

# Group Management Report First Half-Year 2018/2019 of Energie AG Oberösterreich <sup>1)</sup>

## I GENERAL CONDITIONS

### General economic environment <sup>2)</sup>

The first half of the 2018/2019 fiscal year (1 October 2018 to 31 March 2019) was characterised by an economically more subdued, but still solid economic environment compared with the previous year.

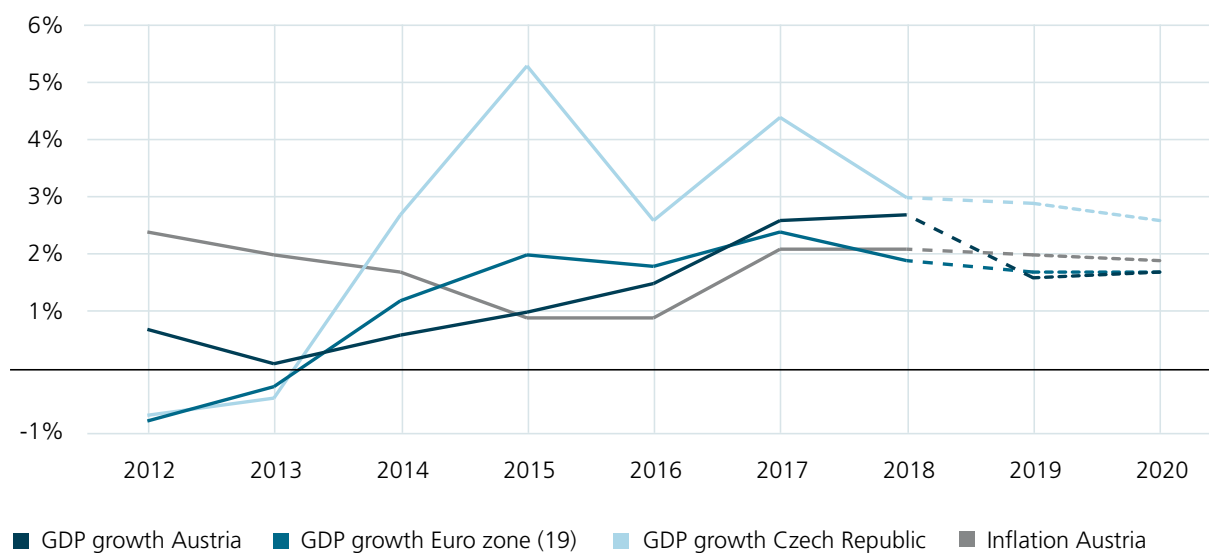
Economic growth in the **Euro zone** slowed in the reporting period, with experts forecasting average growth in the amount of 1.3% to 1.9% for 2019 and 1.6% to 1.7% for 2020 (2018: 1.9%) after a two-year boom. Especially external economic uncertainties, in particular the continuing open nature of Brexit and the threat of trade policy conflicts, pose considerable downside risks to both the Euro zone's and Austria's economic development.

While the **Austrian economy** grew significantly faster than the economy of the Euro zone in 2018, the pace of growth is likely to converge with the Euro zone level in 2019. Economic researchers expect GDP (gross domestic product) growth of 1.5% to 1.7% for Austria in 2019 and between 1.6% and 1.8% for 2020 (2018: 2.7%).

For the **Czech Republic**, a market relevant to Energie AG, GDP growth is forecast to remain constant at 3.0% in 2019.

### Economic growth and inflation

YoY real change (in %)



1) The Group management report presented here was prepared in accordance with the requirements of § 245a of the Austrian Commercial Code (UGB) and refers to the IFRS consolidated financial statements of Energie AG in terms of § 245a UGB.

2) Sources: IHS (Institute for Advanced Studies) Press Release 29 March 2019, WIFO (Austrian Institute for Economic Research) Monthly Reports February 2019 and March 2019, WKO (Austrian Economic Chamber) Economic Situation and Forecast Release March 2019, and Economic Profile Czech Republic February 2019.

## Energy policy framework

In the reporting period, the **EU winter package Clean Energy for all Europeans** was finalised after more than two years of negotiations. The new EU electricity market design envisages stricter guidelines for new capacity mechanisms, as well as the availability of new processes for price zones and minimum capacities for cross-border trade. Furthermore, it is now clearly regulated throughout the EU that electricity from renewable energies has priority in grid bottlenecks. New market roles such as aggregators and citizens' energy communities will also be created and the prosumer concept strengthened. It is of great relevance here that a level playing field, that is an equal and fair competitive environment for all (new and existing) market players, has been created. In the future, e-charging stations and storage facilities will in principle be left to the market and will only be operated by grid operators in exceptional cases in the event of negative market tests. The national implementation of the guidelines in Austria is planned in the course of the Renewable Energy Sources Act 2020 and in the course of an extensive Electricity Industry and Organisation Act (EIWOG) amendment in 2020.

At the end of November 2018, the EU Commission published its long-term decarbonisation strategy **A Clean Planet for All** for the reduction of greenhouse gas emissions in the EU by 2050.

In order to reduce **CO<sub>2</sub> emissions in the transport sector**, at the end of 2018 and beginning of 2019 new stricter fleet limits for passenger cars and commercial vehicles were adopted in the EU. It can be assumed that alternative, emission-free drive systems will become more significant as a result.

At the end of January 2019, the Growth, Structural Change and Employment Commission tasked by the German Federal Government presented the final report which provides a timetable for the gradual **phasing out of coal-fired power generation** by 2038 at the latest. The elimination of thermal coal-fired power plant capacities is to be compensated for in part by new gas-fired power plants. Germany's decision to phase out nuclear energy by 2022 remains unaffected. It is to be expected that the exit from coal in Germany will also have a significant impact on the Austrian electricity market and its prices.

The publication of a term sheet in the course of a proposal by the Federal Government's Council of Ministers in December 2018 saw the implementation work for the **Renewable Energy Sources Act 2020** commence in Austria. The central pillars of the law will be a new competition-orientated subsidy model for green electricity, general conditions for Green Gas and more system responsibility for market participants. The plan is to implement parts of the EU winter package (Renewable Energies Directive and EU internal electricity market package in the area of market design) in the Renewable Energy Sources Act 2020 and as accompanying measures in the Electricity Industry and Organisation Act and Gas Industry Act (GWG).

In the reporting period, the Austrian legislator also enacted a pertinent statutory environment for project development and implementation of infrastructure companies. The **Site Development Act** is intended to create opportunities for speeding up procedures for site-relevant environmental impact assessment (EIA) projects.

In response to European Court of Justice case law, it was necessary to adapt national procedural participation schemes in pertinent environmental matters. The federal legislator regulated this in the **Aarhus Participation Act** regarding the Water Act, Waste Management Act and Air Emission Protection Act. The necessary adaptations to the nature conservation laws of the federal states are still outstanding. The key element of the new guidelines is the

extension of participation in proceedings or legal protection options for recognised environmental organisations in proceedings outside the EIA sector.

Furthermore, an **amendment to the EIA Act** took effect in the reporting period. This amendment established a site lawyer, introduced new procedural rules and laid down new requirements for environmental organisations.

## | BUSINESS DEVELOPMENT IN THE GROUP

### Net assets, financial position and results of operations

#### Group overview

|                                                                    | Unit      | 1st HY<br>2018/2019 | 1st HY<br>2017/2018 | Change  |
|--------------------------------------------------------------------|-----------|---------------------|---------------------|---------|
| Sales revenues                                                     | EUR mill. | 982,0               | 913.2               | 7.5%    |
| Operating result (EBIT)                                            | EUR mill. | 107.3               | 127.3               | -15.7%  |
| EBIT margin                                                        | %         | 10.9                | 13.9                | -21.6%  |
| Financial result                                                   | EUR mill. | -10.9               | -4.5                | -142.2% |
| Earnings before taxes                                              | EUR mill. | 96.4                | 122.8               | -21.5%  |
| Investments in property, plant and equipment and intangible assets | EUR mill. | 74.6                | 64.4                | 15.8%   |
| Cash flow from operating activities                                | EUR mill. | 97.7                | 117.5               | -16.9%  |
| Cash flow from investing activities                                | EUR mill. | -102.8              | -92.2               | -11.5%  |
| Cash flow from financing activities                                | EUR mill. | -71.6               | -58.1               | -23.2%  |

Sales revenues in the amount of EUR 982.0 million were generated in the first six months of the fiscal year 2018/2019 (previous year: EUR 913.2 million). The increase in sales revenues by EUR 68.8 million (7.5%) is primarily due to higher sales revenues from electricity trading, and the increased use of the CCGT (combined cycle gas-turbine) power plants in Timelkam and Laakirchen.

