



WIEN ENERGIE



# Management Report for the 2017 financial year

## 1. Operations

Wien Energie is the largest regional energy services provider in Austria, providing more than two million people, approximately 230,000 businesses, industrial facilities and public buildings, as well as around 4,500 farms in Vienna, Lower Austria and Burgenland with electricity, natural gas, heat, district cooling and innovative energy services. Wien Energie GmbH produces electricity and heat from renewable energy sources, thermal waste recycling and high-efficiency cogeneration power plants. Wien Energie GmbH is also active in the area of telecommunications, where it provides additional services. Wien Energie GmbH is a wholly-owned subsidiary of Wiener Stadtwerke GmbH (formerly Wiener Stadtwerke Holding AG).

## 2. Legal and economic environment

### The energy and climate policy of the European Union

The European Commission's 2016 Energy Efficiency Progress Report assesses the progress made by Member States towards achieving the energy efficiency targets and implementing the Energy Efficiency Directive in the period up to 2014. Compared to most other Member States, there is a slight trend towards more energy-intensive sectors in Austria, which led to higher final energy consumption in the period under review. The report contains several recommendations for the Member States. These include additional measures to renovate existing buildings with the aim of saving additional energy in order to further reduce energy costs for consumers. Digital tools should enable consumers to control their energy consumption in a smart way. It is also recommended to promote high-efficiency cogeneration (CHP) plants to improve energy efficiency in the generation sector.

The 'Winter Package' (also known as the 'Clean Energy' package) presented by the European Commission at the end of 2016 is intended to complete the implementation of the Energy Union and the 2030 climate and energy framework. The latter builds on the '20-20-20 targets'. Intensive negotiations in 2017 revolved around the Emissions Trading Directive, the Renewables Directive and the Efficiency Directive, with a view to adapting to the new 2030 targets, which have been raised to 30 percent (instead of 27 percent versus 1990 as planned), as well as the legislative core of the Winter Package. These negotiations mainly concerned the draft regulations on the internal electricity market, a directive on common rules for the internal electricity market, a regulation on risk management in the electricity sector, a regulation on the extension of competencies for the EU Agency for the Cooperation of Energy Regulators (ACER), for directives concerning the promotion of the use of energy from renewable sources and for energy efficiency and the overall energy performance of buildings, as well as a regulation on the governance system of the Energy Union. In this way, the EU aims to play a pioneering role in the transition to an environmentally-friendly energy system.

A conclusion to the negotiations for the Winter Package can first be expected in 2018 under the Austrian EU Council Presidency. Specifically, there are still numerous questions and points of discussion, in particular concerning the core principles for the EU market and electricity trade (e.g. abolition of the privilege for green electricity, far-reaching abolition of feed-in priority, transformation of the energy market to make it competitive, consumer-centred and flexible).

The above topics are also reflected in the 2018 European Commission work programme: In the wake of the 'Agenda for a more united, stronger and more democratic Europe', the goal of a 'robust Energy Union with a forward-looking climate protection policy' is being pursued for the

energy sector. Priority should be given here to the adoption of the Winter Package and the proposals to update the climate change policy. The European Commission is also focusing on improving energy security of supply, common rules for gas pipelines entering the European internal gas market, and in the areas of traction batteries and infrastructure for alternative fuels.

### **Price zone separation Austria-Germany**

In the context of the Winter Package, there are also structural proposals for the electricity market and the establishment of price zones. The controversial legal discussions concerning the separation of price zones between Austria and Germany, which were conducted as a result of ACER initiatives until around mid-2017, were brought to a close. On 15 May 2017, an agreement was reached between E-Control and the German Federal Network Agency concerning the German-Austrian price zone. Electricity trading between Germany and Austria is to be reduced from the current level of 11,000 MW to 4,900 MW as of October 2018. Long-term capacities are awarded by means of an auction by the Joint Allocation Office in Luxembourg. Short-term capacities are calculated using the flow-base method and are implicitly made available to the power exchanges. Given the fact that Austria produces less electricity than it consumes, an increase in electricity prices of between ten and 15 percent is expected in Austria. Electricity trading capacities are to be further increased on a gradual basis between now and 2024 by expanding the transmission network and cooperation in the field of balancing energy between Germany and Austria will be continued.

### **The energy and environmental policy of Austria**

On 29 June 2017, following extensive negotiations, the ‘small green electricity amendment’ was passed. This comprises amendments to the Green Electricity Act, the Electricity Industry and Organization Act, the Natural Gas Act, the E-Control Act, the Cogeneration Points Act (formal abrogations as a basis for revisions not included in the minor amendment as an aid model) and the Federal Act, which provides additional funds from the E-Control special fund. In the area of photovoltaics, new investment subsidies for generating plants and storage facilities are planned, special quotas were made available for small-scale hydropower and wind power, and it has become possible to extend construction periods by twelve months. An amendment to the federal law, which provides a new framework of rules for organisation in the electricity industry, will allow the construction of shared production plants and producers can be obliged to provide services in order to avoid or eliminate network bottlenecks in other transmission grids in return for compensation for the economic disadvantages and costs.

### **Implementation of the General Data Protection Regulation**

On 25 May 2018, the General Data Protection Regulation (GDPR) entered into force (Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of individuals with regard to the processing of personal data, on the free movement of persons and repealing Directive 95/46/EC). Correspondingly, the Federal Act amending the Data Protection Act 2000 (Data Protection Amendment Act 2018, Federal Gazette I 2017/120 of 31.07.2017) will introduce far-reaching changes to Austrian data protection law. All companies processing personal data are affected. The GDPR aims to make companies accept more individual responsibility and provide a deterrence by means of stiff penalties. There is no longer any need for a data protection register or an obligation to report new data applications; to this end, companies must carry out risk analyses as required and, if necessary, to appoint a data protection officer. Wien Energie has been working intensively since 2017 on the necessary organisational and technical preparations to ensure the successful implementation of the GDPR.

### **Economic factors**

In 2017, Austria’s gross domestic product (GDP) increased by 2.9 percent over the prior year. Growth was driven by consumer and investment demand as well as flourishing foreign trade due to the buoyant international economy. This means that growth in Austria is above the OECD and EU averages.

In particular, the Austrian manufacturing industry benefits from the rapid expansion of foreign trade. Production increased noticeably in the second half of 2017 and capacity utilisation reached record levels. As a result, investment in equipment also rose sharply as companies expanded their production capacities. In addition, private household consumption supported the growth of the Austrian economy.

Inflation is higher in Austria than the euro area average. As a result of the surprising increase in the price of non-energy industrial goods and the continued strong price rises in rents, food and entertainment services, average inflation in 2017 was 2.3 percent.

