-portfolio netting performed in accordance with VERBUND's accounting policies (see: Financial instruments and risk management), cash flow hedges can no longer be isolated.

Analysis of contractual cash outflows

The contractual (undiscounted) cash outflows on VERBUND's financial liabilities in accordance with IFRS 7 are the following:

Cash outflows as at 31/12/2010 €m

Maturity	2011	2012	2013-2015	from 2016
Bonds	106.9	106.5	1,414.4	1,328.3
Financial liabilities to banks	188.5	293.5	586.8	837.3
Financial liabilities to others	44.1	4.3	89.5	4.9
Capital shares attributable to limited partners	0.0	129.8	0.0	0.0
Financial liabilities – closed items on the balance sheet	0.4	0.1	0.0	332.3
Cash outflows on financial liabilities	**339.9**	**534.2**	**2,090.7**	**2,502.8**
Trade payables	114.9	0.2	0.6	0.0
Liabilities to investees	16.7	0.0	0.0	0.0
Liabilities to non-consolidated subsidiaries	1.5	0.0	0.0	0.0
Derivatives in the energy area[1]	742.4	262.5	52.2	0.0
Derivatives in the finance area[1]	34.5	0.0	0.0	0.0
Other	62.5	0.1	0.0	4.1
Cash outflows on trade payables and other payables	**972.5**	**262.8**	**52.8**	**4.1**
Cash outflows on liabilities in accordance with IFRS 7	**1,312.4**	**797.0**	**2,143.5**	**2,506.9**

[1] with and without hedging relationships

Cash outflows as at 31/12/2010 €m

Maturity	2010	2011	2012-2014	from 2015
Bonds	102.7	105.9	817.9	2,006.1
Financial liabilities to banks	148.5	107.1	561.9	895.6
Financial liabilities to others	2.4	3.0	37.1	12.7
Capital shares attributable to limited partners	0.0	125.9	0.0	0.0
Financial liabilities – cross-border leasing and/or closed items on the balance sheet	3.0	0.0	1.1	391.6
Cash outflows on financial liabilities	**256.6**	**341.9**	**1,418.0**	**3,306.0**
Trade payables	115.0	0.3	0.1	1.0
Liabilities to investees	13.8	0.0	0.1	0.0
Liabilities to non-consolidated subsidiaries	2.6	0.0	0.0	0.0
Derivatives in the energy area[1]	736.2	361.0	112.0	0.0
Derivatives in the finance area[1]	0.0	34.5	0.0	0.0
Other	45.9	0.2	0.1	2.6
Cash outflows on trade payables and other payables	**913.5**	**396.0**	**112.3**	**3.6**
Cash outflows on liabilities in accordance with IFRS 7	**1,170.1**	**737.9**	**1,530.3**	**3,309.6**

[1] with and without hedging relationships

Cash outflows under closed items on the balance sheet and/or cross-border leasing transactions have to be seen alongside the corresponding cash inflows from corresponding investments.

Net results by measurement categories according to IAS 39

Net results in accordance with IFRS 7 mainly comprise impairment losses and reversals of impairment, foreign exchange gains and losses and realised gains or losses on disposal.

Net results by measurement categories €m

	2010 Net result	**2010** Of which impairment losses	2009 Net result	2009 Of which impairment losses
Financial assets at cost	6.2	0.0	0.9	–0.5
Available-for-sale financial assets	8.3	0.0	–17.7	–27.7
Loans and receivables	5.3	–0.7	–9.3	–4.4
Financial liabilities at amortised cost	–21.9	–	5.4	–
Financial liabilities at fair value through profit or loss	–26.2	–	55.8	–
Financial assets and/or liabilities held for trading	–2.3	–	–49.2	–
Total interest expenses		**–202.0**		–183.6
Total interest income		**44.5**		80.9
Measurements in other comprehensive income[1]		3.1		12.6
Reclassifications from other comprehensive income recognised in the income statement[1]		–4.2		21.9

[1] This net result relates to available-for-sale financial assets.

Net result in the Financial assets at cost category was recognised under result from equity interests; dividend income was not included in the net result.

Net result in the Available-for-sale financial assets category was recognised primarily under other financial result.

Insofar as net result in the Loans and receivables category contains write-downs of trade receivables, it was recognised under operating result; foreign exchange effects from loans under closed items on the balance sheet and/or cross-border leasing transactions were recognised under other financial result.

Net result in the Financial liabilities at amortised cost and Financial liabilities at fair value through profit or loss categories included foreign exchange effects related to financial liabilities and were recognised under other financial result.

Net result in the Financial assets and/or liabilities held for trading category relate to the fair value measurement of derivative financial instruments from the wholesale and trading area of the electricity business and is therefore included in operating result (revenue); measurement of derivatives in the finance area was recognised under other financial result.

Net result from early terminations of cross-border leasing transactions accounted for €–18.8m (previous year: €19.6m) and was recognised under other financial result. The net effect on profit results from the sale of investments and the repayment of financial liabilities; in the 2010 reporting period, it also contained foreign exchange losses. Furthermore, the net effect on profit also included the pro-rated reversal of deferred income from cross-border leasing transactions, as well as the reversal of a provision for interest rate differences in the 2010 reporting period. The two latter effects on profits do not represent components of net result in accordance with IFRS 7. So as not to give an incomplete representation of the economic substance of early terminations of cross-border leasing transactions, selected components of these terminations have not been included in the net result table.

Total interest expenses and income are recognised under interest expenses and/or interest income.

(31) Non-current and current provisions

€m

	2010 Non-current	2009 Non-current	**2010** Current	2009 Current
Provisions for pensions	201.4	207.9	–	–
Provisions for severance payments	135.9	141.9	–	–
Provisions for obligations similar to pensions	131.5	126.5	–	–
Provisions for partial retirement	15.3	16.9	8.3	14.3
Other personnel-related provisions	6.6	8.5	49.6	51.4
Other provisions	140.6	170.3	216.4	218.8
Non-current and current provisions	**631.3**	672.0	**274.3**	284.5

Provisions for pensions and similar obligations

€m

	2010 Pension obligations	2009 Pension obligations	**2010** Obligations similar to pensions	2009 Obligations similar to pensions
Reconciliation from the DBO to the provision				
Present value (DBO) of obligations covered by plan assets	174.4	175.6	–	–
Fair value of plan assets	–158.6	–162.1	–	–
Net value (DBO) of obligations covered by plan assets	15.8	13.5	–	–
Present value (DBO) of obligations not covered by plan assets	215.0	226.7	122.5	115.7
Accumulated actuarial gains (+) or losses (–)	–29.4	–32.3	9.1	10.7
Recognised provision as at 31/12	**201.4**	207.9	**131.5**	126.5
Personnel expenses contain				
Service costs (vested claims)	0.9	0.7	2.0	2.1
Interest costs	19.3	19.4	5.9	5.7
Expected investment gains (–) or losses (+)	–3.0	–2.7	–	–
Amortised actuarial gains (–) or losses (+)	0.2	1.5	0.0	0.0
Pension expenses recorded under personnel expenses	**17.4**	18.9	**7.9**	7.8
Reconciliation of the present value of the obligation (DBO)				
Present value of the obligation (DBO) as at 1/1	402.3	405.7	115.7	114.5
Change in the group of consolidated companies	–	10.3	–	–
Service costs (vested claims)	0.9	0.7	2.0	2.1
Interest costs	19.3	19.4	5.9	5.7
Pension payments or contributions to supplementary health insurance	–32.9	–32.6	–2.8	–2.5
Actuarial gains (–) or losses (+)	–0.2	–1.3	1.6	–4.0
Actual present value of the obligation (DBO) as at 31/12	**389.4**	402.3	**122.5**	115.7

Provisions for pensions and similar obligations

€m

	2010 Pension obligations	2009 Pension obligations	**2010** Obligations similar to pensions	2009 Obligations similar to pensions
Reconciliation of plan assets				
Plan assets at fair value as at 1/1	162.1	132.6	–	–
Change in the group of consolidated companies	–	5.0	–	–
Funds – contributions	0.5	23.7	–	–
Funds – payouts	– 9.6	– 9.5	–	–
Expected gains from plan assets	3.0	2.7	–	–
Actuarial gains (+) or losses (–)	2.6	7.5	–	–
Plan assets at fair value as at 31/12	**158.6**	162.1	**–**	–
Reconciliation of unrealised actuarial gains or losses				
Accumulated actuarial gains (+) or losses (–) as at 1/1	– 32.3	– 42.2	10.7	6.7
Actuarial gains (+) or losses (–) for the year	0.2	1.3	– 1.6	4.0
Investment gains (+) or losses (–) for the year	2.1	7.5	–	–
Amortisation for the reporting period	0.6	1.1	–	–
Accumulated actuarial gains (+) or losses (–) as at 31/12	**– 29.4**	– 32.3	**9.1**	10.7

Actuarial assumptions

	2010	2009
Pensions		
Discount rate	4.75%	5.0%-5.25%
Pension increases	2.25%	2.5%
Salary increases	2.75%	3.0%
Fluctuation	none	none
Retirement age – women	56.5 - 65	56.5 - 65
Retirement age – men	61.5 - 65	61.5 - 65
Expected non-current return on plan assets	2.00%	2.00 %
Obligations similar to pension obligations (premiums for supplementary health insurance)[1]		
Discount rate	4.75%	5.0%-5.25%
Fluctuation (depending on duration of employment)	0.0-4.0%	0.0-4.0 %
Trend of contributions on the basis of hospital cost indices		
New contracts (with participation)	4.5%	4.5%
Old contracts (without participation)	7.5%	7.5%
Statutory severance payments		
Discount rate	4.75%	5.00 %
Fluctuation (depending on duration of employment)	0.0-4.0%	0.0-4.0 %

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

The estimated cost increase for medical care has a significant effect on the premiums for supplementary health insurance recognised under personnel expenses; on the basis of present value of the obligation (DBO) as at 31 December 2010 in the amount of €122.5m (previous year: €115.7m), a one-percentage-point change in the cost increase would have the following effects:

Effects of cost increases for medical care

€m

	1-percentage point increase	1-percentage point decrease
Effect on service and interest costs	1.9	– 1.5
Effect on the present value of the obligation (DBO)	24.8	– 19.4

Adjustments of the last 5 years based on past experience

	2006	2007	2008	2009	**2010**
Obligation similar to pensions (DBO) as at 31/12 in €m	128.3	116.3	114.5	115.7	122.5
Adjustments based on past experience gains (+) or losses (–) in % of the present value of the defined benefit obligation (DBO) at the end of the period	– 3.67%	5.26%	0.30%	3.46%	– 3.91%

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

Adjustments of the last 5 years based on past experience

	2006	2007	2008	2009	**2010**
Pension obligations (DBO) as at 31/12 in €m	427.5	418.3	405.7	402.3	389.4
Plan assets at fair value in €m	– 157.6	– 151.2	– 132.6	– 162.1	– 158.6
Deficit (+) or surplus (–)	269.9	267.1	273.1	240.1	**230.8**
Adjustments based on past experience gains (+) or losses (–)					
In % of the present value of the obligation (DBO) at the end of the period	– 3.56%	– 1.16%	– 2.11%	0.32%	0.25%
In % of the plan assets at the end of the period	1.21%	– 3.28%	– 13.16%	4.62%	1.42%

In the 2010 reporting period, the pension fund recorded a profit of €5.2m (previous year: €10.2m). The deficit represents that part of the pension obligations that are not covered by plan assets; these relate primarily to direct commitments to pension recipients.

In the 2011 reporting period, current contributions to the pension fund for coverage of defined contribution plans in the amount of €6.8m are expected .

Plan assets

in %	2010	2009
Bonds – euro	41.1	44.6
Cash	19.8	16.8
Stock – euro	9.5	5.0
Bonds – euro money market	6.8	0.0
Stock – emerging markets	6.1	1.7
Stock – non-euro	5.4	10.0
Bonds – euro corporates	3.9	8.6
Alternative investments	2.9	7.5
Bonds – euro high yield	2.8	4.8
Bonds – emerging markets	1.8	0.0
Property fund shares	0.0	1.0
Total	**100.0**	100.0

Provisions for severance payments

€m	2010	2009
Provision for statutory severance payments	130.9	136.0
Provision for severance payments from special agreements in accordance with social plan	5.0	5.9
Recognised provision as at 31/12	**135.9**	141.9

Provisions for statutory severance payments

€m	2010	2009
Reconciliation from the DBO to the provision		
Present value of the obligation (DBO)	130.9	136.0
Recognised provision as at 31/12	**130.9**	136.0
Personnel expenses contain		
Service costs	2.1	2.2
Interest costs	6.6	6.6
Recognised actuarial gains (–) or losses (+)	–4.3	3.4
Pension expenses recognised under personell expenses	**4.4**	12.2
Reconciliation of the provision		
Recognised provision as at 1/1	136.0	134.6
Changes in the group of consolidated companies	0.0	0.4
Net expenditure recognised in profit or loss	4.4	12.2
Severance payments	–9.5	–11.2
Recognised provisions as at 31/12	**130.9**	136.0

Provisions for partial retirement €m

	2010	2009
Reconciliation from the DBO to the provision		
Present value of the obligation (DBO)	24.8	32.5
Fair value of plan assets	– 1.2	– 1.2
Recognised provision as at 31/12	**23.6**	31.3
Personnel expenses contain		
Service costs	1.2	0.4
Interest costs	0.9	1.6
Reduction of provisions for onerous contracts	– 0.9	0.0
Recognised actuarial gains (–) or losses (+)	– 1.4	– 6.4
Expenses recognised under personnel expenses	**– 0.2**	– 4.4
Reconciliation of the provision		
Recognised provision as at 1/1	31.3	45.2
Change in the group of consolidated companies	0.0	1.1
Reclassification from provisions for onerous contracts	0.9	0.1
Net expenditure recognised in profit or loss	– 0.2	– 4.4
Payments for early retirement	– 8.4	– 10.7
Provisions as at 31/12	**23.6**	31.3

Provisions for partial retirement models provide for bridging payments within the framework of partial retirement in the amount of €23.6m (previous year: €31.3m). These models enable VERBUND to reduce the workforce in a way that is socially compatible.

Other personnel-related provisions €m

	2010	2009
Carrying amount as at 1/1		
Of which > 1 year	8.5	3.4
Of which < 1 year	51.4	52.0
Total as at 1/1	**59.9**	55.4
New provisions	48.4	51.4
Additions from acquisitions	–	2.4
Change in the group of consolidated companies	–	0.6
Interest accrued	0.4	0.3
Appropriation	– 48.6	– 49.7
Reversal	– 2.9	– 0.5
Reclassification	– 1.0	– 0.1
Carrying amount as at 31/12	**56.2**	59.9
Of which > 1 year	6.6	8.5
Of which < 1 year	49.6	51.4

Other personnel-related provisions primarily contain accruals for vacation entitlements in the amount of €18.3m (previous year: €19.9m), flexitime balances of €2.7m (previous year: €2.6m), reorganisation expenses of €2.9m (previous year: €3.9m), additional vacation pay of €8.2m (previous year: €8.2m), bonuses for the performance-based remuneration system of €16.1m (previous year: €15.3m) and anniversary bonuses of €4.6m (previous year: €4.5m).

Other provisions €m

	Provisions for onerous contracts	Other	Total
Carrying amount as at 1/1/2010			
Of which > 1 year	100.7	69.6	170.3
Of which < 1 year	1.7	217.1	218.8
Total as at 1/1/2010	**102.4**	**286.7**	**389.1**
Change in the group of consolidated companies	0.0	– 1.0	– 1.0
New provisions	0.6	165.8	166.4
Interest accrued	5.8	3.0	8.8
Appropriation	– 16.0	– 178.3	– 194.3
Reversal	– 0.1	– 11.8	– 11.9
Carrying amount as at 31/12/2010	**92.7**	**264.3**	**357.1**
Of which > 1 year	91.7	48.9	140.6
Of which < 1 year	1.0	215.4	216.4

Provisions for onerous contracts increased by approximately €2.6m as at 31 December 2010 due to the adjustment of the discount rate to 5.25% (previous year: 5.5%).

Other provisions €m

	Provisions for onerous contracts	Other	Total
Carrying amount as at 1/1/2009			
Of which > 1 year	81.0	40.3	121.3
Of which < 1 year	1.0	167.3	168.3
Total as at 1/1/2009	**82.0**	**207.6**	**289.6**
Additions from acquisitions	–	6.0	6.0
Change in the group of consolidated companies	–	0,4	0.4
New provisions	8.8	211.1	219.9
Interest accrued	14.2	0.9	15.1
Appropriation	– 1.9	– 137.8	– 139.7
Reversal	– 0.7	– 1.5	– 2.2
Carrying amount as at 31/12/2009	**102.4**	**286.7**	**389.1**
Of which > 1 year	100.7	69.6	170.3
Of which < 1 year	1.7	217.1	218.8

Other non-current and current provisions €m

	Dismantling costs	Outstanding receipts for investments	Maintenance expenses	Legal, auditing and consulting expenses	Electricity and grid delivery	Interest rate differences	Other	Total
Carrying amount as at 1/1/2010								
Of which > 1 year	30.0	0.0	16.6	0.0	8.6	13.7	0.7	69.6
Of which < 1 year	0.0	88.2	56.5	5.4	45.0	0.1	21.9	217.1
Total as at 1/1/2010	30.0	88.2	73.1	5.4	53.6	13.8	22.6	286.7
Changes in the group of consolidated companies	0.0	–1.0	0.0	0.0	0.0	0.0	0.0	–1.0
New provisions	0.8	77.2	48.9	6.8	24.6	1.3	6.2	165.8
Interest accrued	1.3	0.0	0.9	0.0	0.7	0.0	0.1	3.0
Appropriation	0.0	–81.3	–49.8	–4.8	–20.9	–15.1	–6.4	–178.3
Reversal	0.0	0.0	–4.5	–0.3	–5.5	0.0	–1.5	–11.8
Carrying amount as at 31/12/2010	32.1	83.0	68.6	7.0	52.6	0.0	21.0	264.3
Of which > 1 year	32.1	0.0	2.4	0.0	9.6	0.0	4.8	48.9
Of which < 1 year	0.0	83.0	66.2	7.0	43.0	0.0	16.2	215.4

Other non-current and current provisions €m

	Dismantling costs	Outstanding receipts for investments	Maintenance expenses	Legal, auditing and consulting expenses	Electricity and grid delivery	Interest rate differences	Other	Total
Carrying amount as at 1/1/2009								
Of which > 1 year	29.5	0.0	10.2	0.0	0.0	0.0	0.6	40.3
Of which < 1 year	0.0	64.6	40.5	6.1	28.0	0.0	28.1	167.3
Total as at 1/1/2009	29.5	64.6	50.7	6.1	28.0	0.0	28.7	207.6
Additions from acquisitions	0.5	0.0	5.2	0.0	0.0	0.0	0.3	6.0
Changes in the group of consolidated companies	0.0	0.0	0.2	0.0	0.0	0.0	0.2	0.4
New provisions	0.2	88.1	57.2	7.2	38.1	13.8	6.5	211.1
Interest accrued	–0.2	0.0	1.1	0.0	0.0	0.0	0.0	0.9
Appropriation	0.0	–64.4	–40.7	–7.2	–12.5	0.0	–13.0	–137.8
Reversal	0.0	–0.1	–0.6	–0.7	0.0	0.0	–0.1	–1.5
Carrying amount as at 31/12/2009	30.0	88.2	73.1	5.4	53.6	13.8	22.6	286.7
Of which > 1 year	30.0	0.0	16.6	0.0	8.6	13.7	0.7	69.6
Of which < 1 year	0.0	88.2	56.5	5.4	45.0	0.1	21.9	217.1

(32) Deferred tax liabilities

The differences between the tax bases and the carrying amounts in the IFRSs balance sheet result in the following deferred taxes:

Deferred taxes €m

	2010	2009
Deferred tax refund claims from		
Provisions for pensions and severance payments	61.3	60.9
Derivative financial instruments	21.8	0.7
Tax-deductible goodwill	20.8	33.8
Loss carryforwards	13.0	4.6
Other items	6.0	8.9
Total deferred tax refund claims	**122.9**	108.9
Deferred tax liabilities from		
Property, plant and equipment (different useful lives, purchase price allocations)	– 160.5	– 158.2
Special tax deductions	– 117.8	– 94.6
Derivative financial instruments	– 0.5	– 17.4
Other items	– 12.5	– 12.8
Total deferred tax liabilities	**– 291.3**	– 283.0
Deferred tax refund claims (+) or tax liabilities (–) netted	**– 168.3**	– 174.1

In the 2010 reporting period, the net position for deferred taxes changed as follows:

Deferred taxes €m

	2010	2009
As at 1/1	**– 174.1**	– 179.2
Changes recognised in other comprehensive income	33.3	14.9
Changes recognised in profit or loss	– 27.5	– 9.8
As at 31/12	**– 168.3**	– 174.1

The changes recognised in other comprehensive income relate primarily to the profits or losses from available-for-sale financial instruments and cash flow hedges.

Under present tax rules, it may be assumed that the differences between the tax base of the equity interests and the proportional share of equity in the consolidated subsidiaries, which result primarily from retained earnings and uncovered losses, will remain largely tax-exempt; therefore no tax deferral was recognised.

(33) Contributions to building costs and grants

This deferred income item includes deferred contributions to building costs, particularly those paid by provincial energy companies, for instance, for power plant projects, and deferred government grants (see: Accounting policies).

Contributions to building costs and grants €m

	2010	2009
Contributions to building costs	397.6	391.1
Government grants	32.6	10.8
Contributions to building costs and grants	**430.2**	401.9

(34) Deferred income – cross-border leasing

This item represents the deferred cash inflows in the amount of the present value of the economic benefits from cross-border leasing transactions. As at 31 December 2010, this item still amounts to €56.8m (previous year: €74.1m). The reversals in the 2010 reporting period accounted for a total of €17.3m. The scheduled reversals recognised under other operating income totalled €1.6m (previous year: €2.1m); the other reversals resulted from partial or complete early terminations of cross-border leasing transactions (in the previous year, some reversals also resulted from an exchange of investments relating to a transaction that was still inexistence at that time) and were recognised under other financial result.

(35) Other non-current liabilities

€m

	2010	2009
Electricity supply commitment	472.3	465.0
Derivatives in the finance area	10.2	11.6
Liabilities from water rights	4.1	2.6
Trade payables	0.8	1.3
Other	0.2	0.5
Other non-current liabilities	**487.7**	481.0

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 consideration for the acquisition of Kraftwerksgruppe Inn GmbH (now VERBUND Innkraftwerke Deutschland GmbH).

(36) Current tax liabilities

€m

	2010	2009
Corporate tax	49.7	151.4
Other taxes	0.0	0.0
Current tax liabilities	**49.7**	151.4

(37) Trade payables and other current liabilities

€m

	2010	2009
Trade payables	114.9	115.0
Derivative financial instruments in the energy area	91.2	163.7
Liabilities to ECRA	36.4	19.7
Liabilities to revenue authorities	24.7	33.4
Liabilities to investees	16.7	13.8
Derivative financial instruments in the finance area	12.2	2.9
Prepayments received from auctions	6.2	6.7
Liabilities from the social security sector (including social insurance institutions)	4.4	4.5
Accrued electricity prepayments	2.6	2.4
Liabilities to non-consolidated subsidiaries	1.5	2.6
Accrued grid operator remuneration	1.0	0.0
Rent or lease prepayments received	0.1	0.1
Liabilities from water rights	0.0	1.7
Other	12.1	19.6
Trade payables and other current liabilities	**324.1**	386.1

Notes to the cash flow statement

The indirect method was used to prepare VERBUND's cash flow statement. The composition of the funds of cash and cash equivalents is disclosed in the notes disclosures to the balance sheet (see: Notes to the balance sheet).

(38) Additional information on cash flow from operating activities

€m	2010	2009
Paid (–) or received (+) variation margins on futures contracts in the energy area	–48.0	–179.9
Paid taxes on income[1]	–218.8	–239.3
Interest received	16.9	31.5
Interest paid	–162.5	–103.5
Dividends received	35.9	41.4

[1] The paid taxes on income relate primarily to cash flows from operating activities.

(39) Proceeds from disposals of consolidated subsidiaries

Proceeds from disposals of consolidated subsidiaries result from the sale of a 50% interest in Energji Ashta Shpk to EVN AG for €5.1m. The deconsolidation resulted in a disposal of cash and cash equivalents of €0.1m. As a result, the Albanian project company became a joint venture of VERBUND accounted for using the equity method.

Due to the loss of control in Energji Ashta Shpk, the following assets and liabilities were deconsolidated:

Assets and liabilities of Energji Ashta Shpk

€m	Carrying amounts as at the date of deconsolidation
Intangible assets	35.0
Property, plant and equipment	0.0
Investments and other receivables	37.5
Non-current assets	**72.5**
Trade receivables and other receivables	5.1
Cash and cash equivalents	0.1
Current assets	**5.2**
Deferred tax liabilities	0.1
Non-current liabilities	**0.1**
Provisions	1.0
Trade payables and other liabilities	66.3
Current liabilities	**67.3**

(40) Additional information on cash flow from financing activities

€m	2010	2009
Paid dividends – to non-controlling interests	–70.7	–79.2
Paid dividends – to the shareholders of VERBUND AG	–385.3	–323.6

Financial instruments and risk management

VERBUND uses primary and derivative financial instruments in both the finance and energy area also for the purpose of risk management.

Finance area

VERBUND is exposed to considerable financial risks in its operating activities and the associated financing transactions and, in particular, also as a consequence of the financial market crisis. These comprise mainly interest rate and liquidity risks, counterparty risk, price risk from securities, currency risk and the risk of a change in VERBUND's rating.

Therefore, in the finance area, VERBUND focuses on identifying, analysing and measuring risks and opportunities as well as on determining measures to be implemented in this context, which can secure profits and/or mitigate the adverse effects in the event a risk should materialise.

In the finance area, own rules have been developed within the framework of Group guidelines in order to be able to correspondingly manage financial risks. In addition, position limits with respect to locking in interest rates, currency diversification and the duration of financial liabilities were defined and are constantly monitored and adjusted if necessary. Sufficient liquidity is ensured at all times through liquidity planning, which is generally oriented on the current and subsequent reporting period, and the resulting corresponding investments and/or borrowings.

Financial instruments

The primary financial instruments held by VERBUND include, in particular, financial assets such as securities, loans, investments, trade receivables, cash in banks, securitised and non-securitised financial liabilities and trade payables.

The derivative financial instruments used in the finance area are comprised as follows and are recognised under the listed balance sheet items:

Derivative financial instruments

€m

	Reference value[1]	**31/12/2010** Positive fair value	31/12/2009 Positive fair value	**31/12/2010** Negative fair value	31/12/2009 Negative fair value
Other receivables					
Interest rate swaps – closed items on the balance sheet (fixed interest recipient)	$238.1m (previous year: $241.0m)	79.3	64.6	–	–
Currency forward in electricity trading	HUF 1,871.4m (previous year: HUF 642.9m)	0.1	0.1	–	–
Other liabilities					
Currency forward relating to financial liabilities (previous year from cross-border leasing)	$29.3m (previous year: $28.6m)	–	–	10.2	11.6
Interest rate swaps relating to financial liabilities	€425.2m (previous year: €428.0m)	–	–	12.2	2.9

[1] The reference value includes the reference basis of the derivative instruments. The actual cash flows only represent a fraction of these values.

The listed derivative transactions serve exclusively to economically hedge against existing currency and interest rate risks.

The fluctuations in value of the derivatives related to the closed items on the balance sheet (see: Accounting policies) serve to balance the fluctuations in value of the corresponding liabilities which are measured at fair value through profit or loss. As at 31 December 2010, the maximum exposure to credit risk of these financial liabilities is €189.9m (previous year: €178.4m).

The currency forward relating to financial liabilities relate to a terminated cross-border leasing transaction for which cover is not provided on the balance sheet. The currency forward hedges the currency risk of the corresponding financial liability. (see: Accounting policies).

HUF currency forwards were entered into in order to hedge electricity trading transactions and cross-border capacities; measurement was recognised in profit or loss.

There are interest rate swaps in the amount of €425.2m (previous year: €428.0m) to hedge increases in interest rates for financial liabilities bearing variable interest. These interest rate swaps are recognised as cash flow hedges. The future interest payments hedged by these hedging instruments will occur in the following 16 years (2011 to 2026) and be recognised in profit or loss accordingly.

Liquidity risk

In the 2010 reporting period, VERBUND met all of its payment obligations (interest and principle repayments) from financial liabilities on time in accordance with the relevant terms. This also applies to all other liabilities insofar as there were no legal or substantial objections.

There were no contracted credit lines with domestic financial institutions as at 31 December 2010 due to fees and expenses. In order to secure sufficient liquidity reserves, there has been a five-year syndicated credit line in the amount of €750.0m since the 2005 reporting period with an option to extend the term twice. The credit line was granted to VERBUND International Finance B.V. as part of a European banking syndication. The potential options to extend were exercised; the credit line open until the beginning of the 2012 reporting period has not been drawn down. A decision is to be made regarding an extension or assumption of a new credit line during the 2011 reporting period. In addition, there are still liquidity reserves related to securities and investment funds.

The contractually agreed (undiscounted) cash outflows from financial liabilities in accordance with IFRS 7 are presented under note (30) Additional disclosures regarding financial instruments in accordance with IFRS 7.

Credit risk

The amounts presented on the asset side also represent the maximum credit and default risk. The counterparty risk in the electricity and grid business as well as in the finance area is measured and monitored uniformly within the framework of Group-wide risk management. As a rule, transactions – with the exception of petty amounts – are only entered into with customers of sufficient creditworthiness either on the basis of an external investment grade rating from an international rating agency (Moody’s, Standard & Poor’s) or following an internal credit assessment to determine an equivalent rating. An individual limit is established for each counterparty and monitored Group-wide. Money market investments are also only carried out with financial partners with confirmed creditworthiness. All counterparty risks and the customer structure portfolio are observed on the basis of default probabilities calculated by international rating agencies. If the credit assessment or the rating does not meet the requirements – i.e., an investment grade rating is not achieved – transactions are only entered into if sufficient collateral is provided (advance payments, bank guarantees, letters of comfort). Default risks are minimised as a result of this counterparty requirement. Risk is further reduced by concluding netting arrangements.

