

70 years of VERBUND. Energising the future.



VERBUND Integrated Annual Report

This report combines our annual financial report as well as our sustainability report.

How should this report be used?

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

Additional information about the content presented here can be found

- in the Disclosures on Management Approach (DMA) at www.verbund.com > Investor Relations > Financial reports and
- on other web pages referred to separately.

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

Other information concerning sustainability can be found at www.verbund.com > About VERBUND > Responsibility.

Design concept for charts and tables

Column/bar width

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

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

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

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

Colours

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

Five-year comparison

Economic performance

	Unit	2012 ⁵	2013 ⁵	2014 ⁵	2015	2016
Revenue ¹	€m	3,174.3	3,266.5	2,880.4	2,969.6	2,795.9
EBITDA	€m	1,235.4	1,301.4	808.8	888.7	1,044.2
Adjusted EBITDA ²	€m	1,277.9	1,159.6	889.6	838.8	894.5
Operating result (EBIT)	€m	900.2	148.3	384.4	410.6	615.1
Operating result before effects from impairment tests	€m	955.9	932.7	423.5	528.6	704.9
Profit/loss after tax from discontinued operations ³	€m	0.2	-364.2	25.1	-	-
Group result	€m	389.3	579.6	126.1	207.7	424.4
Adjusted Group result ²	€m	625.4	384.2	216.0	268.9	325.9
Total assets	€m	12,387.3	12,883.4	12,247.3	11,763.0	11,538.2
Equity	€m	5,099.4	5,552.9	5,280.5	5,433.3	5,529.5
Net debt	€m	3,311.7	3,706.3	4,059.6	3,685.4	3,221.7
Additions to property, plant and equipment (without business combination)	€m	680.3	579.1	412.3	269.3	255.3
Cash flow from operating activities	€m	1,034.7	841.4	717.6	674.0	804.3
Free cash flow before dividends	€m	95.0	852.2	284.7	551.4	580.7
EBITDA margin ¹	%	38.9	39.8	28.1	29.9	37.3
EBIT margin ¹	%	28.4	4.5	13.3	13.8	22.0
Return on capital employed (ROCE)	%	6.3	4.8	3.2	3.9	5.7
Return on equity (ROE)	%	10.0	12.1	3.3	4.7	8.4
Equity ratio (adjusted)	%	42.6	44.5	44.7	48.2	50.0
Gearing	%	64.9	66.7	76.9	67.8	58.3
Net debt/EBITDA	X	2.7	2.8	5.0	4.1	3.1
FFO/Net debt (Net Debt Coverage)	%	32.1	33.6	18.2	23.9	32.1
Gross debt coverage (FFO)	%	20.6	26.0	16.1	22.8	30.4
Gross interest cover (FFO) ⁴	X	4.5	5.5	2.8	5.2	8.7
Closing price	€	18.76	15.52	15.30	11.86	15.18
Market capitalisation	€m	6,517.5	5,390.2	5,313.7	4,120.4	5,272.0
Earnings per share	€	1.12	1.67	0.36	0.60	1.22
Cash flow per share	€	2.98	2.42	2.07	1.94	2.32
Carrying amount per share	€	12.83	14.24	13.50	13.99	14.29
Price/earnings ratio (last trading day)	X	16.74	9.30	42.14	19.83	12.42
Price/cash flow ratio	X	6.30	6.41	7.41	6.11	6.55
Price/book value ratio	X	1.46	1.09	1.13	0.85	1.06
(Proposed) dividend per share	€	0.60	0.55	0.29	0.35	0.29
(Proposed) special dividend per share	€	-	0.45	-	-	-
Dividend yield	%	3.2	6.4	1.9	3.0	1.9
Payout ratio from Group result	%	53.5	59.9	79.9	58.5	23.7
Entity Value/EBITDA	X	8.0	7.0	11.6	8.8	8.1
Average number of employees		3,100	3,351	3,245	3,089	2,923
Electricity sales volume	GWh	47,483	50,276	50,823	51,375	55,189
Hydro coefficient		1.11	1.07	1.02	0.93	1.00

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

Environmental performance

	Unit	2012	2013	2014	2015	2016
Hydropower generation ¹	GWh	30,485	30,943	31,188	28,098	29,809
Wind power and photovoltaic generation	GWh	242	565	811	882	835
Thermal power generation	GWh	4,500	4,031	2,031	2,259	1,351
Percentage of generation from renewables	%	87	89	94	93	96
Specific GHG emissions (Scope 1/total electricity generated) ²	g CO ₂ e/kWh	88	78	52	56	31
Emissions avoided through renewable generation ³	kt CO ₂	24,890	25,523	25,921	24,167	25,457
Percentage of sites certified to ISO 14001 and EMAS ⁴	%	78	90	92	93	93

Social performance

	Unit	2012	2013	2014	2015	2016
Number of employees under labour law ⁵	Number	3,200	3,339	3,265	3,098	2,952
Training per employee ⁶	Hours	36.8	38.4	29.6	33.6	35.2
Accident rate ⁷	‰	8.6	12.8	13.5	12.3	8.9
Proportion of women	%	19.0	18.4	17.8	17.8	17.5
Average duration of employment ⁸	Years	17.3	17.7	17.0	19.2	18.9
Employee turnover rate ⁹	%	2.0	2.6	2.7	2.7	2.7

¹ incl. purchase rights // ² Emissions are reported for electricity generation incl. purchase rights excl. electricity generated for district heating. Preliminary data prior to audit. // ³ Up to 2014, the calculation of emissions avoided was based on emissions from a hard coal power plant (Dürrrohr type). From 2015 onwards, this is determined based on the average thermal generation emissions based on ENTSO-E. // ⁴ Percentage of certified sites of consolidated companies, excluding solar power plants, wind power plants of less than 20 MW and sites in which VERBUND holds <51% and where another co-owner is responsible for management; position as at 31 December. // ⁵ Number of employees under labour law as at 31 December, excl. members of the Executive Board and employees in early retirement, increase in 2013 primarily due to the acquisition of Grenzkraftwerke GmbH and Innwerk AG. // ⁶ incl. executives and long-term agency staff, excl. apprentices, employees in retention periods, employees loaned to third parties and employees on long-term leave; excluding safety briefings. // ⁷ Number of work-related accidents per 1,000 employees at VERBUND sites in Austria incl. Innwerk AG and Grenzkraftwerke GmbH // ⁸ Change in calculation method 2016: personnel from acquired and newly consolidated companies are included in the duration of employment with the acquired/consolidated company and no longer in the duration of employment with the VERBUND Group. // ⁹ incl. departures during probationary period

Basic information

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

Capital market calendar 2017

Event	Date
Annual result 2016	8/3/2017
Publication of integrated annual report	8/3/2017
Record date for Annual General Meeting	26/3/2017
Annual General Meeting	5/4/2017
Ex-dividend date	12/4/2017
Record date for dividends	13/4/2017
Dividend payment date	25/4/2017
Interim report quarter 1/2017	10/5/2017
Interim report quarters 1–2/2017	27/7/2017
Interim report quarters 1–3/2017	8/11/2017

VERBUND
Annual Financial Report 2016

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Information about the integrated report

As Austria's leading utility and an important player in the European electricity market, VERBUND takes its social responsibility very seriously.

Back in 1994, we were one of the first companies in Austria to prepare an environmental report, well in advance of the trend towards reporting on environmental factors. That annual publication was followed in 2002 by VERBUND's first sustainability report, which we likewise published annually in addition to our annual report until 2014. The VERBUND Sustainability Report 2014 was the last such traditional report published as part of sustainability reporting at VERBUND.

For the 2015 report, we responded to rising demand from our stakeholders for comprehensive company information by publishing an integrated annual report. The annual sustainability report is now included in VERBUND's integrated annual report.

Scope of report

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

The reporting period comprises the 2016 calendar year. To ensure that our report is up to date, we also report on any major events occurring at VERBUND after the end of the reporting period.

Integrated report focuses on stakeholder interests

Investors, owners, customers, employees and other interest groups all require different types of information. The VERBUND materiality matrix summarizes the information relevant to each group.

In addition to the content required to be included by law, we also present VERBUND's added value in terms of environmental and social aspects.

Determining the sustainability aspects to be included in the VERBUND integrated annual report

VERBUND's 2016 Integrated Annual Report includes the results of the materiality analysis conducted in 2013 under the Global Reporting Initiative (GRI) in addition to a media analysis and key topics in stakeholder dialogue. VERBUND was assisted in the process of preparing the report by external experts in financial and sustainability reporting.

The materiality analysis, which was conducted in 2013, was reviewed in the reporting period to ensure that it was complete and up to date, and certain topics were discussed in greater detail. In developing the materiality matrix, we identified those areas that present the greatest opportunities as well as the highest risks for VERBUND and its stakeholders. The GRI Content Index at the end of this report indicates where information on sustainability at VERBUND can be found. All ongoing projects and current events are presented in a condensed format. For further details and background information, please refer to the additional sources referred to in the margins. As provided for in the GRI guidelines, we have refrained from including information on topics of minor relevance in this integrated annual report.

The materiality analysis is presented in the Relationship management section

Standards and guidelines

All data and calculations taken for this integrated annual report are based on national and international standards as well as on guidelines for financial reporting (including the International Financial Reporting Standards (IFRSs)) and sustainability reporting (the “Core” option of the G4 Guidelines and the Sector Disclosures for Electric Utilities of the Global Reporting Initiative). All sustainability information has been subjected to an external review in the scope specified by the independent certification body and in the GRI Content Index. Information about the methods, standards and factors used as well as the assumptions made in the calculation of key performance indicators (KPIs) is available from the Group’s Investor Relations and Sustainability departments at any time upon request.

Reporting principles and structure

This integrated annual report contains the Group management report published by VERBUND for financial year 2016, which includes a description of our activities concerning the environment and social responsibility, as well as the Group’s consolidated financial statements including the notes to the consolidated financial statements and the GRI Content Index. We have laid out the principles of fair enterprise management that we follow in our corporate governance report. Moreover, we have introduced the topic of “compliance” as a separate section of the 2016 report. This integrated annual report thus not only presents the Group’s financial and legal information but also deals with further aspects of sustainability and proper conduct of business operations. Supplementary information on sustainability topics is available in our Disclosures on Management Approach (DMA) document and on our website at www.verbund.com.

Our sustainable business model revolves around the generation of CO₂-free electricity from hydropower. Details are provided in the Renewable generation section of the segment report. The Grid section of the segment report also supplies key information on sustainability. It should be noted that we restructured our segment report in quarter 1/2016. More information on sustainability can be found in the sections of the report entitled Environmental performance and Relationship management.

The section entitled Human resources and social responsibility contains information on VERBUND as a responsible employer. For details on our innovative products and services, please refer to the Innovation, research and development section.

Since VERBUND operates predominantly in Europe, we regard Europe as a single region/regulatory regime.

The GRI Content Index at the end of this report provides references to aspects of sustainability and sustainability indicators as well as the two auditor’s reports on our financial reporting and sustainability reporting.

Report of the Executive Board

Ladies and Gentlemen,

The European electricity market continues to undergo a process of transformation. Reorganising the electricity market involves incorporating a growing number of new renewable technologies and an increasingly decentralised generation structure in addition to meeting the new requirements for power grids and storage capacity. Regulatory intervention – such as the oversubsidation of new renewable energy sources and an overallocation of carbon certificates– has resulted in massive distortions of the market in recent years, leading to declining electricity wholesale prices while overall system costs continue to rise. These changes, along with the increasing digitalisation occurring at all levels of the value chain, are forcing electricity suppliers to alter their business models to support new trends.

Thanks to VERBUND's clear strategic approach coupled with consistent implementation of sustainable restructuring and efficiency improvement measures in financial year 2016, the Group has succeeded in continuing to develop its position as a profitable and sustainable European energy producer and service provider that is nearly 100% carbon-free.

Free cash flow strengthens VERBUND. VERBUND has responded to the changing operating environment and the intense pressure exerted on wholesale electricity prices at the start of 2016 in particular with a comprehensive package of measures to improve free cash flow. These include a significant reduction in capital expenditure with a focus on projects that will be profitable on a sustained basis, an adjusted dividend policy and implementation of an additional programme to reduce costs and increase efficiency. Related measures will entail another reduction in the headcount –to be carried out in a socially responsible manner– along with continuing to systematically restructure our thermal operations. The measures implemented resulted in a lasting improvement in free cash flow in the reporting period. Additional support came from the improvement in the energy markets that set in in mid-2016 when wholesale electricity prices underwent a slight recovery due among other things to the increase in primary energy prices, especially for coal, and from the overhaul of large-scale power plants in France. Another encouraging outcome of the programme to improve free cash flow was the upgrade from “negative” to “stable” of the ratings outlooks for VERBUND AG issued by Standard & Poor's (BBB) and Moody's (Baa2).

Expansion of renewables and decarbonisation. Our activities to expand hydropower from renewable energy focused on the commissioning of the Reißeck II power plant, the start of construction of the Gries power plant and the construction decision to implement the Lower Tuxbach power plant project. We also forged ahead with restructuring our thermal operations in 2016, thus making a further contribution to decarbonisation. Following the decommissioning of the Neudorf-Werndorf and Dürnrohr thermal power plants, VERBUND and EconGas GmbH settled various outstanding issues related to gas deliveries for the Mellach combined cycle gas turbine power plant (Mellach CCGT) in quarter 3/2016. In quarter 4/2016, all outstanding issues relating to the Mellach power plants site were resolved with Energie Steiermark AG, the provincial utility. Resolution of these two matters has already led to the earnings forecast for 2016 being raised and will improve earnings and cash flow performance in subsequent years.

Successful positioning in the market. In addition to optimally marketing its supply of flexible own generation from nearly 100% renewable resources, VERBUND positioned itself early on as a supplier of green electricity and flexibility options for third parties. This has made VERBUND one of the leading and most innovative suppliers in Austria and Germany. Our offering ranges from the supply of green electricity to the bundling and marketing of energy generated from renewable sources to the provision of virtual pumped storage capacities and demand response services. Thus we again succeeded in 2016 in either maintaining or expanding our market share in all customer segments and in making important additional earnings contributions in a highly competitive environment. For instance, we gained new electricity and gas customers in the standard load profile segment (household/agriculture and commercial customers) with an increase from 364,000 to 392,000 customers at the end of financial year 2016. Our steadily growing customer base indicates that our broad range of products and our marketing campaign have been well received. A testament to this is the “Service Champions 2016” study in which VERBUND was again awarded first place from among 193 companies as the sector winner in the area of energy supply.

We have accelerated the development of new lines of business and services along with e-mobility projects. Moreover, thanks to our broad expertise in the energy market we succeeded in forming a far-reaching industrial alliance with voestalpine that will include constructing one of the world’s largest hydrogen plants. A research and development partnership was also established with OMV for the production of “green” hydrogen in an endeavour that will give the necessary traction to our future projects.

VERBUND is well positioned for implementation of the EU Non-Financial Reporting (NFR) Directive. We have already received widespread positive feedback on our first integrated annual report for 2015 from the sustainability and IR communities. As part of the way forward, we conducted a review of the materiality analysis that was carried out in 2013 during the past financial year to ensure that this was complete and up to date, and specific topics were discussed in greater detail. We also incorporated the United Nations’ Sustainable Development Goals (SDGs) into our sustainability model. Our decarbonisation activities have met with a positive response as well. The CDP (formerly known as the Carbon Disclosure Project) has again rated VERBUND as one of the world’s leading enterprises in the area of climate protection. VERBUND was given a ranking of “leadership status” with the highest rating of “A”. This makes VERBUND not just the best utility company in the Germany-Austria-Switzerland region but also one of the two best Austrian companies in 2016.

Encouraging income trend despite challenging environment. The income trend was positive in financial year 2016. EBITDA increased by 17.5% to €1,044.2m and the Group result rose to €424.4m, or 104.3% over the previous year’s figure. In both the current and the previous reporting periods, however, earnings were impacted by non-recurring effects. In 2016, non-recurring income was generated from the settlement of various outstanding issues relating to gas deliveries for the Mellach CCGT as well as from the settlement of all outstanding issues arising from the agreement to supply district heating from the Mellach power plants site. The most significant non-recurring expense in financial year 2016 was the impairment loss recognised on the Romanian wind farms. After adjusting for these non-recurring effects, earnings likewise improved despite the sharp market-related drop in sales prices. Adjusted EBITDA rose by 6.6% and the adjusted Group result by 21.2%. This is due in particular to the greater water supply (hydro coefficient in 2016: 1.00; 2015: 0.93), a substantial improvement in the results of our

thermal operations, higher earnings in the Grid segment, the Group-wide programme to reduce costs and increase efficiency and a reduction in interest expense.

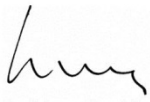
Dividend and outlook. At the Annual General Meeting on 5 April 2017, we plan to propose a dividend of €0.29 per share for financial year 2016. The payout ratio for 2016 will thus amount to 30.9% based on the adjusted Group result. On the basis of average own generation from hydropower and wind, we expect EBITDA to amount to around €800m and the Group result to around €280m for financial year 2017.

We would like to thank all of our customers as well as all employees, investors, suppliers and business partners for accompanying us on our chosen path.

Let us use 2017 to shape the future of energy – just as VERBUND has been doing for the past 70 years.



Dipl.-Ing. Wolfgang Anzengruber



Dr. Johann Sereinig



Dr. Peter F. Kollmann



Dr. Günther Rabensteiner

Report of the Supervisory Board

In financial year 2016, the difficult economic climate continued to impact VERBUND, Austria's leading utility. VERBUND nonetheless succeeded in continuing on a profitable and sustainable path thanks to its focused strategic approach coupled with consistent implementation of comprehensive restructuring and efficiency improvement measures. Thus despite the unfavourable market conditions, the Group once again produced good results. The Supervisory Board actively monitored and supported this strong performance.

Discharge of responsibilities In financial year 2016, the Supervisory Board discharged the responsibilities and exercised the powers incumbent upon it by virtue of the law and the Articles of Association at seven plenary meetings. The overall attendance rate for all Supervisory Board members was 89%. The Chairman additionally kept in regular contact with the Board members to ensure that all members were always involved in important matters. The Executive Board provided the Supervisory Board with regular and comprehensive real-time information, both verbally and in writing, on all relevant matters relating to the performance as well as the position and strategy of the Group and all significant Group companies; information was also provided on the Group's risk position and its risk management activities. The Supervisory Board advised the Executive Board on key questions concerning the future, particularly as regards the Group's structure and its strategy, and continuously monitored the Executive Board's management activities based on its extensive reporting. Supervision took place in the context of open and constructive meetings between the Executive Board and the Supervisory Board and revealed no grounds for objection. In addition, the Chairman of the Supervisory Board conversed regularly with the members of the Executive Board, particularly the Chairman.

In addition to approving the annual financial statements and the Group budget, the main decisions made by the Supervisory Board in the past financial year involved a policy decision to review all options for the Mellach power plant as well as authorisation for a major investment project in Zillertal valley (Tuxbach transfer line) and approval of the sale of the solar parks in Spain.

Code of Corporate Governance, Supervisory Board Committees As a leading listed Group, VERBUND made an early commitment to comply with the Austrian Code of Corporate Governance. VERBUND's Supervisory Board also views compliance with the Code as obligatory and endeavours to consistently comply with the provisions relating to the Supervisory Board. In this spirit, we have achieved almost full compliance with the rules relating to the Supervisory Board's collaboration with the Executive Board and within the Supervisory Board itself. Pursuant to the requirements of the Code (Rule 36), the Supervisory Board again conducted a self-evaluation of its activities during the reporting period, particularly of its organisation and work procedures. The evaluation was undertaken in the form of a comprehensive written questionnaire that was completed by the Board members. At the subsequent meeting, the Supervisory Board discussed the results of its evaluation and took down suggestions for improvements. In addition, the Supervisory Board again discussed possible conflicts of interest when dealing with the approval of contracts with companies where individual Supervisory Board members are related parties. No conflicts were identified that would require any action to be undertaken beyond that taken at the meetings. As provided for in the Code, meetings were held as needed, including meetings which the Executive Board did not attend.

The Supervisory Board's Working Committee met four times during the year under review, especially to prepare plenary meetings and to approve the acquisition of an equity interest. The Audit Committee held three meetings. It dealt above all with the semi-annual financial statements and preparation of the

resolution to approve the annual financial statements, as well as with the appointment of the auditor and examination of the auditor's work. In addition, it concentrated on the internal control, audit and risk management system and on the audits performed by the internal audit function. Due to a change in the Supervisory Board's rules of procedure, the number of Working Committee members and Audit Committee members increased effective 1 January 2016.

In accordance with the Code of Corporate Governance and the rules of procedure, two other Supervisory Board committees – a Nomination Committee and a Remuneration Committee – were again formed in the past financial year and performed the duties stipulated in the rules of procedure. The General and Remuneration Committee convened twice to discuss the agreements on targets and the variable remuneration paid to the Executive Board. The Nomination Committee did not meet. There were no changes in the composition of the Supervisory Board or its committees apart from a switch of two employee representatives.

Further information on the composition, work procedures and meetings of the Supervisory Board and its committees as well as the remuneration paid to its members is contained in the Group's consolidated corporate governance report for 2016.

Annual financial statements and consolidated financial statements The annual financial statements, together with the management report, the consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRSs) and the Group management report for financial year 2016 were audited by Deloitte Audit Wirtschaftsprüfungs GmbH and issued with an unqualified auditor's report. The auditor reported its findings in writing and found that the Executive Board had provided the explanations and evidence requested, that the book-keeping, annual financial statements and consolidated financial statements fulfilled the legal requirements and, in conformity with the principles of proper accounting, gave a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group. The auditor also confirmed that the management report and the Group management report were consistent with the annual financial statements and the consolidated financial statements. Following in-depth examination and discussion by the Audit Committee and the Supervisory Board, the Supervisory Board approved the annual financial statements for financial year 2016 as presented by the Executive Board. As a result, they are final for the purposes of Section 96(4) of the Austrian Stock Corporation Act (Aktiengesetz, AktG). The management report prepared by the Executive Board was approved, as was the profit appropriation proposal. The Supervisory Board also approved the consolidated financial statements and the Group management report along with the corporate governance report for the Group submitted by the Executive Board, which was reviewed and approved by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.

In conclusion, the Supervisory Board would like to thank the Executive Board and all employees for their great dedication and their successful work during financial year 2016. The Supervisory Board would also like to thank the Group's shareholders, customers and business associates for their trust.

Vienna, March 2017

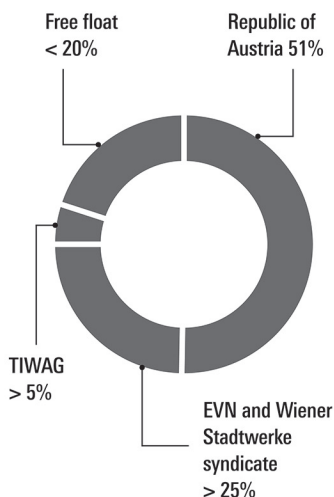


Dr. Gilbert Frizberg
Chairman of the Supervisory Board

OUR BRAND

With its energy-related services, VERBUND strives for economic and ecological excellence at all stages of the electrical energy value chain, thereby adding value for customers and other stakeholders.

SHAREHOLDER STRUCTURE



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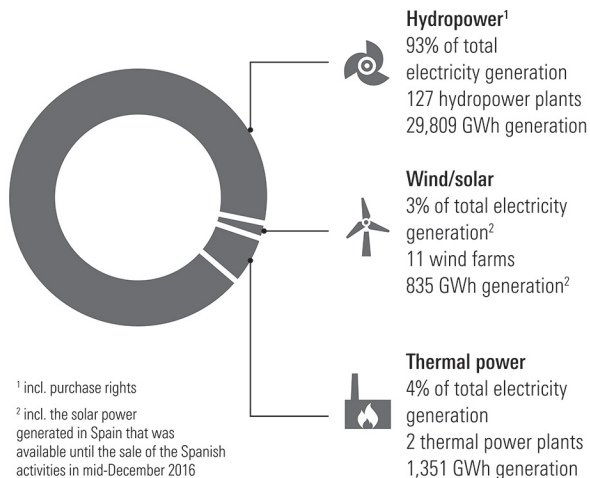
VERBUND at a glance. Power for the future.

Our mission is to energise the future with clean electricity and innovative solutions. As one of the largest producers of hydroelectricity in Europe, VERBUND's value chain comprises generation, transportation, trading with and sales of electrical energy and other energy sources as well as energy services. In 2016, the Group generated annual revenue of around €2.8bn with approximately 2,900 employees. VERBUND has been listed on the Vienna Stock Exchange since 1988, with 51% of the share capital held by the Republic of Austria.

GENERATION

All amounts are for 2016

VERBUND is Austria's leading utility and one of the largest producers of hydroelectricity in Europe. Hydropower and wind power are our most important energy generation technologies, accounting for some 96% of all electricity produced by VERBUND. Our goal is to make the generation of 100% carbon-free electricity a medium-term reality.





TRADING AND SALES

100% of the electricity sold to retail customers comes from hydropower and climate-neutral natural gas. Retail customers are also provided with a range of innovative solutions for the smart home. For industrial and commercial customers, VERBUND develops customised energy efficiency solutions along with solutions for flexible energy management, among other things. VERBUND's market share for electricity in Austria is 8% in the retail customer segment and 19% in the corporate customer segment. In Germany, VERBUND is the leading provider of green electricity to resellers and corporate customers. VERBUND trades electricity in a total of twelve countries.

TRANSPORTATION

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

ENERGY-RELATED SERVICES

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

VERBUND's integrated corporate strategy

In a new energy world that has taken a disruptive turn, VERBUND has implemented a corporate strategy designed to show the way forward to a successful increase in enterprise value.

In so doing, our aim is to gear our business towards 100% renewable energy generation from hydropower, supplemented by wind power, with a strict focus on cost efficiency.

We see ourselves as a reliable, competent and internationally recognised grid operator, and we are developing our high-voltage grid in line with EU specifications.

Profitability and sustainability are fundamental pillars of our investment activities, which we are increasingly extending into the regulated sector.

We are reinforcing our position as a leading marketer of flexible products and green electricity and are focusing our sales activities on expanding our consumer base for electricity and gas. Our traditional electricity business will be supplemented by forward-looking business models and services to enable the efficient use of energy.

Investments in applied research and development, our self-motivated employees and the Group's dynamic culture of innovation comprise a strong foundation for the future success of VERBUND.

Pillars of VERBUND's integrated corporate strategy

CO₂-free, low-cost producer

Hydropower and wind power are our most important energy generation technologies. They form the basis for positioning the VERBUND brand as a CO₂-free, low-cost producer. In addition, our generation portfolio contains attractive flexible products that we have designed to optimally reflect the needs of a modern energy market.

Our objective is for our electricity generation to be 100% CO₂-free by 2020.

Reliable grid operator

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

Provider of customer-focused solutions

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

Markets

Austria and Germany are our core geographical markets.

Investment focus

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

Corporate objectives

VERBUND management has defined the following corporate objectives based on the materiality analysis performed in line with the criteria set out in the Global Reporting Initiative (GRI) and the previously described VERBUND strategy:

Material topics	Corporate objectives
Increase in enterprise value ¹	Financial stability: net debt/EBITDA < 3.0
	Return on capital: ROCE > 7.0%
	Profitable growth in all segments
	A-level rating targeted
Secure supply of electricity	Focus on hydropower and wind power
	Position the Group as the most efficient electricity producer in our peer group
	System security in the Austrian transmission grid
	Implement network development plan
Customer relations	Optimise marketing of own generation
	Significantly expand energy-related services
	Provide innovative solutions for B2C and B2B customers
Innovation	Put new, high-margin products and business models in place
	Increase competitive standing in the new Utility 2.0
	Manage digital transformation in the e-economy
Environmental protection and conservation, climate protection	Generate climate- and eco-friendly electricity entirely from renewable energy sources
	Exit from thermal generation by 2020
	Reduce specific emissions to < 10 g CO ₂ e/kWh
	Certification of all VERBUND sites to ISO 14001
Dialogue with the relevant stakeholders	Active and open communication with all relevant stakeholder groups
Responsibility to employees	Accident rate in the Group: < 12 per 1,000 employees/year
	Attractive, secure jobs: employee turnover rate < 5%
	Implement programme to increase efficiency
	40 hours of training per employee/year
Advancement of diversity and inclusion in the Group	35 new apprentices per year
	Percentage of women: 20%
Compliance and transparency	Maintain fair business practices in all segments
Commitment to society	Ongoing participation in social and education-related activities

¹ Based on existing asset and value-chain structure

Relationship management

Materiality analysis

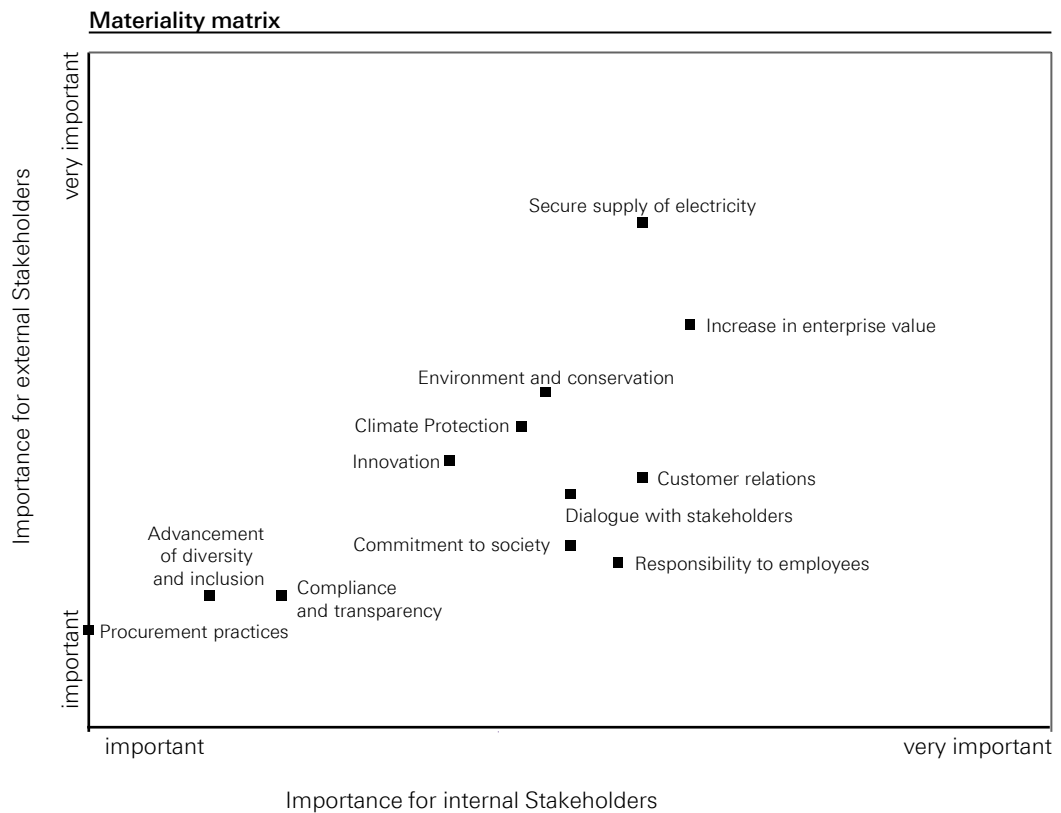
Please refer to our DMA for details on the stakeholder groups identified

The success of our Group rests on our good relationships with customers, employees, neighbours and business partners as well as our owners, NGOs and government authorities.

GRI materiality analysis

In 2013, we conducted a survey of the relevant internal and external stakeholder groups in Austria and Bavaria in order to identify material topics at VERBUND. The questions related, firstly, to expectations of VERBUND’s stakeholder dialogue and, secondly, to the Group’s activities in terms of sustainability.

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



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

In 2016, the materiality analysis was reviewed and enhanced in an internal process involving employees in close contact with various stakeholder groups. A survey of the importance of and current level of progress in complying with key sustainability topics was conducted by VERBUND in an online

questionnaire directed at members of the sustainability working group as well as representatives from Public Affairs. At a subsequent workshop, the topics were prioritised and the developmental potential of key issues was considered. Sub-topics of all the key topics were defined and allocated to the corresponding GRI indicators.

The topics of “innovation”, “customer relations” and “climate protection” were identified as the most relevant aspects of sustainability reporting at present. “Diversity and inclusion” will be given greater priority in 2017. The original category of “Advancement of women in the Group” was therefore changed to “Advancement of diversity and inclusion”. The new, expanded category covers all aspects of diversity such as age, disability, gender and educational and professional background.

Shown below are the material topics for VERBUND and the GRI key performance indicators assigned to them:

Material topics at VERBUND	Sub-topics	GRI KPIs	Additional information
Secure supply of electricity	Existing and planned generation capacities	EU1, EU2, EU10, EU30	Risk and crisis management
	Grid security and grid expansion	EU4, EU28, EU29	Risk and crisis management
Increase in enterprise value	Economic performance	EC1	Financial governance
	Increase share of generation from renewables to 100%	EU10	
	Plant efficiency	EU11, EU12	
Environmental protection and conservation	Biodiversity	EN11, EN12, EN13	Number of fishpasses
	Certified environmental management systems		Percentage of sites certified to ISO 14001/EMAS
	Use of energy and resources	EN1, EN3, EN5, EN6	
	Water, effluents and waste	EN8, EN22, EN23	
	Environmental costs	EN31	
Climate protection	Emissions	EC2, EU5, EN15, EN16, EN17, EN18, EN19, EN21	Renewable generation to avoid emissions

Material topics at VERBUND	Sub-topics	GRI KPIs	Additional information
Customer relations	Customer satisfaction	PR5	
	Number of consumers	EU3	
	Customer health	PR1	
	Labelling requirements, data protection	PR3, PR4, PR8, PR9	
	Service disconnection	EU27	
Innovation	Innovation, research and development		Number of R&D projects, VERBUND's annual expense
Dialogue with stakeholders	Fostering good relations with neighbours	SO1, SO2	
	Stakeholder engagement	G4-24 – G4-27	
Responsibility to employees	Occupational health and safety	LA5, LA6, LA8	
	Attractive, secure jobs	G4-10, EC3, LA1, LA2	Percentage of university graduates, employee survey
	Personnel management, training and continuing education	EU15, LA9, LA10, LA11	
Procurement practices	Local procurement	EC9	
	Ecological aspects	EN32, EN33	
	Social responsibility	LA14, EU18	
Compliance and transparency	Anti-corruption	SO3–SO6	
	Anti-competitive behaviour	SO7	
	Discrimination incidents	HR3	
	Fines	EN29, SO8	
Advancement of diversity and inclusion	Diversity	LA12	
	Wage equality	LA13	
Commitment to society	VERBUND Empowerment Fund run by Diakonie		Number of appliances purchased, number of consultations held
	VERBUND electricity relief fund run by Caritas		Number of households supported
	VERBUND climate school, VERBUND electricity school		Number of participants, number of guided tours

With the exception of the “Human rights” subcategory where only “Non-discrimination” and “Freedom of association” are relevant to VERBUND, we have classified all GRI G4 aspects as “material”. All key aspects are relevant within the organisation.

Media analysis

We supplement our own reporting with the main topics addressed in media reports on VERBUND. The relevance of a specific topic is measured by the number of articles appearing on the matter, with the following picture emerging for 2016:

- economic performance – 2015 results plus quarterly publications;
- CO₂-free electricity generation from hydropower;
- VERBUND is on the way to becoming a producer of electricity entirely from renewable energy sources;
- environmentally compatible layout of power plants to incorporate fishways, and investments to increase capacity;
- innovative outlook and documented expertise in using specific VERBUND products and services to develop solutions;
- best sustainability rating from CDP, a leader in credibility and service rankings;
- closure or disposal of thermal power plants and cost cutting programme;
- regulatory framework in the electricity market;
- project-based, strategic alliance between voestalpine and VERBUND launched – H2FUTURE project for green hydrogen;
- OMV and VERBUND: joint projects for a sustainable energy future;
- 380-kV Salzburg line; and
- solution to Graz district heating debate.

Stakeholder dialogue

We strive to encourage regular dialogue with as broad-based stakeholder groups as possible. In the process, we supply information via various channels on developments in energy policy, engage in discourse on current and future challenges in the energy market and propose constructive solutions. In the experience of VERBUND, suggestions from stakeholders in combination with their experience provide valuable inspiration for our work. If we are aware of the needs and expectations of our internal and external interest groups, we can better gear our corporate decisions towards their interests.

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

Please refer to the DMA
for fundamentals of
stakeholder
management

Selected stakeholder activities in 2016

“energyLab 2030: Designing Europe's future marketplace”: In collaboration with the German Economic Council, VERBUND is making a significant contribution to implementing a temporary idea incubator aimed at proposing new solutions for achieving a strong EU energy market by 2030. Forty experts took part in energyLab 2030, which is set up with stations in Brussels, Berlin and Vienna. High-profile “challengers” from Germany and Austria accompanied the process and offered their expertise. The results of energyLab 2030 will be presented in Berlin in March 2017.

VERBUND has participated in numerous activities designed to foster connections in the European start-up world in a spirit of open innovation. The first of these was “Energie Start-up Bayern 2016” held on 20 October 2016 and in which a broad alliance of Bavarian organisations (StMWi, BayStartUP, Bayern Innovativ, Zentrum Digitalisierung.Bayern, VBEW, Bayernwerk) together with VERBUND selected the Bavarian energy start-up of the year for the first time ever. The winner chosen from around 21 applicants was Sono Motors, which produces intelligent solutions for sustainable e-mobility.

“Innovation2Company” is a competition held by the Vienna Economic Chamber in which VERBUND was one of several companies looking for an Austrian start-up for the analysis of household electricity meter readings. At the finalists' presentation held on 27 October 2016, “twingz” was the winning start-up, coming out ahead of two other start-ups, “DAGOPT” and “guh.” The deciding factor in favour of

twingz was its relevance in practical applications as well as its use of state-of-the-art technologies – the Internet of Things and data analyses – for the purpose of identifying electricity consumption patterns.

The Munich Cleantech Conference, at which VERBUND sponsored the start-up prize, was held on 24 November 2016. “be.ENERGISED” was the winning start-up.

In addition, the stakeholder formats already established by VERBUND were successfully continued in 2016. These included the VERBUND Energy Breakfast, the Munich Energy Club, the Hydropower Dialogue and the Parliamentary Evenings as well as dialogue with environmental organisations and the EU energy forums.

*Our collaboration with all of our stakeholders
is cooperative, fair and reliable.*

VERBUND maintains constant contact with the local stakeholder groups affected by its power plants, the power grid and grid expansion as well as new infrastructure projects. The dialogue process during past years has entailed deliberately setting aside the formal, legal perspective in favour of developing solutions to improve the situation. Constructive dialogue was also held at joint press meetings and at several citizen information events.

Interest groups

VERBUND also conducted a thorough review of regulatory conditions both at EU level and in Austria and Germany in 2016.

Alongside efforts to maintain the German-Austrian price zone, key topics in the year under review were reform of the emissions trading system, developing a design with future viability for the electricity market and the internal European energy market, the framework for hydropower, electromobility, energy storage and digitalisation in the area of energy.

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

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

Investor relations

International capital market environment

The international stock markets were plagued by massive price drops at the start of 2016 due to concerns about the economic trend in China, which was feared could spill over into a global recession. The European and Japanese central banks acted to alleviate those fears by implementing a programme of quantitative easing, and the US Federal Reserve responded by pursuing an even more cautious interest rate policy. The ensuing recovery phase came to a halt in mid-year 2016 when the results of the Brexit vote on the UK's exit from the EU led to sharp price corrections, which lasted only briefly, however. Market sentiment improved from quarter 3/2016 onwards on the back of more optimistic economic forecasts and better company financials. Sentiment on the markets received another boost, especially in the US, from the results of the US presidential election in quarter 4/2016. The positive climate on the financial markets was sustained until year-end 2016. The US stock index Dow Jones Industrial ended 2016 up 13.4% over the prior-year closing value. The trend on the European stock markets was more cautious owing to the weaker economic outlook and political uncertainty in various regions. The Eurostoxx 50 gained just 0.7% over the course of 2016. Price gains were also only marginal on the Nikkei 225, the Japanese index, which finished 2016 up 0.4% thanks to the upward trend at year end. By contrast, share prices in the emerging markets turned in a strong performance. The MSCI Emerging Markets Index rose by 8.9% in 2016.

The Austrian ATX got off to a poor start in 2016 in line with the international stock markets but recovered subsequently until the turmoil unleashed by Brexit put renewed pressure on the benchmark index at mid-year. However, the index rose steadily from mid-2016 onwards thanks to the strong economic trend and improved company financials, which led to a gain of 9.2% for the year as a whole with a year-end level of 2,618.4 points.

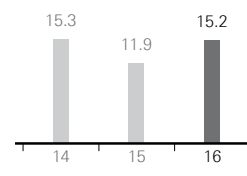
VERBUND shares

VERBUND shares performed very well in 2016. Although the shares lost significant ground until the end of February 2016, the downward trend subsequently reversed and share prices began rising steadily on the strength of higher prices for primary energy sources and the resulting increases in wholesale electricity prices lasting until November 2016. After a brief dip that ended in mid-December, the shares posted another strong gain to end 2016 at a closing price of €15.2. This represents an increase of 28.0% over the level as at 31 December 2015. By contrast, the DJ STOXX Utilities sector index registered a decline of 8.9% in the reporting period.

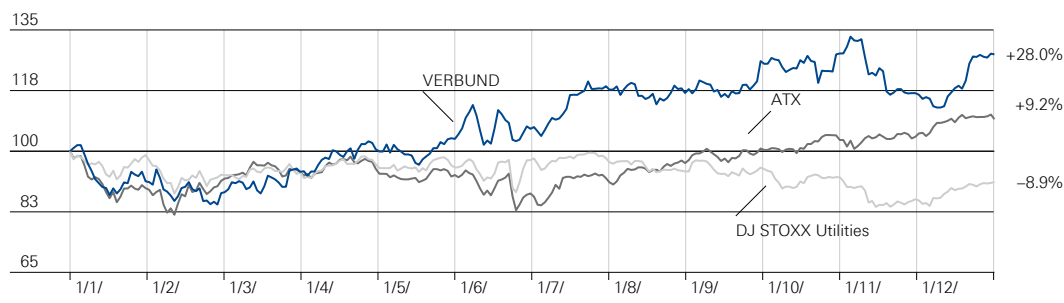
Upcoming dates:

Annual General Meeting
record date:
26 March 2017
Annual General Meeting:
5 April 2017
Ex-dividend date:
12 April 2017
Dividend record date:
13 April 2017
Dividend payment date:
25 April 2017
Results for quarter
1/2017: 10 May 2017

Closing prices
VERBUND shares €/share



VERBUND share price: relative performance 2016



KPIs – shares

	Unit	2015	2016	Change
Share price high	€	17.3	15.8	–8.6%
Share price low	€	11.6	10.0	–13.4%
Closing price	€	11.9	15.2	28.0%
Performance	%	–22.5	28.0	–
Market capitalisation	€m	4,120.4	5,272.0	28.0%
ATX weighting	%	2.4	2.7	–
Value of shares traded	€m	1,267.0	997.8	–21.2%
Shares traded per day	Shares	365,299	314,328	–14.0%

Investor relations team activities in 2016

Contact at IR:
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Head of Group Finance
and Investor Relations
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investor-
relations@verbund.com

Active, open communication with investors, analysts and individual shareholders during road shows, conference calls and in one-on-one conversations is important to us. VERBUND's investor relations team conducted road shows in Europe and the US in 2016 and participated in several major investor conferences. Together with the Executive Board, the team met with investors from all over the world and provided them with information on VERBUND's key performance indicators and operational and strategic performance.

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

VERBUND shares are covered by 15 renowned Austrian and international investment banks, thus ensuring their visibility in the capital market. The following investment banks covered our Group as at 31 December 2016:

Berenberg Bank (*Lawson Steele*)
Commerzbank (*Tanja Markloff*)
Concorde Securities (*Daniel Tunkli*)
Credit Suisse (*Vincent Gilles*)

Kepler Cheuvreux (*Ingo Becker*)
Macquarie Research (*Peter Crampton*)
Mainfirst (*Andreas Thielen*)
Morgan Stanley (*Dominik P. Olszewski*)

Deutsche Bank (*Martin Brough*)

Erste Group (*Petr Bartek*)

Exane BNP Paribas (*Olivier van Doosselaere*)

HSBC (*Adam Dickens*)

Oddo Securities (*Louis Boujard*)

Raiffeisen Centrobank

(*Teresa Schinwald*)

Société Générale (*Lueder Schumacher*)

Current ratings

As at 31 December 2016, VERBUND's ratings were as follows:

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

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

VERBUND in sustainability indices and sustainability rankings

In its most recent company ratings, oekom research again gave VERBUND a good overall rating of "B". This confirms oekom's recommendation of VERBUND as a prime investment for investors interested in sustainability. The comprehensive report made special mention of the Group's good environmental performance indicators.

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

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

VERBUND was included in the following sustainability indices as at 31 December 2016:

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

CDP climate performance score

In 2016, VERBUND was awarded the top CDP climate performance score in the energy sector for the Germany-Austria-Switzerland region. VERBUND again achieved country leader status in Austria in 2016, which places the Group among the two best enterprises in the country.

Compliance

Compliance management system, Code of Conduct

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

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

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

We continued to refine the compliance management system in financial year 2016. The process was supported in particular by ongoing exchanges of information as well as external consultations and expert appraisals.

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

The compliance management system was subjected to a thorough examination as one of the areas of emphasis in the audit of the 2016 consolidated financial statements by Deloitte, which rated the CMS positively and referred to it as "state-of-the-art".

Compliance risk survey

A systematic Group-wide compliance risk survey was conducted also in 2016. All divisions at the holding company and the consolidated subsidiaries were involved in the survey in their capacity as risk owners. Using an updated, standardised questionnaire, they carried out a qualitative compliance risk assessment based on three criteria: materiality, probability of occurrence and maturity of existing measures.

The risk analyses were then discussed in detail at compliance meetings held by the Chief Compliance Officer with all risk owners. During this process, targeted measures to prevent potential damage to the Company were developed and risk – particularly corruption risk – was examined and documented for the entire Group. No significant corruption risk was found. It is planned to update the risk surveys each year.

Training, consulting and provision of information

VERBUND's compliance management system focuses on preventive measures. In this vein, conducting training sessions and presentations, providing one-on-one consulting on numerous occasions and disseminating information on specific matters were important focal points of our compliance work again in 2016. The Chief Compliance Officer and the compliance officers of the Group companies provided information on correct conduct in person, by phone or by e-mail in response to all of the approximately 300 queries received. The most common topics were invitations, participation in events, gifts and other benefits and questions regarding conflicts of interest. This is an indication of the cautious manner in which both executives and employees handle compliance topics.

In order to further improve the ability to deal with compliance matters, the compliance rules were addressed in a comprehensive training programme throughout the Group. The Chief Compliance

Officer conducted 21 classroom training sessions in the reporting period. In addition to standard compliance training (especially for employees at subsidiaries, works council members and new staff), the sessions involved special workshops (e.g. for local financial managers and teachers in apprenticeship programmes), a workshop on competition law and a number of events on the topic of new market abuse law. The compliance officers at the subsidiaries also held 45 classroom training sessions.

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

Prevention of corruption, compliance incidents

Our objective is to avoid any compliance incidents. Corruption prevention therefore plays a key role in VERBUND's compliance management activities and was once again the subject of extensive internal communication and a whole series of training measures in the past financial year. A total of around 50% of all Group employees and 80% of executives took part in anti-corruption training in the reporting period.

When implementing the anti-corruption guidelines, the Chief Compliance Officer ensures strict compliance with the rules relating to giving and receiving benefits, gifts and invitations in particular. He monitors whether mandatory thresholds and authorisations are being observed and whether the documentation requirements have been met, and is supported in this by the compliance officers at the individual Group companies. In 2016, the Chief Compliance Officer reviewed more than 50 cases involving the giving or receiving of invitations or participation in events; most were approved and a few were denied.

Four suspected compliance incidents were reported and thoroughly investigated. The only findings related to minor infringements of internal regulations, which were responded to with organisational measures. No corruption was identified.

In 2016, a female employee involved in a dismissal suit claimed, in defence of her own position, that she had experienced several incidents of discrimination. Since the proceedings concluded with a court settlement, the allegations were not investigated further.

One case of suspected discrimination relating to a disability was reported to the Diversity and Inclusion manager. Upon closer investigation, no indications of discrimination were found.

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

Financial market compliance, new market abuse regulations

VERBUND has developed a comprehensive set of regulations along with an internal organisational structure – both in place for many years now – that are designed to prevent the abuse of inside

information in order to comply with the EU market abuse regulations as well as the provisions of Austrian stock corporation and stock exchange law and the Austrian Regulation on Compliance for Issuers (Emittenten-Compliance-Verordnung).

In 2016, comprehensive changes in market abuse and insider trading law entered into force at EU level with immediate effect. One of the main focuses of compliance management in the reporting period was the extensive work necessary to implement the new regulations across the Group. Implementation of the new regulations was accompanied by a vigorous training and information campaign directed in particular at those individuals working in sensitive areas.

In September 2016, the Financial Market Authority paid a visit to the Company to review the implementation of market abuse and inside information regulations at VERBUND and came to a positive conclusion.

Legal compliance

The following legal proceedings relate to the GRI indicators:

In an action filed by the Financial Market Authority (FMA) against four members (some of them former members) of VERBUND's Executive Board for failing to make ad-hoc disclosures in June 2012, a fine of €52,000 (including court costs) in each instance was imposed in a legally binding ruling on 20 July 2016. The decision was appealed to at Austria's Supreme Administrative Court (VwGH).

In April 2016, MONTANA Energie-Handel AT GmbH filed an action against VERBUND based on allegations of unfair advertising practices under the Federal Act against Unfair Competition (Bundesgesetz gegen den unlauteren Wettbewerb, UWG). Following settlement discussions, the matter was decided in July 2016 with a court settlement in which it was agreed that future advertisements containing references to free electricity, climate-neutral gas and calculations of total savings would disclose qualifying information in a more conspicuous manner.

VERBUND Trading GmbH was part of a joint venture in Greece from 2006 to 2010. In a tax audit conducted in 2015, the Greek authorities found that the joint venture had committed tax transgressions. An objection was filed disputing the merit of all of the tax authorities' claims. To prevent prosecution of the VERBUND representatives occupying seats on the board of the joint venture at that time, in 2016 VERBUND paid the additional value added tax demanded by the tax authority of €45,377.14, which included the penalty. The former joint venture partner has agreed to repay his pro-rata amount.

Proceedings were pending against VERBUND/a Group subsidiary in the Higher Regional Court of Vienna in its capacity as cartel court due to allegations by Energie Steiermark Wärme GmbH (ESWG) of VERBUND having abused its market dominance with regard to the supply of district heating by closing a power plant at the Mellach site. In parallel proceedings, VERBUND accused ESWG of having abused its dominant market position with respect to heating offtake at the Mellach site. The procedural petitions were withdrawn in both cases at the beginning of January 2017.

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

Consolidated
Corporate Governance Report

Consolidated Corporate Governance Report

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

Corporate governance – framework

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

Declaration of commitment to the Austrian Code of Corporate Governance

The Austrian Code of Corporate Governance as amended in January 2015 is available from the website of the Austrian Working Group for Corporate Governance at www.corporate-governance.at

Declaration of conformity

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

Evaluation

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

Additional reporting

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

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

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

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

Deviations

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

C Rule 2:

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

C Rule 45:

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

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

Executive Board

Composition of the Executive Board

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

Executive Board

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

Board functions of Executive Board members within the Group

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

Supervisory board mandates of Executive Board members outside the Group

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

Work procedures and allocation of responsibilities

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

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

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

Allocation of responsibilities

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

¹ Audit and the Human Resources Committee are the joint responsibility of the chairman and the vice-chairman.

Remuneration of members of the Executive Board

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

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

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

Because it is only possible to ascertain at the end of the year whether targets have been achieved, variable remuneration components are paid out in the following year. Therefore, the total amount for 2016 includes variable remuneration components granted to members of the Executive Board in the 2016 reporting period for the 2015 reporting period.

Variable remuneration depends upon performance and is limited to a specific percentage of the respective fixed remuneration. For reporting period 2015, this percentage rate ranged between 30% and

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

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

Statutory regulations apply, taking account of the requirements of Rule 27a of the Austrian Code of Corporate Governance, with respect to the claims of members of the Executive Board upon termination of their position. In the 2016 reporting period, €361,210 (previous year: €384,644) was paid out for pensions and €0 (previous year: €0) for termination benefits in favour of beneficiaries.

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

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

Remuneration policy in the subsidiaries

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

D&O insurance

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

Supervisory Board

The Supervisory Board has also explicitly affirmed its commitment to the Austrian Code of Corporate Governance. Consequently, the Code, together with the Austrian Stock Corporation Act (Aktiengesetz, AktG) and the Austrian Commercial Code (UGB), the Austrian Labour Constitutional Act

(Arbeitsverfassungsgesetz, ArbVG), the Company's Articles of Association and the rules of procedure for the Executive Board and Supervisory Board, has become the basis for the Supervisory Board's actions.

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

Personal details, chairpersons and other Board functions

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

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

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

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

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

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

Employee representatives

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

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

Independence

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

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

- The Supervisory Board member shall not be a close relative (direct descendant, spouse, life partner, parent, uncle, aunt, sibling, niece, nephew) of a member of the Executive Board or of persons who hold one of the aforementioned positions.”

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

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

Meetings of the Supervisory Board

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

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

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

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

Each year during the audit of the financial statements, the auditor provides the Supervisory Board with a separate report on the reliability of the risk management system. This includes sustainability risks as well as the written quarterly reports on operating risk management which the Supervisory Board discusses at each of its meetings.

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

Evaluation of Supervisory Board activity

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

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

Composition and work procedures of the Committees

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

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

Working Committee/Emergencies Committee

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

The Working Committee

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

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

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

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

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

Members of the Working Committee

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

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

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

Audit Committee

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

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

Members of the Audit Committee

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

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

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

General and Remuneration Committee

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

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

Members of the General and Remuneration Committee

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

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

Nomination Committee

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

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

Members of the Nomination Committee

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

The Nomination Committee did not meet during financial year 2016.

Contracts requiring consent – conflicts of interest

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

Supervisory Board member Dr. Gilbert Frizberg

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

Supervisory Board member Mag. Elisabeth Engelbrechtsmüller-Strauß

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

Supervisory Board member Mag. Dr. Martin Krajcsir

A number of contractual relationships, some of many years standing, exist between VERBUND and the Wiener Stadtwerke Group, of which Mag. Dr. Martin Krajcsir is CEO. These had already been entered into before Mag. Dr. Krajcsir became a member of the Supervisory Board. The business transacted under these contracts and their volume are reported to the Supervisory Board on an annual basis. In financial year 2016, an order volume totalling €1.5m was processed on the basis of existing contracts (excluding transactions with grid subsidiary APG). This primarily involved invoices for electricity and grid fees for VERBUND companies. In addition, contractual relationships for the supply of electricity exist with e&t Energie HandelsgmbH, in which Wiener Stadtwerke holds a 45% interest.

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

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

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

Supervisory Board member Mag. Jürgen Roth

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

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

Remuneration of members of the Supervisory Board

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

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

Remuneration scheme for the Supervisory Board

in €

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

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

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

Remuneration of Supervisory Board members

in €

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

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

Annual General Meeting

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

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

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

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

Measures for the advancement of women

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

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

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

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

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

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

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

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

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

Vienna, 16 February 2017

The Executive Board



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



Dr. Johann Sereinig
Vice-Chairman of the Executive Board



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



Dr. Peter F. Kollmann
Member of the Executive Board

External audit

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

Audit opinion

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

Vienna, 16 February 2017

Ernst & Young
Wirtschaftsprüfungsgesellschaft m.b.H.

Mag. Elfriede Baumann e.h.
Certified Public Accountant

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

Group management report

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

General conditions

VERBUND's business operations are substantially impacted by the development in wholesale electricity prices and the political and regulatory framework. Electricity prices depend not only on demand but also on price trends for fuel and CO₂. In addition, the energy sector is undergoing fundamental changes due to the transition to increasingly climate-neutral energy generation.

Conditions in the European electricity market remained extremely challenging in financial year 2016. The energy markets continued to experience upheavals, and commodity prices for oil, gas and coal underwent a further decline compared with 2015. CO₂ prices also collapsed in Europe due in particular to political uncertainty concerning the future role of the United Kingdom in EU emissions trading as well as uncertainty regarding the next step in pursuing reform in the fourth trading period. Moreover, economic growth remained sluggish in Europe. All of this in conjunction with the new energy efficiency regulations taking effect led to stagnating demand for electricity in the joint German/Austrian price zone in 2016. At the same time, electricity generation capacities increased due to continued heavy subsidisation of energy generated from wind and photovoltaics. Thus wholesale prices for electricity dropped once again in financial year 2016 in comparison with 2015.

VERBUND responded to the foreseeable decline in revenue by launching a programme to reduce costs and increase efficiency, increasing the regulated portion of its asset portfolio and initiating an innovation and services campaign. Thus VERBUND continued in 2016 to work steadily towards its goal of becoming a CO₂-free, cost-effective and innovative electricity generation company.

Fossil fuels will be replaced by electricity for heating and mobility.

General economic environment

Growth accelerates in a risky climate

Real global output rose only moderately in 2016 with an increase of 3.1% despite stabilisation of the situation in the emerging markets. At +4.1%, growth in economic output in the emerging markets in 2016 was approximately at the level of the previous year.

The highly expansionary monetary policy used by central banks in the advanced economies to stimulate the economy in 2016 was counteracted by structural impediments and political uncertainty. This included geopolitical tension along with increasingly isolationist, protectionist tendencies as came to light in the Brexit vote, for instance. According to the January 2017 forecast by the International

Monetary Fund (IMF), real economic growth increased by 1.6% in the industrial countries in 2016 after an increase of 2.1% in 2015.

The Brexit vote also curbed economic output in the eurozone, which IMF experts estimate to have risen by 1.7% in 2016 or somewhat less than in the prior year (2015: +2.0%). Economic output in Germany, the eurozone's largest economy, performed in line with the rest of the eurozone in the reporting period (2016: +1.7%).

The Austrian economy was on the upswing in 2016 following the low growth levels registered in 2015. Economic growth was fuelled by an acceleration in domestic consumption, due above all to the positive impact of the 2015/2016 tax reforms and the associated increase in household incomes. By contrast, the sluggish performance of global trade provided little stimulus for the export economy. According to the December 2016 economic forecast by the Austrian Institute of Economic Research (WIFO), real gross domestic product increased by 1.5% in 2016 (2015: +1.0%).

Energy market environment

Higher electricity consumption due to the 2016 leap year and considerably colder winter months

According to initial data from E-Control, electricity consumption in Austria rose by 1.0% to 70,297 GWh in 2016 (total supply of electricity, domestic electricity consumption excluding pumped storage consumption). One of the reasons for the increase in consumption was the extra day in February 2016 due to the leap year. Higher consumption also resulted from the considerably colder winter months compared with 2015.

Due to the increase in the water supply compared with the previous year, Austrian hydropower plants supplied 7.1% more electricity in 2016 (total supply of electricity). "Other generation" increased by 4.2%, while thermal power plant generation decreased by 0.2% due to unfavourable market conditions. "Other generation" includes electricity production from other renewable energy sources (excluding biomass, which comes under the category of thermal generation) and from plants that cannot yet be allocated for statistical purposes. All in all, electricity generation increased by 4.7% in Austria in 2016.

The energy trading balance was affected by the fact that the quantities of electricity produced domestically rose significantly, whereas consumption of electricity increased at a lower rate. Net electricity imports (imports minus exports) decreased by 28.9%. Therefore, the figure representing the foreign dependence of the Austrian power supply amounted to nearly 10% in 2016 after 13% in 2015.

OPEC agrees to limit oil production

The average price for one barrel of Brent crude oil (front month) was \$45.1/bbl in 2016 compared with \$53.6/bbl in 2015. This represents a decrease of 15.8%.

At the start of 2016, oil prices continued the downward spiral that had begun in mid-2014. The price for one barrel of Brent crude (front month) fell below the \$30/bbl mark in January 2016. Although crude oil prices subsequently recovered, the low price levels created serious difficulties overall for numerous oil-producing countries and companies. The OPEC countries – which have a total market share of around 40% of all crude oil production – nonetheless proved unable to agree on price interventions for quite some time.

It was not until the end of November 2016 that OPEC decided to cut production for the first time since 2008. Oil prices rose immediately. At the end of 2016, one barrel of Brent crude (front month) was quoted at \$56.8/bbl.

Gas prices continue falling

Price levels in European gas trading declined sharply compared with 2015. The spot price at the European NCG trading point decreased by €5.8/MWh compared with the previous year to €14.2/MWh on average in 2016. In futures trading, supplier contracts for the coming year (NCG front year) were invoiced at €15.7/MWh, or €4.7/MWh less than had to be paid for the NCG front year in 2015. European gas prices came under pressure in 2016 due to falling oil prices and an increased supply of liquefied natural gas (LNG).

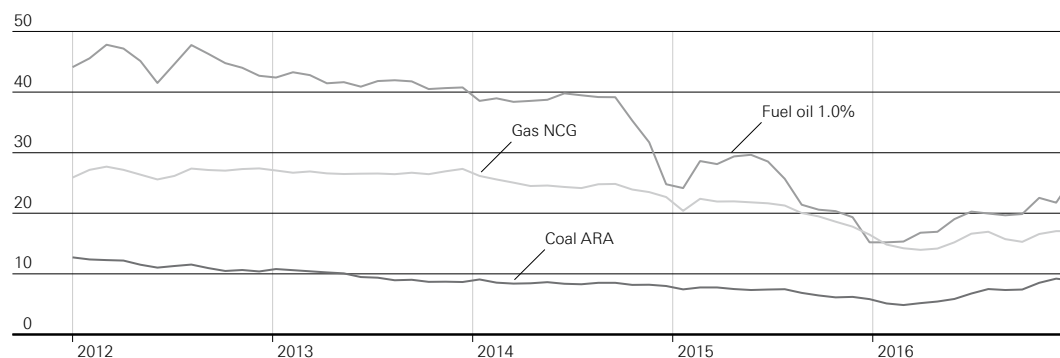
Coal recovers after first-quarter 2016 low

Major excess capacities put prices under even greater downward pressure at the start of 2016. Coal listings (ARA front year) on the futures market fell well below \$40/t at times during quarter 1/2016, after which the coal market recovered again. Hard coal for the front year was trading at \$70.3/t at the end of 2016.

The rise in hard coal prices observable at the end of quarter 1/2016 was mainly attributable to the cutbacks in coal production ordered in China (closure of loss-making hard coal mines) being offset in full by increased imports.

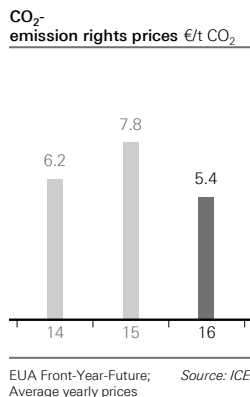
On average, hard coal was 2.1% cheaper on the futures market (ARA front year, euro basis) in 2016 than in the previous year in spite of the recent price increase. By contrast, coal prices in the spot market were up 4.9% in 2016 compared with the average listing in 2015 (euro basis).

Coal, oil and gas price performance €/MWh thermal



Average monthly prices, futures market (front year)

Source: ICE, EEX



CO₂ prices take a nosedive

The Dec 2017 EUA (European Union Allowance) emissions rights benchmark contract traded at an average of €5.4/t in 2016, a decrease of €2.4/t from a year earlier. Many experts believe that this is still much too low to induce corporations to gear their decisions on production methods and investments towards low-emission solutions rather than high-emission fuels, technologies and processes.

Certificate prices (EUA with a December 2017 delivery date) initially declined steadily from the start of 2016 until mid-February, when they reached a low of under €5/t of CO₂. Prices then moved sideways until reaching just under €6/t of CO₂ at the end of April 2016. Following the UK decision in favour of leaving the EU on 23 June 2016, certificate prices declined, dropping below €5/t of CO₂ at times.

The erosion in prices reflects the uncertainty regarding the United Kingdom's continued participation in the European Emissions Trading System (ETS) as well as whether the EU will be successful in its efforts to reform the ETS.

Further drop in electricity wholesale prices

The average price for base load electricity deliveries in the German/Austrian bidding zone on EPEX Spot, the European electricity exchange spot market, decreased by 8.2% compared with the previous year to €29.0/MWh in 2016. Peak-load prices were €35.2/MWh in 2016, or 9.8% lower than the average prices for 2015.

Apart from declining prices for CO₂ and primary energy, the lower spot market prices were attributable to the greater quantities of energy from renewables being fed into the grid in the joint German/Austrian price zone amid stagnating demand. The accumulation of renewable energy increases the likelihood of lower prices or negative prices occurring during certain hours in the spot market.

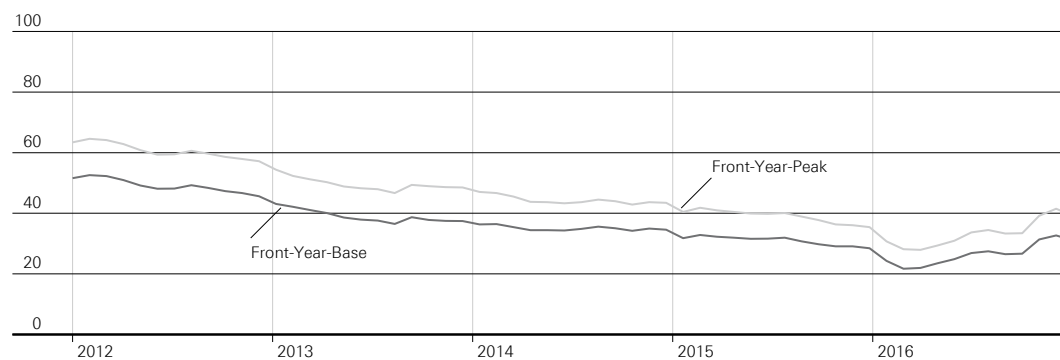
Spot market electricity price performance in €/MWh



In the futures market at the European Energy Exchange (EEX), base load for 2017 (front year base) was traded at an average price of €26.6/MWh in 2016 for the German/Austrian bidding zone, and peak-load (front year peak) was traded at €33.5/MWh. In 2015, front year base contracts still paid €31.0/MWh on average and front year peak contracts paid €39.0/MWh. These prices are a reflection of expectations

that the production of renewable energy will continue to increase and price levels will remain favourable in the markets for primary energy and CO₂.

Futures market electricity price performance in €/MWh



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

Source: EEX

VERBUND sells most of the electricity generated in futures markets in advance so as to reduce short-term selling and price risks. In 2016, the price trend in the futures market had only a minor influence on revenue during the reporting period. The trend will affect the results of subsequent periods, however.

Political and regulatory framework

At the end of 2016, the European Commission presented a new energy package known as “Clean Energy for All Europeans”. The next stage of the energy transition has been ushered in by Germany with its comprehensive reform of the German Renewable Energy Sources Act (Erneuerbare-Energien-Gesetz, EEG) in addition to enacting the Act for the Further Development of the Electricity Market (Gesetz zur Weiterentwicklung des Strommarkts), also known as the Electricity Market Act (Strommarktgesetz) to adapt the electricity market to the requirements of the energy transition. In Austria, the focus was on splitting up the German/Austrian price zone and the government’s “autumn package”.

EU energy policy

“Clean Energy for All Europeans”: European Commission presents the fourth internal energy market package

On 30 November 2016, the European Commission presented a comprehensive legislative package for the energy sector. The legislation covered the following: introduction of a corporate governance framework, reorganisation of the regulations applicable to renewable energy (subsidies, market integration), improving the energy trading market (control power market, intraday/day-ahead/futures markets), removing market barriers (upper price limits, regulated consumer prices), regulations for capacity mechanisms, strengthening regional cooperation (especially between transmission system operators), regulations for the distribution grid, strengthening ACER (Agency for the Cooperation of Energy Regulators), new rules for determining price zones, promotion of electromobility, regulations for new market participants (aggregators, local energy communities), the legal framework for demand

response, clarification of the legal framework for storage capacity, improving consumer services in relation to quotations and billing, and regulations for own generation. Proposals were also presented for revised energy efficiency and building efficiency guidelines. The legislative process thus initiated at EU level is likely to be completed during the Austrian presidency in the second half of 2018.

European Commission's decarbonisation package

In July 2016, the European Commission presented a proposal to all member states regarding binding carbon reduction targets for the 2021–2030 period. The proposal is directed at those sectors not subject to the EU Emissions Trading System (ETS) regulations (transport, building, agriculture, waste, land use and forest management). Under the proposal, Austria would be required to reduce carbon emissions by 36% compared with 2005 levels by 2030. The Commission also announced its European strategy for low-emission mobility.

German-Austrian electricity price zone

ACER (Agency for the Cooperation of Energy Regulators), the European regulatory authority, published a non-binding opinion on 23 September 2015 in which it recommended splitting up the joint German-Austrian bidding zone. This step was taken because of “loop flows” (unscheduled flows of electricity), most of which occur via Poland and the Czech Republic.

Together with the Federation of Austrian Industries, the Austrian Economic Chambers and EXAA, the Austrian energy exchange, VERBUND took the lead in having a legal opinion prepared by European law firm Clifford Chance by 4 November 2016. The opinion stated that ACER had no authority to decide on splitting up the German-Austrian electricity market and that the European Network of Transmission System Operators for Electricity (ENTSO-E) had sole responsibility, together with the member states, for reviewing possible congestion in Germany and Austria. The initial results from ENTSO-E are expected in the spring of 2018 in the context of its bidding zone review.

On 17 November 2016, the European regulatory authority ACER announced that although it would initiate preparations for separating the German-Austrian electricity price zone, splitting the zone would depend on the outcome of the bidding zone review currently being conducted by ENTSO-E.

VERBUND will follow E-Control, APG, sector associations (“Österreichs Energie”), Austrian energy policymakers and EXAA in taking legal action against the decision, since it is not permissible for ACER to even make preparations for splitting the joint price zone at the Austrian border.

VERBUND will thus continue to work vigorously at both national and European level towards maintaining the German-Austrian electricity price zone, as in the past.

New legal framework for the energy sector in Germany

Electricity Market Act

A new electricity market law was enacted by the German parliament based on the green paper and white paper discussions on the design of the electricity market. The German Electricity Market Act (Strommarktgesetz) lays the foundation for the future design of the market and is an acknowledgement of the Energy-Only-Market (EOM) 2.0 proposals. The new legislation emphasises the electricity market, incorporating a capacity reserve and a grid reserve as well as provisions for permanently closing down lignite-fired plants. It also gives more responsibility to balancing group managers and specifies the compensation for redispatch measures. The Electricity Market Act took effect on 30 July 2016.

“Electricity 2030” discussion paper published by the German Federal Ministry for Economic Affairs and Energy

In September 2016, the German Federal Ministry for Economic Affairs and Energy (BMWi) opened the debate on “Electricity 2030”. The discussion involves outlining the primary tasks for the coming years based on twelve long-term trends with a focus on cost-efficient supply of electricity. Three main topics have emerged in the process: 1) efficiency in line with the “efficiency first” concept; 2) direct use of renewables and 3) “sector coupling”.

All of the issues under discussion essentially come down to two main points: where will investments need to be made to transition from Electricity Market 2.0 to Energy Market 2.0, and how will the regulatory framework ensure that the market will provide incentives for those investments to be made?

The effects of the discussion paper on energy policy legislation are expected to be seen in the next legislative period.

Amendment to the Renewable Energy Sources Act

The 2017 Renewable Energy Sources Act (Erneuerbare-Energien-Gesetz 2017, EEG 2017) ushers in a near-complete change in the system for subsidising electricity from renewable energy. In future, a competitive bidding procedure will be carried out for the key plant technologies of wind, solar and biomass. The bidding process will be designed to manage expansion in accordance with the planning and to keep costs down. It will also maintain the variety of players in the market by excluding small plants from participation in the bidding procedure and improve coordination of the development of renewable energy and grid expansion.

For 2017, the transmission system operators have announced that allocations under the Renewable Energy Sources Act (EEG) will increase by 8.3% to 6.88 ct/kWh. The German Federal Ministry for Economic Affairs and Energy (BMWi) noted that following the high reached in 2013, the combined total figure of the exchange market price and the allocation under the Renewable Energy Sources Act (EEG) has declined for three years in a row and will presumably decrease again in 2017 despite the increase in compensation for electricity generated from renewables of approximately 40% (2013–2017). The additional increase in the allocation under the Renewable Energy Sources Act (EEG) illustrates the continuing need for reform.

Green paper on energy efficiency

The German Federal Ministry for Economic Affairs and Energy (BMWi) led a consultation process in the context of preparing a green paper on energy efficiency in 2016. The green paper focuses on five main topics: “efficiency first”, advancing the development of energy efficiency tools, energy efficiency policy at EU level, sector coupling and digitalisation. The key issue for the Ministry was formulated as follows: “How can we reduce the demand for energy, and how can energy be converted and used more efficiently in the future?”

Electromobility package

The German government has approved a €1bn range of measures aimed at accelerating development of the electromobility market. In addition to paying incentives for the purchase of electric cars and plug-in hybrids, the government has set aside €300m for improvements to the charging infrastructure. The

package also calls for increasing the percentage of electric vehicles in the government fleet to at least 20%.

New legal framework for the energy sector in Austria

Integrated energy and climate strategy

The consultation process on the “green book for an integrated energy- and climate strategy” conducted by the Austrian government in 2016 represented the first key step in moving towards 2030 in terms of energy policy. Specific strategic measures in energy and climate policy are expected in 2017.

“Tariffs 2.0”

In February 2016, Energie-Control Austria (ECA) launched a discussion process with its consultation paper entitled “Further development of the fee structure for the power grid (“Tariffs 2.0”)”. The consultation paper is the ECA’s response to current challenges such as increasingly decentralised, volatile generation, demand response and the roll-out of smart metering. The main point made by the ECA paper is that greater emphasis should be placed on the capacity component of the charge. The ECA will publish the final document in the first quarter of 2017.

Amendment to the Stock Exchange Act

The EU’s new market abuse regime necessitated amendments to the Stock Exchange Act (Börsegesetz, BörseG) in 2016. As was the case with implementation of the 2013 EU transparency guidelines, the amendments tightened regulations for exchange-traded companies. VERBUND has adapted its internal regulations on financial market compliance accordingly.

Federal government’s “autumn package”

In 2016, the federal government discussed and prepared a legislative package comprising various legislative proposals (“autumn package”). The package contains plans to amend the Electricity Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG), the Natural Gas Act (Gaswirtschaftsgesetz, GWG), the E-Commerce Act (E-Commerce-Gesetz, ECG) and the Federal Energy Efficiency Act (Bundes-Energieeffizienzgesetz, EEffG) and to revise the CHP-Points Act (KWK-Punkte-Gesetz, KPG) as well as a technology compensation law for biogas plant operators. The discussion is still ongoing, however, given the different points of view of the various key stakeholders regarding subsidies for biogas plants. Adoption of the package has been postponed until 2017.

Discussion of storage capacity in the future regulatory framework

The increasing proliferation of decentralised generation units and the rising share of volatile renewable energies as well as new consumers of electricity have altered the electricity markets in that small-scale, local storage capacity is being used more and more frequently. Detailed discussions are being held on how to integrate local storage capacities into the existing regulatory framework, particularly in view of the use of local capacities by grid operators for grid support measures.

Finance

Factors affecting the result

Wholesale prices for electricity

In 2015, VERBUND entered into contracts in the futures market for most of its own generation for 2016. At an average of €31.0/MWh for base load and €39.0/MWh for peak load, electricity wholesale prices were down 11.8% and 12.0%, respectively, on the prior-year levels. Price levels on the electricity futures market thus largely mirrored the trend in fuel and CO₂ prices. Excess capacities in the European electricity market and construction of additional renewable energy plants have exerted additional pressure on the futures market.

In the spot market, wholesale trading prices for electricity in 2016 were also significantly below the prior-year level. Prices for base load decreased by an average of 8.2% to €29.0/MWh, and prices for peak load fell by 9.8% to €35.2/MWh. Apart from declining prices for CO₂ and primary energy, the lower spot market prices were attributable to the greater quantities of energy from renewables being fed into the grid in the joint German/Austrian price zone amidst stagnating demand.

Futures prices €/MWh

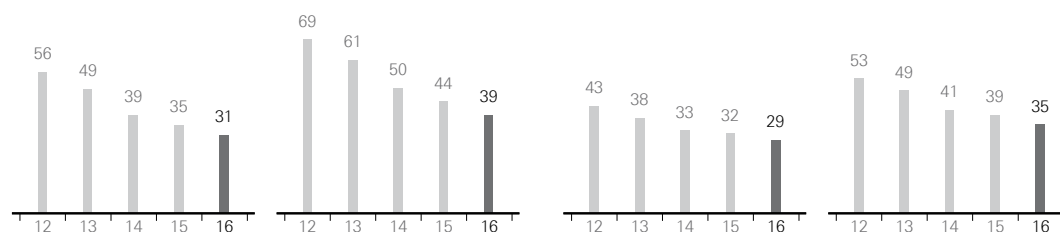
Front Year Base

Front Year Peak

Spot market prices €/MWh

Spot Base

Spot Peak



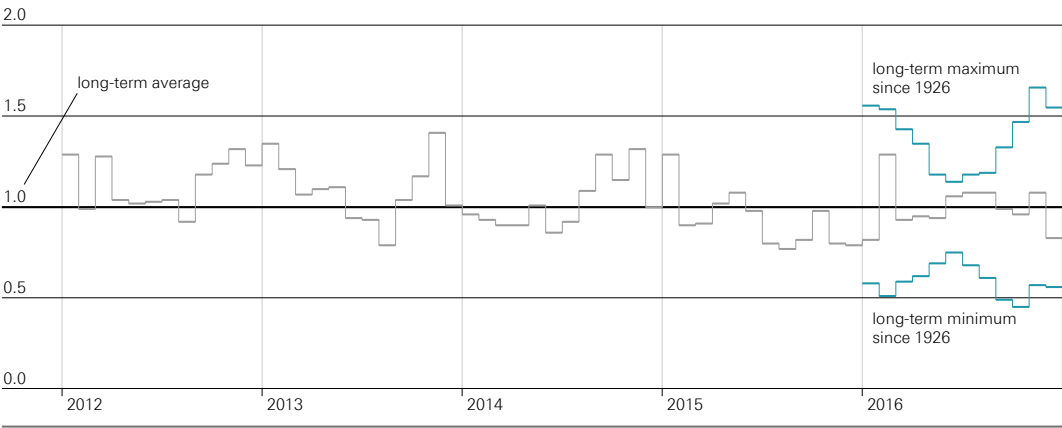
Futures prices traded in the year before supply. The years stated are the respective years of supply. Average prices.