Austrian inflation is above the euro area average.

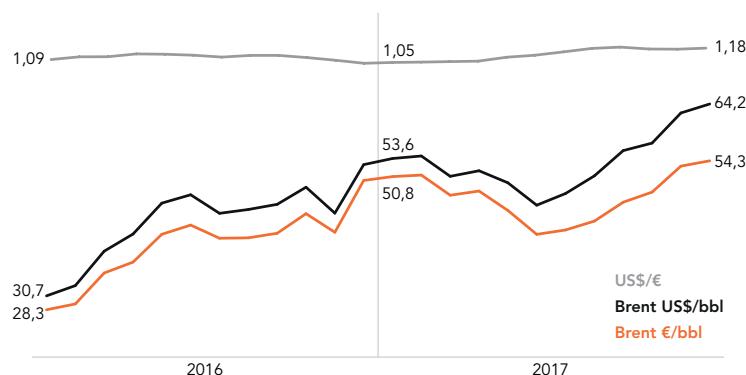
The strong economy is also reflected in the domestic labour market. Employment growth accelerated noticeably in the second half of 2017 and is spread widely across economic sectors. In 2017, the unemployment rate fell from 5.7 percent to 5.3 percent (as per the Eurostat definition). This means that Austria is in ninth place in Europe. The unemployment rate in the EU-28 was 7.3 percent.

### Temperature developments

2017 was not only the warmest year in the almost 250-year history of the Central Institute for Meteorology and Geodynamics (ZAMG), but was also among the ten sunniest years since the nationwide measurements of sunshine in Austria began in 1925 (eleven percent more sunshine hours than an average year). Precipitation levels in Austria were in the range of an average year. Measured in terms of the total heating degree days, the standard parameter for temperature-related energy requirements, the temperatures prevailing in the supply area of Wien Energie during the reporting period were 4.8 percent lower than the comparable value of the past 30 years, and 0.3 percent higher than in the prior year. These temperatures also had a positive impact on the business development of Wien Energie GmbH compared to the previous year – which was the fourth warmest year on record at the ZAMG.

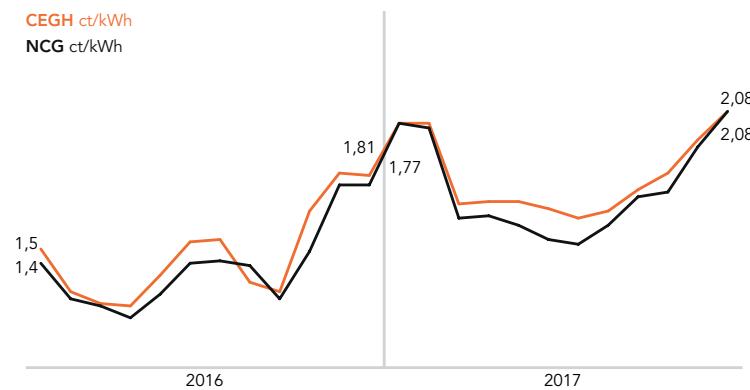
### Development of crude oil prices

After reaching USD 55 per barrel in early 2017, the price of Brent crude oil dropped to around USD 46 per barrel in the second quarter. The improved underlying situation and the global economic recovery served to fuel price increases from the start of the summer. From mid-2017, these factors led to an increase in the price of Brent to almost USD 65 per barrel at the end of the year. The discussion about an extension of production limits by OPEC until well into 2018 helped keep prices up. This means that the medium-term uptrend is still intact and further price increases are not unlikely.



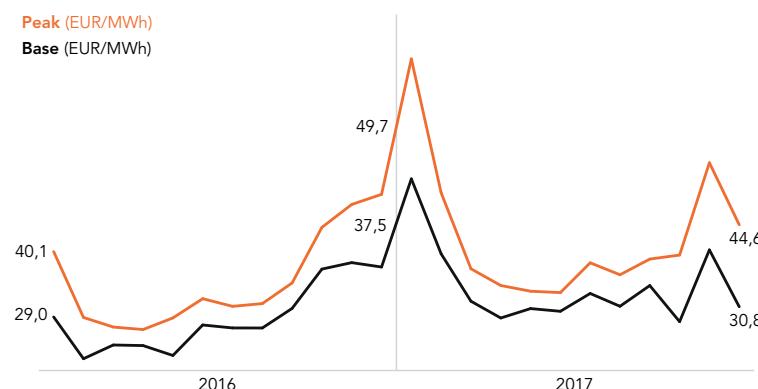
### **Development of natural gas prices**

At the beginning of 2017, gas prices reached their highest level since October 2015 due to the cold weather and high level of electricity production in January. The warm weather in March led to a significant decline to around 1.7 cents per kilowatt hour. From the middle of the year, gas prices tended to rise again. Especially in the final months of the year, a significant price increase to just over 2 cents per kilowatt hour was observed. Short-term uncertainty in the gas market was caused by the explosion at the Baumgarten gas hub, causing day-ahead prices to climb to 3.5 cents per kilowatt-hour for several hours.



### **Development of electricity prices**

At the beginning of 2017, electricity prices of up to around EUR 52.50 per megawatt hour were reached for the base product due to low temperatures and problems at French nuclear power plants. During the summer, temperatures tended to be above average. These heat waves, combined with the lower degree of availability of French nuclear power plants in a year-on-year comparison, had the effect of fuelling the spot price. By the same token, German electricity output was reduced in the summer, as three nuclear power plants were shut down at the same time. This led to higher electricity prices in the third quarter compared to the previous year. Most recently, a higher price for coal also caused rising electricity prices, meaning that prices in the fourth quarter went up again to around EUR 40.40 per megawatt hour for the base product. In December, the base product declined by nearly EUR 10 per megawatt hour compared to the previous month due to a high level of renewable energy production and warm year-end weather.



### **Development of prices for CO<sub>2</sub> emission certificates**

In emissions trading, an annual low of around EUR 4.30 per tonne was recorded in the first half of 2017. At the political level, the rules of the new trading period (2021-2030) were defined in November following long and tough negotiations. The introduction of the Market Stability Reserve from 2019 onwards led to prices almost doubling at times in 2017. Starting from the low in the first half of the year, prices rose sharply in July and August. This was due, among other things, to a reduced auction volume and generally high demand. Towards the end of July, the EUR 6 mark was breached, only to rise to over EUR 7.50 just two weeks later. At the end of December 2017, the market then briefly traded up to EUR 8.30. The monthly average in December was around EUR 7.60 per tonne.