Group EBIT amounted to EUR 107.3 million in the reporting period, compared to EUR 127.3 million in the first half of the previous year.

Operating results in the Energy Segment amounted to EUR 51.4 million in the first half of 2018/2019 compared to EUR 70.0 million in the same period of the previous year. Electricity and gas sales generated lower earnings due to higher procurement costs. Despite higher volumes, the earnings contribution of the CCGT power plant in Timelkam was lower than in the previous year due to changes in contract terms. The lower water level with a hydro coefficient of 1.13 (previous year: 1.24) also depressed earnings in the Energy Segment. In addition, due to a positive assessment of the future market environment, an upward revaluation of the CCGT power plant in Timelkam was recorded in the reporting period in the amount of EUR 6.6 million (previous year: EUR 5.0 million).

In the Grid Segment, the operating result decreased from EUR 54.0 million in the previous year to EUR 34.7 million. The decline is mainly attributable to the development of volumes and grid tariffs in the fields of electricity and gas.

In the Waste Management Segment, EBIT fell from EUR 8.3 million to EUR 7.7 million. This was attributable, among other things, to higher maintenance costs and the increase in

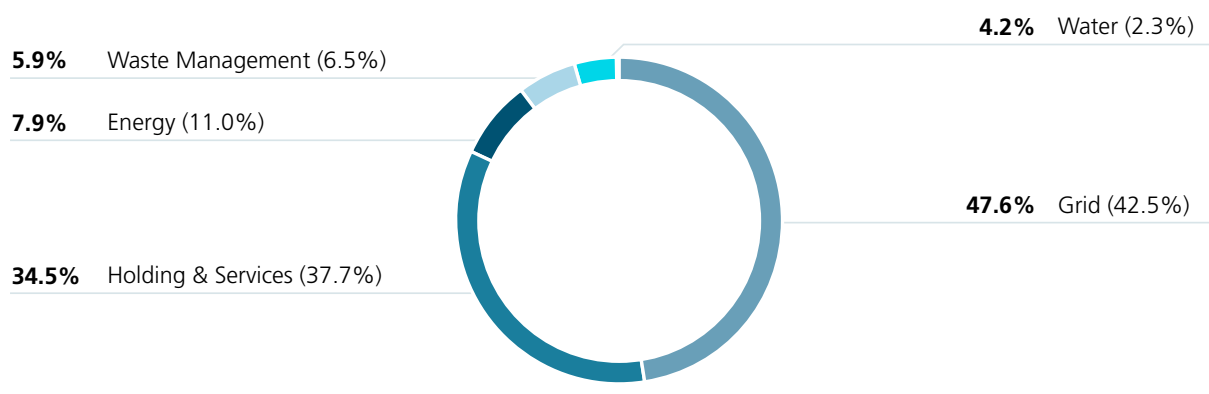
provisions for landfills due to a lower calculated interest rate. However, it proved possible to increase the operative result.

In the Water Segment, sales revenues rose by 5.1% to EUR 71.5 million accompanied by a rise in earnings by 32.6% to EUR 6.1 million. Gains were made in the fields of water supply, wastewater management, services and construction assembly.

The operating result in the Holding & Services Segment amounted to EUR 7.4 million in the first half of 2018/2019, compared to EUR -9.6 million in the same period of the previous year. In the previous year, it was impossible to record the profit/loss shares of an associated company consolidated at equity, as this would have led to the fair value of the investment being exceeded. The result of the first half of the 2018/2019 fiscal year includes profits on the sale of properties.

### Investments in intangible assets and property, plant and equipment by segments

1st HY 2018/2019; previous year's figures in brackets



Capital investments in intangible assets and property, plant and equipment totalled EUR 74.6 million in the first half of 2018/2019 and were therefore EUR 10.2 million, or 15.8%, higher as compared to the previous year. The Grid Segment accounted with a share of 47.6% for the most part. Capital investments in the Holding & Services Segment include expanding the fibre-optic cable network and the smart meter rollout.

Financial liabilities increased by EUR 7.3 million to EUR 462.4 million compared to 30 September 2018. The increase is primarily attributable to short-term outside financing.

The financial result changed from EUR -4.5 million in the previous year, which included gains from the sale of securities, to EUR -10.9 million in the first half year of the 2018/2019 fiscal year.

### Top rating confirmed once again

In February 2019, Standard & Poor's (S&P) confirmed the creditworthiness of Energie AG again with an excellent rating of **A Outlook Stable**. The rating agency thus recognised the company's continuous efforts to further improve its operating and financial efficiency. Energie AG can celebrate a successful anniversary with this repeated top rating: For 20 years now, the company holds an investment grade rating and has occupied an undisputed top position among European utilities since then. The stability course Energie AG has embarked on will continue to be pursued consistently in order to be able to continue implementing capital investment and financing targets at economically attractive conditions in the future.

## Treasury stocks

The treasury stock held by Energie AG as of 30 September 2018, which resulted from the repurchase of employee shares made in the meantime, was withdrawn by a resolution of the general meeting on 19 December 2018 and the company's share capital was reduced accordingly.

## Related party disclosures

For Energie AG's transactions with related parties in the reporting period, please refer to the disclosures in the [Notes to the Semi-Annual Consolidated Financial Statements](#) › page 46.

## Changes under corporate law

In the context of restructuring the ENAMO GmbH joint venture subject to an acquisition and assignment agreement dated 3 December 2018, Energie AG Oberösterreich acquired the 35% share in ENAMO GmbH held by LINZ STROM GAS WÄRME GmbH für Energiedienstleistungen und Telekommunikation. At the same time, ENAMO GmbH offloaded its complementary share in LINZ STROM Vertrieb GmbH & Co KG to Natur-Wärme/Gas Linz GmbH. Both share transfers took effect on 1 April 2019, thus marking the end of the cooperation in electricity sales with LINZ AG für Energie, Telekommunikation, Verkehr und Kommunale Dienste.

## Trend in staff levels

In the first six months of 2018/2019, the average consolidated staff level in the Group was 4,449 full-time equivalents (FTE) and 2.0% up on the average of the first half of 2017/2018 (4,363 FTE).

### Staff levels <sup>1)</sup>

|                            | Unit       | 1st HY<br>2018/2019 | 1st HY<br>2017/2018 | Change      |
|----------------------------|------------|---------------------|---------------------|-------------|
| Energy Segment             | FTE        | 433                 | 430                 | 0.7%        |
| Grid Segment               | FTE        | 537                 | 541                 | -0.7%       |
| Waste Management Segment   | FTE        | 861                 | 846                 | 1.8%        |
| Water Segment              | FTE        | 1,579               | 1,539               | 2.6%        |
| Holding & Services Segment | FTE        | 1,039               | 1,007               | 3.2%        |
| <b>Group total</b>         | <b>FTE</b> | <b>4,449</b>        | <b>4,363</b>        | <b>2.0%</b> |

1) yearly average of the fully-consolidated and proportionately consolidated companies

## RISKS AND OPPORTUNITIES

Energie AG's risks and opportunities are influenced by the energy market environment, growing competitive dynamics and adjustments of the energy policy and the statutory environment.

Energie AG meets these challenges by tapping additional earnings potential, value-based investment management, extensive efficiency-improving measures, and concentration of expertise.

Energie AG's business activities are still exposed to risk, however, no risks were identified in the first half of 2018/2019 that, either individually or in the aggregated total, had the potential to threaten the continuation of the entity.

For more details on the risks and opportunities situation, see the [Notes to the Semi-Annual Consolidated Financial Statements](#) › page 44.

