WIEN ENERGIE

Management Report 2018

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 produces electricity and heat from renewable energy sources, thermal waste recycling and high-efficiency cogeneration power (CHP) plants. WIEN ENERGIE is also active in the field of telecommunications and provides additional services. WIEN ENERGIE is a wholly owned subsidiary of WIENER STADTWERKE GmbH.

2. Legal and economic environment

Economic factors
Compared to the same quarter of the prior year, the Austrian economy grew by 0.4 percent in Q4 2018. After a strong first half, economic dynamism continuously lost momentum over the course of the year. The industrial sector in particular slowed from the middle of 2018. Both domestic demand and exports accounted for the GDP growth in the fourth quarter. Overall economic growth in 2018 amounted to 2.7 percent. The employment market also benefited from the strong economy, with the unemployment rate falling as a result to 7.7 percent in 2018 (0.8 percentage points less than in the prior year). Despite this, the rate still remains higher than before the last financial and economic crisis.

Inflation (CPI) in Austria stood at 2.1 percent in December 2018, slightly above the average in the Euro Area. Marked price increases applied in particular to food, catering services, residential rents and, surprisingly, several industrial goods. The core inflation rate in December was 1.9 percentage points higher than in the prior year.

While the Federal Reserve steadily increased its base interest rate in 2018 (Q1: 1.63 % to Q4: 2.38 %), the European Central Bank continued with its extremely expansive monetary policy, which is intended to raise inflation in the direction of a two-percent price stability objective. In order to achieve this, the base lending rate was cut to zero percent in March 2016 and has not changed since, while at the same time the programmes to buy government-issued bonds were extended and expanded.

These underlying economic conditions, new providers and producers in the liberalised energy market, as well as ambitious climate and energy targets, present major challenges for WIEN ENERGIE: challenges which can only be addressed by working hard on new innovative services and products, looking after existing customers in the best possible way and continuously improving efficiency.

The energy and climate policy of the European Union
The Austrian Presidency of the Council of the European Union came to an end in the second half of 2018. This period was characterised by the motto ‘A Europe that Protects’. The main policy issues were security and efforts to combat illegal immigration, safeguarding European prosperity and competitiveness by means of digitalisation, stability in countries neighbouring the EU, and bolstering the principle of subsidiarity. Although energy and climate policy were not explicitly foci of the Austrian presidency, decisions and steps relating to the direction of key energy policy and energy-related legal issues were nonetheless taken at the European level.

Clean Energy Package

The Council, the European Parliament and the European Commission negotiated a preliminary agreement on the rules of the internal electricity market ahead of the Council of Energy Ministers meeting on 19 December 2018. This entailed finalising negotiations or concluding all eight of the legislative proposals put forward as part of the Clean Energy Package in 2016. At the meeting of the Council on 19 December 2018, the team of the Austrian presidency reported on the so-called Paris documents concluded (Governance Regulation, Energy Efficiency Directive and Renewables Directive) as well as on the Electricity Market Design document. Political consent was also reached on the trilogue agreements on risk-preparedness in the electricity sector and the ACER Regulation, as well as both proposals (a directive and a regulation) on the internal market in electricity, by means of which the functionality of the EU electricity market will be regulated in future. One element of the agreement on the internal market in electricity is that active customers (prosumers) will in future be better able to participate in the market by, for example, themselves selling the power they generate or by being able to participate in sustainable energy communities. The Electricity Regulation also represents a revision of the rules for the internal market in electricity. *Inter alia*, this relates to defining bidding zones and the terms under which Member States can set up capacity mechanisms . The Building Efficiency Directive was published in June 2018. The provisional final legal texts for the Clean Energy Package were published in the Official Journal of the European Union on 21 December 2018, with further legislative acts due to follow in 2019.

Consultations on prolonging and evaluating state aid regulations

The EU Commission initiated several energy-related consultations in 2018. Based on these, further proposals for legislative acts are now expected. It is also significant that the EU Commission plans to prolong by two years seven legislative acts related to state aid legislation which are scheduled to expire in 2020. In addition, an evaluation of these and further state aid provisions was initiated in early January 2019 in accord with the guidelines for improved legal enactment. This evaluation will be undertaken in the form of a so-called fitness check in order to assess whether the relevant legislative acts should be prolonged or updated. The intention is to prolong the following rules set to expire in 2020 by two years until the end of 2022: General Block Exemption Regulation (GBER), De minimis Regulation; Guidelines on regional State aid; Guidelines in State aid to promote risk finance investments; Guidelines on State aid for environmental protection and energy; Guidelines in State aid for rescuing and restructuring; Communication on important projects of common European interest (IPCEI).

Climate Conference COP 24 – many questions unresolved

From 2 to 15 December 2018, the 24th UN Climate Conference (COP24) took place in Katowice, Poland, at which efforts were undertaken to finally reach consensus. The aim of the conference was to find agreement on and flesh out a rule book for implementing the global climate change convention concluded at the COP21 in Paris in 2015 by the signatory parties to the Paris Agreement. The intention was to define which rights and obligations individual states have in order to reach the 1.5° target set in Paris. A key role here is played by uniform or at least comparable methods for measuring greenhouse gases. While consensus was reached on a rule book for the Paris Agreement, many in-depth issues remained unresolved.

Austrian Climate and Energy Strategy #mission2030

At the national level, the energy policy and energy-related legislative environment is being shaped by the Austrian Climate and Energy Strategy (#mission2030), which was promulgated in May 2018. This strategy aims to ensure that the sustainability objectives in the period up to 2030, in the areas of reducing greenhouse gas emissions, renewable energy and energy efficiency, are consistent with the targets of the European Union. Security of supply, competitiveness, affordability and research and development all form part of the system of targets. This strategy forms the basis of Austria's national energy and climate plan pursuant to the governance regulation and is intended to define the medium and long-term framework for the transformation of the energy system as defined by the objectives of the international treaty on climate protection (Paris Agreement).

A long-term goal is defined by the decarbonisation path extending until 2050. Overall, this represents a first important step in the direction of defining the plan for future energy supplies in Austria. A meaningful, integrated climate and energy policy must consider the energy sector comprehensively. The transformation of the energy system will therefore require substantial changes in heating and mobility patterns. From today's perspective, the decarbonisation plan for 2050 will only be possible economically and technically by coupling electricity, heating and mobility to form an integrated energy system (sector coupling).