Source: EEX, EPEX Spot

Water supply

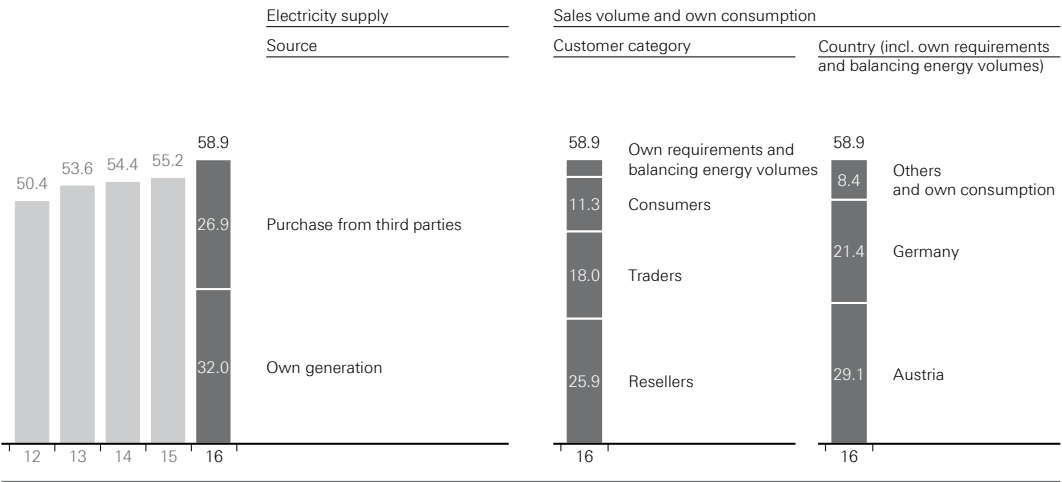
Water supply in the rivers is of particular significance to VERBUND since around 93% of its electricity is produced using hydropower. The water supply is measured by means of a hydro coefficient. The value of 1.00 stands for the long-term average. In the 2016 reporting period, the hydro coefficient for run-of-river and pondage power plants was 1.00, which is exactly the same as the long-term average and 7 percentage points above the prior-year level. The hydro coefficients for the individual quarters were as follows: quarter 1: 1.00; quarter 2: 0.98; quarter 3: 1.05; quarter 4: 0.96.

Hydro coefficient (monthly averages)



Electricity supply and sales volumes

Electricity supply and sales volumes TWh



In 2012 there was a change of accounting method.

At 31,995 GWh, VERBUND's own generation increased by 756 GWh, or 2.4%, compared with the previous year. Generation from hydropower rose by 6.1%, or 1,711 GWh, compared with 2015. The hydro coefficient for the run-of-river power plants was 1.00, which corresponds to the long-term average and is 7 percentage points above the prior-year figure. Generation from annual storage power plants fell 5.0% below the prior-year level due to decreased utilisation of reverse operation and despite the greater water inflows and increased lowering of water levels.

Wind power and photovoltaic installations generated 47 GWh, or 5.4%, less electricity. The decrease was attributable above all to less windy conditions in Romania and production cutbacks in Germany.

Generation from thermal power plants was reduced by 908 GWh, or 40.2%, in the reporting period. The Mellach combined cycle gas turbine power plant produced 127 GWh less electricity in 2016 due to decreased use for congestion management. Generation from VERBUND's other thermal power plants in Austria decreased by 781 GWh, primarily due to the closure of the Dürnröhr power plant effective 30 April 2015.

Electricity purchased from third parties for trading and sales increased by 3,202 GWh. Purchases of electricity from third parties for grid losses and control power, including congestion management, dropped by 341 GWh.

Group electricity supply

	GWh		
	2015	2016	Change
Hydropower ¹	28,098	29,809	6.1%
Wind	882	835	-5.4%
Thermal power	2,259	1,351	-40.2%
Own generation	31,239	31,995	2.4%
Electricity purchased for trading and sales	19,673	22,875	16.3%
Electricity purchased for grid loss and control power volumes	4,326	3,986	-7.9%
Electricity supply	55,238	58,855	6.5%

¹ incl. purchase rights

Electricity sales volumes increased by 3,814 GWh in 2016 compared with the previous year. We were able to increase electricity volumes delivered to consumers by 2,308 GWh thanks to increased activity in the Austrian and international consumer markets (Austria: +342 GWh; international: +1,966 GWh). The rise in sales to resellers (+1,589 GWh) was due above all to higher demand in Austria and in France. Electricity deliveries to trading firms were nearly unchanged (-84 GWh). Own use of electricity decreased by 462 GWh, primarily due to the significant decrease in the use of reverse operation.

Group electricity sales volume and own use

GWh

	2015	2016	Change
Consumers	8,946	11,255	25.8%
Resellers	24,317	25,906	6.5%
Traders	18,112	18,028	-0.5%
Electricity sales volume	51,375	55,189	7.4%
Own use	3,100	2,639	-14.9%
Control power volume	762	1,028	34.9%
Total electricity sales volume and own use	55,238	58,855	6.5%

In 2016, approximately 53% of the electricity sold by VERBUND went to the Austrian market. International trading and sales activities focused on the German market, which accounted for around 82% of all volumes sold abroad. The German and Austrian markets accounted for most of the growth.

Electricity sales by country

GWh

	2015	2016	Change
Austria	27,366	29,107	6.4%
Germany	19,628	21,394	9.0%
France	3,641	3,847	5.6%
Romania	473	437	-7.7%
Switzerland	131	236	79.8%
Other	135	169	24.9%
Electricity sales volume	51,375	55,189	7.4%

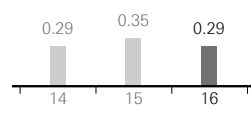
Financial performance

Result	€m		
	2015	2016	Change
EBITDA	888.7	1,044.2	17.5%
Adjusted EBITDA	838.8	894.5	6.6%
Operating result	410.6	615.1	49.8%
Group result	207.7	424.4	104.3%
Adjusted Group result	268.9	325.9	21.2%
Earnings per share	0.60	1.22	104.3%
(Proposed) dividend per share in €	0.35	0.29	-17.1%

Income trend

The income trend was positive in financial year 2016. EBITDA increased by 17.5% to €1,044.2m and the Group result rose to €424.4m, or 104.3% over the previous year's figure. In both the current and the previous reporting periods, however, earnings were impacted by non-recurring effects. In 2016, non-recurring income was generated from the settlement between VERBUND and EconGas GmbH of various outstanding issues relating to gas deliveries for the Mellach combined cycle gas turbine power plant as well as from the settlement of all outstanding issues arising from the agreement with Energie Steiermark AG to supply district heating from the Mellach power plants site. The most significant non-recurring expense in financial year 2016 was the impairment loss recognised on the Romanian wind farms. Non-recurring effects in 2015 related in particular to the impairment loss recognised on the Mellach CCGT and the reversal of provisions due to legal settlements in the Grid segment. After adjusting for these non-recurring effects, earnings improved despite the sharp market-related drop in sales prices. Adjusted EBITDA rose by 6.6% to €894.5m and the Group result by 21.2% to €325.9m. This is attributable in particular to the greater water supply (hydro coefficient in 2016: 1.00; 2015: 0.93), a substantial earnings improvement in the area of thermal generation due to cost reductions and congestion management, higher earnings in the Grid segment due to lower expenses for control power, the Group-wide programme to reduce costs and increase efficiency and a significant reduction in interest expense.

Dividend per share €



Dividend

A dividend of €0.29 per share for financial year 2016 will be proposed to the Annual General Meeting on 5 April 2017. The dividend is based on a payout ratio of approximately 30% (for 2016: 30.9%) of the Group result after adjustment for non-recurring effects. The payout ratio for 2016 will amount to 23.7% based on the reported Group result. In 2015, a dividend of €0.35 per share was paid out to shareholders; the payout ratio amounted to 58.5% of the reported Group result.

Revenue

	2015	2016	Change
Electricity revenue	2,336.4	2,213.9	- 5.2%
Grid revenue	439.6	395.0	- 10.1%
Other revenue	193.6	187.0	- 3.4%
Revenue	2,969.6	2,795.9	- 5.9%

Electricity revenue

VERBUND's electricity revenue decreased by €122.6m to €2,213.9m in 2016 compared with the previous year. In terms of quantities, electricity sales volumes rose by 7.4%, or 3,814 GWh. The decline in electricity revenue is attributable to a decrease in the average sales prices attained due to the decline in wholesale electricity prices. Average sales prices decreased from €35.0/MWh to €31.0/MWh.

Grid revenue

Grid revenue decreased by €44.6m year-on-year to €395.0m in 2016. The decline is mainly attributable to the non-recurrence of the income recognised in the prior-year period from reversals of provisions. In 2015, the provisions recognised to comply with the System Usage Rates Directives (Systemnutzungstarife-Verordnungen) and the System Charges Order (Systemnutzungsentgelte-Verordnung) had been reversed to reflect legal settlements. The decline in grid revenue was partially offset by higher international grid revenue from the auctioning off of cross-border capacities as well as by higher national grid revenue resulting from increased tariff revenue.

Other revenue and other operating income

Other revenue decreased by €6.6m to €187.0m. Higher revenue from district heating deliveries was offset by lower revenue from consulting and planning services/other invoiced services as well as lower revenue from gas deliveries. Other operating income climbed by €108.5m to €179.0m. In the 2016 reporting period, VERBUND and EconGas GmbH settled various outstanding issues related to gas deliveries for the Mellach combined cycle gas turbine power plant. The resulting income amounted to €118.0m (further details are presented in the notes to the consolidated financial statements).

Expenses	€m		
	2015	2016	Change
Expenses for electricity, grid, gas and certificate purchases	1,415.8	1,328.1	– 6.2%
Fuel expenses and other usage-dependent expenses	138.7	61.7	– 55.5%
Personnel expenses	332.9	313.6	– 5.8%
Other operating expenses	264.1	227.2	– 14.0%

Expenses for electricity, grid, gas and certificate purchases

Expenses for electricity, grid, gas and certificate purchases decreased by €87.7m to €1,328.1m. Purchases of electricity from third parties for trading and sales as well as for grid losses and control power rose by a total of 2,862 GWh. The increase in volume was offset by lower purchase prices, however. As a result, expenses for electricity purchases decreased (€–146.2m). Expenses for grid purchases rose by €70.7m, while expenses for gas purchases fell by €14.8m.

Fuel expenses

Fuel and other usage-dependent expenses decreased by €76.9m to €61.7m. The decline was attributable to the decrease in thermal generation (for details, please refer to the section entitled Electricity supply and sales volumes) as well as the associated lower expenses for emission rights. Moreover, the adjustment of the provision for expected losses in connection with a district heating supply commitment had a distinctly positive impact.

Personnel expenses

Personnel expenses declined by €19.3m to €313.6m. The reduction of €13.3m in expenses for current employees (excluding pensioners and employees in partial retirement) was largely due to the consistent implementation of personnel management measures (€+10.7m) in connection with the programme to reduce costs and increase efficiency. Expenses for termination benefits and pensions decreased by €6.0m. The reduction was primarily attributable to an update of actuarial reports (€+9.3m).

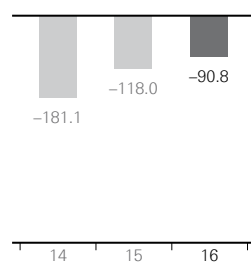
Other operating expenses

Other operating expenses declined by €36.9m to €227.2m. Lower maintenance expenses and lower additions to other provisions accounted for most of the decrease. The Group-wide programme to reduce costs and increase efficiency also had a positive effect.

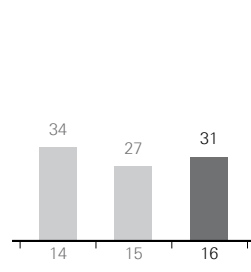
EBITDA

As a consequence of the above-mentioned factors, EBITDA rose by €155.6m, or 17.5%, to €1,044.2m.

Impairment losses €m



Equity result - domestic €m



Depreciation and amortisation

Amortisation of intangible assets and depreciation of property, plant and equipment declined by €20.7m to €339.3m. This reduction was due, among other things, to a decrease in the depreciation base for property, plant and equipment compared with the previous year, mainly as a result of fixed asset disposals and impairment losses.

Impairment losses

Impairment losses amounted to €90.8m (2015: €118.0m) and resulted primarily from the losses recognised on the Romanian wind farms (€57.2m; 2015: €5.3m), the Gössendorf and Kalsdorf run-of-river power plants (€16.5m) and the Mellach combined cycle gas turbine power plant (€15.5m; 2015: €112.6m). Further details on impairment testing are presented in the notes to the consolidated financial statements.

Financial result

	€m		
	2015	2016	Change
Result from interests accounted for using the equity method	27.3	30.5	11.7%
Other result from equity interests	6.9	6.0	-12.7%
Interest income	31.7	31.1	-1.9%
Interest expenses	-184.2	-135.2	-26.6%
Other financial result	-1.7	4.3	-
Reversals of impairment losses	13.3	5.0	-62.4%
Financial result	-106.8	-58.4	-45.3%

Result from interests accounted for using the equity method

The result from interests accounted for using the equity method rose by €3.2m to €30.5m. The increase was mainly due to the earnings contributions from KELAG in the amount of €30.9m (2015: €27.3m).

Interest income and expenses

Interest income decreased by €0.6m to €31.1m compared with 2015. Interest expenses declined by €49.0m to €135.2m. The decline resulted from lower bond interest rates due to the scheduled repayment of a bond and the positive effects of a partial bond buyback prior to maturity, both of which occurred in financial year 2015. Another positive effect arose from lower interest rates for credit facilities. Furthermore, the non-recurring effect (€-23.8m) of the partial buyback of bonds from the 2009 bond issue caused an increase in expenses in the 2015 reporting period.

Other financial result

Other financial result improved by €6.0m to €4.3m. The improvement was mainly due to the measurement of an obligation to return an interest (€+25.4m), the measurement of a long position relating to VERBUND's share in Gemeinschaftskraftwerk Inn GmbH (€-14.5m), the measurement of interest rate hedging transactions (€-3.1m) and the higher balance of foreign exchange gains and losses compared with the previous year (€+5.9m).

Reversals of impairment losses in the financial result

Reversals of impairment losses amounted to €5.0m (2015: €13.3m) and resulted from the reversal of the impairment loss on Shkodra Region Beteiligungsholding GmbH. Further details on impairment testing are presented in the notes to the consolidated financial statements.

Financial result

The financial result consequently improved by €48.4m, from €-106.8m to €-58.4m.

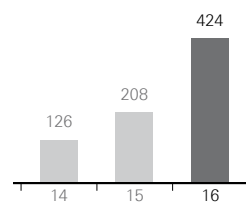
Taxes on income

Income taxes changed from €-53.5m to €-97.2m. Prior-period income tax revenue in the amount of €37.3m was recognised in the 2016 reporting period as a result of the goodwill amortisation in the tax accounts of VERBUND's equity interest in VERBUND Innkraftwerke GmbH (for 2010-2013) and Innwerk AG (for 2015), including interest thereon. Further details are presented in the notes to the consolidated financial statements.

Group result

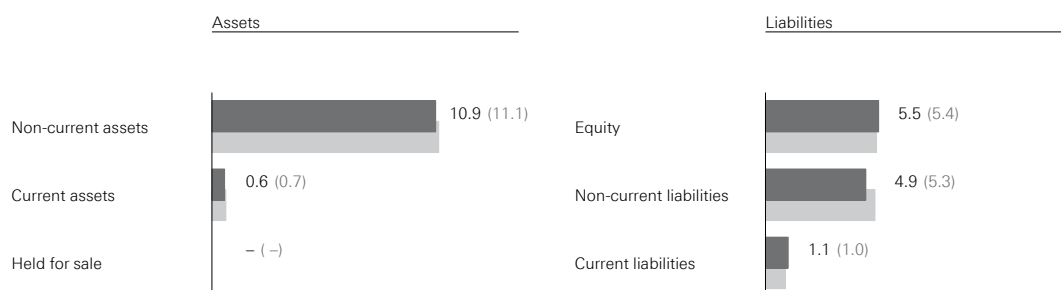
After deduction of non-controlling interests in the amount of €35.1m, the Group result amounted to €424.4m. This represents an increase of 104.3% compared with the previous year. Earnings per share amounted to €1.22 (2015: €0.60) for 347,415,686 shares. The Group result after adjustment for non-recurring effects was €325.9m, an increase of 21.2% on the prior-year period.

Group result €m



Financial position

Balance sheet €bn



Figures in brackets are previous year's figures.

Consolidated balance sheet (short version)

	2015	Percent	2016	Percent	Change
Non-current assets	11,085.0	94%	10,933.6	95%	– 1.4%
Current assets	678.0	6%	604.6	5%	– 10.8%
Non-current assets held for sale	0.0	–	0.0	0%	–
Total assets	11,763.0	100%	11,538.2	100%	– 1.9%
Equity	5,433.3	46%	5,529.5	48%	1.8%
Non-current liabilities	5,349.8	45%	4,908.2	43%	– 8.3%
Current liabilities	979.9	8%	1,100.5	10%	12.3%
Total liabilities	11,763.0	100%	11,538.2	100%	– 1.9%

€m

Assets

VERBUND's assets decreased by 1.9% in 2016. For property, plant and equipment, additions of €255.3m were offset by depreciation of €332.5m. Impairment tests were also conducted on fixed assets, which – after deducting any directly related contributions to building costs or government grants – led to impairment losses in the amount of €90.8m relating primarily to the Romanian wind farms, the Mellach CCGT and the Gössendorf and Kalsdorf run-of-river power plants. The main additions to property, plant and equipment related to capital expenditure for the Reißeck II/Carinthia pumped storage power plant and the Austrian transmission grid. The decline in current assets is primarily attributable to the decrease in the positive fair value of derivative hedging transactions. By contrast, trade receivables rose by 14.5%.

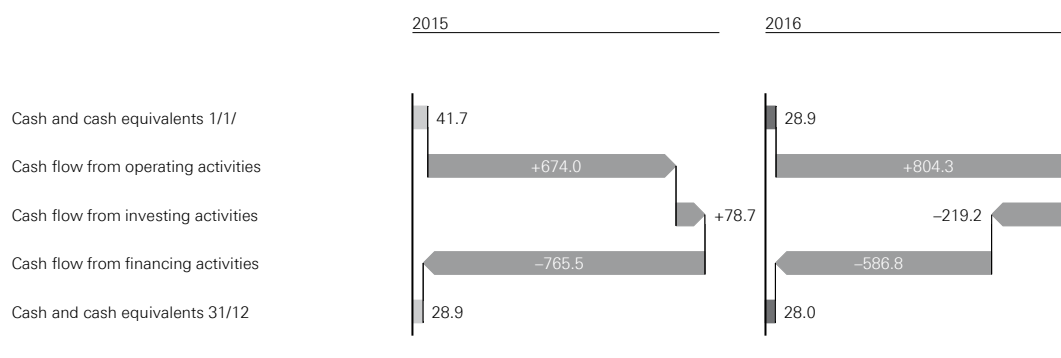
Equity and liabilities

Equity increased by 1.8% compared with 31 December 2015. Profit for the period in 2016 was reduced by dividend distributions and negative measurement effects associated with cash flow hedges in other comprehensive income, which reduced equity.

The change in current and non-current liabilities is primarily attributable to lower current and non-current financial liabilities due to the repayment of current cash advances and the unscheduled early repayment of a credit facility in addition to scheduled repayments. Current liabilities rose as a result of the increase in the negative fair values of derivative hedging transactions.

Cash flows

Cash flow statement €m



Cash flow statement (short version)

	2015	2016	Change
Cash flow from operating activities	674.0	804.3	19.3%
Cash flow from investing activities	78.7	-219.2	-
Cash flow from financing activities	-765.5	-586.8	-23.3%
Change in cash and cash equivalents	-12.8	-1.7	-87.0%
Cash and cash equivalents at the end of the period	28.9	28.0	-3.2%

Cash flow from operating activities

Cash flow from operating activities amounted to €804.3m in the reporting period, an improvement of €130.3m. The increase was partly due to higher net cash inflows from the Grid segment resulting from the settlement of congestion management receivables in 2015. In addition, the measures already implemented from the programme to reduce costs and increase efficiency positively impacted cash flow from operating activities, as did lower interest and tax payments. Lower net cash inflows from the electricity business as a result of lower price levels had a counteracting effect.

Cash flow from investing activities

Cash flow from investing activities amounted to €-219.2m in the reporting period (previous year: €78.7m). Cash flow from investing activities in the 2016 reporting period resulted mainly from cash outflow from capital expenditure for intangible assets and property, plant and equipment (€-248.1m) and cash inflow from the disposal of the consolidated equity interest in VERBUND Photovoltaics Ibérica S.L. (€14.5m). Cash outflow from capital expenditure for intangible assets and property, plant and equipment decreased by €40.0m year-on-year. However, the significant difference compared with the previous year was primarily the result of the cash inflow (€+176.4m) from disposals of other equity interests (sale of Pont-sur-Sambre Power S.A.S. and Toul Power S.A.S.) and consolidated subsidiaries (Haos Invest EAD) as well as cash inflow from the disposal of current investments (€265.6m) and the offsetting cash outflow from capital expenditure for investments made in the previous year (€-67.5m).

Cash flow from financing activities

Cash flow from financing activities amounted to €-586.8m in the reporting period and thus increased by €178.7m. The main reason for the improvement was lower repayments of financial liabilities (€+777.8m) in combination with higher payments associated with money market transactions (€-587.0m).

Key performance indicators and financial governance

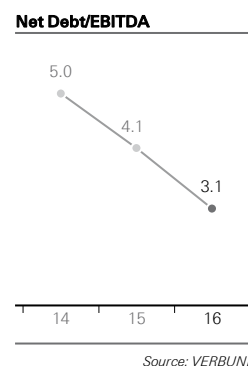
The key performance indicators used to measure VERBUND's business activities are net debt/EBITDA and, accordingly, the improvement in free cash flow and specific costs. VERBUND uses ROCE to measure value creation.

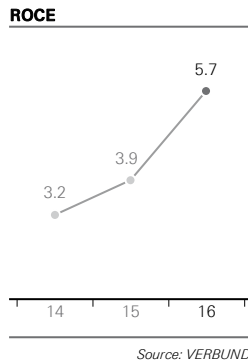
Net debt/EBITDA, free cash flow and specific costs

VERBUND has made debt reduction a priority and is aiming to reach a ratio of net debt/EBITDA of <3.0. To achieve this goal, particular focus is being placed on improving free cash flow.

The ratio of net debt to EBITDA was 3.1 at the end of 2016 (2015: 4.1). The significant improvement is attributable to an increase in EBITDA and a reduction in net debt. The improvement in EBITDA to €1,044.2m (2015: €888.7m) was due to non-recurring income received in connection with the settlement of outstanding issues between VERBUND and both EconGas GmbH and Energie Steiermark AG in combination with the internal programme to reduce costs and increase efficiency as well as the increase in the water supply and a significant improvement in our thermal operations. Thus the price decline in the wholesale markets was more than compensated. The reduction in net debt resulted from a decrease in provisions recognised in connection with EconGas and Energie Steiermark as well as the reduction in liabilities due to the positive free cash flow.

Free cash flow before dividends amounted to €580.7m at the end of the reporting period (31 December 2015: €551.4m). The improvement in free cash flow was mainly due to the settlement of a congestion management receivable in the Grid segment in 2015, the impact of the aforementioned programme to reduce costs and increase efficiency, reduced interest and tax payments and a lower cash outflow from capital expenditure for intangible assets and property, plant and equipment.





“Specific electricity generation costs of VERBUND” is the KPI used to monitor the long-term costs of electricity generation. In financial year 2016, specific costs decreased compared with the prior-year reporting period. Fixed costs also declined based on implementation of the programme to reduce costs and increase efficiency. The cost of capital likewise decreased, due among other things to the aforementioned reduction in interest expenses.

ROCE

ROCE is an indicator of the profitability of the Group’s operating assets. At the end of 2016, ROCE amounted to 5.7% (31 December 2015: 3.9%). The objective is for this figure to exceed 7.0% in the long term. ROCE is calculated by dividing net operating profit after taxes (NOPAT) by average capital employed.

NOPAT equates to operating profit before financing costs, including the result from equity interests net of income tax. At the end of financial year 2016, NOPAT amounted to €500.0m (31 December 2015: €348.7m). The effects described in relation to EBITDA accounted for most of the increase.

Capital employed corresponds to average total assets, net of those assets that do not contribute to performance or commercialisation, and less non-interest-bearing debt. Average capital employed totalled €8,780.9m at the end of 2016 (31 December 2015: €8,958.7m). The Group return exceeded the weighted average cost of capital (WACC) in 2016 (currently 4.5%).

Gearing

Gearing is determined as follows:

Interest-bearing net debt (short version)	€m		
	2015	2016	Change
Current and non-current financial liabilities	2,645.7	2,226.8	–15.8%
Current and non-current financial liabilities – closed items on the balance sheet	481.3	489.2	1.6%
Capital attributable to limited partners	2.5	3.7	50.3%
Other interest-bearing debts	1,218.4	1,166.6	–4.2%
Financial assets - closed items on the balance sheet	–481.3	–489.2	1.6%
Interest-bearing gross debt	3,866.5	3,397.1	–12.1%
Cash and cash equivalents	–28.7	–27.8	–3.2%
Short-term money market transactions	0.0	0.0	–
Securities and loans	–138.3	–142.7	3.2%
Non-current assets held for sale	0.0	0.0	–
Other	–14.1	–5.0	–64.6%
Interest-bearing net debt	3,685.4	3,221.7	–12.6%
Equity	5,433.3	5,529.5	1.8%
Gearing	67.8%	58.3%	–

Financing

Financing strategy

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

Securing liquidity and ensuring suitable liquidity reserves

For VERBUND, ensuring that liquidity is secure at all times in a difficult market environment has the highest priority. As at 31 December 2016, VERBUND had a syndicated credit line in the amount of €500.0m at its disposal that had not been drawn down. The facility runs until 2019 with two extension options of one year in each case. It was taken out on 15 October 2014 with twelve domestic and international banks with good credit ratings. VERBUND also had uncommitted lines of credit amounting to approximately €700.0m at the end of 2016. None of the credit lines had been drawn down as at 31 December 2016.

Power plants are extremely long-term investments in the future.

Securing a solid, long-term credit rating

The better a company's credit rating, the easier and more inexpensive it is to fully access international capital markets. A solid credit rating gives VERBUND access to various financing instruments, including those in the capital market. As at 31 December 2016, VERBUND had a long-term rating of BBB with a stable outlook from Standard & Poor's (S&P) and Baa2 with a stable outlook from Moody's. S&P lowered its rating from BBB+ to BBB with a negative outlook in May 2016. However, it raised the outlook back to "stable" in October 2016. In April 2016, Moody's downgraded its rating to Baa2 with a negative outlook. This rating was also later upgraded to "stable" (in August 2016). For the long term, VERBUND is aiming for a solid "A" category rating. VERBUND is therefore focusing its management of the Group on optimising free cash flow and improving the two key rating-related performance indicators of FFO/net debt and RCF/net debt.

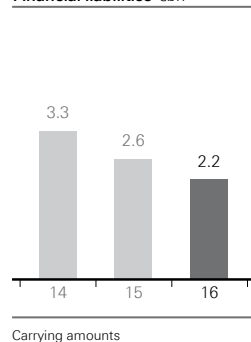
As at 31/12/2016:
S&P: BBB/
stable outlook
Moody's: Baa2/
stable outlook

Financing measures

In 2016, VERBUND was again able to take advantage of its strong internal funding options to finance its ongoing investment programme and to continue to reduce Group debt. As at 31 December 2016, cash flow from operating activities amounted to €804.3m and free cash flow before dividends was €580.7m. No long-term borrowings were taken out in 2016. To reduce interest expenses, VERBUND repaid a promissory note early in financial year 2016 as part of its liability management activities. This involved early repayment of a total principal amount of €62.0m from a loan maturing in 2018.

In 2016, oekom research AG, one of the top independent rating agencies worldwide in the sustainable investment segment, again verified on a voluntary basis the green bond issued by VERBUND in 2014 in the amount of €500m (maturing in 2024, coupon of 1.5% p.a.). This is the first green bond issue by a company in the German-speaking region.

Financial liabilities €bn



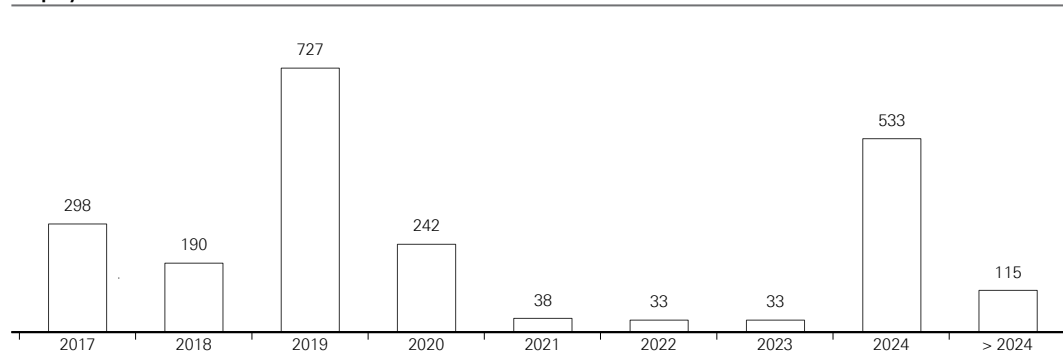
As at 31 December 2016, VERBUND's borrowing portfolio was composed as follows: 63.2% bonds and 36.8% loans.

The following key performance indicators refer to purely external financial liabilities, excluding former cross-border leasing transactions, financial guarantees and limited partnership interests. The carrying amount of VERBUND's financial liabilities was €2,226.8m as at 31 December 2016, 100% of which was denominated in euros. A total of 93.4% of these financial liabilities had a fixed interest rate and 6.6% had a variable interest rate. As at 31 December 2016, the duration of all liabilities was 3.9 years and the average term to maturity was 4.1 years. The effective interest rate was 3.7%.

Repayments and repayment structure

In financial year 2016, long-term borrowings amounting to €115.4m were repaid. A total of €62.0m of the repayment amount was unscheduled. The unscheduled repayment concerned the early repayment of a promissory note in order to reduce interest expenses. A total of €298.4m is due in 2017 and €189.7m in 2018.

Repayments €m



Segment report

Renewable generation

Hydropower and wind generation technologies are brought together under the Renewable generation segment. In keeping with the focus on the Austrian and German markets, the Spanish photovoltaic installations were sold to a financial investor at the end of 2016. Around 96% of the electricity VERBUND generated in financial year 2016 therefore came from renewable sources.

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

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

*We are at the beginning of the end
of the fossil energy era.*

Business performance

KPIs – Renewable generation segment

	Unit	2015	2016	Change
Total revenue	€m	1,028.6	935.8	–9.0%
EBITDA	€m	605.2	542.8	–10.3%
Result from interests accounted for using the equity method	€m	0.9	1.5	80.7%
Capital employed	€m	6,864.2	7,107.6	3.5%

Total revenue of the Renewable generation segment decreased from €1,028.6m to €935.8m, mainly due to the fall in electricity sales prices. The higher generation from hydropower (hydro coefficient for 2016: 1.00; previous year: 0.93) had an offsetting effect. Lower personnel expenses (€16.0m) and a decrease in other operating expenses (€35.4m) also partially compensated for the effects of the drop in electricity prices. Overall, EBITDA of the Renewable generation segment nonetheless fell by €62.4m to €542.8m.

The result from interests accounted for using the equity method of the Renewable generation segment was largely made up of the earnings contribution from Shkodra Region Beteiligungs-holding GmbH, which at €1.5m was marginally higher than the prior-year level (€0.9m).

Capital employed of the Renewable generation segment rose by €243.4m to €7,107.6m, due in particular to the commissioning of the Reißbeck II pumped storage power plant in October 2016.

Energy supply

Energy generation overview

Electricity generation

	Number ¹	Maximum electrical capacity in MW ¹	Mean energy capability in GWh	2014 Generation in GWh	2015 Generation in GWh	2016 Generation in GWh
Hydropower ²	127	8,212	28,984	31,188	28,098	29,809
Wind power	11 ³	418		811 ⁴	882 ⁴	835 ⁴
Total	138	8,630	28,984	31,999	28,980	30,644

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

At 30,644 GWh, VERBUND's renewable generation in 2016 was 5.7% higher than the previous year's level. Generation from hydropower plants rose by 6.1% to 29,809 GWh. At 1.0 in 2016, the hydro coefficient, the measure of generation for run-of-river and pondage power plants, matched the long-term average and hence was seven percentage points above the previous year's figure. Generation from run-of-river, pondage and daily storage power plants was therefore up 8.3% year-on-year. By contrast, generation from annual storage power plants fell by 5.0%, primarily as a result of decreased utilisation of reverse operation and despite the greater water inflows and increased lowering of water levels.

At VERBUND wind power plants and the photovoltaic installations that were available until their sale, 5.4% less electricity was generated in 2016 (835 GWh) than in the previous year even though it was the first time that the Bruck-Göttlesbrunn wind farm that had been put into operation in financial year 2015 generated electricity for a full year. The lower output was mainly due to less windy conditions in Romania and operational restrictions in Germany.

The past and planned changes to VERBUND's power plant portfolio until 2018 are shown in the following table:

Capacity changes 2015–2018¹

	MW			
	2015	2016	2017	2018
Hydropower ²	7,757	8,212	8,212	8,212
Wind power ³	421	418	418	418
Total	8,178	8,630	8,630	8,630

¹ as at 31/12 of each year // ² incl. purchase rights // ³ figure for 2015 includes PV installations in Spain (Spanish activities sold in mid-December 2016)

The planned changes in VERBUND's power plant portfolio until 2018 are based on the current investment plan. The new construction and efficiency improvement projects being implemented at the present time are not included here because these will not be completed until after 2018.

Hydropower

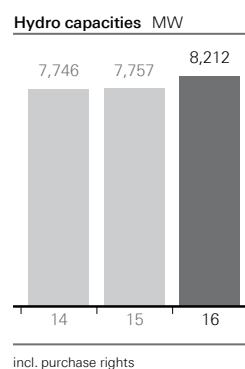
Hydropower – our strong foundation

In 2016, VERBUND electricity from hydropower came from 93 run-of-river power plants and 22 storage power plants. VERBUND also held purchase rights to twelve run-of-river power plants owned by Ennskraftwerke AG. As at 31 December 2016, the maximum electrical capacity (maximum capacity for sustained operations) of electricity generation from hydropower was 8,212 MW. The mean energy capability – the generation potential in one year with average water supply (standard year) – was 28,984 GWh.

In 2016, the Austrian power plants of VERBUND Hydro Power GmbH (run-of-river and storage power plants) had a high level of average availability at 93.8%. This represents a significant improvement on the average availability level of 90.3% for 2011–2015. In 2015, a figure of 93.5% was recorded.

The run-of-river power plants (Inn and Danube) of binational company Grenzkraftwerke GmbH (Bavaria/Austria) achieved an availability level of just 92.1% in 2016 as a result of renovations (principally renewing control systems). This figure was below the average for the last five years (93.5%). In 2015, availability of 93.1% was recorded.

The Bavarian run-of-river power plants of VERBUND Innkraftwerke GmbH had a relatively low availability level of 90.4% in 2016, also due to the extensive programme for the modernisation of control systems. The figure for 2016 was thus significantly lower than the average for 2011–2015 (92.5%). In 2015, availability was 90.6%.



New power plant projects

VERBUND was able to continue and complete the following key projects in 2016:

Gries run-of-river power plant

In the autumn of 2015, VERBUND and Salzburg AG took the decision to build a new run-of-river power plant at the Salzach River. Construction began in summer 2016 on the cost-optimised Gries project, which is being implemented in partnership with the state and the municipality of Bruck/Gries. Initial preparatory construction work for connecting the right bank of the Salzach to the road network and for slope stabilisation around the site road was completed by autumn 2016. Construction on the main structure officially began on 23 September 2016 with the ground-breaking ceremony.

During the construction, top priority will be given to environmental measures such as structuring, expansion of the banks and connection of tributaries as well as to ancillary civil works such as erecting protective fencing for amphibians.

In addition to normal public relations activities and the publicity-related ground-breaking, two project newsletters were sent around in 2016 and two project consultations were held that generated keen interest.

Starting in 2019, the Gries power plant on the Salzach River will deliver an annual generation of 42 GWh of clean electricity from hydropower for more than 10,000 households.

Gemeinschaftskraftwerk Inn (GKI)

In the construction work on the cross-border Gemeinschaftskraftwerk Inn (GKI) – in which VERBUND holds a 10% interest and performs the technical set-up – a number of key milestones were reached in the reporting period.

More information is
available at
[www.gemeinschafts-
kraftwerk-inn.com](http://www.gemeinschaftskraftwerk-inn.com)

The implementation of this project is optimising the run-off conditions (homogenisation of the run-off of the Pradella-Martina upstream power plant in Switzerland) and improving the environmental conditions of the Inn River and its banks. Additional compensatory measures and recultivation are further enhancing the environmental conditions at the river.

During the development and implementation of the project, considerable emphasis has been placed on extensive incorporation of the population. A large variety of information and communication measures have been taken for this: citizen information events, consultations in the project area, a mayor information platform, briefings of the local councils, briefings of specific interest groups (e.g. fishing, agriculture, tourism, etc.), preparation of comprehensive project brochures, regular mailshots to the households in the project communities on current issues, briefings of residents on construction site issues, set-up of a website, establishment of a contact and service centre, construction site open days, weekly guided tours of the construction site and the accompanying public relations activities.

Projects to expand and increase efficiency

Reißeck II

After six years of construction, the Reißeck II pumped storage power plant – which is an expansion of the existing Malta/Reißeck storage power plant group in Carinthia – was inaugurated on 7 October 2016 in the presence of representatives from politicians and industry.

Adaptations in the penstock were completed in the first half of 2016, followed by the four-month wet commissioning of the two generator sets in the summer of 2016. A series of test runs was performed for each individual generator set, in turbine operation and then in pump operation. After the hydraulic tests had been successfully performed and had delivered the expected results, the plant began trial operation in mid-October 2016. The Reißeck II pumped storage power plant was approved for operation on 11 November 2016.

Project communication as part of the public relations activities built on two main pillars, though media communication covered all aspects of both the supraregional and the specialist public relations work. In addition, regional and local dialogue with the interest groups focused on the notification and contact requirements for the project and the construction. Several citizen information events were also organised in the communities in the vicinity of the site prior to the start of construction; these served not only to provide information on the project and the sequence of events in the approval process, but also to establish contact with the project management team at VERBUND and as the basis for further activities.

When the new power plant is put into operation, the turbine capacity of the Malta/Reißeck power plant group will increase by 430 MW to 1,459 MW and the pumping capacity by 430 MW to 855 MW.

Kaprun-Hauptstufe

In the Kaprun-Hauptstufe power plant, modernisation on the MS 3 and MS 4 generators was completed on schedule after four years of renovation work. This increased the power plant output to a total of 260 MW. The plant is now equipped with state-of-the-art technology once more.

Ybbs-Persenbeug

Austria's oldest Danube power plant at Ybbs-Persenbeug has been undergoing modernisation since 2012. Once the updating of the generators, main transformers and Kaplan impellers has been completed in 2022, mean energy capability will be increased by approximately 77 GWh. Advance notification of construction work or similar matters is published in the form of blog articles, for instance. One of the dismantled impellers will be officially handed over in quarter 1/2017 for display at an exhibition marking 700 years of the Ybbs municipality.

Lower Tuxbach

In September 2016, the construction decision was taken to implement the Lower Tuxbach expansion project. The project was developed based on an analysis of variants performed in view of the fact that the concession for the oldest power plant in Zillertal valley, Bösdornau, will end in 2019. With additional turbine capacity of 1.67 MW from the Stillup small-scale power plant and annual mean energy capability of around 74 GWh, the planned measures will increase the energy efficiency of the existing power plant portfolio in Zillertal valley from 2019.

Supporting ecological measures such as the construction of nest boxes and environmental conservation measures such as a limited time window for traffic at the construction site are envisaged for the implementation phase of the project.

Public relations activities were stepped up on receipt of the approval notice and on the signing of the second Zillertal agreement, the partnership agreements with the communities and the tourist board as well as a partnership declaration between VERBUND and Stadtwerke Schwaz. Further project consultations are planned for 2017.

Töging

The project for upgrading and increasing efficiency at the existing Inn power plant in Töging, Germany, has been in the official approval process since October 2015. During this phase of the project, the work of the project team in 2016 focused on preparation and supplementation of the documents to be submitted for public inspection as well as on performance of exploration work and identification of potential for cost optimisation. The statements and objections submitted when the project documents were made available for public inspection were processed and prepared for the public hearing in 2017.

According to the current schedule, the proposed project – the main elements of which are the new construction of the new power plant and weir, raising the sealing capacity of the Inn channel and flood protection in the Jettenbach reservoir – is expected to result in a 120 GWh increase in total generation to a total of 677 GWh in 2023. This project is also accompanied by a variety of ecological measures. These include standing water bodies used as spawning habitats and fish habitats, grassland development along the embankments to promote biodiversity, establishment of reptile habitats and structural and hydromorphological improvements. Based on the agreement with the Free State of Bavaria, environmental measures in the diversion channel are being developed in parallel to the project in cooperation with the water management authorities.

In 2016, regular consultations were offered in connection with the project for the Inn power plant in Töging at which most of the questions concerned the further course of the project. It is expected that this will receive increased media coverage once the approval negotiations begin in 2017.

A description of
conservation measures
at VERBUND can be
found at
www.verbund.com >
[About VERBUND](#) >
[Responsibility](#) >
[Environment](#)

Environmental measures: excellent track record in restoration

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

The single most extensive of these measures is the restoration of the Traisen as part of a LIFE+ project. The project involved the creation of a new estuary for the Traisen River at the Altenwörth power plant on the Danube on an area spanning some 140 hectares. An oscillating-meandering section of the river closely linked to the alluvial landscapes – 30 metres wide in the middle – provides a new diverse habitat on a stretch of around ten kilometres. When the LIFE+ Traisen restoration project was completed, the local community was invited to attend an open day at the Altenwörth power plant on the Danube. The project was also discussed at an information evening for residents in the Zwentendorf municipality.

Sustainable planning and stakeholder management

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

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

Maintenance of the highest environmental standards during regular operations is ensured by internal and external auditors who test the sites in periodic audits, monitoring implementation of the measures from the environmental programmes and compliance with environmental laws and regulations, for example.

Examination of the flooding on the Danube and the Drau

Four actions under civil law are still pending in Lower Austria in connection with the flooding on the Danube in 2013, and an external expert has been appointed by the court in one case. As all of the claimants are represented by the same lawyer, the three other actions have been suspended until the expert opinion is available and will not be resumed until the final expert opinion has been made available. A draft of the expert opinion is now available and is currently being discussed (challenged by the parties in dispute).

As part of the investigations initiated by the public prosecutor's office into the events surrounding the flooding of the Drau River in November 2012, an external expert was appointed by the public prosecutor's office. Several civil proceedings are also pending in Carinthia as well as Slovenia in this connection.

The Weir Operating Regulations for the Drau River power plants were amended on the basis of the findings contained in the final expert opinion from the highest water rights authority. The regulations now provide for advance lowering of water levels in the event of flood warnings in combination with a concurrent announcement on the VERBUND website.

Constructive solution for noise emissions at the Malta-Hauptstufe power plant

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

Although there is general consensus that all official approvals have been obtained for the power plant's operation, VERBUND has taken on board and discussed the concerns raised by a citizens' initiative set up in 2015 from the outset in the form of constructive dialogue. In close cooperation with the citizens' initiative and the two mayors of the neighbouring municipalities, VERBUND commissioned independent sound measurements in 2016 at the residential properties identified by the citizens' initiative. The general public was proactively notified of the data and facts in a transparent manner. Furthermore, VERBUND financed an expert opinion on environment-related medical issues. This was prepared by an expert in environmental medicine selected by the citizens' initiative based on the results of the measurements.

The expert opinion showed that the increasingly stochastic use of the pumps for grid regulation is perceived as particularly bothersome at night and at weekends and that in the medium term the noise level must be reduced to avoid potential adverse effects for the residents.

VERBUND began actively developing solutions, incorporating the citizens concerned into the information process. Constructive dialogue was also held at joint press meetings and at several citizen information events.

Initial technical measures to reduce noise emissions from the power plant will be tested and implemented in 2017.

Wind power

The perfect complement to hydropower

With wind power plants in Austria, Germany and Romania, VERBUND has 418 MW of installed capacity from wind power at its disposal in three countries. VERBUND's wind power plants are able to supply climate-friendly electricity to more than 280,000 households.

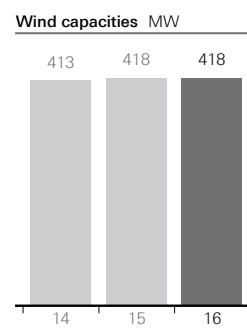
Based on the target production figures as at 30 June 2016, which needed to be adjusted after the start of operation, the wind yield target figures for the German wind farms will be around 6% lower than projected and those for the Romanian wind farms will be around 13% lower. The average availability of the wind power plants was 96.5% in 2016.

Further expansion

The Hollern II, Petronell-Carnuntum II and Bruck-Göttlesbrunn wind power plants were inaugurated in 2016. No further capital expenditure for the wind segment is planned at the present time.

Projects to increase efficiency

In 2015, VERBUND began to take over the maintenance and troubleshooting for the first wind power plants at the Bruck/Leitha wind farm that were no longer covered by the policies of subsidisation. In the future, it will therefore be possible to further optimise energy production through condition-based maintenance and scheduling targeted preventive maintenance. The software tools required for this



have been developed with partners. In 2016, VERBUND also took over the maintenance for the wind power plants at the Hollern and Petronell-Carnuntum wind farms.

Environmental measures

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

Green electricity is the future of energy.

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

Stakeholder management

In operating wind farms, VERBUND also relies heavily on dialogue with citizens. The opening ceremony for VERBUND's Hollern II, Petronell-Carnuntum II and Bruck-Göttlesbrunn wind farms, which were connected to the grid in 2014 and 2015, was held on 24 June 2016 with the local community in attendance. Many of the visitors took the opportunity to tour the wind power plant with its viewing platform and see the VERBUND wind farms for themselves.

Sales

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

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

When selling electricity and natural gas to consumers, VERBUND's main focus is on innovative products, fair business practices and sustainability principles. The core markets of VERBUND's sales activities are Austria and Germany. VERBUND supplies the household/agriculture and commercial segment (the Group's standard load profile customers) in Austria and Germany with electricity generated exclusively from hydropower. Industrial companies and resellers also value VERBUND's expertise.

Business performance

KPIs – Sales segment

	Unit	2015	2016	Change
Total revenue	€m	2,345.2	2,199.1	–6.2%
EBITDA	€m	111.7	120.4	7.7%
Result from interests accounted for using the equity method	€m	0.0	0.0	–
Capital employed	€m	265.3	203.5	–23.3%

EBITDA of the Sales segment rose by €8.6m to €120.4m, mainly as a result of the €102.1m drop in electricity revenue being offset by a €111.1m decrease in expenses for electricity and grid purchases. In addition, revenue from the sale of emission rights was lifted by €1.5m. A €1.8m increase in other operating expenses had a counteracting effect.

Capital employed of the Sales segment was down €61.8m on the prior-year figure, mainly due to the decrease in the positive fair values of derivative hedging transactions with a simultaneous increase in the negative fair values.

Energy trading and sales

Electricity trading

Economic hub for the Group

Electricity trading is gaining in significance with the progressive integration of European electricity markets and the expansion of renewable energy. The energy market is changing constantly and is becoming more dynamic. As a result, both short-term, flexible marketing and optimal management of power plant capacities are becoming increasingly important.

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

An established player in the European energy market

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

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

Optimal marketing of VERBUND's own generation

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

The proximity of VERBUND Trading GmbH to the market allows this company to continuously analyse the trend in the fundamentals and the climate in the energy market. This makes it possible to identify market signals at an early stage and proactively react to market trends for optimal marketing. The trend in the energy markets and stock exchanges towards increasingly short-term transactions and the rising volatility of prices show that this is the right strategy – for example with regard to implementation of comprehensive intraday trading.

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

VERBUND expertise for direct marketing

VERBUND is pursuing an ambitious growth course in the marketing of new renewable energy sources for third-party plants. Last year, VERBUND kicked off a marketing campaign with attractive pricing, targeted

marketing activities and active customer management for the renewable energy customer segment. This focused in particular on wind power and small-scale hydropower, solar power and biomass. VERBUND is actively expanding these successful products for marketing of third-party plants in line with the needs of its customers. Its market share in Austria and Germany was continuously expanded in spite of strong price pressure and intense competition. In Luxembourg, VERBUND is now the market leader in wind marketing. In 2017, VERBUND is already marketing more than 1,000 MW of electricity generated from new renewable energy sources, with plant operators benefiting from VERBUND's expertise in the energy market.

Marketing of green electricity – a classic

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

In Austria and Germany, VERBUND is one of the leading providers of certified renewable generation (hydropower from Austria and Germany) and supplies over 100 public utilities and resellers in these markets with its premium product H₂Ö. In spite of the rising pressure on prices in the green electricity segment, the level of sales remained almost stable in 2016.

Dynamic markets require provision of flexible products

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

Together with the Mellach combined cycle gas turbine power plant (Mellach CCGT), the pumped storage power plants are used for congestion management as well. For this, the transmission system operator APG requires congruent modes of operation by the different power plant operators to prevent or balance out unfavourable load flows in the European ultra-high voltage grid.

With its virtual power plants VERBUND also enables customers to close gaps in flexibility in their portfolio and hedge portfolios against fluctuations in electricity prices. Virtual pumped storage is offered in line with customers' needs, with defined pump and turbine capacities and different lead times in product nomination.

Furthermore, in response to the challenges posed by the changes in the energy market, the area of intraday trading was strengthened in 2015 through the addition of a second team of traders to best exploit short-term intraday price fluctuations.

Innovative services and products

VERBUND provides partners with first-class, solid energy market expertise in the form of different products and services. These include stock market access to the intraday, spot and futures markets,

forecasting services, management of balancing groups, integrated portfolio management, regulatory services (e.g. REMIT) and entire packages for the traction current segment.

In the energy services segment, VERBUND has developed the Order Management System (OMS) for web-based communication with large corporate customers. OMS allows VERBUND customers to position electricity or gas products online and follow their status up until fulfilment in real time.

Recent activities have focused on the development of a comprehensive strategy for further digitalisation in electricity trading. Here, particular emphasis is placed on customised solutions mapping the entire life cycle of a supply of electricity from the enquiry to pricing and purchase on the stock market to reporting and billing online in a highly automated manner.

Electricity sales

Further expansion of customer base

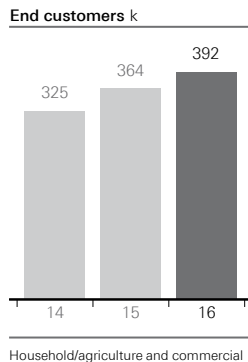
The business and industrial customer segment remained highly competitive in financial year 2016. In Austria, the new Energy Efficiency Act (EEffG) represented a major challenge for the business relationship between energy customers and energy suppliers. Through its long-standing good relationships with customers and active approach to this topic, VERBUND succeeded in strengthening customer relationships and building on its leading market position in the Austrian industrial customer segment. With its new services and innovative products, VERBUND has positioned itself in the market as an experienced and dependable service provider.

The overall satisfaction of VERBUND's customers across all segments was at a very good level in 2016, creating an ideal basis for further expansion of the customer base.

VERBUND achieved the silver category in the "Service Champions 2016" study, which measures the "level of customer service experience" based on the "Service Experience Score" (SES). A total of 193 companies across all industries were evaluated. In an industry comparison of "utilities", nine companies were tested. VERBUND again took first place and was thus named "industry winner". This award confirms the quality of VERBUND's services. Our goal in the future is to secure these highly favourable results as well as to achieve further improvements.

Customer numbers increased by 4% in 2016. At the end of the year, around 356,000 customers in the household/agriculture and commercial segments were already receiving VERBUND electricity generated exclusively from Austrian hydropower. Market share in the household segment amounted to around 8% in 2016. In the household/agriculture and commercial segments, 36,000 customers were already receiving climate-neutral natural gas from VERBUND in 2016.

The advertising campaign conducted in the spring and autumn of 2016 was responsible for this success. The focus of this campaign was on acquisition of new customers and the sales initiative with attractive new customer offers.



The expansion of the commercial <100,000 kWh customer base was further intensified in the spring and autumn of 2016. The focus of this campaign was on simple and attractive price models as well as on individual customer engagement and support. In this way, VERBUND was able to further strengthen its position in the commercial segment.

Certifying the origin of electricity from VERBUND power plants

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

*We see ourselves as a partner in energy matters,
providing individualised electricity solutions.*

TÜV SÜD's guarantee of origin certification refers to specific generation sources. It provides a guarantee to customers that the electricity comes from renewable sources. A total of 127 hydropower plants in Austria and Bavaria meet the EE and EE+ criteria. The Generation EE standard is divided into "general requirements" concerning the organisation to be certified, "special requirements" addressing generation and recording generation at the individual plants and "optional requirements". Optional requirements are defined for electrical work and power guarantees (Generation EE+ module) and for proof as a new plant (Generation EEnew module).

In 2016, 24,356 GWh of TÜV SÜD-certified hydroelectricity was available to VERBUND.¹

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

¹ Preliminary figure based on fast close data in the 2016 Annual Report, since TÜV SÜD always performs calculations retrospectively (quarter 2 of the following year). Figure using TÜV SÜD net calculations (essentially gross hydropower output less own consumption less easement agreements less supply to plant shareholders less power for pumping and circulating).

Energy certification at VERBUND

Certification	Type of facility	Number of facilities	Maximum electrical capacity in MW	Generation available for sale in 2016 in GWh
TÜV SÜD 100% hydropower	Hydropower plants	127		24,356 ²
TÜV SÜD guarantee of origin	Thermal power plants	2	1,094	

² Preliminary figure based on fast close data in the 2016 Annual Report, since TÜV SÜD always performs calculations retrospectively (quarter 2 of the following year). Figure using TÜV SÜD net calculations (essentially gross hydropower output less own consumption less easement agreements less supply to plant shareholders less power for pumping and circulating).

Clean electricity “Thank You Hydropower!”:

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

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

Electricity labelling in Austria

Electricity labelling for Austria is specified on the consumer’s electricity bill. The electricity VERBUND has always supplied in the household/agriculture and commercial segments comes exclusively from hydropower. In 2015, all the electricity supplied to the business and industry segment came from renewable energy sources (the legislation stipulates that electricity labelling be issued no later than four months after the end of the calendar year or business year). Of the guarantees of origin used, 83.1% originate from hydropower plants, 10.1% from wind power plants and 6.8% from solid or liquid biomass, biogas or other renewable energy sources.

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

Electricity labelling in Germany

In Germany, 100% of the electricity that VERBUND supplies to standard load profile customers (household/agriculture and commercial segments) also comes from hydropower. The origin of the electricity volumes that VERBUND delivered to business and industrial customers in Germany in 2015 was broken down as follows: 7.4% renewable energy subsidised in accordance with the Renewable Energy Sources Act (Erneubare-Energien-Gesetz, EEG), 1.2% other renewable energy sources, 3.5% other fossil fuels, 11.7% natural gas, 57.1% coal and 19.1% nuclear energy.

In Germany, the following laws form the legal framework governing electricity labelling: Section 42 of the Energy Industry Act (Energiewirtschaftsgesetz, EnWG) for electricity delivered and Section 78 of the

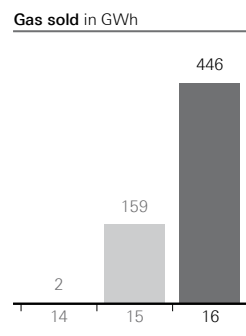
Renewable Energy Sources Act (EEG) for the mandatory disclosure of electricity subsidised in accordance with the EEG.

Climate-neutral natural gas

VERBUND has expanded its portfolio for household customers by adding a combined electricity and natural gas product. In doing so, VERBUND became one of the first energy service providers in Austria to offer its household customers climate-neutral natural gas and electricity exclusively from Austrian hydropower from a single source.

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

A total of 446 GWh of natural gas was sold in the reporting period. The amount of CO₂ compensation for natural gas sales was 81 kt CO₂e.



Year one of the implementation of the Federal Energy Efficiency Act

Under the Energy Efficiency Act (EEffG) an annual cost reduction obligation of 0.6% of prior-year sales was established for energy suppliers. This resulted in target savings for VERBUND of around 37 GWh for 2016. VERBUND easily exceeded this target with a series of energy efficiency measures submitted to the monitoring office.

Collaborative ventures were entered into with different partners for the prescribed proportion of household measures (at least 40% of all measures). In the “1+1 free” campaign, for example, in which customers who bought one LED bulb received a second one free from VERBUND, each household had the opportunity to update the lighting in their homes using the latest, most efficient LED bulbs. In a further campaign, financial assistance was provided to customers who were prepared to exchange a refrigerator and/or freezer that was at least ten years old for a high-efficiency one.

The remaining measures (maximum 60%) were the responsibility of industrial and commercial customers. VERBUND’s industrial customers implemented a large number of measures to increase energy efficiency and transferred these to VERBUND.

By procuring measures in all customer segments at low cost, VERBUND managed to keep the costs for the energy efficiency measures well below the statutory compensation payment of 20 cents/kWh.

The Group’s obligation to perform an energy audit was also successfully implemented by internal energy auditors.

Customer satisfaction and customer relationships

Focus on high level of customer satisfaction

The customer satisfaction and loyalty measurements performed each year across all customer segments are an important tool for analysing and assessing our customer-driven activities. The satisfaction of our customers and their trust in our brand and our Group are crucial for our commercial success.

In 2016, VERBUND was able to maintain its outstanding prior-year figures in the retail customer segment and even improve on the results for industrial and business customers. The loyalty index, the most important indicator for our continuous development of sustainable products and services, was stable at 74 points in 2016 (the index ranges from 0 to 100 points).

We at VERBUND realise that satisfied, loyal customers form the foundation of our commercial success and our competitiveness in the electricity and gas business. This is the reason why VERBUND will continue to tailor its products and services to the needs of its customers in the future and develop innovative offerings.

Customer relationships

VERBUND's summer campaign focused on fans of clean energy. With the core message of "Clean energy has fans throughout Austria – send fan mail & win", particularly existing customers throughout Austria were called on to make themselves visible as part of the community.

Customer support

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

The redesigned VERBUND website at www.verbund.com provides an overview of the Group's product portfolio and details on facilitating the switch to VERBUND as well as answers to frequently asked questions.

Energy consulting

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

Data security

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

In 2016, no complaints were made by third parties in relation to the protection of customers' privacy that were recognised as being legitimate. The data protection authorities invited VERBUND to comment in two proceedings which, however, were terminated by the authorities a short time later at the request of the party concerned.

A request for information on data protection in accordance with Section 26 of the Austrian Data Protection Act 2000 (DSG 2000) was answered in three cases.

Late payment

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

In 2016, the electricity supply to 1,913 households had to be disconnected. This represents an increase of 131 disconnections compared with 2015. The gas supply to 372 households was disconnected in 2016, an increase of 241 disconnections over 2015.

Grid

Austrian Power Grid AG (APG) is VERBUND's independent grid subsidiary. It operates the supraregional electricity transmission network in Austria. With its line connections to neighbouring countries, it creates the means for connecting Austria with the European electricity market. Therein also lies one of its main tasks. In terms of energy policy, the European Union is pursuing two central objectives: further strengthening and deepening the EU's internal market and also fulfilling ambitious international commitments in the area of climate protection. APG is committed to both of these objectives and makes its contributions accordingly. With its work in international organisations like the ENTSO-E (European Network of Transmission System Operators), APG is playing an active part in shaping the future legal framework and developing and implementing methods for an integrated European electricity market. By expanding and upgrading its facilities, APG is making a substantial contribution to integrating and connecting renewable energy sources and hence to the achievement of Austria's climate change targets. An important aspect of this is making the system more flexible and developing new system services for market participants.

Business performance

KPIs – Grid segment

	Unit	2015	2016	Change
Total revenue	€m	833.2	712.1	– 14.5%
EBITDA	€m	253.0	248.3	– 1.9%
Result from interests accounted for using the equity method	€m	0.0	0.1	–
Capital employed	€m	1,097.8	1,239.1	12.9%

EBITDA of the Grid segment fell by €4.7m to €248.3m, due primarily to the reversal of provisions and impairment losses recognised in the previous year to comply with the System Usage Rates Directives (Systemnutzungstarife-Verordnungen) and the System Charges Order (Systemnutzungsentgelte-Verordnung (€–40.4m). Lower costs for grid loss energy purchases and control power expenses had an offsetting effect.

Capital employed rose to €1,239.1m in the reporting period, mainly as a result of the capital expenditure for intangible assets and property, plant and equipment, which exceeded depreciation, amortisation and disposals by €71.1m.

Technical developments

Power grid data APG

Voltage level	Power lines Route length/km	Power lines System length/km	Substations/ Switching stations
Overhead power lines			
380-kV	1,153	2,577	
220-kV	1,615	3,212	
110-kV	659	1,175	
Cable			
110-kV	3	6	
Total	3,430	6,970	63

Operational developments

APG is responsible for the safe operation of the Austrian transmission grid. In order to fulfil this legal mandate, APG implemented numerous measures in coordinated grid operations in 2016. To eliminate congestion, large-scale congestion management measures (redispatch) were required at the power plants in the past financial year to guarantee grid security in Austria and in the European transmission grid.

Congestions in APG's grid were caused by intense north-south, west-east and east-west load flows, some related to necessary, maintenance-related power line shut-downs. These long-range load flows mostly occurred in connection with increasingly volatile wind and solar power generation in Germany and Northern Europe, but were also a consequence of the scarcity of production in France towards the end of the year now ended. Furthermore, in 2016 power plants in the APG control area were frequently used for managing grid congestion outside of Austria, mainly in Germany.

For the summer of 2016, APG contractually secured the short-term availability of thermal power plants for redispatch in return for the payment of costs (2016 grid reserve of 2,400 MW). This grid reserve was necessary to ensure secure grid operation during the summer months.

The volume of the total redispatch quantities used (grid reserve plus additional power plants) amounted to 1,727.2 GWh in the reporting period.

Intraday stops and redispatch quantities

	2014	2015	2016
Intraday stops (in hours)	1,226	3,150	4,112
Redispatch quantities (in GWh)	261.7	2,266.5	1,727.2

Interruptions to supply

Two interruptions to supply occurred in the APG grid in 2016 which affected consumers for a total of 17.46 minutes. The effects on consumers of a component failure in APG's transmission grid are quantified using the "MWh not supplied" indicator. Counting starts from the time supply to consumers is interrupted if this can be clearly attributed to a preceding fault in the transmission grid.

In 2016, APG transported around 45,031 GWh at grid level 1; 32.31 MWh, i.e. 0.00007% of the volume transported, was not supplied (2015: no interruptions; 2014: no interruptions).

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

Electricity transmission and grid loss

In financial year 2016, the transmission volume at grid level 1 (380-kV and 220-kV grid) decreased by 2.5% over the previous year; domestic sales came to 45,031 GWh. Based upon the reported transmission schedules of the Austrian and international market participants, the APG control area imported 45,022 GWh and exported 35,050 GWh in 2016. On balance, this resulted in an import surplus of 9,972 GWh.

Electricity transmission TWh



Compared with the previous year, grid losses decreased by 0.4%. However, as the transmission volume decreased by 2.5%, grid loss as a percentage of electricity transmitted increased slightly by 0.03%.

Transmission losses

	Unit	2014	2015	2016
Electricity transmitted ¹	GWh	43,957	46,164	45,031
Grid loss ¹	GWh	602	638	636
Grid loss as a percentage of electricity transmitted	%	1.37	1.38	1.41

¹ Grid level 1

Projects and stakeholder management

Rapid renovation of the electricity grid constitutes the most economic means and is a critical success factor for facilitating the energy transition and achieving an integrated internal energy market in Europe. APG's Network Development Plan provides for investments of around €2bn in the next ten years. These investments will serve to improve a grid infrastructure such that it will provide a secure source of electricity for Austria for many decades to come.

In 2016, a total of €147.3m was invested in intangible assets and property, plant and equipment. Of this total, €18.5m was attributable to the "area Kaprun: 380-kV expansion Kaprun - Tauern" project. As the project progressed, a three-kilometre stretch of the 380-kV power line was completed (project completion in 2017). Additional major investments for grid expansion went towards the construction of the third 380-/220-kV transformer in the St. Peter substation (€8.0m) and in Obersielach (€3.9m) (and in addition in each case also, a replacement of a 220-/110-kV 120 MVA transformer with a 220 MVA transformer due to age) and the construction of the fourth 380-/110-kV transformer for the integration of wind power in Bisamberg into the grid (€5.1m). Of the maintenance CAPEX for grid maintenance, €22.3m was spent on general line renovations, €18.5m on modernisation of secondary technology and €11.2m on the upgrading of substations. By comparison, €114.0m was invested in intangible assets and plant, property and equipment in 2015.

APG's top-priority line construction projects at present include the Salzburg line, the Germany line and the new construction of the Weinviertel line replacement.

380-kV Salzburg line

When the 380-kV Salzburg line was being planned, great importance was attached to the incorporation of all of the residents, municipalities and stakeholders impacted by the project. In addition to establishing personal contact with all landowners and municipalities in thousands of individual meetings, a total of 13 information fairs were held for the general public in the four districts affected. Furthermore, the project managers and project communication staff regularly answered enquiries submitted in writing.

In the 380-kV Salzburg line project, a positive, legally valid assessment also exists for the section of the project that falls within Upper Austria. For the Salzburg part of the project, a positive approval notice concerning the environmental impact assessment (EIA) was granted in the first instance by the state government of Salzburg on 14 December 2015. Due to the complex structure of the project, the EIA notice was appealed in the first instance. As a result, the project has been pending with the Federal Administrative Court as administrative court proceedings since February 2016.

Moreover, construction of the 114 kilometre-long 380-kV line connection between the Salzburg and Tauern substations represents a major step in the highly efficient connection of load centres with the major power plant sites in Austria and the integration of renewable energy sources (such as wind power) into the grid. The Salzburg line will significantly improve the electricity supply in the federal states of Salzburg and Upper Austria through new transfer points to the 110-kV distribution grids. What is more, it is also a fundamental prerequisite for a comprehensive revision and restructuring of the electricity grid infrastructure in Salzburg. In the course of the project, 193 kilometres of overhead power lines will be dismantled at the 220-kV and 110-kV voltage levels. Among other things, this concerns the 220-kV line between the Tauern and Salzburg substations and between Tauern and the Reitdorf/Wagrain area.

380-kV Germany line

Construction of the planned 380-kV Germany line between St. Peter am Hart and the national border (TenneT TSO GmbH) is an important component of energy transition implementation on account of the efficient connection of wind power in Germany to the pumped storage power plants in the Alps. In its approval notice from December 2015, the responsible EIA authority in Upper Austria confirmed the environmental compatibility of the Germany line. Based on early, transparent notification of all of the parties involved (land owners, municipal representatives and the community), APG was granted a positive, legally effective first-instance approval notice concerning the environmental impact assessment.

Construction of the new 2.6 kilometre-long line in the infrastructure corridor, an area which for years has already been secured by the St. Peter am Hart municipality, will permit the removal of two existing 220-kV lines between the St. Peter am Hart substation and the national border. Doing so will ease the burden on the residential area of this municipality.

New construction of the APG Weinviertel line replacement

In the 2016 reporting period, an important milestone was reached in the third central project, the new construction of the APG Weinviertel line replacement. To secure the power supply to the north-eastern Weinviertel region and the grid integration of wind power over the long term, the 220-kV line originally built in the 1950s from the Bisamberg substation in the direction of the areas with strong wind conditions in the northern Weinviertel region to the new Zaya substation is to be replaced by a highly efficient 380-kV connection on an optimised route. The old 220-kV line, which was in need of renovation, will then be dismantled, easing the burden on the residential areas and important nature reserves.

Direct dialogue with landowners and information evenings in the municipalities affected generated a large number of suggestions for improvement. Wherever possible, the proposals were incorporated into the planning, taking the existing infrastructure in the project area into account (OMV exploration area, wind farms, etc.). The new construction of the APG Weinviertel line replacement will therefore produce a significant improvement for both people and nature in the region. Before the project was submitted for an environmental impact assessment, it was presented to the community in the summer of 2016 at citizen consultation days held in all of the municipalities concerned.

On 6 September 2016, after just under a year and a half of planning, the documents for the environmental impact declaration were submitted to the state government of Lower Austria for approval under the EIA Act (UVP-Gesetz).

Market – international activities

To be able to derive maximum benefit from a European electricity market, a company must be integrated into this in the best way possible. European directives and network codes require market development and system integration to be improved further. The topics relating to this comprise cross-border area collaborations for procurement and activation of balancing reserves, introduction of market coupling processes (optimisation of international electricity trading in cooperation with power exchanges), optimisations in intraday trading and increased, improved transparency.

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

Optimising balancing services procurement and opening up the balancing services market

For a number of years, APG has been working on opening up the balancing services markets internationally and is a pioneer in Europe in this regard. Thus APG is already preparing as best it can for the specifications from the Guideline on Electricity Balancing, the aim of which is to achieve gradual harmonisation of the European balancing services markets.

Since the beginning of 2015, total costs for the procurement of balancing services and their activation were therefore reduced significantly for the second year in a row. In 2014, total costs had amounted to €203m, before being trimmed to €146m in 2015. In 2016, APG purchased balancing services with a value of around €90m. These substantial savings were achieved by implementing a wide range of initiatives and optimisation measures.

Primary balancing services market

The cooperation that had existed since 2013 was expanded during 2016. As at the reporting date of 31 December 2016, nine transmission system operators (TSOs) from six states were already participating in this shared market that APG had been instrumental in setting up. This cooperation among TSOs does not only lead to significant stabilisation of prices, but will also provide access to a much larger market area for Austrian market participants. Market participants are seizing this opportunity and mostly provide substantial amounts of frequency containment reserves for the international market. In 2016, Austrian market participants provided on average approximately 29 MW of frequency containment reserves to the international market.

Secondary balancing services market

Efforts to open up the balancing services market in 2016 focused on the secondary balancing reserve collaboration between APG and the German TSOs. A cross-border collaboration with a unique form in Europe to date was put into operation in July 2016. As part of this cooperation, locally procured energy bids are compiled in a common merit order list (CMOL). This CMOL is used to determine the cheapest activation of secondary balancing energy in each case. Procurement and provision of the requirements as well as activation remain the responsibility of the local TSOs. Only the determination of the requirements to be activated at the lowest cost is centralised. The CMOL showed higher liquidity with corresponding repercussions for prices, but also increased sales potential for participants in the Austrian market. The collaboration is met with keen interest at international level and is demonstrating for the first time a concept for implementing the requirements from the impending European Guideline on Electricity Balancing.

Integration into the highly liquid CWE market

The harmonised market coupling processes optimise the allocation of the available cross-border transport capacities to the different regions. A further development of this is load flow-based market coupling, which takes better account of the physical effects of electricity trading. This form of market coupling was successfully initiated in the Central West Europe (CWE) region in May 2015.

Since 2013, APG has been working on coupling Austria to the highly liquid CWE region at the earliest possible opportunity. A multi-level approach has been taken for this. The final step of the integration was successfully completed on 7 November 2016. This means that APG is a full member of the CWE

region and is integrated into all flow-based CWE processes; it also ensures that Austria derives the greatest possible benefit from this.

Green energy clearing and settlement/wind marketing

In April 2015, APG started to market volumes arising from the deviations from the forecast of green energy on the EPEX Spot Intraday market. Based on current forecasts of wind power feed-in (continuously for the intraday markets), the projected balancing energy volume is determined in a comparison with the forecast from the previous day. The next step is to market these volumes in the best possible manner on the EPEX Spot Intraday market. Since quarter 2/2016, this marketing has been conducted around the clock, i.e. in a 24/7 process, which reduces misbalancing in the green energy balancing group – but also in the entire control area. As the prices on the exchange are lower on average, this generates cost savings for the OeMAG balancing group and improves the control quality for APG.

All other segments

“All other segments” is a combined heading under which the Energy services, Thermal generation, Services and Equity interests segments are brought together because they are below the quantitative thresholds. VERBUND’s new services for the electricity market of the future are reported under the Energy services segment. Electricity and heat generation from coal and gas are reported under the Thermal generation segment. The primarily intra-Group business activities of VERBUND Services GmbH are reported under the Services segment. Interests accounted for using the equity method which have not been allocated to any other segment are reported under the Equity interests segment. As at the reporting date of 31 December 2016, this only comprises the equity interest in KELAG-Kärntner Elektrizitäts-Aktiengesellschaft.

Business performance

KPIs – All other segments

	Unit	2015	2016	Change
Total revenue	€m	216.3	197.0	–8.9%
EBITDA	€m	–19.2	165.2	–
Result from interests accounted for using the equity method	€m	26.4	28.9	9.4%
Capital employed	€m	249.3	355.8	42.7%

EBITDA of the other segments rose by €184.5m to €165.2m, mainly as a result of the higher EBITDA of the Thermal generation segment (+€186.9m). In the 2016 reporting period, this was largely due to the settlement of outstanding issues between VERBUND and EconGas GmbH as well as Energie Steiermark AG.

The other segments’ result from interests accounted for using the equity method increased by €2.5m to €28.9m, principally as a consequence of the €3.7m higher profit generated by KELAG-Kärntner Elektrizitäts-Aktiengesellschaft.

Compared with the previous year, capital employed rose by €106.5m to €355.8m. This increase was primary attributable to the settlement of outstanding issues between VERBUND and EconGas GmbH as well as Energie Steiermark AG, which led to minor non-interest-bearing debts that were deducted.

Actively shaping the energy transition with innovative energy services

Smart services for smart customers

The requirements of the market are changing rapidly, and with them the energy world. By providing innovative energy services, VERBUND Solutions GmbH is taking an active part in shaping the energy transition.

Founded in mid-2014, VERBUND Solutions GmbH develops products tailored to retail, commercial and industrial customers based on its expertise in the energy market and in continuous dialogue with customers. The range of services extends from convenience services across decentralised plants for generating and storing energy to energy optimisation.

Generating and storing solar power

VERBUND subsidiary SOLAVOLTA, a leading full-service provider for own-use photovoltaic installations, recorded double-digit percentage growth in installed capacity in 2016. The combination of a photovoltaic installation with a storage system and an e-car connection makes it possible to use self-generated energy in an efficient and cost-effective manner. In 2016, more than 15% of photovoltaic installations were installed in combination with storage solutions.

Smart home, sweet home, Eco-Home

The VERBUND-Eco-Home smart home solution is specialised in energy applications. Increasing the degree of on-site use of the solar power generated from photovoltaic installations, measuring total electricity consumption or energy-optimised management of devices and equipment works at the touch of a button and can also be pre-programmed. Devices can be easily controlled, either remotely or automatically, inefficient appliances identified and thus energy and money saved with no need for additional wiring. This turns customers into active partners in the energy system. With the smart thermostat, existing heating systems can also retrospectively be brought up to an energy efficiency class rating of up to A+++. This saves energy and reduces heating costs by around one-third.

Under the direction of VERBUND Solutions, the “Energy IoT (Internet of Things) Alliance” was founded with Austrian and foreign energy utilities in the autumn of 2016. Its objectives are further joint development of the solution and leveraging of economies of scale, for example in component procurement.

E-mobility in Central Europe on track

VERBUND is energising the greening of the transportation sector. SMATRICES, VERBUND’s electromobility subsidiary, operates Austria’s only nationwide high-performance charging network. Over 380 charging stations are already available, including around 200 high-speed charging stations with capacities of 43 kilowatts (kW) of alternating current (AC) or 50 kW of direct current (DC). The stations are located at distances of approximately 60 kilometres apart on the motorways, but closer together in metropolitan regions. Users benefit from full charges in a maximum of 20 minutes with electricity generated exclusively from hydropower. Further expansion of the charging network with connections to neighbouring countries is being systematically advanced at national level. To measure customer satisfaction and obtain certification, a customer survey was developed externally and conducted. Electromobility is helping to substantially increase energy efficiency and achieve climate change targets.

Energy services for industrial customers

Demand response – the key to the energy system of the future

The development of renewable energy is generating tremendous volatility in the electricity grids. VERBUND’s solution to this is called the Power-Pool; here, industrial companies market their flexible energy products. By offering special products and services for industry and green electricity suppliers, VERBUND is making it possible for private companies to participate in the control power market as well. At the same time, the innovative business model supports the stability of the electricity grid and security of supply. At the end of May 2016, the VERBUND-Power-Pool also satisfied the prequalification requirements for participation in the secondary control energy market.

Energy services:
www.verbund.com >
 Business customers

Energy efficiency and the environment factor as catalysts

Issues such as energy efficiency and renewable energy have evolved into a key planning factor for industrial and commercial companies. The most recent contracting project is one such example: in the wastewater treatment organisation “Reinhalungsverband Region Neusiedler See-Westufer”, the agitators in the aeration tanks were replaced with more efficient devices and a micro-bubble aeration system was installed. This will lead to massive energy savings, guaranteeing a substantial reduction in energy consumption and elimination of the costs for annual inspections of the tanks. Thus VERBUND is making a large contribution to increasing energy efficiency and to protecting the environment in the highly sensitive UNESCO world heritage region on Lake Neusiedl's western shore.

Forward-looking collaborations

In 2016, VERBUND began two forward-looking collaborations with the top Austrian companies voestalpine and OMV.

Based on the existing business relationships, the collaboration with voestalpine entails supply with VERBUND electricity for an initial period of six years. In addition, projects for renewable electricity generation will be evaluated, and the partnership will be intensified in the area of demand response. The fourth focus of the partnership concerns collaborative research in the promising field of hydrogen. Together with Siemens and other partners, voestalpine and VERBUND successfully participated in the Horizon 2020 funding programme for construction of a hydrogen plant.

OMV and VERBUND are also looking into long-term partnerships at operational level in connection with the future of energy. In addition to the supply of electricity, the collaboration will focus on innovative energy services such as concepts for making electricity generation and electricity demand more flexible, as well as joint activities in relation to hydrogen.

Green electricity solutions for Germany

AQUANTO, a 50% joint venture of VERBUND and EnBW, sells green electricity solutions for B2B customers in Germany. The range of services offered includes analysis, implementation and customer service for the key issues of energy strategy, energy procurement, energy monitoring and energy optimisation using intelligent web platforms. These energy services are also offered as white-label solutions for municipal enterprises.

Thermal generation

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

Energy supply

Energy generation overview

Electricity generation

	Number ¹	Maximum electrical capacity in MW ¹	2014 Generation in GWh	2015 Generation in GWh	2016 Generation in GWh
Mellach CCGT (natural gas)	1	848	105	768	641
Mellach district heating power plant (hard coal)	1	246	836	825	710
Other	-	-	1,090	666	-
Total	2	1,094	2,031	2,259	1,351

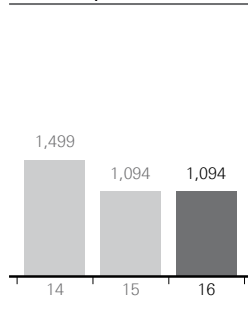
¹ as at 31 December 2016

Generation from thermal power declined by 40.2% to 1,351 GWh in 2016. This decrease of 666 GWh compared with the previous year was mainly due to the decommissioning of the Dürnrohr hard coal power plant as at 30 April 2015. The Mellach combined cycle gas turbine power plant produced just under 17% less electricity in 2016 as usage for congestion management was lower year-on-year, and the Mellach coal-fired power plant produced around 14% less. At 910 GWh, generation of district heating was 7.1% lower in 2016 than in the year before.