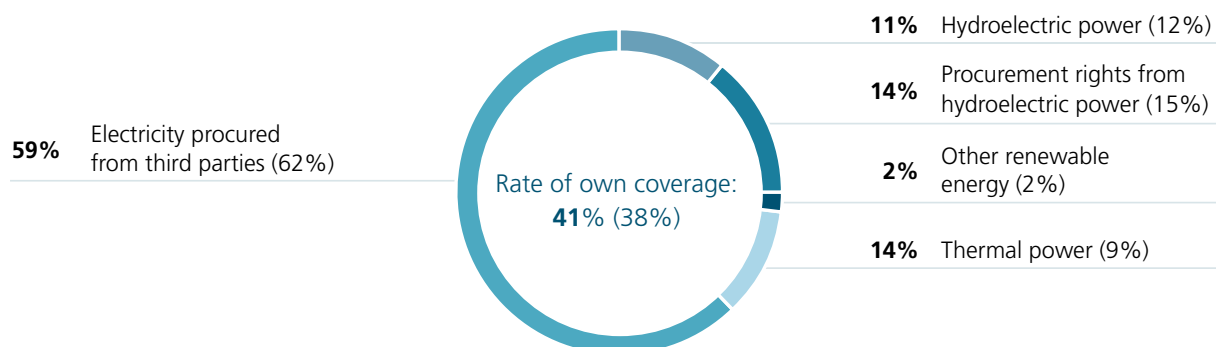
## KEY PERFORMANCE INDICATORS

### Group overview

|                                                       | Unit                 | 1st HY<br>2018/2019 | 1st HY<br>2017/2018 | Change |
|-------------------------------------------------------|----------------------|---------------------|---------------------|--------|
| Electricity procurement                               | GWh                  | 8,608               | 8,389               | 2.6%   |
| Electricity procured from third parties               | GWh                  | 6,807               | 6,680               | 1.9%   |
| Proprietary electricity procurement                   | GWh                  | 1,801               | 1,710               | 5.3%   |
| Thermal power stations                                | GWh                  | 630                 | 421                 | 49.6%  |
| Renewable energy                                      | GWh                  | 1,171               | 1,289               | -9.2%  |
| Group's own hydropower plants                         | GWh                  | 491                 | 546                 | -10.1% |
| Procurement rights from hydroelectric power           | GWh                  | 590                 | 648                 | -9.0%  |
| Other renewable energy (photovoltaics, wind, biomass) | GWh                  | 90                  | 95                  | -5.3%  |
| Electricity grid distribution volume to end customers | GWh                  | 4,223               | 4,275               | -1.2%  |
| Electricity sales volume                              | GWh                  | 3,621               | 3,675               | -1.5%  |
| Natural gas grid distribution volume to end customers | GWh                  | 12,093              | 11,513              | 5.0%   |
| Natural gas sales volume                              | GWh                  | 3,870               | 3,559               | 8.7%   |
| Heat procurement                                      | GWh                  | 1,120               | 1,107               | 1.2%   |
| Heat sales volume                                     | GWh                  | 1,025               | 1,020               | 0.5%   |
| Total waste volume handled                            | 1,000 t              | 851                 | 856                 | -0.6%  |
| Thermally processed waste volume                      | 1,000 t              | 304                 | 315                 | -3.5%  |
| Invoiced drinking water volume                        | m <sup>3</sup> mill. | 28.0                | 26.4                | 6.1%   |
| Invoiced waste water volume                           | m <sup>3</sup> mill. | 22.3                | 22.0                | 1.4%   |
| Length of fibre-optic network                         | km                   | 5,750               | 5,300               | 8.5%   |

### Electricity procurement structure without electricity trading

1st HY 2018/2019; previous year's figures in brackets



## DEFINITION OF SEGMENTS

In accordance with internal reporting and pursuant to IFRS 8 "Operating Segments", the Energy, Grid, Waste Management, Water and Holding & Services Segments will be reported on in the [Semi-Annual Consolidated Financial Statements](#) › page 37.

| Segment Name       | Activities Included                                                                                                                                            |
|--------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Energy             | Production, trade and sales of electricity, gas and heat                                                                                                       |
| Grid               | Construction and operation of the electricity and gas grid                                                                                                     |
| Waste Management   | Acceptance, sorting, incineration and landfilling of waste                                                                                                     |
| Water              | Supplying drinking water as well as disposal of waste water                                                                                                    |
| Holding & Services | Telecommunications and metering services, service companies and management functions; associated at-equity companies which are not allocated to other segments |

## ENERGY SEGMENT

### Energy Segment overview

|                                                                    | Unit      | 1st HY<br>2018/2019 | 1st HY<br>2017/2018 | Change |
|--------------------------------------------------------------------|-----------|---------------------|---------------------|--------|
| Total sales                                                        | EUR mill. | 582.6               | 539.0               | 8.1%   |
| EBIT                                                               | EUR mill. | 51.4                | 70.0                | -26.6% |
| Investments in property, plant and equipment and intangible assets | EUR mill. | 5.9                 | 7.1                 | -16.9% |
| Workforce (on average)                                             | FTE       | 433                 | 430                 | 0.7%   |
| Electricity procurement <sup>1)</sup>                              | GWh       | 8,538               | 8,294               | 2.9%   |
| Proprietary electricity procurement                                | GWh       | 1,731               | 1,615               | 7.2%   |
| Electricity sales volume                                           | GWh       | 3,621               | 3,675               | -1.5%  |
| Natural gas sales volume                                           | GWh       | 3,870               | 3,559               | 8.7%   |
| Heat procurement                                                   | GWh       | 993                 | 957                 | 3.8%   |
| Heat sales volume                                                  | GWh       | 898                 | 870                 | 3.2%   |

1) incl. third-party procurement

### THE ECONOMIC ENVIRONMENT OF THE ENERGY INDUSTRY

In the first half of the 2018/2019 fiscal year, forward market prices for electricity for delivery in the year 2020 moved within a comparatively wide corridor from around EUR 48.6/MWh to EUR 57.3/MWh. The trend in electricity prices saw a decrease during the reporting period, accompanied by major price volatility. The main influencing factors here were the prices for coal and CO<sub>2</sub> allowances. At EUR 52.5/MWh, however, the average price was around one-quarter higher than the previous year's value.

Also on the spot market, prices increased compared with the same period of the previous year. During the reporting period, the average European Power Exchange (EPEX) spot price base for delivery in Austria was EUR 52.6/MWh, accompanied by a continuing volatile development.

With regard to the separated price zones between Austria and Germany, initially with significantly higher prices in Austria, the situation eased considerably towards the end of the reporting period. Thus the price difference over the first six months of the 2018/2019 fiscal year was slightly above expectations at an average of approx. EUR 5.8/MWh. The spread for the 2020 annual base has also been relatively stable for some time, trading around EUR 3.8/MWh.

Hard coal prices have declined significantly in the past six months. Starting at USD 99.0/t at the beginning of the fiscal year, the All Publications Index#2 (API2) for delivery in 2020 to the Amsterdam-Rotterdam-Antwerp Coal Trading Area (loco ARA) had dropped to only USD 72.0/t by the end of March. The reasons for this are a strong global supply situation and comparatively weak demand.