Overall, there is a need for clarifications in the various fields covered by the strategy with regard to the measures which are coordinated to serve the primary objectives. In this context, comprehensive evaluations and proposals for action are expected for 2019 and the following years. Among others, this will entail addressing the following issues: the timely creation of a legal framework and incentives for the comprehensive infrastructure-related measures and investments needed, in particular and in addition to the expansion of renewables, also safeguards for thermal power plants, including CHP as the backbone of reliable power supplies, as well as the integration of suitable storage technologies.

Proposals for new energy legislation are also expected in 2019, whereby this will raise complex questions relating to the formulation of this legislation. Beyond the action areas already known, it can be assumed that the tasks and obligations of (new) market players in the energy sector, as well as the issue of local networks and tariff structures, will increase in importance. It is also assumed that the dismantling of the German-Austrian power price zone in 2018 will continue to be an issue of debate and evaluations.

Breakup of the common electricity price zone

Following the liberalisation of wholesale power trading, Austria and Germany maintained a common market place in which power could be traded without restrictions, taking into account any bottlenecks. This resulted in a common price zone in which power could be offered and purchased without any differences in wholesale prices.

This common price zone came to an end on 1 October 2018. The reasons for this were major imbalances as a result of oversupply in northern Germany, primarily associated with wind power, on the one hand, and high levels of demand from the industrialised southern part of the country, on the other. This imbalance led to capacity bottlenecks in the power grid which necessitated efforts to stabilise the grid that were associated with considerable costs. By means of the breakup, the European Agency for the Cooperation of Energy Regulators (ACER) aimed to achieve harmonisation in terms of physical and financial terms. Energy sector scenarios unanimously predict higher prices when markets are balanced than those in the former Austrian-German power price zone.

Austrian Climate and Energy Strategy
The governance regulation of the European Union commits all Member States to submit their national climate and energy strategies to the European Commission by the end of 2019. These should include specific strategies and actions for reaching the climate goals. An initial draft prepared by the Federal Ministry of Sustainability and Tourism includes targets and action plans for the period 2021-2030, including those in the power, transport, heating and waste sectors, and was submitted to the Commission in December 2018. The Commission now has until the middle of 2019 to assess the plans submitted and to recommend measures which the Member States are required to integrate into their strategies by the end of 2019. The current draft of the Austrian Climate and Energy Strategy encompasses decarbonisation, energy efficiency, security of supply and the internal market in electricity, as well as research, innovation and competitiveness. Top-level targets include, *inter alia*, increasing the share of renewables in gross end energy consumption to 45-50 percent and a reduction in greenhouse gas emissions in the non-ETS sector of 36 percent.

General Data Protection Regulation
On 25 May 2018, REGULATION (EU) 2016/679 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation, OJ L 119 of 4 May 2016, p. 1), came into effect (GDPR). Correspondingly, the Federal Act amending the Data Protection Act 2000 (Data Protection Amendment Act 2018, Federal Gazette I 2017/120 of 31 July 2017) introduced far-reaching changes to Austrian data protection law. This affects all companies which process personal data.

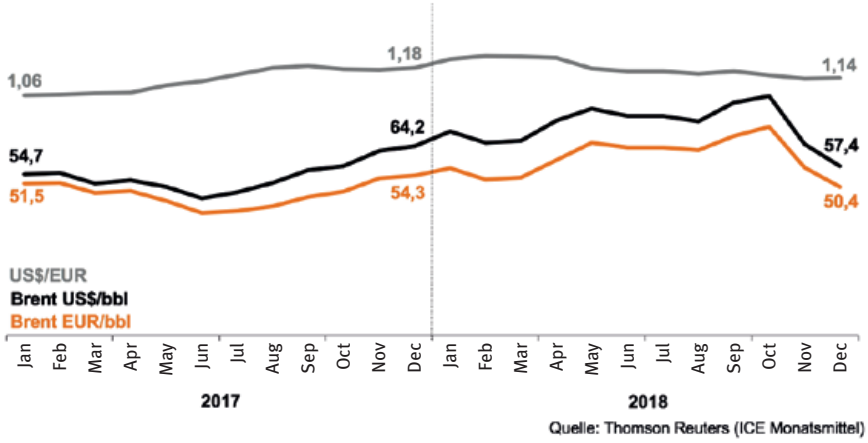
The GDPR aims to make companies accept more individual responsibility and act as a deterrent by means of stiff penalties. Instead of reporting data applications to the data protection authority, companies are now obligated to maintain a record of their processing activities. In cases involving a high risk relating to the rights of natural persons, it is now necessary to perform a data protection impact assessment before initiating a new data processing system. In certain cases prescribed by the GDPR, it is also necessary to appoint a data protection officer.

In conjunction with the entire WIENER STADTWERKE group, WIEN ENERGIE has been working intensively on the organisational and technical steps necessary in order to implement the GDPR and has both created a data protection organisation and implemented the necessary processes. This entailed updating various documents and websites in terms of their data protection conformity, training personnel as well as the conclusion of GDPR-conform data processing contracts. Considerable attention continues to be paid to compliance with data protection regulations and regular coordination efforts take place within the Group on issues related to data protection legislation.

Temperature developments
According to preliminary statistics, 2018 was the warmest year recorded in the 250-year history of measurements held by the ZAMG, Austria's official agency, with all months barring February and March being warmer than average, and the months of January, April, May, June, August and October respectively being among the Top 10 ever recorded. Furthermore, the number of hours of sunshine throughout Austria was eleven percent higher than average, making 2018 the eighth sunniest year on record since relevant measurements began in 1925. The level of precipitation in 2018, on the other hand, was below average, at ten percent under the long-term mean when considered for the country as a whole. Measured in terms of total heating degree days, the standard parameter for temperature-related energy requirements, the demand in the supply area of WIEN ENERGIE during the reporting period was 13.4 percent lower than the comparable value of the past 30 years.