Capacity changes

The maximum electrical capacity of the thermal power plants VERBUND was operating as at 31 December 2016 – the Mellach combined cycle gas turbine power plant and the Mellach hard coal power plant – totalled 1,094 MW. All utilisation options – sale, possible use as grid support or grid stabilisation, continued operation – for the Mellach site are being examined.

Thermal capacities MW



Restructuring the thermal segment

The restructuring of the thermal segment, a path embarked on in 2014, continued in 2016. After the Dürnrohr hard coal power plant had been closed on 30 April 2015 and the decommissioning reported to the authorities, the permanent decommissioning of the Korneuburg power plant was also reported to the authorities on 30 June 2016.

Work on the decommissioning of Dürnrohr and on preparing the dismantling of sections of the Neudorf-Werndorf power plant is ongoing. Utilisation of the land still owned at the Pernegg and St. Andrä sites is likewise continuing. One plot in Korneuburg spanning around 94,000 square metres has been sold to an investor. However, the contract of sale contains a number of conditions precedent, including a change in land use.

Currently, VERBUND operates just two thermal power plants at the Mellach site with maximum electrical capacity as at 31 December 2016 amounting to a total of 1,094 MW.

Now that the outstanding issues in connection with the district heating supply commitment between VERBUND and Energie Steiermark have been settled, VERBUND will build a boiler plant at the Mellach site that will serve to fulfil the district heating supply agreement. This would enable the Mellach hard coal power plant to be closed even before 2020.

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

Proceedings relating to the restructuring of the thermal segment

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

Upon receipt of the ruling of the arbitral tribunal that VERBUND is under no obligation to maintain an outage reserve to comply with the district heating agreement entered into with Energie Steiermark Wärme GmbH, the temporary injunction was also cancelled. Energie Steiermark therefore has the responsibility to secure the district heating supply to the city of Graz. VERBUND brought an action for arbitration against Energie Steiermark Wärme GmbH on 18 December 2015 for the purpose of enforcing claims under the law of unjust enrichment due to the outage reserve having been unjustly held pursuant to the temporary injunction. On 28 September 2016, the arbitral tribunal established its jurisdiction, which had been contested by the defendant. Energie Steiermark Wärme GmbH filed an application for a declaratory judgement with the Austrian Cartel Court against VERBUND alleging abuse of market dominance in relation to district heat generation at the Mellach site, while VERBUND filed an application seeking redress for competition law infringements by Energie Steiermark Wärme GmbH in relation to the supply of district heating in the metropolitan area of Graz. VERBUND and Energie Steiermark settled all outstanding issues in connection with the district heating supply agreement in December 2016. The former litigants have since withdrawn all applications to the arbitral tribunal and the Cartel Court.

Since 2013, there have been proceedings pending with the Austrian Cartel Court in connection with the natural gas supply agreement between VERBUND and EconGas GmbH seeking redress for competition law infringements, as well as arbitration proceedings resulting from an action brought by EconGas for payment and establishment of the validity of the agreement and a counterclaim brought by VERBUND. The outstanding issues arising from the natural gas supply agreement were finally settled by VERBUND and OMV in August 2016. At the beginning of September, VERBUND withdrew the application it had filed with the Cartel Court and the counterclaim, and EconGas withdrew its action for arbitration.

Availability of existing thermal power plants

The average time availability of the thermal power plants (Mellach district heating power plant, Mellach combined cycle gas turbine power plant) was 86.5% in 2016. Due to the major overhaul of the Mellach district heating power plant, this was down marginally on the prior-year figure (2015: 90.1%). The level of reliability averaged 98.4% (2015: 99.1%).

For information on net efficiency and fuel utilisation factors, please refer to the DMA

Projects to increase efficiency and other project topics

Generator 20 of the Mellach combined cycle gas turbine power plant² was expanded to include a pressure reducing station in 2015. The goal is to capture the maximum district heating capacity of 230 MW with minimal use of combustible fuels. In this way, the steam turbine is bypassed. In this particular mode of operation, the plant's fuel utilisation factor increases to almost 91%. The causes of the pipe vibrations determined during commissioning upwards of a district heating capacity of around 210 MW are currently being investigated.

In 2014, a large-scale test of an innovative process to regenerate denitrification catalysts was conducted at the Mellach district heating power plant (coal-fired block) in its installed state. In a subsequent research project conducted in 2015, optimisation of the added active compound vanadium in connection with the catalyst activity was systematically analysed on a test bench. In 2016, large-scale implementation and metrological verification took place during the review period with positive results – especially as regards increasing the activity of the catalysts based on the vanadium concentration used. The water rights permit effective until 22 December 2027 was reissued for the cooling water and water discharge from the waste water treatment plant (coal-fired block). In 2016, the residue quantities of fly ash and coarse ash accumulated were classified as by-products within the meaning of the Austrian Waste Management Act (Abfallwirtschaftsgesetz, AWG) and, like gypsum from the flue gas desulphurisation system since 2013, are no longer considered waste. An environmental inspection prioritising “Maintaining the state of the art” and “Delimitation of installations in accordance with the Industrial Emissions Directive” was performed on 5 December 2016.

Extensive data was collected and evidence preserved from the decommissioned sites in connection with the dismantling of tanks (Korneuburg site), enquiries from parties interested in the property (St. Andrä site) and after-care (Dürnrohr site).

Effects of future changes in the legal environment such as a redefinition of the performance criteria for state-of-the-art technology as a result of the revision of the Large Combustion Plant Directive must be carefully monitored and are set to enter into force in the first half of 2017 with a four-year adjustment period.

Comprehensive and detailed yearly reports, including environmentally relevant reports, are required to be submitted via the national electronic Internet portal (EDM = electronic data management) to an increasing extent. These include emission declarations and reports on water discharge and waste data as well as on the annual loads of fossil and biogenic carbon dioxide. Clear delimitations of installations and definitions are required for this.

Since the end of 2016, all waste disposals for all thermal power plant sites must be recorded centrally in the Group-wide waste database.

Modification of the environment management system in line with ISO 14001:2015 and in accordance with the EMAS Directive, which has also been revised, was begun.

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

Emission rights for thermal power plants

VERBUND's thermal power plants resulted in emissions of 1,001 kt CO₂ in 2016. The majority of the emissions rights needed were acquired through auctions or in the market. Free emission rights allocations amounted to just 88 kt CO₂ in 2016, as only a small portion of the free allocations went to combined heat and power generation plants in the third phase of European emissions trading.

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

KPIs – CO₂ emissions rights¹

	Unit	2014	2015	2016
Total CO ₂ emissions	kt CO ₂	1,709	1,715	1,001
of which free allocations	kt CO ₂	116	101	88

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

Services

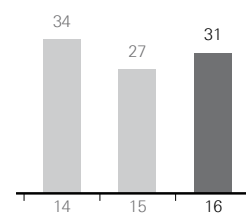
VERBUND Services GmbH continued to optimise its business processes in 2016. When the new VERBUND website was launched, the digital customer platform (with e-commerce tools) was put into operation at the same time. Other commercial and administrative Group processes were optimised and automated in 2016. The bandwidths available on the VERBUND corporate network will be markedly increased up until the end of 2017 so that future technical requirements can be met. Significant cost advantages were achieved in several longer-term tendering processes (for multifunctional devices, cleaning services, catering, etc.). As part of the project to increase efficiency, VERBUND Services made further suggestions for reducing personnel expenses and material costs, some of which took effect as early as financial year 2016 and are incorporated into the medium-term planning of the services.

Equity interests

KELAG – Kärntner Elektrizitäts-Aktiengesellschaft

The contribution from KELAG to the result from interests accounted for using the equity method increased slightly to €30.9m in 2016 compared with the prior-year figure (2015: €27.3m). The dividend attributable to VERBUND for 2016 was €14.1m. As at 31 December 2016, VERBUND held a 35.17% equity interest in KELAG.

Equity result - KELAG €m



under the equity method

Opportunity and risk management

Risk management as an integral component of the management system

Since financial year 2000, risk and opportunity management has been a separate component of VERBUND's comprehensive management system. The structures, processes and products that have emerged in this context are referred to collectively as Enterprise Risk Management. Our goal is to make continuous improvements to the manner in which the risk-return approach is implemented in practice in the Group. We currently apply the risk-return approach to strategic decision-making, project management and the management of current operations.

For the system's implementation in operations, see DMA

VERBUND continuously adapts its risk management system to changes in internal and external requirements. Each year, VERBUND's auditor reviews and confirms the effectiveness of the ERM system based on the recommendations contained in the ISO 31000:2009 reference model.

Resource-intensive business model designed for the long term in a state of flux

The business activities of VERBUND are focused on the long term and tie up significant financial resources. They require the availability and use of technically complex systems and operating procedures. They are also a topic of socio-political discussion. VERBUND plants meet the highest environmental standards. Their construction is preceded by lengthy approval processes. Early inclusion of interest groups, compliance with all regulatory conditions and effective project management can ensure the success of VERBUND's projects. The operation and maintenance of these assets, which are used over many years, require highly qualified employees.

A crucial success factor for capital-intensive companies is secure access to the capital market. Rating agencies also consider the majority owner of VERBUND, the Republic of Austria, as well as low-cost, environmentally friendly hydropower generation and the regulated grid to be significant, stabilising elements.

*VERBUND is taking advantage of the opportunities
afforded by the energy transition.*

The transformation of the European energy system is increasing the severity of the external risk factors arising from politics, the economy, the energy market and the larger society, i.e. risk factors that cannot be influenced directly. The loss of planning security forces electric utilities to change their business models, delays or prevents investment decisions from being made and gives rise to significant value adjustments (i.e. erratic changes in the assets and liabilities on the balance sheet). The economic crisis and misguided regulation have overridden market pricing rules (variable production cost-based use). This also applies to the distinction between base and peak load. By expanding the business model to include energy-related services, VERBUND is entering into new areas of risk, though new opportunities are likewise opening up for the Group. These are also subject to consumer protection requirements relating to information technology.

As the leading renewable energy producer, VERBUND is heavily dependent on the weather (rain and wind), which cannot be influenced. The VERBUND storage power plants as well as some ultra-high voltage lines are located in high Alpine regions. Over the long term, climate change can affect both the seasonal and the annual water/wind supply. In addition, geological conditions, for example permafrost, can change. Natural events such as floods, storms or avalanches can cause an unscheduled outage of electricity generation or transmission facilities as well as consequential damage. Output from run-of-river plants can be controlled only to a very minor extent (hydropeaking). At the same time, storage power plants are operated with daily, monthly or yearly retention periods. Profitability of VERBUND's pumped storage is based upon the flexibility of the overall system which has been built up over decades. Additional operating hours to cover short-term electricity requirements due to volatile wind and solar power generation also provide revenue opportunities. In other words, energy amounts must be additionally generated or "stored" in pumped storage and the grids stabilised with flexible power plant output (congestion management). These flexible earnings contributions depend largely upon the frequency and absolute extent of short-term price fluctuations in the electricity markets; however, they do not come anywhere close to compensating for the decline in wholesale electricity prices.

Volume risk due to fluctuation in water/wind supply

Information and communication systems form the backbone of VERBUND's business activities. VERBUND is addressing the growing risks from cyber space by implementing preventive information security strategies, processes and internal guidelines. In addition to providing the necessary resources internally, VERBUND actively participates in national and international bodies (e.g. energy-CERT). VERBUND also places high priority on the security of its control systems. For security reasons, these are operated largely independently from administrative networks. VERBUND's administrative buildings and decentralised plants are protected by structural measures and electronic monitoring systems.

Share of information technology in value creation is growing; cyber risk is rising

VERBUND minimises defaults in performance or payment by its business partners (counterparty risk) through effective financial management. Adhering to the dual control principle, counterparty limits (awarding, monitoring) are managed centrally and implemented during the course of the business process. Stable cash flows from the operating business ensure that debt can be serviced. In addition, VERBUND possesses sufficient credit lines for accessing cash and cash equivalents at short notice.

Financial management supports the effective monitoring of financial risks

To facilitate the conduct of its business, VERBUND has entered into long-term agreements with employees, customers, suppliers and co-owners and co-users of individual power plants. Changes in economic conditions have influenced the profitability of some of these agreements. Amending the agreements increases the risk of potential countermeasures taken by contractual parties. VERBUND is in the process of adapting its structural organisation in an ongoing project to increase efficiency. This entails, among other things, shutting down sites and terminating purchase or supply agreements as well as implementing personnel measures in a socially responsible manner. In accordance with the International Financial Reporting Standards (IFRSs), VERBUND recognises provisions for contractually agreed expenses from ongoing reorganisation programmes, for pensions and termination benefits and for the post-use phase of generation facilities (e.g. for the costs of dismantling facilities). Any deviations from the assumptions used when recognising these provisions may produce fluctuations in the result. Ongoing measures are taken to counter the potential crystallisation of collateral provided. These also

New business model necessitates amendments to long-term agreements

include possible effects of a further change in the rating of VERBUND AG on an off-balance-sheet cross-border leasing transaction that remains valid.

All else remaining equal, a change in the factors shown below would be reflected in the planned Group result for 2017 as follows (based on the hedging status as at 31 December 2016 for generation and interest rate):

- +/-1% generation from hydropower plants: €+/-4.9m
- +/-1% generation from wind power: €+/-0.4m
- €+/-1/MWh wholesale electricity prices (renewable generation): €+/-4.4m
- +/- 1 percentage point in interest rate: €+/-1.6m

Internal control and risk management system

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

VERBUND's corporate philosophy:
www.verbund.com >
[About VERBUND](#) >
[Company](#) >
[Corporate philosophy](#)

Organisational framework

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

Fundamentals of the internal control system

VERBUND's financial reporting process is governed by Group-wide guidelines and requirements. In its practical implementation, the performance, monitoring and supervision of business transactions are segregated from each other. This is intended to ensure that no single employee can act alone in performing all the process steps of a transaction from beginning to end.

The review of authorisations is integrated into the technical processing of transactions. Compliance with and the effectiveness of these checks is reviewed on a periodic basis. Based upon VERBUND's process map, business processes and the risks they entail are systematically analysed and documented, as are checks of the financial reporting process. Documentation of the time schedule for the checks, the flow charts and the process map takes place in the process manual, which is updated regularly. VERBUND's organisational structure is continually adapted to address changing internal and external conditions.

Reporting in compliance with unbundling provisions

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

Periodic monitoring

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

Shareholder structure and capital information

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

1. At the reporting date of 31 December 2016, the called-up and paid-up share capital of VERBUND AG comprised:

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

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

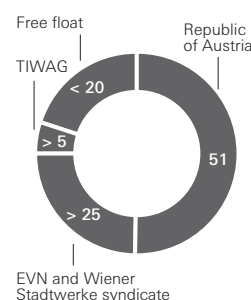
3. The shareholder structure of VERBUND AG is largely defined by the majority holding of the Republic of Austria. In accordance with constitutional law, 51% of the share capital is owned by the Republic of Austria. A syndicate made up of state energy companies Wiener Stadtwerke Holding AG and EVN AG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

4. There are no shares with special control rights.

5. VERBUND does not offer any employee participation programmes.

6. In accordance with the rules of procedure for the Supervisory Board, the last nomination to the Executive Board must be prior to the nominee's 65th birthday. Pursuant to the Austrian Code of Corporate Governance, a Nomination Committee has been established within the Supervisory Board and makes arrangements for the appointment of Executive Board members on behalf of the Supervisory Board. The rules of the Code with respect to the appointment and dismissal of the members of the Executive Board and the Supervisory Board are complied with. Apart from the above, there are no other regulations derived directly from law that relate to the members of the Executive Board and the Supervisory Board, or to the amendment of the Articles of Association.

Shareholder structure %



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

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

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

Human resources and social responsibility

KPIs – employees

	Unit	2014	2015	2016
Average operational headcount	Number	3,245	3,089	2,923
Number of employees ¹	Number	3,265	3,098	2,952
of which in Austria	Number	2,860	2,711	2,582
of which in Germany	Number	394	376	359
of which in other European countries	Number	11	11	11

¹ Number of employees as at 31 December, not including members of the Executive Board and employees in early retirement

Objectives

The substantial fall in electricity prices in the early months of 2016 exacerbated the persistently difficult situation in European energy markets and made it imperative for VERBUND to take action. The restructuring and cost management path that the Group had chosen was promptly deepened. Further cost reductions potential was identified and realised in the programmes to increase efficiency. The large-scale personnel reduction measures that again became necessary are being implemented in a socially responsible manner. In addition, VERBUND is continuing to pursue its objective of modernising remuneration structures at the company and collective agreement level with the social partners.

In the next ten years, a high number of VERBUND employees will reach the regular retirement age. This fact makes demographic management essential and endorses the Group's long-standing focus on training and continuing education. To prepare VERBUND for its future tasks and responsibilities and to manage the hand-over of operations to the next generation, the main focus in personnel development is on digitalisation. VERBUND is pushing e-recruitment and e-learning. An IT trainee programme is planned for 2017.

The development of and changes in VERBUND's core operating segments require continuous enhancement of the corporate culture. The topics of leadership culture and diversity in the Group are of particular significance. In addition, occupational health and safety of VERBUND employees has remained of great importance to us for decades. At VERBUND, our goal is to keep the accident rate stable at a low level of fewer than twelve workplace-related accidents per 1,000 employees and to improve it further.

Further cost-cutting and sustainable cost management

Even though restructuring and cost management programmes have been implemented systematically in recent years, the sharp decline in electricity prices at the beginning of 2016 necessitated further radical measures. Reductions in operating expenses and personnel costs are being made as part of an additional cost reduction programme. By 2021, a further 211 jobs will be cut in a socially responsible manner.

This means that starting with 2013 in total around 850 jobs specified in the efficiency programmes will be reduced by the end of 2021, thereby applying the Social Plan agreed with the Works Council. To date, around 650 of these job cuts have already been realised. In addition to the statutory part-time retirement models, the social plan allows for additional measures to be implemented for employees, such as voluntary termination benefit programmes. Further internal retraining and continuing

education programmes, some of which can be combined with the statutory educational leave options, enable employees to remain with VERBUND in new positions obtained via the internal job market. In addition, available human resources are actively managed and deployed for short and medium-term assignments in a “capacity exchange” established specifically for this purpose. Starting in 2016, all employees have the opportunity to switch to temporary part-time work or take time out from their job under the social plan in agreement with their direct line manager. Along with fulfilling employees’ growing desire to plan their working hours flexibly, this will further meet VERBUND’s cost reduction objectives.

The Group’s workforce reduction measures are clearly effective: compared with financial year 2015, the number of employees fell by 146 to 2,952 employees by 31 December 2016. This trend of declining employee numbers will also continue in 2017. Agency staff are hired for a certain length of time as temporary leave replacements to cover capacity peaks as well as specifically for positions with particularly flexible work requirements – in new businesses, sales and APG’s project business for grid construction projects. Agency staff receive competitive salaries, and the equal opportunities of agency staff as stipulated by law have also been put into practice.

In actual fact, VERBUND operates almost exclusively in Central Europe, a region which has high standards in terms of labour law and social welfare. Employment of highly and very highly qualified employees is associated with corresponding personnel costs. At the same time, it should be noted that based on productivity figures VERBUND is among the top European electric utilities. Therefore, alongside the programmes to increase efficiency that have been mentioned, it is essential for VERBUND that the existing remuneration structures at company and industry levels be modernised and adapted to market conditions. In addition to adapting internal guidelines on salary determination, the Group is taking a leading role at industry level in redesigning the collective agreement for electricity companies in Austria. The objective is to design a collective agreement that is fair and, at the same time, suited to modern working life. A further step was taken in 2016 to complete the reform of the Group’s internal pension fund system. The contribution rates for the Group’s defined contribution pension plan were adjusted to a mid-market level.

Demographic challenges

The demographic trend already observable over years continued during the reporting period. Around 7% of VERBUND employees will retire over the next five years and 28% over the next ten years. The programmes to increase efficiency mean that not all of those leaving will be replaced. A significant proportion of these positions, however, are essential to operations, and replacements will have to be found for these.

Thus in future years, strengthening the competitive position of VERBUND in the labour market will remain a central task to identify and hire the right candidates for our company.

At the same time, the intention is to retain and motivate existing employees by means of targeted personnel development programmes – also through e-learning solutions.

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

For disclosures on pension obligations, please refer to the notes

Other personnel KPIs

	Unit	2014	2015	2016
New employee hires	Number	110	93	104
Employee turnover excluding retirements	Number	88	85	79
Employee turnover rate excluding retirements	Percent	2.7	2.7	2.7
Employee turnover including retirements	Number	223	260	227
Employee turnover rate including retirements	Percent	6.8	8.4	7.7
Duration of employment ¹	Years	17.0	19.2	18.9
Percentage of university graduates	Percent	21.4	21.9	22.6
Continuing education per employee (total workforce) ²	Hours	29.6	33.6	35.2
Continuing education per employee (without executive function)	Hours	27.8	31.8	33.6
Continuing education per executive	Hours	64.0	74.4	71.2
Performance review ratio	Percent	93.4	96.4	96.2
Apprentices, total	Number	188	175	165
of which, new apprentices taken on	Number	35	40	43

¹ Change in calculation method: personnel from acquired and newly consolidated companies are included in the duration of employment with the acquired/consolidated company and no longer in the duration of employment with the VERBUND Group. // ² incl. executives and long-term agency staff, excl. apprentices, employees in retention periods, employees loaned to third parties and employees on long-term leave; excluding safety briefings.

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

In order to retain VERBUND's attractive employer brand, in 2016 VERBUND again invested in selected employer branding measures. With an efficient use of funds, VERBUND continued to demonstrate a clear presence in the labour market – for example at job fairs and in print and online media, as well as on social media, focusing on apprentices as a target group.

In 2016, the strategic focus was on maintaining long-term contact with top performing students of the Vienna University of Technology (TU) and on measures for the advancement of women such as the annual award of the VERBUND women's scholarship and participation in "TUtheTop", the high potential programme offered by the Vienna University of Technology.

In addition, VERBUND took part for the first time as a service learning partner in the seventh Sustainability Challenge, in which around 70 students from the four largest universities in Vienna (Vienna University of Economics and Business, Vienna University of Technology, University of Natural Resources and Life Sciences, Vienna, and University of Vienna) researched interdisciplinary aspects of the topic "Smart City". Thus VERBUND continues to be an attractive employer for key internal and external personnel.

Recruiting

VERBUND's strong employer brand and continued strong competitive position in the labour market proved an advantage when staffing 104 high quality positions essential to operations in 2016. More than 80% of these were positions to maintain succession planning in operations and in the Grid segment.

Measures to optimise the recruiting process were introduced in 2016 in order to meet the challenges of demographic change and do justice to the technological advancements and requirements in

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

For a description of management's approach to training and continuing education, please refer to the DMA

personnel recruiting. A future-fit e-recruitment solution that follows the latest trends was implemented to offer internal and external applicants a state-of-the-art tool integrating the ever more frequently used mobile devices. This reimplementation also ensured optimised presentation of VERBUND's career opportunities as part of the Group-wide website relaunch. Receiving the Golden Seal Career's Best Recruiters study again in 2016, thereby being awarded first place in the "Energy" industry is testament to the high degree of professionalisation of recruitment quality that this entails.

Personnel development

Once employees have been hired by VERBUND, their professional and personal development remains a matter of importance to us. In 2016, each employee took part in 35.2 hours of training on average. Personnel development focused on technical and safety qualifications as well as SAP and IT training.

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

VERBUND has been working on the future of energy in Austria for 70 years.

e-training – increased digitalisation also in learning solutions

Digitalisation and the need for life-long learning are leading to a paradigm shift in learning at VERBUND in favour of flexible, job-related learning solutions. The "New at VERBUND" electronic onboarding programme simplifies the induction of new employees. Employees can comfortably complete the modules at their own pace directly at their workstation during their first days on the job in parallel to the specialist introduction. Thus, all important information and support is available from the outset.

Apprentice training

In 1983, VERBUND became one of the first businesses in Austria to offer a four-year dual apprenticeship for electrical and mechanical engineering. Currently, apprentices at VERBUND can train to become electrical engineering and metalworking technicians or electronic and electrical engineering technicians. These dual professional qualifications are in high demand and offer excellent opportunities for the future. In 2016, 43 apprentices were recruited in Austria and Germany. The high quality of the apprenticeship training is evident not only in the outstanding achievements in the final apprenticeship examinations but also has VERBUND been recognised as a nationally certified training company by the Austrian Federal Ministry of Science, Research and Economy.

Within the framework of refugee activities at VERBUND, the Executive Board decided to additionally take on four refugees as apprentices in order to make a contribution to the integration of refugees in Austria. In September 2016, two refugees entitled to asylum therefore began their vocational training at the apprenticeship training centre in Ybbs, with another two starting in Kaprun. Outside of their apprenticeship, the refugees will also receive assistance from dedicated people. Further tutoring will be

provided in German, mathematics and English so that the refugees can follow the tuition at the apprenticeship training centres and the vocational college.

Further improvement in corporate culture

Employee survey – incorporating employee concerns

In order to create the best possible work environment, VERBUND wants to identify sources of stress for its employees and potential areas for improvement in the workplace. To assist in these efforts, the third Group-wide employee survey was conducted in 2015, entitled “How are you doing at VERBUND?”

Based on the results of the employee survey, specific measures were developed in 2016 in agreement with the Executive Board and the companies’ managing directors. The results of the survey on mental stress conducted in 2014 were also taken into consideration. Implementation of the measures has already commenced at the relevant companies and will continue in 2017. In segments with a high average age, the measures focus on age-appropriate work by adapting jobs and tasks to changing requirements and placing particular emphasis on timely knowledge transfer.

More information
available at
www.verbund.com >
[About VERBUND >](#)
[Responsibility >](#)
[Social issues >](#)
Added benefits for
employees

Management feedback

Ongoing improvement of our leadership culture is an important component in developing our corporate culture. All first-level and second-level executives and line managers at VERBUND took part in the VERBUND management feedback in recent years.

The management feedback gives executives the opportunity to reflect on their own perception of roles and responsibilities and provides a basis for individual and organisation-wide support and development measures. Appropriate follow-up measures as part of management training serve to further improve the quality of leadership and thus guarantee the Group’s success.

Work-life balance

Maintaining a balance between work and private life is a tradition at VERBUND. Since 2009, the Work and Family Audit has provided a way to better structure the measures so that more opportunities can be created to meet specific needs and encourage a better work-life balance. In 2016, we made the issue of work and private life a fixed part of performance reviews at VERBUND; this can be discussed on a voluntary basis. In addition, new information about care as well as paid and unpaid carer’s leave was made available on the intranet to make it easier to get access to information. The most recent employee survey also confirms that satisfaction with the compatibility of work and family life has been continuously growing since 2008.

Diversity management

KPIs – diversity management

	Unit	2014	2015	2016
Total percentage of women	Percent	17.8	17.8	17.5
Percentage of women among new employee hires	Percent	22.7	12.9	14.4
Percentage of women in management positions	Percent	9.6	7.4	8.3
Percentage of women among apprentices	Percent	10.1	9.7	6.7
Average age	Years	44.2	44.2	43.9

Important steps for promoting diversity at VERBUND have been taken in recent years: equal opportunities have always been part of the corporate philosophy, and by signing the Diversity Charter (“Charta der Vielfalt”) VERBUND has publicly demonstrated its commitment to diversity.

In the future, diversity and inclusion will be advanced further by planning and implementing structured measures. VERBUND has therefore defined a diversity strategy with the aims of actively promoting diversity within the Group and employing a variety of people at all levels. This enables VERBUND to strengthen its employer brand and Group brand and utilise the diversity of people to increase its commercial success and prevent discrimination. The diversity strategy includes strategic objectives, key performance indicators and suggestions for measures that will promote diversity. Although VERBUND considers diversity management as a whole. On account of resources being limited, particular emphasis has been placed on the dimensions of age, gender and disability.

For more information about the emphasis on age, please refer to Demographic challenges

In the age dimension, we are striving to achieve a balanced age structure. The main objectives in managing the demographic change are keeping knowledge in the Group and maintaining the loyalty of VERBUND’s top performers. In the gender dimension, the total percentage of women is to be increased to 20% by 2020 and the percentage of women in management positions will also be increased. Our goal in the disability dimension is to continue to fulfil or even exceed the quotas stipulated in the Austrian Disabled Persons Employment Act (Behinderteneinstellungsgesetz, BEinstG) and to recruit and employ people with disabilities.

Focus on disabled persons

VERBUND exceeds the statutory quotas stipulated in Austria and Germany for the employment of disabled people. For VERBUND the mandatory quota for Austria is 108, and VERBUND employs 151 people who qualify as disabled persons under the Disabled Persons Employment Act (BEinstG). The corresponding mandatory quota for Germany is 18, and 26 people with disabilities are employed. In 2014, an accessibility management programme was introduced as part of diversity and inclusion management that has been effective in increasing the accessibility of our sites and our company information and in providing suggestions for improvements.

By implementing specific measures, VERBUND hopes to make everyday dealings with disabled people an established part of the corporate culture. In the summer of 2016, for example, the Human Resources department employed a sight-impaired woman. During 2017, VERBUND plans to strengthen this initiative and take on more people with disabilities as seasonal interns.

Focus on advancement of women

Traditionally, the percentage of women in predominantly technical companies such as VERBUND has been on the low side. That is why VERBUND has put measures in place to increase the current percentage of 17.5% to 20% by 2020. In 2016, the percentage of women among new employee hires was 14.4%.

Based on the results of the employee survey, specific measures for the advancement of women were agreed when measures were being developed. To increase the visibility of female employees, greater consideration will be given to women especially when filling vacancies in bodies or committees or project manager positions. Women can express their interest in a management position by putting themselves forward whenever the succession planning is being periodically updated. When management positions are advertised, women in particular will be encouraged to apply.

VERBUND also takes care to ensure pay equalisation. This is based on strict compliance with the classifications of the collective agreement as well as a performance-related remuneration scheme. Nevertheless, socio-political and cultural aspects such as increased part-time work among women, a lower number of women in technical professions, and the difficulty for women to achieve more highly paid (management) positions are also reflected within VERBUND.

VERBUND focuses specifically on diversity activities.

Inspiring women to enter technical professions is important to VERBUND. Therefore, VERBUND has been participating in Take Your Daughter to Work Day in Vienna for 13 years. This campaign sponsored by the City of Vienna, the Vienna Economic Chamber and the Vienna School Board aims to awaken the interest of girls in the technical professions. In 2016, a total of 24 girls took part in a variety of workshops and became acquainted with the APG control centre and the Freudenu power plant in tours of the facilities.

By awarding the VERBUND women's scholarship, VERBUND has supported talented female students during their technical training since 2009. Another aim for the Group is to generate enthusiasm for the company among qualified women, particularly technicians, and, ideally, to recruit them. The VERBUND women's scholarship was awarded for the eighth time in 2016. The three winners each received a scholarship worth €5,000 for one year of study, enabling them to supplement their university education with additional personal and professional training.

Health and safety

KPIs – occupational safety

	Unit	2014	2015	2016
Work-related accidents subject to reporting requirements ¹	Number	43	38	27
Total sick days due to work-related accidents subject to reporting requirements	Number	1,064	806	724
Accident rate ²		13.5	12.3	8.9
Accident severity ³	Days	24.7	21.2	26.8
Accident frequency ⁴		11	12	9

¹ Accidents involving more than three days of sick leave // ² Number of work-related accidents subject to reporting requirements per 1,000 employees, from 2015 including the Enns power plants and Alpha Wind S.R.L. // ³ Days of sick leave per work-related accident subject to reporting requirements // ⁴ Accidents involving one or more sick leave days per 1 million hours worked

Another matter that is of great importance to VERBUND is occupational health and safety. VERBUND's goal is to keep the accident rate stable at a low level of fewer than twelve workplace accidents per 1,000 employees.

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

Accidents in 2016

Since 1 January 2015, the employees of the Enns power plants and Alpha Wind S.R.L. in Romania have also been included in the statistics. Agency staff are likewise included in the accident statistics. The number of employees was therefore 2,952 at the end of 2016, plus 89 agency staff. Fortunately, the number of accidents fell by eleven compared with 2015 to 27 work-related accidents subject to reporting requirements, and the number of sick leave days decreased by 82 to 724.

The number of accidents at VERBUND therefore showed a marked improvement in 2016. The accident statistics within the Group are significantly lower than the average figures at Austrian electric utilities.

When interpreting accident statistics, the absolute accident figures must be considered in relation to the number of employees (accident rate) and days of sick leave per accident (accident severity).

A comparison of the VERBUND accident rate of 8.9 with the construction industry (approximately 43) and the metal and electrical industry (approximately 38) demonstrates the high safety standards at VERBUND. It is worth mentioning that improvements of up to 25% have already been made in the industries mentioned over the last five years. VERBUND also performs well in an industry comparison. At 14.5 accidents per 1,000 employees, Austrian utilities likewise have a higher accident rate on average than VERBUND (source: accident statistics published by Oesterreichs Energie). The number of work-related accidents among staff from external contractors working at our sites was also recorded. Nine such accidents occurred in the reporting period. These unfortunately included the death of one person

who worked for a subcontractor. The accident occurred during earthworks in the reservoir of the Enns power plants when a dumper truck toppled into the Enns River.

Improvement measures are identified and implemented based on an analysis of each individual accident within the Group and at external contractors. As in previous years, neither third-party fault nor organisational shortcomings were identified as the cause of any work-related accident in 2016. This shows that safety standards within the Group are very high and that safeguards for employees are being implemented as well as possible.

However, studies and examples at other companies indicate that once an accident rate as low as VERBUND's has been achieved, further improvements are possible only by introducing a practised safety culture. With this system, Austrian companies have been able to provide a fillip to their safety status, something that is borne out in their key performance indicators. An important part of this is for executives to act as role models for employees, always thinking and acting with safety in mind. In 2016, a project was launched aimed at establishing such a culture of safety within VERBUND and further developing an understanding of personal safety.

Accident prevention

Preventive measures are based on the analysis of work-related accident statistics at VERBUND. In 2016, the focus of the annual training sessions was on "working in containers". These sessions used presentations and practical exercises to provide training in the potential risks of hazardous gases in containers, handling the gas detectors used on site and proper use of personal protective gear.

To properly address "water" as a hazard, in particular at our hydropower plants, a refresher course was provided on the topic of "Waterway hazards". A comprehensive training session used practical exercises to familiarise employees with the subject matter. In this two-year training programme, around 700 employees received the training in 2015/16. Participants included staff from the power plants and from the hydrology and surveying specialist groups as well as the boat operators and employees of VERBUND Services GmbH.

The annual safety briefing for all employees is completed via e-learning and a subsequent test at the office sites in Am Hof and Westbahnhof/Vienna, Peggau/Styria, Villach/Carinthia, Schwarzach/Salzburg, and Töging and Simbach/Bavaria. This briefing is successfully completed each year by almost 100% of the workforce, as was the case in financial year 2016.

Promoting health among employees

The "Fit and Healthy" initiative at VERBUND promotes a healthy lifestyle. The initiative motivates employees to do something for their health on a voluntary basis. Seminars on mental fitness again placed the emphasis on psychosocial health.

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

Mental stress

Following a written survey conducted in 2014 for evaluating mental stress, VERBUND is now in the implementation phase. More than 160 specific measures were developed at 34 workshops throughout the Group during 2016. In some cases, suggestions were directly implemented at the companies, and

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

working groups have already been established for others. Any suggestions that were not endorsed were documented, with justification provided. Further measures will be specified and carried out in 2017 in line with the results of the employee survey.

Social responsibility

VERBUND assumes responsibility for a society that perceives readily available electricity generated from clean sources as a quality-of-life factor. In fulfilling its shared responsibility to society, VERBUND supports a number of charitable organisations and employees pass on their knowledge in schools and universities.

Caritas and Diakonie

Energy poverty and its negative consequences occur most frequently when incomes and standards of living are very low. The VERBUND Electricity Relief Fund in collaboration with Caritas provides assistance quickly, in an unbureaucratic manner and, above all, long-lasting by offering immediate financial assistance to pay outstanding electricity bills, professional on-site energy consulting and a free exchange service for old, inefficient electrical appliances.

Since the project began in 2009, the VERBUND Electricity Relief Fund has offered assistance to a total of 3,344 households with a total of 8,742 people living in these households.

In the seventh period from 1 January 2016 to 31 December 2016, 362 households advised by the social advice centres run by Caritas were referred to the VERBUND Electricity Relief Fund in collaboration with Caritas.

KPIs – VERBUND Electricity Relief Fund run by Caritas

	Unit	2014	2015	2016
Interim financing	Number	540	540	362
	€	54,000	54,000	52,200
Energy consulting	Number	258	357	292
Appliances exchanged	Number	255	209	207

In 2016, 725 disabled people received direct support for communication and assistive technologies with funds from the VERBUND Empowerment Fund run by Diakonie. In total, 105 disabled people received financial assistance for the purchase of communication aids. The emergency aid fund spent around €60,000 on this. The fund has been providing assistance since 2009.

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

KPIs – VERBUND Empowerment Fund run by Diakonie

	Unit	2014	2015	2016
Individual assistance	Number	80	84	105
Consulting	Number	330	460	725

VERBUND climate school in the Hohe Tauern National Park

The collaboration between VERBUND and the Hohe Tauern National Park on creating the mobile VERBUND Hohe Tauern National Park climate school was extended for three more years in 2016. The aim is to reach an additional 9,000 pupils by the end of the 2018/2019 school year. Based on the knowledge transmitted by rangers from the Hohe Tauern National Park, the students will become climate protection advocates who spread the acquired knowledge in their social environment.

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

The VERBUND electricity school kindles enthusiasm for technology

With updated learning materials, a state-of-the-art game and activities which focus on renewable energy, VERBUND provides an exciting and interactive physics lesson for the next generation.

More than 600 school classes have made use of the free tools for designing active lessons. As part of the VERBUND electricity school, over 1,500 pupils visited the Ybbs-Persenbeug power plant in 2016. For storage power plants, 2,800 pupils took advantage of the offer.

VERBUND electricity school online:
www.stromschule.at

Volunteering

More and more, our employees are showing their responsibility to society with the utmost personal dedication. Two team seminars with a background in societal issues were again held in 2016.

- The Industrial Customer Management and Quality Management department of VERBUND Sales GmbH helped out in the Jamal House, a home for unaccompanied under-age refugees.
- The Operations department of VERBUND Trading GmbH provided assistance at the Regenbogental therapeutic farm.

In all seminars, urgently necessary work was carried out under the direction of professionals. Overall, these initiatives were an unforgettable experience and an enrichment for everyone involved in the teams.

Furthermore, in 2016 employees of VERBUND Trading GmbH prepared meals on several occasions for homeless and socially disadvantaged people in the “Gruft” (an institution of Caritas Vienna for homeless people).

Refugee relief

Four refugees began apprenticeships at VERBUND in September 2016 and are now being trained in the two apprentice training centres in Ybbs and Kaprun. An Iraqi family in Zillertal valley was furnished with accommodation. In addition, VERBUND provided funding to the Vienna university for refugees and also handed over rucksacks with useful equipment. Further support measures are planned for 2017.

For further information on environmental management, please refer to the DMA and information provided at www.verbund.com > About VERBUND > Responsibility > Environment

All ISO 14001 certificates and environmental statements available at [About VERBUND > Responsibility > Environment > Certifications](#)

For additional information on the Aspect of power and materials, please refer to the DMA

Environmental performance

VERBUND bears responsibility for preserving the natural environment. The Group works continuously to reduce the environmental impact of its corporate activities, plants, products and services. The environmental mission statement lays out the environmental principles followed by VERBUND.

Existing structures, processes and responsibilities in environmental management ensure compliance with legal requirements, nationally and internationally accepted regulations and the Group’s own, more stringent standards.

Environmental management systems

VERBUND’s objective is to implement environmental management systems certified to ISO 14001 in all generation and grid facilities. To date, environmental management systems have been certified by external auditors at 93% of VERBUND’s sites. New facilities will be incorporated into the environmental management system as quickly as possible after commissioning and included in the scope of the certificate for the next audit. The Malta/Reißeck hydropower plants and the Mellach thermal generation plants are also validated in accordance with the EMAS III directive. Separate environmental statements were published for the plants; these are available on the VERBUND website.

Sites with environmental management systems certified to ISO 14001 or EMAS

	Unit	2014	2015	2016
Percentage of certified sites ¹	%	92	93	93
Total certified sites	Number	187	188	187

¹ Sites of consolidated companies, excluding solar power plants, wind power plants of less than 20 MW and sites in which VERBUND has a share of <51% and where another co-owner is responsible for the management of the company; as at 31 December in each case

Use of power and materials

The KPIs for power use show a 38% reduction in the fuels from non-renewable sources in 2016 compared with 2015. Particularly the use of hard coal at our thermal power plants is being reduced continually. In 2016, use of hard coal fell by 47% compared with the previous year to around 8 million tonnes. Compared with the previous year, use of natural gas decreased by 13% (4.5 million Nm³). Use of fuels stood at 0.4%.

The use of materials fell by 39% in 2016, primarily as a result of the decommissioning of the Dürnrohr thermal power plant and the related reduction in additives and consumables.

Airborne emissions

The “KPIs – generation and environment” table shows airborne emissions from our thermal power plants as absolute amounts. In particular, decommissioning the Dürnrohr thermal power plant at the end of April 2015 resulted in a significant reduction in the total volume of emissions. Emissions of SO₂ and NO_x were lowered by over 40% compared with the previous year, while dust emissions were reduced by as much as 88%.

Greenhouse gas emissions

Due to the high proportion of renewable energy sources representing 96% of its generation, VERBUND is one of Europe's most environmentally friendly energy companies. The Group's focus on electricity generation from renewable energy is a crucial factor in reducing and avoiding emissions. VERBUND's strategic objective is the transition to 100% generation from renewable energy by the end of 2020.

Greenhouse gas emissions (Scope 1–3) decreased by 34% in 2016 to around 1.6 million tonnes CO₂e compared with the previous year (2015: 2.3 million tonnes CO₂e). Of the total emissions, 65% (1 million tonnes CO₂e) are allocated to Scope 1, 19% to Scope 2 and 16% to Scope 3 emissions.

The amount of direct emissions in Scope 1 decreased in 2016 by 42% compared with the previous year. Emissions from the use of fuels in thermal power plants make up the largest share of Scope 1 emissions. Relatively small amounts are generated from the use of diesel and petrol by the VERBUND vehicle fleet and from emissions of SF₆ at grid facilities. These quantities of direct emissions (from fuels and SF₆ emissions) will continue to occur even without operating thermal power plants. However, no direct emissions arise from the generation of electricity using renewable energy.

Compared with 2014, VERBUND was also able to reduce indirect emissions from electricity purchased in Scope 2 by 40% because pumped storage power plants are operated exclusively using electricity with guarantees of origin from 100% hydropower. The figure for other indirect emissions in Scope 3 fell by 19% in the reporting period.

Specific greenhouse gas emissions in the VERBUND Group in Scopes 1, 2 and 3 in 2016 fell to 49 grammes of CO₂e per kWh of total electricity generated (2015: 75). In addition to direct emissions from electricity generation, this figure also includes indirect emissions from extraction and transportation of fuels, purchased electricity, the vehicle fleet and air travel. VERBUND aims to reduce this figure by 90% in the period from 2011 to 2021.

In 2016, direct greenhouse gas emissions (Scope 1) specific to VERBUND amounted to 31 grammes of CO₂e per kWh of total electricity generated. This corresponds to less than one-tenth of the CO₂ emissions from the European energy mix. In 2015, this figure representing electricity from the transmission grid of the European Network of Transmission System Operators (ENTSO-E) amounted to 344 grammes of CO₂/kWh. This figure demonstrates VERBUND's success in its drive to decarbonise electricity generation.

For additional information on greenhouse gas emissions, please refer to the DMA

VERBUND has already lowered its direct CO₂ emissions by 67% since 2012.

We present our climate change targets and our achievements in reducing emissions in electricity generation in our disclosures to CDP (formerly the Carbon Disclosure Project). Once more, VERBUND ranked highly in the 2016 CDP Leadership Index. In 2016, VERBUND was the best company in the energy sector in the Germany-Austria-Switzerland region. VERBUND again achieved country leader status in Austria in 2016, which places the Group among the two best enterprises in the country.

KPIs – generation and environment

	Unit	2014	2015	2016
Generation				
Electricity generation (net, total) ¹	GWh	34,030	31,239	31,995
Share of generation from renewables	%	94	93	96
Generation of district heating	GWh	901	979	910
Direct power use²				
Total fuels from non-renewable sources	GJ	19,735,794	20,482,222	12,627,730
Hard coal	GJ	17,686,331	15,290,024	8,113,591
Oil	GJ	59,640	0	0
Natural gas	GJ	1,938,823	5,144,378	4,463,574
Fuels (diesel and petrol)	GJ	51,000	47,820	50,565
Total fuels from renewable sources	GJ	19,793	18,759	16,509
Electricity (grid purchase) ³	GWh	2,798	2,947	2,459
Energy intensity				
(Power use per amount generated)	GWh/GWh	0.24	0.27	0.19
Use of materials⁴				
	t	11,124	9,249	5,658
Airborne emissions (absolute)				
CO	t	24	50	41
SO ₂	t	304	270	142
NO _x	t	946	829	495
Dust	t	81	50	6
Greenhouse gas emissions (absolute)⁵				
Total greenhouse gas emissions (Scope 1–3)	kt CO ₂ e	2,531	2,350	1,553
Scope 1 direct emissions	kt CO ₂ e	1,765	1,737	1,007
Scope 2 indirect emissions	kt CO ₂ e	491	300	291
Scope 3 other indirect emissions ⁶	kt CO ₂ e	276	314	255
Greenhouse gas emissions (specific)⁷				
Scope 1 emissions relative to total electricity generated	g/kWh	52	56	31
Scope 1–3 emissions, relative to total electricity generated	g/kWh	74	75	49
Emissions avoided through generation from renewable energy⁸				
	kt CO ₂	25,921	24,168	25,457

¹ incl. purchase rights // ² Own power used in all operating segments. The amounts stated relate to the condition at the time of delivery, i.e. damp material in the case of biomass. Combustible and other fuels calculated based on heat units. // ³ Volume used from grid for operating power plants, pumping, administration and grid losses, i.e. electricity purchased by Austrian Power Grid (APG) for the entire transmission grid operated by APG (all grid levels); 2015: increased by the quantity for administration; 1 gigawatt hour [GWh] corresponds to 3,600 gigajoules [GJ] // ⁴ Materials used for flue gas treatment and maintenance of power plants and grid facilities, as well as paper consumption // ⁵ Preliminary data prior to audit // ⁶ Change to 2015 figure due to compensation for use of climate-neutral gas by customers // ⁷ Total electricity generated incl. purchase rights excluding electricity generated for district heating // ⁸ Up to 2014, the calculation was based on emissions from a hard coal power plant (Dürnröhr type), from 2015 onwards, this is determined based on the average of thermal generation emissions based on ENTSO-E mix.

Conservation and biodiversity

VERBUND is constructing multiple fishpasses as part of the implementation of the EU Water Framework Directive. We provide an overview of our capital expenditure for the environment and biodiversity such as the construction of fishpasses to re-establish the river continuity and restoration measures implemented at water bodies in the Renewable generation section. We also describe the wide range of measures we have already implemented in the areas of conservation and biodiversity on the websites of the LIFE projects and on the VERBUND website.

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

By 2027, VERBUND will have invested €280m in restoration measures along the rivers in Austria.

Waste and by-products

VERBUND's thermal power plants produce by-products such as ash and gypsum which are used as secondary raw materials. In 2016, ash was also qualified as a by-product in accordance with the Austrian Waste Management Act (AWG) and is therefore no longer classified as a non-hazardous waste – as is the case with gypsum since 2013. This change in classification increases the volume of by-products by 42 kt. The 63 kt reduction of non-hazardous waste from ongoing operations is due in part to this new classification, but also to the decommissioning of the Dürnröhr power plant.

The increase in non-hazardous waste from projects is attributable to the disposal of residual construction waste and excavated soil resulting from greater construction activity in 2016.

The volume of screened debris depends primarily on water supply and high water events in the reporting period. This volume of waste is not caused by power plant operation and therefore cannot be influenced or prevented by VERBUND.

Other environmental KPIs

As a result of VERBUND's generation from renewable energy sources – rather than from thermal generation – 25,457 kt CO₂ were avoided in the reporting period. This is calculated based on average thermal generation emissions based on ENTSO-E.

Water withdrawal at our sites decreased by 47% in 2016. Over 93% of the water volume was used as cooling water at our thermal power plants. The decommissioning of thermal power plants is the main reason for the lower volumes of water withdrawal and discharge in recent years.

Total environmental costs amounted to approximately €66.5m at VERBUND in the past financial year. No environmental fines were imposed in 2016.

Additional details and information on environmental KPIs are available in the Environment section of the VERBUND website.

For additional information on our environmental Aspects, please refer to the DMA

For details and additional environmental KPIs, please refer to www.verbund.com

KPIs – environment

	Unit	2014	2015	2016
Water input and output				
Total water withdrawal by source	1,000m ³	290,109	289,214	153,822
from surface water	1,000m ³	283,489	277,470	143,423
from groundwater and well water	1,000m ³	6,504	11,630	10,294
from public water supply	1,000m ³	116	114	106
Total water discharge	1,000m³	290,109	289,214	153,822
Of which cooling water				
from thermal power plants into surface water	1,000m ³	282,567	275,879	141,645
Other water discharge	1,000m ³	7,542	13,335	12,177
Waste¹				
Total hazardous waste	t	1,398	1,601	1,239
from ongoing operations	t	662	957	823
from projects	t	736	645	416
Total non-hazardous waste	t	132,050	84,732	69,053
from ongoing operations	t	93,890	79,668	17,486
from projects	t	38,160	5,064	51,567
Screened debris – hydropower plants	t	36,452	15,500	18,698
By-products				
By-products – thermal power plants	t	8,566	8,323	49,653
Biodiversity				
Fishpasses	Number	32	44	51
Sites in protected areas				
Sites in Natura 2000 areas	ha	2,299	2,746	2,746
Sites in Ramsar areas	ha	620	620	620
Sites in national parks	ha	67	68	68
Sites in conservation areas	ha	1,320	1,403	1,403
Environmental costs (total)				
of which for environmental management and provisions	€m	66.5	67.3	66.5
of which for plants and projects	€m	2.6	5.5	2.6
of which environmental revenue	€m	79.5	82.7	79.5
	€m	– 15.6	– 20.9	– 15.6

¹ 2015: Change in the classification of hazardous waste from projects and from ongoing operations and correction of screened debris volumes

Innovation, research and development

KPIs – IR&D

	Unit	2014	2015	2016
Number of IR&D projects	Number	75	65	68
Total project volume ¹	€m	138.1	144.5 ²	139.1
of which EU projects ¹	€m	97.5	92.2	93.6
Total VERBUND share ¹	€m	19.2	16.2	22.1
Annual VERBUND expenses	€m	5.4	4.2	5.5

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

Decarbonisation, decentralisation, digitalisation – the profound transformation of the European energy system is advancing. VERBUND's overarching goals include the integration of renewable energy and the orientation toward energy services. Innovation, research and development play a crucial role in setting the pace for these within the Group.

We firmly believe that with the help of renewable energy sources the world will see a massive expansion of electrification in the decades to come and that the human race is headed towards an all-electric society. We are therefore working hard on developing profitable technological solutions for a safe, affordable and environmentally friendly energy supply.

The future of mobility is electric.

Special focus on electromobility

VERBUND is involved in European and Austrian research projects relating to the future of electrical energy. Electromobility is a special focus in this regard.

After 65 fast charging stations were successfully put into operation under the Central European Green Corridor (CEGC) project, VERBUND has been working since last autumn on the expansion of a high-level charging infrastructure for electric cars as part of two further European innovation projects. Under EVA+, on one hand, the density of Austria's network of fast charging stations is being increased, and access is being expanded to Italy. On the other hand, the groundwork is being laid for the next generation of electric cars under ULTRA-E. In the next two years, four ultra-fast charging stations with power output of up to 350 kW will be constructed in Austria – in addition to the 50 kW rapid charging network.

As part of the NeMo project, which was also launched in 2016, VERBUND is working with partners on researching new services for e-mobility customers. Under this project, new services aimed at improving the user-friendliness of charging electric vehicles are being developed for private customers. The spectrum ranges from easier access to charging stations to making reservations to charge.

The CROSSING BORDERS project was also successfully completed last summer. As part of this project, 30 fast charging stations were constructed between Bratislava and Munich.

The LEEFF (Low Emission Electric Freight Fleets) project was kicked off in 2016. This project involves working with partners to develop an overall concept for electrification and operation of a truck fleet to be used for deliveries in metropolitan areas by 2019.

Research emphasis on smart homes

The topic of smart homes was another focal point. In order to test new services for the consumer and to design the market for these services throughout Europe, VERBUND is taking part in the European research project FLEXICIENCY. The project will run until 2019. In 2016, the focus was on designing the Austrian demonstration operations slated to begin in 2017.

Green hydrogen – a central issue for the future

VERBUND sees vast potential in the topic of green hydrogen. Together with partners, VERBUND launched the EU-funded H2FUTURE project at the beginning of 2017. The project examines the future role of hydrogen – produced from water using renewable energy – as an energy source and an industrial gas. VERBUND is working with voestalpine and Siemens as well as with three other partners in Austria to construct one of the world's largest – at 6 MW – PEM electrolyser, which works using a proton exchange membrane.

Green hydrogen is the energy source and reservoir of the future.

Since 2016, VERBUND is also partnered with WIVA, the hydrogen initiative of the Austrian model region for energy. One of the initiative's main goals is to create a network of partners working on hydrogen and power-to-gas projects.

Last but not least, VERBUND continued the tailored technology scouting programme it launched in 2015. VERBUND is currently tracking and monitoring 90 forward-looking technologies in the field of energy under this programme.

Hydropower innovations

In its hydropower operations, VERBUND continues to research different ways to create passability through bodies of water in order to progressively achieve the objectives of the EU Water Framework Directive. In the process, greater emphasis is being placed on comprehensive protection of fish. VERBUND is analysing the migratory behaviour of various fish species in detail. This will allow VERBUND to implement measures aimed at helping fish and improving habitats in order to maintain and protect fish populations.

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

The changing conditions in the electricity market are resulting in new demands and the need for greater flexibility of hydropower. In response to this, VERBUND is gathering data on increased mechanical loads as well as potential areas of flexibility in the energy markets of the future. At the same time, we are

monitoring signs of wear and tear on materials like seals and sprayed concrete and testing new materials.

Wind power innovations

In the area of wind power, VERBUND is focusing on improving operations in icing conditions. Unanticipated icing of VERBUND wind power plants results in unplanned downtime and reduces electricity production. To address this, VERBUND and other relevant experts kicked off the ICE CONTROL project last year. As part of the project, which will run until 2019, complex models are being developed to predict the onset, duration, end and intensity of rotor blade icing. High-resolution camera systems monitor ice build-up, and additionally installed ice detectors measure surface temperatures and the thickness of the ice layer directly on the rotor blade. VERBUND is using these tools to evaluate the models developed and to optimise the operation of rotor blade heating as well as the call times of its service technicians.

Innovations in the area of electricity trading

In 2016, VERBUND's innovation activities in the field of electricity trading were dedicated to further improvement of the inflow forecasting and optimisation of storage management in hydropower. High spatial resolution in the forecast values and state-of-the-art stochastic optimisation methods now allow optimised management of the reservoirs. Numerous forecasts developed previously and updated using appropriate statistical methods provide a better basis for estimating forecasting uncertainties. Moreover, VERBUND is now better equipped to cope with severe flooding.

In addition, VERBUND is continually driving forward the development of new products with new renewable sources of energy and certificates as well as new opportunities for marketing virtual pumped storage power plants and flexibility options in electricity generation.

Innovations in the power grid

Ongoing improvement of operations is the focus of the innovative efforts of independent grid subsidiary APG. In 2016, this company was involved in over 20 research projects. Among other things, APG was involved in the "Innovationssektion" project, working with partners in industry and science on the development of noise-optimised overhead power lines for ultra-high voltage power lines and their testing in operation. Such lines are actually effective in reducing the noise of the corona discharge caused by rain. In the future, the new transmission lines can be used for new construction and renovations.

Another emphasis was a project for measuring direct currents in transformers in the high and ultra-high voltage grids. This project was conducted in conjunction with the Graz University of Technology and the Central Institution for Meteorology and Geodynamics (ZAMG). Building on this project, a simulation model was developed to make it possible to now calculate the resulting direct currents as well. This is the first time in Central Europe that theoretical predictions of geomagnetically induced direct current caused by solar flares can be verified through this calculation.

Calculation results showed surprisingly high figures for this quasi direct current produced by the earth's magnetic field. ZAMG is currently developing a forecast and alerting system to allow rapid responses to solar flares in the high-voltage grid.

Procurement

Supply chain

For details on the supply chain and supplier assessment, please refer to the DMA

The supply chain at VERBUND is characterised by management and maintenance measures for existing properties and technical facilities. Depending on the investment or maintenance programme planned, the main services involve construction and construction-related work as well as electromechanical technology. Services are also outsourced in the areas of information and communications technology, customer service, communications and marketing and other maintenance-related services. Procurement of primary energy (coal, gas) for thermal generation represents another link in the supply chain. However, due to the strategic orientation of VERBUND towards CO₂-free generation, this product category is becoming less significant.

Around 50% of VERBUND's procurement volume is transacted using formal tenders via the ASTRAS supplier platform. When registering on the platform, each potential supplier also completes a questionnaire on the topics of sustainability, compliance, environmental protection and occupational safety. Completing this questionnaire in full is a requirement for participating in the tender process.

The information and documents provided by the registered suppliers were reviewed in 2016. If information is missing or insufficient, VERBUND asks the supplier to resubmit or expand on the information. Face-to-face discussions on the topic of sustainability activities were held with three major suppliers in order to raise their awareness of ecological and social sustainability.

Procurement statistics

During financial year 2016, tenders and awards worth an estimated €110m were processed via the electronic tendering platform. This represents around 50% of the total procurement volume. The number of suppliers commissioned by VERBUND amounted to around 4,000 in 2016. Based on order revenue, VERBUND placed 95% of its orders in its core markets of Austria and Germany (83% of those with Austrian suppliers and 12% with German suppliers). The remaining 5% were ordered from other countries, primarily within Europe.

Our suppliers are key partners for the future of energy.

In 2016, total orders in the amount of approximately €252m were placed with suppliers in the following 29 countries: Austria, Germany, the Czech Republic, Poland, Switzerland, France, the United States, Slovenia, the United Kingdom, Australia, Albania, Italy, Croatia, the Netherlands, Ireland, Denmark, Finland, Spain, Hungary, Belgium, Sweden, Liechtenstein, Luxembourg, Canada, Romania, Norway, Greece, Brazil and Israel.

Organisational allocation of procurement activity

Administrative Services employees are responsible for minor purchases at the power plant sites, and the value of the minor purchases determines who is responsible for their procurement. Procurement department employees are the internal point of contact responsible for all other requirements. Both departments are also responsible for placing orders with suppliers.

Outlook

European economic growth in 2017 is expected to be somewhat slower than in 2016. This cooling of economic growth is attributable to the effects of Brexit and the sanctions against Russia. The eurozone is also at risk of an economic slowdown from the ongoing debt crises in Italy and Greece, yet another downturn in China, geopolitical conflicts and a bubble resulting from expansive monetary policy. However, private consumption spurred in the eurozone by the expectation of further improvement in employment figures and slightly higher wages is likely to provide positive economic stimulus. According to the IMF's forecast from January 2017, the eurozone economy is expected to grow by 1.6% in 2017 (2016: +1.7%). Economic growth of 1.5% is forecast for Germany (2016: +1.7%).

In 2017, Austria's economy is expected to grow by 1.5% (2016: +1.5%; source: WIFO forecast from December 2016). Domestic demand will remain the determining factor in 2017 although it is estimated to be slightly lower than in 2016. Tax relief will probably foster higher consumption of durable goods until mid-2017. Growth will slow somewhat when the effects of the tax reform are no longer being felt and inflation rises, particularly as high unemployment is putting a damper on consumer spending and foreign demand is seeing only slight growth. Despite robust expansion of employment, the influx of labour continues to overwhelm the capacity of the labour market. Unemployment will rise.

In light of OPEC's decision at the end of 2016 to cut production, the oil market should experience balanced supply and demand in 2017. Climbing oil prices could cause coal and gas prices to rise slightly again as well. Despite this, price levels on primary energy and CO₂ markets are expected to remain relatively low.

The expansion of subsidised electricity generation from new renewable energy sources will continue. On the other hand, as a result of only moderate economic growth in Europe and improvements in energy efficiency, electricity consumption will hardly rise at all again next year. These factors – but most importantly the still non-functioning CO₂ market – are the main reasons why VERBUND anticipates subdued wholesale prices in 2017.

On average for 2016, base load prices for electricity deliveries in 2017 were quoted at €26.6/MWh, down 14.2% on the figure for the previous year. In 2016, the price for the 2017 peak load product also fell by 14.2% compared with 2015 to €33.5/MWh.

The challenging market environment is taken into consideration for VERBUND's forecasts for full-year 2017. However, VERBUND's strong hydropower base represents an absolute competitive advantage within the European electricity sector in this difficult market.

Investment plan 2017–2019

VERBUND's updated investment plan for the period 2017–2019 provides for capital expenditure in the amount of €754m. Of that total, around €299m will be spent on growth CAPEX and around €455m on maintenance CAPEX. Most of the growth CAPEX will go towards expanding the regulated Austrian high-voltage grid (approximately €162m). In addition, VERBUND will be investing mainly in selected hydropower plant projects as well as in increasing the efficiency of existing power plants. Here, the Töging run-of-river power plant in Germany deserves particular mention. The investments will involve VERBUND's domestic markets of Austria and Germany. In financial year 2017, VERBUND plans to invest a total of approximately €212m, around €69m of which will be invested in growth and around €143m in maintenance.

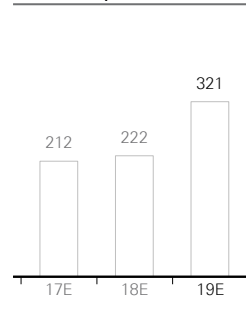
Dividend

VERBUND plans to distribute a dividend of €0.29 per share for financial year 2016. The payout ratio for 2016 will thus amount to 30.9% based on the adjusted Group result.

Earnings projection for 2017

VERBUND's earnings performance is significantly influenced by the following factors: wholesale prices for electricity, the Group's own generation from hydropower and wind power and ongoing developments in the energy market. In accordance with VERBUND's hedging strategy, around 75% of the planned own generation for 2017 was already contracted as at 31 December 2016. The price achieved is approximately €1.5/MWh below the sales price reached in 2016. For those volumes not yet hedged, VERBUND has based its calculations on current market prices. On the basis of average own generation from hydropower and wind power, VERBUND expects EBITDA of approximately €800m and a Group result of approximately €280m for financial year 2017.

Investment plan €m



Events after the reporting date

There were no events requiring disclosure between the reporting date of 31 December 2016 and approval for publication on 16 February 2017.

Vienna, 16 February 2017

The Executive Board



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



Dr. Johann Sereinig
Vice-Chairman of the Executive Board



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



Dr. Peter F. Kollmann
Member of the Executive Board

Income statement

of VERBUND

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In accordance with IFRSs	Notes	2015	2016
Revenue		2,969,650	2,795,856
Electricity revenue	1	2,336,428	2,213,868
Grid revenue	2	439,621	394,999
Other revenue	3	193,601	186,988
Other operating income	4	70,535	179,019
Expenses for electricity, grid, gas and certificates purchases	5	– 1,415,801	– 1,328,071
Fuel expenses and other usage-dependent expenses	6	– 138,652	– 61,727
Personnel expenses	7	– 332,943	– 313,615
Other operating expenses	8	– 264,135	– 227,231
EBITDA		888,652	1,044,232
Depreciation of property, plant and equipment and amortisation of intangible assets	9	– 360,026	– 339,342
Impairment losses ¹	10	– 118,019	– 90,790
Reversal of impairment loss ¹	10	0	1,039
Operating result		410,606	615,138
Result from interests accounted for using the equity method	11	27,252	30,454
Other result from equity interests	12	6,909	6,032
Interest income	13	31,670	31,055
Interest expenses	14	– 184,220	– 135,187
Other financial result	15	– 1,697	4,280
Reversals of impairment losses	16	13,305	5,004
Financial result		– 106,780	– 58,362
Profit before tax		303,826	556,776
Taxes on income	17	– 53,499	– 97,225
Profit for the period		250,327	459,551
Attributable to shareholders of VERBUND AG (Group result)		207,741	424,423
Attributable to non-controlling interests		42,586	35,127
Earnings per share in €²	18	0.60	1.22

¹ The impairment losses and reversals of impairment losses have been reduced by the amount of any change in related deferred contributions to building costs and government grants. // ² Diluted earnings per share correspond to basic earnings per share.

Statement of comprehensive income

of VERBUND

€k			
In accordance with IFRSs	Notes	2015	2016
Profit for the period		250,327	459,551
Remeasurements of the net defined benefit liability	36	16,646	– 17,262
Other comprehensive income from interests accounted for using the equity method	23	– 8,320	– 2,161
Total of items that will not be reclassified subsequently to the income statement		8,326	– 19,424
Differences from currency translation	19	329	– 1,089
Measurements of available-for-sale financial instruments	19	1,036	8,794
Measurements of cash flow hedges	19	66,979	– 241,235
Other comprehensive income from interests accounted for using the equity method	19	24	265
Total of items that will be reclassified subsequently to the income statement		68,368	– 233,265
Other comprehensive income before tax		76,693	– 252,688
Taxes on income relating to items that will not be reclassified subsequently to the income statement	20	– 4,115	4,561
Taxes on income relating to items that will be reclassified subsequently to the income statement	20	– 16,985	58,058
Other comprehensive income after tax		55,593	– 190,069
Total comprehensive income for the period		305,921	269,482
Attributable to shareholders of VERBUND AG (Group result)		262,461	235,186
Attributable to non-controlling interests		43,459	34,296

Balance sheet

of VERBUND

€k			
In accordance with IFRSs	Notes	31/12/2015	31/12/2016
Non-current assets		11,084,999	10,933,558
Intangible assets	21	804,729	811,276
Property, plant and equipment	22	9,201,878	9,010,643
Interests accounted for using the equity method	23	267,810	281,920
Other equity interests	24, 35	115,580	114,636
Investments and other receivables	25, 27, 35	695,002	715,082
Current assets		677,994	604,630
Inventories	26	19,075	9,087
Trade receivables and other receivables	27, 35	630,032	567,583
Cash and cash equivalents	28	28,888	27,960
Total assets		11,762,993	11,538,188

€k			
In accordance with IFRSs	Notes	31/12/2015	31/12/2016
Equity		5,433,316	5,529,501
Attributable to shareholders of VERBUND AG	29–32	4,859,617	4,964,251
Attributable to non-controlling interests	33	573,699	565,250
Non-current liabilities		5,349,787	4,908,180
Financial liabilities	34, 35	2,744,116	2,394,916
Provisions	36	868,132	839,636
Deferred tax liabilities	37	549,510	569,189
Contributions to building costs and grants	38	748,089	751,698
Deferred income – cross-border leasing	39	48,812	47,217
Other liabilities	35, 40	391,127	305,523
Current liabilities		979,890	1,100,507
Financial liabilities	34, 35	385,387	324,759
Provisions	36	126,939	78,620
Current tax liabilities	41	29,973	51,841
Trade payables and other liabilities	35, 42	437,592	645,287
Total liabilities		11,762,993	11,538,188

Statement of changes in equity

of VERBUND

In accordance with IFRSs	Called and paid-in share capital	Capital reserves	Retained earnings	Remeasurements of net defined benefit liability
Notes	29	30	31	36
As at 1/1/2015	347,416	954,327	3,652,242	– 254,241
Profit for the period	–	–	207,741	–
Other comprehensive income	–	–	0	2,747
Total comprehensive income for the period	–	–	207,741	2,747
Shift between shareholder groups	–	–	8,074	– 171
Dividend	–	–	– 100,751	–
Other changes in equity	–	–	9,043	– 7,468
As at 31/12/2015	347,416	954,327	3,776,349	– 259,133
As at 1/1/2016	347,416	954,327	3,776,349	– 259,133
Profit for the period	–	–	424,423	–
Other comprehensive income	–	–	–	– 13,933
Total comprehensive income for the period	–	–	424,423	– 13,933
Change in the basis of consolidation	–	–	– 7,151	104
Shift between shareholder groups	–	–	– 1,706	0
Dividend	–	–	– 121,595	–
Other changes in equity	–	–	– 454	– 316
As at 31/12/2016	347,416	954,327	4,069,867	– 273,279

							€k
	Difference from currency translation	Measurement of available- for-sale financial instruments	Measurement of cash flow hedges	Other components of other comprehen- sive income	Equity attributable to the shareholders of VERBUND AG	Equity attributable to non- controlling interests	Total equity
	32	19–20, 23–25	19–20			33	
	–2,788	24,242	–29,445	–2,700	4,689,054	591,398	5,280,451
	–	–	–	–	207,741	42,586	250,327
	207	1,023	50,373	370	54,720	873	55,593
	207	1,023	50,373	370	262,461	43,459	305,921
	0	6	0	0	7,908	–3,330	4,579
	–	–	–	–	–100,751	–57,875	–158,625
	–184	–1,435	–493	1,480	944	46	990
	–2,764	23,836	20,436	–850	4,859,617	573,699	5,433,316
	–2,764	23,836	20,436	–850	4,859,617	573,699	5,433,316
	–	–	–	–	424,423	35,127	459,551
	–1,105	6,434	–180,879	246	–189,237	–832	–190,069
	–1,105	6,434	–180,879	246	235,186	34,296	269,482
	0	0	0	0	–7,047	–162	–7,209
	0	0	0	0	–1,706	806	–900
	–	–	–	–	–121,595	–43,388	–164,984
	–39	0	0	604	–204	0	–204
	–3,908	30,270	–160,443	0	4,964,251	565,250	5,529,501

Cash flow statement

of VERBUND

		€k	
In accordance with IFRSs	Notes	2015	2016
Profit for the period		250,327	459,551
Depreciation of property, plant and equipment and amortisation of intangible assets (net of reversals of impairment losses)		481,119	430,552
Impairment losses on investments (net of reversals of impairment losses)		– 11,450	– 3,356
Result from interests accounted for using the equity method (net of dividends received)		– 13,085	– 16,297
Result from the disposal of non-current assets		122	– 792
Change in non-current provisions and deferred tax liabilities		82,156	37,510
Change in contributions to building costs and grants		8,103	2,075
Income from the reversal of deferred income from cross-border leasing transactions		– 1,595	– 1,595
Other non-cash expenses and income		– 26,814	– 85,898
Subtotal		768,883	821,750
Change in inventories		37,448	10,005
Change in trade receivables and other receivables		– 34,763	– 8,563
Change in trade payables and other liabilities		– 5,674	7,364
Change in current provisions and current tax liabilities		– 91,914	– 26,248
Cash flow from operating activities¹		673,979	804,307

¹ Cash flow from operating activities includes €–19.3m in taxes paid on income (previous year: €24.4m), €77m in interest paid (previous year: €122.5m), €0.5m in interest received (previous year: €1.1m) and €24.6m in dividends received (previous year: €25m).

€k			
In accordance with IFRSs	Notes	2015	2016
Cash outflow from capital expenditure for intangible assets and property, plant and equipment		-288,118	-248,146
Cash inflow from the disposal of intangible assets and property, plant and equipment		10,148	11,476
Cash outflow from capital expenditure for investments		-67,548	-129
Cash inflow from the disposal of investments		3,296	4,556
Cash outflow from capital expenditure for interests accounted for using the equity method and other equity interests		-21,024	-1,398
Cash inflow from the disposal of subsidiaries and interests accounted for using the equity method and other equity interests	43	176,372	14,463
Cash outflow from capital expenditure for current investments		0	-40,042
Cash inflow from the disposal of current investments		265,578	40,042
Cash flow from investing activities		78,704	-219,178
Cash outflow (previous year: inflow) from shifts between shareholder groups		4,900	-900
Cash inflow from money market transactions		281,459	0
Cash outflow from money market transactions		0	-305,493
Cash outflow from the repayment of financial liabilities (excluding money market transactions)		-893,211	-115,412
Dividends paid	44	-158,625	-164,984
Cash flow from financing activities		-765,478	-586,788
Change in cash and cash equivalents		-12,795	-1,658
Cash and cash equivalents as at 1/1		41,683	28,888
Change in cash and cash equivalents		-12,795	-1,658
Change in the basis of consolidation		0	731
Cash and cash equivalents as at 31/12		28,888	27,960

Notes

of VERBUND

VERBUND AG with its registered office at Am Hof 6a, 1010 Vienna, Austria, is the parent company of the VERBUND energy group, which operates in Austria and abroad. VERBUND AG is entered in the commercial register at the Commercial Court of Vienna under number FN 76023z.

VERBUND generates, trades and sells electricity to market participants from energy exchanges, traders, energy supply companies and industrial companies as well as household and commercial customers. In addition, VERBUND trades and sells gas to market participants from energy exchanges, traders and household customers and provides energy-related services. Furthermore, VERBUND operates the Austrian transmission grid through Austrian Power Grid AG and holds equity interests in foreign and domestic energy supply companies.

Financial reporting principles

Basic principles

VERBUND prepares its consolidated financial statements in accordance with Section 245a(1) of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB) in compliance with International Financial Reporting Standards (IFRSs) as endorsed by the European Union. The additional requirements of Section 245a(1) UGB were also satisfied. The separate financial statements of the consolidated subsidiaries included in VERBUND's consolidated financial statements are based on uniform accounting policies. The reporting date is 31 December 2016 for all consolidated companies.

VERBUND's consolidated financial statements comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the notes. With the exception of the notes, in which amounts are generally indicated in millions of euros (€m), VERBUND's consolidated financial statements are prepared in thousands of euros (€k).

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

Consolidation methods

All material companies controlled by VERBUND AG (subsidiaries) are included in the consolidated financial statements of VERBUND by means of consolidation. The requirements for control are met if VERBUND AG is exposed to variable returns from its investment in the investee and/or is entitled to them and is capable of influencing these returns by means of its power of disposal over the investee. Inclusion in the consolidated financial statements begins when control is achieved and ends when it ceases.

Initial consolidation of a subsidiary is effected upon acquisition by employing the acquisition method. The identifiable intangible and tangible assets, liabilities and contingent liabilities belonging to the acquiree as well as any non-controlling interest in the acquiree are recognised and measured. Positive consolidation differences between the consideration transferred plus any non-controlling interest as well as – in the case of a business acquisition in stages – any equity interest in the acquiree previously held by VERBUND and the fair value of the net assets are recognised as goodwill. Negative consolidation differences are recognised immediately in profit or loss.

Investees controlled together with a partner and in which VERBUND has rights to the entity's net assets (joint venture) as well as investees in which VERBUND AG directly or indirectly exercises a significant influence (associates) are accounted for using the equity method. The equity method is a method of consolidation and/or measurement in which the equity interest is initially recognised at cost. The equity interest is subsequently adjusted for changes in VERBUND's share of the investee's net assets; the

result is a “one-line consolidation”. As a rule, significant influence is presumed if the share of voting rights directly or indirectly attributable to VERBUND AG is at least 20%, but less than 50%. Investees accounted for using the equity method are recognised with their proportional IFRS profit or loss taken from (consolidated) interim or annual financial statements for which the reporting date is not more than three months prior to VERBUND’s reporting date. Significant events or transactions at investees accounted for using the equity method occurring between this reporting date and VERBUND’s reporting date result in corresponding adjustments.

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

In the case of investees that are controlled together with another joint operator, if VERBUND has rights to the assets attributable to the investee as well as obligations for its liabilities (joint operation), VERBUND recognises its share of the assets and liabilities and/or revenue and expenses.

A list of all of VERBUND’s subsidiaries, joint ventures and associates is presented in the section entitled Group structure. The subsidiaries, joint ventures and associates included in VERBUND’s consolidated financial statements changed as follows in the 2016 reporting period:

Basis of consolidation

Basis of consolidation

	Consolidation	Accounted for as a joint operation	Accounted for using the equity method
As at 31/12/2015	37	1	8
Change in consolidation method	– 1	0	0
Disposals from disinvestments	– 1	0	0
As at 31/12/2016	35	1	8
of which domestic companies	12	1	7
of which foreign companies	23	0	1

The change in consolidation methods relates on the one hand to the initial consolidation effective 1 January 2016 of SMATRICS GmbH & Co KG that was previously not consolidated due to immateriality. On the other hand, the previously consolidated equity interests in VUM Verfahren Umwelt Management GmbH and VERBUND Tourismus GmbH were deconsolidated at the same time due to immateriality. The effects of these changes in the basis of consolidation are subsequently presented as “Changes in the basis of consolidation”.

Disposals from disinvestments relate to the 100% equity interest in VERBUND Photovoltaics Ibérica S.L. sold effective 12 December 2016.

Disposals from disinvestments

The sale of the 100% equity interest in VERBUND Photovoltaics Ibérica S.L. to IKAV EE S.A.R.L. was completed effective 12 December 2016 (closing). Since VERBUND lost control on this date, the assets and liabilities of VERBUND Photovoltaics Ibérica S.L. were deconsolidated as of 12 December 2016:

Gain on disposal	€m
Cash and cash equivalents	14.5
Fair value of consideration received	14.5
Carrying amount of deconsolidated net assets	13.2
Carrying amount of deconsolidated liabilities	-0.3
Carrying amount of deconsolidated net assets	13.0
Gain on disposal ¹	1.5

¹ The gain on disposal was recognised as other operating income.

VERBUND Photovoltaics Ibérica S.L. operated two photovoltaic farms in southern Spain with a total capacity of 2.8 MWp and was part of the Renewable generation segment. The decision to sell the two photovoltaic farms is a consequence of VERBUND's strategic focus on majority interests that concentrate on electricity generation from hydropower and on the Austrian and German market.

Currency translation

In the separate financial statements of Group companies, all transactions denominated in foreign currency are measured at the spot exchange rate on the transaction date. Monetary balance sheet items are subsequently measured at the respective spot exchange rate at the reporting date. Exchange gains and losses are recognised through profit or loss under other financial result.

The functional currency of VERBUND AG and the presentation currency of the Group is the euro. With the exception of the Romanian subsidiaries (Alpha Wind S.R.L., CAS Regenerabile S.R.L., Ventus Renew Romania S.R.L. and VERBUND Trading Romania S.R.L.), the functional currency of the consolidated subsidiaries is also the euro. For the consolidated financial statements of VERBUND, the annual financial statements of these foreign subsidiaries are translated into euros using the functional currency method.

The functional currency of all investees recognised using equity method accounting is the euro.

Assets and liabilities of foreign Group companies with a functional currency other than the euro are translated using the foreign exchange reference rate of the European Central Bank (ECB) prevailing at the reporting date. Expenses and income are translated at average monthly exchange rates. Translation differences at the reporting date are recognised in other comprehensive income and presented separately in equity.

The exchange rates underlying the currency translation changed as follows:

Foreign exchange rates used for currency translation

Country	Currency	31/12/2015 ECB foreign exchange reference rate	31/12/2016 ECB foreign exchange reference rate	2015 Average rate	2016 Average rate
Romania	€1 = RON	4.5240	4.5390	4.4440	4.4957

Accounting policies

When preparing the consolidated financial statements, all International Accounting Standards (IASs) and International Financial Reporting Standards (IFRSs) as well as all interpretations by the Standing Interpretations Committee (SIC) and the IFRS Interpretations Committee (IFRS IC) that have been endorsed by the European Union and whose application was mandatory on 31 December 2016 have been applied.