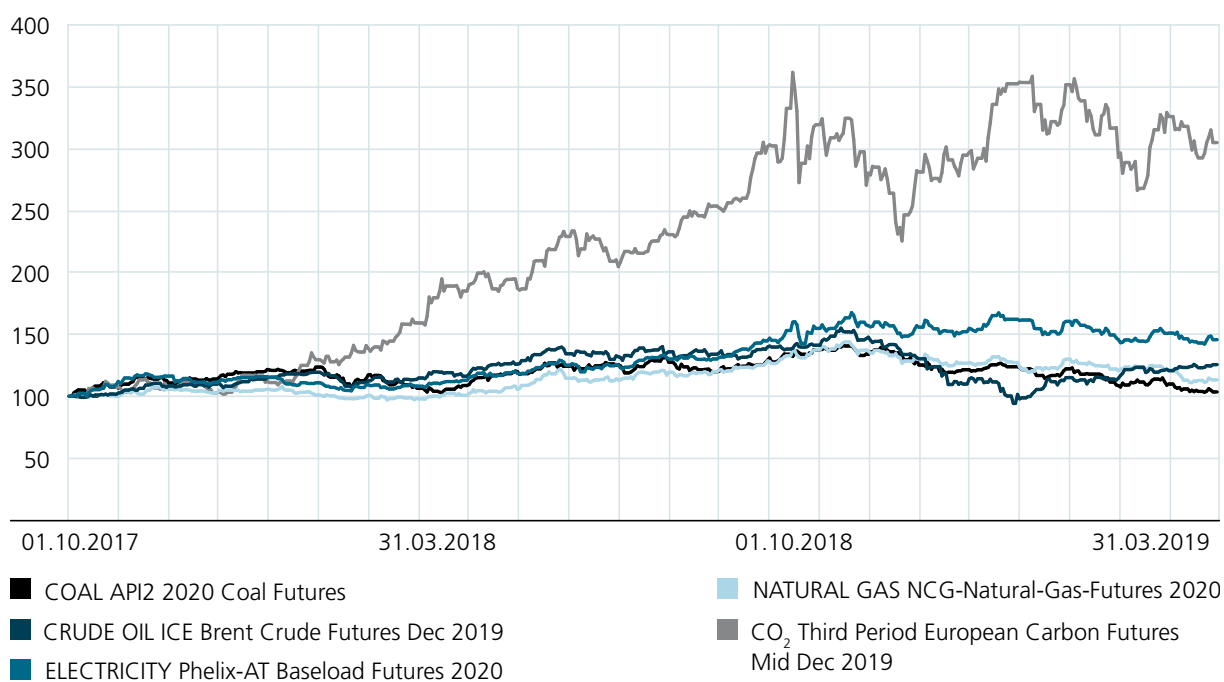
The oil price fell from a high of USD 84.5/barrel of Brent crude oil at the turn of the year to a low of USD 68.4/barrel at the end of the first half of the year.

Although the NetConnect Germany (NCG) gas price for the front year 2020 was significantly above the average for the comparable period of the previous year, it fell from EUR 23.6/MWh at the beginning of October to EUR 18.9/MWh at the end of March in the first half of the fiscal year 2018/2019.

The most significant fluctuations were recorded in the price of CO<sub>2</sub> emissions allowances. During the reporting period, prices fluctuated between around EUR 15.9/t and EUR 25.3/t. In particular, the concern about an unregulated Brexit and the associated effects on the European emissions trading system repeatedly provoked rapid price movements.

#### Price development on international energy markets

Source: EEX, Reuters; index 01.10.2017 = 100



## | BUSINESS DEVELOPMENT IN THE ENERGY SEGMENT

In the first half of 2018/2019, the Energy Segment achieved a sales increase of 8.1% with total sales of EUR 582.6 million. Declining sales revenues from gas management were more than offset by increased sales revenues in electricity trading and the increased use of the CCGT (combined-cycle gas turbine) power plants in Timelkam and Laakirchen.

The EBIT of the Energy Segment was EUR 51.4 million in the reporting period; this is equivalent to a drop of 26.6%. This was mainly due to lower earnings contributions from the use of the Timelkam CCGT power plant for grid reserve and congestion management as well as lower earnings contributions from electricity and gas sales due to higher procurement costs. In addition, the significantly lower water level compared with the previous year contributed to the fall in EBIT in the Energy Segment.

In the period under review, higher electricity price expectations and the positive effects of the new System Utilisation Tariff Ordinance resulted in reversals of impairment in the amount of EUR 6.6 million (previous year: EUR 5.0 million) for the Timelkam CCGT power plant. In addition, a reversal of impairment in the amount of EUR 1.9 million for Cogeneration Kraftwerke

Management Oberösterreich GmbH (CMOÖ GmbH) had had a positive effect on EBIT in the previous year.

## **MORE THERMAL ELECTRICITY GENERATION, LESS ELECTRICITY PROCUREMENT FROM HYDROELECTRIC POWER**

Total electricity procurement in the Energy Segment in the first half of 2018/2019 totalled 8,538 GWh and was therefore 2.9% higher than in the previous year (8,294 GWh). At 1,731 GWh, proprietary electricity procurement also grew by 7.2% compared to the previous year (1,615 GWh). This increase is mainly due to growth in thermal electricity generated.

Electricity production from thermal capacities in the Energy Segment was at 585 GWh in the reporting period, increasing by 63.0% compared to the previous year's value of 359 GWh. Due to the rise in electricity prices compared with the previous year, coupled with relatively stable gas prices, it was again possible to utilise the Timelkam CCGT power plant, which is generally kept available for grid reserve and congestion management, on the market in the winter half-year. CMOÖ GmbH also benefited from the current market situation and made a positive contribution to electricity production from thermal capacities through market-based use of a gas turbine.

The provision of district heating from the power plant locations in Riedersbach and Timelkam fell by 6.9% compared with the previous year (188 GWh) to 175 GWh.

Although the water level in the first half of 2018/2019 was 12.9% above the long-term average, the proprietary electricity procurement of Energie AG's hydraulic power plants remained 9.5% below the figure for the same period of the previous year due to the very high water level in the year before. The hydro coefficient of the Group's own power plants and procurement rights was thus 1.13 in the reporting period (previous year: 1.24).

Ennskraftwerke AG, in which Energie AG holds a participating interest of 50%, reported a hydro coefficient of 1.18 and was therefore above the long-term average in the first half of the 2018/2019 fiscal year. All told, Energie AG holds electricity procurement rights in hydropower plants with a standard production capacity of around 1,390 GWh.

Energie AG's wind power portfolio in Austria remains unchanged with participating interests in three wind parks and a pro rata overall performance of nearly 13 MW. Generation from wind power in the reporting period was about 22 GWh (previous year: 19 GWh). Construction work on a 1.6 MW wind power facility is currently in progress.

## **SUCCESSFUL CUSTOMER LOYALTY IN ELECTRICITY SALES**

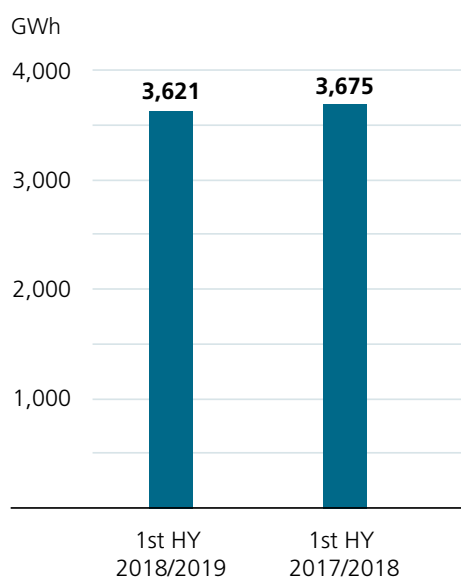
The switching rate on the Austrian electricity market published by E-Control Austria shows that the number of switches in the 2018 calendar year declined for the first time since 2015: while in 2017 4.3% of customers switched electricity providers, this figure was only 4.1% in 2018.

In the commercial and private customer segment of Energie AG Oberösterreich Vertrieb GmbH & Co KG, an even more pronounced decline in the absolute supplier switching figures was recorded in the first half of the year, at slightly more than 30% compared with the previous year.

In the first half of the fiscal year 2018/2019, the consolidated electricity sales volume amounted to 3,621 GWh, 1.5% below the previous year's sales volume in the amount of 3,675 GWh. Declines were recorded in the industrial sector and among commercial and private customers. With business customers, on the other hand, a slight increase in electricity sales was achieved.

The private customer segment continues to be a strong focus of competition. It has been possible to operate successfully in this dynamic market due to the price guarantee in effect until 1 January 2020 as well as to numerous other measures. Digitalisation has increasingly moved into the focus of product developments.