Development of crude oil prices

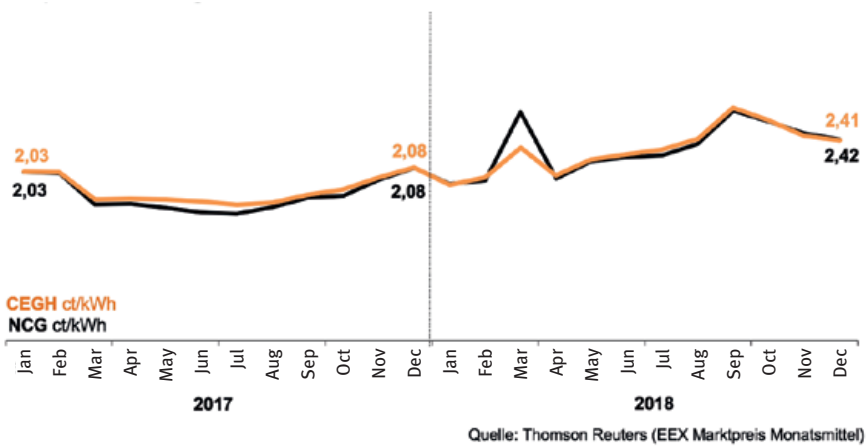
The steady rising trend in oil prices in 2017 initially continued into early 2018. The price of Brent crude oil started 2018 at just under USD 70 per barrel, and rose from this level until the end of September 2018 to a price of just over USD 85 per barrel. The global economic upswing was the main driver of the price increase from the summer of 2017. The new peak was also attributable in particular to the sanctions imposed by the USA against Iran and the associated increase in geo-political uncertainty. A reverse in this trend set in at the beginning of October as fears surfaced of a marked slowdown in the global economy, which accounted for the sharp drop in the oil price to an average of USD 57 per barrel in December.



Quelle: Thomson Reuters (ICE Monatsmittel)

Development of natural gas prices

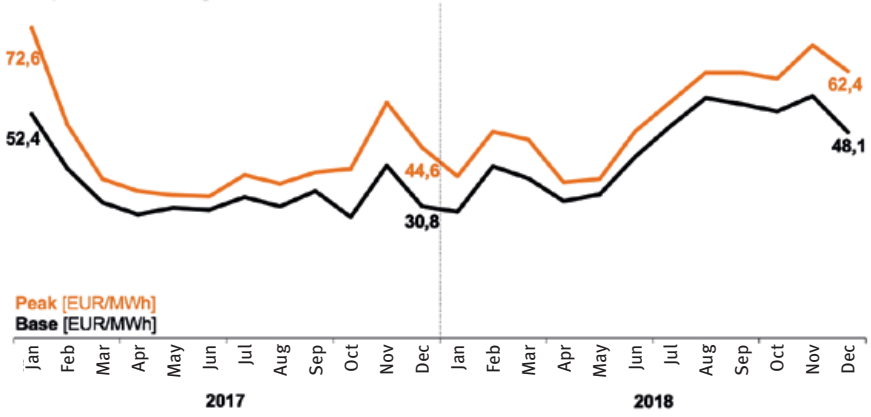
The beginning of 2018 was marked by unprecedented volatility and a dramatic decline in natural gas prices. An unpredicted cold snap for around ten days at the end of February caught the European gas market off its feet. As a result of the cold weather and the high level of power and heat generation, gas prices rose in the short term to peaks of 10 cents per kilowatt hour, only to fall again several days later to a normal level of around 2.2 cents per kilowatt hour. Prices again stabilised at the beginning of the second quarter. Given that the short cold spell led to above-average depletion of gas storage facilities, the levels of gas taken into storage increased from the second quarter. This trend was accompanied by prices rising to an average of 2.8 cents per kilowatt hour in September. The rising oil price also pushed the price of gas higher until the end of the third quarter. Parallel to the oil price, demand for gas also eased from October onwards, as a result of which gas prices fell to an average of 2.4 cents per kilowatt hour at the end of the year.



Quelle: Thomson Reuters (EEX Marktpreis Monatsmittel)

Development of electricity prices

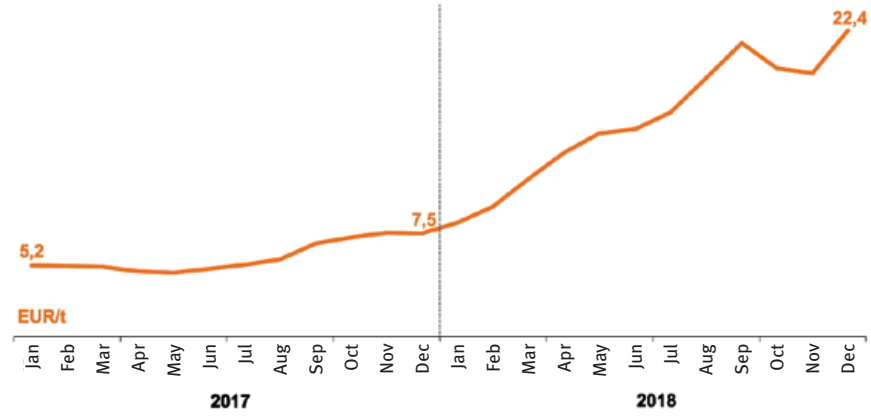
The electricity price started 2018 at around EUR 30 base and EUR 38 peak per megawatt hour. Due to the lower temperatures and empty gas storage facilities, the average electricity price rose in February to around EUR 40 base and approximately EUR 48 peak per megawatt hour. After easing somewhat in the second quarter, the price of electricity rose in line with other energy prices until September to an average of around EUR 55 base and EUR 62 peak. Similar to the oil price, the price of electricity recovered slightly towards the end of the year. As a result of this, the electricity price finished the 2018 trading period at around EUR 48 base and EUR 62 peak per megawatt hour.



Quelle: Base/Peak (EEX-Marktpreise Monatsmittel) DE/AT

Development of prices for CO2 emission certificates

From early 2018, emissions trading revealed itself to be an outperformer in the context of the entire energy system as political action began to take effect. The price of CO2 nearly doubled, rising from around EUR 7.70 per metric ton at the beginning of January to just over EUR 14 per metric ton at the end of March This upward trend also continued in the second quarter. In June, the CO2 price reach a level marginally over EUR 15 per metric ton and continued to climb sharply in the third quarter. An average price of over EUR 21 per metric ton was reached in September. Following a short period of decline in the fourth quarter, a year-end rally kicked in and the CO2 price climbed to an average of EUR 22 per metric ton at the close of trading in December. At the political level, the rules of the new trading period (2021-2030) were defined in late 2017/early 2018 after long and tough negotiations. The previously announced introduction of the market stability reserve in January 2019 is the main reason for the sharp increase in prices.