### 3. Development of business, financial and non-financial KPIs

#### Factors influencing financial results

The E17 efficiency enhancement project, which was launched in 2013, steadily progressed in recent years and was fully implemented by the end of 2017.

#### Notes to the profit and loss account of Wien Energie

The profit and loss account of the Wien Energie Group division contains a summary of the results of Wien Energie GmbH and its equity investments according to the current list of holdings.

##### Profit and loss account

in EUR million	2017	2016	+/-	+/- %
Turnover*	2.214,3	2.056,7	157,6	7,7
Change in inventory	0	0,1	-0,1	-105,8
Other own work capitalised	1,0	0,6	0,4	62,5
Other operating income	25,8	20,0	5,8	29,2
Cost of materials and services	-1.441,8	-1.481,2	40,2	2,7
Personnel expenses	-325	-290,5	-34,4	-11,9
Depreciation and amortisation	-108,7	-91,0	-17,7	-19,4
Other operating expenses	-235,6	-218,2	-17,3	-7,9
<b>Earnings before interest and tax (EBIT)</b>	<b>130,9</b>	<b>-3,6</b>	<b>134,5</b>	<b>n.e.</b>
Financial result	-37,9	-76,0	38,2	50,2
<b>Earnings before tax (EBT)</b>	<b>93</b>	<b>-79,6</b>	<b>172,7</b>	<b>216,9</b>

##### Turnover

Turnover rose by EUR 157.6 million compared to the prior year, which is primarily attributable to higher electricity and heating revenues. The rise in the electricity sector is mainly due to the higher wholesale electricity prices, and in the heating sector to the weather-related increase in volumes. Furthermore, a credit note for Wiener Netze GmbH from the district heating commission fee due to demerger effects had a positive impact on turnover.

##### Other operating income

Other operating income in 2017 was higher than in the previous year due to the higher amount of provisions released, the disposal of assets (especially the sale of land) and write-ups to fixed assets (partial reversal of the deferred income accrued in accordance with the Accounting Amendment Act (RÄG) 2014 for Freudeneau power drawing rights).

##### Cost of materials and services

The cost of materials and services of EUR 40.2 million were below the 2016 level. The positive effect was mainly due to the adjustment of the provision for impending losses in connection with

onerous contracts for foreign power drawing rights in 2016. On the other hand, the higher gas procurement price and the higher trading volume of the EAA had an upward effect on the cost of materials.

#### **Personnel expenses**

The increase in personnel expenses mainly results from the reversal of the entire accrual for pension obligations.

#### **Depreciation and amortisation**

The increase is attributable to an extraordinary write-down of Wien Energie Bundesforste Biomass Kraftwerk GmbH & Co KG.

#### **Other operating expenses**

The increase in other operating expenses resulted from higher expenses for IT, consulting, research and development, the setting up of a provision for expected costs from the site consolidation, as well as balance sheet valuation adjustments.

#### **Earnings before interest and tax (EBIT)**

Operating profit increased significantly to EUR 130.9 million, despite higher personnel expenses, higher depreciation and other operating expenses, due to a higher turnover and lower costs of materials.

#### **Financial result**

The financial result is EUR 38.2 million higher than in the previous year. This is mainly due to the significantly higher expenses for financial assets (write-downs) and higher income from the disposal of financial assets in the prior year. By way of contrast, the lower income from investments had a negative effect.

#### **EBT**

In total, the Wien Energie Group division achieved earnings before tax of EUR 93.0 million in the 2017 financial year.

#### **Headcount-related KPIs**

in TEUR	2017	2016	+/-	+/- %
Turnover per employee (Ø FTE)	862,1	775,5	86,7	11,2
EBITDA per employee (Ø FTE)	93,3	33,0	60,3	183

Turnover per employee in the 2017 financial year was TEUR 862.1 on average, TEUR 86.7 higher than in the prior year. The main reason for this was the 7.7 percent increase in turnover and a 3.2 percent drop in headcount. Earnings before interest, taxes, depreciation and amortisation (EBITDA) increased by EUR 152.2 million compared to the previous year due to the effects described above. Correspondingly, EBITDA per employee rose by TEUR 60.3 to TEUR 93.3.

#### **Investments**

Wien Energie made investments totalling EUR 207.6 million in the 2017 financial year, representing a year-on-year increase of 180.5 percent.

## Investments

in EUR million	2017	2016	+/-	+/- %
Intangible assets	10,5	13,6	-3,1	-22,7
Tangible assets	63,9	36,0	27,9	77,4
Financial assets	133,2	24,4	108,8	445,0
<b>Total investments</b>	<b>207,6</b>	<b>74,0</b>	<b>133,6</b>	<b>180,5</b>

Investments in the 2017 financial year are broken down as follows:

Investments in intangible assets relate to rights to use telecommunications networks, as well as capitalisations of software developments. Investments in IT projects in particular were lower than in the previous year.

Investments in tangible assets relate primarily to additions associated with the construction of the Andlersdorf wind farm, the power-to-heat plant, the expansion of district heating connections, refrigeration and heating centres, as well as photovoltaic power plants and operationally required expansions in thermal production. The increase compared with 2016 is attributable to renewable energies, calorific production, and heating and cooling projects.

The purchases of shares in WSTW TownTown GmbH & Co Stationsturm KG and WSTW TownTown GmbH & Co Residenz KG, the additions to the WSTW funds (mostly reallocation of existing funds) and a loan to EVN-Wien Energie Windparkentwicklungs- und Betriebs GmbH & Co. KG for investments in the Oberwaltersdorf wind farm led to a significant increase in financial investments.

## Non-financial KPIs

Energy in GWh <sup>1</sup>	2017	2016	+/-	+/- %
<b>Production</b>				
Electricity	5.968,7	5.872,2	96,5	1,6
Heat	5.467,2	5.374,2	93	1,6
<b>Total</b>	<b>11.435,9</b>	<b>11.246,4</b>	<b>189,5</b>	<b>1,7</b>
<b>Sales</b>				
Electricity	9.019,3	9.051,7	-32,4	-0,4
Gas	6.527,8	6.627,9	-100,2	-1,5
Heat	6.133,6	5.992,7	141,0	2,4
<b>Total</b>	<b>21.680,7</b>	<b>21.672,3</b>	<b>8,4</b>	<b>0,0</b>

<sup>1</sup> Fully and proportionally consolidated subsidiaries

The overall level of energy produced in the Wien Energie Group division during the reporting period increased year-on-year by 1.7 percent to 11,435.9 gigawatt hours. Total sales in the electricity and gas division were slightly below the level of the prior year, while in the heating division they were slightly higher. Overall, sales were at the level of the prior year.