In the 2016 reporting period, the following new or amended standards and interpretations had to be applied for the first time or were applied early by VERBUND:

Newly applicable or applied accounting standards

Newly applicable or applied accounting standards

Standard or interpretation		Published by the IASB (endorsed by the EU)	Mandatory application for VERBUND	Material effects on the consolidated financial statements of VERBUND
IAS 1	Amendments: Disclosure Initiative	18/12/2014 (18/12/2015)	1/1/2016	Greater focus of the Notes on material facts and circumstances
IAS 16 IAS 38	Amendments: Clarification of Acceptable Methods of Depreciation and Amortisation	12/5/2014 (2/12/2015)	1/1/2016	None
IAS 16 IAS 41	Amendments: Bearer Plants	30/6/2014 (23/11/2015)	1/1/2016	None
IAS 19	Amendments: Defined Benefit Plans: Employee Contributions	21/11/2013 (17/12/2014)	1/1/2016	None
IAS 27	Amendments: Equity Method in Separate Financial Statements	12/8/2014 (18/12/2015)	1/1/2016	None
IFRS 10 IFRS 12 IAS 28	Amendments: Investment Entities: Applying the Consolidation Exception	18/12/2014 (22/9/2016)	1/1/2016	None
IFRS 11	Amendments: Accounting for Acquisitions of Interests in Joint Operations	6/5/2014 (24/11/2015)	1/1/2016	None
Various	Annual Improvements to IFRSs 2012–2014	25/9/2014 (15/12/2015)	1/1/2016	None

New accounting standards not yet applicable or applied

The IASB issued new standards that were not applied by VERBUND in the 2016 reporting period because they have either not yet been endorsed by the European Union or their application is not yet mandatory:

New accounting standards not yet applicable or applied

Standard or interpretation		Published by the IASB (endorsed by the EU) ¹	Mandatory application for VERBUND	Expected material effects on the consolidated financial statements of VERBUND
IAS 7	Amendments: Disclosure Initiative	29/1/2016 (expected Q2/2017)	1/1/2017	Additional disclosures regarding changes in financial liabilities
IAS 12	Amendments: Recognition of Deferred Tax Assets for Unrealised Losses	19/1/2016 (expected Q2/2017)	1/1/2017	None
IAS 40	Amendments: Transfers of Investment Property	8/12/2016 (expected H2/2017)	1/1/2018	None
IFRS 2	Amendments: Classification and Measurement of Share-based Payment Transactions	20/6/2016 (expected H2/2017)	1/1/2018	None
IFRS 4	Amendments: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	12/9/2016 (expected 2017)	1/1/2018	None
IFRS 9	Financial instruments	24/7/2014 (22/11/2016)	1/1/2018	See below
IFRS 10 IAS 28	Amendments: Sale or Contribution Assets between an Investor and its Associate or Joint Venture	11/9/2014 (postponed)	Postponed indefinitely	Will be examined as soon as the IASB completes its revisions
IFRS 14	Regulatory Deferral Accounts	30/1/2014 (no endorsement expectet)	–	–
IFRS 15	Revenue from Contracts with Customers	28/5/2014 and 11/9/2015 (22/9/2016)	1/1/2018	See below
IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers	12/4/2016 (expected Q2/2017)	1/1/2018	See below
IFRS 16	Leases	13/1/2016 (expected H2/2017)	1/1/2019	See below

New accounting standards not yet applicable or applied

Standard or interpretation		Published by the IASB (endorsed by the EU) ¹	Mandatory application for VERBUND	Expected material effects on the consolidated financial statements of VERBUND
IFRIC 22	Foreign Currency Transactions and Advance Consideration	8/12/2016 (expected H2/2017)	1/1/2018	None
Various	Annual Improvements to IFRS Standards 2014–2016 Cycle	8/12/2016 (expected H2/2017)	1/1/2017 and 1/1/2018	None

¹ Basis: EU Endorsement Status Report dated 13 January 2017

The IASB published the final version of IFRS 9 on 24 July 2014. This standard will replace IAS 39 in the future. IFRS 9 reforms the classification and measurement of financial instruments. The new categories specify recognition at cost or fair value (either through profit or loss for the period or through other comprehensive income) depending on the type of financial instrument or business model. The recognition of impairment losses on financial assets was also revised. In accordance with IFRS 9, impairment losses are to be recognised based on an expected credit loss model in the future. In comparison with the rules under IAS 39 (incurred loss model), provisions are to be recognised earlier under the new rules in the future. In the area of hedge accounting, many restrictions under IAS 39 were lifted with a stronger emphasis on the economic aspect of the hedging relationships. Initial assessments show that the new rules governing the classification and subsequent measurement of financial assets and liabilities will not have a material impact on VERBUND's balance sheet and income statement, because the initial and subsequent measurements will be made based on principles that are comparable to the previous accounting policies for the majority of financial instruments. However, higher allowances for losses on financial instruments will tend to be expected as a result of the recognition of impairment losses on financial assets based on the expected credit loss model. Based on the current status, the new rules for the recognition of hedging relationships will have a rather minor impact on VERBUND's consolidated financial statements. Since the analysis of the impact of the new standard still has not been completed, no quantitative statements with respect to the effects of the transition to IFRS 9 can be made at this time.

The IASB published the final version of IFRS 15 on 28 May 2014 July 2014. The mandatory date of initial application was shifted with the publication dated 11 September 2015 to financial years beginning on or after 1 January 2018. IFRS 15 replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31 in the future. The new standard provides for a five-step model for the recognition of revenue. First the contract(s) with a customer are to be identified followed by the company's own performance obligations. Afterwards, the transaction price is determined and allocated to the performance obligations in the contract. Revenue is recognised in the fifth step when the entity has satisfied its performance obligation. A large number of VERBUND's contracts formed with customers fall under the scope of IAS 39 or under IFRS 9 in the future, because they are not own-use contracts. These contracts are explicitly excluded from the scope of IFRS 15. The effects of IFRS 15 on the recognition of revenue for own-use contracts with customers (primarily electricity/gas deliveries as well as grid services) and contributions to building costs received are still being analysed at this time. A change is expected with respect to contracts for which VERBUND bears the risk of default for the grid fees and levies charged to the customers. Since VERBUND bears the risk of default associated with these payments, VERBUND is classified

as the principal according to the risk and rewards approach under IAS 18; therefore, revenue is recognised and presented as a gross amount. In contrast, in accordance with IFRS 15 control over the goods or services before they are transferred to the customers is the crucial factor determining whether an entity is acting as a principal or as an agent. In this assessment, risk of default no longer plays a role. Therefore, VERBUND will more likely be considered an agent in the future with respect to these payments. That means that revenue will no longer be realised for these payments (net presentation). Since the analysis of the impact of the new standard still has not been completed, no quantitative statements with respect to the effects of the transition to IFRS 15 can be made at this time.

The IASB published the final version of IFRS 16 on 13 January 2016. This standard replaces IAS 17, IFRIC 4, SIC-15 and SIC-27 in the future. The new standard specifies that all leases and the associated contractual rights and obligations are to be recognised on the lessee's balance sheet in the future. Thus, the previous differentiated treatment of operating and finance leases no longer applies. The lessee capitalises a right to use the asset on which the lease is based and simultaneously recognises a lease liability in the amount of the present value of the lease payments. The right of use is to be subsequently amortised, and the lease liability is to be carried forward based on actuarial principles. There are exemptions for short-term leases and leased assets of low value. The Group-wide implementation of a database solution is currently being reviewed as part of the transition project. Since the analysis of the impact of the new standard still has not been completed, no quantitative statements with respect to the effects of the transition to IFRS 16 can be made at this time. However, a stretching of the balance sheet, a minor increase in net debt and somewhat higher expenses at the commencement of a lease are expected.

Goodwill and other intangible assets

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

Under IFRS 3, goodwill is not subject to amortisation, but must be tested for impairment at least annually. For this purpose, goodwill is allocated to those cash-generating units expected to profit from the synergies resulting from a business combination. These cash-generating units correspond to the lowest organisational level at which VERBUND's management monitors goodwill for internal management purposes. If goodwill cannot be attributed to individual cash-generating units except on an arbitrary basis, this lowest level can also include multiple cash-generating units to which the goodwill may be related but to which it cannot be allocated. The impairment test of goodwill compares a cash-generating unit's recoverable amount with its carrying amount including goodwill. The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount falls below the carrying amount of the cash-generating unit, goodwill is impaired first; any remaining impairment losses reduce the carrying amounts of other assets proportionately. Impairments of goodwill may not be reversed in subsequent periods. As a rule, VERBUND conducts its annual impairment tests of goodwill at the level of the cash-generating units on the basis of medium-term planning in the fourth quarter of each reporting period. In addition to the annually conducted impairment test, a qualitative analysis is conducted as at the reporting date of each of the consolidated

interim financial statements (and also at the end of the reporting period, if necessary) to determine whether there is any indication of impairment. If there are indications of impairment, an (additional) impairment test is conducted.

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

VERBUND's research and development costs in the 2016 reporting period amounted to €5.5m (previous year: €4.2m). Research costs are expensed as incurred. In contrast, development costs are to be recognised under certain conditions as internally generated intangible assets in accordance with IAS 38 and subsequently amortised over their useful lives. Development costs are expensed in the consolidated financial statements of VERBUND in the reporting period in which they are incurred as either the corresponding recognition criteria have not been met or the amounts are not material. Intangible assets must be tested annually for impairment as long as they are not yet available for use.

Property, plant and equipment used for more than one year in business operations is measured at cost (including dismantling and decommissioning costs that must be capitalised), net of straight-line depreciation charges and any impairment losses.

In addition to direct material and production costs, the cost of internally generated plant and equipment also includes appropriate indirect material and production costs. Borrowing costs are capitalised for qualifying assets. According to VERBUND's accounting policies, a project results in a qualifying asset only if the construction period for major projects lasts at least twelve months. The effective borrowing costs (less investment income from any temporary investments) are capitalised to the extent that the qualifying asset is financed by specific outside financing. In contrast, if the Group has arranged for general financing, the average borrowing costs are capitalised. VERBUND's average monthly borrowing costs in the 2016 reporting period were around 3.7% (previous year: around 3.7%).

Property, plant and equipment

Depreciation charges on finite-lived property, plant and equipment are based on the expected useful lives of its components. Specifically, the following useful lives are applied:

Useful life	In years
Residential, office, plant and other plant facilities	20–50
Hydroplant buildings	40–100
Machinery	10–80
Electrical installations	5–50
Power lines	50
Office and plant equipment	4–10

The expected useful life of hydropower plants is determined independently from the terms of water rights permits because it is presumed that these permits will be reissued when they expire. Based on experience, this also applies for those Bavarian run-of-river power plants with existing reversion rights for the benefit of the Free State of Bavaria. The expected useful life of the Jochenstein power plant on the Danube was also determined independently from the existing obligation to return 50% of the interest in Donaukraftwerk Jochenstein AG in 2050 (see: Other liabilities). That is to say it is expected that VERBUND will also continue to be the owner and operator of the Jochenstein power plant on the Danube beyond 2050.

Leased assets

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

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

Recoverability of non-financial assets

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

The recoverable amount is the higher of fair value less costs to sell and value in use. Fair values are to be determined primarily based on market prices and can for example be based on existing binding offers, secondary price formation on active markets or comparable recent transactions within the industry according to the measurement hierarchy in IFRS 13. If fair value cannot be determined based on market prices, valuation techniques based on a net present value approach are used. If a net present value approach is applied, the discounted cash flow method (DCF method) is used. Future investments to enhance or improve performance and restructuring expenditure are taken into account when determining fair value. Price quotes for energy futures are used in pricing as long as there is a liquid market. Accordingly, the most recent price quotes are applied to the average price forecasts of two

reputable information service providers in the energy market by means of linear interpolation. After the study is completed, the average price forecasts are extrapolated to the end of the planning horizon based on the assumption of a permanent inflation rate of 2.0% (previous year: 2.0%). As a rule, value in use is determined using net present value approaches. The discounted cash flow method (DCF) is used for determining these. The prices are determined using the VERBUND Energy Market Model (VEMM). The VEMM is an energy simulation tool for the development of medium and long-term electricity and natural gas price scenarios for energy markets. The cash flows are generally derived from the recent medium-term plans approved by management. Consistent with IAS 36, neither future investments to enhance or improve the performance nor restructuring expenditure (not including existing obligations) are included in the calculation of value in use. The discount rate is an after-tax interest rate which reflects current market estimates, the time value of money and the specific risks associated with the asset (or cash-generating unit); the corresponding pre-tax interest rate is calculated iteratively. If the reasons for impairment no longer apply in a subsequent period, a reversal is to be recognised in profit or loss. Both impairments as well as reversals of impairment losses are recognised in profit or loss, presented in the income statement and segment reporting as impairment losses and/or reversals of impairment losses and explained in the notes. If impairment losses or their reversal do not relate to continuing operations, they are presented in profit/loss after tax from discontinued operations and explained in the notes.

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

Equity interests

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

The carrying amounts of interests accounted for using the equity method are adjusted based on VERBUND's ownership interest to reflect changes in the investee's net assets in accordance with IAS 28. The proportionate net assets are adjusted no later than one quarter following the underlying changes (see: Financial reporting principles). The carrying amount of the interest is increased or decreased by the share in profit or loss for the period and other comprehensive income attributable to VERBUND, as well as by dividends, the elimination of material intercompany profits or losses and by carrying forward the fair value adjustments for hidden reserves and liabilities identified upon share acquisitions. Goodwill included in the carrying amount of the interest is not amortised (see: Goodwill and other intangible assets) and is neither presented separately in accordance with IAS 28 nor tested annually for impairment in accordance with IAS 36. If VERBUND's share of losses from an investee accounted for using the equity method corresponds to or exceeds the carrying amount of the investment, additional losses are only taken into account and recognised as a liability to the extent that legal or constructive obligations were undertaken or payments were made for the equity-accounted interest. The carrying amount of the equity-accounted interest includes the share calculated based on equity method accounting plus all long-term equity interests that are to be allocated to the net investment in the equity-accounted interest based on their economic substance.

Recoverability of equity interests

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

Impairment is tested based on the recoverable amount, which represents the higher of fair value less costs to sell and value in use. The primary methods used to determine the fair value of an equity interest are based on market prices; as an alternative, approaches to determine the net present value are applied. If alternative methods are applied, VERBUND bases the determination of fair value on the best available information that a hypothetical buyer would apply in an arm's length transaction. As a rule, the proportionate present value of estimated cash flows to be generated in the future from associates or joint ventures attributable to VERBUND is used to determine the value in use.

Investments and loans

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

Debt instruments and investment fund units are classified as "available for sale". As a rule, financial instruments fall under this category if they do not represent loans and receivables and are neither held to maturity nor measured at fair value through profit or loss. Acquisitions and disposals of investments are recognised at the trade date. Balance sheet recognition is at fair value, which, as a rule, is determined on the basis of quoted prices. These are Level 1 measurements as defined under IFRS 13. If prices are not available from active markets, fair value is determined on the basis of either directly (on the basis of market prices) or indirectly (derived from market prices) observable input data using accepted valuation models (Level 2 measurements). Market-induced changes in value are recognised in accordance with IAS 39 without effect on profit or loss in other comprehensive income until disposal or an impairment occurs. In contrast, any impairment losses are recognised in profit or loss (see: Recoverability of financial assets).

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

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

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

Trade receivables and other receivables

Current other receivables include derivatives and hedging instruments from the finance and energy area as well as temporary investments in the form of money market transactions. The latter are classified as loans and receivables. The other assets included in other current receivables are recognised at amortised cost. In addition, other current receivables include emission rights (see: Emission rights).

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

Recoverability of financial assets

In the case of equity instruments classified as “available for sale”, a significant (more than 20%) or prolonged (more than nine months) decrease in fair value below cost is to be regarded as an objective indication of impairment. Impairments are recognised in profit or loss.

Emission rights held by VERBUND in connection with CO₂ emissions at thermal power plants are accounted for in accordance with the accounting requirements in IAS 38, IAS 20 and IAS 37.

Emission rights

Emission rights are recognised on the allocation or acquisition date at fair value (in the case of emission rights allocated without exchange of consideration) or at cost (in the case of emission rights acquired for consideration). For emission rights allocated without exchange of consideration, an item of deferred income for the grant received is recognised at fair value (Level 1) – as a rule, based on the price quoted on the European Energy Exchange (EEX) – and reversed to profit or loss under fuel expenses as emission rights are consumed, amortised or sold. CO₂ emissions result in the “consumption” of emission rights, which is measured based on the weighted average price method and recognised in profit or loss under fuel expenses. The obligation to return is taken into account by recognising a corresponding amount in other liabilities. If cover is insufficient, VERBUND recognises an additional provision in the amount of the fair value of the missing emission rights.

Emission rights held for trading by VERBUND are measured through profit or loss under other revenue. According to the brokerage exemption for raw materials and commodity dealers, the measurement benchmark is fair value less costs to sell.

Inventories

Inventories of primary energy sources such as natural gas, coal and heating oil as well as additives and consumables are measured at the lower of cost or net realisable value at the reporting date. Net realisable value is determined based on planned electricity revenue, net of production costs to be incurred. The use of primary energy sources and raw materials, additives and consumables is determined using the moving average price method.

Inventories of natural gas held for trading by VERBUND are measured through profit or loss under other revenue. According to the brokerage exemption for raw materials and commodity dealers, the measurement benchmark is fair value (Level 1) less costs to sell. The fair value corresponds to the quoted price for front-month gas forwards on the Central European Gas Hub (CEGH) or NetConnect Germany (NCG).

Guarantees of origin and green electricity certificates

Guarantees of origin and green electricity certificates that are held for sale by VERBUND in the normal course of business are recognised in accordance with accounting requirements set forth under IAS 2 and IAS 20. Guarantees of origin and green electricity certificates are recognised as inventories when the legally enforceable rights are acquired (as a rule, production of electricity in certified power plants). Income from the allocation of certificates is presented under other operating income offset with the change in inventories from the disposal of certificates. Subsequent measurements are carried out at the lower net realisable value if necessary. Proceeds from the sale of guarantees of origin or green electricity certificates are recognised under other revenue.

Assets “held for sale” and discontinued operations

Non-current assets or disposal groups that include assets and liabilities are classified as “held for sale” if it is highly probable that their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. The assets or components of a disposal group are remeasured immediately before classification as “held for sale” in accordance with the Group’s other accounting methods. Afterwards, the assets and/or disposal groups are recognised at the lower of their carrying amount and their fair value less costs to sell.

An operating segment of VERBUND that (including its cash flows) can be clearly separated from the Group and which represents a separate major line of business or geographical area of operation, that is part of an individual coordinated plan to sell a separate major line of business or geographical area of operation, or that represents a subsidiary acquired solely with the intention of resale, is designated as a discontinued operation. The activities are classified as a discontinued operation when they are sold or as soon as the operating segment meets the criteria for classification as “held for sale” if this is the case sooner. If an operating segment is classified as a discontinued operation, the comparative information is adjusted in the income statement and statement of comprehensive income as if the operating segment had been classified as a discontinued operation from the beginning of the prior period.

Financial liabilities are initially recognised at their fair value (including transaction costs directly attributable to their issue), which as a rule corresponds to the actual amount received. Any premiums, discounts or other differences between the amount received and the redemption amount are allocated over the financing term and presented in interest expenses on an accrual basis using the effective interest method.

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

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

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

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

If grid rates are determined by a regulator on the basis of estimates of costs and/or revenues and lower or higher costs and/or revenues in the past are taken into account when determining rates in the future, the grid operator is entitled to charge the grid users higher prices as compensation for higher costs and/or lower revenues in future years; the grid operator is also obligated to refund the grid users for lower costs and/or higher revenues by charging lower prices. Such entitlements and/or obligations are referred to as regulatory assets and liabilities. Regulatory assets and liabilities may not be recognised in most cases because they mostly do not meet the general criteria for recognition under IFRSs.

With its Grid segment, VERBUND is subject to such a rate structure regulated by Energie-Control Austria für die Regulierung der Elektrizitäts- und Erdgaswirtschaft (E-Control). If the general criteria for recognition under IFRSs are not met, neither regulatory assets nor regulatory liabilities are recognised in the consolidated financial statements of VERBUND.

Financial liabilities

Financial guarantee contracts

Regulatory assets and liabilities

Pensions and similar obligations, statutory termination benefits and partial retirement obligations

Due to labour-management agreements and contracts, VERBUND is obligated under certain conditions to make pension payments to (former) employees after they retire based on their final salary. These defined benefit obligations are partially covered by pension plan assets at APK Pensionskasse AG (pension fund) earmarked for this purpose. A contractual trust arrangement (CTA and pension fund) was set up in order to secure the entitlements from the company pension plan for the employees of VERBUND Innkraftwerke GmbH, Innwerk AG and Grenzkraftwerke GmbH. VERBUND is 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 contractual trust arrangements are recognised as plan assets as defined under IAS 19 and offset with the provision for current pensions and vested pension benefits.

Provisions for current pensions, vested pension benefits and similar obligations are determined based on the projected unit credit method (PUC method) in accordance with IAS 19; remeasurements of the net liability – actuarial gains and losses and/or returns on plan assets, excluding expected interest income – are recognised under other comprehensive income in the year in which they arise.

With the exception of net interest expense, all expenses (and returns) related to these obligations are recognised under personnel expenses. Net interest expense is reported under interest expenses.

The pension obligations are determined on the basis of actuarial reports; the calculations are based on “AVÖ 2008 P – Actuarial Assumptions for Pension Insurance – Pagler & Pagler”.

Pension plan assets are invested in compliance with the provisions of the Austrian Pension Fund Act (Pensionskassengesetz, PKG) and the corresponding regulations of the Austrian Financial Market Authority (FMA).

Similar obligations relate to employer contributions for supplementary health insurance premiums to be paid after retirement. The provisions are determined in the same manner as provisions for pension obligations.

Employees whose service began on or before 31 December 2002 receive a lump sum termination benefit if their employment is terminated by the employer or when they retire, based on obligations under Austrian labour law. The amount of this payment depends on the number of years of service and the salary drawn at the time of termination or retirement. This obligation is measured in accordance with IAS 19 based on the PUC method with an accumulation period of 25 years, whereby remeasurements of the net liability are recognised immediately in other comprehensive income.

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

In connection with partial retirement models, employees are offered the opportunity to retire from the Company before they are entitled to draw a pension under the Austrian General Social Security Act (Allgemeines Sozialversicherungsgesetz, ASVG) and continue receiving a salary until they reach the statutory retirement age. This obligation is measured in accordance with IAS 19 based on the PUC method, whereby remeasurements of the net liability are recognised immediately through profit or loss. The measurement parameters mainly correspond to those for obligations similar to pension obligations. The resulting expenses to be recognised are presented under pension expenses.

There are also contractual trust arrangements (CTAs) for the purpose of securing credit balances from partial retirement models of employees of VERBUND Innkraftwerke GmbH and Innwerk AG. There is no obligation to provide additional funding. The CTA is recognised as plan assets as defined under IAS 19 and offset against the provision for partial retirement.

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

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

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

Non-current provisions are discounted if the present value of the expected settlement amount differs materially from the nominal value. In accordance with VERBUND’s accounting policies, all provisions to be utilised more than twelve months in the future are discounted as a general rule. The discount rate is a pre-tax interest rate adjusted to the specific risks of the liability. Accrued interest amounts are presented as interest expenses; any effects from changes in the interest rate are recognised in the operating result.

Other liabilities are measured at amortised cost. This also applies to the obligation to supply electricity under a 20-year electricity supply agreement that was incurred in connection with the acquisition of Kraftwerksgruppe Inn GmbH (now VERBUND Innkraftwerke GmbH) in the 2009 reporting period. This obligation is increased periodically by accrued interest and redeemed on an ongoing basis to the extent in which VERBUND is released from the commitment to supply electricity through delivery and/or passage of time. An unscheduled repayment of 60% of the obligation was made in 2013 as part of the acquisition of (additional) Bavarian hydropower plant capacities.

The obligation to transfer the 50% interest in Donaukraftwerk Jochenstein AG to the Free State of Bavaria without exchange of consideration assumed as part of the acquisition of (additional) Bavarian hydropower plant capacities is also measured at amortised cost. The expected fair value of the interest at the transfer date (31 December 2050) is calculated periodically and discounted based on the original effective interest rate (corresponding to the weighted average cost of capital at the acquisition date). Changes in the expected fair value of the interest are recognised in other financial result.

Provisions

Other liabilities

Government grants

Investment grants do not reduce the cost of assets for which they were granted, but instead lead to the recognition of an item of deferred income. They are recognised at fair value if it is sufficiently certain that VERBUND will meet the requirements for receiving the grant and that the grant will actually be provided. Amounts recognised as deferred income are reversed to profit or loss over the expected useful life of the respective asset.

Government grants related to income or expenses also lead to the recognition of a liability which is reversed to profit or loss in the periods in which the costs associated with the grant are incurred.

Contributions to building costs

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

Cross-border leasing transactions

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

Obligations under these transactions were entirely covered, i.e. both the equity portions and the loan portions, by a corresponding acquisition of securities (zero coupons, medium-term notes) or through loans to financial institutions.

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

A total of around 85% of the original volume of cross-border leasing transactions was terminated in the 2009 and 2010 reporting periods. VERBUND's last remaining transaction has an off-balance sheet financing structure (see: Other obligations and/or entitlements and risks). An item of deferred income was recognised for the present value of the economic benefit associated with this transaction and is reversed to profit or loss over the contractual term. Reversals are presented under other operating income.

Some of the cross-border leasing transactions were terminated early in their entirety; that is, all associated liabilities (A-loans and B-loans) and investments were repaid. Some of the cross-border leasing transactions were only partially terminated, whereby the transactions with investors and the associated A-loans were repaid, while VERBUND continued the existing B-loans. Consequently, the corresponding B-payment undertaking agreements and the corresponding investments were also continued. Therefore, balance sheet cover remains in place. The accounting balances denominated in foreign currency (exclusively US dollar) are measured at the exchange rate prevailing at the reporting date. Expenses and income from the measurement correspond to one another both in terms of value as well as with respect to the value date and are offset.

The financial investments and liabilities resulting from the cross-border leasing transactions that were terminated early continue to be presented separately in the notes to VERBUND's consolidated financial statements in order to improve clarity; all items are closed on the balance sheet.

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

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

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

Income tax rates applicable to subsidiaries		in %
	2015	2016
Austria	25.0	25.0
Bulgaria	10.0	–
Germany – partnerships ¹	12.25–12.95	12.25–12.95
Germany – limited companies ²	24.23–32.98	24.23–32.98
Romania	16.0	16.0
Spain	25.0	25.0

¹ The trade tax depends on the local multiplier, which varies from one municipality to another. // ² The corporate income tax rate shown also includes the solidarity surcharge and municipal trade tax.

Taxes on income

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

The tax group parent charges members of the tax group their attributable corporate tax amounts by means of tax allocation. In the event of a loss, domestic group members receive a tax credit. The allocated tax amounts are only adjusted subsequently if there are material differences. A liability from current tax liabilities is recognised in the amount of the expected future tax payment for the transfer of losses incurred by foreign group members if the requirements for subsequent taxation in the future are fulfilled. The expected future tax payment is not discounted.

The tax amortisation benefit resulting from the amortisation of goodwill (Section 9(7) of the 1988 Corporate Income Tax Act (Körperschaftsteuergesetz, KStG)) is treated as a temporary difference for shares in subsidiaries (outside basis difference).

Derivative financial instruments

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

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

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

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

within the meaning of IAS 39, the exemptions for own-use contracts no longer apply and the supplier contracts must be qualified as freestanding derivatives and recognised at fair value through profit or loss.

In order to limit and control existing foreign exchange and interest rate risks, individual derivative financial instruments are used in the finance area (in particular forward exchange transactions and interest rate swaps). With the exception of derivative financial instruments related to closed items on the balance sheet (see: Cross-border leasing transactions), interest rate swaps (swaps from variable to fixed interest) have been entered into to hedge the existing interest rate level or carrying amounts for the long term. Some of these interest rate swaps have been designated as cash flow hedges (see: Derivative financial instruments). Those interest rate swaps that hedge intragroup financing at the subsidiary level are recognised as derivatives in VERBUND's consolidated financial statements (measurement category: financial assets held for trading).

With respect to individual closed items on the balance sheet (see: Cross-border leasing transactions), the investments result in variable income that has to be seen alongside fixed expenses. In order to avoid risk, interest rate swaps have been entered into for the corresponding financial liabilities. These interest rate swaps exhibit a risk profile with respect to interest rate and foreign exchange risk that perfectly opposes the corresponding profile of the associated balance sheet items. Therefore, the carrying amount of the associated financial liabilities is adjusted according to the hedged risk to balance out the fair value measurement of the interest rate swaps.

The fair value of forward exchange transactions is based on the respective rates (foreign exchange rates and interest rate curves) prevailing at the reporting date. These are Level 2 measurements as defined under IFRS 13.

The fair value of interest rate swaps corresponds to the amount that VERBUND would receive or have to pay if the transaction were terminated on the reporting date, whereby current market conditions – in particular current interest rates, yield curves and counterparty credit risk – are taken into account. These are Level 2 measurements as defined under IFRS 13.

Within the framework of cash flow hedge accounting, VERBUND employs derivative financial instruments to hedge the price risk of future sales and procurement transactions. Forward and futures contracts as well as options are used as hedging instruments as defined under IAS 39.

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

Electricity, gas and CO₂ derivatives not designated as hedging instruments are allocated to the wholesale portfolio and measured at fair value through profit or loss.

The fair value changes of hedging instruments used within the framework of cash flow hedges are recognised without effect on profit or loss in other comprehensive income until the hedged item is realised. If a framework agreement with a netting arrangement has been entered into with a counterparty, the positive and negative fair values of the transaction are offset on the balance sheet (see: Financial instruments and risk management). Subsequently, measurement effects are netted with the results from the hedged item; thus, profit for the period is not expected to be affected.

**Hedging
relationships in the
finance area**

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

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

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 CO₂) are measured at fair value through profit or loss. The result from the measurement and realisation of these derivative energy trading contracts is presented net in electricity or gas revenue or in other revenue (CO₂).

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

The fair values of futures and forward contracts employed by VERBUND can be reliably measured at each reporting date because quoted prices are available for futures contracts at the respective exchanges (European Energy Exchange (EEX), Intercontinental Exchange (ICE), Central European Gas Hub (CEGH)) and forward contracts are measured with forward price curves derived from quoted prices based on a risk-free yield curve and taking counterparty credit risk into account. The options used by VERBUND are measured at the prices quoted on the EEX at the respective last trading day or derived from these quoted prices. The measurements of electricity, gas and CO₂ futures contracts are Level 1 measurements as defined under IFRS 13; the measurements of electricity, gas and CO₂ forward contracts are generally Level 2 measurements. The measurements of listed options are Level 1 measurements and OTC contracts are Level 2 measurements.

Revenue recognition

As a rule, revenue is realised at the time of delivery to the customer or when the service has been rendered. A delivery is regarded as having been performed when the significant risks and rewards associated with ownership are transferred to the buyer in accordance with the contractual agreement, payment – this is the fair value of the consideration received or receivable – has been specified by contract and the settlement of the trade receivable is probable. Revenue results mainly from the sale of electricity or gas to industrial and household customers, to energy supply companies, traders and electricity exchanges as well as grid services. Revenue from the delivery of electricity to large-scale customers is realised in the same way as revenue from energy trading and grid services, that is, at the performance date. For small-scale customers, revenue is recognised when the customer can be billed for receipt of a partial delivery. Revenue from grid services includes revenue from national grid rates granted by order of Energie-Control Austria für die Regulierung der Elektrizitäts- und Erdgaswirtschaft (E-Control) to cover grid costs, revenue from the auctioning off of bottlenecked cross-border capacities and revenue from inter-TSO compensation (ITC) to compensate for the costs of international electricity delivery.

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

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

Discretionary judgements and key assumptions concerning the future

The preparation of IFRS consolidated financial statements requires discretionary judgements in the evaluation of whether other entities are controlled or jointly managed by VERBUND or whether VERBUND can exert a significant influence on another entity and/or whether an entity represents a joint operation of VERBUND.

Other discretionary judgements relate to the application of accounting policies as well as the determination of assumptions regarding future developments on the part of management which can significantly influence the recognition and measurement of assets and liabilities, the disclosure of other commitments as at the reporting date and the presentation of income and expenses during the reporting period.

The primary discretionary judgements and key assumptions concerning the future on which the IFRS consolidated financial statements are based are described below.

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

The cost of equity is determined from a reference rate, market risk premium and beta factor using the capital asset pricing model (CAPM). The reference rate represents a de facto risk-free rate for an investment with matching maturities and is determined based on the yield curve for government bonds issued by the Deutsche Bundesbank (“Svensson Method”). The market risk premium corresponds to the premium required by an equity investor over the reference rate to hold the market portfolio. The beta factor measures the relationship between the price trend of an equity instrument and the market as a whole, and thus is a measure of its systematic risk. Equity shares of electric utilities and transmission system operators generally exhibit different beta factors. Beta factors from electric utilities are normally less volatile than the market as a whole, while those of transmission system operators are even more stable.

The cost of debt before tax corresponds to the return on debt instruments traded on the market with an equivalent risk of default and matching maturities.

In order to adequately reflect country risk, corresponding premiums are taken into account on the cost of equity and debt. Every country exhibits default risk to a greater or lesser extent. The capital market reflects this default risk through different yields for government bonds.

Determination of the weighted average cost of capital

Impairment testing of goodwill

In view of the volatile financial market environment, the development of capital costs (and in particular country risk premiums) is under continuous observation.

For the purpose of impairment testing, VERBUND's goodwill was allocated to the following cash-generating units or groups of cash-generating units:

Goodwill	€m	
	2015	2016
Renewable generation segment ¹	–	287.0
Sales segment ¹	–	13.0
Energy segment ¹	300.0	–
Run-of-river power plant group on the Inn River	280.4	280.4
Grenzkraftwerke run-of-river power plant group	161.1	161.1
Goodwill in VERBUND	741.5	741.5

¹ In the 2016 reporting period, the organisation of Group management was significantly revised. As a result, €300m in goodwill of the former Energy segment was allocated to the new segments. Further details can be found in the section entitled Segment reporting.

Impairment testing of goodwill for the Renewable Energy segment

	31/12/2016
Group of cash generating units	All hydraulic and wind energy power plants of VERBUND plus goodwill ¹
Basis for recoverable amount	Fair value (Level 3) less costs of disposal
Valuation technique	Sum-of-the-parts measurement based on a net present value approach (DCF method)
Derivation of cash flow	Budgets of VERBUND (based primarily on near-market data)
Volume	Average expected generation of the respective power plants
Price	External price forecasts (see: Accounting policies) and power plant-specific premiums or discounts (for example, the sale of guarantees of origin)
Planning period	Detailed planning phase: 6 years; rough planning phase: power plant-specific (up to 94 years for hydropower plants)
Key measurement assumptions	Electricity price, discount rate
Discount rate	WACC after taxes: 4.75% to 10.25% depending on the location
Impairment during the period ²	–

¹ The acquisition of VERBUND Innkraftwerke GmbH on 31 August 2009 resulted in goodwill in the amount of €580.4m, €300.0m of which was assigned to the Energy segment because this portion of the goodwill was monitored (and/or managed) at this level by management. As a result of the revision of Group management in the 2016 reporting period, €287.0m of this €300.0m was assigned to the new Renewable generation segment. Further details can be found in the section entitled Segment reporting. //

² Management believes the carrying amount of the Renewable generation segment's assets including goodwill will not exceed the recoverable amount as a result of potential changes in the key measurement assumptions.

Impairment testing of goodwill for the Sales segment

	31/12/2016
Group of cash generating units	All of VERBUND's sales activities plus goodwill ¹
Basis for recoverable amount	Fair value (Level 3) less costs of disposal
Valuation technique	Sum-of-the-parts measurement based on a net present value approach (DCF method)
Derivation of cash flow	Budgets of VERBUND (based primarily on near-market data)
Volume	Expected trading and distribution volumes
Price	Expected trading and distribution margins
Planning period	Detailed planning phase of 6 years and then terminal value phase (without growth rate)
Key measurement assumptions	Expected trading and sales volumes as well as trading and sales margins
Discount rate	WACC after taxes: 4.75%
Impairment during the period ²	–

¹ The acquisition of VERBUND Innkraftwerke GmbH on 31 August 2009 resulted in goodwill in the amount of €580.4m, €300.0m of which was assigned to the Energy segment because this portion of the goodwill was monitored (and/or managed) at this level by management. As a result of the revision of Group management in the 2016 reporting period, €13.0m of this €300.0m was assigned to the new Sales segment. Further details can be found in the section entitled Segment reporting. // ² Management believes the carrying amount of the Sales segment's assets including goodwill will not exceed the recoverable amount as a result of potential changes in the key measurement assumptions.

Impairment testing of goodwill for the Inn River run-of-river power plant group

	31/12/2015	31/12/2016
Group of cash generating units	Run-of-river power plants of the Inn River power plant group ¹ that also each represent a cash-generating unit, plus goodwill ²	Run-of-river power plants of the Inn River power plant group ¹ that also each represent a cash-generating unit, plus goodwill ²
Basis for recoverable amount	Fair value (Level 3) less costs of disposal	Fair value (Level 3) less costs of disposal
Valuation technique	Net present value approach (DCF method)	Net present value approach (DCF method)
Derivation of cash flow	VERBUND Innkraftwerke GmbH budgets (based mainly on near-market data)	VERBUND Innkraftwerke GmbH budgets (based mainly on near-market data)
Volume	Annual output corresponding to the mean energy capability of 1,856 GWh	Annual output corresponding to the mean energy capability of 1,856 or 1,975 GWh (after conclusion of the Töging modernisation project)
Price	External price forecasts (see: Accounting policies); discounts for generation characteristics and the hydrological forecast and availability risk; premium for additional proceeds from the sale of guarantees of origin derived from quoted price; consideration of the water charges based on official notices; estimate of the maintenance costs by the managers responsible	External price forecasts (see: Accounting policies); discounts for generation characteristics and the hydrological forecast and availability risk; premium for additional proceeds from the sale of guarantees of origin derived from quoted price; consideration of the water charges based on official notices; estimate of the maintenance costs by the managers responsible

Impairment testing of goodwill for the Inn River run-of-river power plant group

	31/12/2015	31/12/2016
Planning period	Detailed planning phase: 6 years, rough planning phase: 94 years (long-term reinvestment, repair and maintenance cycles for hydropower plants); (theoretical) possible exercise of reversion rights by the Free State of Bavaria was taken into account based on the current generation value of electricity generation	Detailed planning phase: 6 years, rough planning phase: 94 years (long-term reinvestment, repair and maintenance cycles for hydropower plants); (theoretical) possible exercise of reversion rights by the Free State of Bavaria was taken into account based on the current generation value of electricity generation
Key measurement assumptions	Electricity price, discount rate	Electricity price, discount rate
Discount rate	WACC after taxes: 5.00%	WACC after taxes: 4.50%
Carrying amount of the group	€1,024.6m	€935.6m
Recoverable amount exceeds the carrying amount by	€487.6m	€291.7m
Impairment during the period	–	–

¹ The run-of-river power plant group on the Inn River comprises the following run-of-river power plants: Aubach, Feldkirchen, Gars, Jettenbach I, Jettenbach II, Neuötting, Perach, Rosenheim, Stammham, Teufelsbruck, Töging, Wasserburg. // ² Goodwill in the amount of €580.4m was created as a result of the acquisition of VERBUND Innkraftwerke GmbH on 31 August 2009, €280.4m of which was allocated to the run-of-river power plant group on the Inn River because this portion of goodwill is monitored (and/or managed) at this level by management.

Sensitivity analysis for the Inn River run-of-river power plant group 31/12/2016¹

	Value assigned to the key valuation assumption	Change in value for the recoverable amount to equal the carrying amount
Price of electricity ²	€44.7/MWh	– 11.24%
Discount rate	4.50%	+0.76 pp

¹ In the sensitivity analysis, one key measurement assumption was changed at a time while the other factors of influence remained constant. However, in reality changes to the key measurement assumptions can also occur simultaneously. This can result in the amplification or (at least partial) neutralisation of the effects. // ² The electricity price shown relates to the year 2025. The sensitivity analysis varies the price of electricity steadily over time up to the planning horizon.

Sensitivity analysis for the Inn River the run-of-river power plant group 31/12/2015¹

	Value assigned to the key valuation assumption	Change in value for the recoverable amount to equal the carrying amount
Price of electricity ²	€71.1/MWh	– 20.00%
Discount rate	5.00%	+ 1.25PP

¹ In the sensitivity analysis, one key measurement assumption was changed at a time while the other factors of influence remained constant. However, in reality changes to the key measurement assumptions can also occur simultaneously. This can result in the amplification or (at least partial) neutralisation of the effects. // ² The electricity price shown relates to the year 2025. The sensitivity analysis varies the price of electricity steadily over time up to the planning horizon.

Impairment testing of goodwill for the Grenzkraftwerke run-of-river power plant group

	31/12/2015	31/12/2016
Group of cash generating units	Run-of-river power plants of the run-of-river power plant group ¹ that each represent a cash-generating unit plus goodwill and deferred tax liabilities that arose upon acquisition as a result of the purchase price allocation ²	Run-of-river power plants of the run-of-river power plant group ¹ that each represent a cash-generating unit plus goodwill and deferred tax liabilities that arose upon acquisition as a result of the purchase price allocation ²
Basis for recoverable amount	Fair value (Level 3) less costs of disposal	Fair value (Level 3) less costs of disposal
Valuation technique	Net present value approach (DCF method)	Net present value approach (DCF method)
Derivation of cash flow	Grenzkraftwerke GmbH's budgets (based primarily on near-market data)	Grenzkraftwerke GmbH's budgets (based primarily on near-market data)
Volume	Annual output corresponding to the mean energy capability of 3,900 GWh	Annual output corresponding to the mean energy capability of 3,957 GWh
Price	External price forecasts (see: Accounting policies); discounts for generation characteristics and the hydrological forecast and availability risk; premium for additional proceeds from the sale of guarantees of origin derived from quoted price; consideration of the water charges based on official notices; estimate of the maintenance costs by the managers responsible	External price forecasts (see: Accounting policies); discounts for generation characteristics and the hydrological forecast and availability risk; premium for additional proceeds from the sale of guarantees of origin derived from quoted price; consideration of the water charges based on official notices; estimate of the maintenance costs by the managers responsible
Planning period	Detailed planning phase: 6 years, rough planning phase: 94 years (long-term reinvestment, repair and maintenance cycles for hydropower plants)	Detailed planning phase: 6 years, rough planning phase: 94 years (long-term reinvestment, repair and maintenance cycles for hydropower plants)
Key measurement assumptions	Electricity price, discount rate	Electricity price, discount rate
Discount rate	Austria: WACC after taxes: 5.25% Germany: WACC after taxes: 5.00%	Austria: WACC after taxes: 4.75% Germany: WACC after taxes: 4.50%
Impairment losses in the period ³	–	–

¹ The Grenzkraftwerke run-of-river power plant group comprises the following power plants: Braunau-Simbach, Eggfling-Obernberg, Ering-Frauenstein, Jochenstein, Nußdorf, Oberaudorf-Ebbs, Passau-Ingling and Schärding-Neuhaus. // ² The goodwill created upon acquisition results solely from the different measurement of the tax amortisation benefit in the fair value of the run-of-river power plants and the deferred tax liabilities that can be allocated to the run-of-river power plants. While the tax amortisation benefit is discounted to present value, deferred tax liabilities are recognised in non-discounted amounts. In order to account for the origin of goodwill, the deferred tax liabilities attributed to the run-of-river power plants were taken into account when comparing the recoverable amount and carrying amount. // ³ According to management, the carrying amount of the Grenzkraftwerke power plant group (less deferred tax liabilities) plus goodwill does not exceed the recoverable amount as a result of possible changes in key measurement assumptions.

Impairment testing of power plants

Impairment test – Romanian wind farms

	31/12/2016 ¹
Cash-generating unit	Alpha, CAS and Ventus wind farms on the Romanian Black Sea coast (installed capacity: 81, 76 and 69 MW)
Indications of impairment	Updated electricity price forecasts and estimate of output as well as revised estimate with respect to the sales potential of Romanian green electricity certificates
Basis for recoverable amount	Fair value (Level 3) less costs of disposal
Valuation technique	Net present value approach (DCF method)
Derivation of cash flow	Alpha Wind S.R.L., CAS Regenerabile S.R.L. and Ventus Renew Romania S.R.L. budgets (based primarily on near-market data)
Volume	Annually expected electricity generation volumes ² of Alpha (174 GWh), CAS (164 GWh) and Ventus (139 GWh) and expected opportunities for selling Romanian green electricity certificates
Price	External price forecasts ³ (see: Accounting policies); estimates of maintenance costs based on maintenance agreements entered into
Planning period	Detailed planning phase 6 years, after which rough planning phase until the end of the useful life in the year 2038
Key measurement assumptions	Price forecasts for electricity and green electricity certificates, annually expected electricity generation volumes and opportunity to sell Romanian green electricity certificates, discount rate
Discount rate	WACC after taxes: 7.50%
Recoverable amount	Alpha: €32.5m, CAS: €35.6m, Ventus: €33.8m
Impairment losses in the period ⁴	Alpha: €– 18.7m, CAS: €– 15.8m, Ventus: €–22.7m

¹ As at 1 December 2015, no indications of impairment were identified. The last impairment test was conducted on 30 September 2015. This led to the recognition of an impairment loss on the Ventus wind farm in the amount of €5.3m. // ² On 30 June 2016, the generation volume of the Romanian wind farms was evaluated on the basis of now available historical figures (years 2013– 2015). As a consequence of this evaluation, since 30 June 2016 the presumed generation volume for the next few years is 174 GWh instead of 198 GWh (Alpha), 164 GWh instead of 184 GWh (CAS) and 139 GWh instead of 168 GWh (Ventus). Without this change in the estimate, the recoverable amount for the Romanian wind farms would have been €8.6m (Alpha), €7.6m (CAS) and €10.8m (Ventus) higher as at 30 December 2016. // ³ The impairment tests were based on the price forecasts of two reputable information service providers in the energy market. In contrast to previous valuations, since 30 June 2016 the tests applied the low case in the price forecasts of one of the two information service providers (previously: central case). The estimate was revised due to the lower price quotations in recent years on stock markets and the resulting lower expectations with respect to the long-term development of electricity prices. Without this change in the estimate, the recoverable amount for the Romanian wind farms would have been €24.8m (Alpha), €23.2m (CAS) and €20.0m (Ventus) higher as at 31 December 2016. // ⁴ For the 2016 reporting period, the impairment losses already recognised on 30 June 2016 were confirmed in the amount of €18.7m (Alpha), €15.8m (CAS) and €22.7m (Ventus).

Impairment test – Mellach combined cycle gas turbine power plant

	31/12/2015	31/12/2016
Cash-generating unit	Combined cycle gas turbine power plant (installed electrical capacity: 848 MW)	Combined cycle gas turbine power plant (installed electrical capacity: 848 MW)
Indications of a (reduction in) impairment	Updated electricity and/or gas price forecasts and updated discount rate	Updated electricity and/or gas price forecasts and updated discount rate
Basis for recoverable amount	Fair value (Level 3) less costs of disposal	Fair value (Level 3) less costs of disposal
Valuation technique	Net present value approach (DCF method)	Net present value approach (DCF method)
Derivation of cash flow	VERBUND Thermal Power GmbH & Co KG in Liqu. budgets (based mainly on near-market data)	VERBUND Thermal Power GmbH & Co KG in Liqu. budgets (based mainly on near-market data)

Impairment test – Mellach combined cycle gas turbine power plant

	31/12/2015	31/12/2016
Volume	Optimisation model with primary inputs: installed capacity, heat extraction (maximum 400 MW) and efficiency at full capacity (58.8%)	Optimisation model with primary inputs: installed capacity, heat extraction (maximum 400 MW) and efficiency at full capacity (58.8%)
Price	External price forecasts (see: Accounting policies); temporarily expected revenue from the strategic grid reserve, congestion management, redispatch, estimates of operating, maintenance and decommissioning costs by the responsible managers	External price forecasts ¹ (see: Accounting policies); temporarily expected revenue from the strategic grid reserve, congestion management, redispatch, estimates of maintenance and decommissioning costs by the responsible managers
Planning period	Total capacity averaging around 100,000 equivalent operating hours or until 2040 (dependent on earlier entry)	Total capacity averaging around 100,000 equivalent operating hours or until 2040 (dependent on earlier entry)
Key measurement assumptions	Development of clean spark spreads, discount rate, temporarily expected revenue from congestion management and redispatch	Development of clean spark spreads, discount rate, temporarily expected revenue from congestion management and redispatch
Discount rate	WACC after taxes: 5.25%	WACC after taxes: 4.75%
Recoverable amount	€40.4m	€24.7m
Impairment during the period ²	€–115.6m	€–15.9m

¹ The impairment tests were based on the price forecasts of two reputable information service providers in the energy market. In contrast to previous valuations, since 30 June 2016 the tests applied the low case in the price forecasts of one of the two information service providers (previously: central case). The estimate was revised due to the lower price quotations in recent years on stock markets and the resulting lower expectations with respect to the long-term development of electricity prices. Without this change in the estimate, the recoverable amount of the Mellach combined cycle gas turbine power plant would have been €26.7m higher as at 31 December 2016. // ² The impairment loss and/or reversal of impairment losses was reduced by the amount of change in deferred government grants. For the 2016 reporting period, the impairment already recognised on 30 June 2016 was confirmed in the amount of €15.9m.

Sensitivity analysis for the Mellach combined cycle gas turbine power plant 31/12/2016¹

	Value assigned to the key valuation assumption	Change in key valuation assumptions	Effects on the carrying amounts of assets
Clean spark spread ²	€47.7/MWh	± 5%	+13.2 Mio. € –13.2 Mio. €
Discount rate	4.75%	± 0.25 pp	–2.0 Mio. € +2.0 Mio. €
Temporarily expected revenue from congestion management and redispatch ³	88.0 €/MWh	± 10%	+2.4 Mio. € –2.4 Mio. €

¹ In the sensitivity analysis, one key measurement assumption was changed at a time while the other factors of influence remained constant. However, in reality changes to the key measurement assumptions can also occur simultaneously. This can result in the amplification or (at least partial) neutralisation of the effects. // ² The indicated clean spark spread relates to the average for the years 2025–2030. The sensitivity analysis varies the clean spark spread steadily over time up to the planning horizon. // ³ The temporarily expected revenue from congestion management and redispatch relates to the years 2017–2018. The sensitivity analysis varies the revenue steadily in this period.

Sensitivity analysis for the Mellach combined cycle gas turbine power plant 31/12/2015¹

	Value assigned to the key valuation assumption	Change in key valuation assumptions	Effects on the carrying amounts of assets
Clean spark spread ²	€45.4/MWh	± 5%	€+11.8m €– 11.8m
Discount rate	5.25%	± 0.25 pp	€– 1.0m €+1.0m
Temporarily expected revenue from congestion management and redispatch ³	€87.8/MWh	± 10%	€+11.5m €– 11.8m

¹ In the sensitivity analysis, one key measurement assumption was changed at a time while the other factors of influence remained constant. However, in reality changes to the key measurement assumptions can also occur simultaneously. This can result in the amplification or (at least partial) neutralisation of the effects. // ² The indicated clean spark spread relates to the average for the years 2025–2030. The sensitivity analysis varies the clean spark spread steadily over time up to the planning horizon. // ³ The temporarily expected revenue from congestion management and redispatch relates to the years 2016– 2021. The sensitivity analysis varies the revenue steadily in this period.

Impairment tests – Gössendorf and Kalsdorf run-of-river power plants

31/12/2016¹

Cash-generating unit	Each of the two Austrian run-of-river power plants represents a separate cash-generating unit
Indications of impairment	Updated electricity price forecasts and updated discount rate
Basis for recoverable amount	Fair value (Level 3) less costs of disposal
Valuation technique	Net present value approach (DCF method)
Derivation of cash flow	VERBUND Hydro Power GmbH's budgets (based primarily on near-market data)
Volume	Annual output corresponding to the mean energy capability of 89 GWh (Gössendorf) and 81 GWh (Kalsdorf)
Price	External price forecasts ² (see: Accounting policies); discounts for generation characteristics and hydrological forecast and availability risk; premium for additional proceeds from the sale of guarantees of origin derived from quoted prices; estimate of maintenance costs by managers responsible
Planning period	Detailed planning phase: 6 years, rough planning phase: 94 years (long-term reinvestment, repair and maintenance cycles for hydropower plants)
Key measurement assumptions	Electricity price, discount rate
Discount rate	WACC after taxes: 4.75%
Recoverable amount	Gössendorf: €30.1m Kalsdorf: €26,6m
Impairment losses in the period ³	Gössendorf: €–8.2m Kalsdorf: €–9.3m

¹ As at 31 December 2015, no indications of impairment were identified. // ² The impairment tests were based on the price forecasts of two reputable information service providers in the energy market. In contrast to previous valuations, since 30 June 2016 the tests applied the low case in the price forecasts of one of the two information service providers (previously: central case). The estimate was revised due to the lower price quotations in recent years on stock markets and the resulting lower expectations with respect to the long-term development of electricity prices. Without this change in the estimate, the recoverable amount for the run-of-river power plants would have been €15.8m (Gössendorf) and €14.1m (Kalsdorf) higher as at 31 December 2016. // ³ The impairment loss was reduced by the change in accrued contributions to building costs. For the 2016 reporting period, the impairment losses already recognised on 30 June 2016 were confirmed in the amount of €8.2m (Gössendorf) and €9.3m (Kalsdorf).

Impairment test – Shkodra Region Beteiligungsholding GmbH

	31/12/2015	31/12/2016
Cash-generating unit	VERBUND and EVN AG joint venture that holds 100% of the interest in Ashta Shpk, which in turn operates a two-stage Hydromatrix power plant (installed capacity: 53 MW) in Albania	VERBUND and EVN AG joint venture that holds 100% of the interest in Ashta Shpk, which in turn operates a two-stage Hydromatrix power plant (installed capacity: 53 MW) in Albania
Indications of a (reduction in) impairment	Settlement of all outstanding receivables by Korporata Elektroenergetike Shqiptare (KESH)	Updated electricity price forecasts and updated discount rate
Basis for recoverable amount	Fair value (Level 3) less costs of disposal	Fair value (Level 3) less costs of disposal
Valuation technique	Net present value approach (DCF method)	Net present value approach (DCF method)
Derivation of cash flow	Budgets of Energji Ashta Shpk	Budgets of Energji Ashta Shpk
Volume	The annual output corresponding to the mean energy capability of 242 GWh	The annual output corresponding to the mean energy capability of 242 GWh
Price	2016–2027: Electricity prices based on the purchase agreement with KESH 2028–2043: External price forecasts (see: Accounting policies)	2017–2027: Electricity prices based on the purchase agreement with KESH 2028–2043: External price forecasts ¹ (see: Accounting policies)
Planning period	Detailed planning phase: 1 year; rough planning phase: 27 years (long-term reinvestment, repair and maintenance cycles for hydropower plants)	Detailed planning phase: 1 year; rough planning phase: 26 years (long-term reinvestment, repair and maintenance cycles for hydropower plants)
Key measurement assumptions	Electricity price forecasts and discount rate	Electricity price forecasts and discount rate
Discount rate	WACC after taxes (2016–2027): 13.00% WACC after taxes (2028–2043): 14.00%	WACC after taxes (2017–2027): 9.50% WACC after taxes (2028–2043): 10.25%
Recoverable amount ²	€–22.2m	€–15.8m
Reversal of impairment losses of the period ³	€13.3m	€5.0m

¹ The impairment tests were based on the price forecasts of two reputable information service providers in the energy market. In contrast to previous valuations, the tests applied the low case in the price forecasts of one of the two information service providers since 30 June 2016 (previously: central case). The estimate was revised due to the lower price quotations in recent years on exchanges and the resulting lower expectations with respect to the long-term trend in electricity prices. Without this change in the estimate, the recoverable amount of Shkodra Region Beteiligungsholding GmbH would have been €1.4m higher on 31 December 2016. // ² The carrying amount of the equity interest in Shkodra Region Beteiligungsholding GmbH was reduced to zero in the 2013. However, VERBUND also holds non-current loans to Shkodra Region Beteiligungsholding GmbH which, based on their economic substance, represent an increase in the net investment in Shkodra Region Beteiligungsholding GmbH. // ³ A reversal of impairment losses in the amount of €0.7m was already recognised on 30 June 2016 in the reporting period. As at 31 December 2016, the reversal of impairment losses recognised during the year increased to €5.0m.

Effective 22 August 2014, VERBUND sold 40% of its 50% equity interest in Gemeinschaftskraftwerk Inn GmbH to TIWAG-Tiroler Wasserkraft AG. As part of this transaction, TIWAG-Tiroler Wasserkraft AG granted VERBUND a put and a call option: VERBUND can sell its remaining 10% equity interest in Gemeinschaftskraftwerk Inn GmbH to TIWAG-Tiroler Wasserkraft AG or increase its 10% equity interest to 25% between 1 June 2018 and 30 June 2018 by acquiring shares in TIWAG-Tiroler Wasserkraft AG. The strike price for the two options corresponds to the investment costs incurred up to that point plus interest for the power plant joint venture on the Inn River.

The significant non-observable input factors underlying the determination of fair value included electricity price forecasts and the discount rate (for calculating the value of the underlying asset).

**Impairment testing
of equity-accounted
interests**
**Measurement of the
long position:
Gemeinschafts-
kraftwerk Inn GmbH**

Sensitivity analysis for significant, non-observable input factors 31/12/2016¹

€m

	Assumption	Change in assumption	If assumption increases, financial result changes by	If assumption decreases, financial result changes by
Price of electricity ²	€44.7/MWh	± 5%	4.5	-3.7
Discount rate	4.75%	± 0.25 pp	-3.2	6.0

¹ In the sensitivity analysis, one non-observable input factor was changed at a time while the other factors of influence remained constant. However, in reality changes in the non-observable inputs can also occur simultaneously. This can result in the amplification or (at least partial) neutralisation of the effects. // ² The electricity price shown relates to the year 2025. The sensitivity analysis varies the price of electricity steadily over time up to the planning horizon.

Sensitivity analysis for significant non-observable input factors 31/12/2015¹

€m

	Assumption	Change in assumption	If assumption increases, financial result changes by	If assumption decreases, financial result changes by
Price of electricity ²	€71.1/MWh	± 5%	4.7	-4.2
Discount rate	5.25%	± 0.25 pp	-4.5	5.8

¹ In the sensitivity analysis, one non-observable input factor was changed at a time while the other factors of influence remained constant. However, in reality changes in the non-observable inputs can also occur simultaneously. This can result in the amplification or (at least partial) neutralisation of the effects. // ² The electricity price shown relates to the year 2025. The sensitivity analysis varies the price of electricity steadily over time up to the planning horizon.

**Measurement of
pensions and similar
obligations and
statutory termination
benefits**

Existing provisions for pensions and similar obligations as well as obligations from termination benefits (carrying amount as at 31 December 2016: €723.2m; previous year: €727.7m) were measured based on assumptions and estimates as at the reporting date. The key factors of influence included the discount rate, the estimated retirement age and the estimated life expectancy as well as future increases in salaries and pension benefits:

Actuarial assumptions for pension obligations

	2015	2016
Discount rate or expected rate of return from plan assets	2.00%	1.50%
Pension increases	2.25%	1.75%
Salary increases	2.25%	1.75%
Employee turnover	None	None
Longevity based on life table	Pagler & Pagler AVÖ 2008-P	Pagler & Pagler AVÖ 2008-P

Actuarial assumptions for obligations similar to pensions

	2015	2016
Discount rate	2.25%	1.75%
Employee turnover (depending on duration of employment)	0.0%–4.0%	0.0%–4.0%
Trend of contributions based on hospital cost index for new contracts (with participation) / old contracts (without participation)	4.0%–6.5%	4.0%–6.5%
Longevity based on life table	Pagler & Pagler AVÖ 2008-P	Pagler & Pagler AVÖ 2008-P

Actuarial assumptions for termination benefit obligations

	2015	2016
Discount rate	2.00%	1.50%
Salary increases	2.25%	1.75%
Employee turnover (depending on duration of employment)	0.0%–4.0%	0.0%–4.0%
Longevity based on life table	Pagler & Pagler AVÖ 2008-P	Pagler & Pagler AVÖ 2008-P

VERBUND is exposed to investment risk, interest rate risk, life expectancy risk and salary risk as well as the risk of price increases and employee turnover risk based on the existing pension and similar obligations as well as obligations from statutory termination benefits. Investment risk is reduced by the investment strategy, which is based on the requirements of the Austrian Pension Fund Act (Pensionskassengesetz, PKG) and the corresponding regulations of the Austrian Financial Market Authority (FMA). Nevertheless, investment income below the level of returns on first class fixed interest corporate bonds can lead to an increase in obligations. A decrease in returns on first class fixed interest corporate bonds, an increase in life expectancy, salary increases and price increases in the area of medical care would also lead to an increase in obligations. Furthermore, obligations would increase if the future actual employee turnover rate were to be lower than currently anticipated.

The following sensitivity analyses for pensions and similar obligations as well as obligations from termination benefits show the effects resulting from changes in significant actuarial assumptions on the obligations. One significant factor of influence was changed in each case, while the remaining factors were held constant. However, in reality it is rather unlikely for changes in the primary factors of influence to occur in isolation. The change in the obligation was calculated in a manner comparable with the calculation of the actual obligation based on the projected unit credit method (PUC method) in accordance with IAS 19.

Sensitivity analysis for net pension liability 2016

	Change in assumption in percentage points or years	If assumption increases, change in net liability of	If assumption decreases, change in net liability of
Discount rate	± 0.25	–3.02%	3.19%
Pension increases	± 0.50	6.51%	–5.90%
Longevity based on life table	± 1 year	5.27%	–5.42%

Sensitivity analysis for obligations similar to pensions 2016

	Change in assumption in percentage points or years	If assumption increases, change in obligation of	If assumption decreases, change in obligation of
Discount rate	± 0.25	-4.33%	4.63%
Trend of contributions based on hospital cost index	± 0.50	9.17%	-7.65%
Longevity based on life table	± 1 year	5.73%	-5.70%

Sensitivity analysis for termination benefit obligations 2016

	Change in assumption in percentage points or years	If assumption increases, change in obligation of	If assumption decreases, change in obligation of
Discount rate	± 0.25	-1.91%	1.97%
Salary increases	± 0.50	3.89%	-3.68%
Longevity based on life table	± 1 year	0.06%	-0.07%

Sensitivity analysis for net pension liability 2015

	Change in assumption in percentage points or years	If assumption increases, change in net liability of	If assumption decreases, change in net liability of
Discount rate	± 0.25	-3.00%	3.15%
Pension increases	± 0.50	6.44%	-5.86%
Longevity based on life table	± 1 year	5.05%	-4.08%

Sensitivity analysis for obligations similar to pensions 2015

	Change in assumption in percentage points or years	If assumption increases, change in obligation of	If assumption decreases, change in obligation of
Discount rate	± 0.25	-4.30%	4.54%
Trend of contributions based on hospital cost index	± 0.50	9.07%	-8.11%
Longevity based on life table	± 1 year	5.54%	-5.57%

Sensitivity analysis for termination benefit obligations 2015

	Change in assumption in percentage points or years	If assumption increases, change in obligation of	If assumption decreases, change in obligation of
Discount rate	± 0.25	-1.98%	2.04%
Salary increases	± 0.50	4.03%	-3.81%
Longevity based on life table	± 1 year	0.06%	-0.08%

Provisions for onerous contracts (carrying amount as at 31 December 2016: €8.0m; previous year: €24.0m) were measured based on assumptions and estimates as at the reporting date. Provisions for onerous contracts were recognised for onerous district heating supply commitments. The primary factors of influence were the prices for electricity and primary energy, the costs for district heating replacement purchases in the event of a disruption at the power plant providing district heating, emission rights and the discount rate of 1.75% (previous year: 2.50%).

Provisions for dismantling and decontamination costs (carrying amount as at 31 December 2016: €26.6m; previous year: €24.2m) were measured based on assumptions and estimates made on the reporting date. The primary factors of influence were the expected dismantling dates, any possible expert reports to ascertain the dismantling and decontamination costs or proceeds from the sale of scrap, the valorisation of these costs and the discount rate of 1.75% (previous year: 2.50%).

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

Due to the circumstances and fact that Ennskraftwerke Aktiengesellschaft's operations are solely geared towards supplying both parties with electricity produced at production cost (including a fixed profit margin) and therefore the liabilities entered into by Ennskraftwerke Aktiengesellschaft can essentially only be settled through the payments flowing to it as a result of the sale of the electricity to the parties, the equity interest in Ennskraftwerke Aktiengesellschaft (equity interest ratio of VERBUND and Energie AG Oberösterreich: 50:50) must be classified as a joint operation. As a result, Ennskraftwerke Aktiengesellschaft is being included in the consolidated financial statements with the share of assets and liabilities and/or revenue and expenses attributable to VERBUND. The size of the share is determined based on the relationship of electricity deliveries to both parties. Ennskraftwerke Aktiengesellschaft owns and operates hydropower plants along the Enns and Steyr rivers. The ratio of electricity deliveries to the two parties differs from power plant to power plant. From a cost-benefit perspective, the assets and liabilities and/or revenue and expenses of Ennskraftwerke Aktiengesellschaft based on the average ratio of total electricity deliveries (VERBUND 62% and Energie AG 38%) are included in VERBUND's consolidated financial statements.

Measurement of provisions

Contingent liabilities

Joint operation: Ennskraftwerke Aktiengesellschaft

Segment reporting

Segmentation

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

Group management was substantially restructured as part of the internal "Controlling Excellence" project. Since quarter 1/2016, segment performance has primarily been measured for internal purposes based on EBITDA. In addition, since quarter 1/2016, the Group Executive Board has been measuring performance at the level of the Renewable generation, Sales, Grid, Energy services, Thermal generation, Equity interests and Services segments.

Hydropower and wind generation technologies are brought together under the Renewable generation segment. The Sales segment comprises all trading and sales activities, and the Grid segment comprises all activities of Austrian Power Grid (APG). The new services for the electricity market of the future (e.g. convenience services, energy optimisation and electromobility) are reported under the Energy services segment. Electricity and heat generation from coal and gas are reported under the Thermal generation segment. The primarily intra-Group business activities of VERBUND Services GmbH are reported under the Services segment. Interests accounted for using the equity method which have not been allocated to any other segment are reported under the Equity interests segment. This currently only comprises the equity interest in KELAG-Kärntner Elektrizitäts-Aktiengesellschaft.

The Energy services, Thermal generation, Equity interests and Services segments have been combined in the "All other segments" category in the segment reporting below because they fall below the quantitative thresholds. The "Reconciliation/consolidation" column includes the activities of VERBUND AG and VERBUND Finanzierungsservice GmbH as well as unconsolidated equity interests that have not been allocated to a segment and consolidations which must be carried out at Group level.

In the past, goodwill in the amount of €300.0m was allocated to the Energy segment. The restructuring of Group management resulted in this goodwill having to be allocated to the new segments. The reallocation was carried out on the basis of the relative carrying amounts before the restructuring of Group management. Since the previous Energy segment was essentially split into the Renewable generation and Sales segments, goodwill in the amount of €287.0m was allocated to the Renewable generation segment and goodwill of €13.0m to the Sales segment.

Segment information from the previous year has been adjusted to reflect this revised segment structure.

Notes to the operating segment data

The internal measurement of the operating segments' performance is based primarily on earnings before interest, tax, depreciation and amortisation (EBITDA). EBITDA for each operating segment corresponds to the aggregate EBITDA of the subsidiaries included in the respective segment, taking inter-segmental revenue and expenses into account. Transactions between segments are carried out at arm's length.

Furthermore, the result from interests accounted for using the equity method is of significance for the Equity interests segment.

The measure used internally for the reporting of segment assets is capital employed. Capital employed corresponds to the total assets of an operating segment, net of those assets that do not (yet) contribute to VERBUND's performance and commercialisation processes (for instance, advance payments made, plants under construction, investments under closed items on the balance sheet) and less non-interest-bearing debt.

Other material non-cash items included in the operating result in addition to depreciation of property, plant and equipment and amortisation of intangible assets include, in particular, measurement effects from derivatives and hedging relationships in the energy area, reversals of the deferred income item from contributions to building costs, non-cash changes in provisions and any write-downs of primary energy sources in inventory.

Additions to intangible assets and property, plant and equipment include capital expenditure as well as increases due to any business acquisitions. Additions to equity interests accounted for using the equity method include capital increases as well as any share purchases.

All segment data are measured in accordance with IFRSs.

Operating segment data

	Renewable generation	Sales	Grid	All other segments	Reconciliation/consolidation	Total Group
2016						
External revenue	124.7	2,010.6	617.7	40.0	3.0	2,795.9
Internal revenue	811.1	188.6	94.4	157.1	-1,251.2	0.0
Total revenue	935.8	2,199.1	712.1	197.0	-1,248.2	2,795.9
EBITDA	542.8	120.4	248.3	165.2	-32.5	1,044.2
Depreciation	-252.8	-1.8	-74.7	-9.5	-0.6	-339.3
Effects from impairment tests (operating result)	-74.9	0.0	0.0	-14.9	0.0	-89.8
Other material non-cash items	69.4	-61.9	12.8	153.8	-11.9	162.2
Result from interests accounted for using the equity method	1.5	0.0	0.1	28.9	0.0	30.5
Effects from impairment tests (financial result)	5.0	0.0	0.0	0.0	0.0	5.0
Capital employed	7,107.6	203.5	1,239.1	355.8	-25.2	8,880.8
of which carrying amount of interests accounted for using the equity method	2.5	0.0	1.3	278.1	0.0	281.9
Additions to intangible assets and property, plant and equipment	115.5	0.7	147.3	5.5	0.7	269.7
Additions to interests accounted for using the equity method	0.0	0.0	0.0	1.2	0.0	1.2

Operating segment data

Operating segment data

€m

	Renewable generation	Sales	Grid	All other segments	Recon- ciliation/ consoli- dation	Total Group
2015						
External revenue	136.3	2,067.8	724.7	25.5	15.3	2,969.6
Internal revenue	892.3	277.3	108.6	190.8	-1,469.0	0.0
Total revenue	1,028.6	2,345.2	833.2	216.3	-1,453.7	2,969.6
EBITDA	605.2	111.7	253.0	-19.2	-62.0	888.7
Depreciation	-272.7	-1.8	-72.8	-12.2	-0.6	-360.0
Effects from impairment tests (operating result)	-5.3	0.0	0.0	-112.7	0.0	-118.0
Other material non-cash items	55.6	-1.5	67.7	-3.5	-23.4	94.8
Result from interests accounted for using the equity method	0.9	0.0	0.0	26.4	0.0	27.3
Effects from impairment tests (financial result)	13.3	0.0	0.0	0.0	0.0	13.3
Capital employed	6,864.2	265.3	1,097.8	249.3	204.4	8,681.0
of which carrying amount of interests accounted for using the equity method	2.4	0.0	1.3	264.1	0.0	267.8
Additions to intangible assets and property, plant and equipment	162.8	0.1	114.0	6.7	1.0	284.6
Additions to interests accounted for using the equity method	6.0	0.0	0.0	3.5	0.0	9.5

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

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

Reconciliation

Reconciliation from capital employed to total assets		€m
	2015	2016
Capital employed	8,681.0	8,880.8
Assets not used in the performance and commercialisation process	1,103.8	547.8
Non-interest-bearing debt	1,978.2	2,109.6
Total assets of VERBUND	11,763.0	11,538.2

Under IFRS 8, entity-wide disclosures include geographical segment reporting for revenue (based on the point of delivery) and non-current assets. In addition, information on major customers must be provided.

Entity-wide disclosures

VERBUND does not have any customers for whom revenue equals or exceeds 10% of total revenue.

Geographical segment reporting: revenue		€m
	2015	2016
Domestic deliveries of electricity	1,061.5	1,001.5
Electricity deliveries abroad	1,274.9	1,212.4
of which in Germany	1,072.9	1,023.1
of which in other EU countries	197.1	179.0
of which in other countries	4.8	10.3
Electricity revenue	2,336.4	2,213.9
Domestic grid services	355.8	303.2
Foreign grid services	83.8	91.8
of which in EU member states	83.8	89.6
of which in other countries	0.0	2.3
Grid revenue	439.6	395.0
Domestic other revenue	187.0	181.5
Foreign other revenue	6.6	5.5
Other revenue	193.6	187.0
Total revenue	2,969.7	2,795.9

Geographical segment reporting: non-current assets

€m

	2015	2016
Intangible assets and property, plant and equipment	10,006.6	9,821.9
of which in Austria	6,830.2	6,814.4
of which in Germany	2,993.6	2,899.9
of which in other EU countries	182.8	107.6
Interests accounted for using the equity method	267.8	281.9
of which in Austria	266.6	281.4
of which in Germany	1.2	0.5
of which in other countries ¹	0.0	0.0

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

Notes to the income statement

(1)
Electricity revenue

Electricity revenue by customer areas

€m

	2015 Domestic	2016 Domestic	2015 Foreign	2016 Foreign
Electricity deliveries to resellers	592.4	573.8	201.2	373.6
Electricity deliveries to traders	56.0	70.4	880.7	465.2
Electricity deliveries to end consumers	413.1	357.3	193.0	373.6
Electricity revenue ¹	1,061.5	1,001.5	1,274.9	1,212.4

¹ In order to present the business performance more accurately, revenue from energy trading is shown as a net amount, i.e. amounts realised and measured are each presented net of expenses. Without this net presentation, electricity revenue (and expenses for the purchase of electricity) would have been €1,139.7m higher in the 2016 reporting period (previous year: €2,176.6m).

In the 2016 reporting period, the Permanent Court of Arbitration of the Vienna Economic Chamber decided that, based on the existing electricity purchase agreements related to the Melk, Greifenstein and Freudenu power plants on the Danube, VERBUND is not entitled to also bill EVN AG for proportionate expenses for system services fees, grid loss fees or fees for the provision of primary control energy as electricity purchase costs as long as the so-called Peage agreements remain in place. As a consequence of this decision, corresponding credit notes must be issued for the fees that have already been billed. This led to an expense of €6.7m in the 2016 reporting period that was recognised under electricity deliveries to resellers.

Grid revenue by customer areas

	€m			
	2015 Domestic	2016 Domestic	2015 Foreign	2016 Foreign
Electric utilities ¹	279.3	246.0	3.1	4.7
Industrial clients	17.3	18.3	0.0	0.0
Other	59.2	38.9	80.8	87.2
Grid revenue	355.8	303.2	83.8	91.8

¹ In the previous year provisions for electricity and grid deliveries in the amount of €37.1m and valuation allowances on receivables in the amount of €3.3m were reversed as a result of legal settlements.

**(2)
Grid revenue****Other revenue**

	€m	
	2015	2016
Revenue from the sale of gas ¹	110.4	102.0
Revenue from the sale of proof of origin and green electricity certificates	25.8	26.5
Revenue from district heating deliveries	18.1	32.2
Revenue from consulting or planning services as well as from other services	20.1	10.7
User and management fees	6.8	6.5
Provision of personnel	3.6	2.9
Revenue from the sale of waste products	1.2	1.1
Revenue from the sale of emission rights	3.7	4.0
Other	3.8	1.1
Other revenue	193.6	187.0

¹ In order to present the business performance more accurately, revenue from energy trading is shown as a net amount, i.e. amounts realised and measured are each presented net of expenses. Without this net presentation, revenue from the sale of gas (and expenses for the purchase of gas) would have been €968.2m higher in the 2016 reporting period (previous year: €1,101.7m)

**(3)
Other revenue****Other operating income**

	€m	
	2015	2016
Income from the settlement of outstanding issues existing between VERBUND and EconGas GmbH	0.0	118.0
Changes in inventory and own work capitalised	26.2	25.9
Income from various goods and services	14.4	13.8
Reversals of contributions to building costs	9.3	5.6
Income from (insurance) compensation	5.6	3.8
Income from the disposal of property, plant and equipment and intangible assets	6.1	3.3
Income from the sale of materials	3.2	0.6
Rent and lease income	2.5	2.3
Planned reversals of the deferred income item from cross-border leasing	1.6	1.6
Other	1.6	4.2
Other operating income	70.5	179.0

**(4)
Other operating income**

In the 2016 reporting period, VERBUND and EconGas GmbH settled various outstanding issues related to gas deliveries for the Mellach combined cycle gas turbine power plant. The natural gas supply agreement signed on 24 June 2008 is no longer in effect. The parties have agreed not to discuss the terms of the agreement.

Due to the termination of the natural gas supply agreement, the freestanding derivative recognised since 2012 and provisions reported on the balance sheet were required to be derecognised/reversed.

(5)
Expenses for
electricity, grid, gas
and certificates
purchases

Expenses for electricity, grid, gas and certificates purchases		€m
	2015	2016
Expenses for electricity purchases	1,108.7	962.5
Expenses for grid purchases (system use)	182.7	253.4
Expenses for gas purchases ¹	120.4	105.6
Expenses for proof of origin and green electricity certificate purchases	0.4	2.6
Purchase of emission rights (trade)	3.6	4.0
Expenses for electricity, grid, gas and certificates purchases	1,415.8	1,328.1

¹ VERBUND and EconGas GmbH have entered into a long-term natural gas supply agreement which, as a consequence of its management, had to be classified as a freestanding derivative and recognised at fair value through profit or loss. In the 2016 reporting period, expenses arising from the measurement of the freestanding derivative amounting to €9.8m (previous year: €8.4m) were recognised before the outstanding issues existing between VERBUND and EconGas GmbH related to gas deliveries for the Mellach combined cycle gas turbine power plant were settled (see: (4) Other operating income and/or (35) Additional disclosures regarding financial instruments in accordance with IFRS 7).

(6)
Fuel expenses and
other usage-
dependent expenses

Fuel expenses and other usage-dependent expenses		€m
	2015	2016
Use of natural gas	58.4	41.0
Use of coal and heating oil	52.5	1.1
Emission rights acquired in exchange for consideration	11.9	5.5
Other usage-dependent expenses	15.8	14.1
Fuel expenses and other usage-dependent expenses	138.7	61.7

(7)
Personnel expenses

Personnel expenses		€m
	2015	2016
Wages and salaries	254.5	243.1
Expenses for social security contributions as required by law as well as income-based charges and compulsory contributions	56.7	54.9
Other social expenses	3.7	3.6
Subtotal	314.9	301.6
Expenses for pensions and similar obligations	13.5	6.6
Expenses for termination benefits	4.5	5.4
Personnel expenses	332.9	313.6

The pension fund contributions to the defined contribution investment and risk association amounted to €7.5m (previous year: €8.0m) in the 2016 reporting period. Expenses for termination benefits included a total of €1.4m (previous year: €1.4m) in contributions to an employee provision fund.