Quelle: Thomson Reuters (ICE Monatsmittel)

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

Profit and loss account

in EUR million	2018	2017	+/–	+/–%
Turnover	1,440.0	1,226.6	213.4	17.4
Change in inventory	0	0	0	n.e.
Other own work capitalised	0.8	1.0	-0.3	-25.9
Other operating income	78.0	20.0	58.1	291.0
Cost of materials and services	-879.1	-605.1	-274.0	-45.3
Personnel expenses	-301.6	-307.8	6.2	2.0
Depreciation and amortisation	-88.6	-85.1	-3.5	-4.1
Other operating expenses	-208.4	-198.3	-10.1	-5.1
Earnings before interest and tax (EBIT)	**41.1**	**51.3**	**-10.2**	**-19.9**
Financial result	**35.1**	31.5	3.5	11.2
Earnings before tax (EBT)	**76.1**	**82.8**	**-6.7**	**-8.1**
Profit/loss for the period	**75.8**	**86.2**	**-10.4**	**-12.0**
Consolidated result for the period	**71.7**	**81.9**	**-10.2**	**-12.4**

Revenues
Revenues rose by EUR 213.4 million compared to the prior year, which is primarily attributable to higher electricity, gas and heating revenues. The increase in the power division is primarily attributable to higher wholesale prices and sales in the German market to safeguard stability, while that in the heating division was caused by higher district heating prices. Revenues increased in the gas division due to the rise in gas prices and higher volumes sold on to third parties.

Other operating income
Other operating income is primarily attributable to write ups relating to CHP facilities at the Simmering site and the fair value of power drawing rights associated with the Freudenau site above the prior-year level.

Cost of materials and services
The cost of materials and services of EUR -274.0 million were significantly above the 2017 level. This deviation resulted from higher volume purchases of gas for resale, higher prices for gas and CO2 certificates, and the repurchasing of power on the German market as well as the restatement of provisions for onerous contracts in connection with foreign power drawing rights.

Personnel expenses
Despite the negative impact of applying a new mortality table and a revised discount rate for pension obligations, personnel expenses declined in 2018 as a result of the reversal of the entire shortfall in prepayments and accrued income associated with pension obligations which was recognised in 2017.

Other operating expenses
The increase in other operating expenses is primarily attributable to higher maintenance costs related to production facilities.

Earnings before interest and tax (EBIT)
Despite the higher revenues, earnings before interest and tax were 10.2 percent lower than in the prior year due to the higher material and maintenance costs.

Financial result
The increase in the financial result is foremostly accounted for by the fact that considerably higher expenses were incurred in connection with financial assets (impairment charges) in the prior year. This effect was countered to some extent by lower write ups to financial assets and investment-related income compared to the previous period.

EBT
In the 2018 financial year, WIEN ENERGIE GmbH generated total earnings before tax of EUR 76.1 million.

Consolidated result
Taking into account taxes (EUR -0.3 million), the effect of restructuring charges (EUR -0.3 million) and the allocation of five percent of the net result for the period to retained earnings (EUR -3.8 million), the consolidated result for the period amounted to EUR 71.7 million.

Asset and capital structure

Abridged balance sheet

in EUR million	2018	2017	+/–	+/–%
Fixed assets	1,981.5	1,796.4	185.0	10.3
Current assets	440.2	417.4	22.8	5.5
Accrued income and prepayments	17.3	14.2	3.1	21.5
Deferred tax assets	4.8	4.3	0.4	10.4
Total assets	**2,443.7**	**2,232.4**	**211.3**	**9.5**
Shareholder's equity	448.6	384.6	64.0	16.6
Investment grants from public funds	28.1	19.4	8.7	44.8
Non-current borrowings	1,667.8	1,569.3	98.5	6,3
Current borrowings	299.2	259.1	40.1	15.5
Total equity and liabilities	**2,443.7**	**2,232.4**	**211.3**	**9.5**

Key balance sheet figures	2017	2017	+/–	+/–%
Equity ratio	18.4	17.2	1.1	6.6
Capitalisation ratio	81.1	80.5	0.6	0.8

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

Fixed assets
The carrying amount of fixed assets rose by EUR 185.0 million compared to the prior year. This increase resulted primarily from the write up relating to CHP facilities at the Simmering site and power drawing rights associated with the Freudenau site, as well as purchases of securities. This led to a higher capitalisation ratio relative to the prior year of around 81 percent. The largest single position recognised under tangible assets relates to technical plant and equipment. Recognised at EUR 605.9 million, these assets account for around 68 percent of the total.

Current assets
Current assets comprise inventories, accounts receivable and other assets, as well as cash in hand and positive bank balances. The main reason for the increase of EUR 22.8 million was higher gas inventories, higher receivables due from CO2 certificates and investments, as well as higher credit balances at banks. Receivables from cash pooling, on the other hand, were considerably lower, primarily due to the reallocation of cash reserves from the cash pool to the fund WSTW Fonds VI.

Prepayments and accrued income
The increase in 2018 resulted from higher accruals associated with variation margins.

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 103.1 million) as well as the consolidated result for the period (EUR 71.7 million). The increase in shareholder's equity on the grounds of the positive consolidated result for the period led to an increase in the equity ratio of 1.1 percent compared to the prior year.

Investment grants
The increase in investment grants is predominantly attributable to grants awarded in connection with the construction of a heat exchanger at the Simmering power station and that of the cooling facility at the Juchgasse site.

Non-current liabilities
Around 61 percent of the non-current liabilities reported on the balance sheet date of 31 December 2018 is 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. Due to the application of a new mortality table and the change in the discount rate, there was an increase compared to the prior year which is mainly accountable for the rise in the non-current liabilities. The remaining non-current provisions primarily recognise provisions for onerous contracts associated with foreign power drawing rights, which were also adjusted upward compared to the prior year.

Non-current liabilities, on the other hand, declined, mainly with regard to those due to affiliated companies. This is accounted for by the partial settlement of liabilities due to WIENER NETZE GmbH associated with the purchase of shares in WIEN ENERGIE Vertrieb GmbH & Co KG. This item also includes funds from the long-term group financing of WIENER STADTWERKE and the liabilities associated with wind and solar power projects.

Accrued non-current expenses and deferred income relates mainly to building grants received by heating and cooling customers. Moreover, an addition to the writing up of power drawing rights at Freudenau 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 under this item.

