

## SECOND PARTY OPINION (SPO)

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Sustainability Quality of the Issuer and Green Financing Framework

VERBUND AG  
19 March 2021

### VERIFICATION PARAMETERS

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Type(s) of instruments contemplated	<ul style="list-style-type: none"><li>• Green Bonds, Sustainability-Linked Bonds or a combination of the two</li></ul>
Relevant standards	<ul style="list-style-type: none"><li>• Green Bond Principles and Sustainability-Linked Bond Principles administered by the International Capital Market Association (ICMA), Draft Model of EU Green Bond Standard, Draft EU Taxonomy (Delegated Acts November 2020 version)</li></ul>
Scope of verification	<ul style="list-style-type: none"><li>• VERBUND's Green Financing Framework (as of March 2021)</li></ul>
Lifecycle	<ul style="list-style-type: none"><li>• Pre-issuance verification</li></ul>
Validity	<ul style="list-style-type: none"><li>• As long as the Green Financing Framework remains unchanged</li></ul>

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## SCOPE OF WORK

VERBUND AG (VERBUND) commissioned ISS ESG to assist with its Green Financing Program, which includes both Green Bond and Sustainability-Linked Bonds, or a combination of thereof, by assessing four core elements to determine the sustainability quality of the instruments:

1. Green Financing Framework's link to VERBUND's sustainability strategy – drawing on VERBUND's overall sustainability profile and issuance-specific Use of Proceeds categories.
2. VERBUND's Green Financing Framework (February 2021 version) – benchmarked against the International Capital Market Association's (ICMA) Green Bond Principles (GBPs) & Sustainability-Linked Bond Principles (SLBPs), as well as on a best effort basis against the Draft Model of the EU Green Bond Standard<sup>1</sup> (EU GBS).
3. The Use of Proceeds selection criteria – whether the projects contribute positively to the UN SDGs and align with the Technical Expert Group Final Report on EU Taxonomy and associated Technical Annex<sup>2</sup> (EU Taxonomy – Delegated Acts 2020) on a best effort basis.
4. The sustainability credibility of the Key Performance Indicators (KPIs) selected and Sustainability Performance Targets (SPTs) calibrated for Sustainability-Linked Transactions – whether the KPIs selected are core, relevant and material to the issuer's business model and sector and whether the associated targets are ambitious.

<sup>1</sup> [Usability Guide EU Green Bond Standard \(March 2020\)](#)

As the Draft Model of the EU Green Bond Standard is only at draft version and as not yet been finalised or approved by the EU Commission at the date of publication of this report, ISS ESG can only conclude on the alignment of VERBUND's framework with the EU Green Bond Standard on a best effort basis. VERBUND's framework aligns fully with the requirements of the Draft Model of EU Green Bond Standard.

<sup>2</sup> [Delegated Acts: Technical Annex](#)

ISS ESG reviewed the alignment of the due diligence processes of VERBUND for each project category to be financed and/or refinanced under this Green Financing Framework against the Draft Delegated Act (November 2020) version of the Taxonomy Report. The EU Commission released a Draft Delegated Act on the EU Taxonomy in November 2020, and the adoption by the Commission is as of now pending. The first company report and investor disclosures using the EU Taxonomy are due at the start of 2022, covering the financial year 2021. Thus, as of the date of publication of this SPO report, it is not possible to conclude to any definite alignment with the EU Taxonomy, which is not yet finalized and implemented, and the Draft Delegated Acts 2020 version of the Technical Annex was used as reference point.

## ISS ESG ASSESSMENT SUMMARY

SECTION	EVALUATION SUMMARY <sup>3</sup>
<p><b>Part I</b></p> <p><b>Green Financing Framework link to issuer's sustainability strategy</b></p>	<p><b>Consistent with issuer's sustainability strategy</b></p> <p>According to the ISS ESG Corporate Rating published on 18.03.2021, the issuer shows a high sustainability performance against the industry peer group on key ESG issues faced by the Utilities/Electric Utilities sector. The issuer is rated 3<sup>rd</sup> out of 125 companies within its sector and as obtained the "Prime" status which means that it achieves the sustainability performance requirements defined by ISS ESG for a specific industry in the ESG Corporate Rating.</p> <p>The Use of Proceeds categories, KPIs and SPTs defined through this framework are consistent with the issuer's sustainability strategy and material ESG topics for the issuer's industry. The rationale for issuing Green Bonds is clearly described by the issuer.</p>
<p><b>Part II.A.</b></p> <p><b>Alignment with GBPs and EU GBS</b></p>	<p><b>Aligned with ICMA Green Bond Principles and Usability Guideline on EU Green Bond Standard</b></p> <p>The issuer has defined a formal concept for its Green Financing regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the ICMA Green Bond Principles and in line with the Draft Model of EU Green Bond Standard on a best effort basis.</p>
<p><b>Part II.B.</b></p> <p><b>Alignment with SLBPs</b></p>	<p><b>Overall alignment with the ICMA Sustainability-Linked Bond Principles</b></p> <p>The Issuer has defined a formal concept for its Sustainability-Linked financial instruments regarding the selection of KPI, calibration of Sustainability Performance Target (SPT), sustainability-linked financial instrument characteristics, reporting and verification. The framework is in line with the Sustainability-Linked Bond Principles (SLBPs) administered by the ICMA, with the exception of the lack of external review for historical performance data on KPIs including for baseline year.</p>
<p><b>Part III</b></p> <p><b>Sustainability quality of the Use of Proceeds selection criteria</b></p>	<p><b>Positive</b></p> <p>The overall sustainability quality of the selection criteria in terms of sustainability benefits and risk avoidance and minimisation is good based upon the ISS ESG assessment. The Green Financing will (re-)finance Eligible Project categories which include: hydro power, wind power, solar power as well as transmission &amp; distribution of electricity.</p> <p>Those use of proceeds categories have a significant contribution to SDGs 7 'Affordable and Clean Energy' and 13 'Climate Action' according to ISS ESG proprietary methodology.</p> <p>Based on robust processes for selection of Green Projects, all Green Projects are considered as aligned with the EU Taxonomy and the relevant activity-specific Technical Screening Criteria, Do No Significant Harm Criteria and Minimum Social Safeguards.</p>

<sup>3</sup> ISS ESG's evaluation is based on VERBUND's Green Financing Framework (March 2021 version), on the analysed selection criteria as received on the 12.02.2021, and on the ISS ESG Corporate Rating applicable at the SPO delivery date (updated on the 18.03.2021).