In the past, counterparty risk was normally not insured. A credit insurance policy in the area of consumer business was first concluded in the 2009 reporting period. As at 31 December 2010, €23.3m in trade receivables is covered by credit insurance, whereby there is a maximum cover ratio of €10.0m per year.

The table below provides an overview of the material line items for financial instruments with credit risk and the allocated credit rating groups:

Financial instruments with credit risk by assigned rating group €m

Credit rating group	Equivalent Moody's rating	Securities and loans under closed items on the balance sheet	Other securities and investment fund	Other non-current receivables	Derivatives in the finance area	Trade receivables	Derivatives in the energy area	Money-market transactions as well as cash and cash equivalents
A	up to Aa3	188.0	59.9	–	–	7.8	23.5	300.9
B	up to A3	65.5	–	75.7	79.3	121.5	25.0	459.3
C	up to Baa3	–	–	–	–	97.7	35.7	120.9
D	below Baa3	–	–	–	–	1.1	14.6	–
Not rated		–	69.0	201.7	–	23.3	0.0	8.0
Total		253.5	128.9	277.4	79.3	251.4	98.8	889.1

Securities and loans under closed items on the balance sheet are not exposed to price or currency risk from VERBUND's perspective. These investments were either carried out on the basis of matching currencies and maturities, or they were adjusted to maturity, interest rates and currencies of the corresponding financial liabilities through corresponding derivative transactions. The remaining risk is thus a credit risk or default risk of the partner at which the investments were carried out. This was in turn minimised in that investments were only carried out at partners with original first-class ratings (group A), whereby the credit rating and the solvency of the partner is constantly monitored in order to be able to react in a quick and timely manner according to the terms of the agreement in the event of impending default (see also: Accounting policies and Other liabilities and risks).

The other securities without assigned rating are, in particular, domestic investment funds (funds for institutional investors) acquired to cover the provision for social capital.

The amounts presented as "not rated" under other non-current receivables and loans include mainly loans to investees accounted for using the equity method in addition to various small amounts (see: Transactions with related parties). In light of the close interconnections with VERBUND, credit ratings in this area do not seem sensible.

With respect to trade receivables, the non-rated amounts, in particular, are related to the expansion of the consumer business, which led to a large number of receivables that individually lie below the minimum limit (< €0.1m). Also included in this amount are companies for which credit assessment may not have been conducted, but to which nevertheless credit limits were granted due to special circumstances (for instance, legal obligations to accept contracts or special strategic goals).

Interest rate risk

VERBUND regards fluctuations in interest rates as a significant cash flow risk. The rules in the area of risk management specify that a maximum of 40% of financial liabilities may bear variable interest, excluding money market transactions. As at 31 December 2010, the portion of financial liabilities (taking interest rate swaps into account) for which VERBUND is exposed to a corresponding interest rate risk was 16.2% (previous year: 15.5%).

A 1.0% increase in the interest rate would result in a decrease of €6.9m p.a. (previous year: €5.7m p.a.) in profit before taxes with respect to the existing loan portfolio as at the balance sheet date. As a rule, hedging instruments are used in an attempt to further reduce the effects of short-term market price fluctuations on results. However, prolonged negative market price changes can have a negative impact on results.

As at 31 December 2010, there are interest rate swaps related to closed items on the balance sheet. A separate micro valuation unit is established for the fair value of each derivative transaction together with its associated securities, loans and receivables corresponding exactly to the fair value recognised for the respective financial liability. The changes in the fair value of the interest rate swaps correspond to the fluctuations in value of the hedged financial liabilities measured at fair value induced by changes in interest rates.

As at 31 December 2010, there are additional interest rate swaps for a total nominal value of €425.2m (previous year: €428.0m). These swaps exchange variable interest for a fixed interest rate in order to secure the existing low interest level also for the long term. These interest rate swaps were designated as hedging instruments within the framework of cash flow hedges in accordance with IAS 39.

The financial liabilities are presented under note (30) Additional disclosures regarding financial instruments in accordance with IFRS 7 together with their fair values. The average remaining term for the entire portfolio is 5.6 years (previous year: 6.6 years).

Currency risk

There are no assets exposed to significant currency risks, because deliveries are settled almost entirely in euros; the same generally applies to the other primary financial instruments.

Since the securities and loans under closed items on the balance sheet as well as the associated liabilities are denominated exclusively in US dollars, no currency risk is thus incurred. With respect to the financial liability from an early terminated cross-border leasing transaction which is currently not closed on the balance sheet, corresponding hedging instruments were employed to eliminate currency risk.

With respect to the remaining financial liabilities, VERBUND's rules in the area of risk management for financing in foreign currencies specify maximum values for each respective currency portion (for instance, maximum 5.0% for yen); these limits were not exceeded in the 2010 reporting period. As at 31 December 2010, the currency risk of all financial liabilities (in yen) can be presented as follows:

Liability €m

Foreign currency	**31/12/2010**	31/12/2009
¥12,900.0m	118.7	99.1

The financial liabilities in yen listed above are exposed to unhedged foreign currency risk. An increase of 1.0% in the foreign exchange rate of yen to euro would have a negative effect on profit before taxes of about €1.2m (previous year: €1.0m).

Risk from cross-border leasing transactions

With the beginning of the financial market crisis during the 2008 reporting period, the risk profile of the cross-border leasing transactions changed for VERBUND – mainly as a result of the deterioration in 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 as well as a result of agreements between these investors and the American tax authorities regarding tax benefits to be approved, their willingness to early terminate individual transactions increased. VERBUND took advantage of these opportunities and was able to terminate a total of about 77% of the original volume of cross-border leasing transactions in the 2009 reporting period; approximately an additional 8% followed in the 2010 reporting period. The remaining transaction volume amounts to around $1,000.0m, corresponding to around 15% of the original transaction volume. The original net present value benefit associated with these transactions was about €76.0m. This last remaining transaction has an off-balance sheet financing structure. Any potential liabilities on the part of VERBUND that can arise from this transaction – which is highly unlikely from a current perspective – are still secured in part through counter-guarantees (see: Other risks and liabilities).

Some of the early terminated cross-border leasing transactions were terminated completely; that is, all associated liabilities (A-loans and B-loans) and investments were also repaid. However, some of the cross-border leasing transactions were only partially terminated, whereby the transactions with the investors and the associated A-loans were repaid, while VERBUND continued the existing B-loans. For these transactions, the existing B-payment undertaking agreements and the corresponding investments as well as the related existing derivative transactions (interest rate swaps, fair value hedges) were continued as transactions presented as partially terminated. The previous cover provided on the balance sheet thus remains. Expenses and income from the measurement of these exposures correspond to one another in terms of both value and value date and are netted. The reference value of the interest rate swaps amounts to $238.1m (previous year: $241.0m); the reference value of a related currency forward amounts to $29.3m (previous year: $28.6m).

With respect to the one remaining cross-border leasing transaction, the risk remains that a head lease filing will have to be effected if VERBUND's rating falls below a certain threshold. The risk also remains that either the instrument must be exchanged or additional collateral or a letter of credit must be provided if an investment partner's rating or the rating of an investment instrument falls below a certain threshold. The same applies to two early terminated transactions for which the financial liabilities were continued, if the rating of either VERBUND or the investment partner is lowered a certain amount. In this case, corresponding initial measures must be implemented.

The ratings of contractual parties as well as VERBUND's rating exceed the contractually agreed thresholds as at 31 December 2010. Thus, there is at present no need for VERBUND to exchange individual contractual parties or investment instruments; the associated risk can currently be rated as highly unlikely. This risk is also sharply reduced not least of all by guarantor's liabilities on the part of regional authorities for individual contractual parties.

Energy area

Within its core business, VERBUND is confronted on the international markets with corresponding opportunities and risks (in particular with market, counterparty and operational risks). For this reason, strict guidelines are the primary requirement in order to operate on these markets successfully. Security in dealing with market risks is ensured by rule books and the limits established in them. Counterparty risk is also managed using separate guidelines at both the Group level as well as at the level of the subsidiaries. In addition, a dedicated process handbook was prepared for dealing with operational risks.

The current utilisation of the various limits with respect to market risk (Value at Risk, stress limit, stop-loss limits and exposure limits) are monitored daily and reported on. The risk position of (derivative) financial instruments in the energy area is monitored and managed on a daily basis.

As at 31 December 2010, the derivative financial instruments in the energy area (electricity futures and electricity forwards, gas forwards, CO_2 futures and CO_2 forwards) can be broken down as follows:

Cash flow hedges (sales and procurement) as at 31/12/2010 €m

	Positive	Negative	Net
Futures	11.0	53.7	–42.7
Forwards	4.3	36.0	–31.7
Swaps	0.0	0.0	0.0
Total before netting	**15.3**	**89.7**	**–74.4**
Of which current	12.2	82.7	–70.5
Of which non-current	3.1	7.0	–3.9
Of which in other comprehensive income			–74.4

Wholesale as at 31/12/2010 €m

	Positive	Negative	Net
Futures	74.8	58.9	15.8
Forwards	200.9	164.0	36.9
Total before netting	**275.6**	**222.9**	**52.7**
Of which current	204.6	156.7	47.9
Of which non-current	71.0	66.2	4.8
Futures already realised			–56.0
Total			**–3.3**

Trading including CO_2 as at 31/12/2010 €m

	Positive	Negative	Net
Futures	0.8	0.6	0.1
Forwards	276.6	274.1	2.5
Total before netting	**277.4**	**274.7**	**2.6**
Of which current	267.9	265.5	2.4
Of which non-current	9.5	9.2	0.3

Total as at 31/12/2010 €m

	Positive	Negative	Net
Futures	86.5	113.2	–26.7
Forwards	481.7	474.1	7.6
Swaps	0.0	0.0	0.0
Total before netting	**568.3**	**587.3**	**–19.1**
Including netting agreements	–469.6	–469.6	0.0
Total after netting	**98.7**	**117.7**	**–19.1**
EEX/ECX clearing variation margins of futures		–26.6	
Recognised under other current receivables or liabilities	**98.7**	**91.1**	**7.5**

As at 31 December 2009, the derivative financial instruments in the energy area (electricity futures and electricity forwards, gas forwards, CO_2 futures and CO_2 forwards) can be broken down as follows:

Cash flow hedges (sales and procurement) as at 31/12/2009 €m

	Positive	Negative	Net
Futures	93.2	89.2	4.0
Forwards	60.5	21.8	38.7
Total before netting	**153.7**	**111.0**	**42.7**
Of which current	152.7	111.0	41.8
Of which non-current	0.9	0.0	0.9
Of which in other comprehensive income			42.7

Wholesale as at 31/12/2009 €m

	Positive	Negative	Net
Futures	105.7	166.0	–60.3
Forwards	420.6	265.4	155.2
Total before netting	**526.3**	**431.5**	**94.8**
Of which current	417.3	359.9	57.4
Of which non-current	109.0	71.5	37.5
Futures already realised			–86.1
Total			**8.7**

Trading including CO_2 as at 31/12/2009 €m

	Positive	Negative	Net
Futures	1.0	1.7	–0.6
Forwards	522.7	513.0	9.7
Total before netting	**523.7**	**514.7**	**9.0**
Of which current	495.5	487.4	8.0
Of which non-current	28.3	27.2	1.0

Total as at 31/12/2009 €m

	Positive	Negative	Net
Futures	199.9	256.9	–57.0
Forwards	1,003.8	800.2	203.6
Total before netting	**1,203.7**	**1,057.1**	**146.6**
Including netting agreements	–836.4	–836.4	0.0
Total after netting	**367.3**	**220.7**	**146.6**
EEX/ECX clearing variation margins of futures		–57.0	
Recognised under other current receivables or liabilities	**367.3**	**163.7**	**203.6**

Derivative financial instruments in the energy area with positive fair values are recognised under trade receivables and other receivables; those with negative fair values are recognised under trade payables and other liabilities. If a framework agreement with a netting clause has been concluded with a counterparty, the positive and negative fair values of the transactions are netted for accounting purposes.

The effects of potential price fluctuations on the electricity market (–10.0% to +10.0%) on the operating result (wholesale portfolio, trading portfolio) as well as on equity (cash flow hedges) are measured by means of sensitivity analysis. A +10.0% increase in the market price would currently have a negative impact on the operating result in the amount of €–4.4m and on equity (not including deferred taxes) in the amount of €–71.3m. A –10.0% decline in the market price would currently have a positive impact on the operating result in the amount of €+4.4m and on equity (not including deferred taxes) in the amount of €+71.3m.

The future sales and procurement transactions hedged by cash flow hedges will occur over the next four years (2011 to 2014) and be recognised in profit or loss accordingly. As at 31 December 2010, there were no ineffective portions of cash flow hedges to be recognised in profit or loss in accordance with IAS 39.

In the 2010 reporting period, €–64.1m (previous year: €239.0m) was recognised in other comprehensive income. In the same period, €–53.0m (previous year: €–353.8m) was reclassified to the income statement. Basis adjustments related to coal inventories had an effect of €0.0m (previous year: €–8.3m) on the profit for the period in the 2010 reporting period.

Other liabilities and risks

Contingent liabilities

As at 31 December 2010, around 85.0% of the original volume of cross-border leasing transactions had been terminated. The last remaining transaction has an off-balance sheet financing structure. As at 31 December 2010, VERBUND's subsidiary liability amounts to €524.8m (previous year: €827.2m) for the non-redeemed portion of the leasing liability from this cross-border leasing transaction. Of the rights of recourse against the primary debtors, €412.6m (previous year: €722.1m) are secured through counter-guarantees on the part of financial institutions, entities entitled to purchase electricity and regional authorities (from guarantors' liabilities). In addition, €159.1m (previous year: €140.3m) are covered by off-balance sheet investments in zero coupons of the European Investment Bank, which are also secured by a guarantee on the part of the Financial Security Assurance Inc. (FSA).

As at 31 December 2010, there were contingent liabilities from commitments in the amount of €26.3m (previous year: €24.4m) in the form of guarantees that VERBUND-Austrian Hydro Power AG (now VERBUND Hydro Power AG) issued for (non-consolidated) Verbundplan Birecik Baraji Isletme Ltd. Sti. (VBOC) in which it holds a 70.0% equity interest. VBOC, which is non-consolidated, is entrusted with the operation of the Birecik hydropower plant on the Euphrates River in Turkey within the framework of an operator model (build operate transfer, BOT) over 15 years. The guarantees relate to the commitments on the part of VBOC arising from its management activities for Birecik Baraj ve Hidroelektrik Santrali Tesis ve Isletme A.S. in Turkey.

Contracts and purchase commitments

€m

	Total commitment as at 31/12/2010	Commitment within one year	Commitment within five years
Rent, lease and insurance agreements	n/a[1]	10.6	45.7
Purchase commitment for property, plant and equipment, intangible assets and other services	509.7	340.9	509.7

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

Operating grant

VERBUND Thermal Power GmbH & Co KG received a grant in the past for the Voitsberg III power plant from Energie-Control GmbH. In the revision of Section 69 (6) of the Austrian Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG), the legislator specified that – as the recipient – the Republic of Austria or Energie-Control GmbH is entitled to reclaim the grant including interest if a claim to reimbursement of operating grants previously conferred should arise. A provision has been recognised for this risk from ongoing legal proceedings.

Procurement contracts

There is an agreement with Ennskraftwerke AG to provide electricity according to which the energy generated in their power plants, less electricity procurement rights on the part of other participating partners, must be purchased by VERBUND in exchange for reimbursement of the recognised expenses plus a reasonable return on equity.

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

In accordance with an electricity supply agreement, E.ON Wasserkraft GmbH (EWK) is obliged to deliver half of the energy generated in the Ering and Eglfing power plants to VERBUND at total production costs plus an agreed profit markup. In exchange, VERBUND is obliged to purchase the electricity delivered by EWK.

There is an off-take agreement with POWEO Pont-sur-Sambre Production S.A.S. in effect until at least 2025 according to which 40% of the electricity produced in the combined cycle gas turbine power plant in Pont-sur-Sambre must be purchased by VERBUND International GmbH in exchange for reimbursement of the recognised expenses (plus a reasonable return on equity, but not to exceed the market price).

Within the framework of a basic contract concluded on 6 August 2007 which can be terminated yearly, Weglokoks S.A. offers VERBUND Thermal Power GmbH & Co KG 450,000 t of hard coal annually at negotiable prices. So far, the prices for a volume of 150,000 t have been agreed for delivery in 2011. In addition, a contract with OKD S.A. over the procurement of 750,000 t of Czech hard coal in the 2011 reporting period was concluded.

There is a contract with EconGas GmbH to supply natural gas which can be terminated 15 years after deliveries commence (no later than 1 October 2012) over about 750 million Nm^3 natural gas per year for the combined cycle gas turbine power plant under construction in Mellach.

For the supply of the combined cycle gas turbine power plant in Mellach, there is a necessary agreement to expand capacities with Gasnetz Steiermark GmbH over the provision of transport capacities in an amount not to exceed 150,400 Nm^3 per hour.

In addition, there are other procurement contracts for business activities that include in particular the delivery of primary energy sources and electricity.

Other commitments

The outstanding contribution commitments to investees include equity contributions, provided that the corresponding shareholder resolutions have already been passed. As at 31 December 2010, there were no outstanding contribution commitments to investees (previous year: €0.0m).

In the future, contribution commitments can arise from a framework agreement between VERBUND and Sabanci Holding A.S. to create a generation portfolio with an installed capacity of around 5,000 MW in Turkey by 2015. The corresponding projects of Enerjisa Enerji Üretim A.S. are to be financed with equity ratios between 30% and 40%. VERBUND's interest in these projects is 50%.

Continuous compensation payments are made to property owners for economic detriment – this is typical for the energy industry – resulting from the construction of power plants and lines. The present value of these commitments is insignificant in its entirety for VERBUND.

Sorgenia S.p.A. (Group) is running a share-based remuneration programme in which stock options are issued to members of management. For the shares of Sorgenia S.p.A. (Group) acquired as part of this share-based remuneration programme, members of management have put options which enable them to sell the shares proportionately to the shareholders of Sorgenia S.p.A. (Group). Currently, VERBUND holds a 44.8% interest in Sorgenia S.p.A. (Group).

Average number of employees

	2010	2009	Change
Salaried employees	2,782	2,590	192
Wage earners	86	112	–26
Apprentices	147	118	29
Number of employees (average)[1]	**3,015**	2,820	195

[1] Part-time employees were taken into account proportionately based on their working hours.

As at the balance sheet date, 423 (previous year: 476) employees had a letter of loyalty granting them a higher degree of protection against layoff. The prerequisite was at least 20 years of service at VERBUND and the completion of 45 years of age.

Provision of personnel

In the 2010 reporting period, an average of 67 (previous year: 71) employees were assigned to Pöyry Energy GmbH to complete various engineering and consulting tasks. VERBUND holds an equity interest of 25.1% in Pöyry Energy GmbH (see: Group companies). These assignments are compensated at standardised rates, based on the qualifications of the respective employees and the hourly rates prevailing on the market.

In the 2010 reporting period, there was, in addition, an average of 1 assignment (previous year: 1) to non-consolidated subsidiaries of VERBUND.

Expenses for services rendered by the Group auditor

€k

	2010	2009
Audit of the consolidated and separate financial statements as well as other assurance services[1]	2,755.2	1,143.8
Other advisory services	185.7	104.0
Total expenses	**2,940.9**	1,247.8

[1] The portion of expenses for other assurance services related to the transaction costs of the capital increase was not recognised in profit or loss, but instead reduces equity (net of attributable taxes on income) in accordance with IAS 32.

Transactions with related parties

Parties related to VERBUND include all subsidiaries, associates and joint ventures. In addition, related parties include the members of VERBUND's Managing Board and Supervisory Board, companies controlled by them and 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 influence are also considered related parties. These include, in particular, Österreichische Bundesbahnen (ÖBB), Bundesbeschaffung GmbH (BBG) and Energie-Control GmbH.

Transactions with non-consolidated subsidiaries, joint ventures or associates are not presented for lack of materiality.

Transactions with joint ventures and associates

The group of companies jointly controlled by VERBUND expanded compared to the previous year to include Energji Ashta Shpk (see: Financial reporting principles).

Material transactions with joint ventures accounted for using the equity method had the following impact on VERBUND's income statement and balance sheet:

Transactions with joint ventures €m

	2010	2009
Income statement		
Electricity revenue	38.9	40.2
Grid revenue	5.8	7.4
Other revenue	8.2	2.6
Other operating income	0.4	0.1
Expenses for electricity, grid and gas purchases as well as purchases of emission rights (trade)	48.4	53.4
Other operating expenses	0.6	1.6
Interest income	0.7	1.0
Balance sheet		
Investments and other non-current receivables	24.0	35.0
Trade receivables and other current receivables	75.0	4.5
Trade payables and other current liabilities	12.1	10.1

VERBUND purchased electricity based on electricity procurement agreements (see: Other liabilities and risks) in the amount of €19.9m (previous year: €24.4m) from Ennskraftwerke AG, in the amount of €16.2m (previous year: €17.9m) from Österreichisch-Bayerische Kraftwerke AG and in the amount of €9.4m (previous year: €8.8m) from Donaukraftwerk Jochenstein AG.

Investments as at 31 December 2010 included a non-current loan to Energji Ashta Shpk in the amount of €24.0m (previous year: €0.0m) as well as another current receivable in the amount of €33.0m (previous year: €0.0m); both serve the financing of construction services related to an Albanian hydropower plant concession. VERBUND issued guarantees and letters of comfort in order to provide security for the companies engaged with the construction.

VERBUND issued letters of comfort, in order to provide security for an international banking syndicate that finances the Turkish joint ventures Enerjisa Enerji Üretim A.S. and Enerjisa Elektrik Dagitim A.S.

In addition, a receivable from Ennskraftwerke AG in the amount of €35.0m (previous year: €35.0m) was reclassified in the 2010 reporting period from investments to other current receivables.

Material transactions with associates accounted for using the equity method had the following impact on VERBUND's income statement and balance sheet:

Transactions with associates €m

	2010	2009
Income statement		
Electricity revenue	426.0	471.8
Grid revenue	45.4	48.4
Other revenue	33.0	5.6
Other operating income	3.1	6.1
Expenses for electricity, grid and gas purchases as well as purchases of emission rights (trade)	192.6	136.1
Other operating expenses	6.8	5.1
Interest income	7.7	7.9
Balance sheet		
Investments and other non-current receivables	178.5	187.8
Trade receivables and other current receivables	80.8	39.2
Non-current financial liabilities	9.0	0.0
Current financial liabilities	0.7	0.0
Trade payables and other current liabilities	9.4	9.2

Electricity revenue resulted mainly from the delivery of electricity to KELAG-Kärntner Elektrizitäts-AG in the amount of €74.2m (previous year: €44.2m), to POWEO S.A. in the amount of €54.0m (previous year: €109.4m) and to STEWEAG-STEG GmbH in the amount of €284.8m (previous year: €306.0m). This revenue has to be seen alongside the electricity purchased from KELAG-Kärntner Elektrizitäts-AG in the amount of €66.0m (previous year: €14.7m), from POWEO S.A. in the amount of €26.9m (previous year: €71.7m) and from STEWEAG-STEG GmbH in the amount of €17.5m (previous year: €8.7m).

In addition, VERBUND purchased electricity from POWEO Pont-sur-Sambre Production S.A.S. in the amount of €70.9m (previous year: €20.4m) on the basis of an off-take agreement (see: Other liabilities and risks) in the 2010 reporting period.

As at 31 December 2010, investments and other non-current receivables from associates included the non-current portion of a loan from VERBUND to POWEO Pont-sur-Sambre Production S.A.S. in the amount of €163.9m (previous year: €183.0m); the current portion of this loan in the amount of €13.1m (previous year: €2.8m) was included in other current receivables. The loan served the (pro rata) financing of the construction of the combined cycle gas turbine power plant in Pont-sur-Sambre. The loan is secured by collateral in the form of a mortgage on the thermal power plant.

For the (pro rata) financing of the construction of the combined cycle gas turbine power plant in Toul, VERBUND provided a financial guarantee as the issuer in the amount of €185.0m. The financial guarantee was recognised at the fair value of the guarantee payments to be made by POWEO Toul Production S.A.S. As at 31 December 2010, the non-current portion of this financial guarantee in the amount of €9.0m (previous year: €0.0m) was included in other non-current receivables; the current portion of this financial guarantee in the amount of €0.7m (previous year: €0.0m) was included in other current receivables.

As at 31 December 2010, trade receivables and other current receivables from associates included a receivable from POWEO S.A. in the amount of €25.0m from a loan commitment (in the total amount of €35.0m) to cover financing requirements in working capital. In addition, as at 31 December 2010, there were current receivables from POWEO S.A. (Group) from electricity deliveries and interest income related to the loan to POWEO Pont-sur-Sambre Production S.A.S.

As at 31 December 2010, trade payables to associates included liabilities to POWEO Pont-sur-Sambre Production S.A.S. in the total amount of €5.1m (previous year: €6.5m). These result from a long-term off-take agreement at the power plant in Pont-sur-Sambre (see: Other liabilities and risks).

In the 2010 reporting period, VERBUND received an investment grant in the amount of €16.0m (previous year: €0.0m) from OeMAG Abwicklungsstelle für Ökostrom AG for cogeneration at the combined cycle gas turbine power plant in Mellach. This resulted in another current receivable in the amount of €11.2m (previous year: €0.0m) as at 31 December 2010.

VERBUND is liable for a proportionate counter-guarantee related to a bank guarantee issued by POWEO Pont-sur-Sambre Production S.A.S. for the benefit of ENI S.p.A. in connection with a long-term natural gas supply agreement.

For the financing of the construction of the combined cycle gas turbine power plant in Toul through a German-Austrian banking syndicate, VERBUND issued a financial guarantee in the 2010 reporting period. This was recognised under receivables from investees at the present value of the guarantee payments to be made by POWEO Toul Production S.A.S.; this receivable has to be seen alongside a guarantee liability in the same amount recognised under other financial liabilities (see: Accounting policies).

In connection with the financial guarantee, there is a collateral in the form of a mortgage on the thermal power plant.

Transactions with the Republic of Austria and companies under its controlling influence

Electricity deliveries to the Republic of Austria amounted to €0.03m (previous year: €0.4m). Electricity deliveries to companies under the controlling influence of the Republic of Austria amounted to a total of €65.5m (previous year: €87.1m). These electricity deliveries have to be seen alongside electricity purchases from companies under the controlling influence of the Republic of Austria in the amount of €31.6m (previous year: €32.2m).

VERBUND's expense for monitoring by Energie-Control GmbH amounted to a total of €9.9m (previous year: €9.3m) in the 2010 reporting period.

Disclosures regarding the bodies of the Company

Detailed disclosures regarding the bodies of VERBUND AG are presented in the Corporate Governance Report. The following comments concentrate on the remuneration of members of the Managing Board and the Supervisory Board.

Remuneration of the Managing Board: current remuneration payable €

	Fixed remuneration	Variable remuneration
DI Wolfgang Anzengruber	609,951	277,566
Dr. Johann Sereinig	581,051	320,226
Dr. Ulrike Baumgartner-Gabitzer	399,587	181,233
Mag. Christian Kern (until 7/6/2010)	268,708	221,233

Total remuneration of members of the Managing Board in 2010 amounted to €2,859,553 (previous year: €2,730,427). 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. Therefore, the variable remuneration paid to members of the Managing Board in the 2010 reporting period relates to the 2009 reporting period. Remuneration for Mag. Christian Kern also includes (pro rata) variable remuneration for the 2010 reporting period in the amount of €40,000 which was paid out as agreed following his leaving on 7 June 2010. In addition, Mag. Christian Kern's remuneration also includes a payment in lieu of holiday in the amount of €94,954.

Variable remuneration depends on performance and is limited to a certain percentage of the respective fixed remuneration. This percentage rate was between a maximum of 50% and 60% for the 2009 reporting period. The amount of the performance-dependent remuneration components is oriented on the degree of achievement of the goals agreed for the reporting period. The agreement on goals for the 2009 reporting period was based in half on reaching the planned Group result and in half on qualitative (in part, intermediate) goals – for example, in the area of research and development as well as in the structural-organisational area. The principles of profit participation on the part of the Managing Board were the same as in the previous year.

A retirement benefits plan has been set up for members of the Managing Board in the form of a defined contribution pension fund agreement. In 2010, contributions to the pension fund were paid for the Managing Board in the amount of €115,714 (previous year: €135,850).

Statutory regulations apply with respect to the claims of members of the Managing Board upon termination of their position. In the 2010 reporting period, €707,387 (previous year: €722,204) were paid out for pensions and severances in support of beneficiaries. Expenses for severance payments and retirement benefits (post-employment benefits) amounted to €42,891 (previous year: €212,106) for the Managing Board and €97,792 (previous year: €97,549) for former members of the Managing Board and their surviving dependants.

Remuneration paid to members of the Supervisory Board amounted to a total of €212,779 (previous year €203,560). No loans or advances were paid out to members of the Group bodies.

Group companies

The following list comprises VERBUND's subsidiaries, joint ventures and associates. Furthermore, this list also contains non-consolidated subsidiaries and other investments ≥ 20%. The list contains the financial statements data from the most recent available annual financial statements or consolidated financial statements. For annual financial statements in foreign currencies, translation of the data was carried out at the exchange rate on the balance sheet date.