**Electricity sales volume**



## SUCCESSFUL BUSINESS FIGURES IN NATURAL GAS, HEAT AND ENERGY SERVICES

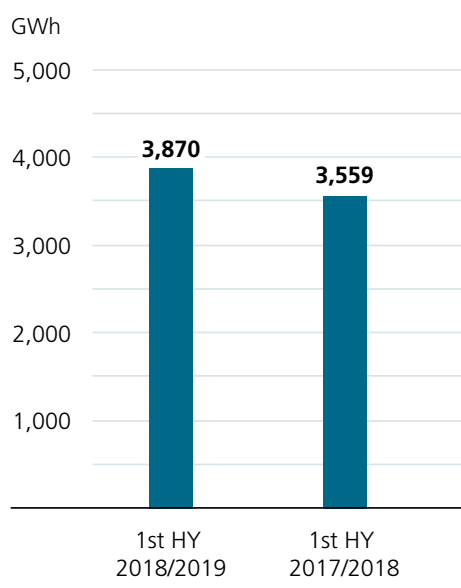
The natural gas sales volume in the Group amounted to 3,870 GWh in the first half year and was thus 8.7% up on the previous year's value of 3,559 GWh. The current winter caused a slight decline in space-heat-driven sales volumes for business and private customers compared with the colder previous year, which was offset by additional volumes for customers newly acquired by the online brand "gasdiskont.at". In the key account segment, the Group again succeeded in achieving a significant increase in volume compared with the previous year. All existing customers were retained and new customers acquired.

The total number of heating degree days in Upper Austria in the first half of the year 2018/2019 was 9.2% below the average for the previous 10 years, and 9.0% below the previous year's figure.

A loyalty campaign for gas customers with a price guarantee for existing business and private customers ends on 31 December 2019; an appropriate follow-up campaign is in preparation. On average, in this industry, the switching rates in the business and private customer area in Austria again rose slightly in the reporting period. The success of active customer care and customer loyalty measures at Energie AG Oberösterreich Power Solutions (Energie AG Power Solutions) is reflected in a switching rate well below the Upper Austrian and Austrian average. In the first half of 2018/2019, it was even possible to slightly reduce the Group's switching rate compared to the previous year.

In the energy services business area, the heat sales volume from contracting plants amounted to 105 GWh in the first half of the reporting period, and thus below the previous year's figure of 111 GWh due to ambient temperatures. Weather-related decreases were compensated for to a great extent by further growth in the contracting sector.

**Natural gas sales volume**



CMOÖ GmbH supplies a key account customer in Laakirchen with electricity and process heat through a CCGT power plant, as well as several adjacent companies with district heating. The volume of process heat and district heating provided to customers in the first six months of 2018/2019 was 391 GWh and thus 18.1% up on the previous year's figure of 331 GWh.

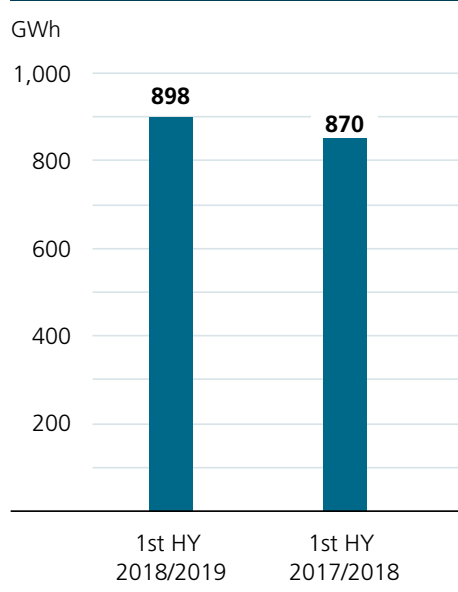
In the field of photovoltaics, 10 new photovoltaic (PV) contracting projects with 2.2 MW<sub>p</sub> and 4 projects with 0.5 MW<sub>p</sub> were agreed in general contractor agreements with business customers in the reporting period. The OeMAG Abwicklungsstelle für Ökostrom AG has already guaranteed the requested subsidies for all plants. The implementation of the projects is planned for the second half of the fiscal year. The current PV portfolio thus comprises 45 plants with average annual electricity generated of 8.2 GWh and an output of 8.2 MW<sub>p</sub>.

Despite milder temperatures compared with the previous year, the first half of 2018/2019 in the Heat business unit was characterised by a successful course of business. Efficiency measures in procurement management made it possible to compensate for the negative effects of the milder winter. In addition to this, the modern electricity generation facilities at the sites guaranteed a high degree of supply reliability and quality throughout the entire heating season.

The waste heat project started in the first half of 2017/2018 in Gmunden with an established industrial partner is proceeding according to plan. Following the seasonal interruption of the district heating network construction work, network construction activities were resumed towards the end of the first half of 2018/2019 and the second construction stage was started. Due to its use of industrial waste heat, this project enables a significant step to be taken towards ecologising and increasing the efficiency of the heat supply in Gmunden with CO<sub>2</sub> savings of around 3,800 tons per year.

In total, the heat sales volume in the Energy Segment amounted to 898 GWh in the first half of the year 2018/2019, an increase of 3.2% on the previous year (870 GWh).

**Heat sales volume**



## SUCCESSFUL MARKET LAUNCH OF THE CHARGING CARD FOR E-MOBILITY

In the field of electromobility, the charging card valid throughout Austria was successfully launched on the market in December 2018. Charging card operations and billing are running smoothly. The construction and operation of the public basic charging infrastructure has thus been completed. There are currently 22 Energie AG charging stations with 42 charging points in the charging station network.

## GRID SEGMENT

### Grid Segment overview

|                                                                    | Unit      | 1st HY<br>2018/2019 | 1st HY<br>2017/2018 | Change |
|--------------------------------------------------------------------|-----------|---------------------|---------------------|--------|
| Total sales                                                        | EUR mill. | 201.4               | 203.8               | -1.2%  |
| EBIT                                                               | EUR mill. | 34.7                | 54,0                | -35.7% |
| Investments in property, plant and equipment and intangible assets | EUR mill. | 35.5                | 27.4                | 29.6%  |
| Workforce (on average)                                             | FTE       | 537                 | 541                 | -0.7%  |
| Electricity grid distribution volume to end customers              | GWh       | 4,223               | 4,275               | -1.2%  |
| Natural gas grid distribution volume to end customers              | GWh       | 12,093              | 11,513              | 5.0%   |

## I GENERAL LEGAL AND REGULATORY CONDITIONS

On 1 January 2019, the 4th new regulatory period began for the electricity sector. The year 2018 was marked by the cost determination procedure, in which costs were examined and the efficiency of the electricity grid operators was compared on the one hand, while the general conditions for the new regulatory period were determined on the other. Netz Oberösterreich GmbH (Netz OÖ) was able to demonstrate a high level of efficiency in an Austria-wide comparison of electricity grid operators. The general cost reduction for all electricity network operators was set at 0.95%, and was thus higher than that for the natural gas sector.

The grid utilisation fees for end-consumers in the electricity sector were reduced as of 1 January 2019, between -2.8% at grid level 3 and -6.7% at grid level 7. The grid utilisation fees for end-consumers in the natural gas division in Upper Austria were also significantly reduced: the reduction between -13.1% at grid level 3 and -17.3% at grid level 2 is founded on the reduction of the very high upstream grid costs and compensation payments in the current tariff base in the previous year.

Last year, the Austrian Court of Audit conducted a financial audit on smart metering, which included an audit of Netz OÖ. The final report was published in mid-January 2019; criticism was primarily levelled at the legislators and project management by authorities. The report included two recommendations for Netz OÖ, which have already been implemented.

## I BUSINESS DEVELOPMENT IN THE GRID SEGMENT

Sales revenues in the Grid Segment compared to the reference period in the previous year fell slightly by EUR 2.4 million (-1.2%) to EUR 201.4 million. The significant increase in regulated grid utilisation fees (due to what are also considerably higher amortised upstream grid costs) as of 1 January 2018 led to a year-on-year sales increase in the electricity grid in the first quarter of the reporting period, although this only partially offset the decline in revenues in the natural gas grid due to the lower grid utilisation fees.

EBIT in the Grid Segment amounted to EUR 34.7 million in the reporting period. The decline of EUR 19.3 million (-35.7%) compared to the first half of 2017/2018 is mainly due to volume and grid tariff development in the electricity and gas grid business.