SECTION	EVALUATION SUMMARY
<p><b>Part IV. KPI 1</b></p> <p><b>Newly installed renewables capacity – KPI selection and SPT calibration</b></p>	<p><b>KPI selection: Material to issuer’s business model from an ESG perspective</b></p> <p><b>Sustainability performance target (SPT) calibration:</b></p> <ul style="list-style-type: none"> <li>• <b>Ambitious against issuer’s past performance</b></li> <li>• <b>Ambitious against issuer’s sectorial peer group</b></li> <li>• <b>No evidence on alignment with international target</b></li> </ul> <hr/> <p>The KPI selected is core, relevant and material to the issuer’s business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. It covers a material scope of the operations and activities of VERBUND.</p> <p>The SPT calibrated by VERBUND is ambitious against the company’s past performance. However, this ambition level can only be partially judged due to fact that baseline year and further historical data have not been verified by a third party. The SPT is also judged as ambitious compared to Electric Utilities sector practices in terms of renewable energy capacity installed on total energy mix. The SPT defined by VERBUND should maintain the company as one of the top performers in terms of carbon intensity of energy generation and share of renewable energy in total energy mix over time. The SPT is ambitious against Compound Annual Growth Rate for renewable energy capacity for North Europe region provided by Bloomberg New Energy Outlook Economic Transition Scenario which does not have the ambition to align with the Paris Climate Goals. It is worth pointing out that VERBUND’s share of renewable capacity in its own current energy mix (97%) already exceed targets for the European Union electricity capacity for 2030 (72%). The target is set in a clear timeline, is benchmarkable and supported by an action plan.</p>
<p><b>Part IV. KPI 2</b></p> <p><b>Additional transformer capacity – KPI selection and SPT calibration</b></p>	<p><b>KPI selection: Material to issuer’s business model from an ESG perspective</b></p> <p><b>Sustainability performance target (SPT) calibration:</b></p> <ul style="list-style-type: none"> <li>• <b>Ambitious against issuer’s past performance</b></li> <li>• <b>Ambitious against issuer’s sectorial peer group</b></li> <li>• <b>No international target available related to the KPI and SPT</b></li> </ul> <hr/> <p>The KPI selected is core, relevant and material to the issuer’s business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. It covers a material scope of the operations and activities of VERBUND</p> <p>The SPT is ambitious against the company’s past performance. However, this ambition level can only be partially judged due to fact that the baseline year and historical data have not been verified by a third party. The SPT also have been judged as ambitious compared to Electric Utilities sector practices in terms of installing transformer capacity and increasing integration of renewable energy into grid. No conclusion is possible on the ambition of this SPT against international target due to the lack of international target covering installation of transformer capacity. The target is set in a clear timeline, is benchmarkable and supported by a credible strategy and action plan.</p>

## ISS ESG SPO ASSESSMENT

### PART I: GREEN FINANCING FRAMEWORK LINK TO VERBUND'S SUSTAINABILITY STRATEGY

#### A. ASSESSMENT OF VERBUND'S ESG PERFORMANCE

The ISS ESG Corporate Rating provides material and forward-looking environmental, social and governance (ESG) data and performance assessments.

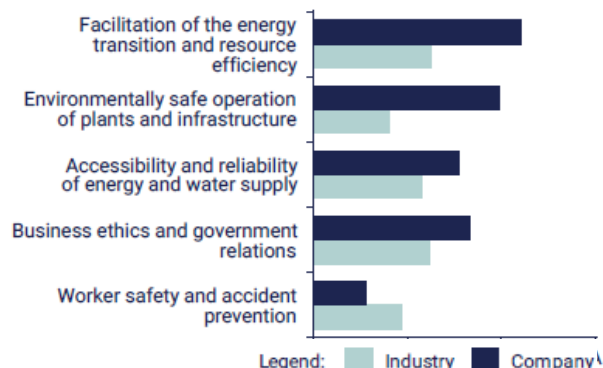
COMPANY	SECTOR	STATUS	DECILE RANK	TRANSPARENCY LEVEL
<b>VERBUND</b>	<b>UTILITIES / ELECTRIC UTILITIES</b>	<b>PRIME</b>	<b>1</b>	<b>VERY HIGH</b>

This means that the company currently shows a high sustainability performance against peers on key ESG issues faced by the Utilities/Electric Utilities sector and obtains a Decile Rank relative to industry group of 1, given that a decile rank of 1 indicates highest relative ESG performance out of 10.

#### ESG performance

As of 19.03.2021, this Rating places VERBUND 3<sup>rd</sup> out of 125 companies rated by ISS ESG in the Utilities/Electric Utilities sector.

Key challenges faced by companies in terms of sustainability management in this sector are displayed in the chart on the right, as well as the issuer's performance against those key challenges in comparison to the average industry peers' performance.



#### Sustainability Opportunities

The major business focus of VERBUND is the generation and sale of electricity. The company's electricity generation in 2020 was almost exclusively based on renewable sources (94.2% hydropower, 2.8% wind power, with minor shares of natural gas (2.1%) and coal (1.0%). In addition to the very high share of renewables in energy production, VERBUND aims to significantly expand generation from wind and solar power by 2030. The company has also earmarked funds for the optimization and maintenance of its hydropower plants. VERBUND deems its flexible gas-fired power plants as instrumental in maintaining the security of power supply in Austria and will therefore continue to operate them for the time being. In April 2020, the company announced that it had closed its last coal-fired power plant. VERBUND's already very low carbon intensity of electricity generation of 19 g/kWh (2020). The company has also established programs to support socially disadvantaged customers and customers with payment problems to guarantee the supply of essential energy services. Some initiatives to enhance access to energy in emerging markets are also taken by the company.

### *Sustainability Risks*

VERBUND's energy generation is mainly based on renewables. The large share of hydropower in the company's generation mix requires an adequate management of related environmental aspects such as the installation of effective fish passes, floodwater and load management. The company shows an adequate management approach with regard to all of these issues. Furthermore, as VERBUND mainly operates hydropower plants in Austria and Germany where relatively high environmental standards prevail, there are few risks with regard to major environmental incidents. The average thermal efficiency of VERBUND's remaining fossil-fired power plants is high (over 70% in 2019) and the company has set ambitious targets to further reduce greenhouse gas emissions. VERBUND has also taken adequate measures to ensure a reliable power supply and performs very well in this regard. The accident rate among employees is still comparatively high but has decreased considerably in recent years. While the company increased its workforce throughout 2020, it also implemented marked staff cuts in recent years. Still, the company has made considerable efforts to avoid compulsory redundancies. VERBUND has established a formal code of conduct, which covers the most relevant issues including corruption and antitrust violations. Some compliance measures such as audits and trainings are in place.