Group companies

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Company	Head-quarters	Consoli-dation method	Parent company	Parent company's share of equity in %	Balance sheet date	Equity	Profit or loss for the period	Com-ments
VERBUND AG (VH)	Vienna	FC			31/12/2010	2,713,957	362,444	1
VERBUND Beteiligungsholding GmbH (VBH)	Vienna	FC	VH	100.00%	31/12/2010	1,048,696	–44,305	1
VERBUND International GmbH (VIN)	Vienna	FC	VBH	100.00%	31/12/2010	1,004,208	–44,823	1
VERBUND Italia S.p.A.	Milan	FC	VIN	100.00%	31/12/2010	647,351	3,888	1
Austrian Power Grid AG (APG)	Vienna	FC	VH	100.00%	31/12/2010	329,062	28,797	1
VERBUND Renewable Power GmbH (VRP)	Vienna	FC	VBH	100.00%	31/12/2010	45,172	733	1
VERBUND Wind Power Austria GmbH (VRP-AT)	Vienna	FC	VRP VBH	99.75% 0.25%	31/12/2010	30,661	861	1
Haos Invest EAD	Sofia	FC	VRP	100.00%	31/12/2010	11,316	–257	1
VERBUND Management Service GmbH (VMS)	Vienna	FC	VH	100.00%	31/12/2010	10,669	9,469	1
VERBUND Sales GmbH (VSA)	Vienna	FC	VH	100.00%	31/12/2010	9,783	3,320	1
VERBUND Photovoltaics Ibérica, S.L. (Group)	Madrid	FC	VRP	100.00%	31/12/2010	4,894	554	1
CAS Regenerabile S.R.L.	Bucharest	FC	VRP VRP-AT	99.90% 0.10%	31/12/2010	4,889	–968	1
VERBUND Telekom Service GmbH	Vienna	FC	VH	100.00%	31/12/2010	4,299	6,483	1
VERBUND Trading AG	Vienna	FC	VH	100.00%	31/12/2010	1,734	1,157	1
VERBUND Umwelttechnik GmbH	Klagenfurt	FC	VRP	100.00%	31/12/2010	672	369	1
VERBUND Finanzierungs Service GmbH	Vienna	FC	VMS	100.00%	31/12/2010	232	902	1
VERBUND Kraftwerke Beteiligungsholding GmbH	Vienna	FC	VBH	100.00%	31/12/2010	35	6	1
VERBUND International Finance B.V.	Amsterdam	FC	VH	100.00%	31/12/2010	–5,293	1,777	1

Group companies

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Company	Head-quarters	Consoli-dation method	Parent company	Parent company's share of equity in %	Balance sheet date	Equity	Profit or loss for the period	Com-ments
VERBUND Innkraftwerke Deutschland GmbH	Töging	FC	FCB	96.54%	31/12/2010	836,856	12,647	1
VERBUND Kraftwerke Beteiligungsholding GmbH & Co KG (FCB)	Vienna	FC	VBH	94.90%	31/12/2010	3,944	1,156	1
VERBUND Tourismus GmbH	Kaprun	FC	VHP VMS	81.88% 18.12%	31/12/2010	4,126	721	1
VERBUND Hydro Power AG (VHP)	Vienna	FC	VH	80.33%	31/12/2010	1,626,228	420,362	1
VERBUND Thermal Power GmbH	Graz	FC	VH	59.49%	31/12/2010	1,455	1,049	1
VERBUND Thermal Power GmbH & Co KG	Graz	FC	VH	55.65%	31/12/2010	292,358	16,822	1
Alpha Wind S.R.L.	Bucharest	FC	VRP	50.07%	31/12/2010	3,398	– 136	1
Enerjisa Enerji Üretim A.S.	Istanbul	EM	VIN	50.00%	31/12/2009	785,504	33,049	2, 4
Enerjisa Elektrik Dagitim A.S. (Group)	Istanbul	EM	VIN	50.00%	31/12/2009	539,456	2,422	2, 4
Österreichisch-Bayerische Kraftwerke Aktiengesellschaft	Simbach	EM	VH	50.00%	31/12/2009	51,361	3,272	4, 5
Ennskraftwerke Aktiengesellschaft	Steyr	EM	VH	50.00%	31/12/2009	13,906	882	4, 5
DonaUCraftwerk Jochenstein Aktiengesellschaft	Passau	EM	VH	50.00%	31/12/2009	13,576	818	4, 5
Energji Ashta Shpk	Tirana	EM	VHP	50.00%	31/12/2008	10,110	136	1, 4
Enerjisa Elektrik Enerjisi Toptan Satis A.S.	Istanbul	EM	VIN	50.00%	31/12/2009	1,665	419	1, 4
Enerjisa Dogalgaz Toptan Satis A.S.	Istanbul	EM	VIN	50.00%	31/12/2009	343	– 3	1, 4
Grenzkraftwerke Gesellschaft mit beschränkter Haftung	Simbach	EM	VHP	50.00%	31/12/2009	127	77	4, 5
Energie Klagenfurt GmbH	Klagenfurt	EM	VH	49.00%	31/12/2009	66,583	2,618	4, 5
POWEO S.A. (Group)	Paris	EM	VIN	46.01%	31/12/2009	279,041	– 93,906	2, 6
Gletscherbahnen Kaprun Aktiengesellschaft	Kaprun	EM	VMS	45.00%	30/09/2009	40,080	107	5
Sorgenia S.p.A. (Group)	Milan	EM	VIN	44.85%	31/12/2009	1,033,818	80,149	2
Kärntner Restmüllverwertungs GmbH	Arnoldstein	EM	VRP	42.87%	31/12/2009	13,338	1,995	5
POWEO Production S.A.S-	Paris	EM	VIN	40.00%	31/12/2009	225,596	– 308	2.6
KELAG-Kärntner Elektrizitäts-Aktiengesellschaft	Klagenfurt	EM	VH	35.17%	31/12/2009	491,143	74,386	2
STEWEAG-STEG GmbH	Graz	EM	VH	34.57%	31/12/2009	348,734	46,566	5

Group companies

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Company	Head-quarters	Consoli-dation method	Parent company	Parent company's share of equity in %	Balance sheet date	Equity	Profit or loss for the period	Com-ments
Kraftwerk Nußdorf Errichtungs- und Betriebs GmbH	Vienna	EM	VHP	33.33%	31/12/2009	39	3	1, 4
Kraftwerk Nußdorf Errichtungs- und Betriebs GmbH & Co KG	Vienna	EM	VHP	33.33%	31/12/2009	6,172	786	1, 4
OeMAG Abwicklungsstelle für Ökostrom AG	Vienna	EM	APG	24.40%	31/12/2009	5,745	699	5
APT Power Trading SL d.o.o.	Ljubljana	NC	VTR	100.00%	31/12/2009	1,064	61	5
VERBUND Trading Hungária Kft	Budapest	NC	VTR	100.00%	31/12/2009	788	142	5
VERBUND Trading Slovakia s.r.o.	Bratislava	NC	VTR	100.00%	31/12/2009	593	54	5
VERBUND Trading Czech Republic s.r.o.	Prague	NC	VTR	100.00%	31/12/2009	571	108	5
VERBUND Trading & Sales Deutschland GmbH	Munich	NC	VTR	100.00%	31/12/2009	203	95	5
VERBUND-Power Trading Macedonia dooel	Skopje	NC	VTR	100.00%	31/12/2009	98	35	5
VERBUND Trading Serbia d.o.o.	Belgrade	NC	VTR	100.00%	31/12/2009	80	38	5
Lestin & Co. Tauch- und Bergungsunternehmen Gesellschaft m.b.H.	Passau	NC	LESTIN	100.00%	31/12/2009	78	0	5
VERBUND-Austrian Power Trading d.o.o.	Zagreb	NC	VTR	100.00%	31/12/2009	65	26	5
VERBUND Romania S.R.L.	Bucharest	NC	VIN VH	99.00% 1.00%	31/12/2009	8	10	5
VERBUND EcoSales GmbH	Vienna	NC	VSA	100.00%	–	–	–	3
Ashta Beteiligungsverwaltung GmbH	Vienna	NC	VBH	100.00%	–	–	–	3
Lestin & Co. Tauch-, Bergungs- und Sprengunternehmen Gesellschaft m.b.H. (LESTIN)	Vienna	NC	VMS	82.35%	31/12/2009	482	–80	5
VERBUND Mobile Power Region GmbH	Vienna	NC	VH	75.10%	–	–	–	3
RIECADO Regional Energy Capacity Auction Data Operator GmbH	Vienna	NC	APG	74.80%	31/12/2009	129	73	5
Verbundplan Birecik Baraji Isletme Ltd.Sti.	Birecik	NC	VHP	70.00%	31/12/2009	5,915	5,410	5
Energie Austria GmbH	Vienna	NC	VH	68.75%	31/12/2009	49	–4	5
VERBUND-Austrian Power Trading ENERGA Hellas Electricity Supply and Trade S.A.	Athens	NC	VTR	55.00%	31/12/2009	3,040	2,781	5

Group companies €k

Company	Head-quarters	Consoli-dation method	Parent company	Parent company's share of equity in %	Balance sheet date	Equity	Profit or loss for the period	Com-ments
Shkodra Region Beteiligungsholding GmbH	Vienna	NC	VHP	50.01%	–	–	–	3
C.E.M.P. d.o.o.	Zagreb	NC	VRP	50.00%	31/12/2009	275	–96	4, 5
Gemeinschaftskraftwerk Inn GmbH	Landeck	NC	VH	50.00%	31/12/2009	214	5	4, 5
Almenland Energie GmbH	Fladnitz	NC	VRP	50.00%	31/12/2009	10	–3	4, 5
Pöyry Energy GmbH	Vienna	NC	VMS	25.10%	31/12/2009	15,657	3,372	5

FC = Fully consolidated subsidiary / EM = Investee accounted for using the equity method / NC = Non-consolidated company

[1] Separate financial statements in accordance with IFRSs
[2] Consolidated financial statements in accordance with IFRSs
[3] Established in 2010
[4] Joint venture
[5] Financial statements in accordance with local GAAP
[6] POWEO Production S.A.S., of which VERBUND International GmbH directly holds a 40% stake, is a consolidated subsidiary of POWEO S.A. (Group) which holds a 60% stake.

Events after the balance sheet date

Additional financing requirements arose during the course of the programme to restructure POWEO S.A. (Group). On 21 December 2010, VERBUND submitted an offer to POWEO S.A. for the purchase of (an additional) 60% of shares of POWEO Production S.A.S. in order to cover these needs. This offer was accepted by the management of POWEO S.A. on 3 January 2011; the agreement is expected to be finalised and closed during Q1/2011.

Vienna, 1 February 2010

Managing Board

DI Wolfgang Anzengruber
(Chairman)

Dr. Johann Sereinig
(Vice-Chairman)

Dr. Ulrike Baumgartner-Gabitzer
(Member)

Responsibility statement of the legal representatives

We confirm that, to the best of our knowledge, the consolidated financial statements of VERBUND, prepared in accordance with International Financial Reporting Standards (IFRSs) as they apply in the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of VERBUND.

We also confirm that, to the best of our knowledge, the 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, 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, 1 February 2011

Managing Board

DI Wolfgang Anzengruber
(Chairman)

Dr. Johann Sereinig
(Vice-Chairman)

Dr. Ulrike Baumgartner-Gabitzer
(Member)

Audit report

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of VERBUND AG, Vienna, for the fiscal year from 1 January 2010 to 31 December 2010. These consolidated financial statements comprise the consolidated balance sheet as at 31 December 2010, the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated cash flow statement and the consolidated statement of changes in equity for the reporting period ended 31 December 2010 as well as the notes to the consolidated financial statements.

Management's responsibility for the consolidated financial statements and for the accounting system

The Company's management is responsible for the Group accounting system and for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility and description of type and scope of the statutory audit

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and with the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). Those standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the consolidated financial statements comply with legal requirements and give a true and fair view of the financial position of the Group as at 31 December 2010 and of its financial performance and its cash flows for the fiscal year from 1 January 2010 to 31 December 2010 in accordance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union.

Comments on 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 as to whether the other disclosures are not misleading with respect to the Company's position. The auditors' report also has to contain a statement as to whether the management report of the Group is consistent with the consolidated financial statements and whether the disclosures pursuant to Section 243a of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB) are appropriate.

In our opinion, the Group management report is consistent with the consolidated financial statements. The disclosures pursuant to Section 243a of the Austrian Commercial Code are appropriate.

Vienna, 1 February 2011

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Gerhard Marterbauer Certified Public Accountant	Mag. Maximilian Schreyvogl Certified Public Accountant

The consolidated financial statements may only be published or duplicated together with our auditors' report in the version audited by us. This auditors' 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.

The report is a translation of the original report in German, which is solely valid.

Any publication or reproduction of the annual financial statements in a form other than that of the audited version which refers to our audit opinion of our audit requires a new audit opinion on our part prior to any such publication or reproduction.

Corporate Governance Report

Corporate Governance Report 2010

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

Corporate Governance: Framework

VERBUND AG (the Company's name was changed from Österreichische Elektrizitätswirtschafts-AG in 2010) is a listed stock corporation domiciled in Austria. Its Corporate Governance framework is derived from Austrian law, including, in particular, stock corporation and capital market law, regulations governing employee co-determination, the Company's Articles of Incorporation, the rules of procedure for the Company's Boards and, finally, the Austrian Code of Corporate Governance (Österreichischer Corporate Governance Kodex – ÖCGK).

Declaration of Commitment to the Austrian Code of Corporate Governance

General

VERBUND declares its unconditional commitment to the Austrian Code of Corporate Governance as amended in January 2010. It actively implements the Code to ensure responsible management and control of the Group directed at the sustainable and long-term creation of value and to create a high level of transparency for every stakeholder.

During the 2010 fiscal year, the Managing Board and Supervisory Board continued to see it as a primary task to comply with all the rules of the Code as fully as possible and to sustain and continue to develop the enterprise's high internal standards. This was also verified from outside the enterprise when it was awarded a 2010 Wiener Börse Preis (Vienna Stock Exchange Prize). VERBUND came first in the Corporate Governance category.

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

Detailed information about the composition and operation of the Managing Board and Supervisory Board as well as the Supervisory Board's committees is provided in the sections on "The Managing Board" and "The Supervisory Board".

Important events during 2010

The most important events occurring in the corporate governance field during the 2010 fiscal year were the retirement of the former Managing Board member Mag. Christian Kern and the re-election of the Supervisory Board and its committees. There was a reduction in the number of committee members.

Following the retirement of the aforementioned Managing Board member, the Supervisory Board reallocated responsibilities within the Managing Board.

With the entry of Christa Wagner into the Supervisory Board, the proportion of women in the topmost supervisory body (taking into account the Supervisory Board members appointed by the Works Council) was doubled in 2010. In addition, the Supervisory Board's rules of procedure were adapted to allow for the change in the number of members of the Working Committee.

The Articles of Incorporation of VERBUND AG were amended to comply with the changes contained in the Austrian Stock Corporation Amendment Act 2009 (Aktienrechts-Änderungsgesetz; Federal Law Gazette I [BGBl] 71/2009). At the same time, the Company's name was changed from Österreichische Elektrizitätswirtschafts-AG to VERBUND AG.

Deviations

VERBUND complies with almost all the rules in the Austrian Code of Corporate Governance, including the R Rules. The revision of the Austrian Code of Corporate Governance valid in the 2010 fiscal year essentially comprised amendments to comply with legislative changes and the implementation of recommendations regarding compensation. Insofar as they were applicable to VERBUND, the new rules were immediately implemented.

The same deviations applied during the 2010 fiscal year as in the year before. There was a partial and minor deviation in the handling of two C Rules out of the total of 83 rules in the Code. In accordance with the "comply or explain" principle, they are explained below:

C Rule 2

The principle of "one share – one vote" is generally adhered to with respect to the VERBUND share. However, there is one sole exception based on a restriction on voting rights embodied in the "federal constitutional act regulating the ownership structure of enterprises in the Austrian electricity industry" and in the provision of the Articles of Incorporation that is based upon it. This reads, "With the exception of regional authorities and enterprises in which regional authorities hold stakes of at least 51%, the voting power of each shareholder in the General Meeting shall be limited to 5% of the share capital."

C Rule 45

The rule according to which Supervisory Board members may not assume any functions in the bodies of other companies that are competitors of the enterprise was adhered to by all the members of the Supervisory Board with one exception.

The Managing Board

Composition of the Managing Board

During the 2010 fiscal year, the Managing Board had four members or, following the retirement of one member at the middle of the year, three members.

Dipl.-Ing. Wolfgang Anzengruber	CEO and Chairman *to 31 Dec. 2013* *born: 1956; initial appointment: 1 Jan. 2009*
Dr. Johann Sereinig	Deputy CEO and Vice-Chairman *to 31 Dec. 2013* *born: 1952; initial appointment: 1 Jan. 1994*
Dr. Ulrike Baumgartner-Gabitzer	Managing Board Member *to 31 Dec. 2011* *born: 1957; initial appointment: 1 Jan. 2007*
Mag. Christian Kern	Managing Board Member *retired as of 7 Jun. 2010* *born: 1966; initial appointment: 11 May 2007*

Supervisory Board mandates of Managing Board members outside the Group

	Company	Function
Dipl.-Ing. Wolfgang Anzengruber	Palfinger AG	Member
Dr. Johann Sereinig	WIENER STÄDTISCHE Versicherung AG	Member
	FK Austria Wien AG	Member

Operation and allocation of responsibilities

The rules of procedure regulate the allocation of responsibilities and how the members of the Managing Board must work together. In addition, they lay down the Managing Board's duties to inform and its reporting duties, and contain a catalogue of measures that require approval by the Supervisory Board or its Working Committee. These also include material business transactions at the most important subsidiaries.

Because of the change in the composition of the Managing Board, responsibilities within the Managing Board have been re-allocated.

The Supervisory Board has laid down the areas of responsibility of the members of the Managing Board as follows without prejudice to the overall responsibility of the Managing Board:

Dipl.-Ing. Wolfgang Anzengruber	Dr. Johann Sereinig	Dr. Ulrike Baumgartner-Gabitzer
Corporate affairs Communication Strategy, M&A and corporate development Group controlling and risk managing Financial managing and investor relations	Business management & marketing Strategic human resources management	Legal affairs
Auditing Nomination committee	Auditing Nomination committee	
Renewable generation	Thermal generation	Hydroelectric generation
Foreign investments	Trade Sales Services	Transmission
Centres of excellence for wind and innovation	Centre of excellence for thermal power plants	Hydro centre of excellence

Compensation of the members of the Managing Board

Compensation of the members of the Managing Board totalled €2,859,553 in 2010 (previous year: €2,730,427).

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	Fixed remuneration component	Variable remuneration component
Dipl.-Ing. Wolfgang Anzengruber	609,951	277,566
Dr. Johann Sereinig	581,051	320,226
Dr. Ulrike Baumgartner-Gabitzer	399,587	181,233
Mag. Christian Kern (to 7/6/2010)	268,708	221,233

Because it is only possible to ascertain whether targets have been reached at the end of the year, variable remuneration components are always paid out in the following year. Consequently, the variable remuneration components paid to the members of the Managing Board in 2010 were paid in respect of the 2009 fiscal year.

Because of the termination of his activity, the variable remuneration components paid to Mag. Christian Kern also included (prorated) variable remuneration components in respect of the 2010 fiscal year in the amount of €40,000 as well as compensation in lieu of holiday in the amount of €94,954 disbursed as agreed after his retirement.

The variable remuneration components are performance-linked and are limited to a specific percentage of the respective fixed remuneration components. In respect of the 2009 fiscal year, this percentage was 50% to 60% maximum. The amount of the performance-linked remuneration components is based on the extent to which the targets agreed for the fiscal year are reached. 50% of the target agreement for 2009 related to attainment of the planned Group profit and 50% related to the attainment of qualitative (and, in part, medium-term) targets (e.g., in the fields of research and development and in the structural and organisational field).

The principles underlying the Managing Board's share of profit were unchanged compared with the previous year.

Neither the members of the Managing Board nor senior management staff have stock options.

The company retirement plan for the members of the Managing Board is based on a defined contribution pension fund. Pension fund contributions in the amount of €115,714 were paid for the Managing Board in the 2010 fiscal year (previous year: €135,850).

Claims of the members of the Managing Board in the event of termination of their function are governed by the legislative provisions.

In 2010, pension and termination benefits totalling €707,387 (previous year: €722,204) were paid to beneficiaries.

Expenditure on termination and old-age benefits (benefits after termination of the contractual relationship) in respect of the members of the Managing Board in the 2010 fiscal year came to €42,891 (previous year: €212,106); expenditure in respect of former members of the Managing Board and their surviving dependents came to €97,792 (previous year: €97,549).

No loans or advances were granted to members of the Group's Boards.

D&O insurance

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

The Supervisory Board

The Supervisory Board too has expressly declared its commitment to the Austrian Code of Corporate Governance and, at the beginning of last year, also re-affirmed its commitment to the Code as amended as of January 2010. Consequently, the Code has become the basis for the Supervisory Board's actions alongside the Austrian Stock Corporation Act (Aktiengesetz), the Company's Articles of Incorporation and the rules of procedure for the Managing Board and Supervisory Board.

Personal details, chairpersons and functions on the Board

The Supervisory Board has a total of 15 members. Ten are shareholder representatives elected by the General Meeting, and five are employee representatives appointed by the Works Council. The entirety of the Supervisory Board underwent re-election during the Annual General Meeting held on 7 April 2010, and there were also changes in the membership of the Supervisory Board.

Dr. Gilbert Frizberg	Chairman Sole member of the managing board of FI Beteiligungs- und Finanzierungs AG (FiAG), CEO of Hereschwerke GmbH, managing partner of Franz Heresch&Co GmbH *to AGM in 2015* *born: 1956; initial appointment: 16 Mar. 2000*
Dr. Maximilian Eiselsberg	1st Vice-Chairman Lawyer, member of the supervisory board of KURIER Beteiligungs-Aktiengesellschaft *to AGM in 2015* *born: 1947; initial appointment: 23 Feb. 1993*
Dkfm. Peter Püspök	2nd Vice-Chairman Vice-president of the supervisory board of Semper Constantia Privatbank *to AGM in 2015* *born: 1946; initial appointment: 16 Mar. 2000*
o. Univ.-Prof. Dipl.-Ing. Dr. Günther Brauner	University professor, head of the Institute of Power Systems and Energy Economics at the Vienna University of Technology *to 7 Apr. 2010* *born: 1942; initial appointment: 16 Mar. 2000*

Dipl.-Betriebswirt Alfred H. Heinzel	Managing partner of Heinzel Holding GmbH, member of the supervisory boards of Miba AG, Allianz Elementar Versicherungs-AG, Zellstoff Pöls AG, Wilfried Heinzel AG, Europapier AG, Biocel Paskov AS in the Czech Republic, and Estonian Cell AS, Kunda, Estonia, member of the General Council of Österreichische Nationalbank *to AGM in 2015* *born: 1947; initial appointment: 16 Mar. 2000*
Dr. Burkhard Hofer	Sprecher (spokesperson) of the managing board of EVN AG (to 20 Jan. 2011), chairman of the supervisory board of EVN AG (from 20 Jan. 2011), member of the supervisory boards of BEWAG Burgenländische Elektri zitätswirtschafts-AG, BEGAS Energie AG, Burgenland Holding AG, RAG-Beteiligungs-AG, RAG Rohöl-Aufsuchungs-AG, Flughafen Wien AG and HYPO NOE Gruppe Bank AG *to AGM in 2015* *born: 1944; initial appointment: 27 May 1999*
Mag. Harald Kaszanits	Kabinettchef (head of cabinet) of the Federal Ministry of Economy, Family and Youth *to AGM in 2015* *born: 1963; initial appointment: 7 Apr. 2010*
Mag. Herbert Kaufmann	Sprecher (spokesperson) of the managing board of Flughafen Wien AG (to 31 Dec. 2010), member of the supervisory boards of FIMBAG and Austro Control Österreichische Gesellschaft für Zivilluftfahrt mbH *to AGM in 2015* *born: 1949; initial appointment: 26 Mar. 2008*

Dr. Michael Losch	Sektionschef (head of department) at the Federal Ministry of Economy, Family and Youth, Centre 1 – Economic Policy, Innovation and Technology *to 7 Apr. 2010* *born: 1968; initial appointment: 10 Mar. 2005*
Mag. Dr. Reinhold Süssenbacher	Chairman of the managing board of Umdasch AG (to 31 Aug. 2010), member of the supervisory boards of KSV 1870 Holding AG (vice-chairman), Richter Pharma AG (vice-chairman), Bene AG and Voglauer Möbelwerk Gschwandtner & Zwilling GesmbH *to AGM in 2015* *born: 1949; initial appointment: 7 Apr. 2010*
Dipl.-Ing. Hansjörg Tengg	CEO of „smart technologies" Management Beratungs- und Beteiligungsgesellschaft mbH, VKS Smart Beteiligungs- und Management GmbH, Tengg und Partner GmbH and Hansjörg Tengg Management GmbH, chairman of the supervisory boards of EXAA Abwicklungsstelle für Energieprodukte AG, Saubermacher Dienstleistungs AG and Euro Bio Fuels AG, vice-chairman of the supervisory boards of APCS Power Clearing and Settlement AG, AGCS AG, OeMAG AG, Cismo GmbH and ECRA Emission Certificate Registry Austria GmbH *to 7 Apr. 2010* *born: 1947; initial appointment: 15 Nov. 1983 to 20 May1986 and since 10 Mar. 2005*
Christa Wagner	Managing partner of JOSKO Fenster und Türen GmbH *to AGM in 2015* *born: 1960; initial appointment: 7 Apr. 2010*

Ing. Siegfried Wolf	Chairman of the Board of OJSC Russian Machines, chairman of the managing board of Magna International Europe AG (to 14 Nov. 2010), member of the supervisory boards of Österreichische Industrieholding AG, Siemens AG Österreich, STRABAG SE, GAZ Group, Russia Machines JSC, Glavstroy Corporation LLC, Transstroy Engineering & Construction Company Ltd. and Banque Baring Brothers Sturdza SA *to AGM in 2015* *born: 1957; initial appointment: 16 Mar. 2000*

Employee representatives

Anton Aichinger	Chairman of the VERBUND Group's employee representatives *born: 1955; initial appointment: 25 Oct. 2006*
Kurt Christof	Chairman of the Central Works Council Member of the supervisory board of Sparkasse Voitsberg/Köflach Bankaktiengesellschaft *born: 1964; initial appointment: 8 Mar. 2004*
Harald Novak	Chairman of the Central Works Council *born: 1952; initial appointment: 27 Sep. 1991 to 9 May 1993 and since 15 Dec. 2000*
Dipl.-Ing. Ingeborg Oberreiner	Chairwoman of the Works Council *born: 1951; initial appointment: 29 Aug. 2006*
Ing. Joachim Salamon	Member of the Central Works Council *born: 1956; initial appointment: 25 Oct. 2006*

Independence

Criteria for independence

During its meeting on 23 February 2010, the Supervisory Board of VERBUND AG defined the following criteria for its independence (pursuant to C Rule 53 of the Austrian Code of Corporate Governance):

- “The Supervisory Board member shall not have served as a member of the Managing 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 relations with the Company or one of its subsidiaries to an extent of significance for the member of the Supervisory Board. This shall also apply to relationships with companies in which the member of the Supervisory Board has a considerable economic interest, but not for exercising functions in the bodies of the Group. The approval of individual transactions by the Supervisory Board pursuant to L Rule 48 shall not automatically mean that the person is deemed not to be independent.
- The Supervisory Board member shall not have acted as Auditor of the Company or have owned a share in the auditing company or have worked there as an employee in the past three years.
- The Supervisory Board member shall not be a member of the managing board of another company in which a member of the Managing 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 investment in the Company or who represent the interests of such a shareholder.
- The Supervisory Board member shall not be a close relative (direct offspring, spouses, life partners, parents, uncles, aunts, siblings, nieces, nephews) of a member of the Managing Board or of persons who hold one of the aforementioned positions.”

Following the re-election of the Supervisory Board in April 2010 and the amendment to this rule in the Code (now, half of the shareholder representatives must be independent), the independence of the members of the Supervisory Board was reassessed in response to a letter from the Compliance Officer in June 2010. Assessment took place on the basis of the decision of the Supervisory Board dated 23 February 2010, in which the Supervisory Board reaffirmed its commitment to the Austrian Code of Corporate Governance as amended on 1 January 2010 and defined how the criteria for independence are to be applied (Annex to the Code).

All ten shareholder representatives have provided written statements regarding their independence. Eight of them have declared their independence, and two members of the Supervisory Board (Eiselsberg, Hofer) have classified themselves as not being independent (in each case, in respect of one criterion).

In addition, the following shareholder representatives meet the criteria for independence contained in C Rule 54 (not representing the interests of a shareholder with a stake of more than 10%):

Frizberg, Eiselsberg, Püspök, Heinzel, Kaufmann, Süssenbacher, Wagner and Wolf.

Meetings of the Supervisory Board

Six plenary meetings of the Supervisory Board were held during the 2010 fiscal year. The overall attendance rate was approximately 91% of all the members of the Supervisory Board.

One member of the Supervisory Board was unable to personally attend over half the meetings because of inescapable professional commitments.

The activities of the Supervisory Board focused above all on decisions on the following topics:

- the Consolidated Financial Statements and Annual Financial Statements of VERBUND AG for 2009;
- amendment of the Articles of Incorporation;
- motions for the General Meeting (including re-election of the Supervisory Board)
- the Code of Corporate Governance as of 1 January 2010;
- the reallocation of responsibilities within the Managing Board;
- borrowings and the furnishing of guarantees and assumption of liabilities;
- approval of the framework for the Toul CCGT of POWEO S.A. (Group);
- amendment of the Supervisory Board's rules of procedure;
- constitution of the committees;
- submission of the offer for the acquisition of another Turkish distribution network;
- the restructuring of POWEO S.A. (Group);
- the sale of shares in VERBUND-Innkraftwerke GmbH (now VERBUND Innkraftwerke Deutschland GmbH);
- the decision to build the Reisseck II pumped storage power plant;
- raising of the share capital of VERBUND AG;
- approval of the Group's budget for 2011.

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

Composition and operation of the Committees

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

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

Working Committee, which also functions as the Audit and Emergencies Committee

During the 2010 fiscal year, the number of members of the Working Committee, which also functions as the Audit and Emergencies Committee (hereinafter called in short "the Working Committee") was reduced from six to four elected members. It consists of the Chairman, the two Vice-Chairmen and one other member of the Supervisory Board. The membership of employee representatives is governed by Section 92 (4) of the Austrian Stock Corporation Act (AktG).

