

# EX-POST EXTERNAL REVIEW

## Impact Reporting

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Impact Report Verbund

04th April 2022

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### VERIFICATION PARAMETERS

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Type(s) of reporting	<ul style="list-style-type: none"><li>• Impact Report</li></ul>
Relevant standard(s)	<ul style="list-style-type: none"><li>• Green Bond Principles (06.2021), Sustainability-linked Bond Principles (06.2020) and the Harmonised Framework for Impact Reporting (as of 06.2021), administered by the International Capital Market Association (ICMA)</li></ul>
Scope of verification	<ul style="list-style-type: none"><li>• Verbund's Impact Report (as of 17.03.2022)</li><li>• Verbund's Green Financing Framework (as of 16.02.2021)</li></ul>
Lifecycle	<ul style="list-style-type: none"><li>• Post-issuance verification</li></ul>
Validity	<ul style="list-style-type: none"><li>• As long as no material changes are undertaken by the issuer to its Impact Report as of 21.02.2022</li></ul>

## CONTENTS

SCOPE OF WORK .....	3
VERBUND BUSINESS OVERVIEW .....	3
ISS ESG ASSESSMENT SUMMARY .....	4
ISS ESG EXTERNAL REVIEW .....	5
<b>PART I: ALIGNMENT WITH COMMITMENTS SET FORTH IN THE GREEN FINANCING FRAMEWORK</b> .....	5
A. ALIGNMENT WITH ICMA GREEN BOND PRINCIPLES.....	5
B. ALIGNMENT WITH ICMA SUSTAINABILITY-LINKED BOND PRINCIPLES.....	12
<b>PART II: ASSESSMENT AGAINST ICMA REPORTING AND DISCLOSURE STANDARDS</b> .....	16
A. ALIGNMENT WITH HARMONISED FRAMEWORK FOR IMPACT REPORTING.....	16
B. ASSESSMENT AGAINST SLB POST-ISSUANCE DISCLOSURE DATA CHECKLIST .....	19
<b>PART III: DISCLOSURE OF PROCEEDS ALLOCATION AND SOUNDNESS OF THE IMPACT REPORTING INDICATORS</b> .....	22
IMPACT REPORTING INDICATORS.....	22
HIGH-LEVEL MAPPING OF IMPACT INDICATORS TO THE UN SDGs .....	25
ANNEX: Methodology .....	27
About ISS ESG External Review .....	27

## SCOPE OF WORK

Verbund commissioned ISS ESG to provide an External Review on its Impact Report by assessing:

1. The alignment of Verbund's Impact Report with the commitments set forth in its Green Financing Framework (19.03.2021 version) and assessed against ICMA's Green Bond Principles (GBP) and Sustainability-Linked Bond Principles (SLBP), applicable at date of publication of the framework.
2. Verbund's Impact Report - benchmarked against the Harmonised Framework for Impact Reporting updated as of June 2021 including the ICMA SLB Disclosure Data Checklist.
3. The disclosure of the proceeds' allocation and evaluation of the soundness of reporting indicators – whether the metrics align with best market practices and are relevant to the bonds issued; i.e. green bonds, sustainability-linked bonds or a combination of the two.

## VERBUND BUSINESS OVERVIEW

Verbund is an Austrian electricity company focusing on producing hydropower. Its value chain comprises energy generation, energy transportation, trading and sales as well as the provision of energy services. Its wholly owned subsidiary Austrian Power Grid (APG) operates the Austrian transmission grid, acting as a control area manager. Verbund offers to its end customers electricity from 100% hydropower, heating gas, energy efficiency and flexible usage solutions. The firm supports system integration of volatile renewable generation and the development of sector coupling. In 2021, the firm acquired a majority stake in Gas Connect Austria. The transmission system operators Gas Connect Austria (GCA) and APG are working together on a pilot project for a power-to-gas plant to convert renewable surplus electricity into hydrogen.

## ISS ESG ASSESSMENT SUMMARY

REVIEW SECTION	SUMMARY	EVALUATION <sup>1</sup>
<b>Part 1</b>  <b>Alignment with the issuer's commitments set forth in the framework</b>	ISS ESG finds that Verbund's Impact Report meets the commitments set forth in the Green Financing Framework. The underlying issuance aligns with key requirements defined by the GBP and SLBP. <sup>2</sup>	<b>Aligned</b>
<b>Part 2. A:</b>  <b>Alignment with the Harmonised Framework for Impact Reporting</b>	ISS ESG finds that the Impact Report is in line with ICMA's Harmonised Framework for Impact Reporting. The Issuer follows core principles and where applicable key recommendations.  The issuer provides transparency on the level of expected reporting for each project as well as on the process for the allocation of the proceeds, the total amount of proceeds allocated and sector specific core indicators.	<b>Aligned</b>
<b>Part 2. B:</b>  <b>Implementation of the SLB Disclosure Data Checklist</b>	ISS ESG finds that Verbund has implemented the necessary and recommended information from the ICMA SLBP Post-Issuance Disclosure Data Checklist. The issuer will provide a verification of the performance of the SPTs.	<b>Implemented</b>
<b>Part 3:</b>  <b>Disclosure of proceeds allocation and soundness of reporting indicators</b>	ISS ESG finds that the allocation of the bond's proceeds has been disclosed with a detailed breakdown across different eligible projects as proposed in the framework. <sup>3</sup>  The indicators are relevant and align with the reporting criteria set forth in the issuer's framework. Data sourcing, methodologies of quantitative assessment, the baseline selection and granularity reflect best market practices.	<b>Positive</b>

<sup>1</sup> ISS ESG's evaluation is based on the engagement conducted in February 2022 on Verbund's Green Financing Framework (16.02.2021 version) and on Verbund's Impact Report (as of 17.03.2022).