### *Governance opinion*





Regarding the company's governance structure, only 20% of the supervisory board members are considered independent, with some directors being representatives of the company's major shareholders. Altogether, these could undermine the supervisory function of VERBUND's board. The chair of the board (Thomas Schmid, as at June 3, 2020) can likewise be classified as non-independent as he is the CEO of Österreichische Beteiligungs AG, a company for which VERBUND is controlling shareholder. Furthermore, the company's board committees in charge of audits, remuneration, and nomination are mainly composed of non-independent members. The company discloses its remuneration policy for executives, including long-term incentive components, which can incentivize sustainable value creation.

In 2020, the company's supervisory board created a sustainability committee. However, it remains unclear whether its members meet independence requirements. The company states that the achievement of its emission reduction targets results in a monetary reward for the CEO, but no further details are disclosed. VERBUND has established a formal code of conduct, which covers the most relevant issues including corruption and antitrust violations. Some compliance measures such as audits and trainings are in place.



*Sustainability impact of products and services portfolio<sup>4</sup>*

Using a proprietary methodology, ISS ESG assessed the contribution of VERBUND’s current products and services portfolio to the Sustainable Development Goals defined by the United Nations (UN SDGs). This analysis is limited to the evaluation of final product characteristics and does not include practices along VERBUND’s production process.

PRODUCT/SERVICES PORTFOLIO	ASSOCIATED PERCENTAGE OF EBITDA	DIRECTION OF IMPACT	UN SDGS
<b>Electricity high voltage grid</b>	18,0%	CONTRIBUTION	 
<b>Energy generation based on large-scale hydropower (&gt;10 MW), energy generation based on wind power and small-scale hydropower (&lt;10 MW)</b>	76,2%	CONTRIBUTION	 
<b>Others</b>	N/A	NO NET IMPACT	N/A

*Breaches of international norms and ESG controversies*

The company is not facing any controversy.

**B. CONSISTENCY OF GREEN BOND WITH VERBUND’S SUSTAINABILITY STRATEGY**

*Key sustainability objectives and priorities defined by the issuer*

VERBUND’s sustainability commitment dates back to 1994, when it published the first business environmental report. This publication was followed in 2002 by the first VERBUND Sustainability Report, which was published annually up until 2015 as a supplement to the annual report. Since 2015, VERBUND publishes the results of sustainability measures in the GRI guidelines aligned Integrated VERBUND Annual Report.

VERBUND’s 2030 strategy is based on five strategic pillars: efficient generation of electricity from hydropower; expansion of electricity generation from renewable energy sources such as wind and solar power; sustainable expansion and safe operation of the Austrian high-voltage grid; use of the flexible power plants to maintain security of supply in Austria; and the Sales segment, with provision of customer-centric, innovative products and services.

<sup>4</sup> Please note that this section differs from the VERBUND AG’s ISS ESG Corporate Rating to reflect latest information provided by the issuer in the context of the Second Party Opinion engagement.



VERBUND's business strategy is twofold. It is based on maintaining the value of 129 existing power plants while continuously improving flexible generation facilities in order to ensure carbon-free base-load and peak-load energy generation in core markets of Austria and Germany. By implementing new initiatives such as the Digital Hydro Power Plant pilot project, VERBUND is setting new standards in the digitalization of hydropower plants. In addition to maintaining value and optimizing the existing generation portfolio, it is also focusing on the commercial exploitation of existing hydropower potential in an environmentally compatible manner.

Complementing hydropower activities, VERBUND will place increased emphasis on the expansion of renewable energy sources from onshore wind power plants and photovoltaic systems in the coming years. It will be concentrating not only on achieving organic growth in existing core markets, but also on acquiring attractive wind and photovoltaic plants in Europe. The long-term goal is to profitably build up an onshore wind and solar portfolio that will account for approx. 20–25% of VERBUND's overall generation by 2030.

VERBUND's wholly owned subsidiary Austrian Power Grid AG (APG) is the control area manager and operates the Austrian transmission grid. Extending over 3,428 km and including 64 substations and switching stations, the APG grid forms the backbone of domestic electricity supply. It ensures that electricity produced and consumed can be exchanged within Austria and internationally and guarantees a stable supply for the distribution networks. APG is committed to security of supply; it is a market platform and paramount in the implementation of the energy transition. This sustainable expansion of the transmission grid is pivotal to the achievement of Austria's climate targets.

In the sales area VERBUND offers to its customers clean electricity and climate-neutral gas, together with other energy-related products and innovative solutions to promote the efficient use of energy.

### *Rationale for issuance*

VERBUND has set clear sustainable objectives, one of which is reducing greenhouse gas emissions by 90% measured beginning from the basis year 2011 until 2021.

To support its 2030 Strategy and broader sustainability aims, VERBUND has incorporated ESG-related considerations into the daily operations of all VERBUND subsidiaries and the central function, and also looked to reflect its commitment to sustainability through the raising of Green financing. Here are some key facts denoting VERBUND's sustainability strategy:

- In 2014 VERBUND AG was the first corporate in the DACH region<sup>5</sup> to issue a Green Bond. The transaction was focused on financing wind power plants in Austria and Germany as well as on increasing the efficiency of its existing hydro power plants.
- In 2018, VERBUND issued the first ever digital Green *Schuldschein*. The novel instrument financed the construction of an important high voltage grid project in Austria necessary to integrate new renewables into the Austrian grid system.
- In 2018 VERBUND issued an ESG-linked syndicated loan, whose margin is tied to 100% to VERBUND's ESG rating from an external ESG Rating provider.

<sup>5</sup> Including Germany, Austria and Switzerland

*Contribution of Use of Proceeds categories to sustainability objectives and priorities*

ISS ESG mapped the Use of Proceeds categories financed under this Green Bond with the sustainability objectives defined by the issuer, and with the key ESG industry challenges as defined in the ISS ESG Corporate Rating methodology for the Utilities/Electric Utilities sector. Key ESG industry challenges are key issues that are highly relevant for a respective industry to tackle when it comes to sustainability, e.g. climate change and energy efficiency in the buildings sector. From this mapping, ISS ESG derived a level of contribution to the strategy of each Use of Proceeds categories.