The Working Committee

- is required to prepare the meetings of the Supervisory Board and to assist the Supervisory Board in the continuous monitoring of the Company's management without prejudice to the rights of the Supervisory Board pursuant to Section 95 of the Austrian Stock Corporation Act;
- acts as the Audit Committee within the meaning of Section 92 (4a) of the Austrian Stock Corporation Act and
- as the Emergencies Committee (Rule 39 of the Austrian Code of Corporate Governance).

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

The Chairman is required to create the prerequisites for rapid decision making on matters that fall within the scope of competence of the Emergencies Committee or are referred to that committee for a decision (calling of a meeting within a shorter period, video conferences). The urgency must be spelt out. If necessary, the Working Committee can assign decision-making competence to its Chairman in a specific individual case.

The Emergencies Committee makes decisions on all matters where an immediate Supervisory Board decision is needed to gain economic advantages or to fend off the threat of financial damage. The Working Committee is chaired by the Chairman of the Supervisory Board, or, if he is prevented from taking the Chair, by the Vice-Chairmen in the specified order.

Members of the Working Committee

Dr. Gilbert Frizberg	Chairman
Dr. Maximilian Eiselsberg	1st Vice-Chairman
Dkfm. Peter Püspök	2nd Vice-Chairman
Univ.-Prof. Dipl.-Ing. Dr. Günther Brauner *(to 7 Apr. 2010)*	Member
Mag. Harald Kaszanits *(from 7 Apr. 2010)*	Member
Dr. Michael Losch *(to 7 Apr. 2010)*	Member
Ing. Siegfried Wolf *(from 7 Apr. 2010)*	Member
Anton Aichinger	Employee representative
Harald Novak *(to 7 Apr. 2010)*	Employee representative
Dipl.-Ing. Ingeborg Oberreiner	Employee representative

The Supervisory Board's Working Committee met six times during the 2010 fiscal year. The Audit Committee met four times. The Emergencies Committee was called upon once.

The activities of the Working Committee focused on:
- preparing meetings of the Supervisory Board;
- granting signatory powers;
- the raising of the share capital of Enerjisa Dogalgaz Toptan Satis A.S.;
- the Mellach project of VERBUND Thermal Power GmbH & Co KG;
- the sale of the 50% stake in C.E.M.P. d.o.o., Croatia, held by VERBUND Renewable Power GmbH;
- the sale of the stake in the Greek joint venture Energa;
- the carrying out of the raising of the share capital of VERBUND AG.

The activities of the Audit Committee focused on:
- preparing the resolution on the Annual Financial Statements for 2009;
- making a proposal for the election of the Auditor;
- the Semi-Annual Financial Statements for 2010;
- monitoring financial reporting processes;
- the internal control, auditing and risk management systems;
- coordinating the auditing focuses for 2010 with the Auditor;
- Internal Audit's auditing programme and audit reports.

Topic dealt with by the Emergencies Committee:
- restructuring POWEO S.A. (Group).

The General and Remuneration Committee

According to its rules of procedure, the Supervisory Board is required to appoint a General and Remuneration Committee made up of the Chairman and the two Vice-Chairmen.

The Supervisory Board has permanently assigned responsibility for the following matters to the Remuneration Committee:
- conclusion and amendment of contracts with members of the Managing Board;
- deciding the compensation of the members of the Managing Board;
- deciding management bonuses and premiums for members of the Managing Board.

Members of the General and Remuneration Committee

Dr. Gilbert Frizberg	Chairman
Dr. Maximilian Eiselsberg	1st Vice-Chairman
Dkfm. Peter Püspök	2nd Vice-Chairman

The Remuneration Committee met twice during the 2010 fiscal year. The meetings dealt with the variable components of the compensation of the members of the Managing Board and the termination agreement with the retired member of the Managing Board Mag. Christian Kern.

In addition, the General Committee met regularly to discuss current issues. In part, it did so with the Managing Board or individual members of the Managing Board.

Nomination Committee

According to its rules of procedure, the Supervisory Board is required to appoint a Nomination Committee made up of the Chairman and the two Vice-Chairmen. Employee co-determination is governed by Section 92 (4) of the Austrian Stock Corporation Act.

The Nomination Committee submits proposals to the Supervisory Board for filling mandates in the Managing Board. The Nomination Committee is required to take account of the fact that a candidate's final nomination for the Managing Board must take place before the nominee's 65th birthday and to prepare the election of members of the Supervisory Board.

Members of the Nomination Committee

Dr. Gilbert Frizberg	Chairman
Dr. Maximilian Eiselsberg	1st Vice-Chairman
Dkfm. Peter Püspök	2nd Vice-Chairman
Anton Aichinger	Employee representative
Dipl.-Ing. Ingeborg Oberreiner	Employee representative

The Nomination Committee met once during the 2010 fiscal year. This was necessary because new members of the Supervisory Board needed to be appointed.

Contracts requiring consent

During the 2010 fiscal year, the following contracts were concluded with members of the Supervisory Board or with enterprises in which a member of the Supervisory Board had a considerable economic interest. The services were rendered for various companies in the VERBUND Group. The Supervisory Board approved the contracts in conformity with the Austrian Stock Corporation Act and the Austrian Code of Corporate Governance.

Counterparty	Object	€k
Institute of Power Systems and Energy Economics, Vienna University of Technology [1]	Research on power supply structures and pumped storage power plants, safety monitoring, Energy Economics Conference	31.4
„smart technologies" Management Beratungs- und Beteiligungsgesellschaft m.b.H. [2]	Supply and maintenance of software for APG and VMS	383.0 [3]

[1] Supervisory Board member Dipl.-Ing. Dr. Günther Brauner (to 7 April 2010) is head of the Institute of Power Systems and Energy Economics at the Vienna University of Technology. // [2] Supervisory Board member Dipl.-Ing. Hansjörg Tengg (to 7 April 2010) is managing partner of „smart technologies" Management Beratungs- und Beteiligungsgesellschaft mbH. // [3] This includes the entire value of the orders placed during 2010. Services rendered in 2010 totalled €388.7k, €225.3k of which (net) was invoiced.

Compensation of members of the Supervisory Board

Compensation of the members of the Supervisory Board totalled €212,779 in the 2010 fiscal year (previous year: €203,560). This includes reimbursements of charged costs (travel expenses).

The following compensation scheme for the members of the Supervisory Board was adopted by the 59th Annual General Meeting held on 20 March 2006, when the annual remuneration for the members elected by the General Meeting and the attendance fees (for all members) were decided. This compensation scheme also applied in the 2010 fiscal year:

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

These arrangements also apply mutatis mutandis in respect of the Supervisory Board's Working Committee.

In detail, the following compensation was paid to the members of the Supervisory Board in respect of the 2010 fiscal year (€):

Name (without title)	Annual remuneration	Attendance fees (€)
Frizberg Gilbert, Chairman	30,000	5,600
Eiselsberg Maximilian, Vice-Chairman	22,500	5,600
Püspök Peter, Vice-Chairman	22,500	5,600
Brauner Günther (to 7/4/2010)	3,986	800
Heinzel Alfred	7,500	2,000
Hofer Burkhard	7,500	2,800
Kaszanits Harald (from 7/4/2010)	11,014	4,400
Kaufmann Herbert	7,500	2,000
Losch Michael (to 7/4/2010)	3,986	800
Süssenbacher Reinhold (from 7/4/2010)	5,507	2,400
Tengg Hansjörg (to 7/4/2010)	1,993	400
Wagner Christa (from 7/4/2010)	5,507	2,400
Wolf Siegfried	9,493	1,200

€

Name (without title)	Annual remuneration	Attendance fees
Employee representatives		
Aichinger Anton	–	5,600
Christof Kurt	–	2,800
Novak Harald	–	2,800
Oberreiner Ingeborg	–	5,600
Salamon Joachim	–	2,800

No loans or advances were disbursed to the members of the Supervisory Board.

All members of the Supervisory Board are covered by the D&O insurance taken out by VERBUND (see above, page 214).

Measures taken to promote women

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

As a group that practices sustainable management, VERBUND addresses issues of social relevance like equality of opportunity at the workplace. VERBUND treats all its employees equally, regardless of their gender, age, religious beliefs, culture, skin colour, social origins, sexual orientation or nationality. Determined action is taken to combat every form of discrimination or mobbing.

A woman, Dr. Ulrike Baumgartner-Gabitzer, was appointed to the Managing Board for the first time in VERBUND's history as of 1 January 2007. This makes VERBUND one of the very few listed companies in Austria with a woman in a high-ranking management position.
VERBUND AG cannot influence whether there are women in the Supervisory Board because choosing the members of the Supervisory Board is solely the responsibility of the shareholders (i.e., the General Meeting). The Annual General Meeting held on 7 April 2010 elected another woman – Christa Wagner – to the Supervisory Board at the Supervisory Board's suggestion. There has been a female member of the Supervisory Board for many years, namely Dipl.-Ing. Ingeborg Oberreiner, who is an employee representative.

On 31 January 2011, 14 women held managerial positions within the Group (including the Managing Board and the first and second tiers of management). This increased the number of women in senior positions by 27% compared with the previous year.

An Equal Treatment Officer has been appointed to foster existing potential within the enterprise and to supplement the personnel marketing activities that are already taking place in the diversity management field (e.g., the VERBUND women's scholarship at Vienna University of Technology). The Equal Treatment Officer is responsible for preparing, implementing and coordinating an extensive catalogue of equal treatment measures. The equal treatment concept can, in future, be developed into an extensive diversity management system.

Participation in the "Zukunft.Frauen" (Women.Future) executive personnel programme is another concrete measure in this direction. This programme was initiated by the Austrian Federal Ministry of Economy, Family and Youth, the Austrian Federal Economic Chamber and the Federation of Austrian Industries. Its goal is to give women support on their way to the top and to strengthen their confidence in their ability to hold management positions.

At VERBUND, the salaries of men and women with the same qualifications and doing the same job are identical.

In order to actively promote equal treatment, VERBUND is committed to the deliberate promotion of highly qualified women. The aim is to attract more qualified women – above all, including engineers – as employees within the enterprise. As a result, in the spring of 2010, VERBUND awarded for the second time women's scholarships to three outstanding female students at Vienna University of Technology. A jury chose a first-year student of computer science, a masters student of mechanical engineering and a PhD student in the technical mathematics field. They will be supported by made-to-measure scholarship packages worth €5,000 each.

In addition, once a year, VERBUND takes part in "Töchtertag" (daughters' day) and in the "FIT" (women in technology) information days. This enables us to address a female target group when they are still very young and get them interested in the fascinating technical professions. Furthermore, the enterprise is glad to have a growing number of female apprentices each year commencing their training in a unique double profession with good prospects, namely electrical engineering (systems and industrial engineering) combined with mechanical engineering.

During certification within the scope of the "Audit Beruf und Familie" (career and family audit) process, a record was made of all the measures and offerings that are already in place within the Group to help employees successfully combine their work and their private lives. VERBUND has been able to continue to increase an already high level of compatibility between working and family life. For instance, in the course of 2010, we published extensive easy-to-understand information about parenthood leave on our intranet.

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

Following the associated evaluation, carried out for the eighth time, the Managing Board has issued this statement:

"The Austrian Code of Corporate Governance was applied within VERBUND AG during the 2010 fiscal year and adhered to in accordance with the above explanatory notes. There were merely partial deviations from two rules in the Code. They were in part the result of legislative circumstances and were explained and justified accordingly. VERBUND will continue to adhere to the Code in its amended form during the 2011 fiscal year and will continue to endeavour to comply with all rules as fully as possible.

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

Vienna, 1 February 2011
The Managing Board

Dipl.-Ing. Wolfgang Anzengruber
Chairman

Dr. Johann Sereinig
Vice-Chairman

Dr. Ulrike Baumgartner-Gabitzer
Member

External audit

As in prior years, an independent auditor carried out a voluntary external evaluation of adherence to the provisions of the Austrian Code of Corporate Governance for the 2010 fiscal year.

Summary of the results of the evaluation of adherence to the Austrian Code of Corporate Governance during the 2010 fiscal year

We evaluated adherence to the recommendations in the Austrian Code of Corporate Governance as amended in January 2010 (ÖCGK; issued by the Austrian Working Group for Corporate Governance) at VERBUND AG during the 2010 fiscal year. The Managing Board is responsible for reporting on the implementation of and adherence to corporate governance principles within the enterprise ("Declaration of Conformity"). Our task, based on our evaluation, is to ascertain whether the statements in the Declaration of Conformity are accurate.

We carried out our evaluation with due professional care on the basis of the questionnaire for the voluntary external evaluation of adherence to the Code (ÖCGK) published by the Austrian Working Group for Corporate Governance. The evaluation was carried out by questioning the Boards of the Company and the employees of the Company named by them and by inspecting the documents made available to us by the Company. Our evaluation also included the random sample-based auditing of the proofs presented to us and the statements made. In our view, our audit procedures provided a reasonable basis for the evaluation and assessment of the adequacy of the Declaration of Conformity.

In our opinion, the Managing Board's Declaration of Conformity correctly represents the implementation of the recommendations in the Code (ÖCGK) at VERBUND AG during the 2010 fiscal year.

Vienna, 3 February 2011
Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Helmut Maukner
Certified Public Accountant

Mag. Elfriede Baumann
Certified Public Accountant

Glossary

Glossary

(n-1) criterion

Rule according to which the failure of a single operating asset, e.g., a power line, may not endanger the safety of network operation.

Base load*

Base-power deliveries are quantities supplied in constant amounts 24 hours a day.

Benchmark

Designation for a reference value with which a fund or portfolio is compared for orientation.

Bottleneck capacity

The maximum capacity at which a power plant can sustain operation under normal conditions.

Capital employed

Total assets less those assets that do not (yet) contribute to the performance and commercialisation processes (e.g., advance payments, plants under construction, investments under closed items on the balance sheet), less non-interest-bearing debt.

Cash flow

Net balance of the inflow and outflow of cash and cash equivalents; broken down into cash flow from operating activities, from investment activities and from financing activities.

Closed items on the balance sheet

Closed items on the balance sheet include continued financial liabilities and related investments from early terminated cross-border leasing transactions; previously, financial liabilities related to cross-border leasing transactions and to the Republic of Austria as well as associated investments were treated in the same way.

Code of Corporate Governance

Code of Conduct for stock corporations establishing the principles of good management. However, the contents do not represent codified law, but instead provide rules and standards to which companies voluntarily adhere.

Cross-border leasing

International leasing transactions in which the lessor and lessee are located in different countries.

Discounted cash flow method

A method of determining enterprise value by discounting future net cash flows which are defined differently depending on the method. VERBUND applies the entity approach (gross method).

EBIT (earnings before interest and tax)

Operating result.

EBIT margin

Return on sales.

EBITDA (earnings before interest, taxes, depreciation and amortisation)

Operating result before interest, taxes and depreciation of property, plant and equipment and amortisation of intangible assets.

Economic value added (EVA®)

Difference between the income a company earns on the assets used for performance and commercialisation processes and the (total) costs of capital; EVA® = NOPAT – (capital employed × WACC).

E-Control (Energie-Control GmbH)

Company established by the legislator in 2001 on the basis of the Austrian Energy Regulatory Authorities Act (Energie-Regulierungsbehördengesetz – E-RBG); it is tasked with monitoring the implementation of the deregulation of the Austrian electricity and gas market and intervening for regulatory purposes if necessary.

ECRA (Emission Certificate Registry Austria GmbH)

Set up by the legislator as the emissions registry on the basis of the Emissions Allowance Trading Act (Emissionszertifikategesetz, EZG); it is tasked with the technical administration of issuing, holding, transferring and cancelling emission rights.

* according to the EEX glossary

ElWOG

Austrian Electricity Industry and Organisation Act (Elektrizitätswirtschafts-und -organisationsgesetz – ElWOG). ElWOG implements the EU's Electricity Directive (Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC) in Austria.

Enterprise value (EV)

The enterprise value corresponds to market capitalisation plus net debt and reflects the total fair market business value.

Equity ratio (adjusted)

Equity in relation to total capital adjusted for items closed on the balance sheet.

FFO (funds from operations)

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

Fluctuation rate

The fluctuation rate is a percentage of employees that have left the company due to termination, mutual agreement, early retirement or dismissal during the probationary period. The percentage is calculated in relation to the number of employees as at the balance sheet date.

Free cash flow

Cash flow from operating activities plus cash flow from investment activities disposable for financing activities (e.g., dividend distributions, redemption of loans).

Gearing

Net debt in relation to equity.

Gross debt

Non-current and current financial liabilities plus interest-bearing provisions and other interest-bearing liabilities net of closed items on the balance sheet.

Gross debt coverage

Relation of funds from operations (FFO) to gross debt.

Gross interest cover

Relation of funds from operations (FFO) to interest expenses (including interest related to personnel expenses).

Hydro coefficient

The hydro coefficient is the quotient from current electricity generation of one (or a series of) hydropower plant(s) in a period and the average (calculated based on historical water supply) generation potential of the hydropower plant in the same period. The long-term average = 1. Consequently, 1.1 signifies a 10% increase in production.

IFRSs

International Financial Reporting Standards: The abbreviation encompasses all IASs (International Accounting Standards) and IFRSs (International Financial Reporting Standards) as well as all Interpretations of the SIC (Standing Interpretations Committee) and the IFRIC (International Financial Reporting Interpretations Committee).

Kyoto Protocol

International treaty on climate protection of the United Nations' FCCC. Defines the goals for reducing emissions of greenhouse gases regarded as triggering global warming. Resolved in 1997, the Kyoto Protocol officially went into effect on 16 February 2005.

Net debt

Gross debt less cash and cash equivalents, short-term investments and loans as well as securities held in current and non-current assets.

Operator model

Operator models are Public Private Partnerships (PPPs) for which the planning, financing, construction and independent operation of the plant-specific infrastructure are assigned to an operating company.

Payout ratio

Recommended dividend payments in relation to Group result.

Peak load*

Peak denotes the time period with high demand for electricity; generally during the day on weekdays. In Germany, France, Austria, Italy and Switzerland from 8 a.m. to 8 p.m. every weekday (Monday through Friday).

Performance

Describes the performance of a security or portfolio, e.g., over a period of one year, in relation to a specific measure of risk.

* according to the EEX glossary

Portfolio

Total inventory of securities held by a customer or investment fund; serves to diversify risk.

Public private partnership (PPP)

Cooperation between public sector and private economy based on partnership to fulfil public tasks (e.g., in the area of infrastructure).

Quadrature booster

Variable power transformers over which the load flow can be influenced or controlled. The load between parallel power lines can be distributed and the existing capacity better utilised.

Return on capital employed (ROCE)

Net operating profit after tax (NOPAT) adjusted for interest expenses for tax purposes (including interest on personnel expenses) in relation to average capital employed.

Return on equity (ROE)

Net profit or loss for the period (adjusted for results from the termination of cross-border leasing transactions) in relation to average equity.

Return on sales

Earnings before interest and tax (EBIT) in relation to revenue.

Risk management

Systematic method of identifying and measuring potential risks as well as selecting and implementing measures to counter risks.

Standard capacity

Average generation potential of a hydropower plant calculated based on historical water supply.

Value at risk (VaR)

A method applied to calculate the potential loss from price changes in trading positions. The loss potential is calculated based on an assumed probability (e.g., 95%) and on the basis of market-oriented price changes.

Variation margin

The variation margin represents an amount paid or credited daily on the price fluctuations of futures contracts (i.e., paid to or from the futures exchange). In contrast to the initial margin, the variation margin does not represent collateral. Although the amounts are debited or credited to a margin account daily, the variation margin represents unrealised gains or losses. The position per se remains pending.

Volatility

The intensity of price fluctuations of stocks and foreign currency and/or changes in the price of bulk goods.

Weighted average cost of capital (WACC)

Weighted average costs of capital for equity and debt.

EDITORIAL DETAILS

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Group structure VERBUND AG

Electricity generation

VERBUND Hydro Power AG
VERBUND Thermal Power GmbH & Co KG
VERBUND Renewable Power GmbH

The environmentally friendly and cost-effective generation of electricity is the basis of VERBUND's success.

Electricity trading and distribution

VERBUND Trading AG
VERBUND Sales GmbH

VERBUND is one of the most successful electricity traders in Europe. Since 2005, the company also supplies consumers in Austria.

Electricity transmission

Austrian Power Grid AG

VERBUND operates the largest and most powerful and efficient high-voltage grid in Austria and is an important hub in European electricity transmission.

Equity interests

VERBUND International GmbH

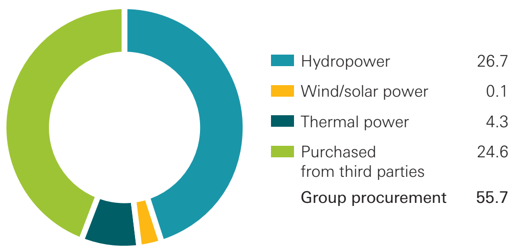
The company holds numerous investments in foreign countries through VERBUND International GmbH.

Facts/Figures

Generation

Group electricity generation

TWh



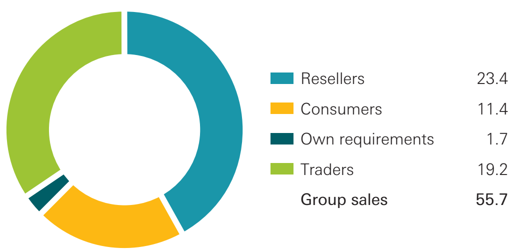
Power plants: key figures

	No. of power plants	Bottleneck capacity MW	Standard capacity GWh	**2010** GWh
Hydropower	103	6,294	23,776	**23,825**
Hydropower procurement rights	20	591	3,030	**2,883**
Wind/solar power	6	68		**112**
Thermal power	8	1,520		**3,246**
Thermal power procurement rights	1	165		**1,012**
Total	138	8,638	26,806	**31,078**

Trading/sales

Group electricity sales

TWh



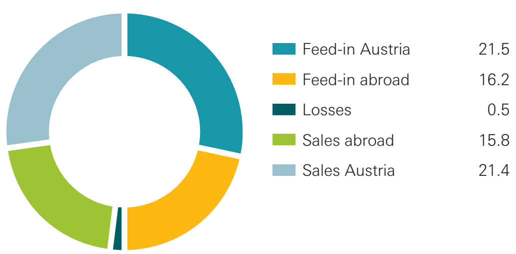
Electricity sales by country

	TWh	Percentage
Austria	25.1	45%
Germany	21.3	38%
France	6.9	12%
Italy	0.8	1%
Bulgaria	0.5	1%
Others	1.1	2%

Transmission

Electricity transmission

TWh



Grid

km

Voltage level	Grid length	System length
380 kV	1,104	2,282
220 kV	1,614	3,219
110 kV	695	1,212
Total	3,413	6,713

Investor relations

Shareholder structure

%

Basic information

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

Quotations	
Wiener Börse	VER
Deutsche Börse	OEWA
London Stock Exchange	0NR1
American Depositary Receipt	OEZVY

Information systems	
Bloomberg	VER AV
Reuters	VERB,VI
ISIN	AT0000746409

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

Shares: key figures

	Unit	2010	2009	2008	2007
Share price high	€	32.12	38.13	59.30	49.95
Share price low	€	24.24	23.73	29.74	31.21
Closing price	€	27.88	29.71	32.56	47.88
Performance	%	–6.16	–8.75	–32.00	18.46
Market capitalisation	€m	9,685.9	9,156.62	10,034.99	14,756.62
ATX weighting	%	4.86	6.20	10.14	5.36
Value of shares traded	€m	3,122.76	3,245.15	6,221.13	6,180.40
Shares traded per day	share	454,682	416,640	546,238	665,119
Profit per share	€	1.28	2.09	2.23	1.88
Cash flow per share	€	2.24	3.14	3.03	2.62
Carrying amount per share	€	12.59	11.06	10.15	8.68
Price/earnings ratio (last trading day)	X	21.71	14.21	14.61	25.48
Price/cash flow ratio	X	12.45	9.46	10.74	18.27
Price/book value ratio	X	2.22	2.69	3.21	5.52
Proposed dividend per share**	€	0.55	1.25	1.05	0.90
Dividend yield	%	1.97	4.21	3.22	1.88
Payout ratio	%	47.67	59.79	47.13	47.89
Entity value/EBITDA*	X	13.14	11.14	9.67	15.35

* Key ratio was revised, previous year's values adjusted.
** 2009 including a special dividend of €0.25/share

Capital market calendar 2011

Event	Date
Publication of 2010 results	02/03/2011
Publication of annual report	02/03/2011
Annual General Meeting	13/04/2011
Dividend ex-date	20/04/2011
Dividend payment date	03/05/2011
Interim report Q1/2011	28/04/2011
Interim report Q1–2/2011	27/07/2011
Interim report Q1–3/2011	27/10/2011

Part 2
Parent Company

VERBUND AG
Annual Report 2010

Contents

Rounding: Due to the use of EDP devices, rounding differences may arise in the addition of rounded amounts and the reporting of percentages.

Three-year comparison

			€m
	2010	2009	2008
Revenue	3,041.0	3,181.3	3,498.5
Earnings before interest and taxes (EBIT)	540.7	648.3	734.9
Earnings before taxes and changes in reserves	376.8	547.3	651.6
Net income	352.6	515.2	621.5
Net profit	191.1	382.3	323.6
Balance sheet total	5,900.1	5,055.5	3,448.8
Fixed assets	4,175.5	4,282.5	2,503.4
Investments in property, plant and equipment	3.5	1.6	1.9
Depreciation of property, plant and equipment	2.2	2.7	3.4
Equity	2,806.4	1,837.8	1,645.9
Return on sales (ROS)	17.8%	20.4%	21.0%
Return on equity (ROE)	20.5%	33.2%	49.9%
Return on investment (ROI)	10.7%	18.8%	24.7%
ROCE	7.8%	12.3%	18.9%
Equity ratio	47.6%	36.4%	47.8%
Debt repayment period	8.1	6.2	2.5
Cash flow from operating activities	367.8	495.1	596.0
Gearing	102.7%	158.1%	90.6%
Share price high	32.1	38.9	59.3
Share price low	24.2	23.0	29.7
Closing price	27.9	29.7	32.6
(Proposed) dividend per share	0.55	1.00	1.05
(Proposed) special dividend per share	0.00	0.25	0.00
Dividend yield	1.97%	4.21%	3.22%
Average number of employees	178	187	170
Electricity sales (GWh) [1]	**55,729**	51,289	56,057

[1] Including system requirements

Board members

Managing Board

Dipl.-Ing. Wolfgang Anzengruber	CEO and Chairman of the Managing Board *to 31 December 2013* *born: 1956; initial appointment: 1 January 2009*
Dr. Johann Sereinig	Vice Chairman of the Managing Board *to 31 December 2013* *born: 1952; initial appointment: 1 January 1994*
Dr. Ulrike Baumgartner-Gabitzer	Member of the Managing Board *to 31 December 2011* *born: 1957; initial appointment: 1 January 2007*
Mag. Christian Kern	Member of the Managing Board *to 7 June 2010* *born: 1966; initial appointment: 11 May 2007*

Supervisory Board

Dr. Gilbert Frizberg	Chairman Sole member of the managing board of FI Beteiligungs- und Finanzierungs AG, CEO of Hereschwerke GmbH, managing partner of Franz Heresch & Co GmbH *to AGM 2015* *born: 1956; initial appointment: 16 March 2000*
Dr. Maximilian Eiselsberg	1st Vice Chairman Lawyer, member of the supervisory board of KURIER Beteiligungs-Aktiengesellschaft *to AGM 2015* *born: 1947; initial appointment: 23 February 1993*
Dkfm. Peter Püspök	2nd Vice Chairman Vice-president of the supervisory board of Semper Constantia Privatbank *to AGM 2015* *born: 1946; initial appointment: 16 March 2000*

o. Univ.-Prof. Dipl.-Ing. Dr. Günther Brauner	University professor, Head of the Institute of Power Systems and Energy Economics at the Vienna University of Technology *to 7 April 2010* *born: 1942; initial appointment: 16 March 2000*
Dipl.-Betriebswirt Alfred H. Heinzel	Managing partner of Heinzel Holding GmbH, member of the supervisory boards of Miba AG, Allianz Elementar Versicherungs-AG, Zellstoff Pöls AG, Wilfried Heinzel AG, Europapier AG, Biocel Paskov AS, Czech Republic, and Estonian Cell AS, Kunda, Estonia, member of the General Council of Österreichische Nationalbank *to AGM 2015* *born: 1947; initial appointment: 16 March 2000*
Dr. Burkhard Hofer	Speaker of the managing board of EVN AG (to 20 January 2011), chairman of the supervisory board of EVN AG (from 20 January 2011), member of the supervisory boards of BEWAG Burgenländische Elektrizitätswirtschafts AG, BEGAS Energie AG, Burgenland Holding AG, RAG-Beteiligungs AG, RAG Rohöl-Aufsuchungs AG, Flughafen Wien AG and HYPO NOE Gruppe Bank AG *to AGM 2015* *born: 1944; initial appointment: 27 May 1999*
Mag. Harald Kaszanits	Head of cabinet of the Federal Ministry of Economy, Family and Youth *to AGM 2015* *born: 1963; initial appointment: 7 April 2010*
Mag. Herbert Kaufmann	Speaker of the managing board of Flughafen Wien AG (to 31 December 2010), member of the supervisory boards of FIMBAG and Austro Control Österreichische Gesellschaft für Zivilluftfahrt mbH *to AGM 2015* *born: 1949; initial appointment: 26 March 2008*

Dr. Michael Losch	Head of department at the Federal Ministry of Economy, Family and Youth, Centre 1 – Economic Policy, Innovation and Technology *to 7 April 2010* *born: 1968; initial appointment: 10 March 2005*
Mag. Dr. Reinhold Süssenbacher	Chairman of the managing board of Umdasch AG (to 31 August 2010), member of the supervisory boards of KSV 1870 Holding AG (vice chairman), Richter Pharma AG (vice chairman), Bene AG and Voglauer Möbelwerk Gschwandtner & Zwilling GesmbH *to AGM 2015* *born: 1949; initial appointment: 7 April 2010*
Dipl.-Ing. Hansjörg Tengg	CEO of “smart technologies” Management Beratungs- und Beteiligungsgesellschaft m.b.H., VKS Smart Beteiligungs- und Management GmbH, Tengg und Partner GmbH and Hansjörg Tengg Management GmbH, chairman of the supervisory boards of EXAA Abwicklungsstelle für Energieprodukte AG, Saubermacher Dienstleistungs AG and Euro Bio Fuels AG, vice chairman of the supervisory boards of APCS Power Clearing and Settlement AG, AGCS AG, OeMAG AG, Cismo GmbH and ECRA Emission Certificate Registry Austria GmbH *to 7 April 2010* *born: 1947; initial appointment: 15 November 1983 to 20 May 1986 and since 10 March 2005*
Christa Wagner	Managing partner of JOSKO Fenster und Türen GmbH *to AGM 2015* *born: 1960; initial appointment: 7 April 2010*

Ing. Siegfried Wolf	Chairman of the supervisory board of OJSC Russian Machines, chairman of the managing board of Magna International Europe AG (to 14 November 2010), member of the supervisory boards of Österreichische Industrieholding AG, Siemens AG Österreich, STRABAG SE, GAZ Group, Russian Machines JSC, Glavstroy Corporation LLC, Transstroy Engineering & Construction Company Ltd. and Banque Baring Brothers Sturdza SA *to AGM 2015* *born: 1957; initial appointment: 16 March 2010*

Employee representatives

Anton Aichinger	Chairman of the VERBUND Group's employee representatives *born: 1955; initial appointment: 25 October 2006* *(appointed by the employee representatives)*
Kurt Christof	Chairman of the Central Works Council, member of the supervisory board of Sparkasse Voitsberg/Köflach Bankaktiengesellschaft *born: 1964; initial appointment: 8 March 2004* *(appointed by the employee representatives)*
Harald Novak	Chairman of the Central Works Council *born: 1952; initial appointment: 27 September 1991 to 9 May 1993 and since 15 December 2000* *(appointed by the employee representatives)*
Dipl.-Ing. Ingeborg Oberreiner	Chairwoman of the Works Council *born: 1951; initial appointment: 29 August 2006* *(appointed by the employee representatives)*
Ing. Joachim Salamon	Member of the Central Works Council *born: 1956; initial appointment: 25 October 2006* *(appointed by the employee representatives)*

Report of the Supervisory Board

VERBUND – Austria's foremost electricity company – was faced with extremely difficult conditions during the 2010 fiscal year. After a short delay, the consequences of the global economic crisis also affected the Group's results. However, despite the tense state of the market and a slightly below-average water supply, VERBUND was able to limit the damage with the help of restructuring and cost reductions while still continuing to pursue its strategy of profitable and sustainable growth.