Other operating expenses

	€m	
	2015	2016
Third-party maintenance of power plants and line systems	75.7	66.8
Other third-party services received	19.7	23.1
Advertising expenses	15.9	15.8
IT expenses	11.8	12.8
Legal, consulting and audit expenses	10.2	12.7
Expenses for supervision by E-Control	12.9	12.1
Costs for personnel provided, temporary personnel	7.7	9.5
Travel expenses, advanced training	9.2	9.3
Rental, lease expenses	7.2	7.2
Compensation payments	5.6	6.4
Material costs for motor vehicle operation and maintenance	7.6	5.9
Fees	3.8	4.9
Operating costs	3.8	4.7
Insurance	5.3	4.1
Purchased telecommunication services	3.7	3.7
Membership fees	3.2	3.4
Concession fees	2.7	2.7
Expenses from the disposal of property, plant and equipment and intangible assets	10.1	2.5
Reversal of provisions	-0.7	-0.6
Other	48.8	20.0
Other operating expenses	264.1	227.2

**(8)
Other operating
expenses****Depreciation of property, plant and equipment and amortisation of intangible assets**

	€m	
	2015	2016
Depreciation of property, plant and equipment	353.0	332.5
Amortisation of intangible assets	7.1	6.9
Depreciation of property, plant and equipment and amortisation of intangible assets	360.0	339.3

**(9)
Depreciation of
property, plant and
equipment and
amortisation of
intangible assets**

(10)
Impairment losses
and reversals of
impairment losses

Impairment losses		€m
	2015	2016
Romanian wind farms	5.3	57.2
Gössendorf and Kalsdorf run-of-river power plants	0.0	17.6
Deferred grants for the Gössendorf and Kalsdorf run-of-river power plants	0.0	-1.0
Mellach combined cycle gas turbine power plant	115.6	15.9
Deferred grants for the Mellach combined cycle gas turbine power plant	-3.1	-0.4
Other impairment losses	0.1	1.7
Impairment losses	118.0	90.8

Reversals of impairment losses in the 2016 reporting period relate entirely to a property in Korneuburg.

(11)
Result from interests
accounted for using
the equity method

In the 2016 reporting period and the previous year, the result from interests accounted for using the equity method can be mainly attributed to the positive result of KELAG-Kärntner Elektrizitäts-Aktiengesellschaft, which operates internationally and also provides electricity, gas and heat to customers throughout Austria with a focus on Carinthia.

(12)
Other result from
equity interests

Other result from equity interests		€m
	2015	2016
Income from equity interests and unconsolidated subsidiaries	10.6	12.3
Income from the disposal of equity interests and unconsolidated subsidiaries	0.3	0.0
Expenses arising from equity interests and unconsolidated subsidiaries	-4.0	-4.7
Expenses from the disposal of equity interests and unconsolidated subsidiaries	0.0	-1.6
Other result from equity interests	6.9	6.0

(13)
Interest income

Interest income		€m
	2015	2016
Interest from investments under closed items on the balance sheet	28.8	28.9
Interest from money market transactions	0.6	0.2
Other interest and similar income	2.2	2.0
Interest income	31.7	31.1

Interest expenses

	€m	
	2015	2016
Interest for bonds	63.9	50.5
Interest for bank loans	31.0	21.6
Interest for financial liabilities under closed items on the balance sheet	28.5	28.9
Interest for other liabilities from electricity supply commitments	17.5	17.1
Net interest expense on personnel-related liabilities	15.9	15.5
Interest on a share redemption obligation	6.5	6.3
Interest for other non-current provisions	1.5	2.1
Expenses from the repurchase of bonds ¹	23.8	0.0
Profit or loss attributable to limited partners	0.2	-0.3
Borrowing costs capitalised in accordance with IAS 23	-13.6	-12.3
Other interest and similar expenses	9.0	6.0
Interest expenses	184.2	135.2

¹ In the course of VERBUND's active balance sheet management, debt securities with a principal amount totalling €156.5m that were associated with the 2009–2019 bond were repurchased in the previous year. The repurchased debt securities were retired and cancelled. The difference between the carrying amount of the derecognised financial liabilities amounted to €23.8m.

This line item mainly includes income from dividends distributed by investment funds, income from investments in securities and measurement results from financial instruments recognised in profit or loss. Investments in investment funds were originally made, in particular, to cover provisions for pension obligations; in the meantime, however, they also include investments for the establishment of liquidity reserves. In addition, income from loans and foreign exchange gains and losses were recognised in other financial result.

Other financial result

	€m	
	2015	2016
Measurement of an obligation to return an interest ¹	-6.0	19.4
Income from financial instruments	2.7	2.6
Foreign exchange gains	0.6	1.6
Foreign exchange losses	-5.4	-0.5
Measurement of derivatives in the finance area	2.1	-1.0
Expenses arising from financial instruments	-0.3	-4.8
Measurement of the long position: Gemeinschaftskraftwerk Inn GmbH ²	0.8	-13.7
Other	3.8	0.7
Other financial result	-1.7	4.3

¹ The measurement was based on the price forecasts of two reputable information service providers in the energy market. In contrast to previous measurements, the tests applied the low case in the price forecasts of one of the two information service providers since 30 June 2016 (previously: central case). The estimate was revised due to the lower price quotations in recent years on exchanges and the resulting lower expectations with respect to the long-term trend in electricity prices. Without this change in the estimate, the carrying amount of the obligation to return an interest would have been €52.9m higher and instead of income, the measurement would have resulted in an expense in the amount of €33.4m. // ² The measurement was based on the price forecasts of two reputable information service providers in the energy market. In contrast to previous valuations, the tests applied the low case in the price forecasts of one of the two information service providers since 30 June 2016 (previously: central case). The estimate was revised due to the lower price quotations in recent years on exchanges and the resulting lower expectations with respect to the long-term trend in electricity prices. Without this change in the estimate, the fair value of the long position would have been €22.3m higher and instead of an expense the measurement would have resulted in income in the amount of €8.6m.

The result from the measurement of an obligation to return an interest relates to the obligation to transfer 50% of the interest in Donaukraftwerk Jochenstein AG back to the Federal Republic of Germany,

(14)**Interest expenses****(15)****Other financial result**

specifically to the Free State of Bavaria. It results from the discounted change (with original effective interest rate) in fair value of the interest as at 31 December 2050.

The result from the measurement of the long position in Gemeinschaftskraftwerk Inn GmbH relates to the put and call option over 10% of the interest (put option) and 15% of the interest (call option) in Gemeinschaftskraftwerk Inn GmbH granted by TIWAG-Tyrolean Wasserkraft AG (see: Discretionary judgements and key assumptions concerning the future).

As a rule, the changes in value of derivative financial instruments related to closed items on the balance sheet and the liabilities measured at fair value through profit or loss are, in principle, also recognised in other financial result. However, the net effects on profit or loss of these two items balance each other out and were therefore not included in the above table.

(16)
**Reversals of
impairment losses**

The reversals of impairment losses recognised in the financial result in the 2016 reporting period and in the previous year related exclusively to the equity-accounted interest in Shkodra Region Beteiligungsholding GmbH (see: Discretionary judgements and key assumptions concerning the future).

(17)
Taxes on income

Taxes on income	€m	
	2015	2016
Current tax expenses ¹	11.4	–6.7
Future tax expense for subsequent taxation of transfers of losses from foreign members of the tax group	–1.4	18.9
Changes in deferred income taxes	43.5	85.0
Taxes on income	53.5	97.2

¹ Current tax expenses include income from prior periods of €35.7m (previous year: income €3.2m).

The reasons for the difference between VERBUND's computed and recognised tax expense are as follows:

Tax reconciliation	€m	
	2015	2016
Computed income tax expense (25.0%)	76.0	139.2
Impairment testing of property, plant and equipment	1.3	14.3
Disposal of equity interests	0.1	–0.4
Impairment testing of equity-accounted and other interests	–3.3	–1.3
Differing tax rates	–1.2	–1.8
Tax-exempt investment income	–2.7	–3.1
Interests accounted for using the equity method	–6.8	–7.6
Differences from other line items (each <€2m)	–1.0	–2.6
Income tax expenses for the period	62.3	136.8
Income tax expenses or income from prior periods (current and deferred)	–8.8	–39.5
Recognised income tax expenses	53.5	97.2
Effective tax rate	17.6%	17.5%

With respect to the possibility of amortising goodwill on foreign equity interests upon inclusion in a tax group as described on 31 December 2015, the Austrian Supreme Court issued a decision on 10 February 2016 (preceding decision on the part of the European Court of Justice issued on 6 October 2015). The Austrian Supreme Court decided that amortisation of goodwill is also permitted in the case of acquisitions of foreign equity interests from within the EU/European Economic Area. The Austrian Federal Ministry of Finance subsequently amended its previous legal opinion with a letter dated 16 June 2016 and announced that the amortisation of goodwill on foreign equity interests is to be granted for tax assessment periods up to 2013. However, for tax assessment periods from 2014 onwards, the amortisation of goodwill is only to be allowed if it has already been requested in the tax return for the year in which the foreign equity interest was first included in the tax group. For VERBUND, the Austrian Federal Ministry of Finance's legal opinion means that the goodwill on the equity interest in VERBUND Innkraftwerke GmbH can definitely be amortised for the 2010–2013 period and the goodwill on the equity interest in Innwerk AG can be amortised for the 2015–2027 period.

The tax benefit arising from goodwill amortisation is treated as a temporary difference associated with investments in subsidiaries (outside basis difference). Therefore, prior-period tax income in the amount of €37.3m, which corresponds to the amortisation of goodwill on the equity interest in VERBUND Innkraftwerke GmbH (2010–2013) and Innwerk AG (2015), including interest thereon, was recognised in the 2016 reporting period.

VERBUND continues to be of the opinion that the amortisation of goodwill on the equity interest in VERBUND Innkraftwerke GmbH can also be claimed for 2014–2023. The tax benefit for these years (reduction in future tax payments of €8.2m per year) will be recognised in accordance with VERBUND's accounting policies as soon as the possibility of asserting the claim is sufficiently certain.

Determination of earnings per share

		€m
	2015	2016
Profit for the period	250.3	459.6
Loss for the period attributable to non-controlling interests	–42.6	–35.1
Group result	207.7	424.4
Weighted average number of shares in circulation	347,415,686	347,415,686
Earnings per share in €¹	0.60	1.22

¹ There were no options on the issue of new shares or other facts or circumstances that could have a diluting effect; therefore, basic and diluted earnings per share were the same.

(18)
Earnings per share

Notes to the statement of comprehensive income

(19)
Reclassification
adjustments to the
income statement

Reclassification adjustments to the income statement				€m
	2015	2015	2016	2016
Differences from currency translation				
Measurement gains or losses recognised in equity	0.3		-1.1	
Reclassification adjustment to the income statement	0.0	0.3	0.0	-1.1
Measurements of available-for-sale financial instruments				
Measurement gains or losses recognised in equity	3.9		9.3	
Reclassification adjustment to the income statement	-2.9	1.0	-0.5	8.8
Measurements of cash flow hedges				
Measurement gains or losses recognised in equity	71.7		-218.5	
Reclassification adjustment to the income statement	-4.7		-22.8	
Basis adjustments	0.0	67.0	0.0	-241.2
Other comprehensive income from interests accounted for using the equity method				
Measurement gains or losses recognised in equity	0.0		0.3	
Reclassification adjustment to the income statement	0.0		0.0	
Basis adjustments	0.0	0.0	0.0	0.3
Other comprehensive income		68.4		-233.3

Taxes on income on other comprehensive income

€m

	2015 Before taxes	2015 Taxes	2015 After taxes	2016 Before taxes	2016 Taxes	2016 After taxes
Remeasurements of the net defined benefit liability	16.6	-4.1	12.5	-17.3	4.6	-12.7
Other comprehensive income from interests accounted for using the equity method	-8.3	-	-8.3	-2.2	-	-2.2
Total of items that will not be reclassified subsequently to the income statement	8.3	-4.1	4.2	-19.4	4.6	-14.9
Differences from currency translation	0.3	-	0.3	-1.1	-	-1.1
Measurements of available-for-sale financial instruments	1.0	-0.2	0.8	8.8	-2.3	6.5
Measurements of cash flow hedges	67.0	-16.7	50.2	-241.2	60.3	-180.9
Other comprehensive income from interests accounted for using the equity method	0.0	-	0.0	0.3	-	0.3
Total of items that will be reclassified subsequently to the income statement	68.4	-17.0	51.4	-233.3	58.1	-175.2
Other comprehensive income	76.7	-21.1	55.6	-252.7	62.6	-190.1

(20)

Taxes on income on other comprehensive income

Notes to the balance sheet

(21) Intangible assets

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

Intangible assets	€m		
	Concessions, rights, licences	Goodwill	Total
2016			
Cost as at 1/1	135.6	766.8	902.4
Change in the basis of consolidation	0.5	0.0	0.5
Additions	14.4	0.0	14.4
Disposals	-1.5	0.0	-1.5
Reclassifications	-0.2	0.0	-0.2
Cost as at 31/12	148.8	766.8	915.6
Accumulated amortisation as at 1/1	72.3	25.3	97.6
Change in the basis of consolidation	-0.4	0.0	-0.4
Depreciation	6.9	0.0	6.9
Impairment losses	0.6	0.0	0.6
Disposals	-0.4	0.0	-0.4
Accumulated amortisation as at 31/12	79.0	25.3	104.3
Net carrying amount as at 31/12	69.8	741.5	811.3
Net carrying amount as at 1/1	63.3	741.5	804.8

Intangible assets	€m		
	Concessions, rights, licences	Goodwill	Total
2015			
Cost as at 1/1	121.2	766.8	888.0
Additions	15.3	0.0	15.3
Disposals	-1.7	0.0	-1.7
Reclassifications	0.7	0.0	0.7
Cost as at 31/12	135.6	766.8	902.4
Accumulated amortisation as at 1/1	66.3	25.3	91.6
Depreciation	7.1	0.0	7.1
Impairment losses	0.4	0.0	0.4
Disposals	-1.5	0.0	-1.5
Reclassifications	0.0	0.0	0.0
Accumulated amortisation as at 31/12	72.3	25.3	97.6
Net carrying amount as at 31/12	63.3	741.5	804.8
Net carrying amount as at 1/1	54.9	741.5	796.4

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

(22)
Property, plant and equipment

Property, plant and equipment							€m
	Land and buildings	Machinery	Electrical installations	Power lines	Office and plant equipment	Plants under construction and projects	Total
2016							
Cost as at 1/1	7,531.0	4,462.2	3,441.0	1,316.5	177.5	630.3	17,558.1
Foreign exchange differences	-0.2	-0.9	-0.1	0.0	0.0	0.0	-1.2
Change in the basis of consolidation	-11.5	-0.1	4.3	0.0	-5.8	0.0	-13.1
Additions	26.5	21.5	69.2	1.4	9.7	127.0	255.3
Disposals	-2.2	-17.2	-38.4	0.0	-5.2	-0.8	-63.8
Reclassifications	215.6	128.1	163.5	1.9	0.3	-509.2	0.2
Cost as at 31/12	7,759.1	4,593.7	3,639.6	1,319.7	176.4	247.3	17,735.4
Accumulated depreciation as at 1/1	2,986.6	2,416.9	2,121.4	697.2	126.5	7.9	8,356.2
Foreign exchange differences	0.0	-1.1	0.0	0.0	0.0	0.0	-1.1
Change in the basis of consolidation	-9.7	-0.1	0.4	0.0	-5.1	0.0	-14.5
Depreciation	87.6	93.2	113.4	24.9	12.5	0.9	332.5
Impairment losses	14.1	71.0	5.5	0.5	0.0	0.4	91.6
Reversals of impairment losses	-1.0	0.0	0.0	0.0	0.0	0.0	-1.0
Disposals	-0.3	-9.2	-24.3	0.0	-5.1	0.0	-38.9
Reclassifications	-1.5	0.9	0.5	0.1	0.0	0.0	0.0
Accumulated depreciation as at 31/12	3,075.7	2,571.7	2,217.0	722.7	128.9	9.2	8,724.8
Net carrying amount as at 31/12	4,683.5	2,022.0	1,422.7	597.0	47.5	238.1	9,010.7
Net carrying amount as at 1/1	4,544.5	2,045.3	1,319.6	619.3	51.0	622.3	9,201.9

Property, plant and equipment							€m
	Land and buildings	Machinery	Electrical installations	Power lines	Office and plant equipment	Plants under construction and projects	Total
2015							
Cost as at 1/1	7,500.1	4,400.0	3,347.1	1,310.7	174.1	623.2	17,354.9
Foreign exchange differences	-0.6	-2.4	-0.1	0.0	0.0	-0.1	-3.2
Additions	14.2	43.3	52.4	5.4	8.9	145.2	269.3
Disposals	-12.5	-12.6	-30.6	-0.3	-5.8	-0.3	-62.1
Reclassifications	29.9	33.9	72.3	0.7	0.2	-137.7	-0.7
Cost as at 31/12	7,531.0	4,462.2	3,441.0	1,316.5	177.5	630.3	17,558.1
Accumulated depreciation as at 1/1	2,874.2	2,238.2	2,011.7	668.2	119.1	7.1	7,918.3
Foreign exchange differences	-0.1	-1.7	0.0	0.0	0.0	-0.1	-1.9
Depreciation	98.4	102.8	114.1	24.9	12.6	0.0	353.0
Impairment losses	15.5	82.9	17.4	4.0	0.0	0.8	120.7
Disposals	-1.5	-5.3	-21.9	0.0	-5.2	0.0	-33.8
Reclassifications	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulated depreciation as at 31/12	2,986.6	2,416.9	2,121.4	697.2	126.5	7.9	8,356.2
Net carrying amount as at 31/12	4,544.5	2,045.3	1,319.6	619.3	51.0	622.3	9,201.9
Net carrying amount as at 1/1	4,625.9	2,161.8	1,335.3	642.5	55.1	616.0	9,436.6

The additions can be presented in detail as follows:

Additions	€m	
	2015	2016
Reißeck II power plant	46.6	25.2
General overhaul power lines	1.1	22.3
Kaprun grid area: 380-kV expansion Kaprun substation – Tauern grid hub	18.6	18.5
Ybbs-Persenbeug power plant (modernisation of machinery and the control system)	16.2	14.7
Automation of hydropower plants	11.6	14.6
General overhaul substations	2.6	11.2
Optimisation programme for transformers	13.5	8.6
Expansion of Austrian wind farms	17.1	0.0
Other additions (< €10.0m)	142.0	140.2
Total additions to property, plant and equipment	269.3	255.3

Interests accounted for using the equity method	€m	
	2015	2016
Amortised cost as at 1/1	288.9	303.1
Additions	9.5	1.2
Dividends	–14.2	–14.2
Result from equity accounting	27.3	30.5
Other comprehensive income from equity accounting	–8.3	–2.1
Amortised cost as at 31/12	303.1	318.5
Accumulated value adjustments as at 1/1	70.8	57.5
Impairment losses	0.0	0.0
Reversals of impairment losses	–13.3	–5.0
Accumulated value adjustments as at 31/12	57.5	52.5
Net carrying amount as at 31/12	245.6	266.0
Net carrying amount as at 1/1	218.1	245.6
Net carrying amount as at 31/12	245.6	266.0
of which interests accounted for using the equity method	267.8	281.9
of which impairment losses on non-current loans	–22.2	–15.8

(23)
Interests accounted
for using the equity
method

The carrying amount of the equity interest in Shkodra Region Beteiligungsholding GmbH was reduced to zero in 2013 by the recognition of negative results from interests accounted for using the equity method and impairment losses. VERBUND still holds non-current loans to Shkodra Region Beteiligungsholding GmbH, which in their economic substance represent an increase of the net investment in Shkodra Region Beteiligungsholding GmbH. In the 2016 reporting period, the positive results from recognition based on equity method accounting in the amount of €1.4m (previous year: €0.8m) and the reversal of impairment losses in the amount of €5.0m (previous year: €13.3m) increased the (residual) carrying amount of these non-current loans.

A summary of aggregated financial information for the equity-accounted joint ventures and associates is presented in the section entitled Subsidiaries, joint ventures and associates of VERBUND.

(24)
Other equity
interests

Other equity interests

	€m		
	Interests in unconsolidated subsidiaries	Other equity interests	Total
2016			
(Amortised) cost as at 1/1	10.7	139.1	149.8
Change in the basis of consolidation	-5.3	0.0	-5.3
Additions from acquisitions of interests and capital increases	0.0	0.2	0.2
Disposals	0.0	-6.1	-6.1
(Amortised) cost as at 31/12	5.4	133.2	138.6
Accumulated value adjustments as at 1/1	0.0	34.2	34.2
Impairment losses	0.1	1.6	1.6
Fair value measurement in OCI	0.0	-5.8	-5.8
Disposals	0.0	-6.1	-6.1
Accumulated value adjustments as at 31/12	0.1	23.9	24.0
Net carrying amount as at 31/12	5.3	109.3	114.6
Net carrying amount as at 1/1	10.7	104.9	115.6

Other equity interests

	€m		
	Interests in unconsolidated subsidiaries	Other equity interests	Total
2015			
(Amortised) cost as at 1/1	1.0	140.2	141.1
Additions from acquisitions of interests and capital increases	6.9	5.0	11.8
Disposals	-0.2	-3.0	-3.2
Reclassifications	3.0	-3.0	0.0
(Amortised) cost as at 31/12	10.7	139.1	149.8
Accumulated value adjustments as at 1/1	0.2	38.6	38.8
Impairment losses	0.0	1.9	1.9
Fair value measurement in OCI	0.0	-3.5	-3.5
Reclassifications	0.0	0.0	0.0
Accumulated value adjustments as at 31/12	0.0	34.2	34.2
Net carrying amount as at 31/12	10.7	104.9	115.6
Net carrying amount as at 1/1	0.8	101.5	102.3

The change in the basis of consolidation for the 2016 reporting period relates on the one hand to the initial consolidation effective 1 January 2016 of the equity-accounted interest in SMATRICS GmbH & Co KG that was previously not consolidated due to immateriality. On the other hand, the previously consolidated equity interests in VUM Verfahren Umwelt Management GmbH and VERBUND Tourismus GmbH were deconsolidated at the same time due to immateriality. Disposals of other equity interests relate entirely to the transfer of the equity interest in Birecik Baraj ve Hidroelektrik Santrali Tesis ve Isletme A.S.

Investments and non-current other receivables	€m	
	2015	2016
Investments – closed items on the balance sheet	358.2	375.1
Interest rate swaps – closed items on the balance sheet	123.1	114.1
Other investments and other receivables	213.7	225.9
Total	695.0	715.1

(25)
Investments and
non-current other
receivables

Investments – cross-border leasing and closed items on the balance sheet	€m		
	Securities (loan stock rights) under closed items on the balance sheet	Other loans under closed items on the balance sheet	Total
2016			
Amortised cost as at 1/1	64.2	294.0	358.2
Foreign exchange differences	2.0	7.8	9.8
Additions	2.4	2.1	4.5
Capitalised interest	0.0	10.5	10.5
Disposals	– 1.6	– 6.3	– 7.9
Amortised acquisition costs as at 31/12	67.1	308.0	375.1

Investments – cross-border leasing and closed items on the balance sheet	€m		
	Securities (loan stock rights) under closed items on the balance sheet	Other loans under closed items on the balance sheet	Total
2015			
Amortised cost as at 1/1	57.0	260.1	317.1
Foreign exchange differences	6.2	27.4	33.6
Additions	2.4	2.0	4.3
Capitalised interest	0.0	10.3	10.3
Disposals	– 1.4	– 5.8	– 7.2
Amortised acquisition costs as at 31/12	64.2	294.0	358.2

As at 31 December 2016, the securities consisted of medium-term notes with a principal amount of \$68.2m (previous year: \$67.5m) and/or an amortised cost of €67.1m (previous year: €64.2m).

Securities in the amount of €67.1m (previous year: €64.2m) and loans in the amount of €308.0m (previous year: €294.0m) are pledged. The securities and loans all serve banks as collateral for borrowing.

Other non-current investments and non-current other receivables

€m

	Loans to investees	Securities (loan stock rights)	Other loans	Total
2016				
Cost as at 1/1	79.7	148.5	5.9	234.2
Additions	0.0	0.0	0.1	0.1
Disposals	0.0	0.0	-0.1	-0.1
Reclassifications	-4.6	-3.6	-0.6	-8.8
Cost as at 31/12	75.1	145.0	5.3	225.5
Accumulated value adjustments as at 1/1	22.2	14.7	0.0	36.9
Fair value measurement in OCI	0.0	-3.6	0.0	-3.6
Reclassification adjustments ("recycling")	0.0	0.5	0.0	0.5
Result from interests accounted for using the equity method ¹	-1.4	0.0	0.0	-1.4
Reversals of impairment losses on interests accounted for using the equity method ¹	-5.0	0.0	0.0	-5.0
Disposals	0.0	0.0	0.0	0.0
Reclassifications	0.0	-4.2	0.0	-4.2
Accumulated value adjustments as at 31/12	15.8	7.5	0.0	23.3
Net carrying amount as at 31/12	59.3	137.5	5.3	202.2
Net carrying amount as at 1/1	57.5	133.8	5.9	197.3
Net carrying amount of other non- current receivables as at 31/12²				137.9
Net carrying amount of other non- current receivables as at 1/1 ²				139.6
Net carrying amount total as at 31/12				340.1
Net carrying amount total as at 1/1				336.9

¹ The carrying amount of the equity interest in Shkodra Region Beteiligungsholding GmbH was already reduced to zero in 2013 by the recognition of negative results from interests accounted for using the equity method and impairment losses. VERBUND still holds non-current loans to Shkodra Region Beteiligungsholding GmbH, which in their economic substance represent an increase of the net investment in Shkodra Region Beteiligungsholding GmbH. Negative results and impairment losses reduce the carrying amount of the net investment. In contrast, positive results, reversals of impairment losses and shareholder contributions increase it. // ² incl. carrying amount of interest rate swaps – closed items on the balance sheet

Other non-current investments and non-current other receivables

€m

	Loans to investees	Securities (loan stock rights)	Other loans	Total
2015				
Cost as at 1/1	83.2	111.2	1.4	195.8
Additions	0.0	40.8	4.7	45.5
Disposals	0.0	-0.1	-0.1	-0.1
Reclassifications	-3.5	-3.3	-0.1	-7.0
Cost as at 31/12	79.7	148.5	5.9	234.2
Accumulated value adjustments as at 1/1	42.3	18.5	0.0	60.8
Fair value measurement in OCI	0.0	-0.4	0.0	-0.4
Reclassification adjustments ("recycling")	0.0	-2.9	0.0	-2.9
Result from interests accounted for using the equity method ¹	-0.8	0.0	0.0	-0.8
Reversals of impairment losses on interests accounted for using the equity method ¹	-13.3	0.0	0.0	-13.3
Grants for interests accounted for using the equity-method ¹	-6.0	0.0	0.0	-6.0
Disposals	0.0	0.0	0.0	0.0
Reclassifications	0.0	-0.4	0.0	-0.4
Accumulated value adjustments as at 31/12	22.2	14.7	0.0	36.9
Net carrying amount as at 31/12	57.5	133.8	5.9	197.3
Net carrying amount as at 1/1	40.9	92.7	1.4	134.9
Net carrying amount of other non- current receivables as at 31/12²				139.6
Net carrying amount of other non- current receivables as at 1/1 ²				118.9
Total net carrying amount as at 31/12				336.9
Total net carrying amount as at 1/1				253.9

¹ The carrying amount of the equity interest in Shkodra Region Beteiligungsholding GmbH was already reduced to zero in 2013 by the recognition of negative results from interests accounted for using the equity method and impairment losses. VERBUND still holds non-current loans to Shkodra Region Beteiligungsholding GmbH, which in their economic substance represent an increase of the net investment in Shkodra Region Beteiligungsholding GmbH. Negative results and impairment losses reduce the carrying amount of the net investment. In contrast, positive results, reversals of impairment losses and shareholder contributions increase it. // ² incl. carrying amount of interest rate swaps – closed items on the balance sheet

Securities in the amount of €137.5m (previous year: €133.8m) primarily include shares in investment funds to cover employee benefit obligations and were classified as "available for sale".

Non-current other receivables contain derivative financial instruments measured at fair value in the amount of €114.1m (previous year: €123.1m) which relate to financial liabilities under closed items on the balance sheet.

(26)
Inventories

Inventories		€m	
	2015	2016	
Heating oil	0.1	0.0	
Coal	33.8	20.6	
Natural gas	1.8	1.0	
Less write downs	-30.0	-20.4	
Inventories of primary energy sources held for generation	5.7	1.2	
Emission rights held for trading	5.1	2.1	
Measurements of emission rights held for trading	3.9	1.1	
Fair value of emission rights held for trading	9.0	3.2	
Proof of origin and green electricity certificates	0.2	0.5	
Additives and consumables	4.1	4.1	
Other	0.0	0.1	
Inventories	19.1	9.1	

(27)
Trade receivables
and other receivables

Trade receivables and other receivables					€m	
	2015 Non-current	2016 Non-current	2015 Current	2016 Current		
Trade receivables	0.0	0.0	302.5	346.3		
Receivables from investees	0.0	0.0	31.7	38.6		
Other loans	-	-	1.0	0.7		
Loans to investees	-	-	3.5	4.6		
Other receivables and assets	139.6	137.9	291.3	177.4		
Trade receivables and other receivables	139.6	137.9	630.0	567.6		

Other receivables with a maturity of more than one year were recognised under investments and non-current other receivables (see: (25) Investments and non-current other receivables).

Other receivables and assets

€m

	2015 Non-current	2016 Non-current	2015 Current	2016 Current
Derivatives in the energy area	0.0	0.0	184.0	118.6
Receivables from tax clearing	0.0	0.0	19.8	12.5
Long position: Gemeinschaftskraftwerk Inn GmbH	0.0	0.0	18.0	4.3
Guarantees in electricity trading	0.0	0.0	8.3	8.1
Emission rights	–	–	12.0	6.0
Receivables from accrued interest	0.0	0.0	0.5	0.4
Derivatives in the finance area	123.1	114.1	0.0	0.0
Other	16.5	23.9	48.9	27.6
Other receivables and assets	139.6	137.9	291.3	177.4

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

Allowances

€m

	Receivables net (carrying amount)	of which impaired as at reporting date	Allowances	Receivables gross
2016				
Trade receivables	346.3	20.9	2.3	348.6
Receivables from investees	38.6	0.0	0.0	38.6
Loans	5.3	0.0	0.0	5.3
Other receivables and assets	177.4	0.0	0.1	177.5
Total	567.6	20.9	2.4	570.0
2015				
Trade receivables	302.5	13.5	3.6	306.1
Receivables from investees	31.7	0.0	0.0	31.7
Loans	4.5	0.0	0.0	4.5
Other receivables and assets	291.3	0.0	0.0	291.4
Total	630.0	13.5	3.6	633.7

Overdue amounts 2016

€m

		of which not impaired at reporting date but overdue in the periods shown	up to 30 days	31 to 120 days	121 to 360 days	of which not impaired but overdue in the periods shown > 360 days
	Carrying amount					
Trade receivables	346.3	308.0	17.0	0.1	0.0	0.3
Receivables from investees	38.6	38.6	0.0	0.0	0.0	0.0
Loans	5.3	5.3	0.0	0.0	0.0	0.0
Other receivables and assets	177.4	177.2	0.0	0.1	0.0	0.0
Total	567.6	529.1	17.0	0.2	0.0	0.4

Overdue amounts 2015

€m

		of which not impaired at reporting date but overdue in the periods shown	up to 30 days	31 to 120 days	121 to 360 days	of which not impaired but overdue in the periods shown > 360 days
	Carrying amount					
Trade receivables	302.5	281.1	7.2	0.3	0.0	0.4
Receivables from investees	31.7	31.5	0.1	0.0	0.0	0.0
Loans	4.5	4.5	0.0	0.0	0.0	0.0
Other receivables and assets	291.3	291.0	0.2	0.0	0.0	0.1
Total	630.0	608.1	7.5	0.3	0.0	0.5

Non-current other receivables were neither overdue nor impaired in the 2016 reporting period or in the previous year.

(28)
Cash and cash
equivalents

Cash and cash equivalents

€m

	2015	2016
Cash at banks	28.8	27.9
Cash in hand	0.1	0.1
Cash and cash equivalents	28.9	28.0

The lock-in period for all current financial investments reported in cash and cash equivalents was less than three months at the time the investment was made. Cash and cash equivalents correspond to the fund of cash and cash equivalents in the cash flow statement as defined in IAS 7.

Just as in the previous year, the share capital comprised 170,233,686 no-par value shares in the form of bearer shares (category A) and 177,182,000 no-par value shares in the form of registered shares (category B). Category B represents 51% of the share capital, authenticated by an interim certificate deposited with the Federal Ministry of Finance and made out in the name of the Republic of Austria. The share capital was paid in full.

(29)
Called and paid-in
share capital

The amount of €954.3m (previous year: €954.3m), which represents the portion of the reserves that was not retained from profit for the period in previous reporting periods, is recognised under capital reserves.

(30)
Capital reserves

Retained earnings comprise the retained profits and the effects on equity attributable to the shareholders of VERBUND AG from the shift between shareholder groups. Of the retained earnings, the amount that can be distributed to the shareholders of VERBUND AG is the item presented as profit for the period in the (separate) annual financial statements of VERBUND AG as at 31 December 2016 prepared in accordance with the Austrian Commercial Code (Unternehmensgesetzbuch, UGB). For financial year 2016, this profit for the reporting period that had not yet been approved amounted to €100.8m (previous year: €121.6m). The Annual General Meeting will propose a dividend of €0.29 per share (previous year: €0.35 per share).

(31)
Retained earnings

The reserve for differences from currency translation mainly includes the currency translation of the consolidated Romanian subsidiaries Alpha Wind S.R.L., CAS Regenerabile S.R.L., Ventus Renew Romania S.R.L. and VERBUND Trading Romania S.R.L.

(32)
Reserve for
differences from
currency translation

Non-controlling interests	in %	
	2015	2016
VERBUND Innkraftwerke GmbH	29.73	29.73
VERBUND Hydro Power GmbH	19.46	19.46
VERBUND Wind Power Austria GmbH	19.46	19.46
Alpha Wind S.R.L.	10.00	0.00
Ventus Renew Romania S.R.L.	10.00	0.00
VERBUND Tourismus GmbH	19.54	–

(33)
Non-controlling
interests

The capital shares in VERBUND Thermal Power GmbH & Co KG in Liqu. and SMATRICS GmbH & Co KG as well as ten wind farms and two infrastructure companies in the Hunsrück area of Rhineland-Palatinate attributable to limited partners were recognised under non-current financial liabilities in accordance with IAS 32.

(34)
Non-current and
current financial
liabilities

Non-current and current financial liabilities					€m
	2015 Non-current	2016 Non-current	2015 Current	2016 Current	
Bonds	1,384.2	1,371.9	21.1	35.6	
Financial liabilities to banks	875.9	530.2	364.3	289.0	
Financial liabilities to others	0.2	0.0	0.0	0.2	
Capital shares attributable to limited partners	2.5	3.7	0.0	0.0	
Subtotal	2,262.8	1,905.8	385.4	324.8	
Financial liabilities to banks – closed items on the balance sheet	481.3	489.2	0.0	0.0	
Non-current and current financial liabilities	2,744.1	2,394.9	385.4	324.8	

Non-current and current financial liabilities ¹			€m
	2015	2016	
Carrying amount as at 1/1	3,275.8	2,648.2	
Net change in money market transactions	280.5	–305.5	
Changes in capital shares attributable to limited partners	0.2	1.2	
Foreign exchange gains or losses	3.0	0.0	
Changes in interest accruals	–18.1	2.0	
Unscheduled repayments	–156.5	–62.0	
Disposals due to loss of control	0.0	0.0	
Scheduled repayments	–736.7	–53.4	
Carrying amount as at 31/12	2,648.2	2,230.5	
of which non-current liabilities	2,262.8	1,905.8	
of which current liabilities	385.4	324.8	

¹ excl. financial liabilities from closed items on the balance sheet

Financial liabilities – closed items on the balance sheet

€m

	2015	2016
Carrying amount as at 1/1	431.0	481.3
Foreign exchange gains or losses	31.6	9.1
Capitalisation	28.5	28.9
Repayments and/or disposals	– 19.0	– 21.1
Market value changes	9.3	– 9.1
Carrying amount as at 31/12	481.3	489.2
of which non-current liabilities	481.3	489.2

The unscheduled principal repayments in the amount of €62.0m in the 2016 reporting period (previous year: €156.5m) relate to the early repayment of a promissory note bearing variable interest (previous year: partial repurchase of a fixed income bond).

In the 2016 reporting period, Moody's downgraded the credit rating to Baa2 and Standard & Poor's downgraded its rating to BBB. The interest rates of individual financing arrangements were subsequently slightly adjusted; the terms remain unchanged.

VERBUND had no mortgage-backed liabilities on 31 December 2016 or 31 December 2015.

Profit/loss attributable to limited partners in the 2016 reporting period related to the limited partners of VERBUND Thermal Power GmbH & Co KG in Liqu. and SMATRICS GmbH & Co KG as well as the limited partners of ten wind farms and two infrastructure companies in the Hunsrück area of Rhineland-Palatinate.

Non-current and current financial liabilities 2016

	Longest Maturity	Issue volume	Carrying amount as at 31/12	1 year or less	
Bonds					
Euro currency	2024	1,612.7	1,407.5	35.7	
Total bonds		1,612.7	1,407.5	35.7	
of which at a fixed interest rate	2024	1,612.7	1,407.5	35.7	
Financial liabilities to banks					
Euro currency	2037	1,128.4	819.1	289.0	
Total financial liabilities to banks		1,128.4	819.1	289.0	
of which at a fixed interest rate	2037	810.0	671.6	267.8	
of which at a variable interest rate	2030	318.4	147.5	21.2	
Financial liabilities to others					
Euro currency	2021	0.2	0.2	0.2	
Total financial liabilities to others		0.2	0.2	0.2	
of which at a fixed interest rate	2021	0.2	0.2	0.2	
Financial liabilities to banks – closed items on the balance sheet¹					
Foreign currencies (\$)	2030		489.2	0.0	
Total financial liabilities to banks – closed items on the balance sheet			489.2	0.0	
of which at a fixed interest rate	2030		489.2	0.0	
Capital shares attributable to limited partners		–	3.7	0.0	
Total financial liabilities			2,719.6	324.8	

¹ There is balance sheet cover on the asset side for these financial liabilities.

								€m
	> 1 to 2 years	> 2 to 3 years	> 3 to 4 years	> 4 to 5 years	> 5 years	Weighted nominal interest rate	Weighted effective interest rate	Fair value as at 31/12
	0.0	680.7	199.2	0.0	492.0	3.61%	4.28%	1,553.7
	0.0	680.7	199.2	0.0	492.0	3.61%	4.28%	1,553.7
	0.0	680.7	199.2	0.0	492.0	3.61%	4.28%	1,553.7
	189.7	43.7	42.2	38.5	216.1	2.69%	2.86%	866.2
	189.7	43.7	42.2	38.5	216.1	2.69%	2.86%	866.2
	168.6	22.6	27.6	27.6	157.3	3.23%	3.37%	717.9
	21.1	21.1	14.6	10.8	58.7	0.21%	1.44%	148.3
	0.0	0.0	0.0	0.0	0.0	5.52%	4.15%	0.2
	0.0	0.0	0.0	0.0	0.0	5.52%	4.15%	0.2
	0.0	0.0	0.0	0.0	0.0	5.52%	4.15%	0.2
	0.0	0.0	0.0	0.0	489.2	–	–	531.0
	0.0	0.0	0.0	0.0	489.2	–	–	531.0
	0.0	0.0	0.0	0.0	489.2	–	–	531.0
	3.7	0.0	0.0	0.0	0.0	–	–	–
	193.4	724.4	241.4	38.5	1,197.2			

Non-current and current financial liabilities 2015

	Longest Maturity	Issue volume	Carrying amount as at 31/12	1 year or less	
Bonds					
Euro currency	2024	1,612.7	1,405.3	21.1	
Foreign currencies (¥)		0.0	0.0	0.0	
Total bonds		1,612.7	1,405.3	21.1	
of which at a fixed interest rate	2024	1,612.7	1,405.3	21.1	
Financial liabilities to banks					
Euro currency	2037	1,514.7	1,240.2	364.3	
Total financial liabilities to banks		1,514.7	1,240.2	364.3	
of which at a fixed interest rate	2037	828.7	704.0	37.5	
of which at a variable interest rate	2030	685.9	536.3	326.8	
Financial liabilities to others					
Euro currency	2021	0.3	0.2	0.0	
Total financial liabilities to others		0.3	0.2	0.0	
of which at a fixed interest rate	2021	0.3	0.2	0.0	
Financial liabilities to banks – closed items on the balance sheet¹					
Foreign currencies (\$)	2030		481.3	0.0	
Total financial liabilities to banks – closed items on the balance sheet			481.3	0.0	
of which at a fixed interest rate	2030		481.3	0.0	
Capital shares attributable to limited partners		–	2.5	0.0	
Total financial liabilities			3,129.5	385.4	

¹ There is balance sheet cover on the asset side for these financial liabilities.

	€m							
	> 1 to 2 years	> 2 to 3 years	>3 to 4 years	> 4 to 5 years	> 5 years	Weighted nominal interest rate	Weighted effective interest rate	Fair value as at 31/12
	14.5	0.0	679.7	199.0	491.0	3.61%	4.28%	1,537.2
	0.0	0.0	0.0	0.0	0.0			0.0
	14.5	0.0	679.7	199.0	491.0	3.61%	4.28%	1,537.2
	14.5	0.0	679.7	199.0	491.0	3.61%	4.28%	1,537.2
	283.7	251.7	43.7	42.2	254.5	1.96%	2.76%	1,276.0
	283.7	251.7	43.7	42.2	254.5	1.96%	2.76%	1,276.0
	262.6	168.6	22.6	27.6	184.9	3.21%	3.32%	742.7
	21.1	83.1	21.1	14.6	69.6	0.32%	1.37%	533.2
	0.1	0.0	0.0	0.0	0.0	5.44%	4.22%	0.2
	0.1	0.0	0.0	0.0	0.0	5.44%	4.22%	0.2
	0.1	0.0	0.0	0.0	0.0	5.44%	4.22%	0.2
	0.0	0.0	0.0	0.0	481.3	–	–	521.0
	0.0	0.0	0.0	0.0	481.3	–	–	521.0
	0.0	0.0	0.0	0.0	481.3	–	–	521.0
	2.5	0.0	0.0	0.0	0.0	–	–	–
	300.8	251.7	723.4	241.2	1,226.9			

(35)
Additional
disclosures regarding
financial instruments
in accordance with
IFRS 7

Carrying amounts and fair values by measurement categories 2016

€m

Assets – balance sheet items	Measurement categories in accordance with IAS 39 or measurement in accordance with other IFRSs	Level	Carrying amount as at 31/12	Fair value as at 31/12
Interests in unconsolidated subsidiaries	FAAC	–	5.3	–
Other equity interests	FAAFS	2	92.6	92.6
Other equity interests	FAAC	–	16.8	–
Other equity interests			114.6	
Securities	FAAFS	1	133.9	133.9
Securities	FAAC	–	3.5	–
Securities – closed items on the balance sheet	LAR	2	67.1	61.8
Other loans – closed items on the balance sheet	LAR	2	308.0	333.2
Derivatives in the finance area – closed items on the balance sheet	FAHFT	2	114.1	114.1
Loans to investees	LAR	2	59.3	62.3
Other loans	LAR	2	5.3	5.7
Other	–	–	23.9	–
Other investments and non-current other receivables			715.1	
Trade receivables	LAR	–	346.3	–
Receivables from investees	LAR	–	38.6	–
Loans to investees	LAR	2	4.6	4.8
Other loans	LAR	2	0.7	0.7
Derivatives in the energy area	FAHFT	2	118.6	118.6
Long position: Gemeinschaftskraftwerk Inn GmbH	FAHFT	3	4.3	4.3
Emission rights	IAS 38 / IAS 2	–	6.0	–
Other	LAR	–	26.1	–
Other	–	–	22.5	–
Trade receivables and current other receivables			567.6	
Cash and cash equivalents	LAR	–	28.0	28.0
Aggregated by measurement categories				
Financial assets at cost	FAAC		25.6	
Loans and receivables	LAR		883.9	
Available-for-sale financial assets	FAAFS		226.5	
Financial assets held for trading	FAHFT		236.9	

Carrying amounts and fair values by measurement categories 2016

€m

Liabilities – balance sheet items	Measurement categories in accordance with IAS 39 or measurement in accordance with other IFRSs	Level	Carrying amount as at 31/12	Fair value as at 31/12
Bonds	FLAAC	2	1,407.5	1,553.7
Financial liabilities to banks and to others	FLAAC	2	819.3	866.4
Financial liabilities to banks – closed items on the balance sheet	FLAAC	2	118.7	160.5
Financial liabilities to banks – closed items on the balance sheet	FLAFVPL	2	370.5	370.5
Capital shares attributable to limited partners	IAS 32	–	3.7	–
Non-current and current financial liabilities			2,719.7	
Electricity supply commitment	–	–	169.9	–
Obligation to return an interest	FLAAC	3	103.6	182.0
Trade payables	FLAAC	–	3.6	–
Other	FLAAC	–	28.4	–
Other non-current liabilities			305.5	
Trade payables	FLAAC	–	157.2	–
Derivatives in the energy area	FLHFT	1	0.5	0.5
Derivatives in the energy area	FLHFT	2	253.5	253.5
Derivatives in the finance area	FLHFT	2	27.0	27.0
Other	FLAAC	–	133.7	–
Other	–	–	73.5	–
Trade payables and current other liabilities			645.3	
Aggregated by measurement categories				
Financial liabilities at amortised cost	FLAAC		2,772.0	
Financial liabilities at fair value through profit or loss	FLAFVPL		370.5	
Financial liabilities held for trading	FLHFT		280.9	

Carrying amounts and fair values by measurement categories 2015

€m

Assets – balance sheet items	Measurement categories in accordance with IAS 39 or measurement in accordance with other IFRSs	Level	Carrying amount as at 31/12	Fair value as at 31/12
Interests in unconsolidated subsidiaries	FAAC	–	10.6	–
Other equity interests	FAAFS	2	86.8	86.8
Other equity interests	FAAC	–	18.2	–
Other equity interests			115.6	
Securities	FAAFS	1	130.8	130.8
Securities	FAAC	–	3.0	–
Securities – closed items on the balance sheet	LAR	2	64.2	57.9
Other loans – closed items on the balance sheet	LAR	2	294.0	323.7
Derivatives in the finance area – closed items on the balance sheet	FAHFT	2	123.1	123.1
Loans to investees	LAR	2	57.5	59.8
Other loans	LAR	2	5.9	5.9
Other	LAR	–	9.0	9.0
Other	–	–	7.5	–
Other investments and non-current other receivables			695.0	
Trade receivables	LAR	–	302.5	–
Receivables from investees	LAR	–	31.7	–
Loans to investees	LAR	2	3.5	3.7
Other loans	LAR	2	1.0	1.0
Derivatives in the energy area	FAHFT	2	184.0	184.0
Long position: Gemeinschaftskraftwerk Inn GmbH	FAHFT	3	18.0	18.0
Money market transactions	LAR	2	0.0	0.0
Emission rights	IAS 38 / IAS 2	–	12.0	–
Other	LAR	–	30.3	–
Other	–	–	47.1	–
Trade receivables and current other receivables			630.0	
Cash and cash equivalents	LAR	–	28.9	28.9
Aggregated by measurement categories				
Financial assets at cost	FAAC		31.8	
Loans and receivables	LAR		828.5	
Available-for-sale financial assets	FAAFS		217.6	
Financial assets held for trading	FAHFT		325.1	

Carrying amounts and fair values by measurement categories 2015

€m

Liabilities – balance sheet items	Measurement categories in accordance with IAS 39 or measurement in accordance with other IFRSs	Level	Carrying amount as at 31/12	Fair value as at 31/12
Bonds	FLAAC	2	1,405.3	1,537.2
Financial liabilities to banks and to others	FLAAC	2	1,240.4	1,276.2
Financial liabilities to banks – closed items on the balance sheet	FLAAC	2	112.8	152.5
Financial liabilities to banks – closed items on the balance sheet	FLAFVPL	2	368.5	368.5
Capital shares attributable to limited partners	IAS 32	–	2.5	–
Non-current and current financial liabilities			3,129.5	
Electricity supply commitment	–	–	176.1	–
Obligation to return an interest	FLAAC	3	116.8	176.4
Derivatives in the energy area	FLHFT	3	66.5	66.5
Trade payables	FLAAC	–	4.1	–
Other	FLAAC	–	27.6	–
Other non-current liabilities			391.1	
Trade payables	FLAAC	–	118.8	–
Derivatives in the energy area	FLHFT	1	0.0	0.0
Derivatives in the energy area	FLHFT	2	89.6	89.6
Derivatives in the energy area	FLHFT	3	5.3	5.3
Derivatives in the finance area	FLHFT	2	33.8	33.8
Other	FLAAC	–	122.1	–
Other	–	–	68.0	–
Trade payables and current other liabilities			437.6	
Aggregated by measurement categories				
Financial liabilities at amortised cost	FLAAC		3,148.0	
Financial liabilities at fair value through profit or loss	FLAFVPL		368.5	
Financial liabilities held for trading	FLHFT		195.2	

For financial liabilities (under closed items on the balance sheet) classified as FLAFVPL in the above table, the difference between the carrying amount as at 31 December 2016 and the amount that VERBUND would have to pay upon maturity is €59.9m (previous year: €63.0m). The amount due upon maturity was translated at the rate (€1=\$) on the reporting date of 1.0541 (previous year: 1.0887). In the event of insolvency, derivative financial instruments in the finance area (under closed items on the balance sheet) can be netted against the financial liabilities classified as FLAFVPL (under closed items on the balance sheet) (see: Financial instruments and risk management).

Of the derivative financial instruments in the energy area classified as FAHFT and FLHFT in the above table, positive fair values in the amount of €28.9m (previous year: €85.2m) and negative fair values in the amount of €227.1m (previous year: €34.3m) relate to hedging relationships designated as cash flow hedges. These fair values represent gross amounts; following the inter-portfolio netting carried out in accordance with VERBUND's accounting policies (see: Financial instruments and risk management), cash flow hedges can no longer be isolated.

Level 3 measurement of financial instruments: natural gas supply contract		€m
	2015	2016
Carrying amount as at 1/1	63.4	71.8
Measurement gains or losses (recognised under expenses for electricity, grid, gas and certificates purchases)	8.4	9.8
Disposals	0.0	-81.6
Carrying amount as at 31/12	71.8	0.0

In the 2016 reporting period, VERBUND and EconGas GmbH settled various outstanding issues related to gas deliveries for the Mellach combined cycle gas turbine power plant. The natural gas supply agreement signed on 24 June 2008 is no longer in effect. The parties have agreed not to discuss the terms of the agreement.

Due to the termination of the natural gas supply agreement, the freestanding derivative recognised since 2012 was required to be derecognised.

Level 3 measurement of financial instruments: long position: GKI ¹		€m
	2015	2016
Carrying amount as at 1/1	17.1	18.0
Additions	0.0	0.0
Measurement gains or losses (recognised in other financial result)	0.8	-13.7
Carrying amount as at 31/12	18.0	4.3

¹ The fair value of the long position: Gemeinschaftskraftwerk Inn GmbH is determined based on a Level 3 measurement (see: Discretionary judgements and key assumptions concerning the future).

Valuation techniques and input factors for determining fair values

Level	Financial instruments	Valuation technique	Input factor
1	Listed securities	Market approach	Nominal values, stock exchange price
1	Listed energy forwards	Market approach	Settlement price published by the stock exchange
2	Other assets and liabilities measured at fair value in the finance area	Net present value approach	Cash flows already fixed or determined via forward rates, yield curve, credit risk of the contracting parties
2	Securities and other loans under closed items on the balance sheet, long-term loans, liabilities to banks, bonds and other financial liabilities	Net present value approach	Payments associated with the financial instruments, yield curve, credit risk of the contracting parties (credit default swaps or credit spread curves)
2	Other equity interest in Energie AG Oberösterreich	Market approach	Trading Multiple
2	Non-listed energy forwards	Net present value approach	Forward price curve derived from stock exchange, yield curve, credit risk of the contracting parties
3	Return obligation (obligation to transfer back the 50% interest acquired in Donaukraftwerk Jochenstein AG)	Net present value approach	Price forecasts for electricity, weighted average cost of capital after taxes
3	Long position: Gemeinschaftskraftwerk Inn GmbH (GKI)	Net present value approach ¹	Price forecast for electricity and discount rate for calculating the value of the underlying asset, yield curve
–	Cash and cash equivalents, trade receivables and payables, current other receivables, other borrowing within current credit lines as well as current other liabilities	–	Carrying amounts as a realistic estimate of fair value
–	Interests in unconsolidated subsidiaries and other equity interests	–	Reliable estimate of future cash flows mostly not possible; no comparable transactions for fair value measurement using analogy methods

¹ The fair value component of the long position in GKI could no longer be reliably determined in the 2016 reporting period. Therefore, it was measured at a cost of €0.0m. The fair value of the long position in GKI corresponds to the amount in which the call or put option is in the money.

Expected cash outflows as at 31/12/2016

€m

Maturity	2017	2018	2019–2021	From 2022
Bonds	65.0	49.7	957.9	522.5
Financial liabilities to banks	291.3	196.8	136.2	237.5
Financial liabilities to others	0.1	0.0	0.0	0.0
Financial liabilities to banks – closed items on the balance sheet ¹	21.8	21.9	66.9	531.7
Capital shares attributable to limited partners	0.0	3.7	0.0	0.0
Cash outflows on financial liabilities	378.2	272.1	1,161.1	1,291.7
Trade payables	157.2	2.7	0.9	0.1
Derivatives in the energy area	375.8	139.3	27.9	0.0
Derivatives in the finance area ²	10.4	5.7	11.0	3.1
Other	133.7	5.4	3.1	123.5
Cash outflows on trade payables and other payables	677.0	153.1	42.8	126.8
Cash outflows on liabilities in accordance with IFRS 7	1,055.2	425.2	1,203.9	1,418.4

¹ Cash outflows under closed items on the balance sheet have to be seen alongside the corresponding cash inflows from associated investments. // ² Cash outflows from interest rate swaps are accounted for as the net-cash flow of both legs.

Expected cash outflows as at 31/12/2015

€m

Maturity	2016	2017	2018–2020	From 2021
Bonds	50.4	65.0	1,000.2	530.0
Financial liabilities to banks	367.8	291.7	353.2	278.4
Financial liabilities to others	0.0	0.1	0.0	0.0
Financial liabilities to banks – closed items on the balance sheet ¹	21.1	21.1	66.8	533.9
Capital shares attributable to limited partners	0.0	2.5	0.0	0.0
Cash outflows on financial liabilities	439.4	380.5	1,420.2	1,342.3
Trade payables	118.8	0.4	3.7	0.2
Derivatives in the energy area	334.7	149.3	46.6	0.0
Derivatives in the finance area ²	14.2	9.9	10.5	2.5
Other	122.1	12.8	3.7	127.9
Cash outflows on trade payables and other payables	589.9	172.3	64.6	130.6
Cash outflows on liabilities in accordance with IFRS 7	1,029.2	552.7	1,484.8	1,472.9

¹ Cash outflows under closed items on the balance sheet have to be seen alongside the corresponding cash inflows from associated investments. // ² Cash outflows from interest rate swaps are accounted for as the net-cash flow of both legs.

Net results by measurement categories

The net results in accordance with IFRS 7 mainly comprise impairment losses and reversals of impairment losses, foreign exchange gains and losses and realised gains or losses on disposal.

Net results by measurement categories

	€m			
	2015 Net result	2015 of which (reversal of) impairment losses	2016 Net result	2016 of which (reversal of) impairment losses
Financial assets at cost	-1.6	-1.9	-1.6	-1.6
Available-for-sale financial assets	3.6	0.0	1.1	0.0
Loans and receivables	35.8	2.2	8.9	-0.9
Financial liabilities at amortised cost	-16.7	-	18.8	-
Financial liabilities at fair value through profit or loss	-34.0	-	1.2	-
Financial assets and/or liabilities held for trading	1.3	-	-30.2	-
Total interest expenses		-162.7		-113.2
Total interest income		34.4		33.7
Measurements in other comprehensive income ¹		3.9		9.3
Reclassifications from other comprehensive income recognised in the income statement ¹		-2.9		-0.5

¹ This net result relates to available-for-sale financial assets.

The net result in the “financial assets at cost” category was recognised under result from equity interests; dividend income from financial assets at cost and available-for-sale financial assets was not included in the net result.

The net result in the “available-for-sale financial assets” category was recognised primarily in other financial result.

Insofar as the net result in the “loans and receivables” category contains write-downs of trade receivables, it was recognised in the operating result; foreign exchange effects from loans under closed items on the balance sheet were recognised in other financial result.

The net results in the “financial liabilities at amortised cost” and “financial liabilities at fair value through profit or loss” categories included foreign exchange effects related to financial liabilities and were recognised under other financial result.

On the one hand, the net results in the “financial assets and/or liabilities held for trading” category arose from the measurement of derivative financial instruments in the energy area (wholesale and trading); this part was recognised in the operating result (electricity revenue). On the other hand, the net result also arose from the measurement of the (other) derivative financial instruments in the finance area; these net results were recognised under other financial result.

Total interest expenses were recognised under interest expenses; total interest income was recognised in part in interest income and in part under other financial result.

(36)
Non-current and
current provisions

Non-current and current provisions

€m

	2015 Non-current	2016 Non-current	2015 Current	2016 Current
Provisions for pensions	420.2	415.3	–	–
Provisions for termination benefits	156.5	146.2	–	–
Provisions for obligations similar to pensions	151.0	161.7	–	–
Provisions for partial retirement	29.8	17.8	12.8	8.6
Other personnel-related provisions	15.1	14.6	21.2	21.6
Other provisions	95.5	84.1	93.0	48.5
Non-current and current provisions	868.1	839.6	126.9	78.6

Provisions for pensions and similar obligations

Reconciliation from defined benefit obligation to provisions

€m

	2015 Pension obligations	2016 Pension obligations	2015 Obligations similar to pensions	2016 Obligations similar to pensions
Defined benefit obligation covered by plan assets	248.5	245.2	–	–
Fair value of plan assets	– 152.8	– 154.6	–	–
Net value of obligations covered by plan assets	95.7	90.6	–	–
Defined benefit obligation not covered by plan assets	324.5	324.6	151.0	161.7
Carrying amount of provisions as at 31/12	420.2	415.3	151.0	161.7

Pension expenses

	€m			
	2015 Pension obligations	2016 Pension obligations	2015 Obligations similar to pensions	2016 Obligations similar to pensions
Service costs (vested claims)	3.6	3.3	2.8	2.6
Net interest expense	8.3	8.1	3.3	3.3
Pension expenses (recognised in profit for the period)	11.9	11.4	6.1	5.9
Remeasurements of the net liability	0.2	9.3	-16.6	8.7
Pension expenses (recognised in total comprehensive income for the period)	12.1	20.7	-10.5	14.6

Reconciliation of defined benefit obligation

	€m			
	2015 Pension obligations	2016 Pension obligations	2015 Obligations similar to pensions	2016 Obligations similar to pensions
Defined benefit obligation as at 1/1	593.6	573.0	165.4	151.0
Service costs (vested claims)	3.6	3.3	2.8	2.6
Pension payments or contributions to supplementary health insurance (benefit payments)	-34.7	-34.2	-3.9	-4.0
Interest expenses	11.5	11.1	3.3	3.3
Remeasurements based on experience adjustments	-1.0	2.0	-10.0	-4.2
Remeasurements arising from changes in financial assumptions	0.0	14.6	-6.6	13.0
Defined benefit obligation as at 31/12	573.0	569.8	151.0	161.7

As at 31 December 2016, the weighted average duration of the pension obligation is 13 years (previous year: 13 years) and that of the obligations similar to pensions is 19 years (previous year: 19 years).

Reconciliation of plan assets

€m

	2015 Pension obligations	2016 Pension obligations	2015 Obligations similar to pensions	2016 Obligations similar to pensions
Fair value of plan assets as at 1/1	161.8	152.8	–	–
Contributions by VERBUND	0.0	2.6	–	–
Payouts (benefit payments)	– 11.0	– 11.2	–	–
Interest income	3.2	3.0	–	–
Other gains (+) or losses (–)	– 1.2	7.4	–	–
Fair value of plan assets as at 31/12	152.8	154.6	–	–

The investment and risk association in the pension fund attributable to VERBUND realised a gain of €10.3m in the 2016 reporting period (previous year: gain of €2.0m). The deficit represents the portion of pension obligations not covered by plan assets; these relate primarily to direct commitments to pension recipients. In the 2017 reporting period, current contributions to the pension fund for coverage of defined contribution plans in the amount of €0m (previous year: €2,7m) are expected.

Plan assets

in %

	Quoted	Unquoted	2015 Total	Quoted	Unquoted	2016 Total
Shares	39.6	0.0	39.6	40.0	0.0	40.0
Bonds	43.0	0.0	43.0	42.0	0.0	42.0
Money market	9.9	0.0	9.9	10.2	0.0	10.2
Other investments	7.4	0.0	7.4	7.8	0.0	7.8
Total	100.0	0.0	100.0	100.0	0.0	100.0

VERBUND regularly coordinates the general investment guidelines with APK Pensionskasse AG. Risk management in APK Pensionskasse AG is guided by the provisions of the Austrian Pension Fund Act (Pensionskassengesetz, PKG) and the corresponding directives of the Financial Market Authority (FMA).

Provisions for termination benefits**Analysis of the provisions for termination benefits**

€m

	2015	2016
Provisions for statutory termination benefits	154.4	144.9
Provisions for termination benefits from special agreements in accordance with social plan	2.1	1.3
Carrying amount of provisions as at 31/12	156.5	146.2

Expense for termination benefit costs		€m
	2015	2016
Service costs	1.7	1.4
Net interest expense	3.2	3.0
Expense for termination benefit costs (recognised in profit for the period)	4.9	4.4
Remeasurements of termination benefits	-0.3	-0.8
Expenses for termination benefit costs (recognised in total comprehensive income for the period)	4.6	3.6

Reconciliation of defined benefit obligation for statutory termination benefits		€m
	2015	2016
Defined benefit obligation as at 1/1	161.0	154.4
Change in the basis of consolidation	0.0	-0.4
Service costs (vested claims)	1.7	1.4
Interest expenses	3.2	3.0
Termination benefit (benefit payments)	-11.2	-12.7
Remeasurements based on experience adjustments	-0.3	-0.9
Remeasurements arising from changes in financial assumptions	0.0	0.1
Defined benefit obligation as at 31/12	154.4	144.9

The weighted average duration of the termination benefits is 8 years as at 31 December 2016 (previous year: 8 years).

Provisions for partial retirement

Reconciliation from defined benefit obligation to provisions		€m
	2015	2016
Defined benefit obligation covered by plan assets	43.7	27.5
Fair value of plan assets	-1.1	-1.1
Carrying amount of provisions as at 31/12	42.6	26.4

Expenses for partial retirement		€m
	2015	2016
Service costs	0.3	0.3
Net interest expense	1.0	0.7
Remeasurements	-2.0	-8.5
Expenses for partial retirement (recognised in profit for the period)	-0.7	-7.5

Reconciliation of defined benefit obligation

€m

	2015	2016
Defined benefit obligation as at 1/1	59.3	43.7
Service costs (vested claims)	0.3	0.3
Net interest expense	1.0	0.7
Payments for early retirement	– 14.9	– 8.6
Remeasurements	– 2.0	– 8.5
Defined benefit obligation as at 31/12	43.7	27.5

Reconciliation of plan assets

€m

	2015	2016
Fair value of plan assets as at 1/1	1.6	1.1
Decrease (due to surplus cover)	– 0.4	0.0
Contributions by VERBUND	0.0	0.0
Other gains (+) or losses (–)	– 0.1	0.0
Fair value of plan assets as at 31/12	1.1	1.1

Plan assets

in %

	2015	2016
Bonds	100.0	100.0
Total	100.0	100.0

Other personnel-related provisions**Analysis of other personnel-related provisions**

€m

	2015 Non-current	2016 Non-current	2015 Current	2016 Current
Provision for bonuses from the performance-based remuneration system	–	–	20.8	21.2
Provision for anniversary bonuses	8.8	8.4	0.0	0.0
Other	6.3	6.2	0.4	0.4
Other personnel-related provisions	15.1	14.6	21.2	21.6

Reconciliation of other personnel-related provisions

€m

	2015	2016
Carrying amount as at 1/1	29.5	36.3
of which non-current	9.1	15.1
of which current	20.4	21.2
Change in the basis of consolidation	0.0	-0.2
New provisions	23.7	17.8
Interest accrued	0.2	0.3
Appropriation	-17.1	-17.8
Reversal	0.0	-0.2
Carrying amount as at 31/12	36.3	36.1
of which non-current	15.1	14.6
of which current	21.2	21.6

Other provisions**Reconciliation of other provisions 2016**

€m

	Provisions for onerous contracts	Dismantling and decontamin- ation costs	Electricity and grid delivery	Other	Total
Carrying amount as at 1/1/2016	24.0	24.2	0.6	139.7	188.5
of which non-current	22.3	23.0	0.0	50.2	95.5
of which current	1.7	1.1	0.6	89.5	93.0
Change in the basis of consolidation	0.0	0.0	0.0	0.2	0.2
New provisions	0.8	4.4	0.0	36.1	41.3
Interest accrued	0.0	0.5	0.0	1.0	1.5
Appropriation	0.0	-0.3	0.0	-39.4	-39.6
Reversal	-16.8	-2.2	0.0	-40.2	-59.2
Currency translation	0.0	0.0	0.0	0.0	-0.1
Carrying amount as at 31/12/2016	8.0	26.6	0.6	97.4	132.6
of which non-current	0.0	24.8	0.0	59.3	84.1
of which current	8.0	1.8	0.6	38.1	48.5

Reconciliation of other provisions 2015

€m

	Provisions for onerous contracts	Dismantling and decontamin- ation costs	Electricity and grid delivery	Other	Total
Carrying amount as at 1/1/2015	49.0	22.1	53.2	63.6	187.9
of which non-current	1.3	21.0	0.0	7.2	29.5
of which current	47.7	1.1	53.2	56.3	158.4
New provisions	10.4	2.4	0.0	84.8	97.6
Interest accrued	0.0	1.5	0.3	0.3	2.1
Appropriation	-32.9	0.0	-15.7	-8.3	-56.9
Reversal	-2.6	-1.7	-37.1	-0.6	-42.1
Currency translation	0.0	-0.1	0.0	0.0	-0.1
Carrying amount as at 31/12/2015	24.0	24.2	0.6	139.7	188.5
of which non-current	22.3	23.0	0.0	50.2	95.5
of which current	1.7	1.1	0.6	89.5	93.0

**(37)
Deferred tax liabilities**

The differences between the tax bases and the carrying amounts in the IFRS balance sheet result in the following deferred taxes:

Deferred taxes

€m

	2015	2016
Deferred tax refund claims	466.5	454.2
of which from provisions for pensions and termination benefits	119.8	120.1
of which from allowances on receivables	82.9	50.3
of which from impairment losses from equity interests	58.9	41.1
of which from loss carryforwards	67.4	73.9
of which from the liquidation of subsidiaries	113.3	90.7
of which from other items	24.3	78.1
Deferred tax liabilities	-1,016.0	-1,023.4
of which from property, plant and equipment (different useful lives, fair value adjustments on purchase price allocations)	-831.5	-823.4
of which from special tax deductions	-96.1	-95.2
of which from tax-deductible goodwill	-44.9	-58.2
of which from other items	-43.5	-46.6
Deferred tax refund claims (+) or tax liabilities (-) netted	-549.5	-569.2

In the 2016 reporting period and in the previous year, the net position for deferred taxes changed as follows:

Deferred taxes		€m
	2015	2016
As at 1/1	-486.3	-549.5
Changes recognised in profit or loss	-42.1	-83.1
Changes recognised in other comprehensive income	-21.1	62.6
Changes as a result of the disposal of companies	0.0	0.0
Change in the basis of consolidation	0.0	0.8
Other changes	0.0	0.0
As at 31/12	-549.5	-569.2

The changes recognised in other comprehensive income mainly concerned the measurements of available-for-sale financial instruments, the measurements of cash flow hedges and remeasurements of the net defined benefit liability.

At 31 December 2016 (and in the previous year), it could be assumed under present tax rules that the differences between the tax base of equity interests and the proportionate share of equity (outside basis differences) of the consolidated subsidiaries, branch offices, associates and joint arrangements included in VERBUND's consolidated IFRS financial statements, which result in particular from retained earnings and uncovered losses, will remain tax-free for the foreseeable future. Therefore, no tax liability was recognised at 31 December 2016 for temporary differences in the amount of €4,073.9m (previous year: €3,904.8m) in connection with these equity interests.

No current tax assets are recognised for tax losses and deductible temporary differences attributable to VERBUND Sales Detuschland GmbH and the Romanian subsidiaries Alpha Wind S.R.L., CAS Regenerabile S.R.L. and Ventus Renew Romania S.R.L. because it is unlikely due to the earnings situation that a future taxable net profit will be available against which the deferred tax assets can be utilised.

This deferred income item includes deferred contributions to building costs, particularly those paid by provincial energy companies, e.g. for power plant projects, and deferred government grants (see: Accounting policies).

(38)
Contributions to building costs and grants

Contributions to building costs and grants		€m
	2015	2016
Contributions to building costs	716.7	719.1
Government grants	31.4	32.6
Contributions to building costs and grants	748.1	751.7

(39)
Deferred income –
cross-border leasing

This item shows the deferred cash inflow in the amount of the present value of the economic benefits from cross-border leasing transactions. As at 31 December 2016, this item still amounted to €47.2m (previous year: €48.8m).

The scheduled reversals recognised under other operating income totalled €1.6m (previous year: €1.6m).

(40)
Other non-current
liabilities

Other non-current liabilities		€m
	2015	2016
Electricity supply commitment ¹	176.1	169.9
Obligation to return an interest ²	116.8	103.6
Derivatives in the energy area	66.5	0.0
Trade payables	4.1	3.6
Other	27.6	28.4
Other non-current liabilities	391.1	305.5

¹ The electricity supply commitment corresponds to the obligation arising from a 20-year electricity supply agreement, which was entered into in the 2009 reporting period as part of the consideration for the acquisition of Kraftwerksgruppe Inn GmbH (now VERBUND Innkraftwerke GmbH). // ² This return obligation refers to the obligation to transfer the 50% interest in Donaukraftwerk Jochenstein AG newly acquired in the 2013 reporting period back to the Federal Republic of Germany or the Free State of Bavaria without exchange of consideration effective 31 December 2050.

(41)
Current tax liabilities

Current tax liabilities		€m
	2015	2016
Taxes on income	29.3	50.6
Other taxes	0.6	1.2
Current tax liabilities	30.0	51.8

(42)
Trade payables and
current other
liabilities

Trade payables and current other liabilities		€m
	2015	2016
Trade payables	118.8	157.2
Derivatives in the energy area	94.9	253.9
Outstanding receipts for investments	37.2	42.8
Other liabilities from electricity and grid deliveries	27.3	33.1
Other liabilities for maintenance expenses	31.2	32.6
Other personnel-related liabilities	33.3	31.5
Derivatives in the finance area	33.8	27.0
Liabilities to tax authorities	12.5	23.9
Liabilities to unconsolidated subsidiaries and investees	5.4	8.9
Electricity supply commitment	4.5	6.2
Liabilities to ECRA	12.0	6.0
Liabilities from social security (including social insurance institutions)	4.9	4.7
Other liabilities for legal, audit and consulting expenses	4.7	4.1
Other	17.1	13.5
Trade payables and current other liabilities	437.6	645.3

Notes to the cash flow statement

The indirect method has been used to prepare VERBUND's cash flow statement. The composition of the fund of cash and cash equivalents is disclosed in the notes to the balance sheet (see: Notes to the balance sheet).

Outstanding items with respect to current liabilities arose in connection with additions to intangible assets and property, plant and equipment in the amount of €42.8m (previous year: €37.2m).

In the 2016 reporting period, the cash inflows from the disposal of consolidated subsidiaries as well as interests accounted for using the equity method and other equity interests resulted entirely from the sale of consolidated equity interests in the Spanish entity VERBUND Photovoltaics Ibérica S.L. (previous year: sale of the French other equity interests in Pont-sur-Sambre Power S.A.S. and Toul Power S.A.S. as well as the consolidated Bulgarian entity Haos Invest EAD).

Additional information on cash flow from financing activities

	2015	2016
Dividends paid to non-controlling interests	-57.9	-43.4
Dividends paid to the shareholders of VERBUND AG	-100.8	-121.6

Non-cash transactions

(43)
Cash inflow from the disposal of equity interests

(44)
Additional information on cash flow from financing activities

Financial instruments and risk management

VERBUND also uses primary and derivative financial instruments in both the finance and energy area for the purpose of risk management.

VERBUND is exposed to considerable financial risks in its operating activities and the related financing transactions. These comprise mainly interest rate and liquidity risks, counterparty risks, price risks from securities, foreign exchange risks and the risk of a change in VERBUND's rating.

Therefore, in the finance area, VERBUND focuses on identifying, analysing and measuring risks and opportunities as well as on determining measures to be implemented in this context, which can secure profits and/or mitigate the adverse effects if a risk should materialise.

In the finance area, the Group has defined its own rules as part of its framework of Group guidelines in order to be able to correspondingly monitor and manage financial risks. Among other things, this refers to the calculation and measurement of KPIs in line with market conditions with respect to locking in interest rates, currency diversification and the duration of financial liabilities in order to suggest and introduce appropriate measures as needed. Sufficient liquidity is ensured at all times through liquidity planning which is generally focused on the current and subsequent reporting period and the resulting corresponding investments and/or borrowings.

Financial instruments

The primary financial instruments held by VERBUND include, in particular, investments such as securities, loans, equity interests, trade receivables, cash at banks, securitised and non-securitised financial liabilities and trade payables.

Finance area

The derivative financial instruments used in the finance area comprise the following and are recognised under the balance sheet items listed:

Derivative financial instruments in other receivables				€m
	Reference value ¹	Positive fair values 31/12/2015	Positive fair values 31/12/2016	
Interest rate swaps – closed items on the balance sheet (fixed interest recipient)	\$254,1m (previous year: \$251,2m)	123.1	114.1	

¹ The reference value includes the reference basis of the derivative instruments. The actual cash flows only represent a fraction of these values.

Derivative financial instruments in other liabilities				€m
	Reference value ¹	Negative fair values 31/12/2015	Negative fair values 31/12/2016	
Interest rate swaps – hedges (fixed interest recipient)	€369,9m (previous year: €384,6m)	23.8	16.0	
Interest rate swap relating to financial liabilities (freestanding)	€177,5m (previous year: €203,9m)	10.0	11.0	

¹ The reference value includes the reference basis of the derivative instruments. The actual cash flows only represent a fraction of these values.

The derivative financial instruments listed serve exclusively to hedge financially against existing currency and interest rate risks.

The fluctuations in the value of interest rate swaps related to the closed items on the balance sheet (see: Accounting policies) serve to balance the fluctuations in the value of the corresponding liabilities which are measured at fair value through profit or loss.

There are interest rate swaps in the notional amount of €369.9m (previous year: €384.6m) 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 ten years (2017 to 2026) and will be recognised in profit or loss accordingly.

Additional interest rate swaps (from variable to fixed interest rate) were also entered into with an outstanding notional value of €177.5m as at 31 December 2016 (previous year: €203.9m) as part of (intragroup) project financing. From a financial perspective, these interest rate swaps also serve to hedge increases in interest rates, but from the Group perspective, these are freestanding derivatives and recognised at fair value through profit or loss.

Liquidity risk

In order to secure sufficient liquidity reserves, a five-year syndicated credit line in the amount of €500.0m with two renewal options to extend the term for one year each was entered into in the 2014 reporting period. The credit line was granted to VERBUND AG as part of an international banking syndicate. This credit line was not drawn down. In addition, there are also liquidity reserves in the form of securities and investment funds.

For contractually agreed (non-discounted) cash outflows from financial liabilities in accordance with IFRS 7, see: (35) Additional disclosures regarding financial instruments in accordance with IFRS 7.

Credit risk

The amounts reported on the asset side also represent the maximum credit and default risk. The counterparty risk in the electricity and grid business as well as in the finance area is measured and monitored uniformly as part of Group-wide risk management. As a rule, transactions – with the exception of petty amounts – are only entered into with customers of sufficient creditworthiness either on the basis of an external investment grade rating from an international rating agency (Moody's, Standard & Poor's) or following an internal credit assessment to determine an equivalent rating. An individual limit is established for each counterparty and monitored across the Group. Money market investments are also only entered into with financial partners with confirmed creditworthiness. All counterparty risks and the customer structure portfolio are monitored on the basis of default probabilities calculated by international rating agencies. As a rule, if the credit assessment or the rating does not meet the requirements – i.e. an investment grade rating is not achieved – transactions are only entered into if sufficient collateral is provided (advance payments, bank guarantees, letters of comfort). Default risks are minimised as a result of this counterparty requirement. Risk is further reduced by entering into netting arrangements.

As a rule, counterparty risk is not insured. Therefore, there was no insurance coverage for trade receivables at 31 December 2016 and in the previous year.

The table below provides an overview of the material financial instruments with credit risk by credit rating group:

Credit rating group	Equivalent Moody's-rating	Securities and loans under closed items on the balance sheet	Securities	Non-current and current other receivables ¹	Trade receivables	Derivatives in the finance area	Derivatives in the energy area	Investments as well as cash and cash equivalents ²
A	up to Aa3	69.9	0.0	0.0	1.8	0.0	1.9	0.3
B	up to A3	197.4	0.0	14.2	116.8	0.0	57.5	2.4
C	up to Baa3	107.8	0.0	0.0	166.3	114.1	55.3	25.3
D	below Baa3	0.0	0.0	0.0	0.6	0.0	3.9	0.0
Not rated		0.0	137.4	118.7	60.8	0.0	0.0	6.0
Total		375.1	137.4	132.8	346.3	114.1	118.6	34.0

¹ incl. receivables from investees and loans to investees // ² Non-current and current other loans and money market transactions have been summarised as investments in this presentation.

Financial instruments with credit risk by assigned rating group 2015

€m

Credit rating group	Equivalent Moody's-rating	Securities and loans under closed items on the balance sheet	Securities	Non-current and current other receivables ¹	Trade receivables	Derivatives in the finance area	Derivatives in the energy area	Investments as well as cash and cash equivalents ²
A	up to Aa3	19.3	0.0	0.0	2.7	0.0	3.8	0.6
B	up to A3	235.2	0.0	11.4	84.2	0.0	67.0	0.9
C	up to Baa3	103.6	0.0	0.0	142.7	123.1	77.2	28.0
D	below Baa3	0.0	0.0	0.0	21.0	0.0	36.0	0.0
Not rated		0.0	133.8	138.5	51.9	0.0	0.0	6.3
Total		358.2	133.8	149.9	302.5	123.1	184.0	35.8

¹ Incl. receivables from investees and loans to investees // ² Non-current and current other loans and money market transactions have been summarised as investments in this presentation.

Securities and loans related to closed items on the balance sheet are not exposed to price or foreign exchange risk from VERBUND's perspective. These investments were either carried out on the basis of matching currencies and maturities or they were adjusted to maturity, interest rates and currencies of the corresponding financial liabilities through corresponding derivatives. The remaining risk is thus a credit risk or default risk of the partner with whom the investments were carried out. This was in turn minimised in that investments were only carried out with partners with original first-class ratings (group A), whereby the credit rating and the solvency of the partner is constantly monitored in order to be able to react in a quick and timely manner according to the terms of the agreement in the event of impending default (see also: Accounting policies, other obligations and risks).