USE OF PROCEEDS CATEGORY & KPIs	SUSTAINABILITY OBJECTIVES FOR THE ISSUER	KEY ESG INDUSTRY CHALLENGES	CONTRIBUTION
<p><b>Renewable Energy</b></p>	<ul style="list-style-type: none"> <li>• Efficient generation of electricity from hydropower</li> <li>• Expansion of electricity generation from renewable energy sources such as wind and solar power</li> <li>• Sustainable expansion and safe operation of the Austrian high-voltage grid</li> </ul>	<ul style="list-style-type: none"> <li>• Facilitation of the energy transition and resource efficiency</li> <li>• Accessibility and reliability of energy and water supply</li> </ul>	<p>Contribution to material objectives</p>

**Opinion:** *ISS ESG finds that the Use of Proceeds financed through this Green Financing Framework and KPIs selected for Sustainability-Linked Transactions are consistent with the issuer’s sustainability strategy and material ESG topics for the issuer’s industry. The rationale for issuing Green Bonds and Sustainability-linked Bonds is clearly described by the issuer.*

## PART II: ALIGNMENT WITH RELEVANT PRINCIPLES

### A. GREEN BOND PRINCIPLES & EU GREEN BOND STANDARD

#### 1. Strategy and rationale (EU GBS)

Efficient generation of electricity from hydropower is and will remain the core of VERBUND's business as one of Europe's biggest producers of electricity from hydropower. VERBUND's strategy is twofold: maintaining the value of 129 existing hydropower plants while continuously improving flexible generation facilities so that carbon-free base-load and peak-load energy generation can be ensured in VERBUND's core markets of Austria and Germany.

Complementing VERBUND's hydropower activities, an increased emphasis is placed on the expansion of renewable energy sources from onshore wind power plants and photovoltaic systems in the coming years. VERBUND's long-term goal is to build up an onshore wind and solar portfolio that will account for approx. 20–25% of VERBUND's overall generation by 2030. In VERBUND's quest to become a carbon-free electricity producer they set clear objectives. VERBUND has succeeded in reducing carbon emissions from the thermal power plants by around 70% since 2005 and therefore contributes to the avoidance and reduction of emissions and to the achievement of SDG 13 "Climate action". The aim is to be carbon neutral till 2050.

To support VERBUND's 2030 Strategy and broader sustainability aims, the commitment to sustainability is reflected through the raising of Green financing. Through this Green Financing Framework, VERBUND wishes to contribute towards the Climate Change Mitigation environmental objective, as outlined in the November 2020 draft of the Delegated Acts on the EU Taxonomy.

Additionally, VERBUND is a signatory of the UN Global Compact and supports the Ten Principles of the United Nations Global Compact on human rights, labour, environment and anti-corruption. VERBUND is committed to making the UN Global Compact and its principles part of the strategy, culture and day-to-day operations of the company.

**Opinion:** ISS ESG considers the Strategy and Rationale description provided by VERBUND's Green Financing Framework as aligned with the draft model of the EU Green Bond Standard. The Green Financing Framework's environmental objectives appropriately link to the issuer's strategy with the environmental objectives defined in the EU Taxonomy. The rationale for issuing Green Bonds is clearly stated and aligns with the sustainability objectives and targets the company set itself. Further, a maximum refinancing period of 3 years has been defined. Further, VERBUND is a signatory of the UN Global Compact and supports the principles.

#### 2. Process for Selection of Green Projects (EU GBS) - Process for Project Evaluation and Selection (GBPs)

To ensure that allocations of an amount equal to the net proceeds of any Green Bond are made to Eligible Green Projects as specified above, VERBUND has established a Green Bond Committee ("GBC").

The GBC will be responsible for:

- Ensuring the proposed Eligible Green Projects are aligned with the categories as specified in the Use of Proceeds section above (including alignment with the EU Taxonomy), and approving any proposed changes in 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.);
  - In relation to the EU Taxonomy alignment, the GBC will, on a best efforts basis, specifically ensure 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 (“TSC”);
- Reviewing and approving any proposed updates to this Green Financing Framework; and,
- Reviewing and approving allocation and where relevant, impact reports, where suitable data is available

The GBC will be comprised of representatives from the following functions:

- Group Finance
- Investor Relations
- Corporate Responsibility Department
- Depending on the project category, a representative for example of:
  - VERBUND Hydro Power GmbH
  - Austrian Power Grid AG
  - VERBUND Green Power GmbH

The GBC will meet at least two times per year, to review proposed allocations and ensure these are made in line with the specified criteria above.

**Opinion:** ISS ESG considers the Process for Project Evaluation and Selection description provided by VERBUND’s Green Financing Framework as aligned with the Green Bond Principles and the draft model of the EU Green Bond Standard. The issuer shows substantial contribution of the green eligible category to a selected environmental objective, selection criteria in line with the Technical Screening Criteria, alignment with the Do No Significant Harm criteria, and a process at a corporate level that aligns with Minimum Social Safeguards. Moreover, the GBC will be comprised of various stakeholders and responsibilities are clearly defined.

### **3. Green Projects (EU GBS) – Use of Proceeds (GBPs)**

VERBUND will allocate an amount equal to the net proceeds of any Green Bond to Eligible Green Projects.

VERBUND will make allocations to Eligible Green Projects where the investment has taken place within a maximum of 3 years before and after the date of any issuance.

Through its issuance, VERBUND will target Eligible Green Projects that contribute to Climate Change Mitigation measures as outlined in the EU Taxonomy or any updated version, on a best effort basis.

Green Bond Principles Eligible Category	Relevant EU Taxonomy NACE Code	Description	Example projects
<b>Renewable Energy</b>	D35.11 and F42.22 <sup>6</sup> D35.12 and D35.13 <sup>7</sup>	Investments relating to the construction, development, acquisition, maintenance, and/or operation of renewable energy installations including solar and wind power, hydropower <sup>8</sup> , and associated grid infrastructure  The corresponding EU Taxonomy criteria are: <ul style="list-style-type: none"> <li>▪ Electricity Generation from Hydropower</li> <li>▪ Electricity Generation Using Solar Photovoltaic Technology</li> <li>▪ Electricity Generation from Windpower</li> <li>▪ Transmission and Distribution of Electricity</li> </ul>	Projects may include the following: <ul style="list-style-type: none"> <li>▪ Refurbishment and expansion of a hydropower plant</li> <li>▪ Power grid projects that facilitate transmission of renewable energy</li> </ul>

**Opinion:** ISS ESG finds that the Green Projects description proposed by VERBUND’s Green Financing Framework aligns with the draft model of the EU GBS. Green Projects are defined in line with the EU Taxonomy activities, and the selection criteria clearly align with EU Taxonomy Technical Screening Criteria requirements. The issuer links the eligible green project category directly to the EU Taxonomy Environmental Objectives. Moreover, ISS ESG finds that the Use of Proceeds description provided by VERBUND aligns with the Green Bond Principles.