Current liabilities
Current provisions remained essentially unchanged compared to the prior year. The increase in current liabilities compared to 2017 resulted primarily from higher trade accounts payable due to affiliated companies. This was offset to some extent by lower payables due to WIEN ENERGIE Vertrieb GmbH & Co KG. The current portion of accruals primarily relates to prepayments received from KAV in connection with the new hospital in the north of Vienna and the construction of district heating plants.

Investments

in EUR million	2018	2017	+/–	+/–%
Intangible assets	11.5	9.8	1.7	17.9
Tangible assets	83.3	63.5	19.8	31.2
Financial assets	133.5	133.0	0.4	0.3
Total investments	**228.3**	**206.3**	**22.0**	**10.7**

Investments in intangible assets relate to rights to use telecommunications networks, as well as capitalisations of software developments. The IT project KIT and the adoption of IFRS mainly accounted for the higher level of investments compared to the prior year.

Investments in tangible assets relate foremostly to additions as a result of upgrading the Simmering 1 power station, additional district heating connections, cooling centres, the GeoTief-Wien project and photovoltaic installations. The increase compared to 2017 is attributable to renewable energies and thermal production as well as heating and cooling projects.

Investments in financial assets essentially remained unchanged compared to 2017. These investments mainly related to the reinvestment of excess cash reserves from the cash pool to the fund WSTW Fonds VI and securities offering higher rates of return.

Investment KPIs

in %	2018	2017	+/–	+/–%
CAPEX ratio	5.2	5.0	0.1	2.7
Capitalisation ratio	144.2	473.2	-329.0	-69.5

$$\text{Capex ratio} = \frac{\text{Investments in tangible and intangible assets – grants received}}{\text{Revenues}} \times 100$$

$$\text{Internal financing ratio} = \frac{\text{Cash flow from operating activities}}{\text{Investments in tangible and intangible assets – grants received}} \times 100$$

The CAPEX ratio remained essentially unchanged compared to the prior year. The internal financing ratio for 2018 stood at 144.2 percent. As a result, it was possible to entirely finance investments in intangible and tangible assets (less construction and investment grants received) from operational cash flows. The decline compared to the prior year is explained by the increase in investments and the decline in operational cash flows.

Cashflow

in EUR million	2018	2017	+/–	+/–%
Consolidated profit/loss for the year	75.8	86.2	-10.4	-12.0
Non-cash expenses/income plus reclassifications	127.7	122.9	4.8	3.9
Cash flow from earnings	203.5	209.1	-5.6	-2.7
Change in working capital	-59.1	104.9	-164.0	-156.3
Change in non-current operational cash flow	-36.8	-21.2	-15.6	-73.8
Cash flow from operating activities	**107.6**	**292.8**	**-185.2**	**-63.2**
Cash flow from investment activities	**-197.2**	**-134.5**	**-62.6**	**-46.6**
Cash flow from financing activities	**-23.6**	**-37.9**	**14.3**	**37.8**
Total cash flow	**-113.1**	**120.4**	**-233.5**	**-194.0**
Start of the period	167.7	47.3	120.4	254.5
End of the period	54.5	167.7	-113.1	-67.5

Cash flow from earnings was slightly below the level of the prior year. Higher maintenance costs and lower returns on investments mainly accounted for the decline.

The decrease in payables due to WIEN ENERGIE Vertrieb GmbH & Co KG and the increase in receivables associated with CO2 certificates were primarily responsible for the negative change in working capital and non-current operations. Overall, operational cash flows were positive, albeit lower than in the prior year.

The majority of these cash flows from investment activities related to the reinvestment of cash reserves from the cash pool to the fund WSTW Fonds VI and securities offering higher rates of return. The decline compared to the prior year is accounted for by a combination of higher investment levels in tangible assets and the fact that a portion of the investments in financial assets associated with a reallocation of funds was not recognised in income.

Cash flow from financing activities consists mainly of dividends paid to WIENER STADTWERKE GmbH, the settlement of the liability due to WIENER NETZE GmbH associated with the purchase of shares in WIEN ENERGIE Vertrieb GmbH & Co KG, and the redemption of a portion of the liabilities associated with long-term group financing. The improvement in comparison to the prior year is primarily attributable to the extraordinary settlement of a liability due to WIENER NETZE GmbH in 2017.

In summary, the reallocation of cash reserves to the fund WSTW Fonds VI and the negative change in working capital mainly accounted for the negative change in the balance of cash and cash equivalents.

Non-financial performance indicators

in GWh	2018	2017	+/–	+/–%
Thermal generation	4,957.4	4,829.4	128.0	2.7
Biomass	97.1	107.7	-10.6	-9.9
Hydro power	701.5	747.3	-45.8	-6.1
Wind power	281.8	328.4	-46.6	-14.2
Photovoltaic power	14.2	13.4	0.9	6.4
Total electricity production	**6,052.0**	**6,026.2**	**25.8**	**0.4**
WIEN ENERGIE CHP	3,302.0	3,308.8	-6.8	-0.2
Waste and special waste incineration (internal)	1,336.2	1,312.1	24.1	1.8
Hot water boilers	362.2	460.3	-98.1	-21.3
Geothermal and ambient energy	5.4	0.0	5.4	-
Heating centres	227.9	256.1	-28.2	-11.0
Biomass heating plant	85.4	86.6	-1.2	-1.4
Waste heat sourced	1,132.7	1,291.9	-159.3	-12.3
- Grid/network losses	-583.5	-582.2	-1.3	0.2
District heating sales	**5,868.3**	**6,133.6**	**-265.3**	**-4.3**

Due to the positive development of spreads in the fourth quarter, influenced by the breakup of the power price zone, thermal power production was higher than in the prior year.

The affiliated company WIEN ENERGIE Bundesforste Biomasse Kraftwerk GmbH & Co KG produced 9.9 percent less power than in 2017 due to a long production standstill.

The volume of electricity generated by hydro power facilities was also somewhat lower. This was due to the unfavourable precipitation level in the second half of the year.

Compared to the prior year, wind power production fell by 14.2 percent. This was the result of less favourable wind conditions throughout the entire year.

Solar-based electricity production rose by 6.4 percent in 2018 compared to the prior year due to the commissioning of numerous photovoltaic plants.

Total heating degrees in 2018 were 9.5 percent below the level of the prior year. Sales of district heating declined due to the higher temperatures. The sourcing of district heating from third parties in particular was scaled back. On the grounds of fewer operating hours at the biomass power plant, less heat was extracted.