<sup>2</sup> The Framework was assessed by ISS ESG as aligned with ICMA's GBP and SLBP as of 19.03.2021.

<sup>3</sup> ISS ESG bases its assessments on the information provided in the allocation reporting. The issuer is responsible for the preparation of the report including application of methods and procedures relevant to limit the risk of material misstatements.

## ISS ESG EXTERNAL REVIEW

PART I: ALIGNMENT WITH COMMITMENTS SET FORTH IN THE  
GREEN FINANCING FRAMEWORK <sup>4</sup>

## A. ALIGNMENT WITH ICMA GREEN BOND PRINCIPLES


The following table presents ISS ESG's assessment of Verbund's Impact Report against the commitments set forth in its framework, which are based on the core requirements of ICMA's Green Bond Principles as well as best market practices.

GREEN BOND PRINCIPLES	VERBUND'S GREEN FINANCING FRAMEWORK	VERBUND'S IMPACT REPORT	ALIGNMENT WITH COMMITMENT
<b>1. Use of Proceeds</b>			
1.1. Alignment with project categories defined by the GBP	<p>The net proceeds will be exclusively allocated to finance or re-finance projects in the following categories:</p> <ul style="list-style-type: none"> <li>renewable energy</li> </ul>	<p>In accordance with the eligibility criteria established in the framework, the proceeds have been and will be used to finance or re-finance projects in the category renewable energy:</p> <ul style="list-style-type: none"> <li>revitalisation and expansion of a hydroelectric power plant</li> <li>transmission grid infrastructure to enable integration of renewable energy sources (grid support, line connections, transformers)</li> </ul> <p>In March 2021, ISS ESG reviewed the alignment of the due diligence processes of Verbund for each project category against the Draft Delegated Act (November 2020) of the Taxonomy Report. The projects were assessed as aligned with the EU Taxonomy (November 2020 version) on a best-efforts basis.</p>	✓
1.2. Defined and transparent criteria for eligible green categories	Investments relating to the construction, development, acquisition, maintenance, and/or operation of renewable energy installations including solar and wind power,	The funds raised from the bond have been and will be used to finance the revitalisation and expansion of a hydroelectric power station in	✓

<sup>4</sup> ISS ESG assessed Verbund's Green Financing Framework as aligned with the GBP and SLBP as of 19.03.2021.

	<p>hydropower and associated grid infrastructure.</p> <p>The corresponding EU taxonomy criteria are:</p> <ul style="list-style-type: none"> <li>- Electricity generation from hydropower</li> <li>- Electricity generation using solar photovoltaic technology</li> <li>- Electricity generation from wind power</li> <li>- Transmission and distribution of electricity</li> </ul>	<p>Germany and high-voltage power line projects in Austria.</p> <p>The three projects were still under construction in 2021:</p> <p>Töging project: The modernisation and extension of the Töging power plant project. The project includes also extensive ecological measures to mitigate environmental impacts stemming from the extension of the project. These measures are described in the application documents regarding the permitting procedure and are subject to public permission.</p> <ul style="list-style-type: none"> <li>- Weinviertel project: The transmission capacities in the Weinviertel will be increased, which will enable grid connection or grid access for planned wind turbines and other renewables. For this purpose, a new 110 kV grid support in the northern Weinviertel with the Zaya substation and a new 220 kV line connection up to the state border are planned.</li> <li>- Reschenpass project: The APG project includes the 380/220 kV Nauders substation including a phase shifting transformer (220/220 kV) and a 220 kV cable connection to the national border at the Reschenpass and to Italy.</li> </ul>	
<p>1.3. Description of the expected environmental benefits of the project categories</p>	<p>Environmental objectives and benefits are defined for each project category in Verbund's framework.</p>	<p>A detailed description of core environmental impacts for each target area is available in the report.</p> <ul style="list-style-type: none"> <li>- Töging power plant project: Expected increase in capacity of the plant is given in percentage.</li> <li>- Weinviertel line project: In order to enable the grid integration of renewable energy sources, the transmission grid infrastructure in</li> </ul>	<p style="text-align: center;">✓</p>

		<p>the eastern Weinviertel must be strengthened and substations expanded.</p> <p>- Reschenpass project: The increasing generation of hydroelectric power in the western Alpine region of Austria, the further expansion of wind energy in northern Europe and the energy industry developments in Italy (including massive renewable energy expansion) require higher capacities to Italy.</p>	
1.4. Refinancing/ financing	On a best-effort basis, Verbund will aim to allocate an amount equal to the proceeds raised by any bond under its framework within three years from the issuance of each green bond.	<p>In 2021, Verbund allocated €133.9 million of the proceeds to the new projects.</p> <p>From 2018 to 2021, Verbund allocated 69.1% or €345.4 million of the total amount of proceeds of €500 million to the projects.</p> <p>The remaining amount of €154.6 million was invested in either short term money market funds or longer term sustainable investment funds, according to Verbund. No money was used to refinance projects.</p> <p>As at 31.12.2021, there is a shortfall of €8.2 million to complete the planned projects. The money will be raised by, for example, increasing the investment costs for the three infrastructure projects or via an additional sub-project (Salzburg line).</p>	✓
<b>2. Process for project evaluation and selection</b>			
2.1 Documented process to determine whether projects fit within defined categories	<p>The Green Bond Committee (GBC) is responsible for:</p> <ul style="list-style-type: none"> <li>- ensuring the proposed eligible green projects are aligned with the categories as specified in the use of proceeds' section (including alignment with the EU Taxonomy), and approving any proposed changes in</li> </ul>	<p>Projects financed with the green and sustainability-linked bond issued under the green financing framework were evaluated and selected based on compliance with the eligibility criteria.</p> <p>Representatives of the GBC evaluated on the basis of regulation and previously published delegated acts which activities of the company can be categorised as ecologically sustainable</p>	✓