#### 4. Management of Use-of-Proceeds (EU GBS) – Management of Proceeds (GBPs)

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. On a best effort basis, VERBUND will aim to allocate an amount equal to the proceeds raised by any bond under this Framework within 3 years from the issuance of each Green Bond.

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

<sup>6</sup> Electricity Generation Using Solar Photovoltaic Technology, Electricity Generation Using Concentrated Solar Power Technology and Electricity Generation form Wind Power

<sup>7</sup> Transmission and Distribution of Electricity

<sup>8</sup> Only hydropower assets developed in European Union countries and subject to EU environmental legislation will be considered eligible for allocation.

internal treasury policies, in cash, cash equivalents or similar instruments (including Green, Social and/or Sustainability Bonds issued by other issuers).

**Opinion:** *ISS ESG finds that Management of (Use-of-) Proceeds proposed by VERBUND's Green Financing Framework is well aligned with the Green Bond Principles, as well as the draft model of the EU Green Bond Standard. Proceeds are appropriately tracked and an expected allocation period of three years is defined, although, best market practice would be an expected allocation period of one year.*

## 5. Reporting (EU GBS and GBPs)

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 via the VERBUND website at [www.VERBUND.com](http://www.VERBUND.com).

The Allocation Report will include:

- A statement of best efforts alignment with the EU Green Bond Standard;
- Bond identifier (eg ISIN);
- Eligible Project names and descriptions;
- Geographical distribution of all the projects;
- ICMA's Green Bond Principles Eligible Green Project Category;
- EU Taxonomy environmental objective;
- Total cost of the Eligible Green Projects;
- Share of financing provided by VERBUND;
- Total amount of proceeds allocated to Eligible Green Projects;
- The proportion of refinancing vs. financing;
- Nature of Green Asset/Expenditure (Capex, Opex etc.); and,
- The remaining balance of unallocated amounts, if any.

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 includes for example<sup>9</sup>:

- For renewable energy, i.e. wind, solar & hydro:
  - Renewable Energy Capacity Added (MW);
  - tCO<sub>2</sub>e avoided.

<sup>9</sup> The complete list of potential impact indicators can be found in VERBUND's Green Financing Framework in Annex I.

- For the transmission and Distribution of Electricity:
  - Expected tCO<sub>2</sub>e avoided;
  - Additional transformer capacity (MVA);
  - (Average) Annual avoided curtailment (renewable energy)(GWh/year).

In order to make sure that the environmental and social risks linked to the financed projects are mitigated and the opportunities clearly supported, a set of Do-no-significant-harm criteria has been established for each project category.

**Opinion:** *ISS ESG finds that the reporting proposed by VERBUND's Green Financing Framework is aligned with the Green Bond Principles, as well aligned with the draft model of the EU Green Bond Standard. The allocation and impact reports will be appropriately disclosed and publicly available. The allocation and impact report will be published annually until allocation of proceeds, following best market practice. VERBUND describes how the impact metrics contribute to the environmental objectives of the bond. VERBUND commissioned a SPO and intends to seek post-issuance External Verification on each annual allocation and impact report.*

#### **External review**

ISS ESG has provided a Second Party Opinion on VERBUND's Green Financing Framework. The Second Party Opinion is available at <https://www.isscorporatesolutions.com/solutions/esg-solutions/second-party-opinion/>

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 this Framework.



## B. SUSTAINABILITY-LINKED BOND PRINCIPLES

### Rationale for Framework

#### FROM ISSUER'S FRAMEWORK

One of VERBUND's goals is to reduce the VERBUND -specific direct greenhouse gas emissions (Scope 1) to below 10g CO<sub>2</sub>e per kWh of total electricity generated. This original target from 2015 was based on the liquidation of VERBUND Thermal Power, which was planned at the time but not carried out, making an adjustment necessary: the associated targets will be revised in financial year 2021, taking the acquisition of the stake in Gas Connect Austria into account as well as the continued need to use thermal power plants to maintain the domestic security of supply. VERBUND has succeeded in reducing carbon emissions from the thermal power plants by around 70% since 2005 and therefore contributes to the avoidance and reduction of emissions and to the achievement of SDG 13 "Climate action".

As previously described in this document, VERBUND's 2030 strategy is based on five strategic pillars:

- efficient generation of electricity from hydropower;
- expansion of electricity generation from renewable energy sources such as wind and solar power;
- sustainable expansion and safe operation of the Austrian high-voltage grid;
- use of the flexible power plants to maintain security of supply in Austria; and
- the Sales segment, with provision of customer-centric, innovative products and services.

The rationale for the proposed issuance of Sustainability-Linked Bonds is to re-emphasise VERBUND's commitment and enlist the support of all VERBUND's functions in delivering implementation of the VERBUND's strategy intentions with regard to pillar two and pillar three above.

**Opinion:** ISS ESG considers the Rationale for Issuance description provided by VERBUND as aligned with the Sustainability-Linked Bond Principles (SLBPs).

### 2.1. Selection of KPI

ISS ESG conducted a detailed analysis of the sustainability credibility of KPI selection available in Part IV of this report.

**Opinion:** ISS ESG considers the Selection of KPIs as per the description provided by VERBUND as aligned with the SLBPs:

- *KPI 1 (Newly-installed renewable energy production) is core, relevant and material to the issuer's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. It covers a material scope of the operations and activities of VERBUND.*
- *KPI 2 (Additional transformer capacity) is core, relevant and material to the issuer's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. It covers a material scope of the operations and activities of VERBUND.*

## 2.2. Calibration of Sustainability Performance Target (SPT)

ISS ESG conducted a detailed analysis of the sustainability credibility of SPT is available in Part IV of this report.