The Supervisory Board actively monitored and fostered these positive developments. During the year under review, it did, during seven plenary meetings, perform the tasks and exercise the powers that are incumbent upon it by virtue of the law and the Articles of Incorporation. The overall attendance rate of all the members of the Supervisory Board exceeded 91%. In addition, the Chairperson of the Supervisory Board maintained regular contact with the members of the Supervisory Board in regard to important matters and obtained the opinion of individual members if they were absent. As a result, every member of the Supervisory Board was always involved in material matters.

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

Raising of share capital and investments

The fiscal year was, above all, characterised by the raising of share capital, which was approved by the shareholders in an Extraordinary General Meeting almost unanimously in September 2010. Subsequently, this raising of share capital in the amount of roughly €1bn was already decided upon and successfully carried out by the Managing Board in consultation with the Supervisory Board in November 2010. The raising strengthened the Company's capital structure and has given VERBUND added flexibility when it comes to rapidly putting its long-term investment plan into effect (including, above all, projects within Austria) in accordance with its strategy for further value enhancing growth.

Besides approving the Group budget, the other key Supervisory Board decisions that stand out were approving the construction of the Reisseck II pumped storage power plant and approving capital borrowings and the furnishing of guarantees to finance the Group's growth path and ensure that it has adequate liquidity. Other important matters included the amendment of the Articles of Incorporation – among other things to effect the new company name VERBUND AG – and the strategic further development of our foreign interests. The most noteworthy example of that development work was restructuring at POWEO S.A. (Group) in France, with a number of reports presented and appropriate measures decided upon. In addition, the termination of cross-border leases continued, considerably reducing our risks. Only one such lease is still in place.

New composition of the Supervisory Board and Managing Board

The terms of office of all the elected members having expired, the entirety of the Supervisory Board underwent re-election during the Annual General Meeting on 7 April 2010. The size of the Supervisory Board remained unchanged. Three new members were elected to the Supervisory Board. There was no change in the employee representatives. During the constitution of the Supervisory Board, which was appointed for five years, the previous Chairperson and his Vice Chairpersons were confirmed in their offices. The composition of the Managing Board also changed during the 2010 fiscal year. At his own request, Christian Kern retired from the Managing Board on 7 June 2010. Following the retirement of Christian Kern, the Supervisory Board put into force a new allocation of responsibilities for the Managing Board. Christian Kern is to be replaced in 2011.

The Supervisory Board thanks the retired members of the Board for their work on the Supervisory Board and thanks Christian Kern for his many years of successful work in senior management positions at VERBUND.

Code of Corporate Governance, Supervisory Board Committees

As the foremost listed enterprise in its industry, VERBUND committed early to complying with the Austrian Code of Corporate Governance. The Supervisory Board too sees itself as committed to the Code and reaffirmed its commitment with respect to the amended Code – which was revised as of January 2010 – at the beginning of the year ended. The Supervisory Board endeavours to consistently comply with the provisions of the Code that relate to the Supervisory Board. In this spirit, all rules relating to the Supervisory Board's collaboration with the Managing Board and the Supervisory Board itself are complied with in full with the exception of one minor, explained deviation.

In accordance with the requirements of the Code of Corporate Governance, the Supervisory Board also continuously strived to increase its organisational and operational efficiency. Key measures taken by the Supervisory Board included, in particular, reducing the size of its Working Committee from a total of nine to six members and introducing more efficient procedures for handling the documents used at meetings.

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

According to the Code of Corporate Governance and the rules of procedure, two other Supervisory Board committees– a Nomination Committee and a Remuneration Committee – were again set up in the fiscal year ended. The Remuneration Committee, which has the same members as the General Committee, held two meetings dealing with compensation of the members of the Managing Board and the retirement of one member of the Managing Board. The Nomination Committee met once to prepare the re-election of the Supervisory Board. In addition, the General Committee met regularly to discuss topics of current importance. In part, it did so with the Managing Board as a whole or with individual members of the Managing Board.

Further information about the composition and operation of the Supervisory Board and its committees and about the remuneration of its members is contained in the Corporate Governance Report.

Annual financial statements, consolidated financial statements

The annual financial statements together with the Management Report, the consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRSs) and the Group Management Report for the 2010 fiscal year were audited by the Auditor Deloitte Audit Wirtschaftsprüfungs GmbH and given an unqualified auditors' report.

The Auditor reported on the results in writing and found that the Managing Board had provided the explanations and proofs that had been requested, that the accounts, annual financial statements and consolidated financial statements are in accordance with the legal requirements and, in conformity with the principles of proper accounting, present fairly, in all material respects, the assets, liabilities, financial position and profit or loss of the Company and the Group and that the Management Report and Group Management Report are consistent with the annual financial statements and the consolidated financial statements.

Following their in-depth examination and discussion by the Audit Committee and the Supervisory Board, the Supervisory Board approved the annual financial statements for the 2010 fiscal year presented by the Managing Board. As a result, they are final for the purposes of Section 96 (4) of the Austrian Stock Corporation Act (Aktiengesetz, AktG). The Management Report by the Managing Board was approved, as was the profit appropriation proposal. The consolidated financial statements and the Group Management Report were also acknowledged and approved by the Supervisory Board, as was the Corporate Governance Report submitted by the Managing Board.

Finally, the Supervisory Board thanks the Managing Board and all the employees for their high level of dedication and their successful work during the 2010 fiscal year. The Supervisory Board thanks the Group's shareholders, customers and business associates for their trust.

Vienna, February 2011

Dr. Gilbert Frizberg
Chairman of the Supervisory Board

Management Report

Report on business development and economic position

Market and industry

The global economic situation began to improve in 2010 and the Austrian economy grew by an anticipated 2.0% in real terms (WIFO [1] forecast in December 2010). At the same time, electricity consumption rose again. While this improvement did not quite bring sales back up to the pre-crisis level in the first eleven months of 2010, most of the sales decline could be recouped.

General situation

General economic situation

Global economic recovery

The world economy climbed back from the deep recession in 2010. However, the rate of expansion varied considerably from region to region. Economic growth was particularly strong in the emerging markets of China, India and Brazil, where there is great demand for capital goods.

According to the outlook by the International Monetary Fund (IMF) in October 2010, the US economy grew by 2.6% in real terms in 2010. The IMF outlook stated that economic growth was 1.7% in real terms both in the eurozone and the EU. In general, the economy has stabilised in Europe. However, the high public deficits and measures required for consolidation, the moderate investment dynamic, the need for reform in the financial sector and the overall economic imbalance in the eurozone continue to impact the situation. The Austrian economy also returned to a growth curve in 2010. Economic performance rose by around 2.0% in real terms (WIFO)[2].What chiefly fuelled recovery was merchandise exports. Private consumption also showed stable growth.

Outlook remains muted

Many industrialised nations are still feeling the full force of the economic and financial crisis. As the economic stimulus packages gradually came to an end, global growth tailed off in the second half of 2010. According to the IMF, the rate of global economic growth will slow down in 2011, but overall economic production will continue its marked upward trend. The upswing in the eurozone (+1.5% in real terms) and the EU (+1.7% in real terms) is likely to remain muted in 2011. In Austria, WIFO and IHS[3] predict that GDP will grow by up to 2.2% in real terms.

Energy industry situation

Energy consumption reveals a sharp increase

The economic upturn and cold weather in 2010 resulted in Austria's energy consumption rising considerably. In fact, it showed much higher growth than economic output. This would indicate that the energy-intensive primary industries in particular have already recovered. Natural gas consumption was up 11.4% in the first eleven months. This was mostly due to increased demand from industry and substantially higher use in power plants. Private households also consumed more gas because of the weather. The increase in hard coal consumption was

[1] Austrian Institute of Economic Research (Österreichisches Institut für Wirtschaftsforschung, WIFO)
[2] Forecast in December 2010
[3] Institute for Advanced Studies (Institut für höhere Studien, IHS), Vienna

particularly high. Austria's steel industry reported a rise in crude steel production by about 28% in the first eleven months. It also accounted for the surge in the use of coal and coke. In electricity generation, hard coal use also saw an increase of about 28%. Oil consumption also went up, even though the higher price level curbed demand.

In 2010, the share of renewables in primary energy consumption was the same as in the previous year. New renewable energy sources such as wind, solar, biomass and geothermal power enjoyed steady growth, but could not make up for the decline in hydropower caused by the weather. Over 70% of Austria's energy supply is still based on fossil fuels, i.e., oil, coal and gas.

Electricity demand on the increase

Positive economic development and the cold weather stimulated electricity demand in Austria. In the first eleven months of 2010, electricity consumption was 4.3% higher on average than in the same period in 2009. The main reason for this was the increase in production in the energy-intensive industries where double-digit growth rates were also to be seen.

Due to the low water supply, electricity generation from hydropower was down 6.6% in Austria for the first eleven months of the year. In contrast, utilisation of thermal power plants rose by 18.7%. "Other energy generation" recorded a 1.8% rise. It covers electricity generation from other renewable energy sources (excluding biomass which comes under thermal generation) and from systems not yet included in the statistics.

Overall, electricity generation in Austria was up 1.8% in the first eleven months. Exports dropped by 7.4%. To meet the higher domestic demand, electricity imports were raised by 3.3%. From January to November, Austria had to import some 3% of its net requirements. In comparison: Electricity trade was virtually balanced in 2009.

Crude oil prices much higher than in 2009

The brighter general economic perspective caused prices on the fuel markets to make a significant recovery in 2010. This applied in particular to the crude oil listings. Nevertheless, the prices were still well below the level seen just before the global economic and financial crisis.

Brent crude for short-term delivery (front month) was quoted at just over $80 per barrel (159l) on average in 2010. Compared with 2009, it cost nearly $18 more. A contributing factor was the sustained high demand from the emerging Asian markets as the OPEC production quota remained unchanged. The general expectation that crude oil consumption could rise due to market conditions also ensured more constant listings. The futures oil prices for 2011 tended to follow the trends for short-term delivery at a higher level.

Prices for gas and coal rising

The majority of natural gas imports to continental Europe are based on long-term contracts linked to the oil price. This generally affects developments on the gas market with some months' delay. As oil prices rose, the downward trend in Austrian import prices for natural gas came to an end in mid-2009. From January to October 2010, long-term import contracts for natural gas increased around 16% in price on average to €24.4/MWh.

In addition, trading freely available volumes at European centres (e.g., gas exchanges, physical and virtual hubs) has gained in importance over the past few years. Here, the oil price does not directly affect pricing. The most liquid trading markets in Europe are the Title Transfer Facility (TTF) hub in the Netherlands and the Net Connect Germany (NCG) hub. Given the fact that the two centres are physically close to each other, price correlation is very high. NCG contracts are listed on the EEX. The spot market price for natural gas (NCG) was 37% higher in 2010 than the year before. Long-term gas prices also rose. On the EEX futures market, natural gas cost about 6% more in 2010 (NCG front year).

Due to the much greater increase in spot prices, the margin between the cross-border and market price was reduced again.

The prices for coal deliveries in the ARA area (Amsterdam, Rotterdam, Antwerp) also rose in 2010. Coal prices were up 36% from the previous year on the spot market and up 25% on the futures market (ARA front year) (both euro basis). All in all, the international price level was affected by the sharp rise in hard coal demand in Asia. Demand in Europe and North America remained moderate.

Regulatory framework

EU sets energy focus and defines energy infrastructure priorities

In November 2010, the European Commission adopted the communication “Energy 2020 – A strategy for competitive, sustainable and secure energy”. It defines five priorities for meeting the 2020 energy goals: achieving energy efficiency, building an integrated market, extending leadership in technology, empowering consumers and strengthening international partnerships. To improve the security of supply, the EU Commission is also set on expanding the power grids and harmonising national transmission systems for renewable energies. Research activities in the field of electricity storage and ambitious hydropower projects should help to develop Europe’s leadership in technology.

The European Commission’s main concern is achieving the energy efficiency objective defined in the EU energy and climate package: Europe has undertaken to reduce its primary energy consumption by 20% compared with the projections for 2020. Utilities are also required to encourage their customers to save energy. Energy efficiency should also become an essential criterion for the authorisation of new generation capacities.

If the EU energy and climate goals are to be achieved, further efforts need to be made to upgrade the energy infrastructure. The European Commission’s communication of mid-November 2010 “Energy infrastructure priorities for 2020 and beyond – A blueprint for an integrated European energy network”, for example, calls for the development of suitable connecting lines for improved linking of renewable generation capacity to pumped storage power plants in the Alps, rolling out smart meters throughout Europe and building European electricity highways. Projects of European interest will be defined by 2013 and subsequently promoted through a special financing scheme. In addition, the aim is also to make permit procedures shorter and more transparent.

Various EU legislation proposals will make energy distribution subject to new provisions in the future. In addition to new integrity and transparency rules for the energy area, financial market regulations will therefore also apply to energy trading companies in some cases.

Reform of the national legal framework

To implement the requirements in the EU's third internal energy market package, extensive reforms were needed in Austria's energy industry legislation. At the end of 2010, the National Council therefore passed the Electricity Industry and Organisation Act 2010 (Elektrizitätswirtschafts-und-organisationsgesetz, ElWOG 2010) and the E-Control Act. The new laws focused in particular on unbundling the transmission grid operators, empowering consumers, reorganising and improving the regulatory authorities. The reforms were also used to make the changes that had been discussed for some time, including taking public interest in supply security into consideration in ElWOG 2010.

Austria's energy strategy: Requirements for the future of energy

At the end of March 2010, the Austrian federal government published its energy strategy. VERBUND contributed its expertise at the early stages. The principal aims of the strategy are to consistently improve efficiency, expand renewable energies and secure the electricity supply in the long term. Energy consumption is to be stabilised at the 2005 level by 2020, i.e., 1,100 petajoules. Whether Austria can achieve its energy and climate goals depends to a large extent on establishing the strategy and implementing the measures promptly.

National water management plan

The first national water management plan (Nationaler Gewässerbewirtschaftungsplan, NGP) published by the Ministry of Agriculture, Forestry, Environment and Water Management at the end of March 2010 and the supporting directives created an important basis for expanding hydropower in Austria. What they achieved was a sustainable compromise between protecting our rivers and lakes and enabling the energy industry to use them. The nationwide list of criteria ensures that projects can be assessed at the early stages and in relation to each individual case and a balance can be struck between use and protection interests.

UN climate change conference in Cancún

At the 16th United Nations Climate Change Conference in Cancún in Mexico, from 29 November to 11 December 2010, no follow-up agreement was reached for the Kyoto Protocol which expires in 2012. Assurance was, however, given that the Kyoto Protocol's Clean Development Mechanism (CDM) will also remain operational after 2012. The adoption of an interim agreement in Cancún restored faith in the multilateral climate change process. At the conference, the countries taking part agreed on the objective of limiting global warming to 2 degrees Celsius. In addition, the industrialised countries recognised that their emissions have to be reduced by 25 to 40% from the 1990 level by 2020. A Green Climate Fund proposed to be worth $100bn a year by 2020 was set up for developing countries with a view to helping them fight climate change. The general consensus is that the probability of reaching a new agreement has risen. It still remains to be seen, however, whether the political reduction targets (–25% by 2020) will actually be defined in a binding treaty. This could either be achieved by extending the Kyoto Protocol (without the US) or adopting a new, international agreement with targets also set for the US and the emerging nations (such as China).

Business performance

Factors influencing the result

VERBUND's result depends primarily on two factors, the wholesale prices for electricity and the hydro coefficient. Both of these figures were significantly lower in 2010 than in the previous year. The reasons for this decline can be found in the forward prices, which dropped substantially, as well as in the water supply, which was lower than the unusually high water supply in 2009.

Average sales prices under the previous year's level

The 2009 futures market prices for the 2010 fiscal year were characterised by an economic slump. The prices for forward contracts for base-load energy (front year base 2010) for the German and Austrian markets traded on the European Energy Exchange (EEX) and for peak-load energy (front year peak 2010) were both 30% lower than in the previous year. In contrast, prices on the spot market were somewhat higher in 2010. In 2010, the annual average base-load spot prices for the German and Austrian markets on the Paris EPEX Spot Exchange were at €44.5/MWh, about 14% higher than the previous year, with peak prices at €55.0/MWh, surpassing the previous year by just under 8%. In addition to the lower temperatures, increasing industrial production provided impetus for higher spot prices. Overall at €52.1/MWh, the average achieved contract price in 2010 was €9.2/MWh below the previous year's level.

Water supply significantly below the previous year's exceptionally high level

The hydro coefficient is the measured value for the generation from run-of-river and pondage power plants. At 0.99 in 2010, it was 1% below the long-term average and 7 percentage points below the outstanding figure of the previous year.

The early part of the year was substantially colder than the long-term average and rainfall was low. As a result, January and February saw a water supply that was considerably below average. In March, the hydro coefficient rose to 1.04 due to snowmelt. While rainfall in April was still significantly lower than the long-term measurement series, rainfall in May and June was largely close to average. Thus the first half of 2010 saw a hydro coefficient of 0.92. A heat wave and a dry phase characterised the early part of July and the subsequent heavy rainfall – with local flooding – could only be partially utilised for power generation. Above-average rainfall in August and September resulted in a good water supply that was continuously utilised for power generation. October was comparatively cold and fairly dry, while November saw concentrations of rainfall especially in the south of Austria and extremely high temperatures. Although there were phases with temperatures that were considerably below the average, in December 2010, a hydro coefficient of 1.16 was achieved. Thus the hydro coefficient in 2010 was at 0.99.

Weak electricity prices adversely affect electricity revenue

At 31,078 GWh, the Group's own power generation in 2010 was 3.9% higher than in the previous year. The increase is primarily due to higher electricity generation from thermal plants in Austria and the pro rata procurement from the French power plant Pont-sur-Sambre (in operation since September 2009). Despite the less favourable water supply in comparison to the previous year, power generation from run-of-river power plants was maintained at the same level as a result of the acquisition of the Bavarian power plants on the Inn River. However, due to the significantly lower water inflows, electricity generation of the annual storage power plants went down by 9.7%.

VERBUND AG's total electricity sales in 2010 were 55,729 GWh (+8.7%). Thus, externally purchased electricity amounted to 24,652 GWh in 2010, an increase of 15.4% compared to the previous year. Although the electricity sales rose, the overall electricity revenue fell by 4.4% to €3,016.8m. This decline is due to the forward market prices (contracted in prior reporting periods) that fell sharply.

Financial and non-financial performance indicators

Revenue and result

	Unit	**2010**	2009
Revenue	€k	3,041,009.7	3,181,325.6
Earnings before interest and taxes (EBIT)	€k	540,679.7	648,293.6
Earnings before taxes and changes in reserves	€k	376,758.0	547,262.0
Net income	€k	352,608.7	515,183.7
Net profit	€k	191,078.6	385,250.0
Return on equity (ROE)	%	20.5	33.2
Return on investment (ROI)	%	10.7	18.8
ROCE	%	7.8	12.3
Return on sales (ROS)	%	17.8	20.4

Revenue

Due to the effects presented above, the revenue of VERBUND AG fell compared to the previous year by 4.4% to €3,041.0m.

Despite higher sales to foreign resellers and traders, this drop is the result of a substantial decline in contract prices, which is due to weak spot market and short-term forward prices.

VERBUND AG recorded an increase in electricity revenue with industrial customers and consumers of €49.3m or 18.2%.

Electricity revenue with domestic energy supply companies rose by 12.2% to €1,361.4m. Electricity revenue with foreign energy supply companies, on the other hand, remained almost constant at €421.0m. Electricity revenue with traders fell overall by 26.8% to €913.2m, due primarily to the lower price level.

Electricity revenue generated in foreign countries, primarily Germany and France, came to 46.7% (previous year: 54.2%).

Electricity sales rose within the Group by 4,440 GWh or 8.7% compared to the previous year. On the other hand, the forward contracts that are not recognised in sales went up significantly, rising by 41.2% to 85,640 GWh.

Other operating income

Other operating income rose by 9.4% to €35.5m. For the most part, this is the result of higher income from the reversal of provisions and from the sale of converter substation components due to expiration of the contract.

Cost of purchased services

The cost of electricity purchases fell by 5.3% to €2,686.2m. Electricity and grid purchases as well as the purchase of emission rights (trading) went down by 4.4% to €2,784.2m, the main factor of influence being that despite higher volumes in comparison to the previous year, the futures market prices that were invoiced were considerably lower. The cost of grid purchases rose by 21.5% to €80.7m, accounted for by growth in the consumer segment and the associated grid costs.

Personnel expenses

Current personnel expenses remained about the same at €19.1m. Adjustments of wages, salaries and ancillary expenses under the collective agreement pushed the expenses up by 1.6%, which was somewhat offset by a reduction of personnel costs for premiums and remunerations. Expenses for severance payments and pensions declined due to lower severance payments and smaller pension fund contributions by 39.7% to €3.2m. The number of employees at VERBUND AG dropped by 9 to 178 employees, due primarily to personnel transfers within VERBUND.

Other operating expenses

Other operating expenses rose by €31.0m to €89.3m, due primarily to costs amounting to €23.4m for VERBUND AG's capital increase that was carried out in 2010.

Earnings before taxes and changes in reserves

As a result of the factors of influence and developments described above as well as the decline of the financial result, the earnings before taxes and changes in reserves fell by 31.2% from €547.3m to €376.8m.

Financial situation

	Unit	**2010**	2009
Fixed assets	€k	4,175,496.9	4,282,497.8
Current assets	€k	1,606,322.2	609,832.4
Net working capital	€k	1,373,041.7	232,990.5
Net debt	€k	2,886,833.7	2,912,399.5
Equity	€k	2,806,366.6	1,837,839.6
Current liabilities	€k	286,178.7	416,938.6
Current assets	€k	1,659,220.4	649,929.0
Equity ratio	%	47.6	36.4

Fixed assets

Intangible assets and property, plant and equipment declined, due largely to the disposal of converter substation components amounting to €7.4m and amortisation and depreciation charges of €3.2m; additions in the amount of €3.8m were reported.

Financial assets relating to investees went up by €21.6m, primarily because when capital injections were made, equity interest in VERBUND Beteiligungsholding GmbH increased.

Other financial assets fell due to repayment of loans in the amount of €41.3m and the sale of securities totalling €79.6m, while securities in the amount of €0.1m were acquired.

Current assets

The increase in current assets by €995.6m to about €1,606.3m is primarily the result of receivables from affiliated companies rising by €1,061.0m and an increase in trade receivables of €5.0m. Other receivables from electricity trading business, energy exchanges, emission rights trading and guarantees for the energy exchange , on the other hand, fell by €60.2m.

Equity

Due to the capital increase of €1bn that was carried out in November 2010 and the results for the year, which was offset by the special dividend for the 2009 fiscal year, equity increased by €968.5m to €2,806.4m. As a result of the effects presented above, the equity ratio rose from 36.4% to 47.6%.

Liabilities

The non-current and current liabilities fell by €10.3m to €2,955.3m. Foreign exchange fluctuations related to bonds increased financial liabilities by €10.3m. In 2010, borrowings from and repayments to banks resulted in a net amount of €–39.9m. Trade payables and other liabilities rose by €23.9m to €80.6m. Liabilities to affiliated companies fell by €4.8m to €1,424.5m. As a result of the sale of converter substation components due to expiration of the contract, the advance payment received for them decreased by €8.3m.

Financial situation

Financial strategy and financing

VERBUND's financial strategy is defined in five key points:

1. Needs-based, central Group financing of the subsidiaries. The medium- and long-term financing activities are carried out centrally by VERBUND International Finance B.V. and/or VERBUND AG, while VERBUND Finanzierungsservice GmbH oversees short-term equalisation of funds within the Group. As internal financial hubs, these companies borrow external capital or borrow within the Group and transmit funds on a needs-based basis to the Group's subsidiaries within the scope of a market-oriented transfer price system. This makes it possible to leverage the synergies of centralized Group financing, while at the same time passing market and risk impacts on to the subsidiaries.
2. Ensuring appropriate liquidity reserves. Ensuring sufficient liquidity at all times has absolute priority. To this end VERBUND has a syndicated loan that can be used at any time, as well as non-committed lines of credit, primarily with Austrian banks that can be deemed very reliable.
3. Ensuring an excellent credit standing. A crucial pillar of the strategy of VERBUND is to achieve a credit rating in the single "A" range. Therefore, the strategy is discussed and coordinated on an ongoing basis with Moody's Investors Services and Standard & Poor's. Great importance is placed on strict compliance with all principal ratio limits specified by the rating agencies. To manage its rating VERBUND is guided by the ratios FFO/net debt and RCF/total debt.
4. Ensuring extensive financial flexibility. Ensuring a credit rating in the single "A" range enables broad access to sources of funding. This provides support for the Group's growth strategy and enables access at any time to fresh capital, even in tense capital markets. VERBUND's financing portfolio comprises a balanced mix of bonds, loans, export credit financing and project financing.
5. Optimisation of the risk structure on the basis of specified limits. VERBUND's financial strategy is based on a conservative risk strategy with defined Value-at-Risk (VaR) and limit systems, with compliance being reviewed on an ongoing basis by the Group's risk management. Risk management of the borrowing portfolio is primarily based on the key ratios: duration, residual maturity, effective interest rate, currency limits, interest rate variability and VaR.

Borrowings and borrowing portfolio

To finance its capital expenditure program, VERBUND AG carried out a capital increase of €1bn in 2010. For this reason and due to a decrease in investing activities, the need for borrowed capital declined significantly compared to the previous year. VERBUND International Finance B.V. secured two loans from the European Investment Bank for partial refinancing of the funds needed for the CCGT in Mellach and the first stage of the 380-kV high-voltage grid in Salzburg.

Lines of credit

For VERBUND, ensuring liquidity has the highest priority. As at 31 December 2010, VERBUND had a syndicated credit lines in the amount of €750m at its disposal to ensure liquidity; this line of credit was not drawn upon. This line of credit was established in January 2005 with a number of national and international banks; it has a maturity date of January 2012 and it can be drawn upon at any time. Additionally, VERBUND had uncommitted lines of credit of €755.5m at its disposal as at 31 December 2010 primarily with domestic banks.

As at 31 December 2010, 56.6% of VERBUND's borrowing portfolio consist of bonds, 23.1% of loans, 16.9% of export credit financing and 3.4% of other financial liabilities.

Development of credit rating

The better the credit rating of a company is, the easier the access to international markets, the broader the possibilities for obtaining financing and the less expensive the borrowing. Ensuring the long-term sustainability of VERBUND's credit rating is of great importance, as the corporate risk premiums following the crisis on the financial markets are being increasingly differentiated according to the Company's rating category. In 2010, the rating of VERBUND AG improved: Due to the capital increase Standard & Poor's deleted the negative outlook and upgraded the rating to A-/stable outlook. Moody's left the rating unchanged at A2/negative outlook. With the current rating classifications VERBUND is in a better position than the average European stock-listed utilities.