The electricity production of all fully and proportionally consolidated subsidiaries in the Wien Energie Group amounted to 5,968.7 gigawatt hours during the period under review, mainly due to a higher clean spark spread, equivalent to 1.6 percent more than in the prior period.

It was also possible to generate more output in the area of renewable energies, notably wind power. Taking into account the shares in power generated by affiliated but non-consolidated investments and those over which Wien Energie can exert a significant influence, electricity

production amounted to 6,079.7 GWh (prior year: 5,985.5 GWh). The 21.1 percent share of electricity production from renewable sources was above the level of the prior year. In absolute terms, total electricity produced from renewable energies increased by 5.6 percent to 1,282.2 GWh as a result of higher levels of production from wind power.

#### **Overview of share of electricity produced from power generation**

in GWh	2017	2016	+/-	+/-%
Power generation (consolidated)	5.968,7	5.872,2	96,5	1,6
+ Power generation by non-consolidated affiliated companies	38,6	50,2	-11,6	-23,0
+ Power generation via investments entailing significant influence	72,3	63,1	9,2	14,6
<b>= Total power generation (Group) incl. investments (1)</b>	<b>6.079,7</b>	<b>5.985,5</b>	<b>94,2</b>	<b>1,6</b>
of which power generation from renewable energy sources (2)	1.282,2	1.214,7	67,5	5,6
Proportion of renewable energies in total power generation (Group), including investments [(2) / (1)]	21,1%	20,3%	0,8	3,9

The production of district heating by all subsidiaries consolidated within the Wien Energie Group division amounted to 5,467.2 GWh during the reporting period, 1.7 percent higher than in the prior period. Including the proportional amounts from investments, total production amounts to 5,717.0 GWh, which is 1.7 percent more than in the prior year. At 1,554.4 GWh, the amount of heat produced from waste and biomass was 1.3 percent higher than in the prior year. The proportion of total heat produced from these sources is on a par with the prior year, at 27.2 percent.

#### **Overview of share of total heat production from waste and biomass**

in GWh	2017	2016	+/-	+/-%
Heat production (consolidated)	5.467,2	5.374,2	93,0	1,7
+ Heat generation by non-consolidated affiliated companies	208,7	208,5	0,2	0,1
+ Heat generation via investments	41,1	41,4	-0,3	-0,7
<b>= Total heat generation (Group) incl. investments (1)</b>	<b>5.717,0</b>	<b>5.624,1</b>	<b>92,9</b>	<b>1,7</b>
of which from waste and biomass (2)	1.554,4	1.534,5	19,9	1,3
Proportion of waste and biomass in total heat production [(2) / (1)]	27,2%	27,3%	-0,1	-0,3

## 4. Employees

The Wien Energie Group employed an average of 2,568 personnel (full-time equivalents) in the 2017 financial year. At the end of 2017, the share of women amounted to 27.5 percent. The number of employees with special needs stood at 70. The training of a total of 47 apprentices and trainees (at 31 December 2017) will safeguard the Wien Energie's future needs for specialists in the technical and commercial divisions.

### Average headcount (FTE)<sup>1</sup>

	2017	2016	+/-	+/- %
<b>Total</b>	<b>2.568</b>	<b>2.652</b>	<b>-84</b>	<b>-3</b>
Apprentices / trainees	45	51	-7	-13

<sup>1</sup> The headcount corresponds to the number of employees of all fully and proportionately consolidated companies, expressed as average full-time equivalents. Apprentices and trainees are not included.

The personnel policy of Wien Energie pursues the overriding aim of safeguarding the competitiveness and, therefore, the commercial success of the company. A key element of personnel management is the endeavour to offer all personnel an attractive working environment.

#### New target process

A new target process was defined in 2017. On the one hand, transparent and cross-departmental objectives provide clarity about the orientation of the company and, on the other, promote cooperation across departments. In addition to operational objectives, future-oriented goals have also been defined, including those in the areas of innovation, harmonisation and digitalisation.

#### Sales and customer orientation

Sales activities were brought even closer in line with company targets in 2017. Organisational changes were made in the areas of sales and marketing so as to respond to the fiercer competitive environment and new objectives. Managers were assigned new roles by means of a comprehensive selection process in order to best accompany the change process.

#### Corporate culture

Wien Energie places increasing emphasis on anchoring 'performance' in its corporate culture. Implementation measures in each area were defined in 2017, and there was considerable impetus to this end across the Group and within the company. These measures help to ensure the efficient implementation of the company's strategy.

#### Training and further education

In order to provide our staff with personal and professional training and to ensure that we achieve our corporate goals, they spent 5,207 days on internal and external professional and personal development training courses in 2017. This resulted in an average of 2.2 training days per employee (including apprentices). Internal workshops were also organised. The focus in 2017 was on the topic of 'performance' and related to improving the quality of the target agreement process and the feedback culture, as well as on improving health within the company.

#### Healthcare

In 2017, the focus was, among other things, on the establishment of a strategy in the area of healthcare (company doctor, stress management, health-related services) for the coming years. Measures included sporting activities such as 'fit and healthy' sports courses, the Business Run event and various health-related discounts such as for vaccinations.

## 5. The development of business in 2017 and financial position of Wien Energie GmbH

The key financial indicators of Wien Energie GmbH for the 2017 financial year are presented below to complement the information provided about the development of the Wien Energie Group division described above.

### Notes to the Profit and Loss Account of Wien Energie GmbH

#### Profit and loss account

in EUR million	2017	2016	+/-	+/- %
Turnover	1.226,6	1.115,7	110,9	9,9
Change in inventory	0	0,0	0	n.e.
Other own work capitalised	1,0	0,6	0,4	62,5
Other operating income	20	10,5	9,5	90,5
Cost of materials and services	-605,1	-684,9	79,8	11,6
Personnel expenses	-307,8	-274,8	-33	-12
Depreciation and amortisation	-85,1	-85,5	0,4	0,5
Other operating expenses	-198,3	-185,7	-12,6	-6,8
<b>Earnings before interest and tax (EBIT)</b>	<b>51,3</b>	<b>-104,1</b>	<b>155,4</b>	<b>149,3</b>
Financial result	31,5	17,4	14,2	81,7
<b>Earnings before tax (EBT)</b>	<b>82,8</b>	<b>-86,8</b>	<b>169,6</b>	<b>195,4</b>

#### Turnover

Turnover rose by EUR 110.9 million compared to the prior year, which is primarily attributable to higher electricity and heating revenues. The rise in the electricity sector is mainly due to the higher wholesale electricity prices, and in the heating sector to the weather-related increase in volumes. Furthermore, a credit note for Wiener Netze GmbH from the district heating commission fee due to demerger effects had a positive impact on turnover.