4. Employees

WIEN ENERGIE GmbH employed an average of 2,251 personnel (full-time equivalents, excluding trainees and apprentices) in the 2018 financial year. At the end of 2018, the share of women amounted to 28.99 percent. A total of 66 personnel with special needs were employed. The training of a total of 47 apprentices and trainees will safeguard WIEN ENERGIE's future needs for specialists in the technical and commercial divisions.

Active headcount WIEN ENERGIE GmbH in average FTEs

	2018	2017	+/–	+/–%
Total	**2,251**	**2,319**	**-67**	**-3**
Apprentices / trainees	38	40	-2	-5

The personnel policy of WIEN ENERGIE GmbH 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.

Target-setting process
Following the redesign of the target-setting process in 2017, this was subsequently evaluated and further developed in 2018. When designing the cross-functional objectives, particular attention was paid to the corporate strategy and ensured that these objectives are consistent from a strategic perspective. The intention behind a mix of functional and cross-functional goals is, on the one hand, to facilitate work within the relevant function or division and, on the other, to promote cooperation between the various functions or divisions.

Sales and customer service
WIEN ENERGIE offers a wide-ranging product portfolio, ranging from conventional power supplies to energy-related services and mobile communications. In order to be able to transparently offer customers and clients these diverse products, and to make it possible to subsequently offer top levels of service, a cross-divisional project was launched in 2018 to harmonise customer-related processes and the relevant IT processes. This harmonisation will make it even easier to satisfy customer needs.

Corporate culture
WIEN ENERGIE GmbH created the Spirit project in 2018 to develop common rules for management and cooperation. Process-supported action plans were defined for key areas. The company will be involved in implementing the relevant action throughout 2019. This overall program of action helps to ensure the efficient implementation of the corporate strategy.

Training and further education
In order to further themselves both personally and professionally, WIEN ENERGIE employees spent a total of 2,337 days on internal and external, professional and personal, development courses in 2018. Numerous internal workshops were also organised.

Healthcare
In 2018, the focus here was particularly on the implementation of the health strategy defined in the prior year. New occupational physicians were hired and the range of services offered expanded. Programs and events such as sports courses, the Business Run event and various discounts for health services were all expanded.

5. Environmental and social issues

According to the Mercer Study 2018, Vienna is the world's city offering the best quality of living. Forecast to have a population of 2.5 million by 2050, Vienna is set to remain one of Europe's most dynamic urban areas. However, this entails major challenges in terms of energy supplies, mobility and climate protection. WIEN ENERGIE therefore relies on innovations in the area of energy supplies and constantly strives to increase energy efficiency in all areas, and to sustainably reduce CO_2 emissions. An ecofys study initiated by WIEN ENERGIE on the future of energy demonstrated that Vienna can be climate neutral by 2050. This study provides a roadmap for the coming years. One of the key findings of the study was that the transition in terms of mobility and heating offers the greatest potential for decarbonisation. It is therefore necessary to think beyond the decarbonisation of the energy system and to holistically plan, manage and shape energy requirements in the heating, mobility and power sectors.

Sustainability forms one of the central pillars of WIEN ENERGIE's corporate strategy. This is based, on the one hand, on the sustainability management of WIENER STADTWERKE, with its annual review and updated sustainability programme signed off on by the Management Board, and, on the other, on an integrated management system (IMS) which covers the aspects of quality management (ISO 9001), environmental protection (ISO 14001 / EMAS) and occupational health and safety (OHSAS 18001).

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

1. More renewable electricity:
- Main focus on expanding photovoltaics. The construction and commissioning of Vienna's first community photovoltaic installation in the 22nd District, as well as numerous projects with business customers such as SPAR, Austria Campus and Ottakringer.
- The opening ceremony of the wind farm in Oberwaltersdorf. The six wind turbines of this new wind farm have a total output of 19.8 megawatts and save 26,000 metric tons of CO_2 emissions every year.

2. More environmental and waste heat:
- Testing and pilot operations of the large-scale heat pump in Simmering. The largest and most powerful large-scale heat pump in Central Europe will convert previously unused waste heat from the power station in Simmering directly into district heating as a means of in future providing 25,000 households with environmentally-friendly district heating.
- GeoTief geothermal project. The GeoTief energy research project GeoTief entailed the scientific exploration of low-lying hot water resources in the eastern area of Vienna by means of 3D seismological investigations.

3. More infrastructure and more products and services for e-mobility
- A total of 920 charging points were in operation at the end of 2018 (2017: 550).
- In order to forge ahead with the expansion of the public charging network, no fewer than 250 open-access charging points had already been set up by the end of the year.
- Together with cooperation partners, Austria's first supercharger (350 kW) was installed at a large roundabout in Favoriten.

A comprehensive list of environmental measures can be found in the EMAS-certified environmental statement on 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's office has been managing specific cases of social hardship. This team has established itself as an important point of contact for Vienna's social institutions when it comes to energy-related issues. Since 2011, they have received more than 20,000 requests and successfully supported around 13,000 households. A particular highlight here is the intensive cooperation with the MA 40 municipal department and the FSW (Fonds Soziales Wien) to ensure a sustainable energy supply for shared customers who are facing social hardship. Key is that all parties work together to find a solution tailored to the individual case. This delivers not only social but also economic benefits. In comparison to the high costs associated with year-long court cases or non-payment scenarios, working together with customers to develop joint solutions, such as instalment plans, provides significant added value for society.

6. Research and innovation

In order to be ideally prepared to meet the challenges associated with the fundamental transition taking place in European energy markets, WIEN ENERGIE GmbH is involved in a range of different research and development projects. In addition to the integration of renewable energies into Vienna's energy system, a strong focus is being placed on digitalisation, innovation and the implementation of new business models.

- **Innovation Challenge**
  The WIEN ENERGIE Innovation Challenge event is part of an offensive to develop new energy solutions and, for the second time, added a touch of Silicon Valley to Vienna. Promising ideas were sought from the old and the new economies, from large and small enterprises. The second such event was also an outstanding success – with 330 submissions from all over the world. Six start-ups were able to pass the test and went on to spend several weeks, from September, working intensively alongside WIEN ENERGIE experts. The finalists presented their pitches to a jury in December. The ultimate winner was the German start-up Fresh Energy, which helps to save energy digitally.