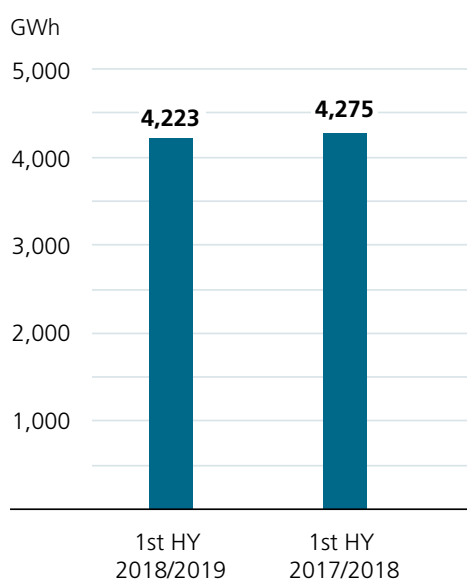
## ELECTRICITY AND NATURAL GAS GRID AS THE BACKBONE OF THE UPPER AUSTRIAN SUPPLY INFRASTRUCTURE

According to current estimates for the 2018/2019 fiscal year as a whole, the electrical energy distribution volume to end customers on the electricity grid will be slightly below the all-time high level of the previous year. In the first half of the current fiscal year, the distribution volume fell by 1.2% from 4,275 GWh to 4,223 GWh.

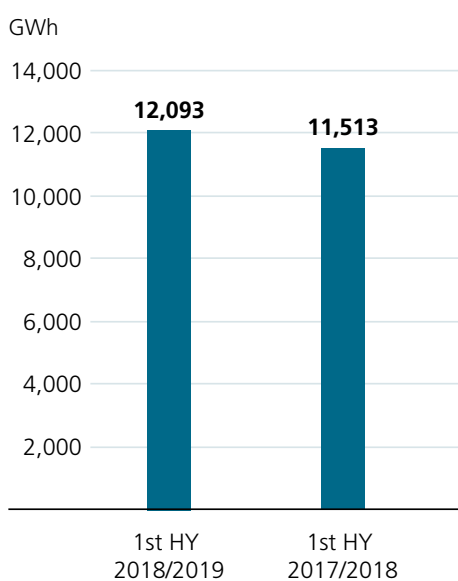
While demand in the industrial customer sector declined compared with the same period of the previous year, it was possible to achieve slight growth with commercial and private customers.

The distribution volume to end users from the natural gas grid increased compared with the previous year (11,513 GWh), amounting to 12,093 GWh (+ 5.0%) in the reporting period. The increase was mainly attributable to the distribution volume for conventional electricity generation to power plants and the proprietary power generating industry. Due to what was mainly milder weather in the winter months, space heating requirements were once again lower, compared to the previous year. Demand from commercial customers in the first half of 2018/2019 was also lower than in previous years.

**Electricity grid distribution volume to end customers**



**Natural gas grid distribution volume to end customers**



During the reporting period, disruptions in the operation of the electricity grid due to snow pressure at the beginning of 2019 posed a major challenge. Due to heavy snowfalls and strong winds over several days, there were a large number of disturbances in the medium-voltage and low-voltage grid in the areas of Salzkammergut, Pyhrn-Eisenwurzen and Mühlviertel. The enormous snow accumulations of over two metres in some cases posed great challenges for the entire operating personnel of Netz OÖ and Energie AG Oberösterreich Tech Services GmbH. Over a period of two weeks, 130 employees worked almost continuously. To prevent disruptions, helicopters flew along line sections in the Bad Goisern area, Kasberg, the Pyhrn-Priel region and in Mühlviertel to relieve the snow load on adjacent trees. In this situation, the 110 kV high-voltage grid once again proved to be the strong and reliable backbone of the Upper Austrian electricity supply.

The general renovation of the 110 kV overhead line Ranna – Partenstein (Upper Austria Electricity Grid Master Plan 2026, Project No. 6) was still on-going at the end of the reporting period. Commissioning took place at the beginning of May 2019. In contrast to this, the construction activities for the Almtal and Kremstal power supply project (Upper Austria Electricity Grid Master Plan, Project No. 16) will continue to be interrupted until the Federal Administrative Court has ruled on the obligation to carry out an EIA. In the Pramtal South power supply project (Upper Austria Electricity Grid Master Plan, Project No. 17), compulsory legal proceedings for the construction of the power lines have been underway since autumn 2018, and construction of the Raab transformer station began in March 2019. The process of finding a route for the planned Mühlviertel Rohrbach – Langbruck electricity supply project under the lead of the State of Upper Austria and with the involvement of the grid operators (Upper Austria Electricity Grid Master Plan, Project No. 8b) continued in the first half of the current fiscal year.

The “Replacement of overhead medium-voltage lines particularly susceptible to disruption”, and “Low-voltage cabling” strategy programmes proceeded according to plan in the reporting period. This reduces the effects of windstorm events on the power supply and further increases the availability of the grid.

Due to the economic development, there was a noticeable increase in new connections and an increase in the output requirements of commercial customers in both the natural gas and electricity grids in the reporting period.

## WASTE MANAGEMENT SEGMENT

### Waste Management Segment overview

|                                                                    | Unit      | 1st HY<br>2018/2019 | 1st HY<br>2017/2018 | Change |
|--------------------------------------------------------------------|-----------|---------------------|---------------------|--------|
| Total sales                                                        | EUR mill. | 114.3               | 113.3               | 0.9%   |
| EBIT                                                               | EUR mill. | 7.7                 | 8.3                 | -7.2%  |
| Investments in property, plant and equipment and intangible assets | EUR mill. | 4.4                 | 4.2                 | 4.8%   |
| Workforce (on average)                                             | FTE       | 861                 | 846                 | 1.8%   |
| Total waste volume handled                                         | 1,000 t   | 851                 | 856                 | -0.6%  |
| Thermally processed waste volume                                   | 1,000 t   | 304                 | 315                 | -3.5%  |

### GENERAL ECONOMIC CONDITIONS OF THE WASTE MANAGEMENT SECTOR

In the first half year of 2018/2019, the waste management industry continued to benefit from a favourable economic environment, thus continuing the positive trend of the previous year.

Due to what were still high volumes of waste that needed to be thermally treated, waste incineration plants were well utilised throughout Europe.

Both nationally and internationally, the issue of responsible recycling materials management continued to be at the centre of attention. Guidelines and specifications formulated at European level, for example, in the form of the Ecodesign Directive or the EU Circular Economy Package, aim to achieve recyclable product designs and the use of secondary raw materials in production processes, waste recycling and, finally, a reduction in the quantities of waste sent to landfill sites.

On 1 January 2019, a material amendment to the Waste Wood Ordinance came into force; this has an impact on collection, sorting and recycling. Waste wood must be separated by ordinance into the qualities "material" (recycling-capable), and "thermal" (designated for thermal treatment due to lack of recyclability). The impact the legal change will have on the waste disposal sector is currently not foreseeable.

Recycled materials exhibited varied development compared with the previous year: while the price of copper remained approximately at the same high level as in the previous year, the price of steel scrap fell slightly. The recovered paper index dropped noticeably in a year-on-year comparison, but then remained stable as of the third quarter of the previous year.

### BUSINESS DEVELOPMENT IN THE WASTE MANAGEMENT SEGMENT

In the first six months of 2018/2019, sales revenues in the Waste Management Segment amounted to EUR 114.3 million and were thus 0.9% up on the previous year's figure of EUR 113.3 million. The EBIT fell by 7.2% from EUR 8.3 million in the first half of 2017/2018 to EUR 7.7 million in the reporting period. This was attributable, among other things, to

higher maintenance costs and the increase in provisions for landfills due to a lower calculated interest rate.

However, both operational sales revenues and operational earnings in the Waste Management Segment increased, although higher expenses were incurred in the scope of the 10-year maintenance interval of a turbine downstream of the incineration lines in Wels, and lower electricity sales were achieved as a result of the turbine downtime.

Higher waste volumes, for example of domestic and bulky waste, take-back systems, waste materials and recyclables, as well as higher disposal prices contributed to the positive operating earnings trend.