#### Other operating income

Other operating income in 2017 was higher than in the previous year due to the higher amount of provisions released (Wien Energie GmbH share of the recovery reserve for the district heating network and provision for site harmonisation), the disposal of assets (especially the sale of land) and write-ups of fixed assets (partial reversal of the deferred income accrued in accordance with the Accounting Reform Act (RÄG) 2014 for Freudeneau power drawing rights).

#### Cost of materials and services

The cost of materials and services of EUR 79.8 million were below the 2016 level. The positive effect was mainly due to the adjustment of the provision for impending losses in connection with onerous contracts for foreign power drawing rights in 2016. By contrast, the higher gas procurement price had a negative effect on the cost of materials.

### **Personnel expenses**

The increase in personnel expenses mainly results from the reversal of the entire accrual for pension obligations.

### **Other operating expenses**

The increase in other operating expenses resulted from higher expenses for IT, consulting, research and development, and the setting up of a provision for the expected costs of the site consolidation.

### **Earnings before interest and tax (EBIT)**

Operating profit increased significantly to EUR 51.3 million, despite higher personnel expenses and other operating expenses, due to higher turnover and lower costs of materials.

### **Financial result**

The financial result of EUR 14.2 million was higher than in the previous year. This was mainly due to the significantly higher expenses for financial assets (write-downs). By way of contrast, the lower income from investments had a negative effect.

### **EBT**

In the 2017 financial year, Wien Energie GmbH generated total earnings before tax of EUR 82.8 million.

## **Asset and capital structure**

### **Abridged balance sheet**

in EUR million	2017	2016	+/-	+/- %
Fixed assets	1.796,4	1.754,4	42	2,4
Current assets	417,4	362,0	55,4	15,3
Accrued income and prepayments	14,2	78,6	-64,4	-81,9
<b>Total assets</b>	<b>2.232,4</b>	<b>2.195,5</b>	<b>36,9</b>	<b>1,7</b>

Shareholder's equity	384,6	303,5	81,2	26,8
Investment grants from public funds	19,4	17,8	1,7	9,3
Non-current borrowings	1.569,3	1.624,6	-55,3	-3,4
Current borrowings	259,1	249,7	9,3	3,7
<b>Total equity and liabilities</b>	<b>2.232,4</b>	<b>2.195,5</b>	<b>36,9</b>	<b>1,7</b>

Key balance sheet figures	2017	2016	+/-	+/- %
Equity ratio	17,2	13,8	3,4	24,7
Capitalisation ratio	80,5	79,9	0,6	0,7

$$\text{Equity ratio} = \frac{\text{Shareholder's equity}}{\text{Balance sheet total}} \times 100$$

$$\text{Capitalisation ratio} = \frac{\text{Fixed assets}}{\text{Balance sheet total}} \times 100$$

### **Fixed assets**

The carrying amount of fixed assets rose by EUR 42.0 million compared to the prior year. While both intangible assets (EUR -5.7 million) and property, plant and equipment (EUR -8.9 million) declined slightly, financial assets increased by EUR 56.6 million.

The increase in financial assets is attributable to the acquisition of shares in WSTW TownTown GmbH & Co Stationsturm KG and WSTW TownTown GmbH & Co Residenz KG as well as reallocations to the WSTW fund.

The largest position under property, plant and equipment in terms of value, at around 70 percent of the total, relates to technical equipment and machinery. The capitalisation ratio of Wien Energie GmbH at the end of 2017 was just under 81 percent.

#### **Current assets**

Current assets comprise inventories, accounts receivable and other assets, as well as cash in hand and positive bank balances. The main reasons for the increase of EUR 55.4 million were higher cash pooling receivables, higher trade receivables and higher credit balances at banks. By contrast, receivables from affiliated companies, from companies in which shares are held, other receivables and inventories were lower.

#### **Prepayments and accrued income**

In the 2017 financial year, the remaining fifteen twenty-fifths of the pension provisions in the amount of EUR 66.7 million will be reversed through profit and loss, resulting in a decrease in this item to EUR 14.2 million.

#### **Deferred tax assets**

In accordance with the Accounting Amendment Act (RÄG) 2014, deferred tax assets of EUR 3.8 million were recognised for the 2017 financial year. Deferred tax assets as of 31 December 2017 thus amount to EUR 4.3 million.

#### **Shareholder's equity**

The shareholder's equity is made up of the capital stock (EUR 230.0 million), capital reserves (EUR 43.8 million) and revenue reserves (EUR 28.9 million) as well as the balance-sheet profit (EUR 81.9 million). The equity ratio amounts to 17.2 percent, thereby increasing by 3.4 percentage points.

#### **Provisions**

Around three quarters of the provisions reported on the balance sheet date of 31 December 2017 are attributable to provisions for pensions. These indirect pension obligations exist as a result of the Vienna Public Enterprises Allocation Act (Wiener Stadtwerke-Zuweisungsgesetz), published in the State Law Gazette (LGBI 17/1999), which requires that the company reimburse the City of Vienna for the pension-related expenses of municipal employees assigned to work for it. The calculation here is based on an actuarial report. Both provisions for pensions and severance payments increased compared to the prior year. By contrast, other provisions fell, mainly due to the use of the provision for impending losses for the foreign power drawing right.

#### **Liabilities**

Liabilities to affiliated companies in particular were lower in a year-on-year comparison. This is due to the special repayment of the liability vis-à-vis Wiener Netze GmbH resulting from the purchase of EconGas GmbH from previous years. The liabilities arising from the purchase of shares in Wien Energie Vertrieb GmbH & Co KG, on the other hand, continue to be included and are being repaid on an ongoing basis.

This item also includes funds from the long-term Group financing of Wiener Stadtwerke.

### **Accrued expenses and deferred income**

Accrued expenses and deferred income refers mainly to building grants received by heating and cooling customers.

Moreover, an addition to the writing up of power drawing rights at Freudeneau carried out in 2016 and the write-ups to the Wiener Stadtwerke fund pursuant to Art. 906 of the Austrian Commercial Code (UGB) (reserve for additions) are included in this item.