Financial key figures

	Unit	**2010**	2009
Cash flow from operating activities	€k	367,763.4	495,077.2
Cash flow from investing activities	€k	117,563.0	–1.317.124.4
Cash flow from financing activities	€k	–486,479.4	822,544.3
Financial result	€k	242,558.4	379,013.5
Gearing	%	102.7	158.1
Debt repayment period	years	8.1	6.2

The good financial result in the previous year went down by about €136.5m to €242.6m mainly as a result of the decline in income from equity interests of €53.3m and higher expenses from assumptions of losses in the amount of around €8.0m. In addition, the interest expenses went up by €65.9m, while interest income decreased concurrently by €15.1m. The fiscal year saw gains from the sale of securities that increased by €5.8m over the previous year.

A decline in interest-bearing net debt by €24.4m and the significant increase in adjusted equity by €967.7m resulted in a reduction of gearing by 55.4 percentage points to 102.7%. The debt repayment period increased from 6.2 to 8.1 years, with the surplus from ordinary activities declining by €127.3m and liabilities remaining almost the same. The cash flows during the fiscal year are presented below in a separate table. The composition of cash in hand and cash in banks (fund of cash and cash equivalents) is presented in the Notes (5).

Cash flow statement

(1) Cash flow from operating activities

The Cash flow from operating activities is prepared in accordance with the indirect method and amounted to €367,763.3k (previous year: €495,077.2k).

Trade receivables remained almost unchanged.

The decline of other receivables and assets is due primarily to provision of collateral for trading of electricity derivatives.

The change in current provisions is due to the decrease in provisions for the electricity business by €14,648.8k, the increase in other non-current provisions by €9,316.7k as well as a decline in provisions for taxes by €101,905.7k.

The increase in trade payables is the result of more trading on the exchange and less trading by means of forward contracts in December 2010 as compared to December 2009, resulting in different payment terms.

The change in other payables is the result of a decline in deferrals relating to the electricity business.

The foreign exchange fluctuations arose from a bond denominated in yen.

A capital increase was carried out during the fiscal year with 39,215,686 new shares being issued. The net cash flow from operating activities per share amounts to €1.06, €1.19 adjusted to reflect the capital increase (previous year: €1.61), with a ratio to revenue of 12.1% (previous year: 15.6%).

(2) Cash flow from investing activities

Cash flow from investing activities recorded inflows of €117,563.0k (previous year: cash outflow of €1,317,124.4k), resulting primarily from the acquisition of equity interests in the amount of €21,689.0k, loans amounting to €34.2k and securities totalling €84.2k. These have to be seen alongside loans in the amount of €41,368.6k, the disposal of securities totalling €79,569.9k with capital gains from sales of €13,013.5k and the disposal of equity interests totalling €95.1k with capital losses from sales of €1.5k.

Investments in intangible assets and property, plant and equipment were primarily investments relating to the operation of a gas storage facility in the amount of €2,237.9k as well as investments in office and plant equipment totalling €859.8k.

Cash flow statement

€k

	Notes	2010	2009
Net income		352,608.7	515,183.7
Amortisation of intangible assets and depreciation of property, plant and equipment		3,187.1	3,801.9
Result from the sale of investments and securities from current assets		–14,921.6	–4,939.3
Change in inventories		15.5	3,524.8
Change in trade receivables		–1,103.6	38,407.0
Change in other receivables and assets[1]		60,731.7	–59,228.6
Change in deferred taxes		44,030.8	4,006.2
Change in non-current provisions		–1,929.4	–1,319.4
Change in current provisions		–107,237.8	–8,230.5
Change in trade payables		23,196.0	12,655.9
Change in other liabilities[1]		–2,247.2	–9,253.1
Foreign exchange fluctuations		10,310.4	0.0
Change in interest accruals and deferrals		1,122.7	468.6
Cash flow from operating activities	(1)	**367,763.4**	495,077.2
Investments in intangible assets and property, plant and equipment		–4,932.8	–1,833.4
Disposals of intangible assets and property, plant and equipment		10,257.6	48.0
Financial investments		–21,807.4	–1,612,373.0
Disposal of financial investments		134,045.6	297,034.0
Cash flow from investing activities	(2)	**117,563.0**	–1,317,124.4
Capital increase from cash contributions		1,000,000.0	0.0
Dividend distribution		–385,250.0	–323,610.0
Change in Group clearing balances		–1,061,465.0	207,833.9
Change in current borrowings/investments		–20.8	–25,133.3
New non-current loans		0.0	287,500.0
Repayment of non-current loans		–39,833.3	–219,183.3
Change in Group financing		0.0	890,000.0
Change in other non-current liabilities		89.7	5,136.9
Cash flow from financing activities	(3)	**–486,479.4**	822,544.3
Change in cash and cash equivalents		–1,153.0	497.0
Cash and cash equivalents as at 1 Jan.		1,925.3	1,428.3
Cash and cash equivalents as at 31 Dec.[2]		**772.3**	1,925.3

[1] Including prepaid expenses // [2] Also see notes (5)

The disposals of investments in intangible assets and property, plant and equipment include €7,394.0k relating to the disposal of converter substation components due to expiration of the contract with capital gains from sales of €1,924.0k.

(3) Cash flow from financing activities

Within the scope of the dividend distribution approved for 2009, €385,250.0k were paid to the shareholders, of which €77,050.0k related to a special dividend of €0.25 per share.

A capital increase in the amount of €1bn was resolved at the Extraordinary General Meeting held on 24 September 2010. The cash inflow from the capital increase was realised in November 2010. A cash outflow in the amount of €1,061,465.0k (previous year: cash inflow of €207,833.9k) was reported within the scope of the Group clearing.

There were loan repayments of €39,833.3k, new borrowings on the money market in the amount of €96.9k and repayments to money market lenders of €117.6k.

Human resources

Forward-looking HR development

A key task in human resources (HR) management is to ensure that the right people are employed at all levels. VERBUND has established comprehensive HR planning and development with various options – starting with recruiting and ranging from training to performance related pay and succession planning. A structured recruiting process is essential if the most suitable people for the job are to be found. We ensure this with a three-stage selection process. HR strategy also forms the basis for selecting the most important target groups for training and development.

Savings achieved in human resources

It is extremely important to use human resources efficiently. VERBUND therefore took further action to save costs in HR in 2010. In light of the fact that the global economic situation is still difficult, we continued to implement our structured cost-cutting programme. It includes reducing overtime, decreasing unused holiday accruals, and cancelling or delaying plans for recruiting new personnel.

Where recruiting is necessary, VERBUND does so with the greatest cost-consciousness. Existing employees undergo consistent and targeted training while keeping the available budget in mind. VERBUND has also improved the efficiency of HR work by integrating various HR services, e.g., a shared service centre will be responsible for HR administration from 1 January 2011.

Uniform performance-related pay scheme and careful succession planning

We introduced a new remuneration system for executives in 2009, followed by a Group-wide, performance-related pay scheme in 2010. As a result, all employees can now receive performance- and profit-related salary components. The percentage of variable components depends on the position. Gradings are based on the collective bargaining agreement for Austria's electricity companies. Comparing salaries with other companies on the market ensures that the pay is fair, competitive and takes costs into account. Not only does the new pay scheme guarantee consistent performance orientation but it also assures quality and productivity.

Executives play a key role in a large group such as VERBUND. Careful succession planning is therefore of great significance to these positions. To identify suitable candidates, VERBUND develops detailed successor plans including HR development concepts in line with requirements. This process involves assessing the suitability, performance and potential of the talent existing in the Group. Regular reviews ensure that the plans are up to date.

Investing in training and development

The technical and industrial personnel constitute the basis of VERBUND in the plants and operations. Another important part of HR management is training apprentices. 2010 saw the opening of the new central and apprentice workshop in Kaprun/Salzburg. Together with the existing apprentice workshops in Ybbs-Persenbeug/Lower Austria and in Töging am Inn/Bayern, it enables around 45 apprentices every year to start training as electrical and mechanical engineering technicians. A total of 147 young men and women are currently being trained.

Another focus is on training and development for skilled workers and masters. Providing apprenticeships in the dual profession of electrical and mechanical engineering technician, VERBUND expands this important Group's knowledge and the areas where they can then be employed. In addition, a training programme tailored to the specific workplace requirements is on offer every year.

Report on research, development and the environment

Research and development

In 2010, we restructured research and development at VERBUND. The Group-wide Competence Centre Innovation, which works at an international level, replaced the holding department set up in 2009. Specific research in the field remains at the VERBUND subsidiaries.

Clear allocation of tasks

The new Competence Centre Innovation is predominantly responsible for research projects that require cooperation between several VERBUND companies or with external partners and lead to useful products or services in the medium term. Examples are electric vehicles and energy management projects. The operating companies will continue to carry out specific research into hydroelectric, thermal and wind power, transmission and the electricity business. This division of tasks not only enables VERBUND to act quickly and effectively but also to gear operations to new market opportunities.

Promoting research and sharing knowledge

VERBUND assumes responsibility for young talent and potential employees by promoting research work for dissertations and theses. The Group regularly sends speakers to events in the area of research and development, coordinated the European Forum Alpbach talks on electric vehicles in August 2010 and held a citizens' conference at the venue. During the Austria Tec Week from 12 to 15 October 2010 at the world expo in Shanghai, the Austrian Mobile Power platform initiated by VERBUND presented the new activities in the field of electric mobility.

Electric vehicles on the fast track

Having established the Austrian Mobile Power association in 2009, VERBUND again proved its innovation leadership in the field of electric mobility last year. Since the beginning of 2010, VERBUND has been leading Austria's first and largest flagship project in electric vehicles: EmporA (Electric Mobile Power Austria). Fifteen other partners are involved in the project, including industrial heavyweights such as Siemens, Magna and Infineon. The aim of EmporA is to develop the technical and organisational components of an overall system for electric mobility. It is subsidised by the Austrian federal government's climate fund. When new proposals were requested, an extended project for 2011 was submitted which the jury also put forward for sponsorship.

In addition, VERBUND also developed other projects with its strategic partners OMV, E.ON and Siemens that are set to start in 2011. The focus is on the development and installation of fast charging facilities for modern electric vehicles that will reduce charging time to 15 to 30 minutes.

Energy management for the future

An important issue in energy management for consumers is transparency. Customers want to know how much electricity they are using at any one time and from what sources the electricity is generated so that they can improve their energy efficiency. In the future, they will be able to access this information on the Internet or with mobile communication devices.

As many electricity customers will make the transition from being pure consumers to independent producers (prosumers), distributed generation will become increasingly important for new innovative services. Current tests include connecting distributed systems to form virtual large-scale power plants to explore the opportunities for controlling them in a smart grid. Furthermore, total solutions for heating, air conditioning, lighting, controlling electrical appliances and linking to electric vehicles will be an option in the future.

Sustainability

With the focus on electricity generation from hydropower, sustainability has been firmly rooted in our core business since the Group was founded. Our commitment to sustainability was also confirmed and stressed when repositioning the brand in 2010: Eco-friendly hydropower is without doubt VERBUND's greatest strength.

Sustainability goals and strategy

In addition to our corporate strategy, VERBUND also developed a sustainability strategy in 2010. As a result, the implicit guidelines used to manage the Group sustainably for decades are now actually documented. The strategy is a guide with operating procedures for all employees and serves as the basis for defining goals aimed at improving our sustainability track record.

These goals are developed by a sustainability working group. It includes experts in the fields of business, environment and society from VERBUND AG as well as representatives of all the subsidiaries. The sustainability council then evaluates and prioritises the goals. Sitting on the council headed by VERBUND Chairman Wolfgang Anzengruber are the members of the Managing Board and managers of the subsidiaries. This approach ensures ongoing development and improvement in sustainability at VERBUND. The goals are published every year in the sustainability report, which also gives details of the targets met over the preceding period.

Ongoing dialogue with politicians, authorities and industry

VERBUND remains constantly in touch with many different stakeholders. The aim is to make cooperation as constructive and responsible as possible. To achieve this, round table talks on the electricity industry's current concerns are held regularly at Managing Board and expert level with environmental and nature conservation organisations.

In 2010, VERBUND launched Power Facts, a new medium for providing decision makers in politics, administration and industry with concise information. At ONE DAY AT VERBUND, representatives of these stakeholders in the area of energy have the opportunity to spend the day at VERBUND headquarters and discuss various topics with executives and employees on the spot.

Responsibility to the environment

Power generation always involves a certain encroachment on Nature. Since the 1970s, we at VERBUND have been working to minimise the impact our business activities have on the environment.

Environmental management system and certification

Our environmental management system has undergone assessment to EMAS and ISO 14001 standards since 1995. All three thermal power plants in operation received certification. Since 2008, all the grid locations and lines have complied with the standards ISO 9001, ISO 14001, ISO 27001, OHSAS 18001 and EMAS. Of the 123 hydropower plants, 45 were certified to EMAS (56% of standard capacity) and 89 to ISO 14001 (68% of standard capacity) in 2010. Since 2009, all the thermal and hydropower plants have also met TÜV (German product testing agency) criteria.

Supporting energy and climate policy

VERBUND actively supports the European energy and climate policy and contributed the Group's expert knowledge to the Austrian federal government's energy strategy presented in 2010. It focuses on improving energy efficiency, expanding renewables and securing the country's energy supply in the long term. The ultimate aim is to stabilise energy consumption at the 2005 level. To help achieve this goal, VERBUND is generating electricity from hydropower, expanding high-capacity transmission networks and storage capacity in the Alps, increasing the share of renewable energies and promoting electric vehicles.

2010: Year of Biodiversity

The United Nations declared 2010 to be the International Year of Biodiversity. Its purpose is to make us more aware of the significance of the variety of species and diversity within the species.

VERBUND encounters a wide range of ecosystems, regions and species in Europe. Although generation at VERBUND is primarily from hydropower, which ranks among the cleanest and most sustainable forms of producing electricity, building and operating power plants always encroaches on Nature. We have therefore adopted the latest measures for many years, such as fish passage facilities and recultivation, to minimise the impact on biodiversity.

Electricity generation: Emissions further reduced

Some 86% of electricity generated by VERBUND comes from emissions-free hydropower. The generation mix is supplemented with thermal power plants and wind turbines. In the past few years, VERBUND has succeeded in systematically reducing absolute and specific emissions. Greenhouse gas primarily consists of carbon emissions from thermal power plants. Direct carbon emissions amounted to around 3.2 million t CO_2 in 2010. In total generation, the specific emissions in 2010 amounted to 104 t CO_2/GWh (2009: 74 t CO_2/GWh). The reason for this is increased thermal generation, which is not least due to the first year-round utilisation of the state-of-the-art CCGT in Pont-sur-Sambre in France. As for the specific emissions from thermal generation (including purchase rights) the positive development was continued in 2010 with another reduction to 761 t CO_2/GWh in 2010 (2009: 818 t CO_2/GWh). By using the latest technologies, we will continue to reduce these emissions in the long term. Compared with similar European companies, VERBUND thus ranks amongst the leaders.

Since 2006, VERBUND has posted its carbon emissions, reduction targets, climate risks and opportunities in the Carbon Disclosure Project, the world's largest climate database. VERBUND was listed as one of the best companies of the 2,200 taking part in the project in 2010. In addition, VERBUND tops the list of 14 utilities in the report with the greatest reductions in emissions over the past few years. When it comes to energy mix, VERBUND is also front runner by far with a very high percentage of renewables.

Climate initiatives

VERBUND together with the Ministry of Agriculture, Forestry, Environment and Water Management and the association of local authorities ran a competition for the third year running to find Austria's top council for climate protection. First prizes for innovative projects in the categories of renewables, energy efficiency and raising awareness went to Auersbach, Murau and Thalgau councils in 2010.

In conjunction with the Hohe Tauern National Park, we set up the VERBUND climate school in 2010. It raises children's awareness of climate and climate protection. The scheme initially targets schools located in the national park, but the provinces with national parks – Carinthia, Salzburg and Tyrol – will also be involved in the future. During the projects, specially trained park rangers teach the children about the connections between climate, energy and climate protection.

Electricity for a better life: Successful aid projects

In 2009, the Group started two major projects in Austria in cooperation with nationwide social services: the VERBUND electricity relief fund together with the Catholic charity Caritas and the VERBUND Empowerment Fund together with Diakonie, a Protestant aid organisation.

VERBUND employees are invited to take a personal interest in these projects. On their part, for example, they organise day trips to the power plants for mothers and children at Caritas homes. The cooperation with Diakonie is aimed at helping people keep in touch and promoting greater independence by using electronic media and assistive technologies for communication. VERBUND's contribution to society was acknowledged in 2010 with the Group receiving the SozialMarie award from the Unruhe private foundation for the electricity relief project with Caritas.

Report on branch offices

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

Report on significant risks and uncertainties

Risk management

A Group-wide risk management system has been in place since 2001 to identify and assess the risks and opportunities at VERBUND as early as possible. In 2010, we streamlined the procedures and restructured the tasks involved. A tangible consequence of this process is the integration of risk and opportunity management in Group controlling.

Efficient new structure in risk management

Risks and opportunities are identified in the individual companies at VERBUND and form an integral part of the planning and reporting processes. The risk and opportunity management tasks include coordinating and monitoring these processes, aggregating the data collected in the system and submitting quarterly reports to the Managing and Supervisory Boards. Risk Management Committees review and update the risks and opportunities found. In the area of information security and data protection, risk management is the responsibility of the Chief Information Security Officer.

Significant risks and opportunities at VERBUND

A group such as VERBUND has to bear many risks. Given the significance of market and financial risks, one focus of risk management is on trading, distribution and financing. Here we apply a strict policy of dual control.

Before making investment decisions, we also take potential risks and opportunities into account. The basis for decisions are assessments by consultants and experts at VERBUND and specially set up centres of excellence.

Risks and opportunities for 2011

Operational and interest risks

The result from equity interests of VERBUND AG is significantly influenced by the operating results of its subsidiaries.

VERBUND's operations are mainly affected by the volume and price risk inherent in the electricity business. Given the high percentage of hydropower, the volume of electricity generated by VERBUND depends to a great extent on the weather and the water supply from the rivers. Fluctuations in wholesale prices also have a significant impact on earnings. A change of 1% of greater or less generation from hydropower would affect the operating result for 2011 by €11.9m, while a fluctuation of the wholesale prices would have an effect of €5.3m.

In thermal generation, the risk is determined by the wholesale prices for electricity, the cost of primary energy sources (i.e., heating oil, natural gas, hard coal) and carbon credits. The risks in this area will become more important when the Mellach CCGT goes online in 2011.

In addition, the risks involved in contracts, personnel and facilities also affect the operating result.

As we continue to implement our growth strategy the risks involved may be higher (especially in the area of foreign equity interests), but they are offset by greater opportunities.

Risks exist in the significant fluctuations in results from equity interests (including foreign currency effects), particularly at the beginning of investment, and from changes in the stake's value. Liabilities and guarantees assumed by VERBUND can also have a negative effect. Opportunities are to be found in long-term investment in emerging markets with rising price levels and potentially favourable foreign currency effects.

Since investments in interests mostly relate to VERBUND's core business with various levels of value added such as generation, trading and distribution, the structure of interest risks is similar to that of VERBUND's risk portfolio in Austria. Regular reporting and monitoring as well as developing and implementing an adequate risk management system in the relevant interests will ensure that our investments are secure in the long term as part of the international growth strategy. Furthermore, VERBUND's risk return portfolio will feature newly developed, risk-based portfolio management in the future.

The profit or loss of investees with registered offices in the eurozone are largely affected by the risks and opportunities on the European energy market and regulatory aspects. However, where investees have registered offices outside the eurozone, the financial risk mainly derives from exchange and interest rate fluctuations alongside the risks inherent in the specific country and the energy industry. As VERBUND has interests in Italy, France and Turkey, our international growth strategy will increase the risks but also expand the opportunities in the future.

Financial risks

In terms of liquidity, VERBUND is well positioned and has adequate liquidity reserves. The capital increase and long-term hedging of the historically low interest rates in 2009 guarantee VERBUND low capital costs in the medium term.

VERBUND's investment strategy is conservative: Available funds are invested in a broad investment portfolio at banks with good to prime credit ratings. As security for electricity trading activities, the Group holds money-market-related bonds and securities from partners with high credit ratings.

As over 80% of financial liabilities have fixed interest rates, the risk of interest rate changes is of less significance to VERBUND. The capital increase in November 2010 has also had a positive impact on VERBUND's credit rating.

The risks from cross-border leasing transactions are only of minor importance now, as around 85% of contracts were terminated early.

Information security risk

A key success factor at VERBUND is to be found in all areas of information technology (IT) – from computing to control technology and telecommunications. To ensure that personnel grasp the issues involved in using these technologies and handling sensitive Company information and act accordingly, we hold regular wide-ranging information events and training courses and use the latest media to support and raise awareness regarding information security.

In addition, VERBUND also has a well-developed information security organisation. Its structure is defined in an Information Security Policy that applies to the whole Group and describes the duties and responsibilities involved. Forming the basis for creating consistent awareness of information security, it defines a standard for economically appropriate action for the inherent risk. A chief information security officer (CISO) plans and constantly controls all aspects of information security at VERBUND. The CISO has the authority to issue instructions and is responsible for ensuring that the applicable internal and external requirements are met. Overall coordination of information security is, however, the responsibility of the Risk Management Committee for Information Security.

Other risks

Long investment cycles are a feature of the energy industry. Following deregulation, uncertainty is increasing due to the radical changes in the market. The economic and financial crisis has made market participants keenly aware that effective risk and opportunity management is necessary to exploit existing and future potential for success.

The main sources of risks and opportunities in this area:

- Implementing EU guidelines: When the third EU internal market package is implemented, it will change the conditions for bottleneck/cross-border capacity and contain various approaches to the subject of water charges.
- Economic development of the foreign markets: What is important for VERBUND is to develop the international markets of Germany, France, Italy and Turkey.
- Changes in the technological environment: Innovations and new technological developments, such as the increased use of renewable energies or distributed electricity generation, impact VERBUND's business.
- Changing consumer behaviour: Demographic development, technological trends and social issues, such as electric mobility and climate change, affect consumer behaviour in the medium term.

Financial Instruments

The primary financial instruments include, in particular, financial assets such as securities, loans and investments, trade receivables, cash in banks, securitised and non-securitised financial liabilities and trade payables.

Finance area

The listed derivative transactions serve exclusively to economically hedge against existing currency and interest rate risks. The fluctuations in value of these hedging relationships are offset by the fluctuations in value of the hedged transactions. The change in value of those transactions, to which hedge accounting is not applied, are always recognised in profit or loss.

Additional information regarding accounting treatment and measurement can be found in Chapter III (2) of the Notes.

Electricity sector

The derivative financial instruments relating to the electricity business comprise electricity futures, electricity forwards and swaps. Purpose of the derivative hedging relationships in the electricity sector is the closure of electricity utilities that are not physically covered.

Positive and negative fair values are presented separately. If a framework agreement with a netting clause has been concluded with a counterparty, the positive and negative fair values of the transactions are netted for accounting purposes.

The effects of potential market price fluctuations (–10% to +10%) on the overall portfolio or separated according to forwards and futures in the trading portfolio are measured by way of a sensitivity analysis.

Additional information regarding accounting treatment and measurement can be found in Chapter III (2) of the notes.

As at 1 February 2011, no risks were foreseeable for 2011 whose effects – either individually or interacting with other risks – could pose a threat to the continued existence of VERBUND AG.

Key features of the internal control and risk management system

as applied to the accounting process

The following section describes the key features of the internal control and risk management system applied to the accounting process in accordance with Section 243a (2) of the Austrian Commercial Code (UGB).

Control environment

Code of Conduct

VERBUND is Austria's leading utility and one of the largest companies generating electricity from hydropower in Europe. The VERBUND Managing Board is consequently aware of its responsibility towards shareholders, employees, business partners, society and the environment. Group management acts according to the principles defined in the Code of Conduct.

Controlling

Our Managing Board is responsible for developing and implementing an internal control and risk management system for the entire accounting process, which has to meet the Group's demands. As a centre of business excellence, VERBUND Group controlling ensures that the tasks in controlling, accounting and financial reporting comply with the applicable rules and regulations and are carried out uniformly throughout the Group.

The controlling departments in the VERBUND subsidiaries are supported by Group controlling and have access to the Group manuals for their work. VERBUND Management Service GmbH provides such important services as financial accounting, purchasing and IT for the accounting process. This applies to all domestic companies in which VERBUND holds a direct majority or has an indirect determining interest through interests or agreements. For all other equity interests (e.g., at equity and foreign interests), compliance with these basic principles and standards has been ensured to the greatest extent possible.

Budgeting, revised and medium-term planning

VERBUND controls the Group on the basis of the operating results and key performance indicators derived from them. Our Internal Control System (ICS) for accounting therefore uses detailed short and medium-term planning and analysis of the deviations from the actual results.

The income statement is rolled over and consolidated monthly in the revised plan for the current year (approved budget for the previous year). If the revised plan is presented quarterly in the Supervisory Board report, the balance and cash flow are also planned and performance indicators for the budget determined. Budgeting for the following business year starts in July when the premises are sent out and ends with the version finalised in mid-October. During budgeting, we carry out medium-term planning at the same time.

Financial reporting

VERBUND runs a fast-close programme every year to prepare the consolidated financial statements to IFRSs and the individual financial statements to UGB and IFRSs. In the case of fully consolidated companies, the figures from the individual financial statements are adopted in the SAP EC-CS module for consolidation to IFRSs. The carrying amounts of equity interests of companies consolidated using the equity method are carried forward at Group level in SAP EC-CS.

Risk assessment

VERBUND has used a Group-wide risk management system for many years that includes software for recording, evaluating and defining action for all the risks and opportunities identified. Group controlling has set up a special department for this purpose. Holding Risk Management coordinates and monitors the processes, aggregates the data collected locally and reports to the Managing and Supervisory Boards quarterly on the Group-wide risk and opportunity portfolio, paying particular attention to potential deviations from the Group result.

There are special Risk Management Committees (RMCs) for all the key areas involving risks or opportunities. They meet regularly under the auspices of Holding Risk Management. The RMCs are primarily responsible for reviewing and updating risks and opportunities regularly, evaluating and implementing control measures and raising awareness of the risks among Group employees.

Control measures

Process manual for accounting

The Internal Control System has to be evaluated regularly to ensure it is still appropriate and monitored with control measures. To this end, VERBUND started a project in 2009 – called „Accounting process – Corporate Law Amendment Act (Unternehmensrechts-Änderungsgesetz, URÄG)" – that determined the actual processes, assessed the risks and identified key internal controls. In addition, it specified the timing of the controls in a risk control matrix and included them together with the flow charts from the process map in a process manual. An updated version is released every year.

As part of risk management, all those responsible for processes are required to review and update the relevant processes once a year. Furthermore, the auditing department also ensures ongoing control with its activities.

Executive orders, Group guidelines, standard operating procedures

VERBUND has a whole set of executive orders, guidelines and standard operating procedures to ensure that structures, roles, functions and processes are clearly defined for all concerned. The organisation team implements continuous improvements to make sure they are up to date and the range meets requirements.

IT systems

SAP is mainly used throughout the Group for financial accounting and budgeting. VERBUND Trading AG also uses host systems for recording wholesale and trading transactions, e.g., Endur as the ETRM software and Eulvis as the customer accounting system. Interfaces automatically transfer the balances to SAP. The VERBUND Sales GmbH business – all the electricity sales to consumers – is initially also processed in Eulvis and then automatically transferred to SAP. The software Professional Planner is available for the budgeting and planning of foreign interests. Original vouchers are archived in SAP, while contracts and other important documents are stored in the document management system (DMS).

Information and communication

Internal reporting

The VERBUND companies' controlling departments send monthly reports to the relevant board members and managers. Once they have been approved, the reports are forwarded to Group controlling where the data is aggregated and presented to the VERBUND Managing Board. Plans and budgets are reviewed and supported by deviation analyses and target achievement checks. Similarly, the financial management also reports to the VERBUND Managing Board on liquidity, financial liabilities and highlights in the areas of financing and investor relations.

In addition to the income statement, quarterly reporting contains additional information such as the balance sheet per quarter, year to date and whole year compared with the budget and the previous year. Another part is segment information with contribution margins and details of potential results and target achievement. Financial management also reports on the general conditions applying to exchange rates and interest, on the amortisation outlook, investment performance and risk monitoring in the area of financing. Holding Risk Management provides an overview of the risk horizon for the current and following year and the results achieved by the Risk Management Committees.

External reporting
Quarterly external reporting to the Supervisory Board is basically the same as quarterly internal reporting, but with more segment information. Other external reports to the Supervisory Board include the annual report on VERBUND investments and the Managing Board's report on the annual budget, including the financial and liquidity plan, human resources and investment plan.

Legal unbundling
Since legal unbundling, Company codes are kept strictly separate and reports only accessible to specific people to prevent information from being shared between VERBUND companies and Austrian Power Grid AG, which would not be permitted. This ensures that VERBUND companies cannot access the grid company's sensitive data and vice versa. The only exception to the rule are shared services, such as Group controlling, financial accounting and IT.

Monitoring

The auditing department monitors operations, business processes and the internal control and risk management system. Its work follows the auditing programme approved by the VERBUND Managing Board supplemented by short and special audits. The audit reports include various recommendations and measures. After the Managing Board instructs them to be implemented, they are subject to six-monthly follow-ups.

One of the priorities in auditing is ensuring that all the corporate procedures and processes are consistent with the Group-wide rules and regulations, the VERBUND companies' articles of association or partnership agreements and the applicable laws. Another side to the work is seeing to it that tasks and functions are kept separate as appropriate and the policy of dual control is observed. Where information technologies are used in particular, the audit department checks whether applicable authorisation systems or additional controls in documented form are implemented.