	<p>the event that projects no longer meet the eligibility criteria (e.g. following divestment, liquidation, technology switch, concerns regarding alignment of underlying activity with eligibility criteria etc.);</p> <ul style="list-style-type: none"> <li>- ensuring specifically, on a best effort basis, alignment of each eligible green project with the EU Taxonomy in the following areas (1) substantial contribution to at least one of the six environmental objectives, (2) do-no significant harm to other environmental objectives, (3) minimum safeguards and, where developed, (4), meeting the technical screening criteria;</li> <li>- reviewing and approving any proposed updates to the green financing framework; and</li> <li>- reviewing and approving allocation and, where relevant, impact reports when suitable data is available</li> </ul>	<p>economic activities. In a first step, those activities were identified that are listed in the regulation and classified as fundamentally taxonomy capable.</p> <p>Taxonomy eligibility means that these economic activities can make a significant contribution to at least one of the six EU environmental goals if they comply with the defined criteria.</p>	
<p>2.2 Documented process to identify and manage potential ESG risks</p>	<p>The Corporate Responsibility Committee deals with the topics sustainability and environment as well as with the reporting on occupational health and safety strategies and accessibility.</p> <p>Verbund has implemented environmental management systems in accordance with ISO 14001 at all power plants and grid facilities, as well as the large administrative sites.</p> <p>In order to make sure that the</p>	<p>The activities at the Töging power plant comply with the environmental and social performance standards of the International Finance Corporation (IFC).</p> <p>The individual requirements were positively checked by MSCI.</p> <p>In order to systemically anchor the concept of sustainability at Verbund, a CSR management system was implemented in accordance with the specifications of ONR 192500 (social responsibility of organisations) and</p>	<p style="text-align: center;"></p>



	<p>environmental and social risks linked to the financed projects are mitigated and the opportunities clearly supported, a set of do-no-significant-harm criteria was established for each project category.</p> <p>The criteria are aligned with the EU Taxonomy and the GBC ensures that the projects respect these criteria.</p>	<p>certified by Quality Austria.</p> <p>The Supplier Code of Conduct (SCoC) governs Verbund's principles and requirements vis-à-vis contractors supplying goods and providing services.</p>	
2.3 Information on responsibilities and accountability	<p>The GBC will, on a best effort basis, specifically ensure alignment of each eligible green project with the EU Taxonomy.</p>	<p>The potential eligible green projects will be designated by the GBC and approved from the Executive Board.</p> <p>Representatives of the GBC evaluated on the basis of the regulation and the previously published delegated acts which activities of the company are associated with economic activities that are to be classified as ecologically sustainable economic activities.</p>	✓
2.4 Stakeholders involved in the process	<p>The GBC will be comprised of representatives from the following functions:</p> <ul style="list-style-type: none"> <li>- Group Finance</li> <li>- Investor Relations</li> <li>- Corporate Responsibility Department</li> <li>- Depending on the project category, a representative for example of:                             <ul style="list-style-type: none"> <li>o Verbund Hydro Power</li> <li>o Austrian Power Grid</li> <li>o Verbund Green Power</li> </ul> </li> </ul>	<p>The GBC consists of representatives of the following groups: Group Finance, Corporate Responsibility, Investor Relations and internal experts regarding the EU Taxonomy from Verbund as well as experts from Verbund Hydro Power, Verbund Green Power and from Austrian Power Grid related to the financed and potentially financed projects.</p>	✓

**3. Management of Proceeds**

3.1 Green bond proceeds tracked in an appropriate manner	The allocation of an amount equivalent to the net proceeds of any green bond issued under this framework to the eligible green projects will be managed by Verbund Treasury. Verbund will establish a register of eligible green projects and will track allocations matched to any green bond proceeds.	Verbund has allocated 69.1% or €345.4 million of the total amount of proceeds of €500 million to new projects.  The remaining amount of €154.6 million was invested in either short term money market funds or longer term sustainable investment funds, according to Verbund.	✓
3.2 Disclosure of intended types of temporary investment instruments for unallocated proceeds	Pending full allocation of an amount equivalent to the net proceeds of the green bond to the eligible green projects, the net proceeds will be invested on a temporary basis in accordance with the relevant internal treasury policies, in cash, cash equivalents or similar instruments (including green, social and/or sustainability bonds issued by other issuers).  On a best-effort basis, Verbund will aim to allocate an amount equal to the proceeds raised by any bond under this framework within three years from the issuance of each green bond.	Pending full allocation of the net proceeds of the issued green and sustainability-linked bond, Verbund managed the unallocated proceeds in line with its regular treasury criteria and relevant internal policies.	✓
3.3 Disclosure of portfolio balance of unallocated proceeds	Verbund will produce an allocation report on its bonds which will include the balance of unallocated proceeds, if any.	Verbund has allocated 69.1% or €345.4 million of the total amount of proceeds of €500 million to new projects.  The amount of unallocated proceeds is €154.6 million.	✓
<b>4. Reporting</b>			
4.1 Formalisation of monitoring and reporting processes	Within one year of issuance, and annually thereafter until full allocation of an amount equivalent to the net proceeds of any green bond as well as in the event of any material changes, Verbund will publish (i) an allocation report and (ii) an impact report.	Verbund has produced an allocation and impact report within the set timeframe of one year.	✓