**Opinion:** ISS ESG considers the Calibration of Sustainability Performance Target (SPT) description provided by VERBUND as aligned with the SLBPs:

- *SPT 1 (Newly-installed renewable energy production) is ambitious against the company's past performance. However, this ambition level can only be partially judged due to fact that baseline year and further historical data have not been verified by a third party. The SPT is also judged as ambitious compared to Electric Utilities sector practices in terms of renewable energy capacity installed on total energy mix. The SPT defined by VERBUND should maintain the company as one of the top performers in terms of carbon intensity of energy generation and share of renewable energy in total energy mix over time. The SPT is ambitious against Compound Annual Growth Rate for renewable energy capacity for North Europe region provided by Bloomberg New Energy Outlook Economic Transition Scenario which does not have the ambition to align with the Paris Climate Goals. VERBUND's SPT represents a significantly lower Compound Annual Growth Rate for renewable energy capacity than projected by the IEA SDS for the European Union. However, it is worth point that VERBUND's share of renewable capacity in its own current energy mix (97%) already exceed targets for the European Union electricity capacity for 2030 (72%). Going forward, VERBUND could improve the ambition of its target on newly installed renewables capacity by aligning it with EIA SDS CAAGR projections or other climate scenario which the ambition to align with the Paris Climate Goals. The target is set in a clear timeline, is benchmarkable and supported by an action plan.*
- *SPT 2 (Additional transformer capacity) is ambitious against the company's past performance. However, this ambition level can only be partially judged due to fact that the baseline year and historical data have not been verified by a third party. The SPT also have been judged as ambitious compared to Electric Utilities sector practices in terms of installing transformer capacity and increasing integration of renewable energy into grid. No conclusion is possible on the ambition of this SPT against international target due to the lack of international target covering installation of transformer capacity. The target is set in a clear timeline, is benchmarkable and supported by a credible strategy and action plan.*

## 2.3. Sustainability-Linked Securities Characteristics

### FROM ISSUER'S FRAMEWORK

The precise mechanism for the adjustment will be specified in the Final Terms of any Sustainability-Linked instrument, and will comprise of an increase in the coupon margin (a 'step-up' margin) of 25bps payable from the first coupon payment date following the Sustainability Performance Target Observation Date, until maturity of the relevant Sustainability-Linked financing instrument.

If for any reason, the performance level against each SPT cannot be calculated or observed, or not in a satisfactory manner (for example where the relevant assurance statement contains a reservation or

qualification, or the independent auditor is not in a position to provide such an assurance statement), the increased coupon margin (as defined) will be applicable.

If for any reason, VERBUND does not publish details of its performance against the relevant SPT, the increased coupon margin will be applicable.

No more than one step-up margin shall be applied over the life of a given Sustainability-Linked financing instrument.

If the specified SPTs have been met, and the specified reporting and verification has been made public, the financial characteristics of any Sustainability-Linked financing instrument issued under this Framework shall remain unchanged.

**Opinion:** ISS ESG considers the Sustainability-Linked Securities Characteristics description provided by VERBUND as aligned with the SLBPs. The trigger of bond characteristics change is subject to the failure of bond of the SPTs. The change in bond characteristics will be triggered by the failure of either of the two SPTs.

## 2.4. Reporting

### FROM ISSUER'S FRAMEWORK

VERBUND will provide data and information relevant to the KPI calculation and performance against the associated Sustainability Performance Targets annually via VERBUND's website, available at [www.VERBUND.com](http://www.VERBUND.com)

The scope of reporting shall include:

- up-to-date information concerning the performance of VERBUND against the selected KPIs and relative SPTs. Performance against KPIs will be reported at the level of VERBUND.
- Where suitable data is available, an indication of the environmental benefits attributable to the achievement of the KPIs (e.g. tCO<sub>2e</sub> avoided as a result of meeting VERBUND's Sustainability Performance Targets).
- details of any updates relating to the KPIs, (including e.g. reassessments of KPIs/restatements of SPTs, baseline adjustments, and accompanying rationale), and,
- an independent assurance statement provided on an annual basis as set out further below.

**Opinion:** ISS ESG considers the Reporting description provided by VERBUND as aligned with the SLBPs. This will be made publicly available annually and include information required as by the Principles.

## 2.5. Verification

### FROM ISSUER'S FRAMEWORK

For the purposes of providing investors with independent assurance regarding VERBUND's performance against the Sustainability Performance Targets, and for the purposes of demonstrating alignment with the recommendations of the Sustainability-Linked Bond Principles, VERBUND will retain a suitably-qualified provider to conduct annual Limited Assurance<sup>10</sup> procedures regarding the KPI calculation and reporting up to and including the data at the Target Observation Date as outlined in the Voluntary Guidelines for External Reviews (as developed by the Green and Social Bond Principles and published by ICMA)<sup>11</sup>. The output of the Limited Assurance procedures shall be made publicly available. The provider selected for the purposes of providing external assurance over reporting against KPIs and performance against SPTs shall be different to the provider selected for the purposes of offering a Second Party Opinion on this Framework. VERBUND reserves the right to select an alternative suitably-qualified provider of such independent assurance services, should the need arise.

No later than 30 April following the Sustainability Performance Target Observation Date, VERBUND will provide via the company website, a Limited Assurance Statement confirming whether or not performance, as measured by the selected KPIs has met the relevant Sustainability Performance Targets. This statement, together with any relevant company reporting concerning the selected KPIs will form the basis for assessing any requirement to adjust the financial characteristics of any Sustainability-Linked financing instrument in accordance with the mechanisms described in this Framework and further specified in the Final Terms relating to a specific Sustainability-Linked financing instrument.

**Opinion:** ISS ESG considers the Verification description provided by VERBUND as aligned with the SLBPs. The issuer plans on disclosing KPI calculation and reporting up to and including the data at the Target Observation Date. This will outline the performance against the SPT, the related impact and timing of such impact on the securities financial characteristics. The issuer commits to get interim ex-post reporting including SPTs verified by an external body annually.

<sup>10</sup> <https://www.icaew.com/archive/technical/audit-and-assurance/assurance/process/scoping/assurance-decision/limited-assurance-vs-reasonable-assurance>

<sup>11</sup> <https://www.icmagroup.org/sustainable-finance/external-reviews/>

## PART III: SUSTAINABILITY QUALITY OF USE OF PROCEEDS CATEGORIES









### A. CONTRIBUTION OF THE GREEN BOND TO THE UN SDGs

Based on the assessment of the sustainability quality of the Green Bond selection criteria and using a proprietary methodology, ISS ESG assessed the contribution of the VERBUND's Green Bond to the Sustainable Development Goals defined by the United Nations (UN SDGs).

This assessment is displayed on 5-point scale (see Annex 2 for methodology):

<b>Significant Obstruction</b>	<b>Limited Obstruction</b>	<b>No Net Impact</b>	<b>Limited Contribution</b>	<b>Significant Contribution</b>
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Each of the Green Bond's Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS	
Hydro power	Significant contribution	7 AFFORDABLE AND CLEAN ENERGY 	13 CLIMATE ACTION 
Solar power	Significant contribution	7 AFFORDABLE AND CLEAN ENERGY 	13 CLIMATE ACTION 
Wind power	Significant contribution	7 AFFORDABLE AND CLEAN ENERGY 	13 CLIMATE ACTION 
Grid infrastructure	Significant contribution	7 AFFORDABLE AND CLEAN ENERGY 	13 CLIMATE ACTION 

## B. ALIGNMENT OF THE FINANCED ASSETS WITH THE EU TAXONOMY

ISS ESG assessed the alignment of the Green Bond selection criteria and the due diligence processes in place with the EU Taxonomy.