The other securities without assigned ratings are, in particular, domestic investment funds (funds for institutional investors) acquired to cover personnel-related provisions.

The amounts presented as "not rated" under non-current and current other receivables mainly include loans to investees accounted for using the equity method in addition to various small amounts (see: Transactions with related parties). In light of the close interconnections with VERBUND, it does not seem practical to have credit ratings for investees.

With respect to trade receivables, the amounts presented as "not rated" related on the one hand to the expansion of the consumer business, which led to a large number of receivables that individually lie below the de minimis limit (< €0.1m). On the other hand, it also includes receivables for which no credit assessments were carried out due to special circumstances (e.g. legal obligations to accept contracts).

Interest rate risk

VERBUND regards fluctuations in interest rates as a significant cash flow risk. As at 31 December 2016, the portion of financial liabilities (taking interest rate swaps into account) for which VERBUND was exposed to a corresponding interest rate risk was 6.6% (previous year: 20.3%). The decrease can be attributed to repaid money market transactions (cash advances) that were considered to bear interest at a variable rate due to the short terms in the previous year.

A 1.0% increase in the interest rate would result in a decrease of €1.6m p.a. (previous year: €5.5m p.a.) in profit before taxes with the loan portfolio in existence as at the reporting date, including the money market transactions. As a rule, hedging instruments are used in an attempt to further reduce the effects of short-term market price fluctuations on profit or loss. However, prolonged negative market price changes can have a negative impact on performance.

At 31 December 2016, there are interest rate swaps (notional amount: \$254.1m; previous year: \$251.5m) related to closed items on the balance sheet. The fair value of these derivatives, together with the related securities, loans and receivables, in each case form a micro hedge that exactly equates to the fair value recognised for the related financial liability. The changes in fair value of the interest rate swaps correspond to the fluctuations in value of the hedged financial liabilities measured at fair value induced by changes in interest rates.

At 31 December 2016, there were additional interest rate swaps over a total notional amount of €369.9m (previous year: €384.6m). These swaps exchange variable interest for a fixed interest rate in order to also secure the existing low interest level for the long term. These interest rate swaps were designated as hedging instruments as part of cash flow hedges in accordance with IAS 39.

In addition, interest rate swaps (from variable to fixed interest) were entered into as part of intra-Group project financing with a notional amount of €177.5m (previous year: €203.9m) for which no hedging relationships could be presented from a Group perspective. For the fair value of the non-current financial liabilities see: (35) Additional disclosures regarding financial instruments in accordance with IFRS 7. The average remaining term for the entire portfolio is 4.1 years (previous year: 4.3 years).

Foreign exchange risk

There are no assets exposed to significant foreign exchange risks because deliveries are settled almost entirely in euros; the same generally applies to other primary financial instruments.

Since securities and loans under closed items on the balance sheet as well as the associated liabilities are denominated exclusively in US dollars, no foreign exchange risk is incurred.

Risk from cross-border leasing transactions

With the beginning of the financial market crisis during the 2008 reporting period, the risk profile of cross-border leasing transactions changed for VERBUND – mainly as a result of the deterioration in the credit rating of contractual parties (banks and insurance companies). At the same time, due to the increased liquidity requirements of American cross-border leasing investors and the agreements between these investors and the American tax authorities regarding tax benefits to be approved, their willingness to terminate individual transactions early increased. VERBUND took advantage of these opportunities and was able to terminate a total of about 85% of the original volume of cross-border leasing transactions in the 2009 and 2010 reporting periods. The remaining transaction volume amounts to around \$966.0m, corresponding to around 15% of the original transaction volume. The original net present value benefit associated with this transaction was about €76.0m. This last remaining transaction has an off-balance sheet financing structure. Any potential liabilities on the part of VERBUND that could arise from this transaction are still hedged in part by means of counter-guarantees (see: Other obligations and/or entitlements and risks).

Some of the cross-border leasing transactions had been terminated early in their entirety; that is, all associated liabilities (A-loans and B-loans) and investments were also repaid. Some of the cross-border

leasing transactions were only partially terminated, whereby the transactions with investors and the associated A-loans were repaid, while VERBUND continued the existing B-loans. For these transactions that are designated as partially terminated, the existing B-payment undertaking agreements and the corresponding investments as well as the related derivatives (interest rate swaps, fair value hedges) were continued. Therefore, balance sheet cover remains in place. Expenses and income from the measurement of these items correspond to one another in terms of both value and value date, and are offset. The reference value of the interest rate swaps amounts to \$254.1m (previous year: \$251.2m).

The financial assets and liabilities related to closed items on the balance sheet are not netted on the balance sheet (if there is no current legally enforceable right to offset the amounts recognised). In the event of insolvency, the interest rates swaps (€114.1m; previous year: €123.1m) can be netted against the financial liabilities to banks recognised at fair value (€370.5m; previous year: €368.5m). The net liability from both of these items therefore amounted to €256.4m as at 31 December 2016 (previous year: €245.4m).

As a result of the downgrading of the credit rating by Standard & Poor's and Moody's in the reporting period, a so-called head lease filing (certificate deposit) vis-à-vis the equity investor has been triggered with respect to the only remaining cross-border leasing transaction. As an alternative to depositing the certificate, a waiver could also be utilised by paying a one-time fee. Provisions were recognised for the estimated future expenses resulting from the impact of the head lease filing.

In addition, there is still a risk that the investing financial institutions would have to be exchanged or additional collateral would have to be provided if the rating of the investing financial institutions were downgraded below a certain threshold amount. The same applies to two transactions that had been terminated early for which the financial liabilities were continued if the rating of either VERBUND or the issuer of the investments were to be downgraded by a certain amount. In this case, corresponding measures would have to be implemented.

The ratings of the contractual parties and/or VERBUND's rating exceeded the contractually agreed thresholds on 31 December 2016. Thus there is currently no need for VERBUND to switch individual contractual parties or investments. This risk is also reduced not least of all by the existence of guarantors' liabilities from regional authorities for individual contractual parties.

Energy area

Within its core business, VERBUND is active in international energy markets and is thus exposed to market, counterparty and operational risks that have to be seen alongside corresponding opportunities. Sustained economic activity in these markets requires appropriate structures and processes as well as strict intra-Group regulations. Dealing with market risks is managed by means of rule books and the limits established in them. Counterparty risk is approached using separate guidelines both at the Group level as well as at the level of the subsidiaries. There is a procedure manual for the management of operational risks.

The current utilisation of the various limits for market risk (value at risk, stress limit, stop-loss limits and exposure limits) is monitored, managed and reported on a daily basis, as is the risk position of the (derivative) financial instruments in the energy area.

At 31 December 2016, the derivative financial instruments in the energy area (electricity futures as well as electricity forwards and options, gas futures and gas forwards, CO₂ futures and CO₂ forwards) comprised the following:

Cash flow hedges (sales and procurement) as at 31/12/2016			€m
	Positive fair values	Negative fair values	Net
Futures	23.1	201.9	– 178.7
Forwards	5.7	25.2	– 19.5
Total before netting	28.9	227.1	– 198.2
of which current	27.1	221.5	– 194.4
of which non-current	1.7	5.6	– 3.9
of which in other comprehensive income			– 198.2

Wholesale as at 31/12/2016			€m
	Positive fair values	Negative fair values	Net
Futures	90.2	16.7	73.5
Forwards	66.1	185.2	– 119.1
Options	2.5	3.0	– 0.5
Total before netting	158.8	204.9	– 46.1
of which current	145.8	166.9	– 21.1
of which non-current	13.0	37.9	– 25.0
Futures already realised	82.7	28.2	54.5
Total			8.4

Trading as at 31/12/2016			€m
	Positive fair values	Negative fair values	Net
Futures	12.6	12.0	0.6
Forwards	584.7	582.2	2.6
Total before netting	597.3	594.2	3.1
of which current	532.8	529.7	3.1
of which non-current	64.5	64.5	0.0

Total as at 31/12/2016

€m

	Positive fair values	Negative fair values	Net
Futures	125.9	230.6	-104.7
Forwards	656.6	792.6	-136.0
Options	2.5	3.0	-0.5
Total before netting	785.0	1,026.2	-241.2
Including netting agreements	-666.5	-666.5	
Total after netting	118.5	359.7	-241.2
EEX/ECX clearing variation margins of futures		-105.8	105.8
Recognised under other receivables or liabilities	118.5	253.9	-135.4

At 31 December 2015, the derivative financial instruments in the energy area (electricity futures and electricity forwards as well as options, gas forwards and gas swaps along with the freestanding derivative from the long-term natural gas supply contract for the Mellach combined cycle gas turbine power plant and CO₂ futures) could be broken down as follows:

Cash flow hedges (sales and procurement) as at 31/12/2015

€m

	Positive fair values	Negative fair values	Net
Futures	45.3	25.3	20.0
Forwards	23.1	9.0	14.0
Options	16.6	0.0	16.6
Total before netting	85.0	34.3	50.7
of which current	67.7	31.1	36.6
of which non-current	17.3	3.2	14.1
of which in other comprehensive income			50.7

Wholesale as at 31/12/2015

€m

	Positive fair values	Negative fair values	Net
Futures	27.0	72.1	-45.1
Forwards	150.1	89.7	60.4
Options	3.4	0.0	3.4
Natural gas supply agreement	0.0	71.8	-71.8
Total before netting	180.6	233.6	-53.0
of which current	151.1	232.0	-80.9
of which non-current	29.5	1.7	27.8
Futures already realised			-24.2
Total			-77.2

Trading as at 31/12/2015

	Positive fair values	Negative fair values	Net
Futures	4.6	4.1	0.5
Forwards	315.8	315.7	0.0
Total before netting	320.3	319.8	0.5
of which current	215.6	215.6	0.0
of which non-current	104.8	104.2	0.5

Total as at 31/12/2015

	Positive fair values	Negative fair values	Net
Futures	76.9	101.5	-24.6
Forwards	489.0	414.5	74.5
Options	20.0	0.0	20.0
Natural gas supply agreement	0.0	71.8	-71.8
Total before netting	585.9	587.7	-1.9
Including netting agreements	-401.8	-401.8	0.0
Total after netting	184.1	186.0	-1.9
EEX/ECX clearing variation margins of futures	0.0	-24.6	
Recognised under other receivables or liabilities	184.1	161.4	22.6

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 entered into with a counterparty, the positive and negative fair values of the transactions for this counterparty are netted for accounting purposes because the aim is to settle on a net basis.

The effects of potential price fluctuations on the electricity market were measured (-10.0% to +10.0%) on the operating result (wholesale portfolio, trading portfolio) as well as on the equity (cash flow hedges). At present, a 10.0% increase in the market price would have an impact on the operating result in the amount of €5.8m (previous year: €5.8m) and on equity (not including deferred taxes) in the amount of €-107.3m (previous year: €-74.0m). At present, a 10.0% decline in the market price would have an impact on the operating result in the amount of €-5.8m (previous year: €-5.8m) and on equity (not including deferred taxes) in the amount of €+107.3m (previous year: €+74.0m). The future sales and procurement transactions hedged by cash flow hedges will occur over the next four years (2017 to 2020) and be recognised in profit or loss accordingly. At 31 December 2016, there were no material portions of cash flow hedges to be recognised in profit or loss in accordance with IAS 39.

In the 2016 reporting period, €217.3m was recognised in other comprehensive income with a resulting decrease in equity (previous year: €70.7m with a resulting increase in equity), €31.8m of which relates to reclassifications to profit or loss as a gain (previous year: gain of €14.2m).

Capital management

The goals of VERBUND's capital management are to ensure liquidity, to guarantee adequate liquidity reserves, to optimise the capital structure (balance sheet equity and debt) and to ensure a strong rating in the long term. As part of capital management, the Executive Board regularly monitors the following KPIs: net debt/EBITDA, free cash flow (before dividends) and ROCE.

In order to support the rating, the Group strives for a ratio of net debt/EBITDA of < 3.0, a free cash flow before dividends of > €250m and a ROCE of > 7.0% (profit or loss from any discontinued operations is taken into account when determining the KPIs).

Net debt/EBITDA	€m	
	2015	2016
Net debt	3,685.4	3,221.7
EBITDA	888.7	1,044.2
Net debt/EBITDA	4.1	3.1

Free cash flow	€m	
	2015	2016
Cash flow from operating activities	674.0	804.3
Cash flow from investing activities excluding cash inflows and outflows from investments and/or disposals in investments	- 122.6	- 223.6
Free cash flow	551.4	580.7

Return on capital employed	€m	
	2015	2016
NOPAT	348.7	500.0
Average capital employed	8,958.7	8,780.9
Return on capital employed	3.9%	5.7%

Other obligations and/or entitlements and risks

At 31 December 2016, around 85.0% of the original volume of cross-border leasing transactions had been terminated. The last remaining transaction has an off-balance sheet financing structure. As at 31 December 2016, VERBUND's secondary liability amounted to €582.3m (previous year: €575.4m) for the non-redeemed portion of the leasing liability from this cross-border leasing transaction. Of the rights of recourse against the primary debtors, €392.8m (previous year: €402.0m) is secured through counter-guarantees from financial institutions, entities entitled to purchase electricity and regional authorities (from guarantors' liabilities). In addition, €259.8m (previous year: €239.1m) is covered by off-balance sheet investments in zero coupons of the European Investment Bank which are also secured by a guarantee from the Financial Security Assurance Inc. (FSA).

Contingent liabilities

In the 2016 reporting period, VERBUND and EconGas GmbH settled various outstanding issues related to gas deliveries for the Mellach combined cycle gas turbine power plant. The natural gas supply agreement signed on 24 June 2008 is no longer in effect. The parties have agreed not to discuss the terms of the agreement (see also (4) Other operating income).

Court proceedings pending

In the 2016 reporting period, all outstanding issues related to the district heating agreement from the Mellach power plant site with Energie Steiermark AG were settled. In this context, VERBUND will construct a heating boiler system at the Mellach site that should serve to fulfil the district heating agreement. The parties have agreed not to discuss the further details of the settlement.

In the 2016 reporting period and in the previous year, claims were raised by several parties for damages related to the flood on the Drau in 2012. The damages claimed under civil law currently amount to a total of around €109.8m (previous year: €98.3m). VERBUND is contesting both the amounts and merits of these claims. No disclosures have been provided in respect of any contingent liabilities or provisions that may arise in relation to these claims for damages because it is likely that such note disclosures would seriously prejudice VERBUND's position in the proceedings.

On 19 May 2015, VERBUND was served notice of an action by EVN AG (the action was brought before the Vienna Commercial Court on 5 May 2015). The subject of this action is EVN AG's action for a declaratory judgement to the effect that VERBUND's termination of the operating provisions of the construction, operation and management agreement from 1980 effective 30 June 2015 in connection with the completed shutdown of VERBUND's power plant block at the site of the power plant joint venture in Dürnrohr is unlawful and that EVN AG lost benefits from the synergy effects of joint management. The first witnesses were examined and an expert report was commissioned in the 2016 reporting period. No disclosures have been provided in respect of any contingent liabilities or provisions that may arise in relation to this action because it is likely that such note disclosures would seriously prejudice VERBUND's position in the proceedings.

Contracts and purchase commitments

Contracts and purchase commitments 2016				€m
	Total commitment as at 31/12/2016	Commitment within one year	Commitment within 5 years	
Rental, lease and insurance agreements	n/a ¹	21.2	76.7	
Purchase commitment for property, plant and equipment, intangible assets and other services	363.9	210.3	359.6	

Contracts and purchase commitments 2015				€m
	Total commitment as at 31/12/2015	Commitment within one year	Commitment within 5 years	
Rental, lease and insurance agreements	n/a ¹	20.2	82.7	
Purchase commitment for property, plant and equipment, intangible assets and other services	368.9	252.7	352.0	

¹ The amount of the total commitment cannot be determined due to unspecified contract periods.

Purchase contracts

As part of a basic contract which can be terminated yearly, Weglokoks S.A. offers VERBUND Thermal Power GmbH & Co KG in Liqu. 450,000 t of hard coal annually at negotiable prices. There is also a framework contract that can be terminated yearly with OKD A.S. for an annual volume of at least 600,000 t hard coal at negotiable prices. No purchase agreements have so far been entered into for delivery in the 2017 reporting period, as the negotiations with the coal suppliers have not been finalised.

In addition, there are further customary purchase contracts for business activities that include, in particular, the delivery of electricity and primary energy sources, but also property, plant and equipment, as well as maintenance and repair services.

Other commitments

Provincial energy companies have acquired (proportionate) electricity purchase rights by providing contributions to building costs for power plants on the Danube and Drau rivers and for the Malta power plant group. Due to these electricity supply agreements, VERBUND is obligated to deliver a portion of the electricity generated in these power plants to the provincial energy companies in exchange for reimbursement of the contractually predetermined recognised expenses (excluding depreciation, amortisation and interest).

In the 2011 reporting period, an agreement was reached with the Free State of Bavaria to convert the existing reversion rights for the Wasserburg, Teufelsbrück and Gars run-of-river power plants into so-called contingent reversion rights – these are only triggered in the event that VERBUND permanently ceases to operate the power plants or permanently shuts them down. In exchange, VERBUND undertook to implement certain water management measures and environmental and infrastructure measures on the Bavarian Inn River by 2021.

There is a district heating supply and purchase agreement between VERBUND Thermal Power GmbH & Co KG in Liqu. and Steirische Gas-Wärme GmbH to meet the district heating demand of the metropolitan area of Graz. District heating plants have been authorised at the Mellach site to satisfy the resulting delivery obligations.

As is typical for the energy industry, payments for losses are made to land owners for economic disadvantages associated with the construction of power plants and lines. The total present value of these commitments is not material to VERBUND.

Average number of employees

	2015	2016	Change
Salaried employees	2,863	2,749	– 114
Wage earners	45	4	– 40
Apprentices	182	169	– 13
Average number of employees¹	3,089	2,923	– 167

¹ Part-time employees were taken into account proportionately based on their working hours.

As at the reporting date, 115 (previous year: 162) employees had a letter of loyalty granting them a higher degree of employment protection. The prerequisite was at least 20 years of service at VERBUND and a minimum age of 45.

In the 2016 reporting period there was a total average of 18 secondments (previous year: 24) to unconsolidated subsidiaries of VERBUND. In addition, 16 employees were assigned on average to PÖYRY Energy GmbH (previous year: 18).

The expenses for services provided by the Group auditor refer to VERBUND's consolidated subsidiaries that are audited by the Group auditor/the Group auditor's network; the corresponding expenses for subsidiaries that are not consolidated due to lack of materiality are not included here. VERBUND's Group auditor in both 2015 and 2016 was Deloitte Audit Wirtschaftsprüfungs GmbH.

Expenses for services provided by the Group auditor

	Deloitte ¹ 2015	Deloitte ¹ 2016	Network 2015	Network 2016
Audit services relating to consolidated and separate financial statements	295.8	329.5	196.7	197.8
Other assurance services	28.3	46.7	0.0	0.0
Tax consulting services	7.5	19.8	0.0	0.0
Other advisory services	52.8	4.0	0.0	0.0
Total expenses	384.4	400.0	196.7	197.8

¹ Deloitte Audit Wirtschaftsprüfungs GmbH

The following expenses for Group auditor/Group auditor network services were incurred by VERBUND's joint ventures: €25.4k (previous year: €15.4k) for audit services relating to the consolidated and separate financial statements (of which to Deloitte Audit Wirtschaftsprüfungs GmbH: €25.4k; previous year: €15.4k).

Average number of employees**Provision of personnel****Expenses for services provided by the Group auditor**

Transactions with related parties

Related parties of VERBUND include all subsidiaries, associates and joint ventures. In addition, related parties include the members of VERBUND's Executive Board and Supervisory Board, companies controlled or significantly influenced by them or their close family members. Due to its position as the majority shareholder, the Republic of Austria is a related party. Consequently, companies over which the Republic of Austria has a controlling or significant influence are also considered to be related parties. These include, in particular, Österreichische Bundesbahnen (ÖBB), Bundesbeschaffungs GmbH (BBG), OMV and Telekom Austria as well as Energie-Control Austria für die Regulierung der Elektrizitäts- und Erdgaswirtschaft (E-Control).

Transactions between related parties are carried out at arm's length. Transactions with unconsolidated subsidiaries, joint ventures or associates are not presented due to lack of materiality.

Transactions with joint ventures

Material transactions with equity-accounted joint ventures had the following effect on VERBUND's income statement and balance sheet:

Transactions with joint ventures		€m
	2015	2016
Income statement		
Electricity revenue	0.1	3.1
Other revenue	0.7	0.5
Other operating income	0.1	0.1
Expenses for electricity, grid, gas and certificates purchases	-0.1	-2.6
Fuel expenses and other usage-dependent expenses	0.0	-0.1
Other operating expenses	0.0	-0.1
Interest expenses	0.0	0.0
Interest income	1.9	1.4
Other financial result	2.2	2.2

Transactions with joint ventures		€m
	31/12/2015	31/12/2016
Balance sheet		
Investments and non-current other receivables	40.4	42.2
Trade receivables and current other receivables	12.4	9.5
Contributions to building costs	1.0	1.0
Trade payables and current other liabilities	2.4	3.4

As at 31 December 2016 there were loans to Energji Ashta Shpk in the amount of €42.8m (previous year: €39.9m), of which €39.3m (previous year: €36.4m) were presented under investments and other non-current receivables and €3.5m (previous year: €3.5m) were presented under trade receivables and current other receivables. The loans primarily served the financing of construction services relating to an Albanian hydropower plant concession.

KELAG-Kärntner Elektrizitäts-Aktiengesellschaft has acquired (proportionate) electricity purchase rights by providing contributions to building costs for power plants on the Danube and Drau rivers and for the Malta power plant group. Based on these electricity supply agreements, VERBUND is obligated to deliver a portion of the electricity generated in these power plants to KELAG-Kärntner Elektrizitäts-Aktiengesellschaft in exchange for reimbursement of the contractually predetermined recognised expenses (excluding depreciation, amortisation and interest).

Material transactions with equity-accounted associates had the following effect on VERBUND's income statement and balance sheet:

Transactions with associates

Transactions with associates		€m
	2015	2016
Income statement		
Electricity revenue	58.8	63.4
Grid revenue	22.9	23.4
Other revenue	0.3	0.2
Other operating income	3.3	6.8
Expenses for electricity, grid, gas and certificates purchases	-28.3	-27.0
Other operating expenses	-1.5	-0.9
Interest income	0.0	0.1
	31/12/2015	31/12/2016
Balance sheet		
Trade receivables and current other receivables	11.6	16.2
Contributions to building costs	285.5	287.3
Trade payables and current other liabilities	0.3	0.3

Electricity revenue was realised with KELAG-Kärntner Elektrizitäts-Aktiengesellschaft (€35.4m; previous year: €38.6m) and OeMAG Abwicklungsstelle für Ökostrom AG (€28.0m; previous year: €20.2m). The electricity revenue had to be seen alongside electricity purchases from KELAG-Kärntner Elektrizitäts-Aktiengesellschaft in the amount of €17.2m (previous year: €23.0m) and OeMAG Abwicklungsstelle für Ökostrom AG (€9.3m; previous year: €5.3m). Grid revenue was only realised with KELAG-Kärntner Elektrizitäts-Aktiengesellschaft. KELAG-Kärntner Elektrizitäts-Aktiengesellschaft made contributions to building costs of €7.3m (previous year: €15.2m) in the 2016 reporting period.

**Transactions with
the Republic of
Austria and
companies under its
controlling influence**

Electricity revenue with companies controlled or significantly influenced by the Republic of Austria amounted to a total of €26.7m (previous year: €28.7m) in the 2016 reporting period. The primary buyers of this electricity were ÖBB, Bundesbeschaffungs GmbH, Telekom Austria and OMV. Electricity purchased from companies controlled or significantly influenced by the Republic of Austria amounted to a total of €0.2m in the 2016 reporting period (previous year: €0.2m). The electricity deliveries were carried out by ÖBB.

VERBUND's expense for monitoring by E-Control amounted to a total of €12.1m (previous year: €12.9m) in the 2016 reporting period.

In quarters 1– 4/2016, VERBUND and EconGas GmbH settled various outstanding issues related to gas deliveries for the Mellach combined cycle gas turbine power plant. The natural gas supply agreement signed on 24 June 2008 is no longer in effect. The parties have agreed not to discuss the terms of the agreement (see also (4) Other operating income).

**Disclosures
regarding the
governing bodies of
the Group**

Detailed disclosures regarding the Boards of VERBUND AG are presented in the corporate governance report. The following disclosures focus on the remuneration of members of the Executive Board and the Supervisory Board.

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

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

Remuneration of the Executive Board members amounted to a total of €4,293,724 in the 2016 reporting period (previous year: €4,143,855), including €150,381 (previous year: €105,924) in remuneration in kind.

Because it is only possible to ascertain at the end of the year whether targets have been reached, variable remuneration components are paid out in the following year. Therefore, the total amount includes variable remuneration components granted to members of the Executive Board in the 2016 reporting period for the 2015 reporting period.

Variable remuneration depends upon performance and is limited to a specific percentage of the respective fixed remuneration. For the 2015 reporting period, this percentage rate amounted to between 30% and 50%. For the current 2016 reporting period, this percentage rate amounted to between 50% and 70%. The level of performance-based remuneration components depends on the extent to which the targets agreed for the financial year are reached. In the 2015 reporting period, the agreed goals were based 50% on consolidated profit or loss, 15% on achieving the free cash flow and 35% on intermediate goals (two-year period, partly qualitative), for example the meeting of specific cost goals related to the "VERBUND 2015" project and the market initiative (e.g. increasing the market share, new services and products, expanding the B2B operations). The principles underlying the Executive Board's share of profit were unchanged from the previous year.

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

Statutory regulations apply, taking account of the requirements of Rule 27a of the Austrian Code of Corporate Governance, with respect to the claims of members of the Executive Board upon termination of their position. In the 2016 reporting period, €361,210 was paid out for pensions (previous year: €384,644) and €0 for termination benefits in favour of beneficiaries (previous year: €0).

Profit or loss for the period included expenses for termination benefits and pensions and similar obligations – i.e. post-employment benefits – in the amount of €46,002 (previous year: €68,313). Expenses for pensions and similar obligations for former members of the Executive Board and their surviving dependants included in the profit or loss for the period amounted to a total of €68,322 (previous year: €100,629). In addition, remeasurement expenses in the amount of €325,558 (previous year: income amounting to €1,203,027) were recognised in other comprehensive income.

Remuneration for members of the Supervisory Board (including the reimbursement of recharged business/travel expenses) amounted to a total of €387,329 (previous year: €312,665). As in the previous year, no loans or advances were paid out to members of the Group's or subsidiaries' boards. As in the previous year, VERBUND does not have a stock option programme for either the members of the Executive Board or senior management staff.

Subsidiaries, joint ventures and associates of VERBUND

The following table contains condensed financial information for each of the Group's subsidiaries with significant, non-controlling interests before intra-Group adjustments:

Subsidiaries with significant, non-controlling interests

Subsidiaries with significant, non-controlling interests: Statement of comprehensive income

	VERBUND Hydro Power GmbH	2015 VERBUND Innkraftwerke GmbH	VERBUND Hydro Power GmbH	2016 VERBUND Innkraftwerke GmbH
Revenue	733.7	74.3	676.9	63.0
Profit or loss after tax from continuing operations	206.6	1.7	180.1	-7.4
Profit or loss for the period	206.6	1.7	180.1	-7.4
Ownership interest of non-controlling interests	19.46%	29.73%	19.46%	29.73%
Profit or loss for the period attributable to non-controlling interests	40.2	0.5	35.1	-2.2
Other comprehensive income	4.2	0.2	-2.1	-1.4
Total comprehensive income for the period	210.8	1.9	178.0	-8.8
Ownership interest of non-controlling interests	19.46%	29.73%	19.46%	29.73%
Total profit or loss for the period attributable to non-controlling interests	41.0	0.6	34.6	-2.6

Subsidiaries with significant, non-controlling interests: Balance sheet

€m

	VERBUND Hydro Power GmbH	31/12/2015 VERBUND Innkraftwerke GmbH	VERBUND Hydro Power GmbH	31/12/2016 VERBUND Innkraftwerke GmbH
Non-current assets	4,791.2	700.6	4,758.1	667.5
Current assets	14.1	24.6	16.6	31.5
Non-current liabilities	-2,399.0	-86.6	-2,082.1	-84.2
Current liabilities	-347.2	-12.6	-655.6	-12.7
Net assets	2,059.0	625.9	2,037.0	602.1
Ownership interest of non-controlling interests	19.46%	29.73%	19.46%	29.73%
Net assets attributable to non-controlling interests	400.8	186.1	396.5	179.0

Subsidiaries with significant, non-controlling interests: Cash flows

€m

	VERBUND Hydro Power GmbH	31/12/2015 VERBUND Innkraftwerke GmbH	VERBUND Hydro Power GmbH	31/12/2016 VERBUND Innkraftwerke GmbH
Cash flow from operating activities	313.1	48.5	331.2	33.6
Cash flow from investing activities	-105.2	-9.3	-83.2	-8.0
Cash flow from financing activities	-207.9	-39.2	-247.9	-25.7
Change in cash and cash equivalents	0.0	0.0	0.0	0.0
Dividends paid to non-controlling interests	48.7	8.9	38.9	4.5

There is a shareholder agreement at VERBUND Innkraftwerke GmbH that specifies that the entire profit for the year is to be approved as net profit for the period and distributed to the shareholders except in the following cases: the shareholders agree unanimously to a different payout ratio; the distribution of the entire profit violates statutory provisions; equity as a percentage of assets will fall below 25% as at the respective reporting date if the entire profit is distributed; there are insufficient cash and cash equivalents available to distribute the entire profit; a distribution of the entire profit would not leave enough cash and cash equivalents for approved capital expenditure, maintenance and restructuring measures and/or actions that must be taken due to force majeure, or reserves are to be recognised for the reversal of impairment losses.

Joint ventures

The table below shows a summary of aggregated financial information for the equity-accounted joint ventures of VERBUND broken down according to material joint ventures (Shkodra Region Beteiligungsholding GmbH) and joint ventures that are individually immaterial. The reference date for investee balance sheet data is 30 September 2016 (see: Financial reporting principles); the data are based on disclosed financial statements and/or on data updated to the best of VERBUND's knowledge.

Shkodra Region Beteiligungsholding GmbH: Statement of comprehensive income

€m

	2015	2016
Revenue	0.5	0.7
Depreciation and amortisation	–0.1	–0.1
Interest income	11.6	11.0
Interest expense	–7.5	–7.2
Taxes on income	–0.3	0.7
Profit after tax from continuing operations	1.6	2.8
Ownership interest of VERBUND	50.01%	50.01%
Profit for the period attributable to VERBUND	0.8	1.4
Differences due to the application of the equity method of accounting	0.0	0.0
Result from joint ventures accounted for using the equity method	0.8	1.4
Profit after tax from continuing operations	1.6	2.8
Other comprehensive income	0.0	0.0
Total comprehensive income for the period	1.6	2.8
Ownership interest of VERBUND	50.01%	50.01%
Total comprehensive income for the period attributable to VERBUND	0.8	1.4
Differences due to the application of the equity method of accounting	0.0	0.0
Total comprehensive income for the period from joint ventures accounted for using the equity method	0.8	1.4
Dividends received from joint ventures	0.0	0.0

At Shkodra Region Beteiligungsholding GmbH, resolutions on the distribution of dividends are to be unanimously approved with the joint venture partners.

Individually immaterial joint ventures: Statement of comprehensive income

€m

	2015	2016
Loss after tax from continuing operations	–1.5	–2.8
Loss for the period attributable to VERBUND	–0.8	–1.5
Differences due to the application of the equity method of accounting	0.0	–0.4
Result from joint ventures accounted for using the equity method	–0.8	–1.9
Loss after tax from continuing operations	–1.5	–2.8
Other comprehensive income	0.0	0.0
Total comprehensive income for the period	–1.5	–2.8
Total comprehensive income for the period attributable to VERBUND	–0.8	–1.5
Differences due to the application of the equity method of accounting	0.0	–0.4
Total comprehensive income for the period from joint ventures accounted for using the equity method	–0.8	–1.9

Shkodra Region Beteiligungsholding GmbH: Balance sheet

€m

	31/12/2015	31/12/2016
Non-current assets	134.0	130.9
Current assets ¹	12.5	4.0
Non-current liabilities ²	– 115.4	– 107.6
Current liabilities ³	– 26.6	– 8.0
Net assets	4.5	19.3
Ownership interest of VERBUND	50.01%	50.01%
Net assets attributable to VERBUND	2.3	9.7
Differences due to the application of the equity method of accounting	– 2.3	– 9.7
Carrying amount of joint ventures accounted for using the equity method	0.0	0.0

¹ Current assets include liquid assets of €0m (previous year: €0.1m). // ² Non-current liabilities include non-current financial liabilities (with the exception of trade payables, other liabilities and provisions) in the amount of €111.9m (previous year: €118.9m). // ³ Current liabilities include current financial liabilities (with the exception of trade payables, other liabilities and provisions) in the amount of €7.7m (previous year: 7.8m).

Until further notice, there is a cash management agreement in place between VERBUND and Energji Ashta Shpk (wholly owned subsidiary of Shkodra Region Beteiligungsholding GmbH) with a limit of €9.0m (previous year: €17.0m). As at 31 December 2016, €4.5m (previous year: €8.3m) of the limit had been drawn down.

Individually immaterial joint ventures: Balance sheet

€m

	31/12/2015	31/12/2016
Net assets	9.6	10.0
Net assets attributable to VERBUND	3.6	3.7
Differences due to the application of the equity method of accounting	0.0	1.1
Carrying amount of joint ventures accounted for using the equity method	3.7	4.8

Associates

The tables below show a summary of aggregated financial information for the associates of VERBUND accounted for using the equity method broken down according to material associates (KELAG-Kärntner Elektrizitäts-Aktiengesellschaft) and individually immaterial associates. The reference date for investee balance sheet data is 30 September 2016 (see: Financial reporting principles); the data are based on disclosed financial statements and/or on data updated to the best of VERBUND's knowledge.

Individually material associates: Statement of comprehensive income

€m

	2015 KELAG-Kärntner Elektrizitäts- Aktien- gesellschaft	2016 KELAG-Kärntner Elektrizitäts- Aktien- gesellschaft
Revenue	1,442.3	1,249.4
Profit after tax from continuing operations	77.5	87.9
Ownership interest of VERBUND	35.17%	35.17%
Profit for the period attributable to VERBUND	27.3	30.9
Differences due to the application of the equity method of accounting	0.0	0.0
Share of profit from associates accounted for using the equity method	27.3	30.9
Profit after tax from continuing operations	77.5	87.9
Other comprehensive income	-23.6	-5.6
Total comprehensive income for the period	53.9	82.3
Ownership interest of VERBUND	35.17%	35.17%
Total comprehensive income for the period attributable to VERBUND	19.0	28.9
Differences due to the application of the equity method of accounting	0.0	0.0
Total comprehensive income for the period from associates accounted for using the equity method	19.0	28.9
Dividends received from associates	14.1	14.1

KELAG-Kärntner Elektrizitäts-Aktiengesellschaft resolutions on the distribution of dividends must be approved with a simple majority. Kärntner Energieholding Beteiligungs GmbH holds 51% of the interest in KELAG-Kärntner Elektrizitäts-Aktiengesellschaft and therefore determines their distribution policy.

Individually immaterial associates: Statement of comprehensive income

€m

	2015	2016
Profit after tax from continuing operations	0.1	0.2
Profit for the period attributable to VERBUND	0.0	0.1
Differences due to the application of the equity method of accounting	0.0	0.0
Share of profit from associates accounted for using the equity method	0.0	0.1
Profit after tax from continuing operations	0.1	0.2
Other comprehensive income	0.0	0.0
Total comprehensive income for the period	0.1	0.2
Total comprehensive income for the period attributable to VERBUND	0.0	0.1
Differences due to the application of the equity method of accounting	0.0	0.0
Total comprehensive income for the period from associates accounted for using the equity method	0.0	0.1

Individually material associates: Balance sheet

€m

	31/12/2015 KELAG-Kärntner Elektrizitäts- Aktien- gesellschaft	31/12/2016 KELAG-Kärntner Elektrizitäts- Aktien- gesellschaft
Non-current assets	1,619.7	1,614.8
Current assets	197.1	341.5
Non-current liabilities	-825.3	-853.0
Current liabilities	-250.2	-319.7
Net assets	741.3	783.6
Ownership interest of VERBUND	35.17%	35.17%
Net assets attributable to VERBUND	260.7	275.6
Differences due to the application of the equity method of accounting	0.3	0.3
Carrying amount of associates accounted for using the equity method	261.0	275.8

Individually immaterial associates: Balance sheet

€m

	31/12/2015	31/12/2016
Net assets	6.2	5.2
Net assets attributable to VERBUND	1.7	1.3
Differences due to the application of the equity method of accounting	1.5	0.0
Carrying amount of associates accounted for using the equity method	3.2	1.3

**List of Group
companies**

The following list of Group companies prepared in accordance with Section 245a(1) in conjunction with Section 265(2) of the Austrian Commercial Code (UGB) comprises VERBUND's subsidiaries, joint ventures and associates. In addition, this list also includes unconsolidated subsidiaries and other joint ventures and equity interests of VERBUND not accounted for using the equity method with an interest of $\geq 20\%$.

Segment: Renewable Generation

Company	Head- quarters	Consoli- dation method	Parent company	2015	Head- quarters	Consoli- dation method	Parent company	2016
				Parent com- pany's share of equity				Parent com- pany's share of equity
VERBUND AG (VH) – Renewable generation activities	Vienna	CS	–	–	Vienna	CS	–	–
Alpha Wind S.R.L.	Bucha- rest	CS	VH	90.00%	Bucha- rest	CS	VH VFS	99.98% 0.02%
CAS Regenerabile S.R.L.	Bucha- rest	CS	VH VFS	99.99% 0.01%	Bucha- rest	CS	VH VFS	99.99% 0.01%
Donaukraftwerk Jochenstein Aktiengesellschaft	Passau	CS	VH VHP-IW	50.00% 50.00%	Passau	CS	VH VHP-IW	50.00% 50.00%

Segment: Renewable Generation

Company	Head- quarters	Consoli- dation method	Parent company	2015	Head- quarters	Consoli- dation method	Parent company	2016
				Parent com- pany's share of equity				Parent com- pany's share of equity
Grenzkraftwerke Gesellschaft mit beschränkter Haftung	Simbach	CS	VH VHP-IW	50.00% 50.00%	Simbach	CS	VH VHP-IW	50.00% 50.00%
Innwerk AG (VHP-IW)	Stamm- ham	CS	VH	100.00%	Stamm- ham	CS	VH	100.00%
Österreichisch- Bayerische Kraftwerke Aktiengesellschaft	Simbach	CS	VH VHP-IW	50.00% 50.00%	Simbach	CS	VH VHP-IW	50.00% 50.00%
Ventus Renew Romania S.R.L.	Bucha- rest	CS	VH	90.00%	Bucha- rest	CS	VH VFS	99.98% 0.02%
VERBUND Wind Power Austria GmbH (VRP-AT)	Vienna	CS	VHP	100.00%	Vienna	CS	VHP	100.00%
VERBUND Wind Power Deutschland GmbH (VRP-DE)	Wörr- stadt	CS	VH	100.00%	Wörr- stadt	CS	VH	100.00%
Windpark Dichtelbach GmbH & Co. KG	Wörr- stadt	CS	VH	95.00%	Wörr- stadt	CS	VH	95.00%
Windpark Dörrebach GmbH & Co. KG	Wörr- stadt	CS	VH	95.00%	Wörr- stadt	CS	VH	95.00%
Windpark Eichberg GmbH & Co. KG	Wörr- stadt	CS	VH	95.00%	Wörr- stadt	CS	VH	95.00%
Windpark Ellern GmbH & Co. KG	Wörr- stadt	CS	VH	95.00%	Wörr- stadt	CS	VH	95.00%
Windpark Hochfels GmbH & Co. KG	Wörr- stadt	CS	VH	95.00%	Wörr- stadt	CS	VH	95.00%
Windpark Rheinböllen GmbH & Co. KG	Wörr- stadt	CS	VH	95.00%	Wörr- stadt	CS	VH	95.00%
Windpark Schönborn GmbH & Co. KG	Wörr- stadt	CS	VH	95.00%	Wörr- stadt	CS	VH	95.00%
Windpark Seibersbach GmbH & Co. KG	Wörr- stadt	CS	VH	95.00%	Wörr- stadt	CS	VH	95.00%
Windpark Stetten I GmbH & Co. KG	Wörr- stadt	CS	VH	95.00%	Wörr- stadt	CS	VH	95.00%
Windpark Utschenwald GmbH & Co. KG	Wörr- stadt	CS	VH	95.00%	Wörr- stadt	CS	VH	95.00%

Segment: Renewable Generation

Company	Head- quarters	Consoli- dation method	Parent company	2015	Head- quarters	Consoli- dation method	Parent company	2016
				Parent com- pany's share of equity				Parent com- pany's share of equity
Infrastruktur Oberheimbach I GmbH & Co. KG	Wörr- stadt	CS	VH	81.00%	Wörr- stadt	CS	VH	81.00%
VERBUND Hydro Power GmbH (VHP)	Vienna	CS	VH	80.54%	Vienna	CS	VH	80.54%
VERBUND Innkraftwerke GmbH	Töging	CS	VH	70.27%	Töging	CS	VH	70.27%
Infrastrukturgesell- schaft Bischheim GmbH & Co. KG	Wörr- stadt	CS	VH	61.26%	Wörr- stadt	CS	VH	61.26%
Ennskraftwerke Aktiengesellschaft	Steyr	JO	VH	50.00%	Steyr	JO	VH	50.00%
Shkodra Region Beteiligungsholding GmbH (VHP-AL-HI)	Vienna	EM ¹	VHP	50.01%	Vienna	EM ¹	VHP	50.01%
Kraftwerk Nußdorf Errichtungs- und Betriebs GmbH & Co KG	Vienna	EM ¹	VHP	33.33%	Vienna	EM ¹	VHP	33.33%
Kraftwerk Nußdorf Errichtungs- und Betriebs GmbH	Vienna	EM ¹	VHP	33.33%	Vienna	EM ¹	VHP	33.33%
Lestin & Co Tauch-, Bergungs- und Sprengunterneh- men Gesellschaft m.b.H. (LESTIN)	Vienna	UC	VHP	100.00%	Vienna	UC	VHP	100.00%
VERBUND Tourismus GmbH	Vienna	CS	VHP LESTIN	99.90% 0.10%	Vienna	UC	VHP LESTIN	99.90% 0.10%
Verbundplan Birecik Baraji Isletme Ltd. Sti.	Birecik	UC	VHP	70.00%	Birecik	UC	VHP	70.00%
VERBUND Photovoltaics Ibérica S.L.	Madrid	CS	VH	100.00%	–	–	–	–

CS = Consolidated subsidiary / EM = Investee accounted for using the equity method / JO = Joint operation, proportionate inclusion of assets and liabilities as well as income and expenses / UC = Unconsolidated entities due to immateriality or lack of significant influence

¹ Joint ventures

Segment: Sales

Company	Head- quarters	Consoli- dation method	Parent company	2015	Head- quarters	Consoli- dation method	Parent company	2016
				Parent com- pany's share of equity				Parent com- pany's share of equity
VERBUND AG (VH) – Sales activities	Vienna	CS	–	–	Vienna	CS	–	–
VERBUND Sales GmbH (VSA)	Vienna	CS	VH	100.00%	Vienna	CS	VH	100.00%
VERBUND Sales Deutschland GmbH	Munich	CS	VSA	100.00%	Munich	CS	VSA	100.00%
VERBUND Trading GmbH (VTR)	Vienna	CS	VH	100.00%	Vienna	CS	VH	100.00%
VERBUND Trading Romania S.R.L.	Bucha- rest	CS	VTR VH	99.00% 1.00%	Bucha- rest	CS	VTR VH	99.00% 1.00%
VERBUND Trading & Sales Deutschland GmbH	Munich	UC	VTR	100.00%	Munich	UC	VTR	100.00%
VERBUND Trading Czech Republic s.r.o.	Prague	UC	VTR	100.00%	Prague	UC	VTR	100.00%
VERBUND Trading Serbia d.o.o.	Belgrade	UC	VTR	100.00%	Belgrade	UC	VTR	100.00%
smart Energy Services GmbH	Vienna	UC ¹	VSA	50.00%	Vienna	UC ¹	VSA	50.00%

Segment: Grid

Company	Head- quarters	Consoli- dation method	Parent company	2015	Head- quarters	Consoli- dation method	Parent company	2016
				Parent com- pany's share of equity				Parent com- pany's share of equity
Austrian Power Grid AG (APG)	Vienna	CS	VH	100.00%	Vienna	CS	VH	100.00%
OeMAG Abwicklungsstelle für Ökostrom AG	Vienna	EM	APG	24.40%	Vienna	EM	APG	24.40%

CS = Consolidated subsidiary / EM = Investee accounted for using the equity method / JO = Joint operation, proportionate inclusion of assets and liabilities as well as income and expenses / UC = Unconsolidated entities due to immateriality or lack of significant influence

¹ Joint ventures

All other segments: Energy services

Company	Head- quarters	Consoli- dation method	Parent company	2015	Head- quarters	Consoli- dation method	Parent company	2016
				Parent com- pany's share of equity				Parent com- pany's share of equity
VERBUND AG (VH) – Energy services activities	Vienna	CS	–	–	Vienna	CS	–	–
VERBUND Solutions GmbH (VSO)	Vienna	CS	VH	100.00%	Vienna	CS	VH	100.00%
SMATRICS GmbH & Co KG	Vienna	UC	VSO	76.78%	Vienna	CS	VSO	83.29%
AQUANTO GmbH	Unterföhr- ing	EM ¹	VH	50.00%	Unterföh- ring	EM ¹	VH	50.00%
SOLAVOLTA Energie- und Umwelttechnik GmbH	Sankt Marga- rethen im Bgld	EM ¹	VSO	50.00%	Sankt Marga- rethen im Bgld	EM ¹	VSO	50.00%
VERBUND GETEC Energiecontracting GmbH	Vienna	EM ¹	VSO	50.00%	Vienna	EM ¹	VSO	50.00%
E-Mobility Provider Austria GmbH	Vienna	UC	VSO	76.78%	Vienna	UC	VSO	83.29%

All other segments: Thermal generation

Company	Head- quarters	Consoli- dation method	Parent company	2015	Head- quarters	Consoli- dation method	Parent company	2016
				Parent com- pany's share of equity				Parent com- pany's share of equity
VERBUND Thermal Power GmbH & Co KG in Liqu.	Neudorf ob Wildon	CS	VH	100.00%	Neudorf ob Wildon	CS	VH	100.00% ²
VERBUND Thermal Power GmbH (VTP GmbH)	Neudorf ob Wildon	CS	VH	100.00%	Neudorf ob Wildon	CS	VH	100.00%

CS = Consolidated subsidiary / EM = Investee accounted for using the equity method / JO = Joint operation, proportionate inclusion of assets and liabilities as well as income and expenses / UC = Unconsolidated entities due to immateriality or lack of significant influence

¹ Joint ventures // ² The other limited partners of VERBUND Thermal Power GmbH & Co KG in Liqu. hold a combined share of <0.01%.

All other segments: Services

Company	Head- quarters	Consoli- dation method	Parent company	2015	Head- quarters	Consoli- dation method	Parent company	2016
				Parent com- pany's share of equity				Parent com- pany's share of equity
VERBUND Services GmbH	Vienna	CS	VH	100.00%	Vienna	CS	VH	100.00%

All other segments: Equity interests

Company	Head- quarters	Consoli- dation method	Parent company	2015	Head- quarters	Consoli- dation method	Parent company	2016
				Parent com- pany's share of equity				Parent com- pany's share of equity
KELAG-Kärntner Elektrizitäts- Aktiengesellschaft	Klagen- furt	EM	VH	35.17%	Klagen- furt	EM	VH	35.17%

Other Group companies

Company	Head- quarters	Consoli- dation method	Parent company	2015	Head- quarters	Consoli- dation method	Parent company	2016
				Parent com- pany's share of equity				Parent com- pany's share of equity
VERBUND AG (VH) – All other activities	Vienna	CS	–	–	Vienna	CS	–	–
VERBUND Finanzierungs- service GmbH	Vienna	CS	VH	100.00%	Vienna	CS	VH	100.00%
VUM Verfahren Umwelt Manage- ment GmbH	Klagen- furt	CS	APG	100.00%	Klagen- furt	UC	APG	100.00%
PÖYRY Energy GmbH	Vienna	UC	VH	25.10%	Vienna	UC	VH	25.10%

CS = Consolidated subsidiary / EM = Investee accounted for using the equity method / JO = Joint operation, proportionate inclusion of assets and liabilities as well as income and expenses / UC = Unconsolidated entities due to immateriality or lack of significant influence

Events after the reporting date

There were no events requiring disclosure between the reporting date of 31 December 2016 and approval for publication on 16 February 2016.

Vienna, 16 February 2017

The Executive Board



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



Dr. Johann Sereinig
Vice-Chairman of the Executive Board



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



Dr. Peter F. Kollmann
Member of the Executive Board

Responsibility statement of the legal representatives

We confirm that, to the best of our knowledge, the consolidated financial statements of VERBUND, prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, give a true and fair view of the assets and liabilities, financial position and profit or loss of VERBUND.

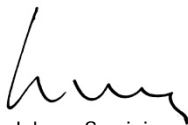
We also confirm that, to the best of our knowledge, the Group management report of VERBUND presents the development of the business, performance of the business and position of the Group so as to give a true and fair view of the assets and liabilities, financial position and profit or loss of VERBUND, and that the Group management report describes the significant risks and uncertainties to which VERBUND is exposed.

Vienna, 16 February 2017

The Executive Board



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



Dr. Johann Sereinig
Vice-Chairman of the Executive Board



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



Dr. Peter F. Kollmann
Member of the Executive Board

Independent Auditor's report

(complimentary translation, German original prevails)

Report on the Audit of Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of VERBUND AG, Vienna, and its subsidiaries (the Group), which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet as at 31 December 2016, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements comply with legal requirements and give a true and fair view of the consolidated financial position as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU, and the additional requirements under section 245a UGB.

Basis for Opinion

We conducted our audit in accordance with the Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill and the carrying amount of power plant facilities

Description and Issue

The Group reports goodwill in the amount of around €741.5m as at 31 December 2016 related to the Renewable generation and Sales segments as well as the Inn power plant group and Grenzkraftwerke. The carrying amounts of property, plant and equipment total around €9bn as at 31 December 2016 and comprise, among other things, hydraulic, thermal and wind energy power plants.

Due to the currently strained operating environment in the energy industry, the Group tested the reported goodwill and its power plant facilities for impairment. Numerous inputs flow into the valuation model based on net present value methods applied in the test for impairment in order to assess the market. Due to the resulting complexity and in light of the persistently low price of electricity and interest rates, the impairment tests are particularly important in our view because their results are significantly influenced by the reasonableness of the estimate by management and are also particularly sensitive with respect to the applied discount rate and the assumptions regarding the trend in electricity prices.

Details regarding the impairment tests and the key valuation assumptions are presented in the notes to the consolidated financial statements in the sections entitled “Accounting policies” and “Discretionary judgements and key assumptions concerning the future” under the paragraphs on “Impairment testing of goodwill” and “Impairment testing of power plants”.

Our Response

We compared the parameters used in the impairment tests with company-specific information and industry-specific market data and/or expectations from external and internal data sources and assessed the adequacy of the applied valuation models. We consulted internal experts in order to corroborate the capital costs by means of comparative analysis. We assessed the consistency of the future cash flows applied in the calculations by comparing the planning data used therein with the medium term plans approved by the Supervisory Board, contractual bases and electricity price scenarios specific to VERBUND.

Other provisions, other obligations and/or entitlements and risks

Description and Issue

The Group has entered into long term agreements with employees, customers, suppliers and co-owners and/or co-users of individual power plants. Some of these agreements have become less profitable due to the changed economic climate. The adjustments to contracts applied in this context increase the risk of potential countermeasures on the part of contracting parties, even though the majority of outstanding issues were settled in financial year 2016. Furthermore, the Group is confronted with claims for damages in the amount of around €109.8m related to floods.

In our view, these matters are of particular importance because their recognition and measurement as well as the explanatory notes to the consolidated financial statements regarding any resulting provisions and/or contingent liabilities are based on estimates and assumptions by management with respect to the likelihood of a potential claim as well as the attributable share of potential damages and thus an increased risk of erroneous disclosures and/or presentations in the accounting.

Details regarding the development of other provisions are presented in the paragraph on other provisions under the notes to the balance sheet in the notes to the consolidated financial statements. More detailed comments on the pending proceedings are provided in the consolidated financial statements in the section entitled “Other obligations and/or entitlements and risks”.

Our Response

We have assessed the adequacy and comprehensibility of underlying assumptions and measurements as well as their explanations in the notes, in particular with the help of contractual bases presented to us as well as the legal and/or available technical expertise obtained by us and reviewed the compliance with the stipulated disclosure obligations.

Other Information

Management is responsible for the other information. The other information contain all information in the integrated annual report, in the supplement to the integrated annual report (Disclosures on Management Approach, DMA) and in the annual financial report, but does not include the consolidated financial statements, the Group management report, our auditor's report thereon and the independent certification of certain non-financial standard disclosures in accordance with the Global Reporting Initiatives (GRI) - Sustainability Report Guidelines (GRI G4). The integrated annual report, DMA and the annual financial report are expected to be made available to us after the date of the auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the additional requirements under Section 245a UGB, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The audit committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

The scope of the audit does not include assurance on the future viability of the Group or on the efficiency or effectiveness with which the management has conducted or will conduct the affairs of the Group.

As part of an audit in accordance with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also :

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that give a true and fair view
- We obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Consolidated Management Report

Pursuant to statutory provisions, the consolidated management report is to be audited as to whether it is consistent with the consolidated financial statements and whether it has been prepared in accordance with the applicable legal requirements.

Management is responsible for the preparation of the consolidated management report in accordance with the Austrian Commercial Code.

We conducted our audit in accordance with laws and regulations applicable with respect to the consolidated management report.

Opinion

In our opinion, the consolidated management report is prepared in accordance with the applicable legal requirements, includes appropriate disclosures according to section 243a UGB and is consistent with the consolidated financial statements.

Statement

In the light of the knowledge and understanding of the Group and its environment obtained in the course of our audit of the consolidated financial statements, we have not identified material misstatements in the consolidated management report.

Engagement Partner

The engagement partner responsible for the audit is Mag. Gerhard Marterbauer.

Vienna, 16 February 2017

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Gerhard Marterbauer
Wirtschaftsprüfer
(Austrian Certified Public Accountant)

MMag. Dr. Klaus-Bernhard Gröhs
Wirtschaftsprüfer
(Austrian Certified Public Accountant)

GRI Content Index 2016

G4 GENERAL STANDARD DISCLOSURES		Assured	Omissions	Reported where?
G4-1	Relevance of sustainability to the Group			Report of the Executive Board, sections entitled Strategy and Corporate objectives
G4-2	Economic, environmental and social impacts of the Group, risks and opportunities			Sections entitled Materiality analysis and Opportunity and risk management
G4-3 to G4-9	Organisational profile	G4-9		VERBUND at a glance
G4-10 to G4-11	Employee-related KPIs			Section entitled Human resources and social responsibility
G4-12	Supply chain	G4-12		Section entitled Procurement, DMA
G4-13	Changes in the reporting period			Footnotes to and explanatory notes on KPI tables
EU1	Installed capacity, broken down by energy source			Sections entitled Renewable generation and All other segments
EU2	Net energy output	EU2		Sections entitled Renewable generation and All other segments
EU3	Number of consumers			Section entitled Sales
EU4	Length of transmission and distribution lines			Section entitled Grid
EU5	Allocation of CO₂ emissions allowances	EU5		Section entitled All other segments
G4-14	Precautionary principle			Section entitled Opportunity and risk management
G4-15	Endorsement of external initiatives			DMA
G4-16	Memberships			DMA
G4-17	Included entities			Section entitled Information about the integrated report, Ownership structure on the inside cover
G4-18	Definition of the report content and Aspects	G4-18		Sections entitled Information about the integrated report and Materiality analysis
G4-19	Identified material Aspects	G4-19		Section entitled Materiality analysis
G4-20 to G4-21	Aspect boundaries			Section entitled Materiality analysis
G4-22 to G4-23	Effects of restatements			Footnotes to and explanatory notes on KPIs
G4-24 to G4-27	Stakeholder engagement			Section entitled Stakeholder relations, DMA: Stakeholder identification, project descriptions in the section entitled Renewable generation
G4-28 to G4-32	Report profile and GRI Content Index			Section entitled Information about the integrated report
G4-33	External assurance of the report			Independent Statement
G4-34 to G4-55	Governance structure, governance bodies, remuneration			Section entitled Consolidated Corporate Governance Report DMA: Corporate Governance
G4-56 to G4-58	Ethics and integrity			DMA: Compliance management

G4 SPECIFIC STANDARD DISCLOSURES		Assured	Omissions	Reported where?
ECONOMIC				
Economic performance				
EU-DMA	Availability and reliability (formerly EU6, now DMA)			DMA: Secure supply of electricity in a liberalised market
EU-DMA	Demand-side management (formerly EU7, now DMA) Research and development (formerly EU8, now DMA)			Sections entitled Sales and Innovation, research and development
G4-EC1	Direct economic value generated and distributed			Notes
G4-EC2	Financial implications and other risks and opportunities due to climate change			Section entitled Opportunity and risk management
G4-EC3	Coverage of defined benefit plan obligations			Notes
G4-EC4	Financial assistance received from government			Subsidies in 2016: €4.3m
EU9	Decommissioning of nuclear power sites			Not applicable
EU10	Planned capacity against projected electricity demand over the long term			Section entitled Renewable generation
EU11	Average generation efficiency of thermal plants			DMA: Environmental management system
EU12	Transmission and distribution losses			Section entitled Grid
Market presence				
G4-EC5	Ratio of standard entry-level wage to local minimum wage			Section entitled Human resources and social responsibility
G4-EC6	Local senior management at significant locations of operation			Not relevant
Indirect economic impacts				
G4-EC7	Development and impact of infrastructure investments and services supported			DMA: Development and impact of infrastructure investments
G4-EC8	Significant indirect economic impacts			Section entitled Renewable generation and project descriptions at www.verbund.com
Procurement practices				
G4-EC9	Proportion of spending on local suppliers at significant locations of operation			Section entitled Procurement
ENVIRONMENTAL				
Materials				
G4-EN1	Materials used by weight or volume			Section entitled Environmental performance
EU-DMA	Long-term phasing-out of PCBs			DMA: Dealing with PCBs
G4-EN2	Percentage of materials used that are recycled input materials			Not relevant
Energy				
G4-EN3	Energy consumption within the organisation	EN3	Cooling and steam energy not applicable.	Section entitled Environmental performance
G4-EN4	Energy consumption outside of the organisation			Not ascertained
G4-EN5	Energy intensity			Section entitled Environmental performance
G4-EN6	Reduction of energy consumption			Section entitled Environmental performance
G4-EN7	Reductions in energy requirements of products and services (> see EN27)			Section entitled Innovation, research and development
Water				
EU-DMA	Water management			DMA
G4-EN8	Total water withdrawal			Section entitled Environmental performance
G4-EN9	Water sources significantly affected			DMA: Water management
G4-EN10	Water recycled and reused			Not material
Biodiversity				
G4-EN11	Operational sites in protected areas			Section entitled Environmental performance
G4-EN12	Impacts on biodiversity in protected areas			DMA: Biodiversity – Sites in protected areas
EU-DMA	Impacts on biodiversity along line routes			DMA: Biodiversity – Sustainable route management
G4-EN13	Habitats protected or restored			Section entitled Renewable generation
EU13	Biodiversity of offset habitats			DMA: Biodiversity – Projects to promote biological diversity
G4-EN14	IUCN Red List species and national conservation list species			Ascertained in EIA processes for projects and made available for public inspection

G4 SPECIFIC STANDARD DISCLOSURES		Assured	Omissions	Reported where?
Emissions				
G4-EN15	Greenhouse gas emissions to	EN15	Biogenic CO ₂ emissions are not material.	Section entitled Environmental performance
	NOx, SOx and other airborne emissions	EN16		
G4-EN21		EN17		
Effluents and waste				
EU-DMA	Management strategy for nuclear waste			Not applicable
G4-EN22	Total water discharge			Section entitled Environmental performance
G4-EN23	Total weight of waste			Section entitled Environmental performance
EU-DMA	Thermal discharges and PCB waste			Section entitled Environmental performance
G4-EN24	Significant spills			DMA: Environmental management systems and certifications
G4-EN25	Movement of waste			Not relevant
G4-EN26	Water bodies significantly affected by discharges of water and runoff			DMA: Water management
Products and services				
G4-EN27	Mitigation of environmental impacts of products and services			DMA: Environmental management system
G4-EN28	Products and packaging reclaimed			Not relevant
Compliance				
EN29	Fines and non-monetary sanctions for non-compliance with environmental laws and regulations			Section entitled Environmental performance
Transport				
G4-EN30	Environmental impacts of transportation			Not relevant
Environmental costs				
G4-EN31	Environmental protection expenditures and investments			Section entitled Environmental performance
Supplier environmental assessment				
G4-EN32	Percentage of new suppliers that were screened using environmental criteria			DMA: Supply chain
G4-EN33	Environmental impacts in the supply chain			DMA: Supply chain
Environmental grievance mechanisms				
G4-EN34	Formal grievances about environmental impacts			DMA: Environmental management systems and certifications
SOCIAL				
Labour practices and decent work				
EU-DMA	Maintaining a skilled workforce (formerly EU14, now DMA) Health and safety of employees and contractor employees (formerly EU16, now DMA)			DMA: Personnel development/training and continuing education
G4-LA1	New employee hires and employee turnover	LA1	No breakdown by age and length of service, as not material for management purposes.	Section entitled Human resources and social responsibility
EU-ADD	Average length of tenure of employees who left the Company during the reporting period			Section entitled Human resources and social responsibility
G4-LA2	Benefits that are only provided to full-time employees			DMA: Employees – Types of employment and benefits offered
G4-LA3	Return to work and retention rates after parental leave			Not ascertained due to low number of employees taking parental leave and low employee turnover
EU15	Percentage of employees eligible to retire in the next five and ten years	EU15	No breakdown by job category, as employees retire after reaching the regular retirement age.	Section entitled Human resources and social responsibility
EU17	Days worked by contractor and subcontractor employees			Not ascertained
EU18	Percentage of contractor and subcontractor employees that have undergone health and safety training			DMA: Occupational health and safety technology

G4 SPECIFIC STANDARD DISCLOSURES		Assured	Omissions	Reported where?
Labour/management relations				
G4-LA4	Minimum notice periods regarding operational changes			DMA: Labour-management relations
Occupational health and safety				
G4-LA5	Occupational health and safety programmes	LA5		DMA: Occupational health and safety technology
G4-LA6	Type and rates of injuries, occupational diseases and fatalities, by region and gender	LA6	Breakdown by gender is not material for management purposes. Accident statistics in accordance with Austrian law. Other periods of absence are not published.	Section entitled Human resources and social responsibility
EU-ADD	Occupational health and safety indicators for contractor employees working at VERBUND sites.		KPI will be prepared in the coming years.	
G4-LA7	Workers with high incidence or high risk of diseases			Not applicable
G4-LA8	Health and safety topics covered in formal agreements with trade unions			Section entitled Human resources and social responsibility
Training and continuing education				
G4-LA9	Training and education per employee	LA9	Breakdown by gender is not material for management purposes.	Section entitled Human resources and social responsibility
G4-LA10	Programmes for skills management and lifelong learning			DMA: Personnel development/training and continuing education
G4-LA11	Regular performance and career development reviews	LA11	No further categorisation due to the high performance review ratio	Section entitled Human resources and social responsibility
Diversity and equal opportunity				
G4-LA12	Composition of governance bodies and breakdown of employees according to indicators of diversity			Section entitled Consolidated Corporate Governance Report
Equal remuneration for women and men				
G4-LA13	Ratio of basic salary and remuneration of women to men			Section entitled Human resources and social responsibility
Supplier assessment for labour practices				
G4-LA14	Percentage of new suppliers that were screened using labour practices criteria			DMA: Supply chain
G4-LA15	Significant negative impacts for labour practices in the supply chain			Not relevant
Labour practices grievances mechanisms				
G4-LA16	Formal grievances about labour practices			DMA: Compliance management
HUMAN RIGHTS				
Investment				
G4-HR1	Screening of investments and suppliers for human rights, employee training			Not relevant
Non-discrimination				
G4-HR3	Incidents of discrimination and corrective actions taken			Section entitled Compliance
Freedom of association and collective bargaining				
G4-HR4	Freedom of association			DMA: Labour-management relations
G4-HR5	Human rights, in particular child, forced and compulsory labour, particularly in connection with international projects			Not relevant
G4-HR12				
SOCIETY				
Local communities				
EU-DMA	Stakeholder participation (formerly EU19, now DMA) Management in the event of displacements (formerly EU 20, now DMA)			DMA: Stakeholder management
G4-SO1	Local community engagement			DMA: Stakeholder identification
G4-SO2	Significant negative impacts on local communities			DMA: Stakeholder identification
EU-DMA	Disaster/emergency planning and response (formerly EU21, now DMA)			Section entitled Opportunity and risk management, DMA
EU22	Number of displacements			No displacements

G4 SPECIFIC STANDARD DISCLOSURES		Assured	Omissions	Reported where?
Anti-corruption				
G4-SO3	Identification of risks related to corruption			100%
G4-SO4	Communication and training on anti-corruption			Section entitled Compliance
G4-SO5	Confirmed incidents of corruption and actions taken			No incidents
Public policy				
G4-SO6	Political contributions			0
Anti-competitive behaviour				
G4-SO7	Legal actions for anti-competitive behaviour, anti-trust and monopoly practices			No legal actions
Compliance				
G4-SO8	Significant fines and non-monetary sanctions for non-compliance with laws and regulations			Section entitled Compliance
Supplier assessment for impacts on society				
G4-SO9	New suppliers that were screened for impacts on society			DMA: Supply chain
G4-SO10	Significant negative impacts on society in the supply chain			Not relevant
Grievance mechanisms for impacts on society				
G4-SO11	Formal grievances about impacts on society			DMA: Compliance management
PRODUCT RESPONSIBILITY				
Customer health and safety				
EU-DMA	Community health risks			DMA: Electric and magnetic fields
G4-PR1	Product and service categories for which health and safety impacts are assessed			DMA: Electric and magnetic fields
G4-PR2	Non-compliance with regulations concerning the health and safety impacts of products and services			No incidents
EU-DMA	Access to electricity (formerly EU23, now DMA)			DMA: Stakeholder management – Commitment to society
EU-DMA	Removal of barriers to accessing electricity (formerly EU24, now DMA)			DMA: Stakeholder identification – Customer service
EU25	Third-party injuries and fatalities			No incidents
EU26	Population unserved in service areas			Not applicable
EU27	Disconnections for non-payment			Section entitled Sales
EU28	Power outages/amount of electricity not supplied			Section entitled Grid
EU29	Power outage duration			Section entitled Grid
EU30	Average plant availability			Sections entitled Renewable generation and All other segments
Product and service labelling				
G4-PR3	Product and service labelling requirements			Section entitled Sales
G4-PR4	Incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling			No incidents
G4-PR5	Surveys measuring customer satisfaction			Section entitled Sales
Marketing communications				
G4-PR6	Sale of banned or disputed products			Not relevant
G4-PR7	Non-compliance with regulations and voluntary codes concerning marketing communications, promotion and sponsorship			Section entitled Compliance
Customer privacy				
G4-PR8	Substantiated complaints regarding breaches of customer privacy			No complaints
Compliance				
G4-PR9	Significant fines for non-compliance with laws and regulations concerning products and services			No fines

Independent Statement

Independent Statement

Courtesy translation of the Independent Statement on Specific Non-Financial Topics of the Integrated Annual Report 2016 of VERBUND AG *)

Introduction

We were requested to perform a limited assurance engagement on Specific Non-Financial Topics of the Integrated Annual Report 2016 (hereafter “the Report”) of VERBUND AG.

The Report and the underlying procedures, systems and structures including subject matters and criteria are the responsibility of the Management of VERBUND AG. Our responsibility is to make an assessment based on our review.

We conducted our review in accordance with the International Standard on Assurance Engagements ISAE 3000 (Revised), “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and the “Fachgutachten des Fachsenats für Unternehmensrecht und Revision über die Durchführung von sonstigen Prüfungen (KFS/PG 13)” in order to obtain limited assurance on the subject matters. In a limited assurance engagement the evidence-gathering procedures are more limited than in a reasonable assurance engagement and therefore, less assurance can be obtained.

The basis for this engagement are the “General Conditions of Contract for the Public Accounting Professions”, as issued by the Chamber of Public Accountants and Tax Advisors in Austria on March 8, 2000, revised on February 21, 2011 (“AAB 2011”). In accordance with chapter 8 AAB 2011, our liability shall be limited to intent and gross negligence. In cases of gross negligence the maximum liability is limited to EUR 726.730. This amount constitutes a total maximum liability cap which may only be utilized up to this maximum amount even if there is more than one claimant or more than one claim has been asserted.

Subject Matters

Review of the procedures, systems and structures for collecting, gathering, aggregating and validating of the following in the Report disclosed Non-Financial Standard Disclosures (as defined in GRI G4):

- General Standard Disclosures: G4-9, G4-12, G4-18, G419, EU2, EU5
- Specific Standard Disclosures – Ecological Performance Indicators: G4-EN 3, G4-EN15, G4-EN16, G4-EN17
- Specific Standard Disclosures – Social Performance Indicators: G4-LA1, G4-LA5, G4-LA6, G4-LA9, G4-LA11, EU 15

Criteria

Based on an assessment of materiality and risk we have evaluated the obtained information and supporting documents with respect to the conformity of the subject matters with the Sustainability Reporting Guidelines (Version G4) and G4 Sectors Disclosures “Electric Utilities” issued by the Global Reporting Initiative (GRI).

Proceedings

Our work included analytical procedures as well as interviews with employees from the headquarters in Vienna notified by the board of directors of VERBUND AG.

Restriction in use

Our engagement is limited to the above mentioned Subject Matters. We did not review any other content in the Report. We have not tested comparative data from previous years. The scope of our review was limited to samples. Our work was performed on a sample basis as deemed necessary in the particular case, but did not include any substantial testing. Therefore, the assurance that we obtained is limited.

Summarized Conclusions

Based on our work described above nothing has come to our attention that causes us to believe that the procedures, systems and structures for collecting, gathering, aggregating and validating of the:

- General Standard Disclosures: G4-9, G4-12, G4-18, G419, EU2, EU5
- Specific Standard Disclosures – Ecological Performance Indicators: G4-EN 3, G4-EN15, G4-EN16, G4-EN17
- Specific Standard Disclosures – Social Performance Indicators: G4-LA1, G4-LA5, G4-LA6, G4-LA9, G4-LA11, EU 15

were not appropriate.

Vienna, 16.02.2017

Deloitte Audit Wirtschaftsprüfungs GmbH

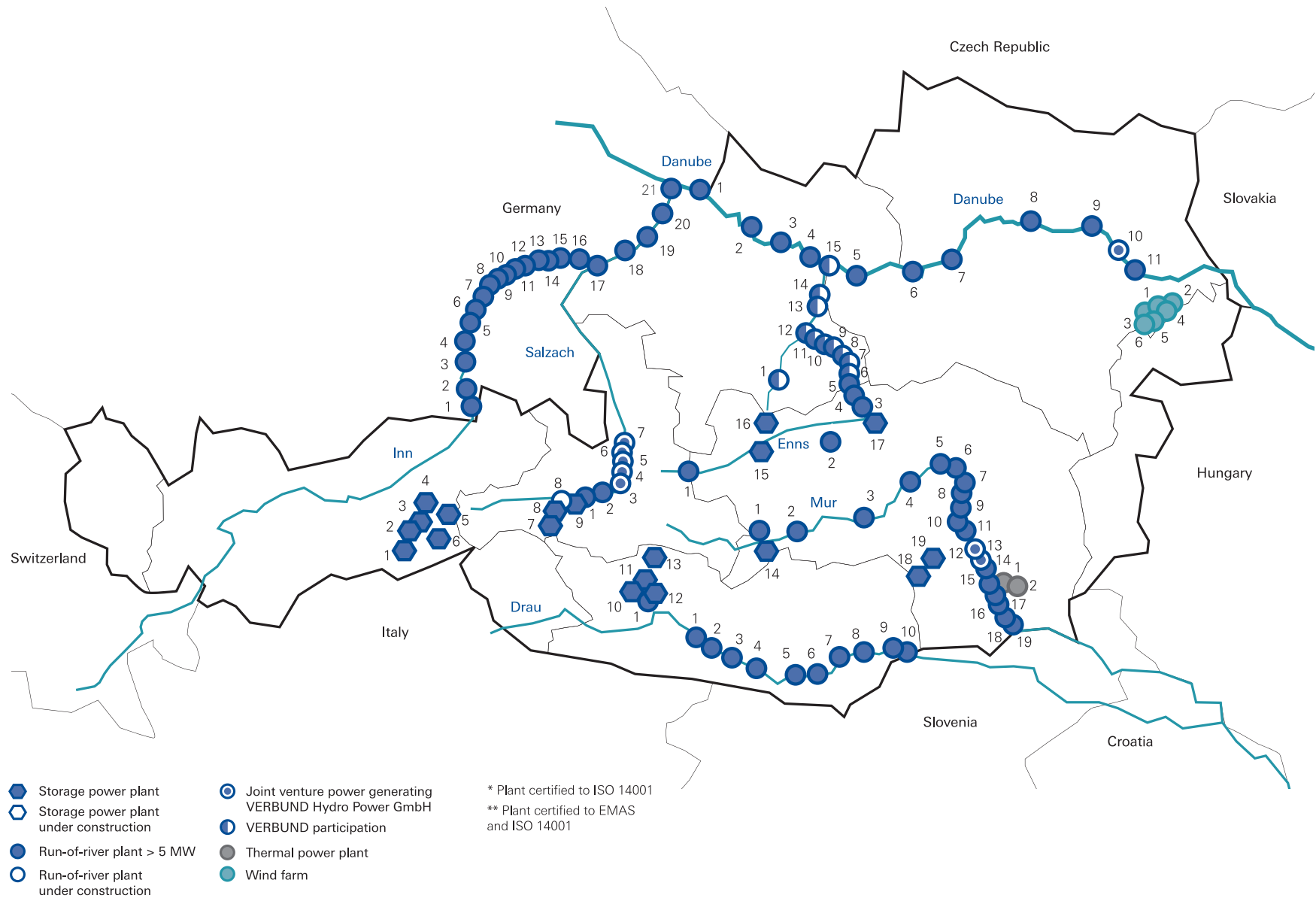
Mag. Gerhard Marterbauer
Engagement Partner

p.p.a. Dipl.-Ing. Hannes Senft
Engagement Manager

*) The German text of the signed Statement, which refers to the German Version of the Report, is the only binding one. The English translation is not binding and shall not be used for the interpretation of the English Version of the Report.

VERBUND power plants and
APG grid facilities

VERBUND power plants



Storage power plants

-  1 Roßhag *
-  2 Bösdornau *
-  3 Mayrhofen *
-  4 Gerlos *
-  5 Häusling *
-  6 Funsingau *
-  7 Kaprun Oberstufe *
-  8 Kaprun Hauptstufe *
-  9 Schwarzach **
-  10 Reißbeck-Kreuzeck **
-  11 Reißbeck II
-  12 Malta Hauptstufe **
-  13 Malta Oberstufe **
-  14 Bodendorf-Paal *
-  15 Sölk *
-  16 Salza *
-  17 Hieflau *
-  18 St. Martin *
-  19 Arnstein *

Run-of-river plants on the Inn

-  1 Oberaudorf-Ebbs
-  2 Nußdorf
-  3 Rosenheim *
-  4 Feldkirchen *
-  5 Wasserburg *
-  6 TW Wasserburg *
-  7 Teufelsbruck *
-  8 Gars *
-  9 TW Gars *
-  10 Jettenbach 1 *
-  11 Jettenbach 2 *
-  12 Töging *
-  13 Aubach *
-  14 Neuötting *
-  15 Perach *
-  16 Stammham *
-  17 Braunau-Simbach
-  18 Ering-Frauenstein
-  19 Eggfing-Obernberg
-  20 Schärding-Neuhaus
-  21 Passau-Ingling

Run-of-river plants on the Salzach

-  1 Wallnerau *
-  2 St. Veit *
-  3 St. Johann
-  4 Urreiting
-  5 Bischofshofen
-  6 Kreuzbergmaut
-  7 Werfen/Pfarrwerfen
-  8 Gries

Run-of-river plants on the Danube

-  1 Jochenstein
-  2 Aschach *
-  3 Ottensheim-Wilhering *
-  4 Abwinden-Asten *
-  5 Wallsee-Mitterkirchen *
-  6 Ybbs-Persenbeug *
-  7 Melk *
-  8 Altenwörth *
-  9 Greifenstein *
-  10 Nußdorf *
-  11 Freudenau *

Run-of-river plants on the Enns

-  1 Mandling *
-  2 Triebenbach *
-  3 Landl *
-  4 Krippau *
-  5 Altenmarkt *
-  6 Schönaue *
-  7 Weyer *
-  8 Großraming *
-  9 Losenstein *
-  10 Ternberg *
-  11 Rosenau *
-  12 Garsten-St. Ulrich *
-  13 Staning *
-  14 Mühlradung *
-  15 St. Pantaleon *

Run-of-river plant on the Steyr

-  1 Klaus *

Run-of-river plant on the Möll

-  1 Malta Unterstufe **

Run-of-river plants on the Mur

-  1 Bodendorf-Mur *
-  2 St. Georgen *
-  3 Fischening *
-  4 Leoben *
-  5 Dionysen *
-  6 Pernegg *
-  7 Laufnitzdorf *
-  8 Rabenstein *
-  9 Peggau *
-  10 Friesach *
-  11 Weinzödl *
-  12 Gössendorf *
-  13 Kalsdorf *
-  14 Mellach *
-  15 Lebring *
-  16 Gralla *
-  17 Gabersdorf *
-  18 Obervogau *
-  19 Spielfeld *

Run-of-river plant on the Drau

-  1 Paternion *
-  2 Kellerberg *
-  3 Villach *
-  4 Rosegg-St. Jakob *
-  5 Feistritz-Ludmannsdorf *
-  6 Ferlach-Maria Rain *
-  7 Annabückel *
-  8 Edling *
-  9 Schwabeck *
-  10 Lavamünd *

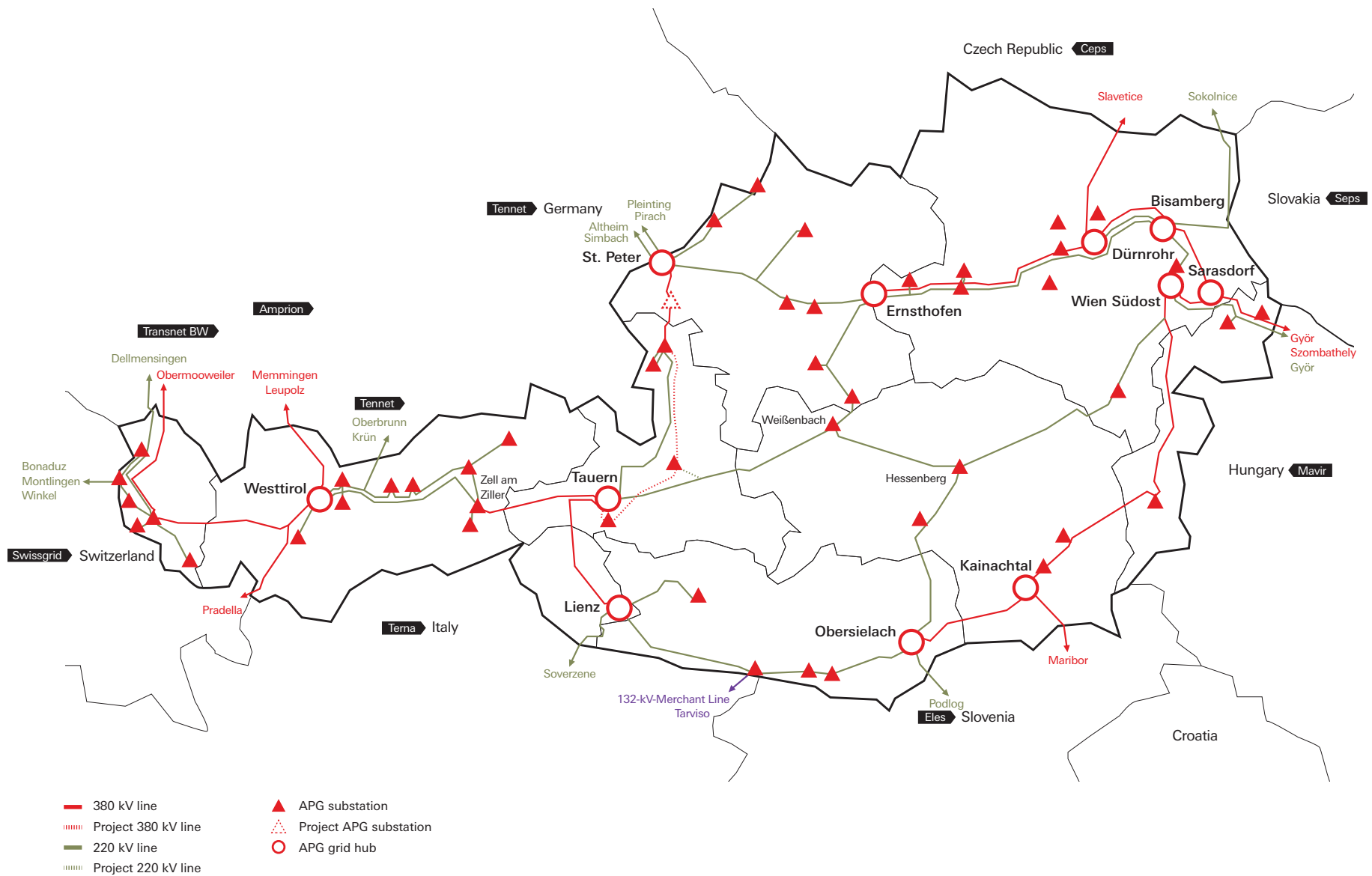
Thermal power plants

-  1 FHKW Mellach **
-  2 GDK Mellach **

Wind farm

-  1 Petronell Carnuntum *
-  2 Petronell Carnuntum II *
-  3 Hollern *
-  4 Hollern II *
-  5 Bruck/Leitha *
-  6 Bruck/Göttlesbrunn *

Grid facilities 220/380 kV



Glossary

Adjusted EBITDA

The adjustments include effects from restructuring expenses from Group-wide cost-cutting programmes as well as other expenses and income of a non-recurring or rare nature in EBITDA. EBITDA from any discontinued operations is also reflected in adjusted EBITDA. EBITDA is our most important internal earnings performance indicator and an indicator of the sustainable profitability of our business.