<p>4.2 Use of proceeds’ reporting</p>	<p>The allocation report will include:</p> <ul style="list-style-type: none"> <li>- a statement of best effort alignment with the EU Green Bond Standard; bond identifiers (e.g. ISIN);</li> <li>- eligible project names and descriptions;</li> <li>- geographical distribution of all the projects;</li> <li>- ICMA Green Bond Principles eligible green project category;</li> <li>- EU Taxonomy environmental objective;</li> <li>- total cost of the eligible green projects;</li> <li>- share of financing provided by Verbund;</li> <li>- total amount of proceeds allocated to eligible green projects;</li> <li>- the proportion of refinancing vs. financing;</li> <li>- nature of green asset/expenditure (capex, opex etc.); and</li> <li>- the remaining balance of unallocated amounts, if any.</li> </ul>	<p>The section allocation reporting of the Impact Report complies with the pre-issuance commitment expressed in the framework and with the requirements defined in ICMA’s GBP.</p>	
<p>4.3 Impact reporting</p>	<p>Verbund will also publish an Impact Report on selected environmental impacts of its eligible green projects. The selection of qualitative and quantitative metrics used in the Impact Report is subject to the availability of suitable information and data. The potential qualitative and quantitative metrics illustrating the substantial contribution to the environmental objectives of the eligible green projects include for example:<sup>5</sup></p>	<p>The section impact reporting of the framework complies with the pre-issuance commitment expressed in the framework and with the requirements defined in the GBP.</p> <p>Reporting on renewable energy capacity added (MW) and transformer capacity (MVA) is provided.</p> <p><i>Further analysis of this section is available in Part III of this report.</i></p>	

<sup>5</sup> The complete list of potential impact indicators can be found in Verbund’s Green Financing Framework in annex I.




	<p>For renewable energy, i.e. wind, solar and hydro:</p> <ul style="list-style-type: none"> <li>- renewable energy capacity added (MW);</li> <li>- tCO<sub>2</sub>e avoided</li> </ul> <p>For the transmission and distribution of electricity:</p> <ul style="list-style-type: none"> <li>- expected tCO<sub>2</sub>e avoided</li> <li>- additional transformer capacity (MVA)</li> <li>- (average) annual avoided curtailment (renewable energy) (GWh/year)</li> </ul>		
4.4 Means of disclosure: where the information is published	This reporting will be available one year after the issuance of the green or sustainability-linked bond on Verbund's website at <a href="http://www.verbund.com">www.verbund.com</a> .	The report is planned to be publicly available one year after issuance of the green and sustainability-linked bond.	✓
4.5 External review	ISS ESG has provided a second party opinion on Verbund's Green Financing Framework. Verbund also intends to commission a compliance review within one year of issuance and annually thereafter until full allocation of any green bond, with the intention of confirming that proceeds have been allocated in accordance with the use of proceeds specified in its framework.	ISS ESG has provided a second party opinion on Verbund's green financing framework.  The allocations of the green and sustainability-linked bond made as of December 31, 2021 were confirmed by Verbund's current auditor.	✓

**Opinion:** ISS ESG finds that the Impact Report meets the general conditions set forth in Verbund's Green Financing Framework. Core components as defined by ICMA have been considered in the Framework and have then been transposed accordingly in the Impact Report.

## B. ALIGNMENT WITH ICMA SUSTAINABILITY-LINKED BOND PRINCIPLES

The table below presents the findings of an ISS ESG assessment of Verbund's Impact Report against the commitments set forth in its framework and are based on the core requirements of the ICMA Sustainability-Linked Bond Principles.

SUSTAINABILITY-LINKED BOND PRINCIPLES	VERBUND'S GREEN FINANCING FRAMEWORK AND VERBUND'S SPO AS OF MARCH 2021	VERBUND'S IMPACT REPORT & BOND DOCUMENTATION	ALIGNMENT WITH COMMITMENT
<b>1. Selection of KPI's</b>			
<p>The KPIs should be:</p> <ul style="list-style-type: none"> <li>- Relevant, core and material</li> <li>- measurable or quantifiable;</li> <li>- externally verifiable; and</li> <li>- able to be benchmarked.</li> </ul>	<p>ISS ESG provided an SPO in March 2021 that assesses the alignment with the SLBP and analysed these points in the SPO.</p>	<p>Verbund reported on the same KPIs (same definition) included in the framework:</p> <p>KPI 1 - Newly installed capacity from hydropower, wind power and photovoltaics in megawatts [MW]</p> <p>KPI 2 - Additional transformer capacity to facilitate grid interaction and integrate renewable power generation in megavoltampere [MVA]</p> <p>The scope of the KPIs and their calculation methodologies are clearly described in the report.</p>	
<b>2. Calibration of Sustainability Performance Targets (SPTs)</b>			
<p>The SPTs should be ambitious, i.e.:</p> <ul style="list-style-type: none"> <li>- represent a material improvement in the respective KPIs and be beyond a "business as usual" trajectory;</li> <li>- where possible be compared to a benchmark or an external reference;</li> <li>- be consistent with the issuer's overall strategic sustainability/ESG strategy; and</li> <li>- be determined on a predefined timeline</li> </ul>	<p>ISS ESG provided an SPO in March 2021 that assesses the alignment with the SLBP and analysed these points in the SPO.</p>	<p>Verbund reported the same SPTs which are also included in the framework:</p> <p>SPT 1 - Sustainability target as of December 31, 2032: 10,692 MW (plus 2,000 MW)</p> <p>SPT 2 - Sustainability target as of December 31, 2032: 42,810 MVA (up 12,000 MVA)</p> <p>The newly installed capacity from hydropower, wind power and photovoltaics in 2021 reached 8,735 MW, which equates to a compound annual growth rate (CAGR) of 0.5%, lower than the estimated 1.7% CAGR defined in the SPO. Yet, ISS ESG notes that Verbund's production rate is not linear, since it depends on organic and non-organic project development.</p> <p>Verbund's MVA of transformer capacity stands at 31,960 as of December 2021, equating to a yearly average growth of approx. 3.7%, slightly higher than the estimated 3.2% CAGR defined in the SPO.</p>	