### Electricity generation from hydropower (4.5)

EU TAXONOMY REQUIREMENT	GREEN PROJECTS OWN PERFORMANCE AND SELECTION PROCESSES	ISS ESG ANALYSIS AGAINST REQUIREMENTS
<b>1. CLIMATE CHANGE MITIGATION – TECHNICAL SCREENING CRITERIA</b>		
Case A – the life-cycle GHG emissions from the generation of electricity from hydropower, including mixed pumped hydropower storage connected to a free-flowing water source are lower than 100gCO <sub>2</sub> e/kWh	The financed hydro power plant is a run-off river plant with emissions far below 100gCO <sub>2</sub> e/kWh <sup>12</sup>	✓
<b>2. CLIMATE CHANGE ADAPATION – DO NO SIGNIFICANT HARM CRITERIA</b>		
Reducing material physical climate risks	A comprehensive risk assessment in respect of design discharge was carried out during the design phase and relevant measures are applied to reduce identified risks	✓
Supporting system adaptation	The Green Projects do not increase the risks of adverse climate impact on other stakeholders and align with local adaptation efforts	✓
Monitoring adaptation results	Adaptation results can be monitored and measured against defined indicators and are reviewed by the issuer	✓
<b>3. WATER – DO NO SIGNIFICANT HARM CRITERIA</b>		
Sustainable use and protection of water and marine resources	Technically feasible and ecologically relevant mitigation measures have been implemented or are scheduled to be installed. The effectiveness of those measures is monitored in the context of the authorisation or permit and all projects follow the German water law and water frame directive	✓

<sup>12</sup> According to a report of the Federal Environment Agency of Germany (2017): [https://www.umweltbundesamt.de/sites/default/files/medien/1410/publikationen/2017-10-26\\_climate-change\\_23-2017\\_emissionsbilanz-ee-2016.pdf](https://www.umweltbundesamt.de/sites/default/files/medien/1410/publikationen/2017-10-26_climate-change_23-2017_emissionsbilanz-ee-2016.pdf)

4. CIRCULAR ECONOMY – DO NO SIGNIFICANT HARM CRITERIA		
Not applicable		-
5. POLLUTION – DO NO SIGNIFICANT HARM CRITERIA		
Not applicable		-
6. ECOSYSTEMS – DO NO SIGNIFICANT HARM CRITERIA		
Protection and restoration of biodiversity and ecosystems	An Environmental Impact Assessment (EIA) has been completed in accordance with the German implemented EU Directives and complies with EU regulations	✓
CONTROVERSY ASSESSMENT AND MITIGATION ACTION PLAN		
VERBUND has mitigation action plans in place in case of potential controversies that can ultimately lead to the removal of the assets from the Green Projects pool		

### Transmission and Distribution of Electricity (4.9)

EU TAXONOMY REQUIREMENT	GREEN PROJECTS OWN PERFORMANCE AND SELECTION PROCESSES	ISS ESG ANALYSIS AGAINST REQUIREMENTS
1. CLIMATE CHANGE MITIGATION – TECHNICAL SCREENING CRITERIA		
Case A - The transmission and distribution infrastructure or equipment in the system is the interconnected European system, i.e. the interconnected electricity system covering the interconnected control areas of Member States, Norway, Switzerland and the United Kingdom, and its subordinated systems.	The projects are part of the European Transmission System on the voltage levels 220kV and 380kV and affect the exchange also with neighboring states and control areas directly. They also facilitate market interactions and integration of renewables besides the increase of security of supply	✓
2. CLIMATE CHANGE ADAPATION – DO NO SIGNIFICANT HARM CRITERIA		
Reducing material physical climate risks	The Green Projects are aligned with national and regional standards, which also consider specific climate risks in each climatic region	✓
Supporting system adaptation	The Green Projects are aligned with regional and national adaptation efforts, reflected in the European and national standards	✓



Monitoring adaptation results	The Green Projects are aligned with regional and national adaptation efforts, reflected in the European and national standards, also during the operational phase.	✓
<b>3. WATER – DO NO SIGNIFICANT HARM CRITERIA</b>		
Not applicable		-
<b>4. CIRCULAR ECONOMY – DO NO SIGNIFICANT HARM CRITERIA</b>		
Transition to a circular economy	The issuer ensures to maximise recycling at end of life	✓
<b>5. POLLUTION – DO NO SIGNIFICANT HARM CRITERIA</b>		
Pollution prevention and control	<p>The construction sites follow the national EHS principles, which according to the issuer are in line with the IFC General EHS Guideline.</p> <p>The issuer ensures that the applicable norms and regulations to limit impact of electromagnetic radiation on human health is respected during the planning &amp; design process and approved within the permission process</p>	✓
<b>6. ECOSYSTEMS – DO NO SIGNIFICANT HARM CRITERIA</b>		
Protection and restoration of biodiversity and ecosystems	<p>For one project a complete EIA was completed.</p> <p>For the other projects for which an EIA was not required by EU regulation, permit has been obtained according to protected goods (Electrotechnical Law, Water Rights, Forest Rights and Nature Rights) separately</p>	✓
<b>CONTROVERSY ASSESSMENT AND MITIGATION ACTION PLAN</b>		
<p>VERBUND has mitigation action plans in place in case of potential controversies that can ultimately lead to the removal of the assets from the Green Projects pool</p>		

### Minimum Social Safeguards

ISS ESG assessed the alignment of the due diligence and selection processes in place with the EU Taxonomy Minimum Social Safeguards. The results of this assessment are applicable for every Green Project category financed under this framework and are displayed below:

EU TAXONOMY REQUIREMENT	GREEN PROJECTS OWN PERFORMANCE AND SELECTION PROCESSES	ISS ESG ANALYSIS AGAINST REQUIREMENTS
OECD Guidelines on Multinational Enterprises	According to ISS ESG data, VERBUND complies with this standard.	✓
UN Guiding Principles on Business and Human Rights	According to ISS ESG data, VERBUND complies with this standard.	✓
ILO Core Labour Conventions	According to ISS ESG data, VERBUND complies with this standard.	✓