Information in accordance with Section 243a (1)

of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB)

1. At the balance sheet date, the share capital comprises: 170,233,686 individual share certificates (bearer shares category A), equivalent to 49% of the share capital; 177,182,000 individual share certificates (registered shares category B), equivalent to 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. There were 347,415,686 shares in circulation at the balance sheet date. With the exception of the voting restriction described under Point 2, all shares have the same rights and obligations.
   During the fiscal year a capital increase of 19,215,686 individual share certificates (bearer shares category A) and 20,000,000 individual share certificates (registered shares category B) was carried out.
2. In accordance with constitutional law, which regulates the ownership structure of the companies in the Austrian electricity sector (Federal Law Gazette I [BGBl] 1998/143 (2)) and also forms the basis for the Company's Articles of Incorporation, the following voting restriction applies: "With the exception of regional authorities and companies in which regional authorities hold an interest of at least 51%, the voting right in the Annual General Meeting is restricted to 5% of the share capital." We are not aware of any other restrictions that affect voting rights or the transfer of shares.
3. The shareholder structure of VERBUND AG is largely defined by the majority holding of the Republic of Austria. 51% of the share capital of VERBUND AG is owned by the Republic of Austria under constitutional law. A syndicate comprising the state energy companies Wiener Stadtwerke Holding AG and EVN AG owns more than 25% of the share capital. More than 5% of the share capital is owned by TIWAG-Tiroler Wasserkraft AG. Less than 19% of the share capital is in free float.
4. There are no shares with special control rights.
5. VERBUND does not have any employee participation programmes.
6. In accordance with the rules of procedure for the Supervisory Board, the last nomination to the Managing Board must be prior to the nominee's 65th birthday. A Nomination Committee has been established within the Supervisory Board pursuant to the Austrian Code of Corporate Governance, which makes arrangements for the appointment of Managing Board members on behalf of the Supervisory Board (see also Corporate Governance Report 2010). Apart from the above, there are no other regulations extending beyond the legal requirements that relate to the members of the Managing Board and the Supervisory Board. Moreover, there are no applicable requirements derived directly from the law regarding amendment of the articles of incorporation.

7. The authorisation granted to the Managing Board at the 62nd Ordinary General Meeting held on 25 March 2009 in accordance with Section 65a (1) (8) of the Stock Corporation Act (AktG) relating to the purchase of Treasury shares is valid until 25 September 2011. The Managing Board has not issued a decision on a buyback programme to date.
   In the Extraordinary General Meeting held on 24 September 2010, new authorised capital was resolved, whereby the Managing Board was authorised under Section 169 of the Stock Corporation Act to increase the share capital with the approval of the Supervisory Board by 23 September 2015 by up to €154,100,000.00 by issuing up to 154,100,000 new bearer or registered ordinary shares (individual share certificates) against a cash contribution – if applicable, made in several instalments – and to determine the issue amount, the terms of issue and the further details of the implementation of the capital increase with the approval of the Supervisory Board. This with the proviso that the federal government subscribes for new shares within the scope of a capital increase from the authorised capital, thus ensuring that the shareholding of the federal government in the company does not fall below 51% of the Company's share capital even after completion of a capital increase from authorised capital. Subsequently, the Managing Board resolved a capital increase with the Supervisory Board's approval on 24 November 2010 by issuing 39,215,686 individual share certificates, whereby the share capital rose to €347,415,686.00. After this capital increase, the Managing Board is authorised to increase the share capital with the approval of the Supervisory Board by 23 September 2015 from the current nominal value of €347,415,686.00 by up to €114,884,314.00 by issuing up to 114,884,314 new bearer or registered ordinary shares (individual share certificates) against a cash contribution – if applicable, made in several instalments – and to determine the issue amount, the terms of issue and the further details.
   The Managing Board has no additional powers within the meaning of Section 243a (7) of the Austrian Commercial Code (UGB).
8. The Company is not involved in any significant agreements that contain provisions referring to the stipulations under Section 243a (8) of the Austrian Commercial Code (UGB). Furthermore, in our opinion, a public takeover bid is not possible at this time under constitutional law.
9. There are no compensation agreements within the meaning of Section 243a (9) of the Austrian Commercial Code (UGB).

Report on expected development of the company

The world economy climbed back from the deep recession in 2010. The market region relevant for VERBUND also experienced a recovery of the economy. The IMF outlook stated that economic growth was 1.7% in real terms both in the eurozone and the EU.

The brighter general economic perspective caused prices on the fuel markets to make a significant recovery in 2010. Q4/2010 in particular saw increases in the prices of oil, gas and coal, some of which were quite considerable.

At the same time, electricity consumption in Europe was again on the rise. In Austria, for instance, electricity consumption climbed by 4.0% alone in the first eleven months of 2010 as a result of the economic recovery and cooler weather. While this improvement did not quite bring sales back up to the pre-crisis level in the first eleven months of 2010, the greater part of the fall in sales could be recouped. In 2010, the global economy emerged from the crisis. The market region relevant for VERBUND also experienced a recovery of the economy.

Economic outlook cautious

Despite the recovery in 2010, the economic outlook for 2011 is cautious. Many industrialised nations are still feeling the full force of the economic and financial crisis. As the economic stimulus packages gradually came to an end, global growth tailed off in the second half of 2010. According to the IMF, the rate of global economic growth will slow down in 2011, but overall economic production will continue its marked upward trend. The upswing in the eurozone (in real terms +1.5%) and in the EU (in real terms +1.7%) will probably remain restrained.

Based on the framework conditions previously described, we are anticipating stable primary energy and CO_2 prices in 2011. Along with the predicted slight economic growth, electricity demand should continue to recover and exceed the pre-crisis level.

Stable electricity prices

In 2010, electricity prices mirrored the previously depicted positive influencing factors only in part. The annual average base-load spot prices for the German and Austrian markets on the Paris EPEX Spot Exchange were about 14% higher than the previous year, with peak prices surpassing the average figures of the previous year by just over 8%. The electricity futures market remained under pressure because there are still adequate supplies on the marketplace. The average prices for base-load energy (front year base 2010) on the Leipzig-based European Energy Exchange (EEX) for Germany and Austria were only 1% above the previous year's level. The prices for peak-load energy (front year peak), however, continued to drop and ultimately fell by just under 8%.

In 2011, we are expecting a stable development of wholesale prices. The higher prices for primary energy and the rising electricity demand point toward an increase in electricity prices. The life-span extension of nuclear reactors in Germany and in particular the massive expansion of renewable energy sources are exerting pressure on the electricity prices. Due to our continuing hedging strategy, we anticipate the average achieved contract price in 2011 to be slightly higher than the price in 2010. Based on the current forward prices, we anticipate slightly rising prices for the following years.

Capital increase drives investment in hydropower

A milestone in VERBUND's history was the increase in share capital of €1bn that was completed on 24 November 2010. The capital raised will enable us to implement the planned investments quickly on the basis of a sound capital structure and a credit rating in the "A" range. In the next six years, we will invest about €2.4bn in growth projects, in particular hydropower in Austria. We will also drive expansion of the high-voltage grid in Austria and continue to invest in Turkey.

After the challenging economic situation in the past year, we are moving forward into the future in a position of strength now that the capital increase has been completed. Nevertheless we continue to work on measures to optimise our capital structure and improve our result, for example, with the planned sale of up to 30% of the Inn power plants, which were acquired in August 2009. In 2010, we already sold 3.46% of the shares to Innkraft Bayern GmbH & Co. KG.

Operating result expected to remain consistent in 2011

Based on the previously described influencing factors and an average water supply, we expect the operating result and Group result to remain approximately the same in the 2011 fiscal year. We anticipate that the Group result will continue to be positive due to the measures we have taken relative to investments abroad and the progress in executing our business plans. Our dividend policy continues to target a constant payout ratio of 45 to 50% of the Group result.

Events after the balance sheet date

There have been no events that need to be reported on.

Vienna, 1 February 2011
Managing Board

Dipl.-Ing. Wolfgang Anzengruber
CEO
Chairman

Dr. Johann Sereinig
Deputy CEO
Vice Chairman

Dr. Ulrike Baumgartner-Gabitzer
Managing Director
Member of the Managing Board

Annual Financial Statements

Balance sheet

Total assets

€k

	Note	**2010**	2009
A. Assets			
I. Intangible assets	(1)	3,837.2	4,935.2
II. Property, plant and equipment		20,896.2	27,572.9
III. Investments	(2)	4,150,763.5	4,249,989.7
		4,175,496.9	4,282,497.8
B. Current assets			
I. Inventories	(3)	72.0	87.5
II. Receivables and other assets	(4)	1,605,477.9	607,819.6
III. Cash balance, cash in banks	(5)	772.3	1,925.3
		1,606,322.2	609,832.4
C. Prepaid expenses	(6)	118,234.4	163,178.5
		5,900,053.5	5,055,508.7
Rights of recourse	(7)	3,884,274.7	3,847,319.2
Less counter-guarantees cross-border leasing		–461,410.1	–785,520.2
		3,422,864.6	3,061,799.0

Total liabilities

€k

	Note	**2010**	2009
A. Equity			
I. Share capital	(8)	347,415.7	308,200.0
II. Capital reserves	(9)	971,720.3	10,936.0
III. Revenue reserves	(10)	1,296,152.0	1,133,453.6
IV. Net profit			
Of which profit carried forward €0.0k; previous year: €0.0k	(11)	191,078.6	385,250.0
		2,806,366.6	1,837,839.6
B. Untaxed reserves	(12)	3,575.3	4,743.6
C. Provisions	(13)	127,209.7	237,549.3
D. Liabilities	(14)	2,955,279.0	2,965,588.0
E. Deferred income	(15)	7,622.9	9,788.2
		5,900,053.5	5,055,508.7
Contingent liabilities	(16)	3,884,274.7	3,847,319.2
Less counter-guarantees for cross-border leasing		–461,410.1	–785,520.2
		3,422,864.6	3,061,799.0

Income statement

€k

	Note	**2010**	2009
1. Revenue	(17)	3,041,009.7	3,181,325.6
2. Changes in the total of not yet billable services		–87.5	–3,524.7
3. Other operating income	(18)	35,519.4	32,454.5
4. Total output (Subtotal of lines 1 to 3)		**3,076,441.6**	3,210,255.40
5. Expenses for electricity, grid/gas purchases and purchases of emission rights and other purchased manufacturing services and other services		–2,823,643.9	–2,950,948.3
6. Personnel expenses	(19)	–26,158.7	–28,985.7
7. Depreciation and amortisation	(20)	–3,187.1	–3,801.9
8. Other operating expenses	(21)	–89,252.3	–58,271.1
9. Total earnings (Subtotal of lines 4 to 8)		**134,199.6**	168,248.4
10. Income from equity interests		379,381.9	432,694.4
11. Income from other securities and loans held as investment assets		26,388.0	31,524.3
12. Other interest and similar income		18,104.7	33,247.5
13. Income from the disposal and reversal of impairment losses on investments		13,017.6	7,187.2
14. Expenses from investments		–32,922.5	–27,093.8
15. Interest and similar expenses		–161,411.3	–98,546.0
16. Financial result (Subtotal of lines 10 to 15)	(22)	**242,558.4**	379,013.5
17. Earnings before taxes and changes in reserves		**376,758.0**	547,262.0
18. Income tax expense	(23)	–24,149.3	–32,078.3
19. Net income		**352,608.7**	515,183.7
20. Disposal of untaxed reserves		1,300.9	493.5
21. Allocation to untaxed reserves		–132.6	–118.5
22. Allocation to revenue reserves		–162,698.4	–130,308.7
23. Net profit		**191,078.6**	385,250.0

Statement of changes in fixed assets

	As at 1/1/2010	Additions	Disposals
I. Intangible assets			
1. Industrial property rights, electricity procurement rights, usage fees and similar rights and benefits as well as licences derived therefrom	329,775.8	250.0	2,232.0
	329,775.8	250.0	2,232.0
II. Property, plant and equipment			
1. Land, land rights and buildings, including buildings on third-party land			
a. With residential buildings	109.1	0.0	31.6
b. With plants and other plant facilities	38,945.9	0.0	15,125.2
c. Undeveloped properties	58.0	2,237.9	58.0
2. Electrical installations	21,798.7	417.9	1,973.6
3. Office and plant equipment	14,205.7	859.8	337.6
4. Prepayments and plants under construction	1,110.5	0.0	0.0
	76,227.8	3,515.5	17,525.8
Property, plant and equipment and intangible assets	406,003.6	3,765.5	19,757.8
III. Investments			
1. Shares in affiliated companies	2,823,361.4	21,530.3	71.1
2. Loans to affiliated companies	413,500.0	0.0	32,500.0
3. Equity interests	729,163.1	158.8	35.4
4. Securities (loan stock rights) under fixed assets	184,123.9	84.2	111,566.6
5. Other loans	185,801.6	34.2	8,868.6
	4,335,949.9	21,807.4	153,041.7
Fixed assets	4,741,953.6	25,572.9	172,799.5

Basic value of the properties as at 31 December 2010 amounts to €5,578.6k (previous year: €3,697.5k).

€k

Reclassifications	As at 31/12/2010	Accumulated amortisation	Net carrying amount as at 31/12/2010	Net carrying amount as at 31/12/2009	Impairment losses 2010	Depreciation and amortisation 2010
0.0	327,793.8	323,956.6	3,837.2	4,935.2	137.1	839.8
0.0	327,793.8	323,956.6	3,837.2	4,935.2	137.1	839.8
0.0	77.6	73.8	3.8	9.9	0.0	0.6
204.9	24,025.7	15,993.1	8,032.6	16,756.2	0.0	1,206.0
0.0	2,237.9	0.0	2,237.9	28.5	0.0	0.0
43.2	20,286.1	19,497.9	788.2	513.5	0.0	155.7
93.8	14,821.7	4,988.1	9,833.6	9,922.9	0.0	847.9
–341.9	768.6	768.6	0.0	341.9	0.0	0.0
0.0	62,217.5	41,321.4	20,896.2	27,572.9	0.0	2,210.2
0.0	390,011.4	365,278.0	24,733.4	32,508.1	137.1	3,050.0
0.0	2,844,820.6	20.0	2,844,800.6	2,823,341.4	0.0	0.0
0.0	381,000.0	0.0	381,000.0	413,500.0	0.0	0.0
0.0	729,286.5	50,000.0	679,286.5	679,151.7	0.0	0.0
0.0	72,641.5	3,932.2	68,709.3	148,195.0	0.0	0.0
0.0	176,967.2	0.0	176,967.2	185,801.6	0.0	0.0
0.0	4,204,715.7	53,952.2	4,150,763.5	4,249,989.7	0.0	0.0
0.0	4,594,727.0	419,230.2	4,175,496.9	4,282,497.8	137.1	3,050.0

Statement of changes in untaxed reserves

	As at 1/1/2010	Appropriation/ reclassification	Reversal of disposal	As at 31/12/2010
				€k
Valuation reserves based on special tax deductions				
1. Early depreciation in accordance with Section 7a of the Income Tax Act (Einkommensteuergesetz, EStG) 1988				
1.1. Electrical installations	12.6	111.5	0.0	124.1
1.2. Office and plant equipment	64.8	62.2	8.0	119.0
1.3. Plants under construction	41.1	–41.1	0.0	0.0
	118.5	132.6	8.0	243.1
2. Transfer of hidden reserves in accordance with Section 12 of the Income Tax Act (EStG)				
2.1. Land, land rights and buildings, including buildings on third-party land	1,033.9	0.0	1,033.9	0.0
2.2. Electrical installations	19.4	0.0	9.8	9.6
2.3. Office and plant equipment	1,728.2	0.0	249.1	1,479.1
2.4. Securities	32.4	0.0	0.0	32.4
2.5. Shares in affiliated companies	1,811.1	0.0	0.0	1,811.1
	4,625.1	0.0	1,292.9	3,332.2
Untaxed reserves	4,743.6	132.6	1,300.8	3,575.3

Statement of maturities 2010

€k

	Residual time to maturity as at 31/12/2010			
	< 1 year	> 1 year	> 5 years	Total
Loans				
1. Loans to affiliated companies	32,500.0	299,750.0	48,750.0	381,000.0
2. Other loans	13,069.8	52,285.3	111,612.1	176,967.2
	45,569.8	352,035.3	160,362.1	557,967.2
Receivables and other assets				
1. Trade receivables	170,116.5	0.0	0.0	170,116.5
2. Receivables from affiliated companies	1,316,932.7	0.0	0.0	1,316,932.7
3. Receivables from investees	19,542.7	0.0	0.0	19,542.7
4. Other receivables and assets	98,886.0	0.0	0.0	98,886.0
	1,605,477.9	0.0	0.0	1,605,477.9
Liabilities				
1. Bonds	2,907.2	118,729.9	127,823.0	249,460.1
2. Liabilities to banks	47,930.2	345,083.3	283,416.7	676,430.2
3. Financial liabilities to others	1,188.2	27,500.0	0.0	28,688.2
4. Prepayments received for orders	0.0	0.0	0.0	0.0
5. Trade payables	80,487.9	89.7	0.0	80,577.6
6. Liabilities to affiliated companies	34,511.3	550,000.0	840,000.0	1,424,511.3
7. Other liabilities	23,294.8	0.0	472,316.8	495,611.6
	190,319.6	1,041,402.9	1,723,556.4	2,955,279.0

Statement of maturities 2009

€k

	Residual time to maturity as at 31/12/2009			
	< 1 year	> 1 year	> 5 years	Total
Loans				
1. Loans to affiliated companies	32,500.0	299,750.0	81,250.0	413,500.0
2. Other loans	2,827.0	52,306.9	130,667.7	185,801.6
	35,327.0	352,056.9	211,917.6	599,301.6
Receivables and other assets				
1. Trade receivables	165,139.9	0.0	0.0	165,139.9
2. Receivables from affiliated companies	255,927.3	0.0	0.0	255,927.3
3. Receivables from investees	28,047.9	0.0	0.0	28,047.9
4. Other receivables and assets	158,704.5	0.0	0.0	158,704.5
	607,819.6	0.0	0.0	607,819.6
Liabilities				
1. Bonds	2,372.1	0.0	236,242.5	238,614.6
2. Liabilities to banks	79,951.0	329,083.3	307,250.0	716,284.3
3. Financial liabilities to others	600.6	27,500.0	0.0	28,100.6
4. Prepayments received for orders	8,296.0	0.0	0.0	8,296.0
5. Trade payables	56,641.3	0.0	0.0	56,641.3
6. Liabilities to affiliated companies	39,265.8	500,000.0	890,000.0	1,429,265.8
7. Other liabilities	23,376.8	0.0	465,008.5	488,385.3
	210,503.7	856,583.3	1,898,501.0	2,965,588.0

Notes to
Annual Financial Statements

Notes

I. Accounting policies

Preliminary comments

Due to the use of EDP devices, rounding differences may arise in the addition of rounded amounts and the reporting of percentages.

Fixed assets

Measurement of depreciable or amortisable fixed assets is stated at acquisition and production cost less depreciation/amortisation. The catalogue of uniform rates of depreciation/amortisation at VERBUND provides primarily the following rates of depreciation/amortisation:

	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 building(s)	2 or 3	33.3 or 50
Plant(s)	3	33,3
Technical installations and machinery		
Machinery	4 and 5, respectively	20 and 25, respectively
Electrical installations	5	20
Telecommunications installations in residential and office building(s)	10	10
Office and plant equipment	10–25	4–10

Property, plant and equipment and intangible assets that are used for longer than six months during the fiscal year are depreciated and/or amortised at the full annual rate of depreciation/amortisation; those that are used for less than six months are depreciated and/or amortised at half of the annual rate of depreciation/amortisation.

Acquired intangible assets are measured at cost and – to the extent that they are amortisable – are amortised in accordance with their average useful life.

In addition to direct expenses, appropriate indirect material and personnel expenses are also capitalised in the cost of internally generated plant and equipment. The right of selection of a valuation option with regard to inclusion of social expenses, severance payments and retirement benefits within the meaning of Section 203 (3) of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB) as well as the capitalisation of interest on borrowed capital (Section 203 (4) of the Austrian Commercial Code (UGB)) is waived. Minor-value assets in accordance with Section 226 (3) of the Austrian Commercial Code (UGB) are fully depreciated in the year of addition.

Shares in affiliated companies and equity interests are recognised at cost and/or at lower fair value; securities under fixed assets are measured at fair value only in the event of temporary impairment losses. Interest-bearing loans are recognised in the balance sheet at their nominal value. Receivables with a maturity of more than one year are recognised under investments as loans.

Current assets

Not yet billable services are measured at acquisition cost. Production costs include direct material and manufacturing costs as well as appropriate indirect material and personnel expenses. The right of selection of a valuation option with regard to inclusion of social expenses as well as interest on borrowed capital (Section 203 (3) and (4) of the Austrian Commercial Code (UGB)) is waived.

Receivables and other assets are measured at their nominal value insofar as a lower fair value does not have to be recognised due to foreseeable individual risks. Receivables in foreign currencies are translated at the mid-market exchange rate at the time they are incurred or at a lower foreign exchange reference rate of the European Central Bank (ECB) prevailing at the balance sheet date (to the extent that the exchange rate risk was not otherwise hedged).

Cash in banks in foreign currencies are also translated at the foreign exchange reference rate of the ECB, applying the strict lower-of-cost-or-market principle.

Prepaid expenses

To the extent that in subsequent years tax relief can be expected, the option to form deferred charges for the capitalisation of deferred taxes on the assets side of the balance sheet is exercised, whereby the deferred taxes attributed to the members of the tax group are recognised in their balance sheets under the current result according to allocated tax amounts.

These deferred charges result from differences between the company balance sheet and the tax balance sheet for items whose expenditure charges will only be recognised for tax purposes in the future.

Provisions

The provisions take all foreseeable risks into account that can be allocated to an already completed fiscal year and include those amounts that were necessary based on prudent business judgement.

Allocations were made for provisions for severance payments according to actuarial principles, based on the projected unit credit method (PUC method) customary in international accounting practice. The accumulation period for provisions for severance payments is 25 years. Employees whose service began after 31 December 2002 are no longer entitled to a direct claim against their employer for a statutory severance payment. For these employment contracts, the employer pays 1.53% of gross salary monthly in an employee pension fund in which the contributions are deposited in an account of the employee. The provisions of the collective bargaining agreement for Austria's electricity companies that go beyond the statutory claims are taken into account in the provisions for severance payments.

Due to labour-management agreements and contracts, VERBUND is obligated under certain conditions to make pension payments to (former) employees after they retire. These defined benefit obligations are partially covered by pension plan assets earmarked for this purpose by BAV Pensionskassen AG (pension fund). The provisions determined on the basis of the projected unit credit method customary in international accounting practice is presented net with the pension plan assets. VERBUND is obliged to provide additional funding to the extent the defined retirement benefit obligations are to be fulfilled through BAV Pensionskassen AG.

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

Obligations similar to pension 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 commitments. Due to a reorganisation of the supplementary health insurance system in the last several years, new contracts are currently being executed only with participation of the insured (deductible). Employees with old contracts that exclude participation (deductible) have the ongoing opportunity to transfer to the new system.

The calculations are based on “AVÖ 2008-P – Actuarial Assumptions for Pension Insurance – Pagler & Pagler”.

The calculations as at 31 December 2010 and 2009 are based on the following assumptions:

		%
	2010	2009
Interest rate		
Pensions and similar obligations	4.75	5.00–5.25
Severance payments	4.75	5.00
Trend		
Pension increases	2.25	2.50
Salary increases	2.75	3.00
Contributions to obligations similar to pensions – old contracts	7.50	7.50
Contributions to obligations similar to pensions – new contracts	4.50	4.50
Fluctuation	0.00–4.00	0.00–4.00
Retirement age – women	56.5–65	56.5–65
Retirement age – men	61.5–65	61.5–65
Expected non-current return on plan assets	2.00	2.00

The discount rates are differentiated according to both the residual term of the commitments and equivalently to the total contained therein (active employees and retirees).

Liabilities

Liabilities are reported at the amount repayable, taking the principle of prudence into consideration. Trade payables denominated in foreign currencies are translated using the foreign exchange reference rate of the ECB prevailing at the balance sheet date provided that this rate is higher than the rate prevailing at the time of origination.

Liabilities from bonds and loans denominated in foreign currencies are translated using the foreign exchange reference rate of the ECB prevailing at the balance sheet date provided that this rate was higher than the rate prevailing at the time of origination. The result of this translation is recognised under the corresponding liabilities. Up to 1983 and in the fiscal years from 1994 to 1997, costs of obtaining credit and discounts were capitalised and repaid on schedule in accordance with Section 198 (7) of the Austrian Commercial Code (UGB).

Derivative financial instruments

Hedging relationships

Purpose of the derivative hedging relationships in the electricity sector is the closure of electricity utilities that are not physically covered. The effective hedging relationships are always presented with the corresponding hedged items as a closed item.

The fact that the item is closed enables the application of hedge accounting in accordance with Austrian corporate law. Hedging relationships and hedged items are measured at fair value. Any negative surpluses due to the hedge being less than 100% effective are accounted for in the balance sheet as provisions for onerous contracts. The realisation of derivative hedging relationships is recognised in profit or loss.

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 (electricity futures, electricity forwards, electricity options, and energy derivative swaps) are also carried out under strict risk management specifications.

The energy trading contracts are subdivided into portfolios in accordance with Austrian corporate law. The portfolios include annual, quarterly and monthly products. Seasonal fluctuations in electricity consumption and in generation result in different prices during a calendar year. Due to the high degree of price correlation between annual, quarterly and monthly prices, annual portfolios are formed.

Energy trading contracts involving third-party trading are measured at fair value. The results from derivative energy trading contracts are presented net. Provisions for onerous contracts are recognised in the balance sheet only when the measurement of the respective annual portfolio is negative overall.

Premiums for acquired options from energy trading contracts are capitalised at cost and measured according to the strict lowest value principle. When the option is exercised, the carrying amount of the option premium is recognised over the term of the hedged item; if the option is not exercised, the realisation is recognised at the expiration date.

Premiums received for options written on energy trading contracts are deferred when the option is entered into based on the option period. Provisions are created for impending losses from such transactions.

Income tax expense

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

The parent of the tax group charges the corporate tax amounts attributable to the members of the tax group by means of tax allocation or the group members receive a credit in the event of a loss. The offsetting of allocated tax amounts results in a corresponding up or down adjustment of tax expense in the parent’s income statement.

The tax amounts allocated to group members are adjusted subsequently only if there are material differences.

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

General

In the interest of a clear presentation, individual items in the balance sheet and the profit and loss statement have been aggregated. These items are explained separately in the notes. Form and substance of the presentation of individual items in the balance sheet and the profit and loss statement are in accordance with uniform Group-wide requirements at VERBUND.

Items in the balance sheet and the profit and loss statement that showed no amounts either in the fiscal year or in the previous year were not presented in accordance with Section 223 (7) of the Austrian Commercial Code (UGB). The designations of the items were shortened or expanded to the actual content in accordance with Section 223 (4) of the Austrian Commercial Code (UGB) to the extent that it appeared expedient in order to present annual financial statements that were clear and easy to understand.

If changes in reporting were made compared to the previous year, all of the previous year's amounts were adjusted in accordance with Section 223 (2) of the Austrian Commercial Code (UGB).

Notes on assets

A. Fixed assets

For details see the separate list "Statement of changes in fixed assets".

(1) I. Intangible assets The net carrying amount of the rights of use of plants by affiliated companies is €2,578.0k (previous year: €2,864.5k).

(2) III. Financial investments. The disclosures in accordance with Section 238 line 2 of the Austrian Commercial Code (UGB) are presented in a separate list "Disclosures regarding equity interests in accordance with Section 238 line 2 of the Austrian Commercial Code (UGB)".

Loans to affiliated companies: For details see the separate list "Statement of maturities". Securities (loan stock rights) under fixed assets: They consist primarily of Austrian investment fund units and bonds. Securities under fixed assets in the amount of €55,331.3k (previous year: €94,206.1k) are pledged as guarantees for energy trading. The omitted reversals of impairment losses in accordance with Section 208 (3) of the Austrian Commercial Code (UGB) amount to €1,369.1k (previous year: €7,265.0k).

B. Current assets

(3) I. Inventories €k

	2010	2009
Not yet billable services	72.0	87.5

(4) II. Receivables and other assets For details see separate list "Statement of maturities". In the receivables from affiliated companies, €3,914.2k (previous year: €96.9k) relate to trade receivables. Receivables from investees relate to trade receivables.

€k

	2010	2009
Other receivables and assets		
Electricity trading activities	82,552.1	143,393.4
Prepayments	10,009.6	1.4
Security deposits electricity business	3,507.8	3,222.9
Interest accruals and commissions from bonds and loans	2,355.8	4,169.7
Revenue authorities	39.3	58.3
Payroll	29.5	46.6
Emission rights trading	9.9	321.3
Offsetting of joint ventures	0.0	7,000.0
Financing contributions	0.0	41.1
Other	382.0	449.8
	98,886.0	158,704.5

(5) III. Cash balance, cash in banks

€k

	2010	2009
Cash balance	2.4	3.8
Cash in banks	769.9	1,921.5
	772.3	1,925.3

(6) C. Prepaid expenses

€k

	2010	2009
Deferred tax assets	32,887.9	76,918.8
Prepayments for electricity purchases	28,394.5	28,026.0
Auctions of cross-border capacities	1,034.1	942.0
Discounts, flotation costs and exchange rate differences relating to bonds and non-current loans	1,022.8	1,073.6
Other	54,895.1	56,218.1
	118,234.4	163,178.5

These deferred tax assets result from differences between events under corporate law and events under tax law relating to items whose expenditure charges will only be recognised for tax purposes in the future. The calculation is based on a tax rate of 25%.

(7) Rights of recourse

The rights of recourse amount to a total of €3,884,274.7k (previous year: €3,847,319.2k). In addition to rights of recourse vis-à-vis Group companies, rights of recourse exist primarily vis-à-vis financial institutions, regional companies and regional authorities from cross-border leasing transactions carried out at VERBUND Hydro Power AG in the amount of €461,410.1k (previous year: €785,520.2k).

See note 16, contingent liabilities.

Notes to liabilities

A. Equity

(8) I. Share capital. There were 347,415,686 shares in circulation at the balance sheet date (previous year: 308,200,000 shares). A capital increase in the amount of €1bn was resolved at the Extraordinary General Meeting held on 24 September 2010. 39,215,686 shares were issued in November 2010.

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

(9) II. Capital reserves Capital reserves consisted exclusively of restricted reserves.

(10) III. Revenue reserves €k

	2010	2009
Statutory reserves	19,884.0	19,884.0
Unappropriated reserves	1,276,268.0	1,113,569.6
	1,296,152.0	1,133,453.6

The appropriated capital reserves and the statutory reserves amount to a total of €991,604.3k, which is more than 10% of the share capital.