- **Energy & Strategy Think Tank at the Vienna University of Economics and Business**
  The Energy & Strategy Think Tank at the Vienna University of Economics and Business (WU), part of the Institute for Strategic Management, was founded as a knowledge network in order to identify industry trends and to gather insights into strategic issues related to the energy sector. This think tank was established in early 2013 as a cooperation with OMV. In 2017, WIEN ENERGIE joined this network aimed at exploring and developing innovative and disruptive business models. Common objectives of this cooperation between the WU, OMV and WIEN ENERGIE are to promote research, to educate students and to facilitate the exchange of knowledge between national and international experts and research institutes as well as exchanges between scientists and practitioners in the energy sector.

- **Aspern Smart City Research (ASCR) project**
  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 Aspern Seestadt since 2013. Research is being conducted on real data from this 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 actively involved in the development work. The aim is to improve their quality of life by means of tailored products and services. A decision was taken to extend the research cooperation in 2018. During a second phase, from 2019 to 2023, more attention will be paid to the areas of smart buildings and smart grids, i.e. the digitalisation of the energy system.

- **Urban Pioneers Community in VIERTEL ZWEI**
  At the VIERTEL ZWEI urban development area in the coming years, WIEN ENERGIE will be working alongside the residents of around 300 apartments to jointly research, test and develop concepts for urban life in a smart future. The focus here is on the practical deployment of new technologies such as blockchain, fibre optics and new contractual arrangements such as an energy flat rate. The residents themselves decide what exactly is developed. As a result, WIEN ENERGIE's customers are in effect becoming partners. All of these urban pioneers can have their say in the course of various workshops, surveys and by other means.

- **Model region: New Green Energy Lab combines innovative approaches to fully renewable energy supplies**
  This project (Vorzeigeregionen Energie) is Austria's largest national innovation project for green energy and aims to define benchmarks for energy and mobility in the future. The Green Energy Lab is the largest of three flagship regions and extends across the provinces of Vienna, Lower Austria, Burgenland and Styria. The objective is to concentrate existing technologies, enrich these with innovative ideas, and to develop solutions for the challenges facing the energy sector along the supply chain, from energy producers to end customers. The intention is to accelerate the launch of new technologies, products and services. With its renewable energy producers and experts as well as a sharp differentiation between urban and rural areas, the east of Austria offers a test bed which is unique in Europe.

7. Internal control and risk management system

At WIEN ENERGIE GmbH, 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. Compliance relates to respecting both internal and external rules. 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 Management.

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 risks form the basis for 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). In order to estimate the future development of key financial performance indicators, ranges are derived from risk management assessments (in the form of confidence intervals) and presented in COSO reports. A key objective is ensuring the ability of the company 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 update the risk catalogue. The updated risk catalogue constitutes a basis for business planning.
The discussion and coordination of the most important opportunities and risks are also included in the annual business planning meeting. 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.
A risk controller function, established within the company, is responsible for ensuring compliance with the risk management process. This position reports regularly and directly to the relevant management team, which in turn reports to the Management Board of the WIENER STADTWERKE group.

The risk landscape 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, compliance with high technical standards and crisis management
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. Wherever commercially plausible, this entails in-built redundancy in critical areas. Equipment-related expenditures are subject to volatility, particularly in response to unforeseen events. Occupational safety, fire and environmental protection are of particular importance to WIEN ENERGIE. In addition, WIEN ENERGIE also has extensive insurance cover. Appropriate crisis management plans and corresponding organisational structures are in place to deal with any crises which may arise. Energy management action plans coordinated with the regulator are in place to deal with any shortages in gas supplies and to ensure security of supply.

Price risks: Risk mitigation via hedging transactions
Risks associated with so-called value drivers relate to the core business and can have a major influence on earnings. Oil, gas, electricity and CO_2 certificate prices are set on international commodity exchanges and therefore vary considerably in response to global developments. Such price-related risks are mitigated by means of forward transactions and derivative financial instruments such as futures, swaps and supply contracts with performance options, etc. These instruments are used exclusively 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. A sophisticated portfolio management system constantly monitors market events and optimises energy production accordingly. The intrinsic value of supply contracts is constantly evaluated. Counterparties in the energy sector are evaluated, subjected to monitoring, and the residual risks are capped by means of a system of limits.

Business environment risks: Mitigation by means of organisational and procedural measures and constant market monitoring as well as through an information management system (IMS)
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 legal issues, organisational and procedural measures, such as training, organisational guidelines, standard operating procedures, manuals and compliance policies, are implemented. Particular attention was paid in 2018 to the implementation of the GDPR.
The potential negative impacts of various technical services, control systems and Office IT services for each core process are evaluated by means of a business impact analysis in terms of confidentiality, integrity and availability. The establishment of an information security management system (ISMS) will improve the level of information security even further at WIEN ENERGIE. Risks are periodically evaluated and necessary countermeasures are identified. Regular security checks are also performed and employees trained with regard to the protection of personal data.

Market risks: Mitigation by means of developing new products and services as well as a comprehensive strategy process
Price and competition-related risks exist in connection with sales activities. WIEN ENERGIE mitigates these risks by developing new products and services, through a pro-active, customer-oriented sales policy, and through partnerships and collaborations.
The corporate strategy is a critical success factor for the future commercial success of WIEN ENERGIE. This strategy is therefore regularly reviewed. Constant monitoring of the market and the market environment ensure that the company can react swiftly in order to exploit opportunities and mitigate possible risks. Investment decisions taken by WIEN ENERGIE, sometimes involving external experts, aim to provide a realistic assessment of long-term market developments.

Investment risks: Mitigation by means of monitoring and standardised guidelines
In selected energy segments, WIEN ENERGIE is involved in both domestic and selected international projects and undertakings. A guideline governs the handling of investments and serves to minimise risks. Representatives from WIEN ENERGIE diligently perform their supervisory obligations with respect to investments.

Financial risks: Actively controlled by treasury and asset management
This risk group includes those risks associated with short and long-term investments. Short-term working capital is managed and optimised by a group-wide cash pooling scheme. The long-term financial investment strategy is conservative in nature and is centrally coordinated by WIENER STADTWERKE. Comprehensive group-level policies regulate the procedure and help mitigate risks. The intrinsic value of investments is constantly monitored. Write ups and impairments of assets can have a significant impact on the key performance indicators of WIEN ENERGIE. The risk of end customers defaulting on amounts owed is mitigated by means of constantly monitoring outstanding amounts and a multi-level dunning procedure.