<p>Disclosures on target setting should make clear reference to:</p> <ul style="list-style-type: none"> <li>- the timelines for the target achievement</li> <li>- where relevant, the verified baseline</li> <li>- where relevant, in what situations recalculations or pro-forma adjustments of baselines will take place</li> <li>- where possible and taking competition and confidentiality considerations into account, how issuers intend to reach such SPTs; and</li> <li>- any other key factors beyond the issuer's direct control that may affect the achievement of the SPTs.</li> </ul>	<p>ISS ESG provided an SPO in March 2021 that assesses the alignment with the SLBP and analysed these points in the SPO.</p>	<p>The issuer has clearly described the bond characteristics in the report, including the target observation date, and the frequency of SPT measurement, in order to define a precise timeline. The step-up event is well defined in the bond documentation.</p> <p>Verbund's impact report states that an external qualified auditor will verify the annual development of the two specified KPIs.</p> <p>Finally, the issuer provides in the report detailed factors supporting the achievement of the targets while risk factors are set out in the bond documentation.</p>	
<p><b>3. Bond characteristics</b></p>			
<p>The KPI(s) definition and SPT(s) (including calculation methodologies) and the potential variation of the SLB's financial and/or structural characteristics.</p>	<p>ISS ESG provided an SPO in March 2021 that assesses the alignment with the SLBP and analysed these points in the SPO.</p>	<p>The bond documentation includes the KPI and SPTs' definitions as well as the step-up event.</p> <p>However, ISS ESG notes that the report does not explain under which circumstances the company would recalculate the SPT as provided in the framework.</p>	
<p><b>4. Reporting</b></p>			
<p>Issuers of SLBs should publish and keep readily available and easily accessible:</p> <ul style="list-style-type: none"> <li>- up-to-date information on the performance of the</li> </ul>	<p>ISS ESG provided an SPO in March 2021 that assesses the alignment with the SLBP and analysed these points in the SPO.</p>	<p>Verbund's Impact Report includes information on the performance of both KPIs as of December 2021, including baseline data.</p> <p>Verbund plans to publish the impact report one year after the green and sustainability-linked bond issuance in March 2021. Besides,</p>	

<p>selected KPI(s), including baselines where relevant;</p> <ul style="list-style-type: none"> <li>- a verification assurance report relative to the SPT</li> <li>- any information enabling investors to monitor the level of ambition of the SPTs</li> </ul> <p>This reporting should be published regularly, at least annually, and in any case for any date/period relevant for assessing the SPT performance leading to a potential adjustment of the SLB's financial and/or structural characteristics.</p>		<p>the issuer confirms that the reporting would be published every year.</p>	
<p><b>5. Verification</b></p>			
<p>Independent and external verification of their performance level against each SPT for each KPI</p>	<p>ISS ESG provided an SPO in March 2021 that assesses the alignment with the SLBP and analysed these points in the SPO.</p>	<p>An SPO was issued by ISS ESG in order to provide an external review on Verbund's Green Financing Framework 2021 and an external qualified auditor verifies the allocated amounts on a project basis as well as the annual development of the two KPIs specified in the year 2021.</p>	
<p>The verification of the performance against the SPTs should be made publicly available.</p>	<p>ISS ESG provided an SPO in March 2021 that assesses the alignment with the SLBP and analysed these points in the SPO.</p>	<p>The limited independent assurance statement will be attached as an annex to the annual report of Verbund.</p>	

**Opinion:** ISS ESG finds that Verbund's Impact Report 2021 meets the general conditions set forth in Verbund's Green Financing Framework in March 2021. Core components, as defined by ICMA, have been considered in the framework and have then been transposed accordingly in the Impact Report.

## PART II: ASSESSMENT AGAINST ICMA REPORTING AND DISCLOSURE STANDARDS

### A. ALIGNMENT WITH HARMONISED FRAMEWORK FOR IMPACT REPORTING

Reporting is a core component of the GBP and SLBP. Green bond issuers are required to report on both the use of green bond proceeds as well as the expected environmental impacts at least on an annual basis. ICMA's Harmonised Framework for Impact Reporting has been chosen as a benchmark for this analysis, as it represents the most widely adopted standard.

The table below presents the findings of ISS ESG's assessment of Verbund's Impact Report against ICMA's Harmonised Framework for Impact Reporting.