## I OPTIMAL UTILISATION OF INCINERATION PLANTS

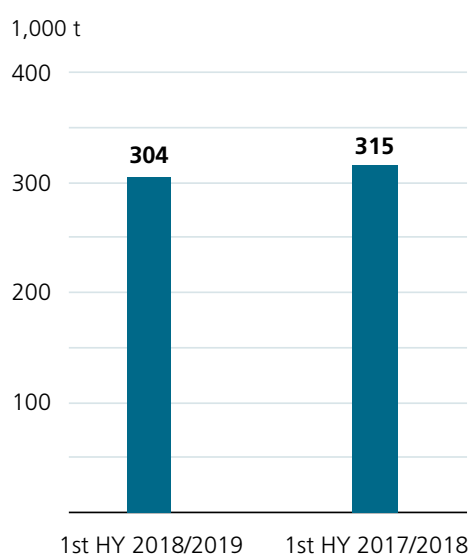
The two incineration plants at Wels and Lenzing were again fully utilised in the first half of 2018/2019, despite a slight drop in the thermally processed waste volume, and reached a throughput of 303,958 tons (previous year 315,094 tons). Work on topics such as technological optimisation, material flow management, heating value and impurities was consistently continued. Due to overhaul work on the turbine of incineration line 2 in Wels, the line had to be taken off the grid and could not be put back into operation until later than planned. It proved possible to operate the incineration plant in Lenzing without any issues until the overhaul, which was carried out as scheduled in February 2019.

In the reporting period, the waste incineration plant in Wels distributed 127 GWh of heat (previous year: 150 GWh) to the district heating network of the town of Wels and to one other key account customer. Electricity procurement in the Waste Management Segment totalled 70 GWh (previous year: 95 GWh).

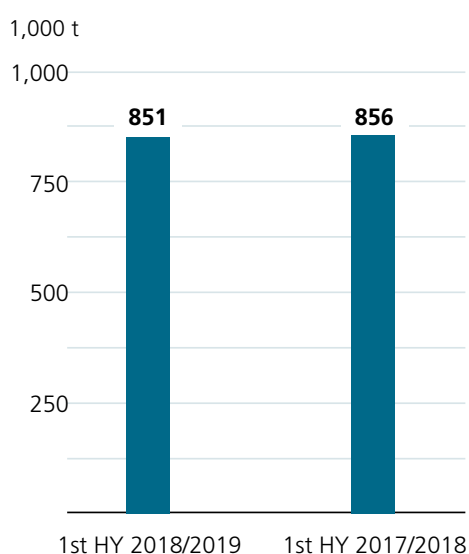
The chemical-physical treatment plant for inorganic waste in Steyr exhibited a very high level of utilisation in the reporting period.

Compared with the previous year, the total volume handled in Austria and South Tyrol fell slightly to 851,342 tons (first half of 2017/2018: 855,860 tons).

**Thermally processed waste volume**



**Total waste volume handled**



Cooperation with the public sector was intensified, in particular the municipalities continue to represent a significant target group for Energie AG Oberösterreich Umwelt Service GmbH's range of services. Strategically anchored cost management was also consistently pursued in the reporting period, and the ongoing optimisation projects were continued.

## I STRUCTURAL OPTIMISATION IN SOUTH TYROL COMPLETED

The completion of the major conversion work at the Neumarkt site meant that business operations have been largely trouble-free in the past six months. The planned increases in efficiency were reflected in higher sales revenues and earnings.

## WATER SEGMENT

### Water Segment overview

|                                                                    | Unit                 | 1st HY<br>2018/2019 | 1st HY<br>2017/2018 | Change |
|--------------------------------------------------------------------|----------------------|---------------------|---------------------|--------|
| Total sales                                                        | EUR mill.            | 71.5                | 68,0                | 5.1%   |
| EBIT                                                               | EUR mill.            | 6.1                 | 4.6                 | 32.6%  |
| Investments in property, plant and equipment and intangible assets | EUR mill.            | 3.1                 | 1.5                 | 106.7% |
| Workforce (on average)                                             | FTE                  | 1,579               | 1,539               | 2.6%   |
| Invoiced drinking water volume                                     | m <sup>3</sup> mill. | 23.7                | 22.2                | 6.8%   |
| Invoiced waste water volume                                        | m <sup>3</sup> mill. | 22.2                | 21.9                | 1.4%   |

### | GENERAL CONDITIONS IN THE WATER SECTOR

In the Water Segment, the favourable macroeconomic conditions are reflected in a positive sales development and in the increasing services business order volumes. However, this extremely positive economic development drives competition on the labour market, as is reflected in the unemployment rate in the Czech Republic – the lowest in the European Union. This situation on the labour market is particularly challenging in view of the high average age of the Czech subsidiaries' workforce.

There were no significant changes as part of the annual adjustment of the pricing regime in the Czech Republic, which focuses on the appropriate profit of operating and infrastructure companies.

The Czech koruna remained largely stable in the first half of the 2018/2019 fiscal year.

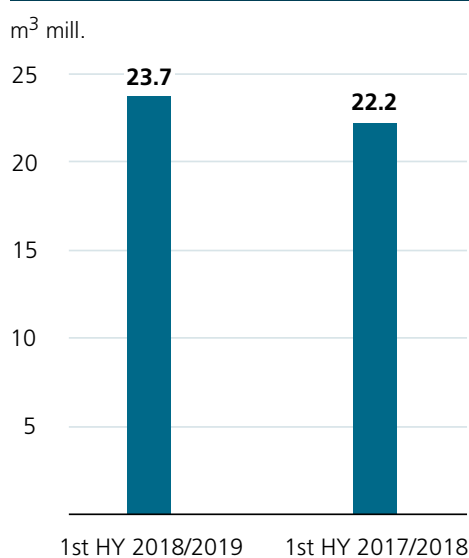
### | BUSINESS DEVELOPMENT IN THE WATER SEGMENT

The sales revenues in the Water Segment for the first half of 2018/2019 totalled EUR 71.5 million and were thus 5.1% higher than the previous year's value. The EBIT in the reporting period totalled EUR 6.1 million and was therefore about one third (32.6%) up on the previous year (EUR 4.6 million).

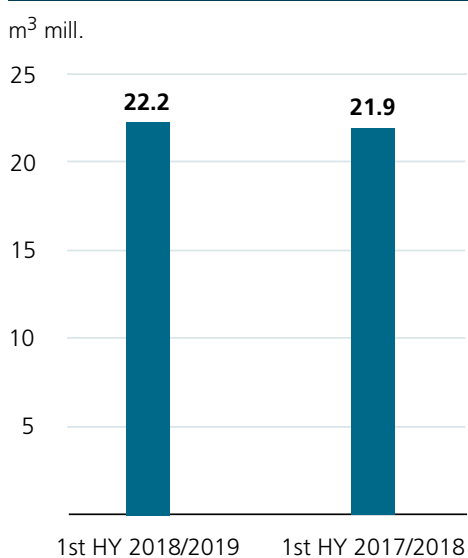
In operational terms, growth was achieved in the core business areas of drinking water supply and waste water disposal. Operational service sales revenues were above the previous year's level. Again growth was achieved in construction assembly services and in wholesale revenues.

In the Water Segment, a total of 23.7 million m<sup>3</sup> of drinking water and 22.2 million m<sup>3</sup> of wastewater were invoiced; this is equivalent to a slight increase on the previous year's figures. As at 31 March 2019, around 920,000 inhabitants were supplied with drinking water; wastewater disposal was handled for around 710,000 customers.

Invoiced drinking water volume



Invoiced waste water volume



## I STABLE DEVELOPMENT IN THE CZECH REPUBLIC

Like every year, fee negotiations with the municipal contracting parties were scheduled for numerous operator contracts during the reporting period. Smaller bidding procedures will be taking place in a number of supply areas in the course of the fiscal year. The number of operating contracts has grown by five to 657 since the beginning of the fiscal year.

In the area of research, development and innovation, the focus is on reducing non-revenue water as well as on digitalising operations and customer services. Significant projects were implemented in each of these areas. For the first time in the Czech Republic, area-wide water leak detection was carried out using satellite technology in the Beroun district. In the smart water meter sector, the Water under Control application developed in Budweis is a trend-setting solution for water customers and suppliers; it is already developing excellently shortly after the public presentation.

## HOLDING & SERVICES SEGMENT

### Holding & Services Segment overview

|                                                                    | Unit      | 1st HY<br>2018/2019 | 1st HY<br>2017/2018 | Change |
|--------------------------------------------------------------------|-----------|---------------------|---------------------|--------|
| Total sales                                                        | EUR mill. | 106.8               | 95.8                | 11.5%  |
| EBIT                                                               | EUR mill. | 7.4                 | -9.6                | –      |
| Investments in property, plant and equipment and intangible assets | EUR mill. | 25.7                | 24.3                | 5.8%   |
| Workforce (on average)                                             | FTE       | 1,039               | 1,007               | 3.2%   |
| Length of fibre-optic network                                      | km        | 5,750               | 5,300               | 8.5%   |

### BUSINESS DEVELOPMENT IN THE HOLDING & SERVICES SEGMENT

In the Holding & Services Segment, sales revenues rose by 11.5% to EUR 106.8 million year-on-year. This development is mainly attributable to higher sales revenues in the technical services unit and in the Telekom business area.