### **Cashflow**

in EUR million	2017	2016	+/-	+/- %
Consolidated profit/loss for the year	86,2	-86,2	172,4	199,9
Non-cash expenses/income plus reclassifications	122,9	306,7	-183,9	-59,9
Cash flow from earnings	209,1	220,5	-11,5	-5,2
Change in working capital	104,9	-55,4	160,3	289,4
Change in non-current operational cash flow	-21,2	20,2	-41,4	-204,7
<b>Cash flow from operating activities</b>	<b>292,8</b>	<b>185,3</b>	<b>107,5</b>	<b>58,0</b>
<b>Cash flow from investment activities</b>	<b>-134,5</b>	<b>-42,1</b>	<b>-92,4</b>	<b>-219,3</b>
<b>Cash flow from financing activities</b>	<b>-37,9</b>	<b>-23,8</b>	<b>-14,1</b>	<b>-59,3</b>
<b>Total cash flow</b>	<b>120,4</b>	<b>119,4</b>	<b>1,0</b>	<b>0,8</b>
Start of the period	47,3	-72,1	119,4	165,6
End of the period	167,7	47,3	120,4	254,5

At EUR 209.1 million, cash flow from earnings was slightly below the level of the prior year. The main reasons for the decline are the effects already described in the profit and loss account.

Above all, the reduction in receivables and inventories, the smaller decrease in provisions compared to the previous year and the reclassification of non-cash earning components led to a significant increase in cash flow from operating activities.  
Cash flow from operating activities rose significantly.

The higher level of investments, mainly due to the acquisition of shares in WSTW TownTown GmbH & Co Stationsturm KG and WSTW TownTown GmbH & Co Residenz KG, as well as additions or the exchange of WSTW funds, served to increase the cash flow from investing activities.

The cash flow from financing activities differs from the previous year mainly as a result of the special repayment of the liability to Wiener Netze GmbH arising from the purchase of EconGas GmbH.

All in all, the total cash flow for 2017 was, at EUR 120.4 million, on a par with the prior year's level.

## 6. Environmental and social issues

Wien Energie's business model is an example of environmental protection – the Vienna Model saves up to three million tonnes of CO<sub>2</sub> emissions every year and will be expanded. Wien Energie's measures, in particular the expansion of renewable energy production and the expansion of district heating, are therefore the most important parts of Vienna's climate protection programme.

The priority assigned to protecting the environment, quality management and occupational safety is reflected in a professional governance structure. On the one hand, in Wiener Stadtwerke's sustainability management system, with a sustainability programme evaluated, updated and approved by the Management Board every year. On the other, through the integrated management system (IMS) – including the aspects of quality management (ISO 9001), environmental protection (ISO 14001 / EMAS) and occupational health and safety (OHSAS 18001).

The focus is currently on diversifying the Vienna Model. This means:

### **more renewable electricity**

- Commissioning the wind farm projects Oberwaltersdorf with six, Andlersdorf with seven and Orth an der Donau with six wind turbines
- The construction of two more citizen solar power plants at the Port of Vienna and in Traiskirchen
- The commissioning of the new small hydropower plant on the Donauinsel and the ground-breaking for a new hydropower plant on the river Gulling, a tributary of the Enns

### **more environmental and waste heat**

- Commissioning the power-to-heat plant in Vienna's Leopoldau district and the ground-breaking in Vienna's Simmering district for the large-scale heat pump
- The energy research project GeoTief represents the start of the scientific exploration of low-lying hot water resources in the eastern area of Vienna.

### **more infrastructure and more products and services for e-mobility**

- Over 550 dedicated charging stations at the end of 2017 (2016: 440)
- By 2020, Wien Energie will build 1,000 additional charging stations for e-cars in public areas on behalf of the City of Vienna. The population of Vienna was able to participate in the expansion via a voucher model.

A comprehensive list of environmental measures can be found in the EMAS-certified environmental declaration of Wien Energie's power and heat generation plants.

### **Ombudsman office for customers experiencing social hardship**

Wien Energie GmbH is acutely aware of its responsibility to the people living in the Greater Vienna metropolitan area. Since 2011, the team of the Wien Energie ombudsman office has been managing specific cases of social hardship. The team has established itself as an important point of contact in energy matters for the social institutions of Vienna. A particular highlight here is the intensive cooperation with the MA 40 and the FSW (Fonds Soziales Wien) so as to be able to ensure a sustainable energy supply for shared customers who are facing social hardship. Key is that all parties work together to develop a solution tailored to the individual case.

## 7. Research and innovation

In order to be in the best possible position to meet the challenges associated with the fundamental transition taking place in European energy markets, Wien Energie is involved in a range of different research and development projects. Among other things, these activities serve to safeguard competitiveness, establish new commercial fields and continually optimise the use of resources. In addition to the integration of renewable energies into Vienna's energy system, particular focus will be put on digitalisation, innovation and the implementation of new business models. A small but representative selection of projects, as well as the innovation management system that has been launched, are presented below.

The Innovation Challenge was launched at the beginning of 2017 following intensive preparatory work and the holding of the Startup Day event in the prior year. In this new format, internal experts and eleven selected start-ups from all over the world developed new ideas for Wien Energie. Initially, the teams worked intensively on the framework of possible business models as part of the Innovation Camp, which was held in the Ankerbrot factory from 1 to 3 February 2017. Here, new creativity and product development methods were applied that require the early involvement of potential customers.

The Innovation Camp was followed by the Acceleration Phase, in which selected teams continued to refine their business models for eight weeks. At the final event on 27 March 2017, the teams presented their projects and tried to convince the jury of the feasibility and economic benefits of their concepts. The jury subsequently awarded a project contract to three teams:

- **BotTina**

Wien Energie is the first energy provider in Austria to use a chatbot. BotTina answers customer enquiries and requests fully automatically, 24/7. This innovative chat solution was developed by Wien Energie employees in cooperation with the start-up onlim. Following the Innovation Challenge, BotTina was further developed and internally tested before the prototype was launched on Facebook in July 2017. Since the beginning of September 2017, BotTina can now also be used on the Wien Energie website and is now involved in about 150 chats a day, with about 1,000 messages being exchanged.

- **Smart drones**

'Smart Drone Inspection' is a project that largely takes place at lofty heights. This project relates to a combination of drones and artificial intelligence software in order to analyse images. The drone makes it possible to fly around and inspect facilities or areas of buildings which are difficult to reach, such as wind turbines and power station flues. On-board cameras document the site inspected and special image analysis software identifies changes, such as damage to wind turbines caused by lightning strikes. This makes it possible to rapidly and accurately perform damage analyses.

- **Maintenance 4.0**

Augmented reality technology offers many advantages in the area of plant maintenance. Supported by software such as Microsoft's HoloLens, our technicians on-site can draw on all real-time data relevant to a particular facility to estimate its condition and to also gain additional information about specific areas of the facility. This simplifies the day-to-day work of the technicians, who can also access detailed instructions relevant to their tasks, such as how to change a filter or assemble a machine. The use of augmented reality at the biomass power station in Simmering was the first test of this new technology in terms of its practical

application. The positive feedback from all those involved now opens up new opportunities on the way to digital power stations and other Industry 4.0 projects.