CORE PRINCIPLES		
ICMA HFIR	IMPACT REPORT	ASSESSMENT
Reporting on an annual basis	Verbund has reported within one year since the issuance of its green and sustainability-linked bond on the use of proceeds and its environmental impact.	✓
Illustrating the expected environmental impacts	The assessment and measurement of the impacts generated by Verbund's green and sustainability-linked bonds covered the following areas: <ol style="list-style-type: none"> <li>t CO2e avoided</li> <li>newly installed capacity from hydropower, wind power and photovoltaics in megawatts [MW]</li> <li>additional transformer capacity to facilitate grid interaction and integrate renewable power generation in megavoltampere [MVA]</li> </ol>	✓
Transparency on cash flows and currency	Verbund is transparent on the cash flows regarding the allocated use of proceeds. The remaining amount of €154.6 million was either invested in short-term money market funds or longer-term sustainable investment funds, according to Verbund.	✓

RECOMMENDATIONS		
ICMA HFIR	IMPACT REPORT	ASSESSMENT
Define and disclose the period and process for including projects in the report	The proceeds have been allocated to green assets. If a project is divested, discontinued, or does no longer meet the definition of eligible green projects, it will be removed and replaced by another eligible green project.	✓
Indicate the total signed amount and the amount of environmental bond	Verbund has allocated 69.1% or €345.4 million of the total amount of proceeds of €500 million to new green projects.	✓



proceeds allocated to eligible disbursements		
Put in place a formal internal process for the allocation of proceeds linked to lending and investment operations for green projects and report on the allocation of proceeds	The issuer followed a transparent process for selection and evaluation of eligible green projects. Projects financed with the green and sustainability-linked bond were evaluated and selected based on compliance with the eligibility criteria as set out above in section 1.2 of this external review by ISS ESG and using a process described in point 2.1.	✓
Provide a list of projects to which environmental bond proceeds have been allocated, or report solely on a portfolio level	The proceeds have financed the revitalisation and expansion of a hydroelectric power station in Germany and high-voltage power line projects in Austria.  <ul style="list-style-type: none"> <li>- Project Töging</li> <li>- Project Weinviertelleitung</li> <li>- Project Reschenpass</li> </ul>	✓
Describe the approach to impact reporting	The issuer identifies specific eligible projects and clearly presents, for each project, the amount of allocated proceeds.	✓
Report the estimated lifetime results and/or project economic life (in years)	Information on the lifetime results/project economic life is not given.	N/A
Ex-post verification of specific projects	Verbund has not yet proceeded to the ex-post verification of specific projects.	N/A
Report on at least a limited number of sector specific core indicators for projects included in the green bond programme	Verbund reported on core environmental impacts for each target area:  <ul style="list-style-type: none"> <li>- tCO<sub>2</sub>e avoided</li> <li>- newly installed capacity from hydropower, wind power and photovoltaics was 8,735 MW</li> <li>- additional transformer capacity to facilitate grid interaction and integrate renewable power generation was 31,960 MVA</li> </ul>	✓
For the calculation of indicators, where there is no single commonly used standard, issuers may follow their own methodologies while making these available to investors.	Please see page 23 for details regarding the tCO <sub>2</sub> emission avoidance calculation.	✓
Elect, for consistency reasons, to convert units reported for individual	Verbund's selected units/indicators are used in the respective sector.	N/A

projects. Disclosure on the conversion approach.		
Be transparent about projects with partial eligibility	Verbund’s projects are fully eligible.	N/A
In case the expected impacts of different project components may not be reported separately, issuers may attribute the results to each component based on their relative share in the related financing, disclosing the attribution approach	The impact of Verbund’s projects is reported separately per project.	N/A

**Opinion:** ISS ESG finds that Verbund follows the Harmonised Framework for Impact Reporting’s core principles and some key recommendations. The issuer provides transparency on the level of expected reporting for each project as well as on the process for the allocation of the proceeds, the total amount of proceeds allocated and sector specific core indicators.

## B. ASSESSMENT AGAINST SLB POST-ISSUANCE DISCLOSURE DATA CHECKLIST

NECESSARY		
ICMA SLB Data Checklist	VERBUND'S IMPACT REPORT	ASSESSMENT
<b>Verification</b>		
Verification / assurance report: Reporting relating to the verified SPTs should be made publicly available.	An external qualified auditor verified the annual development of two specified KPIs in the year 2021.	✓
RECOMMENDATIONS		
SLB Disclosure Data Checklist	VERBUND'S IMPACT REPORT	ASSESSMENT
<b>General</b>		
Report and ex-post external review publication dates	Verbund is publishing a post-issuance impact report.	✓
Identification of the bonds: ISIN, amounts, currency, maturity dates and relative KPI(s) & SPT(s)	Verbund's Impact Report includes relevant identification information on the green and sustainability-linked bond:  ISIN: XS2320746394  Amount (currency): 500 million EUR  Maturity date: 20 years  KPIs and SPTs are clearly defined in the Impact Report.	✓
Scope of reporting (bond-by-bond, bond programme)	Verbund is reporting bond-by-bond	✓
Adherence to specific standards or regulations	Verbund's green and sustainability-linked bond is aligned with the ICMA GBPs and SLBPs and its report is also following the ICMA Harmonised Framework for Impact Reporting. (Please refer to section I and II.A for more details.)	✓
<b>Reporting</b>		
Up-to-date information on the performance of the selected KPI(s), including baselines where relevant and any information enabling investors to	Verbund's impact report includes information on the performance of both KPIs as of December 2021, including baseline data.  The issuer confirms that there is no update in its sustainability strategy and on the related KPI/ESG governance since the publication of the related SPO in March 2021. <sup>6</sup>	✓

<sup>6</sup> ISS ESG, March 2021, Second Party Opinion, Verbund AG, <https://www.isscorporatesolutions.com/file/documents/spo/spo-20210319-verbund.pdf>