(11) IV. Net profit	€k
As at 31/12/2009	385,250.0
Distribution	–385,250.0
Profit carried forward	0.0
Net income	352,608.7
Changes in capital reserves	–161,530.1
As at 31/12/2010	191,078.6

(12) B. Untaxed reserves

For details see separate list "Statement of changes in untaxed reserves".

Changes in untaxed reserves in the group of companies (as defined by Section 9 (8) of the Austrian Corporate Income Tax Act (KStG) resulted in tax relief in the amount of €15,839.4k (previous year: €13,229.0k).

(13) C. Provisions

(1) Provisions for severance payments		€k
	2010	2009
Cover capital based on actuarial calculations	6,985.2	7,729.7
Taxed provisions	6,985.2	7,729.7

In 2002, the provision was transferred in accordance with Section 14 of the Income Tax Act (EStG) to a tax-exempt reserve (Section 124b line 68 of the Income Tax Act (EStG)).

(2) Provisions for pensions		€k
	2010	2009
Provisions for pension obligations	27,551.6	28,579.8
Of which obligations similar to pensions	4,988.2	5,010.5

As at the balance sheet date, the unrealised actuarial losses from application of the corridor method amount to €3,526.3k (previous year: loss €4,348.6k).

(3) Provisions for taxes		€k
	2010	2009
Corporate income tax (including prior reporting periods)	49,248.8	151,154.6

(4) Other provisions

	2010	2009
		€k
Not yet billed trade receivables	17,218.9	6,803.5
Electricity/grid purchases	14,513.6	26,829.2
Anticipated electricity business losses	5,166.5	7,499.7
Interest for advance payments received	0.0	871.7
	36,899.0	42,004.1

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

	2010	2009
		€k
Other personnel-related provisions		
Vacations	2,401.6	2,532.5
Premiums	2,978.9	3,967.1
Additional vacation pay	644.9	721.3
Compensatory time credit	218.4	231.9
Early retirement benefits	198.4	553.6
Other	82.7	74.7
	6,524.9	8,081.1

(14) D. Liabilities

For details see separate list “Statement of maturities”.

Of the liabilities to affiliated companies, €1,424,311.5k (previous year: €1,424,211.5k) relate to financial liabilities and €199.8k (previous year: €5,054.3k) to trade payables.

	2010	2009
		€k
Other liabilities		
Long-term electricity supply commitment	472,316.8	465,008.5
From taxes	21,195.1	20,953.3
Payroll	523.9	615.2
Related to social security	270.7	308.5
Payments received from valued electricity business	113.1	111.4
Other	1,192.0	1,388.4
	495,611.6	488,385.3

(15) E. Deferred income

	2010	2009
		€k
Guarantee payments from affiliated companies	7,396.5	7,269.7
From electricity business	151.3	2,518.5
Other guarantee payments	75.1	0.0
	7,622.9	9,788.2

(16) Contingent liabilities

The contingent liabilities that are recognised below the line are surety bonds for other loans and credit facilities, including the required interest accruals as well as other assumptions of liabilities excluding contingent liabilities associated with cross-border leasing transactions totalling €3,084,013.9k (previous year: €2,689,111.6k), of which €2,491,663.1k (previous year: €2,261,846.5k) relate to affiliated companies and €2,793.0k (previous year: €2,594.1k) relate to investees. These contingent liabilities have to be seen alongside rights of recourse in the same amount.

The subsidiary VERBUND Hydro Power AG entered into several cross-border leasing transactions during the 1999 to 2001 fiscal years. The figures reported in the balance sheet of VERBUND Hydro Power AG are all in US dollars. With the exception of one transaction, there was full balance sheet cover for all obligations by way of corresponding acquisition of securities or through loans to financial institutions. Cover has not been provided for the time being for a transaction entered into in 2001; the funds received were utilised entirely for financing. Corresponding hedging relationships were entered into in order to avoid the currency risk associated with this transaction.

Beginning in 2009, and continuing during the 2010 reporting period, due also to the financial market crisis, about 85.0% of the original volume of the transactions were terminated. The last remaining transaction 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 VERBUND Hydro Power AG continued the existing B-loans and the corresponding investments.

In connection with these cross-border leasing transactions, VERBUND AG issued guarantee bonds for VERBUND Hydro Power AG, which for the most part still exist for the transactions that have not been terminated as well as for the liabilities transferred to VERBUND Hydro Power AG totalling €800,260.8k (previous year: €1,158,207.7k). Of the rights of recourse against the primary debtors, €461,410.1k (previous year: €785,520.2k) are secured through counter-guarantees on the part of financial institutions, regional companies and regional authorities (from guarantors' liabilities). These counter-guarantees are presented under the total rights of recourse (see note 7). Thus, after deduction of these counter-guarantees, a total of €338,850.8k (previous year: €372,687.4k) remains as contingent liabilities from cross-border leasing transactions.

As part of restructuring of VERBUND's telecommunications sector, liabilities were assumed vis-à-vis tele.ring Telekom Service GmbH and KELAG-Kärntner Elektrizitätsaktiengesellschaft.

Notes to the income statement

(17) 1. Revenue

€k

Revenue from delivery of electricity		2010	2009
Domestic [1]	Energy supply companies	1,361,433.4	1,213,116.3
	Industrial customers and consumers	199,058.2	188,111.3
	Other customers	48,284.9	44,263.6
		1,608,776.5	1,445,491.2
EU	Energy supply companies	420,901.0	424,865.6
	Industrial customers and consumers	122,081.8	83,694.4
	Other customers	849,178.8	1,191,784.3
		1,392,161.6	1,700,344.3
Third countries	Energy supply companies	58.3	0.0
	Other customers	15,779.8	11,195.6
		15,838.1	11,195.6
		3,016,776.1	3,157,031.1
Invoicing of grid tariffs; user and management fees		2,780.2	2,659.2
Other revenue (including emission rights and gas trading)		21,453.4	21,635.3
		3,041,009.7	3,181,325.6

[1] Of which €78,225.7k (previous year: €63,201.8k) from grid fees charged on

(18) 3. Other operating income

€k	2010	2009
a) Income from the disposal of fixed assets with the exception of financial assets	1,953.6	21.0
b) Income from the reversal of provisions	1,035.9	342.5
c) Other	32,529.9	32,091.0
	35,519.4	32,454.5

(19) 6. Personnel expenses

€k	2010	2009
a) Salaries	19,058.6	19,754.8
b) Expenses for severance payments and payments to company employee pension funds		
Severance payments	235.7	1,041.8
Contributions to employee pension fund	356.5	106.9
Change in the provisions for severance payments	–744.5	32.1
Expenses/income takeovers/transfers within the Group	557.3	–26.4
	405.0	1,154.4
c) Expenses for retirement benefits		
Early retirement benefits and pension payments	2,907.2	3,335.4
Change in the provisions for pensions and obligations similar to pensions	–1,028.2	–1,010.6
Expenses/income takeovers/transfers within the Group	284.8	–14.5
Change in the provisions for early retirement benefits	–355.2	–336.5
Pension fund contributions (including obligation to provide additional funding)	972.5	2,152.4
	2,781.1	4,126.2
d) Expenses for social security contributions as required by law as well as income-based charges and compulsory contributions	3,671.5	3,732.3
e) Other social expenses	242.5	218.0
	26,158.7	28,985.7

Interest under personnel expenses for long-term personnel-related provisions is €2,506.7k (previous year: €2,485.7k).

(20) 7. Depreciation and amortisation

€k	2010	2009
a) Amortisation of intangible fixed assets and depreciation of property, plant and equipment		
Depreciation and amortisation	3,007.7	3,756.0
Impairment losses	137.1	0.0
Immediate write-off of minor-value assets in accordance with Section 13 of the Income Tax Act (EStG)	42.3	45.9
	3,187.1	3,801.9

(21) 8. Other operating expenses

€k	2010	2009
a) Taxes other than income taxes (line 18)	11,868.0	46.1
b) Other		
Legal, auditing and consulting expenses	19,832.5	7,757.2
Other administration expenses	15,447.5	12,811.1
Advertising and market development costs	13,622.1	11,875.3
Reimbursement of costs for services	4,097.9	4,268.0
IT support, EDP	3,521.6	3,155.5
Operating costs for buildings, rents and leasing	2,544.8	2,409.2
Membership fees	1,360.7	1,231.8
Temporary personnel and release of personnel	1,252.2	1,287.2
Telecommunications services, data services	1,123.1	1,128.8
Training and development	736.4	797.5
Other expenses	13,845.5	11,503.4
	77,384.3	58,225.0
	89,252.3	58,271.1

(22) 16. Financial result

€k

	2010	2009
Income from equity interests		
From affiliated companies	355,777.3	403,483.9
Of which from profit pools	42,902.7	47,594.9
Income from other securities and loans held as investment assets		
From affiliated companies	15,876.7	16,528.2
Other interest and similar income		
From affiliated companies	17,646.6	12,850.5
Income from the disposal and reversal of impairment losses on investments		
Disposal of shares in affiliated companies	3.4	228.6
Expenses from investments		
From affiliated companies	32,921.8	24,827.2
Interest and similar expenses		
From affiliated companies	69,480.7	47,264.9

(23) 18. Income tax expense

€k

	2010	2009
Consolidated income tax expense	116,478.5	224,403.3
Of which debited to members of the Group	–135,238.8	–195,840.9
Subsequent postings/credit notes from previous periods	–1,121.3	–490.3
Deferred taxes	44,030.9	4,006.2
Income tax expense	**24,149.3**	32,078.3

III. Other disclosures

1. Total of other financial commitments

€k

	Total commitment	2011	2011–2015
Material items:			
Rent, lease and insurance agreements	[1]	861.9	3,729.5
Purchase commitment	5,807.9	5,224.8	5,689.7
Of which to affiliated companies	[1]	8.2	39.9

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

There is an agreement with Ennskraftwerke AG to provide electricity according to which the energy generated in their power plants, less electricity procurement rights on the part 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 AG and Donaukraftwerk Jochenstein AG according to which half of the energy generated in their power plants must be delivered to VERBUND AG in exchange for reimbursement of the recognised expenses plus a reasonable return on equity. In accordance with an electricity supply agreement, E.ON Wasserkraft GmbH (EWK) is obliged to deliver half of the energy generated in the Ering and Obernberg power plants to VERBUND AG at total production cost plus an agreed profit mark-up.

There is an agreement with VERBUND Management Service GmbH for the invoicing of services in the sectors of IT, insurance, purchasing, financial accounting, payroll as well as administrative services.

There is an agreement with VERBUND Finanzierungsservice GmbH for the invoicing of services for carrying out of payment transactions and cash management.

In the sector of electricity distribution and trading there are contractor agreements (Auftragsverträge) with VERBUND Trading AG and VERBUND Sales GmbH.

Due to labour-management agreements and contracts, VERBUND is obligated under certain conditions to make pension payments to (former) employees after they retire. The employer is obliged to provide additional funding to the extent the obligations are to be fulfilled through BAV Pensionskassen AG. Due to the developments on the financial markets, BAV Pensionskassen AG reported an obligation for additional funding in the amount of €0.0k (previous year: 0.0k) to cover defined retirement benefit obligations.

As at the balance sheet date, seven employees had a letter of loyalty granting them a higher degree of protection against layoff. The prerequisite was at least 20 years of service at VERBUND and the completion of 45 years of age.

There are no outstanding contribution commitments to investees (previous year: €0.0k).

2. Disclosures regarding financial instruments

Finance area

Several currency forwards in Hungarian forint (HUF) were entered into, totalling HUF1,871.4m (previous year: HUF642.9m) in order to hedge HUF exchange rate risks related to electricity transit transactions and auctions of cross-border capacities. The reporting date measurement of these transactions resulted in a positive market value totalling €0.1m (previous year: €0.1m) as at 31 December 2010, which was not recognised in the income statement in accordance with the realisation principle.

Electricity business

Derivative financial instruments (electricity futures and electricity forwards) relating to the electricity business can be broken down as follows:

€m

Trading	Fair values positive	Fair values negative	Fair values net
Futures	0.7	0.6	0.1
Forwards	276.6	274.1	2.5
Total before netting	**277.3**	**274.7**	**2.6**

€m

Sales	Fair values positive	Fair values negative	Fair values net
Futures	85.8	112.6	–26.8
Forwards [1]	197.6	197.3	0.3
Total before netting	**283.4**	**309.9**	**–26.5**

€m

Total	Fair values positive	Fair values [2] negative	Fair values net
Futures	86.5	113.2	–26.7
Forwards	474.2	471.4	2.8
Total before netting	**560.7**	**584.6**	**–23.9**
Taking netting agreements into consideration [3]	–469.6	–469.6	0.0
	91.1	115.0	–23.9

[1] Positive fair values for forwards include €0.7m and negative fair values for forwards include €0.0m in respect of affiliated companies. // [2] The positive fair value amounting to €2.6m for the 2011 to 2013 annual portfolios is not recognised in the balance sheet. The negative fair value amounting to €26.5m is offset by underlying transactions with a positive fair value of the same amount, all of which constitute a single accounting unit. // [3] If a framework agreement with a netting clause has been concluded with a counterparty, the positive and negative fair values of the transactions for this counterparty are netted for accounting purposes.

Derivative financial instruments (electricity futures and electricity forwards) relating to the electricity business can be broken down as follows in the previous year:

€m

Trading	Fair values positive	Fair values negative	Fair values net
Futures	1.0	1.7	– 0.7
Forwards	522.7	513.0	9.7
Total before netting	**523.7**	**514.7**	**9.0**

€m

Sales	Fair values positive	Fair values negative	Fair values net
Futures	198.9	255.2	–56.3
Forwards [1]	477.5	287.1	190.4
Total before netting	676.4	542.3	134.1

€m

Total	Fair values positive	Fair values [2] negative	Fair values net
Futures	199.9	256.9	–57.0
Forwards	1,000.2	800.1	200.1
Total before netting	1,200.1	1,057.0	143.1
Taking netting agreements into consideration [3]	–836.4	–836.4	0.0
	363.7	220.6	143.1

[1] Positive fair values for forwards include €31.6m and negative fair values for forwards include €0.0m in respect of affiliated companies. //
[2] The positive fair value amounting to €143.1m for the 2010 to 2012 annual portfolios is not recognised in the balance sheet. //
[3] If a framework agreement with a netting clause has been concluded with a counterparty, the positive and negative fair values of the transactions for this counterparty are netted for accounting purposes.

Emission rights

As at the effective date, there were no derivative financial instruments (CO_2 futures and CO_2 forwards) from emissions trading.

The derivative financial instruments (CO_2 futures and CO_2 forwards) from emissions trading during the previous year can be broken down as follows:

€m

CO_2	Fair values positive	Fair values negative	Fair values net
Futures	0.0	0.0	0.0
Forwards	0.6	0.6	0.0
Total before netting	0.6	0.6	0.0
Taking netting agreements into consideration [1]	0.6	0.6	0.0
Total after netting	0.0	0.0	0.0

[1] If a framework agreement with a netting clause has been concluded with a counterparty, the positive and negative fair values of the transactions for this counterparty are netted for accounting purposes.

3. Number of employees

Average	2010	2009
Salaried employees	178	187

4. Severance payments and pension costs

	2010	2009
Members of the Managing Board, former members of the Managing Board and their surviving dependants	140.7	309.7
Other employees	3,135.5	4,970.9
	3,276.2	5,280.6

The company retirement plan for the members of the Managing Board is based on a defined contribution pension fund. In 2010, contributions to the pension fund were paid for the Managing Board in the amount of €115,714 (previous year: €135,850 for four Managing Board members).

Statutory regulations apply with respect to the claims of members of the Managing Board upon termination of their position.

Expenses for severance payments and retirement benefits (post-employment benefits) amounted to €42,891 (previous year: €212,106) for the Managing Board and €97,792 (previous year: €97,549) for former members of the Managing Board and their surviving dependants.

5. Board members

Disclosures regarding the Boards of the Company (members of the Managing Board and the Supervisory Board) are presented before the Management Report.

€

	Dipl.-Ing. Wolfgang Anzengruber	Dr. Johann Sereinig	Dr. Ulrike Baum-gartner-Gabitzer	Mag. Christian Kern (bis 7.6.2010)
Fixed remuneration	609,951	581,051	399,587	268,708
Variable remuneration [1]	277,566	320,226	181,233	221,233

[1] Variable remuneration is always paid at the beginning of the following year, because whether or not goals have been achieved can only be determined at the end of the year. Consequently, the variable remuneration components paid to the members of the Managing Board in 2010 were paid in respect of the 2009 fiscal year. Remuneration for Mag. Christian Kern also includes (pro rata) variable remuneration for 2010 in the amount of €40,000, which was paid out as agreed following his retirement on 7 June 2010. In addition, Mag. Kern's remuneration also includes a payment in lieu of holiday in the amount of €94,954.

Compensation of the members of the Managing Board totalled €2,859,553 in 2010 (previous year: €2,730,427).

Variable remuneration depends on performance and is limited to a certain percentage of the respective fixed remuneration. In respect of the 2009 fiscal year, this percentage was 50% and 60% maximum. The amount of the performance-linked remuneration components is based on the extent to which the targets agreed for the fiscal year are reached. 50% of the target agreement for 2009 related to attainment of the planned Group profit and 50% related to the attainment of qualitative (and, in part, medium-term) targets (e.g. in the fields of research and development and in the structural and organisational field). The principles underlying the Managing Board's share of profit were unchanged compared with the previous year.

No loans or advances were paid out to members of the Group bodies.

€707,387 (previous year: €722,204) were paid to former members of the Managing Board and/or their surviving dependants for severance and pensions.

Remuneration paid to members of the Supervisory Board amounted to a total of €212,779 (previous year: €203,560).

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

€	**2010**	2009
Chairman	15,000	15,000
Vice Chairmen (two)	11,250	11,250
Members	7,500	7,500
Attendance fee	400	400

These arrangements also apply mutatis mutandis in respect of the Supervisory Board's Working Committee.

6. Transactions with related parties

Contracts 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 the 2010 fiscal year, the following contracts were concluded with members of the Supervisory Board or with enterprises with which a member of the Supervisory Board is associated. The services were rendered for various companies in the VERBUND Group. The contracts were approved by the Supervisory Board:

€k

Counterparty	Object	Value
Institute of Power Systems and Energy Economics, Vienna University of Technology [1]	Research on power supply structures and pumped storage power plants, safety monitoring, Energy Economics Conference	31.4
„smart technologies" Management Beratungs- und Beteiligungsgesellschaft m.b.H. [2]	Delivery and maintenance of software for Austrian Power Grid AG and VERBUND Management Service GmbH	383.0 [3]

[1] Supervisory Board member Dipl.-Ing. Dr. Günther Brauner, who retired on 7 April 2010 is Head of the Institute of Power Systems and Energy Economics. // [2] Supervisory Board member Dipl.-Ing. Hansjörg Tengg, who retired on 7 April 2010, is managing partner of "smart technologies" Management Beratungs- und Beteiligungsgesellschaft m.b.H. // [3] This includes the entire value of the orders placed during 2010; services rendered in 2010 totalled €388.7k, €225.3k (net) of which was invoiced.

7. Intra-Group relationships

VERBUND AG is the parent company of VERBUND and is subject to consolidation requirements.

There are profit and loss transfer agreements with Austrian Power Grid AG, VERBUND Telekom Service GmbH, VERBUND Management Service GmbH, VERBUND Trading AG, VERBUND Sales GmbH and VERBUND Beteiligungsholding GmbH.

8. Unbundling

In addition to the already existing division into business areas (formal unbundling), in the 1999 fiscal year VERBUND implemented legal unbundling as well by establishing independent enterprises under commercial law with separate managing entities and accounting departments.

Business transactions as defined by Section 8 (2) of the Austrian Electricity Industry and Organisation Act (Elektrizitätswirtschafts-und-organisationsgesetz, ElWOG) were entered into specifically with the following companies:

Deliveries of electricity VERBUND Hydro Power AG, VERBUND Thermal Power GmbH & Co KG, VERBUND-Innkraftwerke GmbH, Ennskraftwerke Aktiengesellschaft, Österreichisch-Bayerische Kraftwerke Aktiengesellschaft, Donaukraftwerk Jochenstein Aktiengesellschaft, KELAG-Kärntner Elektrizitäts-Aktiengesellschaft, STEWEAG-STEG GmbH, Austrian Power Grid AG, Energie Klagenfurt GmbH, POWEO S.A.

Electricity trading and sales VERBUND Trading AG, VERBUND Sales GmbH, VERBUND Trading & Sales Deutschland GmbH, VERBUND-Austrian Power Trading SL, trgovanje z električno energijo d.o.o., VERBUND Trading Hungary Kft, VERBUND Trading Czech Republic s.r.o., VERBUND Trading Slovakia s.r.o., VERBUND-Austrian Power Trading ENERGA Hellas Electricity Supply and Trade S.A., VERBUND International GmbH

Grid services Austrian Power Grid AG

Telecommunications VERBUND Telekom Service GmbH

Services VERBUND Management Service GmbH, Austrian Power Grid AG

Financing VERBUND Finanzierungsservice GmbH, VERBUND International Finance B.V.

Secondment of personnel VERBUND Trading AG, VERBUND International GmbH

9. Disclosures in accordance with Section 45a (10) of the Austrian Electricity Industry and Organisation Act (ElWOG)

Result of the documentation of electricity by source	Share	**2010 kWh**
Hydropower	100.0%	992,383,000
Total of the volume of electricity supplied to consumers for their own use	100.0%	992,383,000

Impact of electricity production on the environment	Share	**2010 g/kWh**
Radioactive waste		0.0
CO_2-emissions		0.0

Vienna, 1 February 2011
Managing Board

Dipl.-Ing. Wolfgang Anzengruber e.h. **CEO** **Chairman**	Dr. Johann Sereinig e.h. **Deputy CEO** **Vice Chairman**	Dr. Ulrike Baumgartner-Gabitzer **Managing Director** **Member of the Managing Board**

Disclosures regarding equity interests

in accordance with Section 238 line 2 of the Austrian Commercial Code (UGB)

€k

	Head-quarters	Capital share in % as at 31/12/2010	Last annual financial statement	(+) (–)	Net income/ net loss	Equity[1]
Consolidated affiliated companies [2]						
Austrian Power Grid AG	Vienna	100.00	2010	+	34,783.4[3]	254,427.7
VERBUND Telekom Service GmbH	Vienna	100.00	2010	+	6,880.0[3]	2,164.6
VERBUND International Finance B.V.	Amsterdam	100.00	2010	+	1,776.6	5,293.3
VERBUND Trading AG	Vienna	100.00	2010	+	1,158.1[3]	1,709.0
VERBUND Management Service GmbH	Vienna	100.00	2010	+	9,521.9[3]	29,516.5
VERBUND Power Sales GmbH	Vienna	100.00	2010	+	4,855.2[3]	7,351.9
VERBUND Beteiligungs-holding GmbH	Vienna	100.00	2010	-	44,304.9[3]	1,048,693.8
VERBUND-Innkraftwerke GmbH	Töging	94.90	2010	+	32,321.3	433,786.8
VERBUND Hydro Power AG	Vienna	80.33	2010	+	419,407.2	1,171,511.2
VERBUND Thermal Power GmbH	Graz	59.49	2010	+	1,049.5	1,436.3
VERBUND Thermal Power GmbH & Co KG	Graz	55.65	2010	+	3,070.2	103,855.6
Non-consolidated affiliated companies						
VERBUND Mobile Power Region GmbH[4]	Vienna	75.10	–		–	35.0
Energie Austria GmbH	Vienna	68.75	2009	–	4.0	49.4
Associates						
Österreichisch-Bayerische Kraftwerke Aktiengesellschaft[5]	Simbach	50.00	2009	+	3,272.0	51,361.0
Ennskraftwerke Aktiengesellschaft[5]	Steyr	50.00	2009	+	881.5	13,905.6
Donaukraftwerk Jochenstein Aktiengesellschaft[5]	Passau	50.00	2009	+	818.0	13,516.0
Gemeinschaftskraftwerk Inn GmbH	Landeck	50.00	2009	+	4.9	218.5
Energie Klagenfurt GmbH[5]	Klagenfurt	49.00	2009	+	2,625.8	66,583.4
KELAG-Kärntner Elektrizitäts-Aktiengesellschaft[5]	Klagenfurt	35.13	2009	+	20,009.4	473,021.7
STEWEAG-STEG GmbH[5]	Graz	34.57	2009	+	45,565.9	348,733.7

[1] Equity concept in accordance with Section 224 (3) 3 lit. a of the Austrian Commercial Code (UGB) or local law // [2] Full consolidation in accordance with Section 253–261 of the Austrian Commercial Code (UGB) // [3] There is a profit and loss pooling agreement with the company. // [4] Established in 2010 // [5] Consolidated using the equity method in accordance with Sections 263–264 of the Austrian Commercial Code (UGB)

Audit report

Report on the annual financial statements

We have audited the accompanying annual financial statements of VERBUND AG, Vienna, for the fiscal year from 1 January 2010 to 31 December 2010. These annual financial statements comprise the balance sheet as at 31 December 2010, statement of income for the reporting period ended 31 December 2010 as well as the notes to the annual financial statements.

Management's responsibility for the annual financial statements and for the accounting system

The Company's management is responsible for the accounting system and for the preparation of annual financial statements that give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company in accordance with Austrian corporate law. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility and description of type and scope of the statutory audit

Our responsibility is to express an opinion on these annual financial statements based on our audit. We conducted our audit in accordance with laws and regulations applicable in Austria and the principles of proper performance of audits of financial statements. These standards require that we comply with professional guidelines and that we plan and perform the audit to obtain reasonable assurance whether the annual financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our audit opinion.

Opinion

Our audit did not give rise to any objections. In our opinion, which is based on the results of our audit, the annual financial statements comply with legal requirements and give a true and fair view of the financial position of VERBUND AG as at 31 December 2010 and of the Company's financial performance for the fiscal year from 1 January 2010 to 31 December 2010 in accordance with the Austrian Accepted Accounting Principles.

Comments on the management report

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

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the annual financial statements and as to whether the other disclosures are not misleading with respect to the Company's position. The auditors' report also has to contain a statement as to whether the management report is consistent with the annual financial statements and whether the disclosures pursuant to Section 243a of the Austrian Commercial Code (UGB) are appropriate.

In our opinion, the management report is consistent with the annual financial statements. The disclosures pursuant to Section 243a of the Austrian Commercial Code (UGB) are appropriate.

Vienna, 1 February 2011
Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Gerhard Marterbauer e.h.
Certified Public Accountant

Mag. Maximilian Schreyvogl e.h.
Certified Public Accountant

Appropriation recommendation

The Managing Board moves (in accordance with Section 96 (1) of the Austrian Stock Corporation Act (AktG)) to pay a dividend of €0.55 per share relating to 347,415,686 no-par shares from the distributable profit of the 2010 fiscal year, i.e. a total of €191,078,627.30.

Documentation of electricity by source

Documentation in accordance with Section 45a (10) of the Austrian Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG)

Result of the documentation of electricity by source	Share	**2010**
		kWh
Hydropower	100.0 %	992,383,000
Total of the volume of electricity supplied to consumers for their own use	100.0 %	992,383,000

Impact of electricity production on the environment of the volume of electricity supplied to consumers for their own use	Share	**2010 g/kWh**
Radioactive waste		0.0
CO_2-emissions		0.0

Audit opinion

We have fulfilled our auditing duties in accordance with Section 45a (6) of the Austrian Electricity Industry and Organisation Act (ElWOG) and have audited the documentation prepared by VERBUND AG, Vienna, in accordance with Section 45a (10) of the Austrian Electricity Industry and Organisation Act (ElWOG) for the 2010 fiscal year.

The statutory proof used for the documentation of electricity by source was provided by VERBUND AG. Within the scope of the performed audit procedures we have not found any facts that would lead us to assume that the submitted documentation as required under the law does not correspond to the actual circumstances.

Vienna, 1 February 2011
Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Gerhard Marterbauer e.h.
Certified Public Accountant

Mag. Maximilian Schreyvogl e.h.
Certified Public Accountant

Glossary

Glossary

Cash flow

Balance from inflow and outflow of cash and cash equivalents; is customarily broken down into cash flows from operating activities, investing activities and financing activities.

EBIT

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

Equity ratio

Equity plus untaxed reserves and investment grants adjusted for deferred taxes in relation to total capital.

Gearing

Net debt in relation to equity plus untaxed reserves and investment grants adjusted for deferred taxes.[1]

Net debt

Interest-bearing borrowed capital less cash and cash equivalents (including securities and equity shares held as current assets), adjusted for closed balance sheet positions on the asset and liability side (e.g. for cross-border leasing transactions).[1]

Net working capital

Current assets (including current loans and current prepaid expenses) less current liabilities (including current deferred income).

Notional debt repayment period

Proportion of debt to surplus from earnings before taxes and changes in reserves.

ROCE

Return on capital employed: Earnings before interest (including personnel-related interest) less the applicable tax in relation to average capital employed.[1]

ROE

Return on Equity: Earnings before taxes and changes in reserves in relation to equity including untaxed reserves and investment grants adjusted for deferred taxes at the beginning of the fiscal year.

ROI

Return on Investment: Earnings before interest (including personnel-related interest) and taxes in relation to total capital at the beginning of the fiscal year.

ROS

Return on Sales: Earnings before interest (including personnel-related interest) and taxes in relation to revenue.

[1] Key figures were revised. The previous year's values were adjusted.

EDITORIAL DETAILS

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Part 3
Declaration of all legal representatives

Declaration of all legal representatives

according to para 82 (4) sec 3 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 company, together with a description of the principal risks and uncertainties the company faces.

Vienna, February 2011
Managing Board

Dipl.-Ing. Wolfgang Anzengruber e.h.
CEO
Chairman

Dr. Johann Sereinig e.h.
Deputy CEO
Vice Chairman

Dr. Ulrike Baumgartner-Gabitzer
Managing Director
Member of the Managing Board

Verbund