After the previous year's negative result of EUR -9.6 million due to a special effect in the investments consolidated at equity, the EBIT of the Holding & Services Segment amounted to EUR 7.4 million in the current reporting period. In addition to the absence of this special effect from the previous year, several property sales and the good operating performance of the service companies had a positive effect on the EBIT of the Holding & Services Segment. The telecommunications business area's contribution to EBIT remained largely stable.

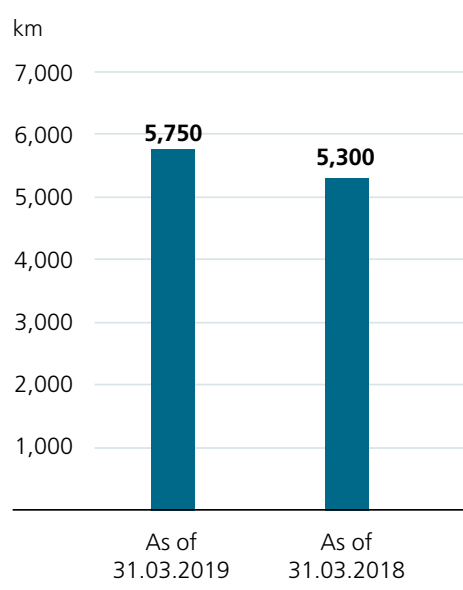
### FIBRE-OPTIC EXPANSION IS THE PREREQUISITE FOR UPPER AUSTRIA AS A BUSINESS LOCATION

As a result of the advancing digitalisation, the availability of speed-of-light broadband internet throughout the country is a key success factor for the future of Upper Austria as a business location. Energie AG supports this goal by continuing to expand its fibre-optic network, the central component of the Telekom business area. At the end of the reporting period, the Group's own fibre-optic network comprised approx. 5,750 km (previous year: 5,300 km).

In the scope of the Fibre To The Home (FTTH) expansion, housing areas in 166 Upper Austrian communities have been connected thus far. FTTH expansion was successfully continued in the reporting period, with more than 20,000 households now connected. Private households here can choose from Energie AG's "powerSPEEDprivat" product portfolio (internet with speeds up to 500 Mbps download plus a TV product and telephony). The approval of further subsidies in the context of "Broadband Austria 2020" (Access 3rd Call) in the reporting period was also encouraging.

Rendering electricity metering services for Netz OÖ is a further business area of Energie AG Oberösterreich Telekom GmbH (Telekom GmbH). In terms of the roll-out schedule for smart metering devices (IME-VO Amendment 2017), Telekom GmbH had installed approx. 580,000 AMIS meters by the end of March 2019. This is equivalent to nearly 85% of all electricity meters in Netz OÖ's supply area.

#### Length of fibre-optic network



## OUTLOOK

Due to the termination of the cooperation in electricity sales with LINZ AG für Energie, Telekommunikation, Verkehr und Kommunale Dienste, the sales activities of the Energie AG Group for electricity, gas, heat and telecommunications will be bundled in the newly founded Energie AG Oberösterreich Vertrieb GmbH in the second half of the 2018/2019 fiscal year. Energie AG Oberösterreich Vertrieb GmbH & Co KG and the sales divisions of Energie AG Oberösterreich Power Solutions GmbH, Energie AG Oberösterreich Wärme GmbH and Energie AG Oberösterreich Telekom GmbH were contributed, merged or spun off to this Group company with retroactive effect from 1 October 2018. The associated organisational change became effective in the Group on 1 April 2019 after the conclusion of the reporting period. True to the motto of “Everything from a single source”, an even better focus on specific customer needs, for example in the form of bundled products, will therefore be achieved.

In addition, with retroactive effect from 1 October 2018, the generation activities in the Group were bundled and the heat generation facilities integrated into the Group company Energie AG Oberösterreich Kraftwerke GmbH, which will be renamed to Energie AG Oberösterreich Erzeugung GmbH. The organisational implementation of this project, which came into effect on 1 May 2019, ties in with the bundling of sales activities for electricity, gas, heating and telecommunications and enables synergy effects and production efficiency enhancements.

In the second half of the 2018/2019 fiscal year, it is also planned to pool the Czech water and heating activities of the Energie AG Group. For this reason, the national holding company was split off from the heating business unit and merged with the Czech affiliates of Energie AG Oberösterreich Wasser GmbH. In this context, Energie AG Teplo Bohemia s.r.o. will be merged with ENERGIE AG BOHEMIA s.r.o. retroactively with effect as of 1 October 2018. In organisational terms, cooperation in the water and heat unit in the Czech Republic was implemented as of 1 April 2019. Given that several of the water and heating companies operate in the same or neighbouring regions, a synergy project has been launched. The aim is to further optimise market activities and intensify cooperation between water and heating companies.

In terms of the price development on the European electricity markets, continued high volatility at the current level can be expected for the second half of the 2018/2019 fiscal year. In the second half of the year, stable development of the natural gas procurement prices, which dropped in the reporting period, is anticipated at the existing level. Electricity retail prices for end users and commercial customers will also be kept constant in the second half of the year in conformity with the conditions of the price guarantee valid until 1 January 2020.

In the second half of the 2018/2019 fiscal year, the Heat business unit will concentrate on further expansion of the district heating project in Gmunden. A further major focus will be acquiring new customers in the existing supply area.

In the Grid Segment, the statutory environment for the current fiscal year can again be judged to be stable. The parameters for the current electricity regulatory period have been defined for the next five years. The general economic environment for the natural gas grid was defined on 1 January 2018 in the third regulatory period, however, the Austrian Federal Economic Chamber and the Federal Chamber of Labour have objected to the stipulations made by the regulatory authority. A decision on how to respond to these objections is still outstanding. However, the design of the electricity regulatory period was completed without

any objections in the current year, so that, viewed holistically, a stable economic environment for the grid sector can continue to be assumed.

For the second half year, the Waste Management Segment anticipates good capacity utilisation at its incineration plants due to the high available volume of thermally recyclable waste. The protection of the plants against impurities and the search for new, innovative disposal solutions for these impurities remain central topics. Price developments on the waste disposal market continue to be viewed positively.

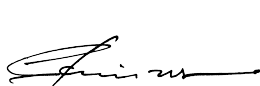
In the Water Segment, stable business development without significant changes in the contract portfolio is anticipated for the second half of the 2018/2019 fiscal year.

The focus of the planned Federal Broadband Strategy 2030 is the objective of gigabit connections for all Austrian households from 2025 onwards. To this end, the federal government is planning both legal measures and subsidies. The resulting opportunities will be actively pursued by Energie AG's Telecommunications business area. In addition, fibre optic expansion will be continued in the second half of the 2018/2019 fiscal year in areas where a subsidy has already been granted or the required number of customer contracts has been concluded. In the future, Telekom GmbH's fibre optics division will focus on the role of a wholesale provider for the Group's own sales organisation and other providers.

In the second half of the 2018/2019 fiscal year, the focus within the Energie AG Group will be on the organisational implementation of structural changes within the Group and the realisation of initial synergies from this. The specific focus will be on continuing to improve customer orientation, for example, with bundled products in the electricity, gas, heating and telecommunications business. The ongoing implementation of the digitalisation strategy and consistent cost management in all areas of the Group complement the strategic orientation. Against the backdrop of sales reorganisation, and the challenges from the market environment and regulatory developments, a good operating result is expected for the 2018/2019 fiscal year as a whole.

Linz, 29 May 2019

The Management Board of Energie AG Oberösterreich



**Chief Executive Officer**

**DDr. Werner Steinecker MBA**

Chairman of the Management Board  
C.E.O.



**Dr. Andreas Kolar**

Member of the Management Board  
C.F.O.



**Dipl.-Ing. Stefan Stallinger MBA**

Member of the Management Board  
C.T.O.