<p>monitor the level of ambition of the SPTs</p>	<p><b>SPT 1 - establishment of newly installed renewable energy capacity of 2,000 MW by 31 December 2032</b></p> <p>The additional 43 MW installed capacity between 2020 and 2021 is explained by commissioned projects in hydropower (+40MW) and photovoltaics (+3MW). The modernisation and extension of the Töging power plant project will contribute around 32MW after completion of construction to the SPT 1. The project is detailed in Verbund's Impact Report.</p> <p><b>SPT 2 - installation of additional transformer capacity of 12,000 MVA by 31 December 2032</b></p> <p>The Weinviertel line and the Reschenpass projects provide some qualitative and quantitative explanation on future additional transformer capacity to facilitate interaction with the grid and integrate renewable energy generation. The estimated additional transformer capacity of the financed projects Weinviertel line (1,150 MVA) and Reschenpass (930 MVA) will be in total 2,080 MVA after completion of construction. The projects are detailed in Verbund's Impact Report.</p>	<p>✓</p>
<p>When feasible and possible: qualitatively or quantitatively explanation of the contribution of the main factors</p>	<p>Verbund is reporting on the tCO2e avoided as a result of meeting Verbund's Sustainability Performance Targets.</p> <p>Please see page 23 for details. ISS ESG notes that as of December 2021, no tCO2e has been avoided since the projects are currently under construction.</p> <p>Besides tCO2 emission avoidance, Verbund included in the report other climate targets such as:</p> <ol style="list-style-type: none"> <li>1. Expansion of electricity generation from renewable energy sources such as wind and solar power to 20-25%;</li> <li>2. Reduce Scope 1 emissions by 16% by 2030 (2015-2030)</li> <li>3. Reduce Scope 3 emissions from electricity sales to end-customers by 5% by 2030 (2020-2030)</li> </ol>	<p>✓</p>
<p>When feasible and possible: illustration of the positive sustainability impacts of the performance improvement</p>	<p>No information on re-assessments of KPIs and/or restatement of the SPT nor pro-forma adjustments of baselines or KPI scope is mentioned in Verbund's Impact Report.</p> <p>However, Verbund mentions that there was a minor increase of 5MW in 2020 (baseline year) in terms of newly installed renewables capacity that is deemed not material since the change represents less than 5% of the baseline figure.</p>	<p>N/A</p>

**Opinion:** *ISS ESG finds that Verbund has implemented the necessary and recommended information from the ICMA SLB Post-Issuance Disclosure Data Checklist. The issuer will provide a verification of the performance of the SPTs.*

## PART III: DISCLOSURE OF PROCEEDS ALLOCATION AND SOUNDNESS OF THE IMPACT REPORTING INDICATORS

**Methodology note:** ISS ESG's review does not follow auditing or assurance standards or guidelines. ISS ESG does not provide assurance on the information presented in Verbund's Impact Report. ISS ESG solely conducted a review of the use of proceeds' allocation and impact reporting against the ICMA Harmonised Framework for Impact Reporting's (HFIR) core principles, recommendations and best market practices.

### Use of Proceeds Allocation

Use of proceeds' allocation reporting is key to put the impacts into perspective with the number of investments allocated to the respective use of proceeds' projects. ISS ESG solely conducted a review of the use of proceeds' allocation reporting against ICMA's GBP and SLBP requirements on the level, scope and information to be provided in the allocation reporting.

The use of proceeds' allocation reporting occurred within one year from the issuance, and 69.1% of the proceeds have been allocated.

There is also transparency around the amount of unallocated proceeds. Proceeds that have not been allocated have been temporarily used for either short-term money market funds or longer-term sustainable investment funds.

### Proceeds allocated to Eligible Projects

The proceeds' allocation is broken down at the project category level, by location and type of project. Proceeds' allocation has been reported at the project and portfolio level. The issuer has provided detail about the type of projects included in the portfolio.

ISS ESG finds that the allocation report section of the Impact Report of Verbund aligns with best market practices by providing information on:

- the number of projects financed
- the total amount of proceeds in million euros (divided per environmental asset)

## IMPACT REPORTING INDICATORS

ISS ESG finds that the impact indicators used in the Impact Report of Verbund align with best market practices using ICMA's recommended metrics in the HFIR. The issuer measures and discloses relevant indicators for each use of proceeds' project. The table below presents an assessment conducted by ISS ESG referring to key recommendations of ICMA's HFIR.

ELEMENT	ASSESSMENT
Relevance	<p>The impact indicators chosen by the issuer for its bond are the following:</p> <ul style="list-style-type: none"> <li>• tCO<sub>2</sub>e avoided</li> <li>• newly installed capacity from hydropower, wind power and photovoltaics in MW</li> </ul>