Organisational and personnel risks: Mitigation by means of strategic succession planning and training concepts as well as by monitoring factors influencing personnel expenses
The strategic succession planning process aims to identify key roles within the company and to compensate for any unforeseen events by establishing appropriate skill sets among other employees. Regular risk monitoring takes place during the recruitment process. Internal training concepts are intended to compensate for any difficulties identified in filling certain key positions. Compliance-relevant risks are identified, assessed and evaluated by means of a dedicated risk analysis under the compliance management system as a means of developing appropriate risk mitigation action plans.

Ultimately, changes in external circumstances (e.g. legislation and interest rates) can also lead to deviations in terms of forecast personnel expenses (e.g. changes related to pension provisions) which can have a significant impact on WIEN ENERGIE's key performance indicators. The most important influencing factors are constantly monitored.

The ICS mainly encompasses the full scope of all process-related controlling mechanisms and ensures that all material risks associated with all relevant business processes are systematically recorded and mitigated by means of regular checks, and that important documentation and responsibilities are transparently recorded and stored. The minimum standards of the ICS are laid down in a group-level policy document which also clearly defines roles and responsibilities within the ICS process. Compliance with all of the relevant legal requirements is monitored and checked. The reliability of financial reporting is ensured. The accounting process is regulated by group-wide policies and regulations.
A regular reporting obligation to management teams as well as the ICS coordinator at the WIENER STADTWERKE group ensures that the ICS is implemented as intended. The ICS continues to be developed by coordination bodies with the involvement of WIENER STADTWERKE GmbH as well as the risk management and compliance departments.

Summary
At 31 December 2018, WIEN ENERGIE GmbH is not aware of any risks that, either independently or in combination with other factors, could represent a risk or risks to the future existence of the company.

8. Outlook

Environment and context
The European energy market will continue to be influenced by digitalisation, price volatility and increasing competition in 2019. In addition, decarbonisation and, associated with this, the achievement of the goals defined by the energy and climate strategies of the EU, Austria and the City of Vienna, will also be major factors influencing WIEN ENERGIE's business operations.
The rate at which Vienna continues to grow also represents an important influencing factor. The population of Vienna is set to continue rising sharply in the period to 2030. New urban districts, electromobility, car-sharing, bikes and public transport will all be used more intensively. This is why the issues of energy, mobility and CO_2 neutrality also play an important role in the smart city strategy of Vienna.

WIEN ENERGIE will make a key contribution to achieving these goals. The company will be able to sustainably benefit from urban growth through its active involvement in shaping urban development. This is why major investments in renewables, security of supply, innovation and electromobility, as well as information and communication technologies, will continue in the years ahead. The aim here is to ensure, in international comparisons, that Vienna remains an attractive, clean and green city offering high quality of life and work.

Vienna is becoming a solar energy city
WIEN ENERGIE is Austria's largest solar power operator. The aim is to maintain and consolidate this position in the coming years. That is why a key focus of investment is on the expansion of photovoltaic installations. Other priorities include the construction of wind farms and the expansion of hydro power. WIEN ENERGIE will increase its solar power capacity to 600 megawatts by 2030. With a total of 20,000 solar collectors on Vienna's roofs, photovoltaic, in addition to wind and hydro power, will become the most important source of energy and will make WIEN ENERGIE synonymous with solar power.

The aim here is for these efforts to not only ensure security of supply in the city, but also to increase the share of renewables generated. The goal is to produce at least 35 percent of electricity from renewable sources and at least 40 percent of heating from renewable sources by 2030.

Innovation as a driving force
WIEN ENERGIE will continue to develop in the direction of a service provider and, to this end, will exploit the opportunities offered by innovation and digitalisation. The company's digitalisation strategy ensures that communication with customers takes place via numerous digital channels and makes it possible to provide them with an excellent purchasing and service experience. The goal is to also launch emotional, bundled and innovative products and services in the coming years in order to generate added value for customers and promote long-term customer loyalty. This will require investing in collaborations with strategic partners, start-ups and industry newcomers as well as innovative customer solutions.

The research and innovation projects ASCR 2.0 and the Urban Pioneers Community in VIERTEL ZWEI are testing efficient, innovative and, above all, customer-oriented energy solutions. It is against this backdrop that, *inter alia*, innovative technologies (e.g. blockchain) will be tested and competitive advantages established in the future.

Telecommunication and electromobility for the future

WIEN ENERGIE is convinced that energy, telecommunication and mobility will merge to form a common infrastructure. For this reason, the company will be upgrading its infrastructure not only to deal with the energy transition but will also be investing heavily in electromobility and its fibre optic network. With regards telecommunications, WIEN ENERGIE will continue to expand its infrastructure to encompass new urban development areas and to increase the density of its fibre optic network. In the interests of providing a comprehensive range of products, new products and services related to information and communication technology will also be offered to business and private customers.

E-mobility is a clear area where WIEN ENERGIE can grow in future. The company sees itself as a pioneer here by setting up the necessary infrastructure of e-charging stations. WIEN ENERGIE will be building a further 1,000 public charging points in Vienna in the period to 2020. Together with WIENER STADTWERKE, the company is also working on a holistic mobility concept. This entails developing new services related to e-mobility and drafting implementation concepts.

#1 heat provider

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 new builds as well as renovations of existing buildings. WIEN ENERGIE aims to be the market leader in its core segment (excluding gas floor heating systems and detached houses).

Heat production will become more decentralised in the near future. Energy will increasingly be tapped from new, local-level sources, such as geothermal and heat pumps, and fed into the existing grid. The existing, well-developed district heating network offers the opportunity to concentrate supply. This makes it possible to access new customers for network connections with efficient use of resources. By the same token, the supply of cooling will also be increased. WIEN ENERGIE will increase its total installed output to 200 megawatts by 2020.

9. Conclusion

WIEN ENERGIE is optimistic about the development of the energy sector. Earnings are expected to remain positive and stable overall in the future, which will continue to be reflected in constant positive cash flows in the coming years. Its clear customer focus, in combination with an agile and process-oriented organisational structure, will enable the company to respond rapidly and flexibly to changing customer demands also in the future. The focus on innovation and digitalisation, as well as the exploitation of new technologies, will support WIEN ENERGIE in achieving its defined targets in the areas of renewable energies, security of supply, electromobility and telecommunications. This will enable the company to remain competitive in a fierce market environment and to make a key contribution through its products and services to ensuring that Vienna remains the world's most attractive city.

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