#### **ASCR – Aspern Smart City Research**

The ASCR is a research society that has been working on the future of energy in an urban setting in the newly developed urban area Seestadt Aspern since 2013. Research is being conducted on real data from the new district of Vienna, integrating all components of the energy system – the grid (smart grid), the buildings (smart building), the information and communication technology (smart ICT) and the users (smart users). Among other things, it is about anticipatory building automation and the use of the energy flexibility of the buildings on the energy market. Users are proactively involved in the development work with the aim of designing tailor-made products and services that improve their quality of life.

The owners of ASCR, which was originally planned to end in 2018, have agreed to move the research collaboration to the next phase, which will run from 2019 to 2023. In addition to intensifying research in the areas of smart buildings and smart grids, there will be additional attention paid to the digitalisation of the energy system.

#### **Urban Pioneers Community in Viertel Zwei**

Since the middle of 2017, the residents of the two buildings Studio Zwei and Rondo in Viertel Zwei have been largely supplied with electricity tariffs from Wien Energie. To date, around 20 pilot customers have opted for one of the three research tariffs (Market, Spot, Flatrate). With internet tariffs including 3TV, there are already more than 55 pilot customers, and the number of users is steadily rising in both segments. Further customer workshops are planned for 2018, during which the residents can actively shape the future in Viertel Zwei and receive bonus points for participation.

The other project phases are aimed primarily at innovative new business models. For example, blockchain technology enables so-called ‘smart contracts’ to map customer relationships. This allows the control of different applications such as the shared photovoltaic system, e-mobility stations or decentralised heating/cooling solutions.

#### **GeoTief**

Climate protection is one of the greatest and most important tasks of our time. Heating plays an essential role here. Vienna is already heating in a very environmentally-friendly way and would like to develop further here.

The energy research project GeoTief represents the start of Wien Energie’s scientific exploration of low-lying hot water resources in the eastern area of Vienna. The potential of green heating from geothermal energy can be assumed based on experience and the data of recent decades. For the first time, GeoTief is comprehensively researching the potential for heating and thus serves as a basis for deciding on possible heating projects in the future. This could make the existing district heating network in Vienna even more efficient and sustainable. This research project is being coordinated by Wien Energie and carried out together with partners from research and industry. The focus of the project is to conduct seismic surveys to study the subsurface. Vibrations are sent deep underground below roads and pathways. The signal is reflected underground and recorded by sensors that are positioned near the measuring vehicles. The results are evaluated scientifically and combined with previously known data, producing a precise image of the geological strata in the surveyed area. This project represents a significant milestone on the road to integrating renewable heating into the Vienna district heating network.

### **VGCO<sub>2</sub> – Vienna Green CO<sub>2</sub>**

Capturing CO<sub>2</sub> in power plants or the industrial sector, for subsequent permanent storage or for industrial use, is only possible in conjunction with a high level of energy consumption, which severely affects the efficiency of the power plant or industrial processes. The research consortium Vienna Green CO<sub>2</sub> (in short: VGCO<sub>2</sub>), in which Wien Energie is involved, has set itself the goal of testing a new technology to continuously separate carbon dioxide (CO<sub>2</sub>) from exhaust gases in a pilot system at the biomass power plant in Vienna's Simmering district. The development of highly efficient CO<sub>2</sub> capturing technology is in line with effects to support strategic goals of the Austrian and European energy and climate policy to reduce CO<sub>2</sub> emissions.

## 8. Internal control and risk management system

At Wien Energie, a comprehensive risk management system has been introduced which enables opportunities and risks to be identified at an early stage. Risks and opportunities are defined as the possibility of negative and positive deviations from expected outcomes. The internal control systems (ICS) comprises all measures to ensure the reliability, effectiveness and efficiency of material processes, as well as compliance with external regulations. The Internal Audit Division concentrates on how business processes are handled, as well as on the internal control and risk management system, in accordance with an annual audit programme approved by the Management Board of Wiener Stadtwerke.

### Fundamentals of the risk management process

The risk management process follows the internationally recognised standards of coso (Committee of Sponsoring Organizations of the Treadway Commission). The ongoing identification, recording and assessment of the risks faced by companies of the Wiener Stadtwerke Group form the basis for the regular risk reporting. Generally speaking, a distinction is made between qualitative and quantitative risks.

Quantitative risks are included in the financial reporting prepared by Controlling (integrated reporting). As regards the future development of key financial performance indicators of the Group companies, ranges are derived from risk management (in the form of confidence intervals) and presented in CO reports. A key objective is ensuring the capacity of individual Group companies to bear risk. A risk and opportunity review is performed every year, i.e. a comparison is performed of the original assessment of risks and opportunities in the past year, which is also based on business planning, with the actual outcomes. The resulting findings are then used to bring the risk catalogue into line with new conditions. The updated risk catalogue constitutes a basis for business planning.

The discussion and coordination of the most important opportunities and risks is also included in the annual business planning meeting of every Group subsidiary. The aim is to identify, based on a holistic view, which opportunities and risks can be anticipated in the coming years so as to be able to take these into account in corporate planning. Appropriate measures are subsequently identified and monitoring intensified in the relevant planning areas.

A risk controller function, established at every Group subsidiary, is responsible for ensuring compliance with the defined risk management process. This position reports regularly and directly to the relevant general manager. Group Risk Management is also responsible and reports to the Management Board of Wiener Stadtwerke.

The risk landscape of Wien Energie is broken down into seven risk groups, with the main risks in the various risk groups being the following:

#### **Technical risks:** Mitigation by means of regular maintenance and investment programmes

The very high level of reliability of its technical infrastructure is a major and critical factor for the success of Wien Energie. For this reason, particularly close attention is paid to compliance with high technical standards and carefully defined maintenance and quality checks. Redundant data are held in critical areas. In addition, Wien Energie also has extensive insurance cover.

### **Price-related risks: Risk mitigation via hedge transactions**

Oil, gas and electricity prices are set on international commodity exchanges and thus are exposed to high levels of volatility, driven by global developments. These price-related risks are mitigated by means of forward transactions and derivative financial instruments such as futures, swaps, supply contracts with performance options, etc., which are only used to hedge risks. Sufficient reserves of fuel are available. Temperature deviations (deviations from the multi-year average) cause a rise or drop in heating sales, thereby having an impact on the development of earnings.

### **Business environment risks: Risk mitigation by means of permanent market monitoring**

Underlying political and legal conditions can have a considerable impact on the commercial success of Wien Energie. These factors are regularly reviewed in order to be able to identify risks as early as possible and to react accordingly. When dealing with sensitive areas of law, measures (such as training courses) are implemented to ensure that employees comply with the rules.