Adjusted Group result

The adjustments include – in addition to the effects adjusted from adjusted EBITDA – effects from impairment tests and effects from business acquisitions, as well as other expenses and income of a non-recurring or rare nature (after taxes and non-controlling interests). Beyond that, special tax effects are not taken into account in the adjusted Group result.

Average number of employees

Calculated according to actual start and leaving dates and number of hours worked.

Base (base load)

Base (base load) refers to the load profile for electricity deliveries supplied at a constant rate throughout 24 hours of each day of the supply period.

Capital employed

Total assets less those assets that do not (yet) contribute to the performance and commercialisation processes (e.g. advance payments, plants under construction, investments under closed items on the balance sheet), and less non-interest-bearing debt.

Cash flow

Net balance of the inflow and outflow of cash and cash equivalents; made up of cash flow from operating activities, investing activities and financing activities.

Clean dark spread

Generation margin for electricity from coal-fired plants representing the difference between the electricity price and the fuel costs (coal) for generating electricity taking into account the cost of emission rights.

Clean spark spread

Generation margin for electricity from gas power plants representing the difference between the electricity price and the fuel costs (gas) for generating electricity taking into account the cost of emission rights.

Climate-neutral natural gas

CO₂ emissions result from the use of natural gas. To achieve climate neutrality, these emissions must be saved elsewhere. VERBUND therefore promotes sustainable and clean energy generation, such as with the Ashta hydropower plant in Albania, thus compensating for the CO₂ emissions for VERBUND natural gas. So, precisely that volume of CO₂ released through the use of VERBUND natural gas is balanced out by the sustained promotion of clean energy generation.

Closed items on the balance sheet

Closed items on the balance sheet include (continued) financial liabilities and related investments from cross-border leasing transactions that have been terminated early; previously, financial liabilities relating to cross-border leasing transactions and to the Republic of Austria, as well as associated investments, were treated in the same way.

Cross-border leasing

International leasing transactions in which the lessor and lessee are based in different countries.

DMA (Disclosures on Management Approach)

Disclosures on management approach are a Global Reporting Initiative (GRI) requirement. These explain how the Group manages the economic, environmental and social impacts of its activities on the material Aspects it has identified. VERBUND combines those processes and management systems in one document and publishes it on the website (www.verbund.com > Investor Relations > Financial reports).

Earnings before interest and tax (EBIT)

Operating result.

Earnings before interest, taxes, depreciation and amortisation (EBITDA)

Operating result before interest, taxes and depreciation of property, plant and equipment and amortisation of intangible assets and effects from impairment tests.

EBIT margin

Ratio of earnings before interest and tax (EBIT) to revenue.

E-Control (Energie-Control Austria)

Energie-Control GmbH (E-Control) was established in 2001. On 3 March 2011, E-Control was transformed into a public authority (Sections 2 and 43 of the Energy Regulatory Authorities Act or Energie-Control Gesetz). E-Control is tasked with monitoring and supporting the implementation of the deregulation of the Austrian electricity and gas market and intervening for regulatory purposes if necessary.

Electricity standard load profile

Standard load profiles (SLP) are used for electricity customers without recorded power measurement. SLPs use a calculated, sufficiently precise forecast of electricity purchases on a quarter-hourly basis in place of the non-existent load profile curve of end users. SLPs are representative load profiles used for household, agricultural and commercial customer groups with electricity consumption of up to 100,000 kWh per year, featuring similar usage patterns.

EIWOOG

Austrian Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, EIWOOG). EIWOOG implements the EU's Electricity Directive (2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC) in Austria.

Employee turnover

Employee turnover refers to the percentage of employees who left the Company due to termination, mutual agreement, early retirement or departures during the probationary period. The percentage is calculated based on the actual number of employees as at the reporting date.

Equity method

Method used to account for investees upon which a significant influence can be exercised and for joint ventures. Under the equity method, the carrying amount of the equity interest is basically adjusted for changes in the proportionate share in the investee's net assets; the result is a "one-line consolidation". The changes are either recognised in profit or loss or in other comprehensive income (i.e. directly in equity).

Equity ratio (adjusted)

Ratio of equity to total capital adjusted for closed items on the balance sheet.

Free cash flow before dividends

Operating cash flow plus cash flow from investing activities excluding cash inflows and outflows from investments in or disposals of financial investments; represents cash available for financing activities (e.g. repayment of financial liabilities) and cash inflows and outflows for financial investments.

Funds from operations (FFO)

Operating result plus depreciation and amortisation, interest income and current taxes.

Gearing

Ratio of net debt to equity.

Gross debt

Non-current and current financial liabilities plus interest-bearing provisions and other interest-bearing liabilities net of closed items on the balance sheet.

Gross debt coverage

Ratio of funds from operations (FFO) to gross debt.

Gross interest cover

Ratio of FFO to interest expenses (including interest related to personnel expenses).

Hydro coefficient

The hydro coefficient is the quotient of the actual electricity generation of one (or a series of) hydropower plant(s) in a period and the average (calculated based on historical water supply) generation potential of the (series of) hydropower plant(s) in the same period. This long-term average = 1; consequently, for example, a hydro coefficient of 1.1 signifies a 10% increase in generation.

Inter-TSO compensation (ITC)

ITC is the compensation for transmission charges relating to cross-border flows of electricity in transmission grids.

Maximum electrical capacity

The maximum capacity at which a power plant can sustain operation under normal conditions.

Mean energy capability

Average generation potential of a hydropower plant calculated based on historical water supply.

Net debt

Gross debt less cash and cash equivalents, short-term investments and loans as well as securities held in current and non-current assets.

NFR Directive

The Austrian federal government implemented EU directive 2014/95/EU for binding sustainability reporting – the NFR Directive – in the Sustainability and Diversity Improvement Act (Nachhaltigkeits- und Diversitätsverbesserungsgesetz, or NaDiVeG), which applies to financial years beginning after 31 December 2016. This law requires large enterprises of public interest with over 500 employees (incl. listed companies, insurance companies and banks) to include a non-financial statement in the management report. This statement includes information on environmental matters, social and employee-related matters, respect for human rights and anti-corruption matters. In addition, companies required to prepare a corporate governance report are also required to include information on their diversity policy in this report.

Number of employees under labour law (LLE)

All employment relationships with the Company under labour law. LLE is measured at the end of the month at each reporting date; calculation is based on headcount including employees on unpaid leave and excluding members of the Executive Board, employees in early retirement and seasonal interns.

Operator model

Operator models are public private partnerships (PPPs) for which the planning, financing, construction and independent operation of the plant-specific infrastructure are assigned to an operating company.

Payout ratio

Ratio of (proposed) dividend payment to Group result.

Peak (peak load)

In the German/Austrian bidding zone, peak (peak load) refers to the load profile for electricity deliveries supplied at a constant rate throughout twelve hours from 8 a.m. until 8 p.m. of each working day of the supply period.

Performance

Describes the performance of a security or portfolio, e.g. over a period of one year, in relation to a specific measure of risk.

RCF/net debt

Retained cash flow (RCF): funds from operations (FFO) less dividends distributed.

Redispatch

The term redispatch refers to the short-term changes to power plant utilisation to avoid or remedy grid congestion.

Return on capital employed (ROCE)

Ratio of net operating profit after tax (NOPAT) (profit or loss for the period less interest expenses net of any tax effects) to average capital employed.

Return on equity (ROE)

Ratio of net profit or loss for the period (adjusted for results from the termination of cross-border leasing transactions) to average equity.

System Usage Rates Directive (SNT-VO)

The System Usage Rates Directive (Systemnutzungstarife-Verordnung, SNT-VO) dictated the principles for determining and allocating costs, the criteria for calculating rates as well as the rates for grid usage fees. The Energy Control Commission issued the directive annually. Since 2012, the E-Control Commission has issued the System Usage Rates Directive.

Total heating degree days

Total number of heating degree days for a certain period.

Value at risk (VaR)

A method applied to calculate the potential trading position loss arising from price changes. The loss potential is calculated based on an assumed probability (e.g. 95%) and on the basis of market-oriented price changes.

Variation margin

The variation margin represents an amount paid or credited daily on the price fluctuations of futures contracts (i.e. paid to or from the futures exchange). In contrast to the initial margin, the variation margin does not represent collateral. Although the amounts are debited or credited to a margin account on a daily basis, the variation margin represents unrealised gains or losses. The position per se remains pending.

Three-year comparison

	€m, %		
	2014	2015	2016
Revenue ¹	1,673.6	435.0	420.9
Earnings before interest and taxes (EBIT)	243.2	166.2	356.8
Earnings before taxes	69.1	39.4	267.0
Net income for the year ¹	279.2	143.7	272.5
Net profit	100.8	121.6	100.8
Total assets ¹	6,311.1	5,536.7	5,473.8
Fixed assets	5,816.5	5,082.2	4,871.3
Capital expenditure for property, plant and equipment	1.6	0.9	0.7
Depreciation of property, plant and equipment	1.8	1.7	1.5
Equity ¹	2,271.3	2,314.3	2,465.2
Return on sales (ROS) ¹	14.5%	38.2%	84.8%
Return on equity (ROE)	3.0%	1.7%	11.5%
Return on investment (ROI) ¹	4.4%	2.6%	6.4%
Return on capital employed (ROCE) ¹	3.2%	2.3%	5.4%
Equity ratio ¹	36.0%	41.8%	45.0%
Debt repayment period	12.8	26.1	6.5
Cash flow from operating activities	214.4	428.2	126.6
Gearing	164.6%	114.2%	107.7%
Working capital	-327.2	-400.2	-227.7
Net debt	3,738.4	2,643.4	2,653.8
Current liabilities	1,174.9	585.9	915.4
Current assets	847.7	185.6	687.8
Share price high	16.7	17.3	15.8
Share price low	13.7	11.6	10.0
Closing price	15.3	11.9	15.2
(Proposed) dividend per share	0.29	0.35	0.29
Dividend yield	1.90%	2.95%	1.91%
Operational headcount	181.4	152.7	140
Group electricity sales volume (GWh) ²	54,359	55,238	58,855

¹ Prior-year key performance indicators were adjusted in accordance with the changes in presentation from the Austrian Accounting Amendment Act 2014. // ² incl. system requirements

Board members

Executive Board

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

Supervisory Board

Name	Year of birth	Date of initial appointment	End of current term of office
Dr. Gilbert Frizberg Chairman Managing director of FI Beteiligungs- und Finanzierungs GmbH, managing director of Transfer Industries GmbH, managing director of Hereschwerke GmbH, managing partner of Franz Heresch & Co GmbH	1956	16/3/2000	AGM 2020
Prof. Dipl.-Ing. Dr. Michael Süß 1 st Vice-Chairman CEO of Georgsmarienhütte Holding GmbH; member of the supervisory boards of Herrenknecht AG and Oerlikon AG (chairman of the board of directors); Renova AG (manager); Süß Management Systems and Süß Film (shareholder)	1963	22/4/2015	AGM 2020
Mag. Elisabeth Engelbrechtsmüller-Strauß 2 nd Vice-Chairwoman CEO of Fronius International GmbH; member of the board of trustees of the Institute of Science and Technology	1970	22/4/2015	AGM 2020
Mag. Harald Kaszanits Head of Cabinet of the Vice-Chancellor and Federal Minister; Secretary-General for the Federal Ministry of Science, Research and Economy	1963	7/4/2010	AGM 2020
Mag. Dr. Martin Krajcsi CEO of Wiener Stadtwerke Holding AG; member of the supervisory boards of Wiener Stadtwerke Finanzierungs-Services GmbH (chairman), IWS TownTown AG (chairman), B&F Wien – Bestattung und Friedhöfe GmbH (chairman), Wien Energie GmbH (member) and Wiener Netze GmbH (vice-chairman); member of the supervisory board of Burgenland Holding AG	1963	9/4/2014	AGM 2020

Name	Year of birth	Date of initial appointment	End of current term of office
Dipl.-Ing. Dr. Peter Layr Spokesman of the managing board of EVN AG; chairman of the supervisory boards of Netz Niederösterreich GmbH, Rohöl-Aufsuchungs AG and RAG-Beteiligungs-AG	1953	13/4/2011	AGM 2020
Mag. Werner Muhm Director of the Vienna Chamber of Labour and the Federal Chamber of Labour (until 30 June 2016); member of the supervisory boards of Wiener Städtische Versicherung, AWH Beteiligungsges.m.b.H., Kommunalkredit Austria AG and KA Finanz AG; member of the General Council of OeNB; member of the managing board of Leopold Museum Privatstiftung	1950	22/4/2015	AGM 2020
Dr. Susanne Riess CEO of Bausparkasse Wüstenrot AG; member of the supervisory boards of Wüstenrot Versicherungs-AG (chairwoman), Wüstenrot stambena štedionica d.d., Croatia (chairwoman), Wüstenrot životno osiguranje d.d., Croatia (chairwoman), Wüstenrot Fundamenta-Lakáskassza Zrt., Hungary (vice-chairwoman), Wüstenrot stavebná sporiteľňa a.s., Slovakia (vice-chairwoman), Wüstenrot poisťovňa a.s., Slovakia (vice-chairwoman), and IHAG Privatbank Zürich (member of the board of directors)	1961	22/4/2015	AGM 2020
Mag. Jürgen Roth Managing partner at Tank Roth GmbH; member of the supervisory boards of ICS Internationalisierungszentrum Steiermark GmbH (chairman) and ELG (Erdöl-Lagergesellschaft m.b.H.)	1973	22/4/2015	AGM 2020
Christa Wagner Managing partner at Josko Immobilien GmbH; member of the supervisory board of Eurosun a.s., Shareholder in Josko Holding Gesellschaft m.b.H.	1960	7/4/2010	AGM 2020

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

Employee representatives

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

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

Report of the Supervisory Board

In financial year 2016, the difficult economic climate continued to impact VERBUND, Austria's leading utility. VERBUND nonetheless succeeded in continuing on a profitable and sustainable path thanks to its focused strategic approach coupled with consistent implementation of comprehensive restructuring and efficiency improvement measures. Thus despite the unfavourable market conditions, the Group once again produced good results. The Supervisory Board actively monitored and supported this strong performance.

Discharge of responsibilities In financial year 2016, the Supervisory Board discharged the responsibilities and exercised the powers incumbent upon it by virtue of the law and the Articles of Association at seven plenary meetings. The overall attendance rate of all Supervisory Board members was 89%. The Chairman additionally kept in regular contact with the Board members to ensure that all members were always involved in important matters. The Executive Board provided the Supervisory Board with regular and comprehensive real-time information, both verbally and in writing, on all relevant matters relating to the performance as well as the position and strategy of the Group and all significant Group companies; information was also provided on the Group's risk position and its risk management activities. The Supervisory Board advised the Executive Board on key questions concerning the future, particularly as regards the Group's structure and its strategy, and continuously monitored the Executive Board's management activities based on its extensive reporting. Supervision took place in the context of open and constructive meetings between the Executive Board and the Supervisory Board and revealed no grounds for objection. In addition, the Chairman of the Supervisory Board conversed regularly with the members of the Executive Board, particularly the Chairman.

In addition to approving the annual financial statements and the Group budget, the main decisions made by the Supervisory Board in the past financial year involved a policy decision to review all options for the Mellach power plant as well as authorisation for a major investment project in Zillertal valley (Tuxbach transfer line) and approval of the sale of the solar parks in Spain.

Code of Corporate Governance, Supervisory Board Committees As a leading listed Group, VERBUND made an early commitment to comply with the Austrian Code of Corporate Governance. VERBUND's Supervisory Board also views compliance with the Code as obligatory and endeavours to consistently comply with the provisions relating to the Supervisory Board. In this spirit, we have achieved almost full compliance with the rules relating to the Supervisory Board's collaboration with the Executive Board and within the Supervisory Board itself. Pursuant to the requirements of the Code (Rule 36), the Supervisory Board again conducted a self-evaluation of its activities during the reporting period, particularly of its organisation and work procedures. The evaluation was undertaken in the form of a comprehensive written questionnaire that was completed by the Board members. At the subsequent meeting, the Supervisory Board discussed the results of its evaluation and took down suggestions for improvements. In addition, the Supervisory Board again discussed possible conflicts of interest when dealing with the approval of contracts with companies where individual Supervisory Board members are related parties. No conflicts were identified that would require any action to be undertaken beyond that taken at the meetings. As provided for in the Code, meetings were held as needed, including meetings which the Executive Board did not attend.

The Supervisory Board's Working Committee met four times during the year under review, especially to prepare plenary meetings and to approve the acquisition of an equity interest. The Audit Committee held three meetings. It dealt above all with the semi-annual financial statements and preparation of the

resolution to approve the annual financial statements, as well as with the appointment of the auditor and examination of the auditor's work. In addition, it concentrated on the internal control, audit and risk management system and on the audits performed by the internal audit function. Due to a change in the Supervisory Board's rules of procedure, the number of Working Committee members and Audit Committee members increased effective 1 January 2016.

In accordance with the Code of Corporate Governance and the rules of procedure, two other Supervisory Board committees – a Nomination Committee and a Remuneration Committee – were again formed in the past financial year and performed the duties stipulated in the rules of procedure. The General and Remuneration Committee convened twice to discuss the agreements on targets and the variable remuneration paid to the Executive Board. The Nomination Committee did not meet. There were no changes in the composition of the Supervisory Board or its committees apart from a switch of two employee representatives.

Further information on the composition, work procedures and meetings of the Supervisory Board and its committees as well as the remuneration paid to its members is contained in the Group's consolidated corporate governance report for 2016.

Annual financial statements and consolidated financial statements The annual financial statements, together with the management report, the consolidated financial statements prepared in accordance with the International Financial Reporting Standards (IFRSs) and the Group management report for financial year 2016 were audited by Deloitte Audit Wirtschaftsprüfungs GmbH and issued with an unqualified auditor's report. The auditor reported its findings in writing and found that the Executive Board had provided the explanations and evidence requested, that the book-keeping, annual financial statements and consolidated financial statements fulfilled the legal requirements and, in conformity with the principles of proper accounting, gave a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the Group. The auditor also confirmed that the management report and the Group management report were consistent with the annual financial statements and the consolidated financial statements. Following in-depth examination and discussion by the Audit Committee and the Supervisory Board, the Supervisory Board approved the annual financial statements for financial year 2016 as presented by the Executive Board. As a result, they are final for the purposes of Section 96(4) of the Austrian Stock Corporation Act (Aktiengesetz, AktG). The management report prepared by the Executive Board was approved, as was the profit appropriation proposal. The Supervisory Board also approved the consolidated financial statements and the Group management report along with the consolidated corporate governance report for the Group submitted by the Executive Board, which was reviewed and approved by Ernst & Young Wirtschaftsprüfungsgesellschaft m.b.H.

In conclusion, the Supervisory Board would like to thank the Executive Board and all employees for their great dedication and their successful work during financial year 2016. The Supervisory Board would also like to thank the Group's shareholders, customers and business associates for their trust.

Vienna, March 2017

Dr. Gilbert Frizberg

Chairman of the Supervisory Board

Report on business performance and economic position

General conditions

VERBUND's business operations are substantially impacted by the development in wholesale electricity prices and the political and regulatory framework. Electricity prices depend not only on demand but also on price trends for fuel and CO₂. In addition, the energy sector is undergoing fundamental changes due to the transition to increasingly climate-neutral energy generation.

Conditions in the European electricity market remained extremely challenging in financial year 2016. The energy markets continued to experience upheavals, and commodity prices for oil, gas and coal underwent a further decline compared with 2015. CO₂ prices also collapsed in Europe due in particular to political uncertainty concerning the future role of the United Kingdom in EU emissions trading as well as uncertainty regarding the next step in pursuing reform in the fourth trading period. Moreover, economic growth remained sluggish in Europe. All of this in conjunction with the new energy efficiency regulations taking effect led to stagnating demand for electricity in the joint German/Austrian price zone in 2016. At the same time, electricity generation capacities increased due to continued heavy subsidisation of energy generated from wind and photovoltaics. Thus wholesale prices for electricity dropped once again in financial year 2016 in comparison with 2015.

VERBUND responded to the foreseeable decline in revenue by launching a programme to reduce costs and increase efficiency, increasing the regulated portion of its asset portfolio and initiating an innovation and services campaign. Thus VERBUND continued in 2016 to work steadily towards its goal of becoming a CO₂-free, cost-effective and innovative electricity generation company.

General economic environment

Growth accelerates in a risky climate

Real global output rose only moderately in 2016 with an increase of 3.1% despite stabilisation of the situation in the emerging markets. At +4.1%, growth in economic output in the emerging markets in 2016 was approximately at the level of the previous year.

The highly expansionary monetary policy used by central banks in the advanced economies to stimulate the economy in 2016 was counteracted by structural impediments and political uncertainty. This included geopolitical tension along with increasingly isolationist, protectionist tendencies as came to light in the Brexit vote, for instance. According to the January 2017 forecast by the International Monetary Fund (IMF), real economic growth increased by 1.6% in the industrial countries in 2016 after an increase of 2.1% in 2015.

The Brexit vote also curbed economic output in the eurozone, which IMF experts estimate to have risen by 1.7% in 2016 or somewhat less than in the prior year (2015: +2.0%). Economic output in Germany, the eurozone's largest economy, performed in line with the rest of the eurozone in the reporting period (2016: +1.7%).

The Austrian economy was on the upswing in 2016 following the low growth levels registered in 2015. Economic growth was fuelled by an acceleration in domestic consumption, due above all to the positive impact of the 2015/2016 tax reforms and the associated increase in household incomes. By contrast, the sluggish performance of global trade provided little stimulus for the export economy. According to the December 2016 economic forecast by the Austrian Institute of Economic Research (WIFO), real gross domestic product increased by 1.5% in 2016 (2015: +1.0%).

Energy market environment

Higher electricity consumption due to the 2016 leap year and considerably colder winter months

According to initial data from E-Control¹ (ECA), electricity consumption in Austria rose by 1.0% to 70,297 GWh in 2016 (total supply of electricity, domestic electricity consumption excluding pumped storage consumption). One of the reasons for the increase in consumption was the extra day in February 2016 due to the leap year. Higher consumption also resulted from the considerably colder winter months compared with 2015.

Due to the increase in the water supply compared with the previous year, Austrian hydropower plants supplied 7.1% more electricity in 2016 (total supply of electricity). "Other generation" increased by 4.2%, while thermal power plant generation decreased by 0.2% due to unfavourable market conditions. "Other generation" includes electricity production from other renewable energy sources (excluding biomass, which comes under the category of thermal generation) and from plants that cannot yet be allocated for statistical purposes. All in all, electricity generation increased by 4.7% in Austria in 2016.

The energy trading balance was affected by the fact that the quantities of electricity produced domestically rose significantly, whereas consumption of electricity increased at a lower rate. Net electricity imports (imports minus exports) decreased by 28.9%. Therefore, the figure representing the foreign dependence of the Austrian power supply amounted to nearly 10% in 2016 after 13% in 2015.

¹ Energie-Control Austria für die Regulierung der Elektrizitäts- und Erdgaswirtschaft

OPEC agrees to limit oil production

The average price for one barrel of Brent crude oil (front month) was \$45.1/bbl in 2016 compared with \$53.6/bbl in 2015. This represents a decrease of 15.8%.

At the start of 2016, oil prices continued the downward spiral that had begun in mid-2014. The price for one barrel of Brent crude (front month) fell below the \$30/bbl mark in January 2016. Although crude oil prices subsequently recovered, the low price levels created serious difficulties overall for numerous oil-producing countries and companies. The OPEC countries – which have a total market share of around 40% of all crude oil production – nonetheless proved unable to agree on price interventions for quite some time.

It was not until the end of November 2016 that OPEC decided to cut production for the first time since 2008. Oil prices rose immediately. At the end of 2016, one barrel of Brent crude (front month) was quoted at \$56.8/bbl.

Gas prices continue falling

Price levels in European gas trading declined sharply compared with 2015. The spot price at the European NCG trading point decreased by €5.8/MWh compared with the previous year to €14.2/MWh on average in 2016. In futures trading, supplier contracts for the coming year (NCG front year) were invoiced at €15.7/MWh, or €4.7/MWh less than had to be paid for the NCG front year in 2015. European gas prices came under pressure in 2016 due to falling oil prices and an increased supply of liquefied natural gas (LNG).

Coal recovers after first-quarter 2016 low

Major excess capacities put prices under even greater downward pressure at the start of 2016. Coal listings (ARA front year) on the futures market fell well below \$40/t at times during quarter 1/2016, after

which the coal market recovered again. Hard coal for the front year was trading at \$70.3/t at the end of 2016.

The rise in hard coal prices observable at the end of quarter 1/2016 was mainly attributable to the cutbacks in coal production ordered in China (closure of loss-making hard coal mines) being offset in full by increased imports.

On average, hard coal was 2.1% cheaper on the futures market (ARA front year, euro basis) in 2016 than in the previous year in spite of the recent price increase. By contrast, coal prices in the spot market were up 4.9% in 2016 compared with the average listing in 2015 (euro basis).

CO₂ prices take a nosedive

The Dec 2017 EUA (European Union Allowance) emissions rights benchmark contract traded at an average of €5.4/t in 2016, a decrease of €2.4/t from a year earlier. Many experts believe that this is still much too low to induce corporations to gear their decisions on production methods and investments towards low-emission solutions rather than high-emission fuels, technologies and processes.

Certificate prices (EUA with a December 2017 delivery date) initially declined steadily from the start of 2016 until mid-February 2016, when they reached a low of under €5/t of CO₂. Prices then moved sideways until reaching just under €6/t of CO₂ at the end of April 2016. Following the UK decision in favour of leaving the EU on 23 June 2016, certificate prices declined, dropping below €5/t of CO₂ at times.

The erosion in prices reflects the uncertainty regarding the United Kingdom's continued participation in the European Emissions Trading System (ETS) as well as whether the EU will be successful in its efforts to reform the ETS.

Further drop in electricity wholesale prices

The average price for base load electricity deliveries in the German/Austrian bidding zone on EPEX SPOT, the European electricity exchange spot market, decreased by 8.2% compared with the previous year to €29.0/MWh in 2016. Peak-load prices were €35.2/MWh in 2016, or 9.8% lower than the average prices for 2015.

Apart from declining prices for CO₂ and primary energy, the lower spot market prices were attributable to the greater quantities of energy from renewables being fed into the grid in the joint German/Austrian price zone amid stagnating demand. The accumulation of renewable energy increases the likelihood of lower prices or negative prices occurring during certain hours in the spot market.

In the futures market at the European Energy Exchange (EEX), base load for 2017 (front year base) was traded at an average price of €26.6/MWh in 2016 for the German/Austrian bidding zone, and peak-load (front year peak) was traded at €33.5/MWh. In 2015, front year base contracts still paid €31.0/MWh on average and front year peak contracts paid €39.0/MWh. These prices are a reflection of expectations that the production of renewable energy will continue to increase and price levels will remain favourable in the markets for primary energy and CO₂.

VERBUND sells most of the electricity generated in futures markets in advance so as to reduce short-term selling and price risks. In 2016, the price trend in the futures market had only a minor influence on revenue during the reporting period. The trend will affect the results of subsequent periods, however.

Political and regulatory framework

At the end of 2016, the European Commission presented a new energy package known as “Clean Energy for All Europeans”. The next stage of the energy transition has been ushered in by Germany with its comprehensive reform of the German Renewable Energy Sources Act (Erneuerbare-Energien-Gesetz, EEG) in addition to enacting the Act for the Further Development of the Electricity Market (Gesetz zur Weiterentwicklung des Strommarkts), also known as the Electricity Market Act (Strommarktgesetz) to adapt the electricity market to the requirements of the energy transition. In Austria, the focus was on splitting up the German/Austrian price zone and the government’s “autumn package”.

EU energy policy

“Clean Energy for All Europeans”: European Commission presents the fourth internal energy market package

On 30 November 2016, the European Commission presented a comprehensive legislative package for the energy sector. The legislation covered the following: introduction of a corporate governance framework, reorganisation of the regulations applicable to renewable energy (subsidies, market integration), improving the energy trading market (control power market, intraday/day-ahead/futures markets), removing market barriers (upper price limits, regulated consumer prices), regulations for capacity mechanisms, strengthening regional cooperation (especially between transmission system operators), regulations for the distribution grid, strengthening ACER (Agency for the Cooperation of Energy Regulators), new rules for determining price zones, promotion of electromobility, regulations for new market participants (aggregators, local energy communities), the legal framework for demand response, clarification of the legal framework for storage capacity, improving consumer services in relation to quotations and billing, and regulations for own generation. Proposals were also presented for revised energy efficiency and building efficiency guidelines. The legislative process thus initiated at EU level is likely to be completed during the Austrian presidency in the second half of 2018.

European Commission’s decarbonisation package

In July 2016, the European Commission presented a proposal to all member states regarding binding carbon reduction targets for the 2021–2030 period. The proposal is directed at those sectors not subject to the EU Emissions Trading System (ETS) regulations (transport, building, agriculture, waste, land use and forest management). Under the proposal, Austria would be required to reduce carbon emissions by 36% compared with 2005 levels by 2030. The Commission also announced its European strategy for low-emission mobility.

German-Austrian electricity pricing zone

ACER (Agency for the Cooperation of Energy Regulators), the European regulatory authority, published a non-binding opinion on 23 September 2015 in which it recommended splitting up the joint German-Austrian bidding zone. This step was taken because of “loop flows” (unscheduled flows of electricity), most of which occur via Poland and the Czech Republic.

Together with the Federation of Austrian Industries, the Austrian Economic Chambers and EXAA, the Austrian energy exchange, VERBUND took the lead in having a legal opinion prepared by European law firm Clifford Chance by 4 November 2016. The opinion stated that ACER had no authority to decide on splitting up the German-Austrian electricity market and that the European Network of Transmission System Operators for Electricity (ENTSO-E) had sole responsibility, together with the member states, for

reviewing possible congestion in Germany and Austria. The initial results from ENTSO-E are expected in the spring of 2018 in the context of its bidding zone review.

On 17 November 2016, the European regulatory authority ACER announced that although it would initiate preparations for separating the German-Austrian electricity price zone, splitting the zone would depend on the outcome of the bidding zone review currently being conducted by ENTSO-E.

VERBUND will follow E-Control, APG, sector associations, Austrian energy policymakers (“Österreichs Energie”) and EXAA in taking legal action against the decision, since it is not permissible for ACER to even make preparations for splitting the joint price zone at the Austrian border.

VERBUND will thus continue to work vigorously at both national and European level towards maintaining the German-Austrian electricity price zone, as in the past.

New legal framework for the energy sector in Germany

Electricity Market Act

A new electricity market law was enacted by the German parliament based on the green paper and white paper discussions on the design of the electricity market. The German Electricity Market Act (Strommarktgesetz) lays the foundation for the future design of the market and is an acknowledgement of the Energy-Only-Market (EOM) 2.0 proposals. The new legislation emphasises the electricity market, incorporating a capacity reserve and a grid reserve as well as provisions for permanently closing down lignite-fired plants. It also gives more responsibility to balancing group managers and specifies the compensation for redispatch measures. The Electricity Market Act took effect on 30 July 2016.

“Electricity 2030” discussion paper published by the German Federal Ministry for Economic Affairs and Energy

In September 2016, the German Federal Ministry for Economic Affairs and Energy (BMWi) opened the debate on “Electricity 2030”. The discussion involves outlining the primary tasks for the coming years based on twelve long-term trends with a focus on cost-efficient supply of electricity. Three main topics have emerged in the process: 1) efficiency in line with the “efficiency first” concept; 2) direct use of renewables and 3) “sector coupling”.

All of the issues under discussion essentially come down to two main points: where will investments need to be made to transition from Electricity Market 2.0 to Energy Market 2.0, and how will the regulatory framework ensure that the market will provide incentives for those investments to be made?

The effects of the discussion paper on energy policy legislation are expected to be seen in the next legislative period.

Amendment to the Renewable Energy Sources Act

The 2017 Renewable Energy Sources Act (Erneuerbare-Energien-Gesetz 2017, EEG 2017) ushers in a near-complete change in the system for subsidising electricity from renewable energy. In future, a competitive bidding procedure will be carried out for the key plant technologies of wind, solar and biomass. The bidding process will be designed to manage expansion in accordance with the planning and to keep costs down. It will also maintain the variety of players in the market by excluding small plants from participation in the bidding procedure and improve coordination of the development of renewable energy and grid expansion.

For 2017, the transmission system operators have announced that allocations under the Renewable Energy Sources Act (EEG) will increase by 8.3% to 6.88 ct/kWh. The German Federal Ministry for

Economic Affairs and Energy (BMWi) noted that following the high reached in 2013, the combined total figure of the exchange market price and the allocation under the Renewable Energy Sources Act (EEG) has declined for three years in a row and will presumably decrease again in 2017 despite the increase in compensation for electricity generated from renewables of approximately 40% (2013–2017). The additional increase in the allocation under the Renewable Energy Sources Act (EEG) illustrates the continuing need for reform.

Green paper on energy efficiency

The German Federal Ministry for Economic Affairs and Energy (BMWi) led a consultation process in the context of preparing a green paper on energy efficiency in 2016. The green paper focuses on five main topics: “efficiency first”, advancing the development of energy efficiency tools, energy efficiency policy at EU level, sector coupling and digitalisation. The key issue for the Ministry was formulated as follows: “How can we reduce the demand for energy, and how can energy be converted and used more efficiently in the future?”

Electromobility package

The German government has approved a €1bn range of measures aimed at accelerating development of the electromobility market. In addition to paying incentives for the purchase of electric cars and plug-in hybrids, the government has set aside €300m for improvements to the charging infrastructure. The package also calls for increasing the percentage of electric vehicles in the government fleet to at least 20%.

New legal framework for the energy sector in Austria

Integrated energy and climate strategy

The consultation process on the “green book for an integrated energy and climate strategy” conducted by the Austrian government in 2016 represented the first key step in moving towards 2030 in terms of energy policy. Specific strategic measures in energy and climate policy are expected in 2017.

“Tariffs 2.0”

In February 2016, E-Control (ECA) launched a discussion process with its consultation paper entitled “Further development of the fee structure for the power grid (“Tariffs 2.0”)”. The consultation paper is the ECA’s response to current challenges such as increasingly decentralised, volatile generation, demand response and the roll-out of smart metering. The main point made by the ECA paper is that greater emphasis should be placed on the capacity component of the charge. The ECA will publish the final document in the first quarter of 2017.

Amendment to the Stock Exchange Act

The EU’s new market abuse regime necessitated amendments to the Stock Exchange Act (Börsegesetz, BörseG) in 2016. As was the case with implementation of the 2013 EU transparency guidelines, the amendments tightened regulations for exchange-traded companies. VERBUND has adapted its internal regulations on financial market compliance accordingly.

Federal government's "autumn package"

In 2016, the federal government discussed and prepared a legislative package comprising various legislative proposals ("autumn package"). The package contains plans to amend the Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG), the Natural Gas Act (Gaswirtschaftsgesetz, GWG), the E-Commerce Act (E-Commerce-Gesetz, ECG) and the Federal Energy Efficiency Act (Bundes-Energieeffizienzgesetz, EEffG) and to revise the Combined Heat and Power Act (KWK-Punkte-Gesetz, KPG) as well as a technology compensation law for biogas plant operators. The discussion is still ongoing, however, given the different points of view of the various key stakeholders regarding subsidies for biogas plants. Adoption of the package has been postponed until 2017.

Discussion of storage capacity in the future regulatory framework

The increasing proliferation of decentralised generation units and the rising share of volatile renewable energies as well as new consumers of electricity have altered the electricity markets in that small-scale, local storage capacity is being used more and more frequently. Detailed discussions are being held on how to integrate local storage capacities into the existing regulatory framework, particularly in view of the use of local capacities by grid operators for grid support measures.

Finance

Factors affecting the result

Wholesale prices for electricity

In 2015, VERBUND entered into contracts in the futures market for most of its own generation for 2016. At an average of €31.0/MWh for base load and €39.0/MWh for peak load, electricity wholesale prices were down 11.8% and 12.0%, respectively, on the prior-year levels. Price levels on the electricity futures market thus largely mirrored the trend in fuel and CO₂ prices. Excess capacities in the European electricity market and construction of additional renewable energy plants have exerted additional pressure on the futures market.

In the spot market, wholesale trading prices for electricity in 2016 were also significantly below the prior-year level. Prices for base load decreased by an average of 8.2% to €29.0/MWh, and prices for peak load fell by 9.8% to €35.2/MWh. Apart from declining prices for CO₂ and primary energy, the lower spot market prices were attributable to the greater quantities of energy from renewables being fed into the grid in the joint German/Austrian price zone amidst stagnating demand.

Water supply

Water supply in the rivers is of particular significance to VERBUND since around 93% of its electricity is produced using hydropower. The water supply is measured by means of a hydro coefficient. The value of 1.00 stands for the long-term average. In the 2016 reporting period, the hydro coefficient for run-of-river and pondage power plants was 1.00, which is exactly the same as the long-term average and 7 percentage points above the prior-year level. The hydro coefficients for the individual quarters were as follows: quarter 1: 1.00; quarter 2: 0.98; quarter 3: 1.05; quarter 4: 0.96.

Electricity supply and sales volumes

At 31,995 GWh, VERBUND's own generation increased by 756 GWh, or 2.4%, compared with the previous year. Generation from hydropower rose by 6.1%, or 1,711 GWh, compared with 2015. The hydro coefficient for the run-of-river power plants was 1.00, which corresponds to the long-term average and is 7 percentage points above the prior-year figure. Generation from annual storage power plants fell 5.0% below the prior-year level due to decreased utilisation of reverse operation and despite the greater water inflows and increased lowering of water levels.

Wind power and photovoltaic installations generated 47 GWh, or 5.4%, less electricity. The decrease was attributable above all to less windy conditions in Romania and production cutbacks in Germany.

Generation from thermal power plants was reduced by 908 GWh, or 40.2%, in the reporting period. The Mellach combined cycle gas turbine power plant produced 127 GWh less electricity in 2016 due to decreased use for congestion management. Generation from VERBUND's other thermal power plants in Austria decreased by 781 GWh, primarily due to the closure of the Dürnröhr power plant effective 30 April 2015.

Electricity purchased from third parties for trading and sales increased by 3,202 GWh. Purchases of electricity from third parties for grid losses and control power, including congestion management, dropped by 341 GWh.

Group electricity supply			GWh
	2015	2016	Change
Hydropower ¹	28,098	29,809	6.1%
Wind/solar power	882	835	-5.4%
Thermal power	2,259	1,351	-40.2%
Own generation	31,239	31,995	2.4%
Electricity purchased from third parties (trading)	19,673	22,875	16.3%
Electricity purchased for grid loss and control power volumes	4,326	3,986	-7.9%
Electricity supply	55,238	58,855	6.5%

¹ incl. purchase rights

Electricity sales volumes increased by 3,814 GWh in 2016 compared with the previous year. We were able to increase electricity volumes delivered to consumers by 2,308 GWh thanks to increased activity in the Austrian and international consumer markets (Austria: +342 GWh; international: +1,966 GWh). The rise in sales to resellers (+1,589 GWh) was due above all to higher demand in Austria and in France. Electricity deliveries to trading firms were nearly unchanged (-84 GWh). Own use of electricity decreased by 462 GWh, primarily due to the significant decrease in the use of reverse operation.

Group electricity sales volume and own use

GWh

	2015	2016	Change
Consumers	8,946	11,255	25.8%
Resellers	24,317	25,906	6.5%
Retailers	18,112	18,028	-0.5%
Electricity sales volume	51,375	55,189	7.4%
Own use	3,100	2,639	-14.9%
Control power volume	762	1,028	34.9%
Total electricity sales volume and own use	55,238	58,855	6.5%

In 2016, approximately 53% of the electricity sold by VERBUND went to the Austrian market. International trading and sales activities focused on the German market, which accounted for around 82% of all volumes sold abroad. The German and Austrian markets accounted for most of the growth.

Electricity sales volume by country

GWh

	2015	2016	Change
Austria	27,366	29,107	6.4%
Germany	19,628	21,394	9.0%
France	3,641	3,847	5.6%
Romania	473	437	-7.7%
Switzerland	131	236	79.8%
Other	135	169	24.9%
Electricity sales volume	51,375	55,189	7.4%

Financial performance**Revenue and result**

	Unit	2015	2016
Revenue ¹	€k	435,012.9	420,886.4
Earnings before interest and taxes (EBIT)	€k	166,203.2	356,755.4
Earnings before taxes	€k	39,389.8	267,005.3
Net income for the year ¹	€k	143,745.0	272,506.8
Net profit	€k	121,595.5	100,750.5
Return on equity (ROE)	%	1.7	11.5
Return on investment (ROI) ¹	%	2.6	6.4
Return on capital employed (ROCE) ¹	%	2.3	5.4
Return on sales (ROS) ¹	%	38.2	84.8

¹ Prior-year key performance indicators were adjusted in accordance with the changes in presentation from the Austrian Accounting Amendment Act 2014.

Revenue

The decrease in revenue of 6.1% is mainly attributable to lower wholesale electricity prices and the transfer of an electricity supply liability effective 1 January 2016. The electricity revenue which resulted in the reduction of this electricity supply liability amounted to €21,408.4k in the previous year. The share of electricity revenue generated in the international sales market in Germany also fell to 0.0% (previous year: 5.5%) as a result of this discontinuation. However, the positive effect arising from this transferred electricity supply liability was contributed to electricity revenue by VERBUND AG's subsidiary VERBUND Trading GmbH and amounted to €15,639.0k in 2016.

In addition, the effects of arbitration proceedings resulted in reductions in revenue amounting to €6,120.0k. Offsetting this, electricity purchases were also reduced by this amount.

In accordance with regulations governing changes in presentation under the Austrian Accounting Amendment Act 2014 (RÄG 2014), €23,919.1k (previous year: €27,641.4k) was also reclassified from other income to revenue. The decrease in the reclassified revenue is attributable to lower revenue from intra-Group invoicing and lower lease income.

Revenue thus decreased by a total of €14,126.5k or 3.2%; in contrast, electricity sales volume within the Group increased by 552.0 GWh or 1.1% compared with the previous year.

Expenses for electricity purchases

Expenses for electricity purchases fell by 20.7% to €157.1k. Along with the discontinuation of the long-term electricity supply liability, the corresponding electricity purchases amounting to €15,952.9k were no longer necessary. In addition, the effects of arbitration proceedings resulted in reductions in electricity purchases amounting to €6,120.0k. Offsetting this, electricity revenue also decreased by this amount. The remaining decrease is attributable to significantly lower wholesale electricity prices. The grid fees necessary for the electricity purchases increased by €10,679.0k or 8.8%. Overall, expenses for electricity purchases therefore decreased by €30,374.3k or 9.5%.

Personnel expenses

Personnel expenses decreased by €898.1k or 3.4% to €25,757.7k. The 1.3% to 1.5% increase in salaries and ancillary expenses under the collective agreement and the biennial pay rises under the collective agreement contributed to an increase in personnel expenses, while the decrease in operational headcount by 13 to 140 employees had the opposite effect. Expenses for employee benefits relating to pension and termination benefits increased by €1,319.4k. The main reason for this was the interest rate reduction of 0.5% in the financial year.

Other operating expenses

Other operating expenses decreased by €3,968.8k, or 10.2% to €35,085.5k. This decrease is primarily attributable to the discontinuation of expenses for operating a fictitious gas storage facility (€1,720.9k), lower advisory services (€827.2k) and lower advertising and entertainment expenses (€329.8k) as well as the decline in intra-Group invoicing.

Earnings before taxes

Earnings before taxes increased from €39,389.8k to €267,005.3k as a result of the influencing factors described above and yet another significantly higher financial result of €239,433.3k compared with the previous year (previous year: €18,987.8k). The financial result changed mainly due to overall higher

results from equity interests of €437,913.3k (previous year: €352,241.6k), of which €187,133.7k was related to the reversal of a provision relating to an equity interest. This was reduced by higher transfers of losses amounting to €5,460.2k (previous year: €3,319.0k). In addition, lower depreciation and amortisation and provisions for investees amounted to €167,032.8k (previous year: €283,408.6k).

Financial position

Financial position

	Unit	2015	2016
Fixed assets	€k	5,082,168.2	4,871,318.4
Current assets	€k	99,246.8	296,688.8
Working capital	€k	-400,249.4	-227,684.2
Net debt	€k	2,643,373.8	2,653,776.5
Equity ¹	€k	2,314,269.6	2,465,181.0
Current liabilities	€k	585,879.7	915,435.2
Current assets	€k	185,630.3	687,751.0
Ø Capital employed	€k	5,507,570.0	4,925,476.2
Equity ratio ¹	%	41.8	45.0

¹ Prior-year key performance indicators were adjusted in accordance with the changes in presentation from the Austrian Accounting Amendment Act 2014.

Fixed assets

Intangible assets and property, plant and equipment increased by €5,714.8k. Additions primarily related to an electricity purchase right of €6,903.4k and to office and plant equipment and electrical installations of €683.8k. Amortisation of intangible assets and depreciation of property, plant and equipment amounted to €1,861.3k in the financial year.

Investments relating to investees changed by €31,906.5k, due on the one hand to the increase in carrying amounts for foreign equity interests (€24,754.6k) and to increased shareholdings or reversals of impairment losses recognised on Austrian equity interests (€11,746.2k), and on the other hand to the disposal of a foreign equity interest amounting to €4,594.3k.

Other investments decreased in total by €248,471.0k. Loans were granted in the amount of €26,000.0k, while loans of €274,689.7k were repaid. Measurement of securities under fixed assets increased on the one hand due to reversals of impairment losses amounting to €689.2k and decreased on the other hand due to disposals totalling €470.5k.

Current assets

The increase in current assets by €197,441.9k to €296,288.8k mainly resulted from the granting of short-term interim financing to subsidiaries in the amount of €220,000.0k. The decrease in the receivable from the tax authorities for excess corporate tax prepayments by €12,719.2k had an offsetting effect.

Equity

Equity increased by €150,911.3k to €2,465,181.0k due to the net income for the year, reduced by the distribution for financial year 2015. The equity ratio rose from 41.8% to 45.0%. Changes to the definition

of equity in accordance with Section 224(3)(a) of UGB as a result of the Austrian Accounting Amendment Act 2014 (RÄG 2014) resulted in a slight increase of €2.7m. Upon taking effect, untaxed reserves will be disclosed in equity, less the deferred taxes attributable to them. The equity ratio was not affected by this change because in past years it was already calculated including the untaxed reserves adjusted for the attributable deferred taxes.

Liabilities

Non-current and current liabilities decreased by €69,756.2k to €2,634,507.4k. In financial year 2016, repayments to banks amounted to €115,407.1k. Liabilities to affiliated companies rose by €231,137.3k due to intra-Group invoicing. In addition, an electricity supply liability in the amount of €180,634.1k was transferred to VERBUND Trading GmbH.

Financing

Financing strategy

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

Securing liquidity and ensuring suitable liquidity reserves

For VERBUND, ensuring that liquidity is secure at all times in a difficult market environment has the highest priority. As at 31 December 2016, VERBUND AG had a syndicated credit line in the amount of €500.0m at its disposal that had not been drawn down. The facility runs until 2019 with two extension options of one year in each case. It was taken out on 15 October 2014 with twelve domestic and international banks with good credit ratings. VERBUND AG also had uncommitted lines of credit amounting to approximately €700.0m at the end of 2016. None of the credit lines had been drawn down as at 31 December 2016.

Securing a solid, long-term credit rating

The better a company's credit rating, the easier and more inexpensive it is to fully access international capital markets. A solid credit rating gives VERBUND AG access to various financing instruments, including those in the capital market. As at 31 December 2016, VERBUND AG had a long-term rating of BBB with a stable outlook from Standard & Poor's (S&P) and Baa2 with a stable outlook from Moody's. S&P lowered its rating from BBB+ to BBB with a negative outlook in May 2016. However, it raised the outlook back to "stable" in October 2016. In April 2016, Moody's downgraded its rating to Baa2 with a negative outlook. This rating was also later upgraded to "stable" (in August 2016).

For the long term, VERBUND AG is aiming for a solid "A" category rating. VERBUND AG is therefore focusing its management of the Group on optimising free cash flow and improving the two key rating-related indicators of FFO/net debt and RCF/net debt.

Financing measures

To reduce interest expenses, VERBUND AG repaid a promissory note early as part of its liability management activities. This involved early repayment of a total principal amount of €62.0m from a loan maturing in 2018.

In 2016, oekom research AG, one of the top independent rating agencies worldwide in the sustainable investment segment, again verified on a voluntary basis the green bond issued by VERBUND in 2014 in the amount of €500m (maturing in 2024, coupon of 1.5% p.a.). This is the first green bond issue by a company in the German-speaking region.

KPIs – finance

	Unit	2015	2016
Cash flow from operating activities	€k	428,226.0	126,591.0
Cash flow from investing activities	€k	703,795.2	– 170,475.6
Cash flow from financing activities	€k	– 1,132,013.4	43,882.1
Financial result	€k	18,987.8	239,433.3
Gearing	%	114.2	107.7
Debt repayment period	years	26.1	6.5

Compared with the previous year, the financial result improved by €220,445.5k to €239,433.3k. The main reason for this was lower allocations for provisions relating to investees during the financial year amounting to €167,032.8k (previous year: €283,408.6k). In contrast, provisions were reduced by €187,133.7k. Results from equity interests from distributions decreased by €101,462.0k to €250,779.5k. This was partially offset by higher transfers of losses amounting to €5,460.2k, an increase of €2,141.2k. In the area of investments, there was also an impairment loss reversal of €5,796.2k (previous year: €3,549.9k) and income from disposals of investments of €2,518.5k (previous year: €5,881.8k). Interest income improved by €30,886.9k while income from loans decreased by €14,521.3k.

An increase in interest-bearing net debt by €10,402.6k and the simultaneous increase in equity by €150,911.3k resulted in a decrease in gearing of 6.5 percentage points to 107.7%. The strong increase in cash inflow from ordinary activities of 299.3% compared with the simultaneous reduction in debt by 6.7% resulted in the debt repayment period decreasing from 26.1 years in the previous year to 6.5 years.

The composition of cash in hand and cash at banks (cash and cash equivalents) is presented under note (5) in the notes to the annual financial statements.

Cash flow statement**(1) Cash flow from operating activities**

Cash flow from operating activities was determined using the indirect method and resulted in a cash inflow of €126,591.0k (previous year: cash inflow of €428,226.0k).

The change in trade receivables and other receivables is primarily attributable to the decrease in deferred tax assets of €45,250.6k and the decrease in other accruals and deferrals in the amount of €3,601.8k. The decrease in deferred tax assets includes a negative amount of €25,039.2k for the subsequent taxation of foreign losses which was reclassified from deferred taxes to tax provisions in accordance with AFRAC Opinion 30 "Deferred Taxes in the Annual Financial Statements" (issued in December 2016). In addition, the reduction of the surplus in corporate tax prepayments resulted in a decrease in other receivables of €12,719.2k. The increase in receivables from affiliated companies in the amount of €37,691.8k is mainly attributable to higher future tax payments than in the previous year.

Changes in trade payables and other liabilities were mainly the result of settling the transfer of an electricity supply liability.

The change in current provisions and tax liabilities is mainly attributable to the reversal of a provision in connection with an investment in the amount of €187,133.7k and the recognition of corporate income tax provisions, particularly provisions recognised for the subsequent taxation of foreign losses, in the amount of €47,573.4k. For the subsequent taxation of foreign losses, an adjustment decreasing deferred tax assets by €25,039.2k was recognised in the previous year, and €8,129.5k was not recognised in 2015 due to lack of utilisation (an increase to the loss carryforward in 2015).

(2) Cash flow from investing activities

Net cash flow from investing activities consisted of an outflow of €170,475.6k (previous year: cash inflow of €703,795.2k), resulting primarily from the repayment of loans amounting to €274,689.7k, the disposal of an equity interest in the amount of €7,038.7k and the sale of securities totalling €482.0k. These have to be seen alongside the granting of loans and short-term investments in the amount of €246,000.0k and additions to equity interests in the amount of €197,737.4k.

Capital expenditure for intangible assets and property, plant and equipment comprised capital expenditure relating to rights in the amount of €6,903.4k and relating to office and plant equipment totalling €2,057.0k.

(3) Cash flow from financing activities

As part of the dividend distribution approved for financial year 2015, €121,595.5k was paid out to shareholders. This was equivalent to a dividend of €0.35 per share. Group clearing resulted in a cash inflow of €280,884.7k (previous year: cash outflow of €88,098.7k).

An unscheduled repayment of a promissory note in the amount of €62,000.0k and scheduled payments by instalments in the amount of €53,407.1k took place in financial year 2016.

Cash flow statement

€k

	Notes	2015	2016
Net income for the year ¹		143,745.0	272,506.8
Amortisation of intangible assets and depreciation of property, plant and equipment		2,012.4	1,861.3
Amortisation and reversal of impairment of financial assets		-3,549.9	161,118.6
Result from disposal of non-current assets		-4,438.3	-2,519.2
Change in non-current provisions and deferred tax liabilities		-4,003.1	-2,206.6
Income from the reversal of contributions to building costs		-35.1	-35.1
Other non-cash expenses and income		-52,456.9	-3,953.6
Change in inventories		-41.4	59.3
Change in trade receivables and other receivables ^{1, 2}		72,881.6	21,993.7
Change in trade payables and other liabilities ³		-3,438.7	-181,288.2
Change in current provisions		277,550.4	-140,946.0
Cash flow from operating activities	(1)	428,226.0	126,591.0
Cash outflow from capital expenditure on intangible assets and property, plant and equipment		-18,817.5	-8,960.4
Cash inflow from the disposal of intangible assets and property, plant and equipment		33.1	11.8
Cash outflow from capital expenditure on investments		-19,351.9	-443,737.4
Cash inflow from the disposal of investments		741,931.5	282,210.4
Cash flow from investing activities	(2)	703,795.2	-170,475.6
Cash inflow (outflow) from money market transactions		-28.6	0.0
New non-current loans		0.0	0.0
Cash outflow from the repayment of financial liabilities (excluding money market transactions)		-943,135.6	-115,407.1
Cash inflow (outflow) from increases (decreases) in Group clearing balances		-88,098.7	280,884.7
Dividends paid		-100,750.5	-121,595.5
Cash flow from financing activities	(3)	-1,132,013.4	43,882.1
Change in cash and cash equivalents		7.9	-2.5
Cash and cash equivalents as at 1/1/		10.7	18.6
Cash and cash equivalents as at 31/12/⁴		18.6	16.1

¹ Prior-year figures were adjusted in accordance with the changes in presentation from the Austrian Accounting Amendment Act 2014. // ² incl. prepayments and accrued income and deferred tax assets // ³ incl. other deferred income // ⁴ see also note (5) in the notes to the annual financial statements

Report on the environment, research, development and social aspects

Environmental performance

VERBUND bears responsibility for preserving the natural environment. The Group works continuously to reduce the environmental impact of its corporate activities, plants, products and services. The environmental mission statement lays out the environmental principles followed by VERBUND.

Existing structures, processes and responsibilities in environmental management ensure compliance with legal requirements, nationally and internationally accepted regulations and the Group's own, more stringent standards.

Environmental management systems

VERBUND's objective is to implement environmental management systems certified to ISO 14001 in all generation and grid facilities. To date, environmental management systems have been certified by external auditors at 93% of VERBUND's sites. New facilities will be incorporated into the environmental management system as quickly as possible after commissioning and included in the scope of the certificate for the next audit. The Malta/Reißeck hydropower plants and the Mellach thermal generation plants are also validated in accordance with the EMAS III directive. Separate environmental statements were published for the plants; these are available on the VERBUND website.

Greenhouse gas emissions

Due to the high proportion of renewable energy sources representing 96% of its generation, VERBUND is one of Europe's most environmentally friendly energy companies. The Group's focus on electricity generation from renewable energy is a crucial factor in reducing and avoiding emissions. VERBUND's strategic objective is the transition to 100% generation from renewable energy by the end of 2020.

Greenhouse gas emissions (Scope 1–3) decreased by 34% in 2016 to around 1.6 million tonnes CO₂e compared with the previous year (2015: 2.3 million tonnes CO₂e). Of the total emissions, 65% (1 million tonnes CO₂e) are allocated to Scope 1, 19% to Scope 2 and 16% to Scope 3 emissions.

The amount of direct emissions in Scope 1 decreased in 2016 by 42% compared with the previous year. Emissions from the use of fuels in thermal power plants make up the largest share of Scope 1 emissions. Relatively small amounts are generated from the use of diesel and petrol by the VERBUND vehicle fleet and from emissions of SF₆ at grid facilities. These quantities of direct emissions (from fuels and SF₆ emissions) will continue to occur even without operating thermal power plants. However, no direct emissions arise from the generation of electricity using renewable energy.

Compared with 2014, VERBUND was also able to reduce indirect emissions from electricity purchased in Scope 2 by 40% because pumped storage power plants are operated exclusively using electricity with guarantees of origin from 100% hydropower. The figure for other indirect emissions in Scope 3 fell by 19% in the reporting period.

Specific greenhouse gas emissions in the VERBUND Group in Scopes 1, 2 and 3 in 2016 fell to 49 grammes of CO₂e per kWh of total electricity generated (2015: 75). In addition to direct emissions from electricity generation, this figure also includes indirect emissions from extraction and transportation of fuels, purchased electricity, the vehicle fleet and air travel. VERBUND aims to reduce this figure by 90% in the period from 2011 to 2021.

In 2016, direct greenhouse gas emissions (Scope 1) specific to VERBUND amounted to 31 grammes of CO₂e per kWh of total electricity generated. This corresponds to less than one-tenth of the CO₂ emissions from the European energy mix. In 2015, this figure representing electricity from the transmission grid of the European Network of Transmission System Operators (ENTSO-E) amounted to 344 grammes of CO₂/kWh. This figure demonstrates VERBUND's success in its drive to decarbonise electricity generation.

We present our climate change targets and our achievements in reducing emissions in electricity generation in our disclosures to CDP (formerly the Carbon Disclosure Project). Once more, VERBUND ranked highly in the 2016 CDP Leadership Index. In 2016, VERBUND was the best company in the energy sector in the Germany-Austria-Switzerland region. VERBUND again achieved country leader status in Austria in 2016, which places the Group among the two best enterprises in the country.

Conservation and biodiversity

VERBUND is constructing multiple fish passes as part of the implementation of the EU Water Framework Directive. We provide an overview of our capital expenditure for the environment and biodiversity such as the construction of fish passes to re-establish the river continuity and restoration measures implemented at water bodies in the Renewable generation section in the 2016 Integrated Annual Report. We also describe the wide range of measures we have already implemented in the areas of conservation and biodiversity on the websites of the LIFE projects and on the VERBUND website.

Please refer to the 2016 Group Integrated Annual Report for detailed environmental information as well as further information on generation, use of materials, energy consumption, waste and by-products, and other environmental KPIs.

Innovation, research and development

KPIs – R&D

	Unit	2014	2015	2016
Number of R&D projects	Number	75	65	68
Total project volume ¹	€m	138.1	144.5	139.1
of which EU projects ¹	€m	97.5	92.2	93.6
VERBUND's total share ¹	€m	19.2	16.2	22.1
Annual VERBUND expenses	€m	5.4	4.2	5.5

¹ Over the entire duration of the projects

Decarbonisation, decentralisation, digitalisation – the profound transformation of the European energy system is advancing. VERBUND's overarching goals include the integration of renewable energy and the orientation toward energy services. Innovation, research and development play a crucial role in setting the pace for these within the Group.

We firmly believe that with the help of renewable energy sources the world will see a massive expansion of electrification in the decades to come and that the human race is headed towards an all-

electric society. We are therefore working hard on developing profitable technological solutions for a safe, affordable and environmentally friendly energy supply.

Special focus on electromobility

VERBUND is involved in European and Austrian research projects relating to the future of electrical energy. Electromobility is a special focus in this regard.

After 65 fast charging stations were successfully put into operation under the Central European Green Corridor (CEGC) project, VERBUND has been working since last autumn on the expansion of a high-level charging infrastructure for electric cars as part of two further European innovation projects. Under EVA+, on one hand, the density of Austria's network of fast charging stations is being increased, and access is being expanded to Italy. On the other hand, the groundwork is being laid for the next generation of electric cars under ULTRA-E. In the next two years, four ultra-fast charging stations with power output of up to 350 kW will be constructed in Austria – in addition to the 50 kW rapid charging network.

As part of the NeMo project, which was also launched in 2016, VERBUND is working with partners on researching new services for e-mobility customers. Under this project, new services aimed at improving the user-friendliness of charging electric vehicles are being developed for private customers. The spectrum ranges from easier access to charging stations to making reservations to charge.

The CROSSING BORDERS project was also successfully completed last summer. As part of this project, 30 fast charging stations were constructed between Bratislava and Munich.

The LEEFF (Low Emission Electric Freight Fleets) project was kicked off in 2016. This project involves working with partners to develop an overall concept for electrification and operation of a truck fleet to be used for deliveries in metropolitan areas by 2019.

Research emphasis on smart homes

The topic of smart homes was another focal point. In order to test new services for the consumer and to design the market for these services throughout Europe, VERBUND is taking part in the European research project FLEXICIENCY. The project will run until 2019. In 2016, the focus was on designing the Austrian demonstration operations slated to begin in 2017.

Green hydrogen – a central issue for the future

VERBUND sees vast potential in the topic of green hydrogen. Together with partners, VERBUND launched the EU-funded H2FUTURE project at the beginning of 2017. The project examines the future role of hydrogen – produced from water using renewable energy – as an energy source and an industrial gas. VERBUND is working with voestalpine and Siemens as well as with three other partners in Austria to construct one of the world's largest – at 6 MW – PEM electrolyser, which works using a proton exchange membrane.

Since 2016, VERBUND is also partnered with WIVA, the hydrogen initiative of the Austrian model region for energy. One of the initiative's main goals is to create a network of partners working on hydrogen and power-to-gas projects.

Last but not least, VERBUND continued the tailored technology scouting programme it launched in 2015. VERBUND is currently tracking and monitoring 90 forward-looking technologies in the field of energy under this programme.

Hydropower innovations

In its hydropower operations, VERBUND continues to research different ways to create passability through bodies of water in order to progressively achieve the objectives of the EU Water Framework Directive. In the process, greater emphasis is being placed on comprehensive protection of fish. VERBUND is analysing the migratory behaviour of various fish species in detail. This will allow VERBUND to implement measures aimed at helping fish and improving habitats in order to maintain and protect fish populations.

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

The changing conditions in the electricity market are resulting in new demands and the need for greater flexibility of hydropower. In response to this, VERBUND is gathering data on increased mechanical loads as well as potential areas of flexibility in the energy markets of the future. At the same time, we are monitoring signs of wear and tear on materials like seals and sprayed concrete and testing new materials.

Wind power innovations

In the area of wind power, VERBUND is focusing on improving operations in icing conditions. Unanticipated icing of VERBUND wind power plants results in unplanned downtime and reduces electricity production. To address this, VERBUND and other relevant experts kicked off the ICE-CONTROL project last year. As part of the project, which will run until 2019, complex models are being developed to predict the onset, duration, end and intensity of rotor blade icing. High-resolution camera systems monitor ice build-up, and additionally installed ice detectors measure surface temperatures and the thickness of the ice layer directly on the rotor blade. VERBUND is using these tools to evaluate the models developed and to optimise the operation of rotor blade heating as well as the call times of its service technicians.

Innovations in the area of electricity trading

In 2016, VERBUND's innovation activities in the field of electricity trading were dedicated to further improvement of the inflow forecasting and optimisation of storage management in hydropower. High spatial resolution in the forecast values and state-of-the-art stochastic optimisation methods now allow for optimised management of the reservoirs. Numerous forecasts developed previously and updated using appropriate statistical methods provide a better basis for estimating forecasting uncertainties. Moreover, VERBUND is now better equipped to cope with more severe flooding.

In addition, VERBUND is continually driving forward the development of new products with new renewable energy sources and certificates as well as new opportunities for marketing virtual pumped storage power plants and flexibility options in electricity generation.

Innovations in the power grid

Ongoing improvement of operations is the focus of the innovative efforts of independent grid subsidiary APG. In 2016, this company was involved in over 20 research projects. Among other things, APG was involved in the "Innovationssektion" project, working with partners in industry and science on the development of noise-optimised overhead power lines for ultra-high voltage power lines and their testing in operation. Such lines are actually effective in reducing the noise of the corona discharge

caused by rain. In the future, the new transmission lines can be used for new construction and renovations.

Another emphasis was a project for measuring direct currents in transformers in the high and ultra-high voltage grids. This project was conducted in conjunction with the Graz University of Technology and the Central Institution for Meteorology and Geodynamics (ZAMG). Building on this project, a simulation model was developed to make it possible to now calculate the resulting direct currents as well. This is the first time in Central Europe that theoretical predictions of geomagnetically induced direct current caused by solar flares can be verified through this calculation.

Calculation results showed surprisingly high figures for this quasi direct current produced by the earth's magnetic field. ZAMG is currently developing a forecast and alerting system to allow rapid responses to solar flares in the high-voltage grid.

Please refer to the 2016 Group Integrated Annual Report for further information as well as additional details on innovation, research and development.

Human resources and social responsibility

Objectives

The substantial fall in electricity prices in the early months of 2016 exacerbated the persistently difficult situation in European energy markets and made it imperative for VERBUND to take action. The restructuring and cost management path that the Group had chosen was promptly deepened. Further cost reduction potential was identified and realised in the programmes to increase efficiency. The large-scale personnel reduction measures that again became necessary are being implemented in a socially responsible manner. In addition, VERBUND is continuing to pursue its objective of modernising remuneration structures at the company and collective agreement level with the social partners.

In the next ten years, a high number of VERBUND employees will reach the regular retirement age. This fact makes demographic management essential and endorses the Group's long-standing focus on training and continuing education. To prepare VERBUND for its future tasks and responsibilities and to manage the hand-over of operations to the next generation, the main focus in personnel development is on digitalisation. VERBUND is pushing e-recruitment and e-learning. An IT trainee programme is planned for 2017.

The development of and changes in VERBUND's core operating segments require continuous enhancement of the corporate culture. The topics of leadership culture and diversity in the Group are of particular significance. In addition, occupational health and safety of VERBUND employees has remained of great importance to us for decades. At VERBUND, our goal is to keep the accident rate stable at a low level of fewer than twelve workplace-related accidents per 1,000 employees and to improve it further.

Further cost-cutting and sustainable cost management

Even though restructuring and cost management programmes have been implemented systematically in recent years, the sharp decline in electricity prices at the beginning of 2016 necessitated further radical measures. Reductions in operating expenses and personnel costs are being made as part of an additional cost reduction programme. By 2021, a further 211 jobs will be cut in a socially responsible manner.

This means that starting with 2013 a total of around 850 jobs specified in the efficiency programmes will be reduced by the end of 2021, thereby applying the social plan agreed with the Works Council. To date, around 650 of these job cuts have already been realised. In addition to the statutory part-time retirement models, the social plan allows for additional measures to be implemented for employees, such as voluntary termination benefit programmes. Further internal retraining and continuing education programmes, some of which can be combined with the statutory educational leave options, enable employees to remain with VERBUND in new positions obtained via the internal job market. In addition, available human resources are actively managed and deployed for short and medium-term assignments in a “capacity exchange” established specifically for this purpose. Starting in 2016, all employees have the opportunity to switch to temporary part-time work or take time out from their job under the social plan in agreement with their direct line manager. Along with fulfilling employees’ growing desire to plan their working hours flexibly, this will further meet VERBUND’s cost reduction objectives.

The Group’s workforce reduction measures are clearly effective: compared with financial year 2015, the number of employees fell by 146 to 2,952 employees by 31 December 2016. This trend of declining employee numbers will also continue in 2017. Agency staff are hired for a certain length of time as temporary leave replacements to cover capacity peaks as well as specifically for positions with particularly flexible work requirements – in new businesses, sales and APG’s project business for line construction projects. Agency staff receive competitive salaries, and the equal opportunities of agency staff as stipulated by law have also been put into practice.

In actual fact, VERBUND operates almost exclusively in Central Europe, a region which has high standards in terms of labour law and social welfare. Employment of highly and very highly qualified employees is associated with corresponding personnel costs. At the same time, it should be noted that based on productivity figures VERBUND is among the top European electric utilities. Therefore, alongside the programmes to increase efficiency that have been mentioned, it is essential for VERBUND that the existing remuneration structures at company and industry levels be modernised and adapted to market conditions. In addition to adapting internal guidelines on salary determination, the Group is taking a leading role at industry level in redesigning the collective agreement for electricity companies in Austria. The objective is to design a collective agreement that is fair and, at the same time, suited to modern working life. A further step was taken in 2016 to complete the reform of the Group’s internal pension fund system. The contribution rates for the Group’s defined contribution pension plan were adjusted to a mid-market level.

Demographic challenges

The demographic trend already observable over years continued during the reporting period. Around 7% of VERBUND employees will retire over the next five years and 28% over the next ten years. The programmes to increase efficiency mean that not all of those leaving will be replaced. A significant proportion of these positions, however, are essential to operations, and replacements will have to be found for these.

Thus in future years, strengthening the competitive position of VERBUND in the labour market will remain a central task to identify and hire the right candidates for our company.

At the same time, the intention is to retain and motivate existing employees by means of targeted personnel development programmes – also through e-learning solutions.

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

In order to retain VERBUND's attractive employer brand, in 2016 VERBUND again invested in selected employer branding measures. With an efficient use of funds, VERBUND continued to demonstrate a clear presence in the labour market – for example at job fairs and in print and online media, as well as on social media, focusing on apprentices as a target group.

In 2016, the strategic focus was on maintaining long-term contact with top performing students from the Vienna University of Technology (TU) and on measures for the advancement of women such as the annual award of the VERBUND women's scholarship and participation in "TUtheTop", the high potential programme offered by the Vienna University of Technology.

In addition, VERBUND took part for the first time as a service learning partner in the seventh Sustainability Challenge, in which around 70 students from the four largest universities in Vienna (Vienna University of Economics and Business, Vienna University of Technology, University of Natural Resources and Life Sciences, Vienna, and University of Vienna) researched interdisciplinary aspects of the topic "Smart City". Thus VERBUND continues to be an attractive employer for key internal and external personnel.

Recruiting

VERBUND's strong employer brand and continued strong competitive position in the labour market proved an advantage when staffing 104 high-quality positions essential to operations in 2016. More than 80% of these were positions to maintain succession planning in operations and in the Grid segment.

Measures to optimise the recruiting process were introduced in 2016 in order to meet the challenges of demographic change and do justice to the technological advancements and requirements in personnel recruiting. A future-fit e-recruitment solution that follows the latest trends was implemented to offer internal and external applicants a state-of-the-art tool integrating the ever more frequently used mobile devices. This reimplementation also ensured optimised presentation of VERBUND's career opportunities as part of the Group-wide website relaunch. Receiving the Golden Seal Career's Best Recruiters study again in 2016, thereby being awarded first place in the "Energy" industry, is testament to the high degree of professionalisation of recruitment quality that this entails.

Personnel development

Once employees have been hired by VERBUND, their professional and personal development remains a matter of importance to us. In 2016, each employee took part in 35.2 hours of training on average. Personnel development focused on technical and safety qualifications as well as SAP and IT training.

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

e-training – increased digitalisation also in learning solutions

Digitalisation and the need for life-long learning are leading to a paradigm shift in learning at VERBUND in favour of flexible, job-related learning solutions. The "New at VERBUND" electronic onboarding programme simplifies the induction of new employees. Employees can comfortably complete the modules at their own pace directly at their workstation during their first days on the job in parallel to the specialist introduction. Thus, all important information and support is available from the outset.

Apprentice training

In 1983, VERBUND became one of the first businesses in Austria to offer a four-year dual apprenticeship for electrical and mechanical engineering. Currently, apprentices at VERBUND can train to become electrical engineering and metalworking technicians or electronic and electrical engineering technicians. These dual professional qualifications are in high demand and offer excellent opportunities for the future. In 2016, 43 apprentices were recruited in Austria and Germany. The high quality of the apprenticeship training is evident not only in the outstanding achievements in the final apprenticeship examinations. VERBUND has also been recognised as a nationally certified training company by the Austrian Federal Ministry of Science, Research and Economy.

Within the framework of refugee activities at VERBUND, the Executive Board decided to additionally take on four refugees as apprentices in order to make a contribution to the integration of refugees in Austria. In September 2016, two refugees entitled to asylum therefore began their vocational training at the apprenticeship training centre in Ybbs, with another two starting in Kaprun. Outside of their apprenticeship, the refugees will also receive assistance from dedicated people. Further tutoring will be provided in German, mathematics and English so that the refugees can follow the tuition at the apprenticeship training centres and the vocational college.

Further improvement in corporate culture

Employee survey – incorporating employee concerns

In order to create the best possible work environment, VERBUND wants to identify sources of stress for its employees and potential areas for improvement in the workplace. To assist in these efforts, the third Group-wide employee survey was conducted in 2015, entitled “How are you doing at VERBUND?”

Based on the results of the employee survey, specific measures were developed in 2016 in agreement with the Executive Board and the companies’ managing directors. The results of the survey on mental stress conducted in 2014 were also taken into consideration. Implementation of the measures has already commenced at the relevant companies and will continue in 2017. In segments with a high average age, the measures focus on age-appropriate work by adapting jobs and tasks to changing requirements and placing particular emphasis on timely knowledge transfer.

Management feedback

Ongoing improvement of our leadership culture is an important component in developing our corporate culture. All first-level and second-level executives and line managers at VERBUND took part in the VERBUND management feedback in recent years.

The management feedback gives executives the opportunity to reflect on their own perception of roles and responsibilities and provides a basis for individual and organisation-wide support and development measures. Appropriate follow-up measures as part of management training serve to further improve the quality of leadership and thus guarantee the Group’s success.

Work-life balance

Maintaining a balance between work and private life is a tradition at VERBUND. Since 2009, the Work and Family Audit has provided a way to better structure the measures so that more opportunities can be created to meet specific needs and encourage a better work-life balance. In 2016, we made the issue of work and private life a fixed part of performance reviews at VERBUND; this can be discussed on a voluntary basis. In addition, new information about care as well as paid and unpaid carer's leave was made available on the intranet to make it easier to get access to information. The most recent employee survey also confirms that satisfaction with the compatibility of work and family life has been continuously growing since 2008.

Important steps for promoting diversity at VERBUND have been taken in recent years: equal opportunities have always been part of the corporate philosophy, and by signing the Diversity Charter ("Charta der Vielfalt") VERBUND has publicly demonstrated its commitment to diversity.

In the future, diversity and inclusion will be advanced further by planning and implementing structured measures. VERBUND has therefore defined a diversity strategy with the aims of actively promoting diversity within the Group and employing a variety of people at all levels. This enables VERBUND to strengthen its employer brand and Group brand and utilise the diversity of people to increase its commercial success and prevent discrimination. The diversity strategy includes strategic objectives, key performance indicators and suggestions for measures that will promote diversity. Although VERBUND considers diversity management as a whole on account of resources being limited, particular emphasis has been placed on the dimensions of age, gender and disability.

In the age dimension, we are striving to achieve a balanced age structure. The main objectives in managing the demographic change are keeping knowledge in the Group and maintaining the loyalty of VERBUND's top performers. In the gender dimension, the total percentage of women is to be increased to 20% by 2020 and the percentage of women in management positions will also be increased. Our goal in the disability dimension is to continue to fulfil or even exceed the quotas stipulated in the Austrian Disabled Persons Employment Act (Behinderteneinstellungsgesetz, BEinstG) and to recruit and employ people with disabilities.