	<ul style="list-style-type: none"> <li>• additional transformer capacity to facilitate grid interaction and integrate renewable power generation in MVA</li> </ul> <p>The first two indicators are quantitative and material to the use of proceeds' categories financed through this bond and in line with the suggested metrics for renewable energy by the ICMA HFIR.</p> <p>The third indicator is not named by ICMA but is used to calculate transformer capacity.</p>
<p><b>Data sourcing and methodologies of quantitative assessment</b></p>	<p>Data sources:</p> <ol style="list-style-type: none"> <li>1. The KPI data regarding newly installed capacity and additional transformer capacity is measured using company intern data and not further processed or calculated to generate it.</li> <li>2. To calculate the data on CO2 emission avoidance, Verbund applies two different methodologies: GHG avoidance from electricity generation and GHG avoidance from electricity transmission</li> </ol> <p><b>a) GHG emissions avoidance: electricity production</b></p> <p>Avoided emissions related to renewable power projects are the reduction in emissions of the financed project compared to what would have been emitted in the absence of the project (the baseline emissions). They are calculated based on the GHG Protocol for Project Finance and are a separate category compared to the calculation of absolute emissions based on the GHG Protocol for Corporate Accounting according to the PCAF Global Standard for calculating avoided emissions.<sup>7</sup></p> <p>For calculating avoided emissions from the renewable power project Töging, the "operating margin" emission factor - based on the existing fossil fuel power plants in a country/region whose operation will be most affected (reduced) by the project (i.e., the generation from the power plants with the highest variable operating costs in the economic merit order dispatch of the electricity system) – will be used. This factor is taken from the table "Harmonized IFI Default Grid Factors 2021 v3.1", which is published by the IFI Technical Working Group on Greenhouse Gas Accounting. The country-level factor according to this publication given in the column "Operating Margin Grid Emission Factor, g CO2/kWh (including for use in PCAF GHG accounting)" for Germany is 650 g CO2/kWh.</p> <p>The amount of electricity generated in the Töging project is multiplied by this factor for the theoretical emission avoidance in tons of CO<sub>2</sub> per GWh and gives the avoided emissions.</p> <p>Formula: Electricity generated per year [GWh] * 650 [t CO2/GWh] = avoided emissions [t CO2]</p> <p><b>b) GHG emissions avoidance: grid</b></p> <p>To calculate the greenhouse gas emission avoidance at project level, APG uses the method developed by the European Network of Transmission System Operators for Electricity (ENTSO-E). The results are taken from ENTSO-E's Ten-Year Network Development Plan (TYNDP) project sheets.</p>







<sup>7</sup> PCAF (2020), the Global GHG Accounting and Reporting Standard for the Financial Industry, first edition, <https://carbonaccountingfinancials.com/files/downloads/PCAF-Global-GHG-Standard.pdf>

	<p>The cost benefit analysis (CBA) guidelines contain principles and high-level guidance on how ENTSO-E and project promoters assess project benefits at the European level. They do not provide specific methodological steps but are instead drafted such that entities performing the CBA (ENTSO-E or project promoters themselves for project-level benefits) can follow an approach that is consistent with pan-European assessment principles.</p> <p>The guidelines include terms and definitions, principles on how project benefits are assessed and also some specific methodologies used to compute, for example, the change in Net Transfer Capacities (NTC) a project offers or how redispatch calculations are performed.</p> <p>Based on the above methodology and guidelines of the TYNDP, the emissions savings are calculated.</p>
<b>Baseline selection</b>	<ol style="list-style-type: none"> <li>1. For newly installed capacity from hydropower, wind power and photovoltaics in MW, the base value as of December 31, 2020 is 8,692 MW. For additional transformer capacity to facilitate grid interaction and integrate renewable power generation in MVA, the base value as of December 31, 2020 is 30,810 MVA.</li> <li>2.             <ol style="list-style-type: none"> <li>a) For tCO<sub>2</sub>e avoided regarding electricity production, the baseline is the PCAF grid factor.</li> <li>b) for tCO<sub>2</sub>e avoided regarding electricity transmission, the base values are emission factor type, CO<sub>2</sub> emissions factor and CO<sub>2</sub> emissions per energy.</li> </ol> </li> </ol> <p>The baselines are relevant. Point 1 uses baselines at the end of the year 2020 and point 2 uses the PCAF grid factor and ENTSO-E's TYNDP.</p>
<b>Scale and granularity</b>	<p>The impact data is presented at project level for the indicators.</p>



## HIGH-LEVEL MAPPING OF IMPACT INDICATORS TO THE UN SDGs

Based on the assessment of the sustainability quality of the issuer's impact report, the impact indicators adopted by Verbund for its green and sustainability-linked bond can be mapped to the following SDGs, according to ICMA's A High-Level Mapping to the Sustainable Development Goals<sup>8</sup>.

IMPACT INDICATORS	SUSTAINABLE DEVELOPMENT GOALS
<p><b>a) annual GHG emissions avoided in tonnes of CO2 equivalent</b></p>	 
<p><b>b) newly installed capacity from hydropower, wind power and photovoltaics in MW</b></p>	 
<p><b>c) additional transformer capacity to facilitate grid interaction and integrate renewable power generation in MVA</b></p>	 

<sup>8</sup> ICMA, June 2020, Green, Social and Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals, <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Mapping-SDGs-to-Green-Social-and-Sustainability-Bonds-2020-June-2020-090620.pdf>

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## ANNEX: Methodology

### ISS ESG Review of the post-issuance Reports

The external review of post-issuance reports provides the Issuer with an independent opinion on the soundness of its post-issuance report and of its alignment with recognized market guidelines and it provides investors with independent information regarding the reliability of the report produced. On the basis of the information provided by the Issuer, ISS ESG assesses the alignment of the report with recognized market guidelines, the metrics chosen by the Issuer and the soundness of process and methodology of reporting. The analysis of the metrics adopted is based also on specific sets of indicators developed by ISS ESG referring to common market guidelines.

### High level mapping to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method based on ICMA's Green, Social and Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals, ISS ESG identifies the extent to which Hypo Tirol's Social Bond Impact reporting and project categories contributes to related SDGs.

## About ISS ESG External Review

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Green Bond Principles, Social Bond Principles and Sustainable Bond Guidelines), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent External Review so that investors are as well informed as possible about the quality of the bond/loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

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