### **Market risks: Risk mitigation through the development of new products and services**

Market risks include price and competition-based risks in the area of sales. Wien Energie mitigates these risks by developing new products and services, through a pro-active, customer-oriented sales policy, and through a series of partnerships and collaborations.

The risks of customers defaulting on amounts owed are mitigated by means of constantly monitoring outstanding amounts and associated dunning procedures.

### **Investment risks: Mitigation by means of monitoring and standardised guidelines**

Wien Energie is involved in selected energy segments in both domestic and selected international projects and companies. A guideline governs the handling of investments and serves to minimise risks. Any possible currency-related effects are countered by means of the close monitoring of foreign exchange and financial markets.

### **Financial risks: actively controlled by treasury and asset management**

This risk class includes, in particular, those risks associated with short and long-term investments. Short-term working capital is managed and optimised by a Group-wide cash pooling scheme. Long-term financial investment is conservative. Extensive Group guidelines regulate the procedure and help mitigate risks.

The intrinsic value of investments is constantly monitored. Letters of comfort and guarantees are handled in accordance with a separate guideline.

### **Organisational and personnel risks: IPD as risk mitigation**

Within the scope of the Group's integrated personnel development (IPD) concept, various methods are used such as, for example, employee orientation meetings, which are intended to mitigate and/or avoid these personnel risks.

Measures to achieve a high level of availability of the IT systems (e.g. operating a secondary data processing centre) ensure reliable support for business processes. An information security management system is currently being set up to address information security risks.

### **Principles of the internal control system (ICS)**

Wien Energie's ICS refers to all of the measures implemented at the company to identify material risks and errors associated with business processes, to safeguard the efficiency and effectiveness of these processes, to protect the company's assets, and to effectively secure the transparent and proper management of the company.

The ICS ensures that all material risks associated with all relevant business processes are systematically recorded and mitigated by means of regular controls, and that important documentation and responsibilities are transparently recorded and stored. Compliance with all of the legal requirements relevant to the Group is monitored and checked. The reliability of financial reporting is ensured. Wien Energie's accounting process is regulated by Group-wide policies and regulations.

The ICS is further developed by means of an organisational structure defined by a Group guideline and through obligatory periodic reporting to the general management teams. The roles and responsibilities within the ICS control process are clearly defined in this Group guideline.

### **Summary**

At 31 December 2017, Wien Energie is not aware of any risks which, either independently or in combination with other factors, could represent a risk or risks to the future existence of the company.

## 9. Outlook

### Conditions in the energy sector

The European energy market is continuing to change. Highly volatile prices, rising competition and digitalisation will continue to shape developments. Moreover, energy and climate strategies at all political levels – EU, Austria, City of Vienna – are being revamped.

Wien Energie expects a stable business development in 2018, depending on the development of the energy industry's general conditions and the weather.

### Clear course of growth

Wien Energie is on a growth trajectory. The number of people living in Vienna is set to rise by a number equivalent to the population of Graz by 2030. Wien Energie will take advantage of the opportunities afforded by a growing city and surrounding population, investing over EUR 900 million over the next five years, around half of which in technologies for renewable energies. In addition to constructing more wind farms and expanding the use of hydropower, the focus is squarely on the expansion of photovoltaic installations. In doing so, not only will Wien Energie safeguard security of supply in a growing city, but will also increase the proportion of energy produced from renewable sources. The aim is to produce at least 35 percent of electricity from renewable sources by 2030, and at least 40 percent of heating from renewable sources.

### Innovation as a driving force

Wien Energie will continue to evolve into a service provider leveraging the opportunities offered by digitalisation. The company will also bring innovative products and services to the market in the coming year. To this end, partnerships will be intensified with start-ups and industry newcomers from the fields of mobility, retail, telecommunications and IT. In the area of telecommunications, Wien Energie will further expand its fibre-optic network as part of its broadband offensive. In addition to this, Wien Energie will offer new services in the area of information and communication technology for business customers over the coming years.

Research and innovation projects such as ASCR 2.0 or the Urban Pioneers Community in Viertel Zwei are testing efficient, innovative and, above all, customer-oriented energy solutions. They also rely on new technologies such as blockchain.

### E-mobility

E-mobility is a clear area where Wien Energie can grow in the future. The company sees itself as a pioneer here by setting up the necessary infrastructure of e-charging stations. Wien Energie had built more than 550 e-charging stations in semi-public and private areas in the Greater Vienna metropolitan area by the end of 2017. This expansion programme will continue at full speed in 2018. In addition, Wien Energie is building a publicly available base charging network on behalf of the City of Vienna. By mid-2018, 230 charging stations, ten per district, will be built in Vienna. By the end of 2020, 1,000 public e-charging stations are to be available for use.

### **New, local sources of heat**

The annual demand in Vienna for new systems in the low-temperature heating market is projected to be 260 megawatts per year. This includes systems for newbuilds as well as renovations of existing buildings. Wien Energie intends to gain more than three quarters here in its focus market (excluding gas-fired heating systems and detached houses). The expansion plan sets out our objective to develop around 120 megawatts, both centrally and with decentralised means, such as heat pumps. In 2018, for example, the most powerful large-scale heat pump in Central Europe will be built at the site of the Simmering power plant. The existing, well-developed district heating network offers us the opportunity to concentrate supply. This makes it possible to access new customers with manageable means. Furthermore, we will make increased use of new, local sources of heat – such as geothermal energy, solar energy or industrial waste heat – and integrate these into the existing network. By the same token, the supply of cooling will also be increased. Wien Energie will substantially increase its total installed output to 200 megawatts by 2020.

## **10. Conclusion**

Merely selling purely kilowatt hours belongs to the past in the energy industry. New technologies, the rise in digitalisation and changes in customer behaviour mean that energy providers such as Wien Energie are increasingly confronted with new tasks and market participants. Wien Energie repositioned itself in 2017 with a new organisational structure and a clear customer focus, laying the foundations for much more innovative and service-oriented market development. With the new structural framework and against the backdrop of digitalisation and decentralisation, Wien Energie is now able to respond much faster and more flexibly to changing customer needs. Wien Energie has a strong regional presence with a stable and broad customer base and has a decisive competitive advantage in the Greater Vienna metropolitan area: Services such as electricity, gas, heating, cooling or e-mobility and telecommunications are offered from a single source and with individualised advice.

Vienna, 28 February 2018

**For the Management Board:**

Mag. Peter Gönitzer

DI Karl Gruber

DI Mag. Michael Strebl, Vorsitzender

**Wien Energie**

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