Focus on disabled persons

VERBUND exceeds the statutory quotas stipulated in Austria and Germany for the employment of disabled people. For VERBUND the mandatory quota for Austria is 108, and VERBUND employs 151 people who qualify as disabled persons under the Disabled Persons Employment Act (BEinstG). The corresponding mandatory quota for Germany is 18, and 26 people with disabilities are employed. In 2014, an accessibility management programme was introduced as part of diversity and inclusion management that has been effective in increasing the accessibility of our sites and our company information and in providing suggestions for improvements.

By implementing specific measures, VERBUND hopes to make everyday dealings with disabled people an established part of the corporate culture. In the summer of 2016, for example, the Human Resources department employed a sight-impaired woman. During 2017, VERBUND plans to strengthen this initiative and take on more people with disabilities as seasonal interns.

Focus on advancement of women

Traditionally, the percentage of women in predominantly technical companies such as VERBUND has been on the low side. That is why VERBUND has put measures in place to increase the current percentage of 17.5% to 20% by 2020. In 2016, the percentage of women among new employee hires was 14.4%.

Based on the results of the employee survey, specific measures for the advancement of women were agreed when measures were being developed. To increase the visibility of female employees, greater consideration will be given to women especially when filling vacancies in bodies or committees or project manager positions. Women can express their interest in a management position by putting themselves forward whenever the succession planning is being periodically updated. When management positions are advertised, women in particular will be encouraged to apply.

VERBUND also takes care to ensure pay equalisation. This is based on strict compliance with the classifications of the collective agreement as well as a performance-related remuneration scheme. Nevertheless, socio-political and cultural aspects such as increased part-time work among women, a lower number of women in technical professions, and the difficulty for women to achieve more highly paid (management) positions are also reflected within VERBUND.

Inspiring women to enter technical professions is important to VERBUND. Therefore, VERBUND has been participating in Take Your Daughter to Work Day in Vienna for 13 years. This campaign sponsored by the City of Vienna, the Vienna Economic Chamber and the Vienna School Board aims to awaken the interest of girls in the technical professions. In 2016, a total of 24 girls took part in a variety of workshops and became acquainted with the APG control centre and the Freudenu power plant in tours of the facilities.

By awarding the VERBUND women's scholarship, VERBUND has supported talented female students during their technical training since 2009. Another aim for the Group is to generate enthusiasm for the company among qualified women, particularly technicians, and, ideally, to recruit them. The VERBUND women's scholarship was awarded for the eighth time in 2016. The three winners each received a scholarship worth €5,000 for one year of study, enabling them to supplement their university education with additional personal and professional training.

Health and safety

Another matter that is of great importance to VERBUND is occupational health and safety. VERBUND's goal is to keep the accident rate stable at a low level of fewer than twelve workplace accidents per 1,000 employees.

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

Accidents in 2016

Since 1 January 2015, the employees of the Enns power plants and Alpha Wind S.R.L. in Romania have also been included in the statistics. Agency staff are likewise included in the accident statistics. The number of employees was therefore 2,952 at the end of 2016, plus 89 agency staff. Fortunately, the

number of accidents fell by 11 compared with 2015 to 27 work-related accidents subject to reporting requirements, and the number of sick leave days decreased by 82 to 724.

The number of accidents at VERBUND therefore showed a marked improvement in 2016. The accident statistics within the Group are significantly lower than the average figures at Austrian electric utilities.

Accident prevention

Preventive measures are based on the analysis of work-related accident statistics at VERBUND. In 2016, the focus of the annual training sessions was on “working in containers”. These sessions used presentations and practical exercises to provide training in the potential risks of hazardous gases in containers, handling the gas detectors used on site and proper use of personal protective gear.

To properly address “water” as a hazard, in particular at our hydropower plants, a refresher course was provided on the topic of “Waterway hazards”. A comprehensive training session used practical exercises to familiarise employees with the subject matter. In this two-year training programme, around 700 employees received the training in 2015/2016. Participants included staff from the power plants and from the hydrology and surveying specialist groups as well as the boat operators and employees of VERBUND Services GmbH.

The annual safety briefing for all employees is completed via e-learning and a subsequent test at the office sites in Am Hof and Westbahnhof/Vienna, Peggau/Styria, Villach/Carinthia, Schwarzach/Salzburg, and Töging and Simbach/Bavaria. This briefing is successfully completed each year by almost 100% of the workforce, as was the case in financial year 2016.

Promoting health among employees

The “Fit and Healthy” initiative at VERBUND promotes a healthy lifestyle. The initiative motivates employees to do something for their health on a voluntary basis. Seminars on mental fitness again placed the emphasis on psychosocial health.

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

Mental stress

Following a written survey conducted in 2014 for evaluating mental stress, VERBUND is now in the implementation phase. More than 160 specific measures were developed at 34 workshops throughout the Group during 2016. In some cases, suggestions were directly implemented at the companies, and working groups have already been established for others. Any suggestions that were not endorsed were documented, with justification provided. Further measures will be specified and carried out in 2017 in line with the results of the employee survey.

Social responsibility

VERBUND assumes responsibility towards a society that perceives readily available electricity generated from clean sources as a quality-of-life factor. In fulfilling its shared responsibility to society, VERBUND supports a number of charitable organisations and employees pass on their knowledge in schools and universities.

Caritas and Diakonie

Energy poverty and its negative consequences occur most frequently when incomes and standards of living are very poor. The VERBUND Electricity Relief Fund in collaboration with Caritas provides assistance quickly, in an unbureaucratic manner and, above all, long-lasting by offering immediate financial assistance to pay outstanding electricity bills, professional on-site energy consulting and a free exchange service for old, inefficient electrical appliances.

Since the project began in 2009, the VERBUND Electricity Relief Fund has offered assistance to a total of 3,344 households with a total of 8,742 people living in these households.

In the seventh period from 1 January 2016 to 31 December 2016, 362 households advised by the social advice centres run by Caritas were referred to the VERBUND Electricity Relief Fund in collaboration with Caritas.

In 2016, 725 disabled people received direct support for communication and assistive technologies with funds from the VERBUND Empowerment Fund run by Diakonie. In total, 105 disabled people received financial assistance for the purchase of communication aids. The emergency aid fund spent around €60,000 on this. The fund has been providing assistance since 2009.

VERBUND climate school in the Hohe Tauern National Park

The collaboration between VERBUND and the Hohe Tauern National Park on creating the mobile VERBUND Hohe Tauern National Park climate school was extended for three more years in 2016. The aim is to reach an additional 9,000 pupils by the end of the 2018/2019 school year. Based on the knowledge transmitted by rangers from the Hohe Tauern National Park, the students will become climate protection advocates who spread the acquired knowledge in their social environment.

The VERBUND electricity school kindles enthusiasm for technology

With the most up-to-date learning materials, a state-of-the-art game and activities which focus on renewable energy, we provide an exciting and interactive physics lesson for the next generation.

More than 600 school classes have made use of the free tools for designing active lessons. As part of the VERBUND electricity school, over 1,500 pupils visited the Ybbs-Persenbeug power plant in 2016. The offer is free of charge for schools. For storage power plants, 2,500 pupils took advantage of the offer.

Volunteering

More and more, our employees are showing their responsibility to society with the utmost personal dedication. Two team seminars with a background in societal issues were again held in 2016.

- The Industrial Customer Management and Quality Management department of VERBUND Sales GmbH helped out in the Jamal House, a home for unaccompanied under-age refugees.
- The Operations department of VERBUND Trading GmbH provided assistance at the Regenbogental therapeutic farm.

In all seminars, urgently necessary work was carried out under the direction of professionals. Overall, these initiatives were an unforgettable experience and an enrichment for everyone involved in the teams. Furthermore, in 2016 employees of VERBUND Trading GmbH prepared meals on several occasions for homeless and socially disadvantaged people in the “Gruft” (an institution of Caritas Vienna for homeless people).

Refugee relief

Four refugees began apprenticeships at VERBUND in September 2016 and are now being trained in the two apprentice training centres in Ybbs and Kaprun. An Iraqi family in Zillertal valley was furnished with accommodation. In addition, VERBUND provided funding to the Vienna university for refugees and also handed over rucksacks with useful equipment. Further support measures are planned for 2017.

Please refer to the 2016 Group Integrated Annual Report for further information as well as additional details on human resources and social responsibility.

Report on significant risks and uncertainties

Opportunity and risk management

Risk management as an integral component of the management system

Since financial year 2000, risk and opportunity management has been a separate component of VERBUND's comprehensive management system. The structures, processes and products that have emerged in this context are referred to collectively as Enterprise Risk Management. Our goal is to make continuous improvements to the manner in which the risk-return approach is implemented in practice in the Group. We currently apply the risk-return approach to strategic decision-making, project management and the management of current operations.

VERBUND continuously adapts its risk management system to changes in internal and external requirements. Each year, VERBUND's auditor reviews and confirms the effectiveness of the ERM system based on the recommendations contained in the ISO 31000:2009 reference model.

Resource-intensive business model designed for the long term in a state of flux

The business activities of VERBUND are focused on the long term and tie up significant financial resources. They require the availability and use of technically complex systems and operating procedures. They are also a topic of socio-political discussion. VERBUND plants meet the highest environmental standards. Their construction is preceded by lengthy approval processes. Early inclusion of interest groups, compliance with all regulatory conditions and effective project management can ensure the success of VERBUND's projects. The operation and maintenance of these assets, which are used over many years, require highly qualified employees.

A crucial success factor for capital-intensive companies is secure access to the capital market. Rating agencies also consider the majority owner of VERBUND, the Republic of Austria, as well as low-cost, environmentally friendly hydropower generation and the regulated grid to be significant, stabilising elements.

The transformation of the European energy system is increasing the severity of the external risk factors arising from politics, the economy, the energy market and the larger society, i.e. risk factors that cannot be influenced directly. The loss of planning security forces electric utilities to change their business models, delays or prevents investment decisions from being made and causes value adjustments (i.e. erratic changes in the assets and liabilities on the balance sheet. The economic crisis and misguided regulation have overridden market pricing rules (variable production cost-based use). This also applies to the distinction between base and peak load. By expanding the business model to include energy-related services, VERBUND is entering into new areas of risk, though new opportunities are likewise opening up for the Group. These are also subject to consumer protection requirements relating to information technology.

Volume risk due to fluctuation in water/wind supply

As the leading renewable energy producer, VERBUND is heavily dependent on the weather (rain and wind), which cannot be influenced. The VERBUND storage power plants as well as some ultra-high voltage lines are located in high Alpine regions. Over the long term, climate change can affect both the seasonal and the annual water/wind supply. In addition, geological conditions, for example permafrost, can change. Natural events such as floods, storms or avalanches can cause an unscheduled outage of electricity generation or transmission facilities as well as consequential damage. Output from run-of-river plants can be controlled only to a very minor extent (hydropeaking). At the same time, storage

power plants are operated with daily, monthly or yearly retention periods. Profitability of VERBUND's pumped storage is based upon the flexibility of the overall system which has been built up over decades. Additional operating hours to cover short-term electricity requirements due to volatile wind and solar power generation also provide revenue opportunities. In other words, energy amounts must be additionally generated or "stored" in pumped storage and the grids stabilised with flexible power plant output (congestion management). These flexible earnings contributions depend largely upon the frequency and absolute extent of short-term price fluctuations in the electricity markets; however, they do not come anywhere close to compensating for the decline in wholesale electricity prices.

Share of information technology in value creation is growing; cyber risk is rising

Information and communication systems form the backbone of VERBUND's business activities. VERBUND is addressing the growing risks from cyber space by implementing preventive information security strategies, processes and internal guidelines. In addition to providing the necessary resources internally, VERBUND actively participates in national and international bodies (e.g. energy-CERT). VERBUND also places high priority on the security of its control systems. For security reasons, these are operated largely independently from administrative networks. VERBUND's administrative buildings and decentralised plants are protected by structural measures and electronic monitoring systems.

Financial management supports the effective monitoring of financial risks

VERBUND minimises defaults in performance or payment by its business partners (counterparty risk) through effective financial management. Adhering to the dual control principle, counterparty limits (awarding, monitoring) are managed centrally and implemented during the course of the business process. Stable cash flows from the operating business ensure that debt can be serviced. In addition, VERBUND possesses sufficient credit lines for accessing cash and cash equivalents at short notice.

New business model necessitates amendments to long-term agreements

To facilitate the conduct of its business, VERBUND has entered into long-term agreements with employees, customers, suppliers and co-owners and co-users of individual power plants. Changes in economic conditions have influenced the profitability of some of these agreements. Amending the agreements increases the risk of potential countermeasures taken by contractual parties. VERBUND is in the process of adapting its structural organisation in an ongoing project to increase efficiency. This entails, among other things, shutting down sites and terminating purchase or supply agreements as well as implementing personnel measures in a socially responsible manner. In accordance with the International Financial Reporting Standards (IFRSs), VERBUND recognises provisions for contractually agreed expenses from ongoing reorganisation programmes, for pensions and termination benefits and for the post-use phase of generation facilities (e.g. for the costs of dismantling facilities). Any deviations from the assumptions used when recognising these provisions may produce fluctuations in the result. Ongoing measures are taken to counter the potential crystallisation of collateral provided. These also include possible effects of a further change in the rating of VERBUND AG on an off-balance-sheet cross-border leasing transaction that remains valid.

Financial instruments

Primary financial instruments include, in particular, investments such as securities, loans and equity interests, trade receivables, cash at banks, securitised and non-securitised financial liabilities and trade payables.

Derivative financial instruments serve exclusively as hedges against existing currency and interest rate risks. The fluctuations in value of these hedging instruments are balanced out by the fluctuations in value of the hedged items. The change in value of those transactions to which hedge accounting is not applied is always recognised in profit or loss.

Additional information on accounting treatment and measurement can be found in Section IV (2) of the notes.

As at 16 February 2017, no risks were foreseeable for 2017, the effects of which – either individually or in interaction with other risks – could pose a threat to the continued existence of VERBUND AG.

Report on branch offices

There were no branch offices in the financial year under review.

Internal control and risk management system

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

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

Organisational framework

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

Fundamentals of the internal control system

VERBUND's financial reporting process is governed by Group-wide guidelines and requirements. In its practical implementation, the performance, monitoring and supervision of business transactions are segregated from each other. This is intended to ensure that no single employee can act alone in performing all the process steps of a transaction from beginning to end.

The review of authorisations is integrated into the technical processing of transactions. Compliance with and the effectiveness of these checks is reviewed on a periodic basis. Based upon VERBUND's process map, business processes and the risks they entail are systematically analysed and documented, as are checks of the financial reporting process. Documentation of the time schedule for the checks, the flow charts and the process map takes place in the process manual, which is updated regularly. VERBUND's organisational structure is continually adapted to address changing internal and external conditions.

Reporting in compliance with unbundling provisions

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

Periodic monitoring

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

Shareholder structure and capital information

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

1. At the reporting date, the called-up and paid-up share capital comprised:
 170,233,686 no-par value shares (bearer shares category A), equivalent to 49% of share capital;
 177,182,000 no-par value shares (registered shares category B), equivalent to 51% of share capital,
 authenticated by an interim certificate deposited with the Federal Ministry of Finance and made out
 in the name of the Republic of Austria. A total of 347,415,686 shares were in circulation at the
 reporting date. With the exception of the voting restriction described under point 2, all shares bear the
 same rights and obligations.
2. In accordance with constitutional law, which regulates the ownership structure of companies in the
 Austrian electricity sector (Federal Law Gazette I (BGBl) 1998/143(2)) and also forms the basis for the
 Company's Articles of Association, the following voting restriction applies: "With the exception of
 regional authorities and companies in which regional authorities hold an interest of at least 51%, the
 voting rights of each shareholder in the Annual General Meeting are restricted to 5% of the share
 capital." VERBUND AG is unaware of any other restrictions that affect voting rights or the transfer of
 shares.
3. The shareholder structure of VERBUND AG is largely defined by the majority holding of the Republic
 of Austria. In accordance with constitutional law, 51% of the share capital is owned by the Republic of
 Austria. A syndicate made up of 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 20% of the share capital is in free float.
4. There are no shares with special control rights.
5. VERBUND does not offer any employee participation programmes.
6. In accordance with the rules of procedure for the Supervisory Board, the last nomination to the
 Executive Board must be prior to the nominee's 65th birthday. Pursuant to the Austrian Code of
 Corporate Governance, a Nomination Committee has been established within the Supervisory Board
 and makes arrangements for the appointment of Executive Board members on behalf of the
 Supervisory Board. The rules of the Code with respect to the appointment and dismissal of the
 members of the Executive Board and the Supervisory Board are complied with. Apart from the above,
 there are no other regulations derived directly from law that relate to the members of the Executive
 Board and the Supervisory Board, or to the amendment of the Articles of Association.
7. As part of an authorisation to buy back shares (which expired on 17 October 2015), the Annual
 General Meeting held on 17 April 2013 resolved to also authorise the Executive Board for a period of
 five years (i.e. until 17 April 2018), with the approval of the Supervisory Board, to decide upon a
 different type of sale of treasury shares other than in an exchange market or through a public offering,
 also with exclusion of the right of repurchase (reverse purchase right) of the shareholders, and to
 determine the terms of sale. Furthermore, the Executive Board is authorised, with the approval of the
 Supervisory Board, to reduce the share capital if necessary by retiring these treasury shares without
 an additional resolution by the General Meeting. Where there are no treasury shares, this

authorisation becomes irrelevant. Apart from the above, there are no authorisations of the Executive Board within the meaning of Section 243a(1)(7) of the Austrian Commercial Code (UGB).

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

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

The consolidated corporate governance report is available in the 2016 Group Integrated Annual Report on the VERBUND website at www.verbund.com > Investor Relations > Financial reports.

Report on the expected performance of the Company

Outlook

European economic growth in 2017 is expected to be somewhat slower than in 2016. This cooling of economic growth is attributable to the effects of Brexit and the sanctions against Russia. The eurozone is also at risk of an economic slowdown from the ongoing debt crises in Italy and Greece, yet another downturn in China, geopolitical conflicts and a bubble resulting from expansive monetary policy. However, private consumption spurred in the eurozone by the expectation of further improvement in employment figures and slightly higher wages is likely to provide positive economic stimulus. According to the IMF's forecast from January 2017, the eurozone economy is expected to grow by 1.6% in 2017 (2016: +1.7%). Economic growth of 1.5% is forecast for Germany (2016: +1.7%).

In 2017, Austria's economy is expected to grow by 1.5% (2016: +1.5%; source: WIFO forecast from December 2016). Domestic demand will remain the determining factor in 2017 although it is estimated to be slightly lower than in 2016. Tax relief will probably foster higher consumption of durable goods until mid-2017. Growth will slow somewhat when the effects of the tax reform are no longer being felt and inflation rises, particularly as high unemployment is putting a damper on consumer spending and foreign demand is seeing only slight growth. Despite robust expansion of employment, the influx of labour continues to overwhelm the capacity of the labour market. Unemployment will rise.

In light of OPEC's decision at the end of 2016 to cut production, the oil market should experience balanced supply and demand in 2017. Climbing oil prices could cause coal and gas prices to rise slightly again as well. Despite this, price levels on primary energy and CO₂ markets are expected to remain relatively low.

The expansion of subsidised electricity generation from new renewable energy sources will continue. On the other hand, as a result of only moderate economic growth in Europe and improvements in energy efficiency, electricity consumption will hardly rise at all again next year. These factors – but most importantly the still non-functioning CO₂ market – are the main reasons why VERBUND anticipates subdued wholesale prices in 2017.

On average for 2016, base load prices for electricity deliveries in 2017 were quoted at €26.6/MWh, down 14.2% on the figure for the previous year. In 2016, the price for the 2017 peak load product also fell by 14.2% compared with 2015 to €33.5/MWh.

The challenging market environment is taken into consideration for VERBUND's forecasts for full-year 2017. However, VERBUND's strong hydropower base represents an absolute competitive advantage within the European electricity sector in this difficult market.

Investment plan 2017–2019

VERBUND's updated investment plan for the period 2017–2019 provides for capital expenditure in the amount of €754m. Of that total, around €299m will be spent on growth CAPEX and around €455m on maintenance CAPEX. Most of the growth CAPEX will go towards expanding the regulated Austrian high-voltage grid (approximately €162m). In addition, VERBUND will be investing mainly in selected hydropower plant projects as well as in increasing the efficiency of existing power plants. Here, the Töging run-of-river power plant in Germany deserves particular mention. The investments will involve VERBUND's domestic markets of Austria and Germany. In financial year 2017, VERBUND plans to invest a total of approximately €212m, around €69m of which will be invested in growth and around €143m in maintenance.

Dividend

VERBUND AG plans to distribute a dividend of €0.29 per share for financial year 2016. The payout ratio for 2016 will thus amount to 30.9% based on the adjusted Group result.

Earnings projection for 2017

VERBUND's earnings performance is significantly influenced by the following factors: wholesale prices for electricity, the Group's own generation from hydropower and wind power and ongoing developments in the energy market. In accordance with VERBUND's hedging strategy, around 75% of the planned own generation for 2017 was already contracted as at 31 December 2016. The price achieved is approximately €1.5/MWh below the sales price reached in 2016. For those volumes not yet hedged, VERBUND has based its calculations on current market prices. Based on the forecast at the beginning of the year that indicates lower inflows of dividends from equity interests, VERBUND AG expects earnings before taxes for financial year 2017 significantly below the figure for financial year 2016.

Vienna, 16 February 2017

The Executive Board

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

Dr. Johann Sereinig
Vice-Chairman of the Executive Board

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

Dr. Peter F. Kollmann
Member of the Executive Board

Balance sheet

Assets		€k	
	Notes	2015	2016
A. Fixed assets			
I. Intangible assets	(1)	13,380.8	19,940.3
II. Property, plant and equipment		23,748.6	22,903.8
III. Investments	(2)	5,045,038.8	4,828,474.3
		5,082,168.2	4,871,318.4
B. Current assets			
I. Inventories	(3)	154.2	94.9
II. Receivables and other assets	(4)	99,074.0	296,577.7
of which due in more than one year		0.0	0.0
III. Cash in hand, cash at banks	(5)	18.6	16.1
		99,246.8	296,688.8
C. Prepayments and accrued income	(6)	81,362.8	76,827.0
D. Deferred tax assets	(7)	273,897.6	228,928.6
		5,536,675.4	5,473,762.8
Rights of recourse	(8)	1,230,842.2	991,226.2
Less counter-guarantees from cross-border leasing		-468,113.1	-462,748.8
		762,729.2	528,477.3
Liabilities		€k	
	Notes	2015	2016
A. Equity			
I. Called-up and paid-up share capital	(9)	347,415.7	347,415.7
II. Capital reserves	(10)	971,720.3	971,720.3
III. Revenue reserves	(11)	873,538.1	1,045,294.4
IV. Net profit	(12)	121,595.5	100,750.5
of which profit carried forward		0.0	0.0
		2,314,269.6	2,465,181.0
B. Provisions	(13)	517,269.9	372,744.1
C. Liabilities	(14)	2,704,263.6	2,634,507.4
of which due within one year		112,408.4	584,298.3
of which due in more than one year		2,591,855.3	2,050,209.1
D. Accruals and deferred income	(15)	872.2	1,330.3
		5,536,675.4	5,473,762.8
Contingent liabilities	(16)	1,230,842.2	991,226.2
less counter-guarantees from cross-border leasing		-468,113.1	-462,748.8
		762,729.2	528,477.3

Income statement

		€k	
	Notes	2015	2016
1. Revenue	(17)	435,012.9	420,886.4
2. Change in total services not yet billable		14.4	– 14.4
3. Other operating income	(18)	664.4	516.1
4. Operating income (subtotal of lines 1 to 3)		435,691.7	421,388.1
5. Expenses for electricity, grid/gas purchases and purchases of emission rights and other purchased production services and other services		– 347,567.2	– 331,111.5
6. Personnel expenses	(19)	– 26,655.7	– 25,757.7
7. Depreciation and amortisation	(20)	– 2,012.4	– 1,861.3
8. Other operating expenses	(21)	– 39,054.3	– 35,085.5
9. Operating result (subtotal of lines 4 to 8)		20,402.0	27,572.0
10. Income from equity interests		352,241.6	437,913.3
11. Income from other securities and loans classified as financial assets		65,962.6	51,441.3
12. Other interest and similar income		10,065.6	3,889.1
13. Income from the disposal and reversal of impairment losses on investments		9,431.6	8,432.7
14. Expenses from investments		– 291,900.1	– 172,493.0
15. Interest and similar expenses		– 126,813.4	– 89,750.1
16. Financial result (subtotal of lines 10 to 15)	(22)	18,987.8	239,433.3
17. Earnings before taxes (subtotal of lines 9 and 16)		39,389.8	267,005.3
18. Differences from mergers		21,850.0	0.0
19. Taxes on income and profit	(23)	82,505.2	5,501.5
20. Net income for the year		143,745.0	272,506.8
21. Allocation to revenue reserves		– 22,149.5	– 171,756.3
22. Net profit		121,595.5	100,750.5

Statement of changes in fixed assets

	As at 1/1/2016	Additions	Disposals	Reclassifications	
I. Intangible assets					
1. Industrial property rights, electricity purchase rights, usage fees and similar rights and benefits as well as licences derived therefrom	333,277.1	6,903.4	77.6	0.0	
	333,277.1	6,903.4	77.6	0.0	
II. Property, plant and equipment					
1. Land, land rights and buildings, including buildings on third- party land					
a. With residential buildings	77.6	0.0	0.0	0.0	
b. With plant and other plant facilities	27,071.9	0.0	0.0	0.0	
2. Electrical installations	5,277.2	301.5	17.3	322.4	
3. Office and plant equipment	19,718.6	382.2	143.5	0.0	
4. Effected advance payments and plants under construction	322.4	0.0	0.0	– 322.4	
	52,467.6	683.8	160.9	0.0	
Property, plant and equipment and intangible assets	385,744.7	7,587.2	238.5	0.0	
III. Investments					
1. Shares in affiliated companies	3,388,086.7	196,787.4	4,594.3	0.0	
2. Loans to affiliated companies	1,716,073.1	26,000.0	270,521.9	0.0	
3. Equity interests	286,172.5	950.0	0.0	0.0	
4. Loans to equity interests	45,000.0	0.0	0.0	0.0	
5. Securities (loan stock rights) under fixed assets	8,872.1	0.0	487.4	0.0	
6. Other loans	63,200.7	0.0	4,167.8	0.0	
	5,507,405.2	223,737.4	279,771.4	0.0	
Fixed assets	5,893,149.9	231,324.6	280,009.9	0.0	

					€k
As at 31/12/2016	Accumulated amortisation as at 31/12/2016	Net carrying amount as at 31/12/2016	Accumulated amortisation as at 31/12/2015	Net carrying amount as at 31/12/2015	
340,102.9	320,162.5	19,940.3	319,896.3	13,380.8	
340,102.9	320,162.5	19,940.3	319,896.3	13,380.8	
77.6	77.4	0.2	76.8	0.8	
27,071.9	18,295.7	8,776.2	17,804.4	9,267.6	
5,883.8	3,250.6	2,633.1	2,881.0	2,396.2	
19,957.3	8,463.0	11,494.3	7,957.0	11,761.6	
0.0	0.0	0.0	0.0	322.4	
52,990.5	30,086.7	22,903.8	28,719.1	23,748.6	
393,093.4	350,249.3	42,844.1	348,615.4	37,129.3	
3,580,279.8	595,050.0	2,985,229.8	428,037.2	2,960,049.5	
1,471,551.2	0.0	1,471,551.2	0.0	1,716,073.1	
287,122.5	27,451.5	259,671.0	33,227.7	252,944.8	
45,000.0	0.0	45,000.0	0.0	45,000.0	
8,384.8	395.3	7,989.4	1,101.4	7,770.8	
59,032.8	0.0	59,032.8	0.0	63,200.7	
5,451,371.1	622,896.9	4,828,474.3	462,366.3	5,045,038.8	
5,844,464.5	973,146.1	4,871,318.4	810,981.7	5,082,168.2	

Statement of changes in depreciation and amortisation of fixed assets

	Accumulated amortisation as at 1/1/2016	Additions from amortisation and depreciation	
I. Intangible assets			
1. Industrial property rights, electricity purchase rights, usage fees and similar rights and benefits as well as licences derived therefrom	319,896.3	343.2	
	319,896.3	343.2	
II. Property, plant and equipment			
1. Land, land rights and buildings, including buildings on third-party land			
a. With residential buildings	76.8	0.6	
b. With plant and other plant facilities	17,804.4	491.4	
2. Electrical installations	2,881.0	381.2	
3. Office and plant equipment	7,957.0	644.9	
4. Effected advance payments and plants under construction	0.0	0.0	
	28,719.1	1,518.1	
Property, plant and equipment and intangible assets	348,615.4	1,861.3	
III. Investments			
1. Shares in affiliated companies	428,037.2	0.0	
2. Loans to affiliated companies	0.0	0.0	
3. Equity interests	33,227.7	0.0	
4. Loans to equity interests	0.0	0.0	
5. Securities (loan stock rights) under fixed assets	1,101.4	0.0	
6. Other loans	0.0	0.0	
	462,366.3	0.0	
Fixed assets	810,981.7	1,861.3	

				€k
	Disposals	Reversal of impairment	Reclassifications	Accumulated amortisation as at 31/12/2016
	77.0	0.0	0.0	320,162.5
	77.0	0.0	0.0	320,162.5
	0.0	0.0	0.0	77.4
	0.0	0.0	0.0	18,295.7
	11.6	0.0	0.0	3,250.6
	138.9	0.0	0.0	8,463.0
	0.0	0.0	0.0	0.0
	150.5	0.0	0.0	30,086.7
	227.5	0.0	0.0	350,249.3
	0.0	20.0	0.0	595,050.0
	0.0	0.0	0.0	0.0
	0.0	5,776.2	0.0	27,451.5
	0.0	0.0	0.0	0.0
	16.8	689.2	0.0	395.3
	0.0	0.0	0.0	0.0
	16.8	6,485.4	0.0	622,896.9
	244.3	6,485.4	0.0	973,146.1

Maturity schedule 2016

€k				
	Residual term to maturity as at 31/12/2016			
	< 1 year	> 1 year	> 5 years	Total
Loans				
1. Loans to affiliated companies	382,062.7	497,876.8	591,611.7	1,471,551.2
2. Loans to equity interests	0.0	45,000.0	0.0	45,000.0
3. Other loans	3,869.0	14,037.3	41,126.4	59,032.8
	385,931.8	556,914.1	632,738.2	1,575,584.1
Receivables and other assets				
1. Trade receivables	12,763.3	0.0	0.0	12,763.3
2. Receivables from affiliated companies	250,264.9	0.0	0.0	250,264.9
3. Receivables from investees	33,053.4	0.0	0.0	33,053.4
4. Other receivables and assets	496.1	0.0	0.0	496.1
	296,577.7	0.0	0.0	296,577.7
Liabilities				
1. Bonds	41,257.7	892,988.5	627,823.0	1,562,069.1
2. Liabilities to banks	288,674.0	313,543.4	215,811.7	818,029.1
3. Trade payables	15,387.4	3.5	39.0	15,429.9
4. Liabilities to affiliated companies	233,312.2	0.0	0.0	233,312.2
5. Liabilities to equity interests	0.0	0.0	0.0	0.0
6. Other liabilities	5,667.0	0.0	0.0	5,667.0
	584,298.3	1,206,535.4	843,673.7	2,634,507.4

Maturity schedule 2015

€k				
	Residual term to maturity as at 31/12/2015			
	< 1 year	> 1 year	> 5 years	Total
Loans				
1. Loans to affiliated companies	76,871.9	859,567.9	779,633.3	1,716,073.1
2. Loans to equity interests	0.0	45,000.0	0.0	45,000.0
3. Other loans	4,182.2	14,392.0	44,626.5	63,200.7
	81,054.1	918,959.9	824,259.8	1,824,273.8
Receivables and other assets				
1. Trade receivables	11,430.2	0.0	0.0	11,430.2
2. Receivables from affiliated companies	61,743.0	0.0	0.0	61,743.0
3. Receivables from investees	9,316.1	0.0	0.0	9,316.1
4. Other receivables and assets	16,584.7	0.0	0.0	16,584.7
	99,074.0	0.0	0.0	99,074.0
Liabilities				
1. Bonds	26,357.7	913,106.4	627,823.0	1,567,287.1
2. Liabilities to banks	58,268.2	620,626.6	254,158.3	933,053.1
3. Trade payables	13,879.1	15.7	0.0	13,894.8
4. Liabilities to affiliated companies	2,174.9	0.0	0.0	2,174.9
5. Liabilities to equity interests	2,255.1	0.0	0.0	2,255.1
6. Other liabilities	9,473.3	28,332.1	147,793.2	185,598.6
	112,408.4	1,562,080.8	1,029,774.5	2,704,263.6

Notes

I. General notes

These annual financial statements have been prepared in accordance with the provisions of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB), as amended.

In the interest of clear presentation, individual line items in the balance sheet and the income statement have been aggregated. These line items are explained separately in the notes to the annual financial statements. The individual line items of the balance sheet and income statement are presented in accordance with VERBUND's Group-wide requirements with respect to form and content.

In accordance with Section 223(7) of the Austrian Commercial Code (UGB), balance sheet and income statement line items with a carrying amount of zero in both the financial year and the previous year are not reported. The designations of the items have been shortened or expanded to reflect their actual content in accordance with Section 223(4) of the Austrian Commercial Code (UGB) to the extent that this appeared expedient in order to present annual financial statements that are clear and easy to understand.

If the presentation has changed year-on-year or if the prior-year amounts are not comparable, the prior-year amounts are adjusted in accordance with Section 223(2) of the Austrian Commercial Code (UGB) and explained in the corresponding item.

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

II. Accounting policies

The annual financial statements have been prepared in accordance with Austrian Generally Accepted Accounting Principles and the general requirement to present a true and fair view of the Company's net assets, financial position and results of operations.

In preparing these annual financial statements, the principle of completeness was adhered to and the principle of prudence was observed. Valuation was based on the assumption that the company is a going concern.

Fixed assets

As a rule, depreciable fixed assets are measured at cost less depreciation and amortisation.

Property, plant and equipment and intangible assets used for longer than six months of the financial year are depreciated or amortised at the full annual rate, whereas those that are used for less than six months are depreciated or amortised at half the annual rate.

Purchased intangible assets are recognised at cost and – to the extent that they are amortisable – amortised over their standard useful life.

In addition to direct material and production costs, the cost of internally generated plant and equipment also includes directly attributable indirect material and production costs. The Company has chosen not to apply the measurement option relating to the inclusion of social security expenses, termination benefits or pensions and similar obligations within the meaning of Section 203(3) of the Austrian Commercial Code (UGB); it has also opted not to capitalise borrowing costs (Section 203(4) of the Austrian Commercial Code (UGB)). Low-value assets are fully written off in the year of acquisition and reported as an asset disposal in the subsequent year.

Shares in affiliated companies and equity interests are recognised at cost or at lower fair value. Securities and loan stock rights under fixed assets are measured at cost or at lower fair value.

Interest-bearing loans are recognised at their nominal amounts. Impairment losses are recognised if the impairment is expected to be permanent. Receivables with a maturity of more than one year are reported under financial assets as loans.

In 2016, a reversal provision for tax purposes in accordance with Section 124b(270)(a) of the Austrian Income Tax Act (EstG) was recognised for the impairment reversals not carried out in past years and included in accruals and deferred income in accordance with Section 906(32) of the Austrian Commercial Code (UGB).

VERBUND's schedule of uniform depreciation and amortisation rates specifies the following depreciation and amortisation rates:

	Rate of depreciation/ amortisation in %	Useful life in years
Intangible assets		
Rights to telecommunications installations	10	10
Rights to software products	25	4
Other rights	5	20
Buildings		
Residential and office buildings	2 or 3	33.3 or 50
Plant(s)	3	33.3
Technical installations and machinery		
Machinery	4 or 5	20 or 25
Electrical installations	5	20
Telecommunications installations	10	10
Office plant and equipment	10–25	4–10

Services not yet billable are recognised at production cost. Production cost includes direct material and production costs as well as directly attributable indirect material and production costs. The Company has chosen not to apply the measurement option concerning the inclusion of social security expenses and borrowing costs (Sections 203(3) and (4) of the Austrian Commercial Code (UGB)).

Inventories recognised using the moving average price method are measured at cost in accordance with the strict lower of cost or market value principle.

Receivables and other assets are measured at nominal value, unless a lower fair value is required to be recognised in the case of specific identifiable risks. Receivables in foreign currencies are measured at the mean rate of exchange prevailing at the recognition date or the lower foreign exchange reference rate of the European Central Bank (ECB) prevailing at the reporting date (unless the exchange rate is otherwise hedged).

Cash at banks in foreign currency is also measured using the ECB foreign exchange reference rate in accordance with the strict lower of cost or market value principle.

Current assets

Deferred tax assets

Since the 2004 financial year, if tax relief is expected in subsequent years, deferred tax assets are recognised in accordance with Section 198(9) of the Austrian Commercial Code (UGB) whereby the deferred taxes attributable to Group members based on tax allocation are presented under the current result in their balance sheets. The option to recognise deferred taxes for loss carryforwards is applied from financial year 2016.

This prepayment results from differences between the financial and tax accounts with respect to line items that can only be deducted as expenses for tax purposes in income statements of future periods.

Provisions

Provisions take into account all identifiable risks that can be allocated to a financial year that has already ended and include those amounts that it was necessary to recognise based on the best estimate of the settlement amount. Provisions with a remaining maturity of more than one year are discounted at an interest rate customary for the market.

Provisions for termination benefits are allocated at the full actuarial amount based on the projected unit credit method typically used in international accounting. The accumulation period for provisions for termination benefits is 25 years. Employees whose service began after 31 December 2002 are no longer entitled to a direct claim against their employer for statutory termination benefits. For these employment contracts, the employer pays 1.53% of salary monthly into an employee pension fund in which the contributions are deposited in an account of the employee. Collective bargaining agreement requirements for energy supply companies which exceed statutory claims are recognised in provisions for termination benefits.

Due to labour-management agreements and contracts, VERBUND is obligated to make pension payments to employees after they retire. These defined benefit obligations are partially covered by pension plan assets earmarked for this purpose by APK Pensionskasse AG. The provision determined in accordance with the projected unit credit method typically used in international accounting is presented after offset with pension plan assets. The employer is obligated to provide additional funding to the extent that these defined benefit obligations are required to be fulfilled by APK Pensionskasse AG.

Provisions for current pensions, vested pension benefits and similar obligations are determined using the PUC method. The interest expense is shown in the financial result, in line with international practice.

The calculations are based on "AVÖ 2008-P – Actuarial Assumptions for Pension Insurance – Pagler & Pagler".

The calculations as at 31 December 2016 and 2015 have been based on the following assumptions:

	%	
	2015	2016
Interest rate		
Pensions and similar obligations	2.00 or 2.25	1.5 or 1.75
Termination benefits	2.00	1.50
Trend		
Pension increases	2.25	1.75
Salary increases	2.25	1.75
Contributions to obligations similar to pensions – old contracts	6.50	6.50
Contributions to obligations similar to pensions – new contracts	4.00	4.00
Employee turnover	0.00–4.00	0.00–3.30
Retirement age – women	56.5–65 y.	56.5–65 y.
Retirement age – men	61.5–65 y.	61.5–65 y.
Expected non-current return on plan assets	2.00	1.50

The same interest rate is applied to the expected return on plan assets as is used to determine the corresponding provision. The discount rates differ according to the residual term of the commitments and in line with the total contained therein (employees and pensioners).

Liabilities are recognised at their settlement amount based on the principle of prudence. Trade payables denominated in foreign currency are measured at the ECB foreign exchange reference rate prevailing at the reporting date, provided that this rate is higher than the rate prevailing at the time of origination.

Liabilities from bonds and loans denominated in foreign currency are measured at the ECB foreign exchange reference rate prevailing at the reporting date, provided that this rate is higher than the rate prevailing at the time of origination. The result of this measurement is presented under the corresponding liabilities. Discounts, the cost of procuring credit and loan commitment fees were capitalised in financial years 1994 and 2014 and are being repaid as scheduled. The discounts and costs of procuring credit assumed in connection with the merger of VERBUND International Frankreich GmbH in 2014 are presented under financial liabilities and are being repaid.

From 2016, a reversal provision for tax purposes in accordance with Section 124b(270)(a) of the Austrian Income Tax Act (EstG) is recognised in accruals and deferred income and presented under this item in accordance with Section 906(32) of the Austrian Commercial Code (UGB).

In individual cases of external financing, interest rate swaps (variable for fixed rate) were entered into in order to hedge cash flows. Individual interest rate swaps (variable for fixed rate) were also entered into for intra-Group hedging of cash flows and underlying assets.

Liabilities

Accruals and deferred income

Derivative financial instruments

Taxes on income

VERBUND AG is the parent of the tax group as defined by Section 9(8) of the Austrian Corporate Income Tax Act (Körperschaftsteuergesetz, KStG) 1988.

The tax group parent charges (tax allocation rate of 25%) or, in the event of a loss, credits (tax allocation rate ranging of 25%, 20% or 15% depending on the anticipated date of future profits of the group member) the group members with the corporate income tax amounts attributable to them by means of a tax allocation. The recharging of the tax allocations results in an adjustment decreasing or increasing the tax expense in the parent's income statement.

The tax recharges to Group members are only adjusted for subsequent deviations if these are material.

III. Notes to the balance sheet and to the income statement

Notes on assets**A. Fixed assets**

For details see separate "Statement of changes in fixed assets". Base value of land: €3,340.7k (previous year: €3,340.7k).

(1) I. Intangible assets

The net carrying amount of the rights of use of plants acquired by affiliated companies is €859.3k (previous year: €1,145.8k).

(2) III. Investments

The disclosures in accordance with Section 238(1)(4) of the Austrian Commercial Code (UGB) are presented separately in "Disclosures of equity interests in accordance with Section 238(1)(4) of the Austrian Commercial Code (UGB)".

The changes in and structure of equity interests, loans and securities (loan stock rights) classified as fixed assets are shown separately in the "Statement of changes in fixed assets".

Loans: for details see separate "Maturity schedule".

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 €0.0k (previous year: €0.0k) are pledged as collateral. The impairment reversals not carried out in the previous year were transferred to a reversal provision for tax purposes in accordance with Section 124b(270)(a) of the Austrian Income Tax Act (EstG) as at 1 January 2016 and are recognised under accruals and deferred income in accordance with Section 906(32) of the Austrian Commercial Code (UGB) (see also note (15), D. Accruals and deferred income).

B. Current assets**(3) I. Inventories**

	2015	2016
Goods	154.2	94.9

(4) II. Receivables and other assets

For details see separate "Maturity schedule". Of the receivables from affiliated companies, €26.5k (previous year: €0.0k) related to trade receivables and €250,238.5k (previous year: €61,743.0k) to other

receivables. Of the receivables from investees, €12,961.9k (previous year: €9,200.9k) related to trade receivables and €20,091.5k (previous year: €115.2k) to other receivables.

	€k	
Other receivables and assets	2015	2016
Accrued interest income and commissions from bonds and loans	469.5	419.7
Tax authorities	16,048.1	7.4
Payroll	4.8	4.2
Effectuated advance payments	2.9	1.9
Other	59.5	63.0
	16,584.7	496.1

(5) III. Cash in hand, cash at banks

	€k	
	2015	2016
Cash in hand	16.1	16.1
Cash at banks	2.5	0.0
	18.6	16.1

(6) C. Prepayments and accrued income

	€k	
	2015	2016
Prepayments for electricity purchases	25,719.1	23,695.5
Discounts, flotation costs and commitment fee relating to bonds and non-current loans	8,388.1	7,463.2
Other	47,255.6	45,668.4
	81,362.8	76,827.0

In accordance with the provisions of the Austrian Accounting Amendment Act 2014 (Rechnungslegungs-Änderungsgesetz, RÄG 2014) governing changes to presentation, prior-year amounts of deferred tax assets were reclassified to item D. Deferred tax assets (€273,897.6k).

(7) D. Deferred tax assets

	€k	
	2015	2016
Social capital	7,390.6	6,918.5
Valuation of fixed assets	0.0	3.6
Special tax deductions	-281.6	-281.4
Other	266,788.6	222,287.9
Deferred tax receivables (+) respectively liabilities (-) balanced	273,897.6	228,928.6

Deferred tax assets are the result of differences between the financial and taxable result in respect of line items affected by expenses for tax purposes in income statements of future periods. The calculation was based on a tax rate of 25%. Deferred tax liabilities from special tax deductions result from the retroactive change to presentation of untaxed reserves in accordance with RÄG 2014.

Other deferred taxes are related to differences between the financial and tax treatment of the costs of procuring credit, non-current provisions and accounting for investees.

Notes on equity and liabilities

(8) Rights of recourse

Rights of recourse amounted to a total of €991,226.2k (previous year: €1,230,842.2k). In addition to rights of recourse vis-à-vis Group companies, rights of recourse exist primarily vis-à-vis financial institutions, state energy companies and regional authorities from cross-border leasing transactions carried out at VERBUND Hydro Power GmbH in the amount of €462,748.8k (previous year: €468,113.1k). See note (16) Contingent liabilities.

A. Equity

(9) I. Called-up and paid-up share capital

There were 347,415,686 shares in circulation at the reporting date.

Composition	Stock (shares)	Proportion
Bearer shares category A	170,233,686	49%
Registered shares category B	177,182,000	51%
Authenticated by an interim certificate made out in the name of the Republic of Austria (deposited with the Federal Ministry of Finance)		
	347,415,686	100%

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

There are no reciprocal equity interests in accordance with Section 241(6) of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB).

(10) II. Capital reserves

Capital reserves are made up entirely of allocated capital reserves. The allocated capital reserves and the statutory reserves amount to a total of €991,604.3k, which is more than 10% of the share capital.

(11) III. Revenue reserves

	2015	2016
Statutory reserves	19,884.0	19,884.0
Distributable reserves	853,654.2	1,025,410.5
	873,538.1	1,045,294.4

In accordance with the changes in presentation from RÄG 2014, untaxed reserves amounting to €2,655.8k were transferred to distributable reserves with retroactive effect.

(12) IV. Net profit

€k

As at 31/12/2015	121,595.5
Distribution of dividends	- 121,595.5
Profit carried forward	0.0
Net income for the year	272,506.8
Changes in reserves	- 171,756.3
As at 31/12/2016	100,750.5

(13) B. Provisions**1. Provisions for termination benefits**

€k

	2015	2016
Premium reserve based on actuarial calculations	9,375.7	9,335.3
Taxed proportion of provisions	9,375.7	9,335.3

In 2002, the provision permitted under Section 14 of the Austrian Income Tax Act (EStG) was transferred tax-free to a reserve qualifying as taxed (Section 124b(68) of the Austrian Income Tax Act (EStG)).

2. Provisions for pensions

€k

	2015	2016
Provisions for pension obligations	33,423.8	31,403.1
of which obligations similar to pensions	6,154.4	6,572.3

3. Provisions for taxes

€k

	2015	2016
Corporate income tax (including prior reporting periods)	0.0	46,960.7
Other tax provisions	573.3	1,186.1
	573.3	48,146.8

Corporate income tax provisions include €25,039.2k related to the subsequent taxation of foreign losses which were reclassified from deferred taxes to tax provisions in accordance with AFRAC Opinion 30 "Deferred Taxes in the Annual Financial Statements" from December 2016.

4. Other provisions

€k

	2015	2016
Trade receivables not yet billed	4,091.3	1,456.8
Other	460,444.2	273,310.5
	464,535.5	274,767.3

Of the provisions, €273,310.5k (previous year: €460,444.2k) related to affiliated companies due to VERBUND AG's legal commitment to provide funds to cover costs in connection with handling the liquidation of VERBUND Thermal Power GmbH & Co KG in Liqu.

	€k	
Other personnel-related provisions	2015	2016
Bonuses	3,686.6	4,092.3
Unused holidays	3,206.8	2,990.7
Holiday allowance	746.7	704.9
Early retirement benefits	644.7	291.0
Death grant	529.1	505.6
Compensatory time credit	135.9	106.4
Other	411.9	400.7
	9,361.6	9,091.6

(14) C. Liabilities

For details see separate “Maturity schedule”.

Of the liabilities to affiliated companies, €231,758.6k (previous year: €0.0k) related to financial liabilities and €0.0k (previous year: €87.3k) to trade payables.

	€k	
Other liabilities	2015	2016
From financing contributions	1,936.2	1,601.7
From taxes	0.0	1,161.1
Related to social security	304.3	297.8
Payroll	149.1	203.1
Long-term electricity supply commitment	180,399.7	0.0
Other	2,809.2	2,403.3
	185,598.6	5,667.0

(15) D. Accruals and deferred income

	€k	
	2015	2016
Contributions to building costs	736.7	701.7
Revaluation reserve	0.0	508.5
From electricity business	135.5	106.7
Other	0.0	13.4
	872.2	1,330.3

The impairment reversals not carried out in the previous year were transferred to a reversal provision for tax purposes in accordance with Section 124b(270)(a) of the Austrian Income Tax Act (EStG) as at 1 January 2016 and are recognised under accruals and deferred income in accordance with Section 906(32) of the Austrian Commercial Code (UGB).

Of the accruals and deferred income, €0.0k (previous year: €0.0k) related to affiliated companies.

(16) Contingent liabilities

Contingent liabilities that are recognised below the line are primarily for letters of comfort and liabilities assumed for subsidiaries as part of the financing that VERBUND AG carries out centrally as well as other assumptions of liabilities, excluding the contingent liabilities in connection with cross-border leasing transactions in the total amount of €33,873.9k (previous year: €297,290.8k). Of this, €28,617.4k (previous year: €294,770.8k) is attributable to affiliates and €1,725.0k (previous year: €0.0k) to investees.

The subsidiary VERBUND Hydro Power GmbH (formerly VERBUND Hydro Power AG) entered into several cross-border leasing transactions during financial years 1999 to 2001. The figures reported in the balance sheet of VERBUND Hydro Power GmbH are all denominated in US dollars. With the exception of one transaction, there was originally full balance sheet cover for all obligations by way of corresponding acquisition of securities or through loans to financial institutions. Now all items are closed.

Beginning in 2009, and continuing during the 2010 reporting period, due also to the financial market crisis, about 85% of the original volume of the transactions 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 GmbH 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 GmbH, 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 GmbH totalling €957,352.2k (previous year: €933,551.4k). Of the rights of recourse against the primary debtors, €462,748.8k (previous year: €468,113.1k) were secured through counter-guarantees from financial institutions, state energy companies and regional authorities (from guarantors' liabilities). These counter-guarantees are presented under total rights of recourse (see note (8)). Thus, a total of €494,603.4k (previous year: €465,438.3k) remains in contingent liabilities from cross-border leasing transactions after deducting these counter-guarantees.

Minimum ratings for the guarantors are stipulated in the agreements with lenders and with equity investors. As a result of the downgrading of the credit rating by Standard & Poor's and Moody's which occurred in the reporting period, the only remaining cross-border leasing transaction triggered a so-called head lease filing (certificate deposit). As an alternative to depositing the certificate, a waiver could also be utilised by paying a one-time fee. Provisions were recognised at VERBUND Hydro Power GmbH for the estimated future expenses resulting from the impact of the head lease filing.

In addition, there is still a risk that the investing banks would have to be replaced or VERBUND Hydro Power GmbH would have to provide additional collateral if the rating of the investing banks were downgraded below a certain threshold amount. The same applies to two transactions which were terminated early and for which the financial liabilities were continued if the rating of either the investing bank or VERBUND AG deteriorates by a certain amount.

The ratings of the contractual partners as well as the rating of VERBUND AG exceeded the contractually agreed thresholds as at 31 December 2016, with the exception of the situation described above. Thus, there is currently no need for VERBUND AG or VERBUND Hydro Power GmbH to exchange individual contractual parties or investments. This risk is also reduced not least of all by the existence of guarantors' liabilities from regional authorities for individual contractual parties.

As part of the restructuring of VERBUND's telecommunications segment, liabilities were assumed for former tele.ring Telekom Service GmbH and KELAG-Kärntner Elektrizitäts-Aktiengesellschaft.

Notes on the income statement

(17) 1. Revenue		€k	
		2015	2016
Revenue from electricity deliveries			
Domestic ¹	Energy supply companies	52,370.1	44,283.3
	Industrial customers and consumers	207,136.7	217,094.6
	Other customers	111,121.9	106,888.2
		370,628.7	368,266.2
EU	Other customers	21,408.4	0.0
		21,408.4	0.0
		392,037.1	368,266.2
Invoicing of grid tariffs; user and management fees		3,127.9	2,983.8
Other revenue (including gas trading)		39,847.9	49,636.3
		435,012.9	420,886.4

¹ of which €131,706.7k (previous year: €124,498.4k) from recharged grid fees

In accordance with the changes in presentation from RÄG 2014, €23,919.1k (previous year: €27,641.4k) was reclassified from other operating income to other revenue.

(18) 3. Other operating income		€k	
		2015	2016
a) Income from disposal of fixed assets with the exception of investments		2.2	2.0
b) Income from reversal of provisions		177.4	42.8
c) Other		484.7	471.3
		664.4	516.1

In accordance with the changes in presentation from RÄG 2014, €23,919.1k (previous year: €27,641.4k) was reclassified from other operating income to other revenue.

(19) 6. Personnel expenses

€k

	2015	2016
a) Salaries	22,705.2	20,773.0
b) Expenses for termination benefits and payments to employee pension funds		
Termination benefits	2,127.8	824.8
Contributions to employee pension funds	183.5	170.2
Change in the provision for termination benefits	-968.7	-218.4
Expenses/income and takeovers/transfers within the Group	-205.7	-1.7
	1,136.8	775.0
c) Expenses for pensions and similar obligations		
Early retirement benefits and pension payments	2,519.1	2,299.8
Change in the provisions for pensions and similar obligations	-4,465.9	-2,674.5
Expenses/income and takeovers/transfers within the Group	41.8	9.5
Change in the provisions for early retirement benefits	-352.1	-364.1
Pension fund contributions (including obligation to provide additional funding)	1,008.6	1,161.9
	-1,248.6	432.7
d) Expenses for social security contributions as required by law as well as income-based charges and compulsory contributions	3,822.3	3,561.0
e) Other social security expenses	240.0	216.0
	26,655.7	25,757.7

(20) 7. Depreciation and amortisation

€k

	2015	2016
a) Amortisation of intangible assets and depreciation of property, plant and equipment		
Depreciation and amortisation	1,962.9	1,822.8
Immediate write-off of low-value assets in accordance with Section 13 of the Austrian Income Tax Act (EStG)	49.5	38.5
	2,012.4	1,861.3

(21) 8. Other operating expenses

€k

	2015	2016
a) Taxes other than taxes on income	184.6	162.2
b) Other		
Advertising and market development costs	11,139.2	10,703.9
Other administrative expenses	5,510.5	5,929.8
Operating costs for buildings, rent and leasing	4,927.3	3,225.7
Legal, audit and consulting expenses	3,838.2	3,011.0
IT support, electronic data processing	2,554.2	2,859.6
Membership fees	1,611.9	1,194.9
Telecommunications services, data services	592.0	574.1
Training and continuing education	431.6	436.9
Temporary personnel and provision of personnel	273.2	315.6
Other	7,991.7	6,672.1
	38,869.7	34,923.4
	39,054.3	35,085.5

(22) 16. Financial result

€k

	2015	2016
Income from equity interests		
from affiliated companies	334,383.9	419,235.6
of which from profit pools	72,290.2	9,436.4
Income from other securities and loans in financial assets		
from affiliated companies	62,370.8	48,885.8
Other interest and similar income		
from affiliated companies	2,293.7	3,615.2
Income from disposals and impairment loss reversals of investments		
disposal of shares in affiliated companies	4,291.9	2,444.3
reversal of impairment of shares in affiliated companies	0.0	20.0
Expenses relating to investments		
impairments on affiliated companies	0.0	167,032.8
expenses from affiliated companies	288,037.6	5,460.2
of which from profit pools	3,319.0	5,460.2
Interest and similar expenses		
of which interest for long-term personnel provisions	917.6	861.0
from affiliated companies	293.7	18,227.5

(23) 19. Taxes on income and profit

	€k	
	2015	2016
Consolidated taxes on income	13.0	20,252.6
of which recharged to members of the Group ¹	–88,817.5	–79,858.9
Future tax expense for subsequent taxation of losses from foreign members of the tax group	0.0	18,925.1
Additional amounts/credit notes from previous periods	–179.5	–34,828.5
Changes in deferred taxes ²	6,478.8	70,008.2
	–82,505.2	–5,501.5

¹ Tax allocation rate of 15% or 25% // ² Prior-year amount was adjusted in accordance with the changes in presentation from the Austrian Accounting Amendment Act 2014 (€0.6k).

IV. Other disclosures

	€k		
Material items:	Total commitment	2017	2017–2021
Rent, lease and insurance agreements	¹	4,191.7	12,840.3
Purchase commitments	3,172.2	2,833.8	3,172.2
Of which to affiliated companies	¹	9.0	44.8

¹ The amount of the total commitment cannot be determined due to unspecified contract periods.

1. Total amount of other financial obligations

There is an electricity supply agreement with Ennskraftwerke Aktiengesellschaft according to which the energy generated in its power plants, less electricity purchase rights of other participating partners, must be delivered to VERBUND AG in exchange for reimbursement of the recognised expenses plus a reasonable return on equity.

There are electricity supply agreements with Österreichisch-Bayerische Kraftwerke AG and Donaukraftwerk Jochenstein Aktiengesellschaft according to which half of the energy generated in their power plants must be delivered to VERBUND AG in exchange for reimbursement of recognised expenses plus a reasonable return on equity.

In accordance with an electricity supply agreement, Innwerk AG is obliged to deliver half of the energy generated in the Ering-Frauenstein and Eggfling-Obernberg power plants to VERBUND AG at total production costs plus an agreed mark-up.

There is an agreement with VERBUND Services GmbH for the invoicing of IT, insurance, procurement, financial accounting, payroll, telecommunications and administrative services.

An agreement has been entered into with VERBUND Finanzierungsservice GmbH for the invoicing of the provision of payment transactions and cash management services.

For electricity distribution and trading, there are contractor agreements with VERBUND Trading GmbH and VERBUND Sales GmbH.

Due to labour-management agreements and contracts, VERBUND is obligated to make pension payments to employees after they retire. The employer is obligated to provide additional funding to the extent that these pension obligations are required to be fulfilled by APK Pensionskasse AG. As a result of

the trend on the financial markets, APK Pensionskasse AG reported an obligation for additional funding in the amount of €0.0k (previous year: €170.9k) to cover defined benefit obligations.

As at the reporting date, one employee had a letter of loyalty granting a higher degree of employment protection. The prerequisites were at least 20 years of service at VERBUND and a minimum age of 45.

Outstanding contribution commitments to investees amount to €1,025.0k (previous year: €5,000.0k).

2. Disclosures regarding financial instruments

Finance area

There are interest rate swaps to hedge increases in interest rates for financial liabilities bearing variable interest with an outstanding principal amount of €369,937.5k (previous year: €384,562.5k) as at 31 December 2016. These interest rate hedges consist of the interest rate swaps and the underlying loans. As there is a documented hedging strategy and detailed hedge documentation, and ongoing measurements of effectiveness are being conducted, it is not necessary to recognise a separate provision for onerous contracts for the negative fair values amounting to €15,960.7k (previous year: €23,756.0k). The future interest payments hedged by these hedging instruments will occur in the following ten years (2017 to 2026) and will be recognised in profit or loss accordingly.

To avoid fluctuations in future cash flows from interest payments for loans granted to Group companies at variable rates of interest amounting to a total principal amount of €177,450.0k (previous year: €203,925.0k), interest rate hedges were entered into with banks in late 2012 and during the first half of 2013. At the same time, the outstanding credit agreements with the Group companies involved in this hedging transaction were converted to the fixed interest rate terms contractually agreed with the respective bank. As here, too, there is a documented hedging strategy and detailed hedge documentation, and ongoing measurements of effectiveness are being conducted, recognition of a separate provision for onerous contracts for the negative fair values is not required. The reporting date measurement of these transactions resulted in a negative fair value totalling €11,003.7k (previous year: negative fair value of €10,035.2k) as at 31 December 2016.

3. Number of employees

Average	2015	2016
Salaried employees	153	140

4. Expenses for termination benefits and pensions

	2015	2016
		€k
Members of the Executive Board, former members of the Executive Board and their surviving dependants	1,034.1	-439.9
Other employees	-1,145.9	1,647.6
	-111.8	1,207.7

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

Statutory regulations apply, taking account of the requirements of Rule 27a of the Austrian Code of Corporate Governance, with respect to the claims of members of the Executive Board upon termination of their position. In financial year 2016, €361,210 was paid out for pensions (previous year: €384,644) and €0 for termination benefits in favour of beneficiaries (previous year: €0).

Expenses for termination benefits and pensions and similar obligations (post-employment benefits) amounted to €100,750 (previous year: €107,826). Expenses for pensions and similar obligations for former members of the Executive Board and their surviving dependants amounted to a total of €339,132 (previous year: €-1,141,911).

Disclosures regarding the Boards of the Company (members of the Executive Board and the Supervisory Board) are presented before the management report.

5. Board members

Remuneration of members of the Executive Board

Name	Fixed remuneration	Variable remuneration ¹	€ Total
Dipl.-Ing. Wolfgang Anzengruber	817,449	402,505	1,219,954
Dr. Johann Sereinig	781,431	385,702	1,167,133
Dipl.-Ing. Dr. Günther Rabensteiner	580,794	172,002	752,796
Dr. Peter F. Kollmann	774,185	229,275	1,003,460

¹ Variable remuneration is always paid in the following year, because whether or not targets have been achieved can only be determined at the end of the year. Therefore, the variable remuneration components granted to members of the Executive Board in the 2016 reporting period for the 2015 reporting period are shown.

Remuneration for the four members of the Executive Board totalled €4,293,724 in 2016 (previous year: €4,143,855), which included €150,380 of payments in kind (previous year: €105,924).

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

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

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

Remuneration scheme for the members of the Supervisory Board (in accordance with Rule 51 of the Austrian Code of Corporate Governance):

	€	
	2015	2016
Chairman	25,000	25,000
Vice-Chairpersons (two)	15,000	15,000
Members	10,000	10,000
Attendance fee	500	500

These arrangements also apply mutatis mutandis to the Supervisory Board's Working Committee.

6. Transactions with related parties

Agreements with members of the Supervisory Board, or with businesses that are closely associated with individual members of the Supervisory Board, which require consent under Rule 49 of the Austrian Code of Corporate Governance:

During financial year 2016, no agreements which were not at arm's length were entered into with members of the Supervisory Board or with enterprises with which a member of the Supervisory Board is associated. Services were rendered for various companies in the VERBUND Group; these contracts were approved by the Supervisory Board.

7. Intra-Group relationships

VERBUND AG is the parent company within the VERBUND Group and therefore required to prepare consolidated financial statements. In accordance with Section 238(1)(18) of the Austrian Commercial Code (UGB), the Company elects not to disclose the expenses for the auditor.

There are profit and loss transfer agreements with VERBUND Finanzierungsservice GmbH, VERBUND Services GmbH, VERBUND Sales GmbH, VERBUND Solutions GmbH and VERBUND Trading GmbH.

8. Disclosures in accordance with Section 8 of the Austrian Electricity Industry and Organisation Act (EIWOG)

In addition to the division into business areas (formal unbundling) that already existed in financial year 1999, VERBUND also implemented legal unbundling by establishing independent companies under corporate law with separate managing entities and accounting departments.

Business transactions as defined by Section 8(3) of the Austrian Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, EIWOG) were entered into specifically with the following companies:

Electricity deliveries VERBUND Hydro Power GmbH, Ennskraftwerke Aktiengesellschaft, Innwerk AG, Österreichisch-Bayerische Kraftwerke Aktiengesellschaft, Donaukraftwerk Jochenstein Aktiengesellschaft, KELAG-Kärntner Elektrizitäts-Aktiengesellschaft

Electricity trading and sales VERBUND Trading GmbH, VERBUND Sales GmbH, VERBUND Trading & Sales Deutschland GmbH

Telecommunications VERBUND Services GmbH

Services VERBUND Services GmbH

Financing VERBUND Finanzierungsservice GmbH

Provision of personnel VERBUND Hydro Power GmbH, VERBUND Trading GmbH, VERBUND Services GmbH, VERBUND Sales GmbH

The Executive Board proposes (in accordance with Section 96(1) of the Austrian Stock Corporation Act (AktG)) to distribute a dividend of €0.29 per share to 347,415,686 no-par value shares from the distributable profit of financial year 2016, i.e. a total of €100,750,548.94.

There were no events requiring disclosure between the reporting date of 31 December 2016 and approval for issue on 16 February 2017.

Result of the documentation of electricity by source	Proportion	2016 kWh
Hydropower	100.0%	1,377,886,000
Total volume of electricity supplied in Austria to consumers for their own use	100.0%	1,377,886,000

100% of the proofs of origin used for the documentation come from Austria.

Impact of electricity generation on the environment	2016
Radioactive waste (mg/kWh)	0.0
CO ₂ emissions (g/kWh)	0.0

Vienna, 16 February 2017

The Executive Board

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

Dr. Johann Sereinig
Vice-Chairman of the Executive Board

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

Dr. Peter F. Kollmann
Member of the Executive Board

9. Proposed appropriation of profits

10. Events after the reporting date

11. Disclosures in accordance with Section 78 of the Austrian Electricity Industry and Organisation Act (EIWOG)

Disclosure of equity interests

in accordance with Section 238(1)(4) of the Austrian Commercial Code (Unternehmensgesetzbuch, UGB)

						€k
	Head- quarters	% Share- holding as at 31/12/2016	Most recent annual financial statements	(+) (-)	Net income/loss for the year	Equity ¹
Consolidated affiliated companies²						
Austrian Power Grid AG	Vienna	100.00	2016	+	41,181.9	422,476.9
Innwerk AG	Stammham	100.00	2016	+	21,723.0	149,539.7
VERBUND Finanzierungsservice GmbH	Vienna	100.00	2016	+	885.4	218.1
VERBUND Sales GmbH	Vienna	100.00	2016	-	983.9	10,353.9
VERBUND Services GmbH	Vienna	100.00	2016	+	8,551.0	7,420.6
VERBUND Solutions GmbH	Vienna	100.00	2016	-	4,476.3	14,915.0
VERBUND Thermal Power GmbH	Neudorf ob Wildon	100.00	2016	+	768.9	4,236.3
VERBUND Trading GmbH	Vienna	100.00	2016	+	46,410.6	146,410.9
VERBUND Wind Power Deutschland GmbH	Wörrstadt	100.00	2016	+	0.0	25.0
VERBUND Thermal Power GmbH & Co KG in Liqu.	Neudorf ob Wildon	99.99	2016	+	187,133.7	-273,310.5
CAS Regenerabile S.R.L. ^{3,4}	Bukarest	99.99	2016	-	12,365.7	38,951.2
Alpha Wind S.R.L. ^{3,4}	Bukarest	99.98	2016	-	17,752.9	40,115.6
Ventus Renew Romania S.R.L. ^{3,4}	Bukarest	99.98	2016	-	21,523.2	38,746.4
Windpark Dichtelbach GmbH & Co. KG	Wörrstadt	95.00	2016	+	209.0	3,038.4
Windpark Dörrebach GmbH & Co. KG	Wörrstadt	95.00	2016	+	55.1	3,188.6
Windpark Eichberg GmbH & Co. KG	Wörrstadt	95.00	2016	+	800.3	5,382.4
Windpark Ellern GmbH & Co. KG	Wörrstadt	95.00	2016	-	524.0	5,575.4
Windpark Hochfels GmbH & Co. KG	Wörrstadt	95.00	2016	+	89.3	3,402.8
Windpark Rheinböllen GmbH & Co. KG	Wörrstadt	95.00	2016	+	956.4	5,549.7
Windpark Schönborn GmbH & Co. KG	Wörrstadt	95.00	2016	+	987.3	5,649.7
Windpark Seibersbach GmbH & Co. KG	Wörrstadt	95.00	2016	+	376.6	5,076.8
Windpark Stetten I GmbH & Co. KG	Wörrstadt	95.00	2016	+	266.5	4,581.1
Windpark Utschenwald GmbH & Co. KG	Wörrstadt	95.00	2016	+	42.7	1,638.4
Infrastruktur Oberheimbach I GmbH & Co. KG	Wörrstadt	81.00	2016	+	1.0	68.6

					€k	
	Head- quarters	% Share- holding as at 31/12/2016	Most recent annual financial statements	(+) (-)	Net income/loss for the year	Equity ¹
VERBUND Hydro Power GmbH	Vienna	80.54	2016	+	151,080.3	1,505,247.2
VERBUND Innkraftwerke GmbH	Töging	70.27	2016	+	1,881.3	293,113.3
Infrastrukturgesellschaft Bischheim GmbH & Co. KG	Wörrstadt	61.26	2016	+	0.0	43.4
Donaukraftwerk Jochenstein Aktiengesellschaft	Passau	50.00	2016	+	960.0	15,710.7
Grenzkraftwerke Gesellschaft mit beschränkter Haftung	Simbach	50.00	2016	+	2,451.3	8,805.2
Österreichisch-Bayerische Kraftwerke Aktiengesellschaft	Simbach	50.00	2016	+	3,493.1	58,380.1
Associates						
AQUANTO GmbH ⁵	Unterföhring	50.00	2015	–	2,375.8	220.8
Ennskraftwerke Aktiengesellschaft ⁶	Steyr	50.00	2016	+	463.0	26,982.0
KELAG-Kärntner Elektrizitäts- Aktiengesellschaft ⁵	Klagenfurt	35.17	2015	+	74,678.3	740,726.1
PÖYRY Energy GmbH	Vienna	25.10	2015	+	2,019.9	13,519.2

¹ Equity as defined by Section 224(3)a of the Austrian Commercial Code (UGB) or local law // ² Consolidation in accordance with Sections 253–261 of the Austrian Commercial Code (UGB) // ³ Annual financial statements in accordance with local law // ⁴ Figures translated using the exchange rate at the reporting date // ⁵ Accounted for using the equity method in accordance with Sections 263–264 of the Austrian Commercial Code (UGB) // ⁶ proportionate consolidation in accordance with Section 262 UGB

Independent auditor's report

(complimentary translation, German original prevails)

Report on the Audit of the Annual Financial Statements

Opinion

We have audited the annual financial statements of VERBUND AG, Vienna, which comprise the balance sheet as at 31 December 2016, the income statement for the financial year then ended, and notes to the annual financial statements.

In our opinion, the accompanying annual financial statements comply with legal requirements and give a true and fair view of the financial position as at 31 December 2016, and its financial performance for the year then ended in accordance with Austrian Generally Accepted Accounting Principles and the special legislation of the Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, ElWOG).

Basis for Opinion

We conducted our audit in accordance with the Austrian Generally Accepted Auditing Standards. Those standards require the application of the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with laws and regulations applicable in Austria, and we have fulfilled our other professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual financial statements of the current period. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of shares in affiliated companies

Description and Issue

As at 31 December 2016, VERBUND AG reported shares in affiliated companies in the amount of around €2,985.2m. Due to the currently strained operating environment in the energy industry, the Company tested the recoverability of the carrying amounts of equity interests.

Numerous inputs flow into the valuation model based on net present value methods applied in the test for impairment in order to assess the market. Due to the resulting complexity and in light of the persistently low price of electricity and interest rates, the impairment tests are particularly important in our view because their results are significantly influenced by the reasonableness of the estimate by management and are also particularly sensitive with respect to the applied discount rate and the assumptions regarding the trend in electricity prices.

Details regarding the impairment tests and the key valuation assumptions are presented in the notes to the annual financial statements in section II "Accounting policies".

Our Response

We compared the parameters used in the impairment tests with company-specific information and industry-specific market data and/or expectations from external and internal data sources and assessed the adequacy of the applied valuation models. We consulted internal experts in order to corroborate the capital costs by means of comparative analysis.

We assessed the consistency of the future cash flows applied in the calculations by comparing the planning data used therein with the medium term plans approved by the Supervisory Board, contractual bases and electricity price scenarios specific to VERBUND.

Other Information

Management is responsible for the other information. The other information contains all information in the annual report, in the supplement to the 2016 Integrated Annual Report (Disclosures on Management Approach, DMA) and in the annual financial report, but does not include the annual financial statements, the management report and our auditor's report thereon. The integrated annual report, DMA and the annual financial report are expected to be made available to us after the date of the auditor's report.

Our opinion on the annual financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and the Audit Committee for the Annual Financial Statements

Management is responsible for the preparation of the annual financial statements that give a true and fair view in accordance with Austrian Generally Accepted Accounting Principles and the special legislation of the Electricity Industry and Organisation Act (Elektrizitätswirtschafts- und -organisationsgesetz, EIWOG) and for such internal control as management determines is necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The audit committee is responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements.

The scope of the audit does not include assurance on the future viability of the Company or on the efficiency or effectiveness with which the management has conducted or will conduct the affairs of the Company.

As part of an audit in accordance with Austrian Generally Accepted Auditing Standards, which require the application of the ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Management Report

Pursuant to statutory provisions, the management report is to be audited as to whether it is consistent with the annual financial statements and whether it has been prepared in accordance with the applicable legal requirements.

Management is responsible for the preparation of the annual management report in accordance with the Austrian Commercial Code.

We conducted our audit in accordance with laws and regulations applicable with respect to the management report.

Opinion

In our opinion, the management report is prepared in accordance with the applicable legal requirements, includes appropriate disclosures according to Section 243a UGB and is consistent with the annual financial statements.

Statement

In the light of the knowledge and understanding of the Company and its environment obtained in the course of our audit of the annual financial statements, we have not identified material misstatements in the management report.

Engagement Partner

The engagement partner responsible for the audit is Mag. Gerhard Marterbauer.



The annual financial statements may only be published or duplicated together with our auditor's report in the version audited by us. This auditor's report only relates to the complete annual financial statements in German, including the management report.

Section 281(2) UGB applies to versions differing from the version audited by us.

Vienna, 16 February 2017

Deloitte Audit Wirtschaftsprüfungs GmbH

Mag. Gerhard Marterbauer
Certified Public Accountant

MMag. Dr. Klaus-Bernhard Gröhs
Certified Public Accountant

Glossary

Cash flow

Balance of the inflow and outflow of cash and cash equivalents, usually broken down into cash flow from operating activities, investing activities and financing activities.

EBIT

Earnings before interest (including personnel-related interest) and taxes.

Equity ratio

Ratio of equity to total capital

FFO (Funds from operations)

Operating result plus depreciation and amortisation, interest income and effective taxes.

Gearing

Ratio of net debt to equity.

Net debt

Interest-bearing debt less cash and cash equivalents (including securities and shares held as current assets), adjusted for the asset and liability portions of closed items (e.g. in the case of cross-border leasing transactions).

Notional debt repayment period

Ratio of debt to surplus funds from ordinary activities.

RCF (Retained cash flow)

Funds from operations (FFO) less dividends paid.

ROCE (Return on capital employed)

Earnings before interest (including personnel-related interest) less applicable taxes in relation to average capital employed.

ROE (Return on equity)

Earnings before taxes in relation to equity at the beginning of the financial year.

ROI (Return on investment)

Earnings before interest (including personnel-related interest) and taxes in relation to total capital at the beginning of the financial year.

ROS (Return on sales)

Earnings before interest (including personnel-related interest) and taxes in relation to revenue.

Working capital

Current assets (including current loans and current prepayments and accrued income) less current liabilities (including current accruals and deferred income).

Part 3
Declaration of all legal representatives

Declaration of all legal representatives

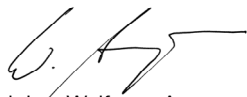
according to para 82 (4) sec 3 Stock exchange act

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 parent company, together with a description of the principal risks and uncertainties the parent company faces.

Vienna, March 2017

The Executive Board



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



Dr. Johann Sereinig
Vice-Chairman of the Executive Board



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



Dr. Peter F. Kollmann
Member of the Executive Board

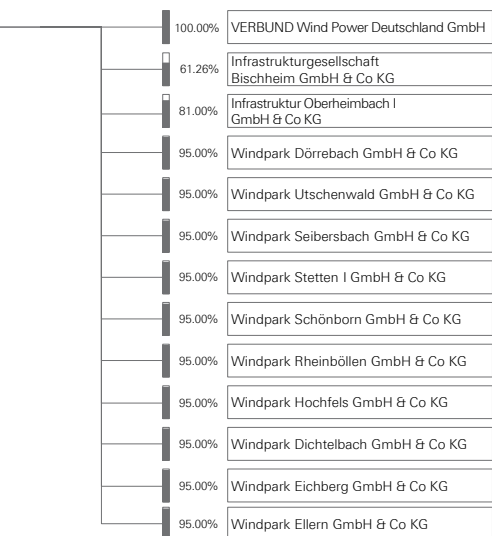
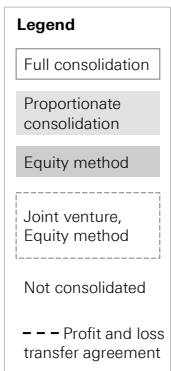
VERBUND Group structure

as at 31 December 2016



*) in liquidation

**) the company has issued a proportionate loss absorption agreement to its shareholder(s)



EDITORIAL DETAILS

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Shareholder structure:

- Republic of Austria (51.0%)
- Syndicate (>25.0%) consisting of EVN AG (the shareholders of which are:
Niederösterreichische
Landes-Beteiligungsholding GmbH, 51%,
EnBW Energie Baden-Württemberg AG,
32.5%) and Wiener Stadtwerke (the sole
shareholder is the City of Vienna)
- TIWAG-Tiroler Wasserkraft AG (>5.0%,
the sole shareholder is the province of Tyrol)
- Free float (<20.0%): no further information
is available concerning owners of shares in
free float.

**Legal and statutory limitations of voting
rights:**

With the exception of regional authorities
and companies in which regional authorities
hold an interest of at least 51%, the voting
rights of each shareholder in the Annual
General Meeting are restricted to 5% of the
share capital.

Regulatory body/trade associations:

E-Control GmbH/E-Control Kommission
Bundesministerium für Wissenschaft,
Forschung und Wirtschaft
Wirtschaftskammer Österreich
Österreichs Energie

Object of the Group:

The Group focus is the generation,
transportation, trading with and sale of
electrical energy and energy from other
sources as well as the provision and
performance of energy services.

Executive Board:

Wolfgang Anzengruber (Chairman),
Johann Sereinig (Vice-Chairman),
Peter F. Kollmann,
Günther Rabensteiner

Supervisory Board:

Gilbert Frizberg (Chairman), Michael Süß
(1st Vice-Chairman), Elisabeth
Engelbrechtsmüller-Strauß (2nd Vice-
Chairwoman) Harald Kaszanits, Martin
Krajcsir, Peter Layr, Werner Muhm, Susanne
Riess, Jürgen Roth, Christa Wagner, Anton
Aichinger, Isabella Hönlinger, Kurt Christof,
Wolfgang Liebscher, Hans Pfau

Specific laws applicable:

Austrian Electricity Industry and
Organisation Act (Elektrizitätswirtschafts-
und -organisationsgesetz, ElWOG) with
associated regulations and implementation
laws. The legal bases listed can be accessed
via the legal information system of the
Federal Chancellery of the Republic of
Austria at www.ris.bka.gv.at.



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