## PART IV: CREDIBILITY OF KPIS AND SPTs FOR SUSTAINABILITY-LINKED BONDS

### KPI 1: NEWLY-INSTALLED RENEWABLE ENERGY PRODUCTION CAPACITY

#### 1.1. KPI selection

##### KPI selected by the issuer

###### FROM ISSUER'S FRAMEWORK

- **KPI:** Newly-installed production capacity of hydropower, wind power and photovoltaic (PV) solar renewable energy of VERBUND (including its subsidiaries), measured as Megawatts (MW).
- **SPT:** From a baseline of 8,687 MW as at 31 December 2020, establishment of newly-installed renewables capacity of 2,000 MW by 31 December 2032.
- **Rationale:** VERBUND believes that efforts to increase electricity generation capacity are clearly relevant and core to the business of a power utility. Regarding materiality, VERBUND notes that current EU Climate targets for 2030 include a share of at least 32% for renewable energy. For an operator such as VERBUND, which derives the majority of its revenues from the sale of electricity, expanding renewable electricity supply capacity to assist in meeting this EU target, and responding to increased demand for energy generally, and low-carbon electricity in particular, clearly represents a material business consideration for VERBUND.
- **Baseline:** 8,687 MW
- **Baseline year:** 31 December 2020
- **Target year:** 31 December 2032
- **Target goal:** Establishment of newly-installed renewables capacity of 2,000 MW, summing up to 10,687MW of installed renewables capacity by 31 December 2032.
- **Scope:** VERBUND derives 97.3% of its revenue in 2020 from renewable energy provision for VERBUND AG.
- **Calculation methodology:** Newly-installed production capacity of hydropower, wind power and photovoltaic (PV) solar renewable energy of VERBUND and its subsidiaries in Megawatts (MW) and based on contracted nameplate power capacity.

##### Materiality and relevance

Facilitation of the energy transition and resource efficiency is considered as a key ESG issue faced by the Electric Utilities sector according to key ESG standards<sup>13</sup> for reporting and ISS ESG assessment. Energy utilities are at the forefront of this development as the decarbonization of power generation has become a focal point of efforts to mitigate climate change. Companies of this sector have a strong role to play in the decarbonization of the entire economy by providing low-carbon or carbon neutral electricity to the grid. When involved in electricity generation based on conventional fuels, Electric Utilities companies are highly-GHG emitting. Thus, increasing the proportion of renewable energy in overall energy mix of Electric Utilities companies and of the regions in which they operate is key to achieve climate change mitigation. Advances made by energy utilities have the potential to trigger vital knock-on effects and pave the way for significant shifts in other energy-intensive and harder-to-abate sectors such as buildings, heavy industry and transport. Furthermore, the sector is exposed to

<sup>13</sup> Key ESG Standards include SASB and TCFD, among others.

risks related to environmentally safe operation of plants and infrastructures, accessibility and reliability of energy supply and related climate change mitigation challenges such as maintenance of forest carbon stocks and sinks and increase of sequestration potential.

While VERBUND could also have selected a GHG emissions reduction target to capture its impact on energy transition and climate change mitigation and given that the company already generates 97% of electricity from low-carbon renewable energy, ISS ESG finds that the KPI selected by VERBUND captures in a more material manner the future impact of VERBUND on those topics by focusing on making clean energy available to the grid and to the highly GHG-emitting sectors of the economy.

ISS ESG finds that the KPI selected by the issuer related to increasing renewable energy installed capacity for generating electricity and decarbonizing electricity grid is:

- **Relevant** to VERBUND's business as its industry is still highly-GHG emitting and exposed to climate change mitigation solutions (e.g. provision of low-carbon, accessible and reliable electricity to grids).
- **Core** to the issuer's business as installing new renewable energy capacity affects key processes and operations that are core to the business model of the issuer (e.g. electricity generation).
- **Material** to VERBUND from an ESG perspective as it is one of the key ESG issues faced by the Electric Utilities industry and hence VERBUND can have material impact on energy transition and climate change mitigation by achieving this KPI. Furthermore, the KPI is applicable for VERBUND and subsidiaries and thus covers a material scope of the issuer's activities, noting that renewable energy is associated to 97.3% of the issuer's revenue in 2020. However, a further area where VERBUND has material impact on climate change and energy transition, notably shutting down conventional fuels- and gas-powered electricity generation plants, is not covered by the KPI.

### Consistency with overall company's sustainability strategy

VERBUND has a long-standing history of commitments related to energy transition and climate change mitigation. VERBUND has achieved its past targets on the matter. Looking forward, VERBUND's 2030 strategy is based on five strategic pillars: efficient generation of electricity from hydropower; expansion of electricity generation from renewable energy sources such as wind and solar power; sustainable expansion and safe operation of the Austrian high-voltage grid; use of the flexible power plants to maintain security of supply in Austria; and the Sales segment, with provision of customer-centric, innovative products and services.

ISS ESG finds that the KPI 1 selected by the issuer is consistent with the issuer's strategy towards 2030. ISS ESG conducted a detailed assessment of the consistency of this KPI with the issuer's sustainability strategy in [section I.B.](#) of this report.

### Measurability

- **Material scope and perimeter:** The KPI selected covers material operations and activities of the issuer, as it covers the activities of VERBUND AG and its subsidiaries. The KPI relates to installation of new renewable energy capacity, which already accounts for 94.2% of the

revenue of the issuer and 97% of the electricity generated by VERBUND in 2021. As VERBUND will not invest further in conventional fuels and coal powered electricity generation, this KPI represents the total scope of future investments from the issuer.

- **Quantifiable:** The KPI selected is measurable and quantifiable. However, the calculation methodology for this KPI is based on company's own internal data collection and verification system which is subject to an internal control framework. However, the KPI calculation does not refer to any external standard as no such standard is commonly used in the market.
- **Externally verifiable:** The KPI selected could be externally verifiable. However, this KPI and associated past performance data has not been verified by an external verifier.
- **Benchmarkable:** This KPI is commonly reported by Electric Utilities companies and quantifiable, thus benchmarkable.

**Opinion on KPI selection:** ISS ESG finds that the KPI selected is core, relevant and material to the issuer's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. It covers a material scope of the operations and activities of VERBUND.

## 1.2. Calibration of SPT

### SPT set by the issuer

#### FROM ISSUER'S FRAMEWORK AND BOND DOCUMENTATION<sup>14</sup>

- **Sustainability Performance Target:** From a baseline of 8,687 MW as at 31 December 2020, establishment of newly-installed renewables capacity of 2,000 MW by 31 December 2032.
- **Sustainability Performance Target Trigger:** Establishing 2,000 MW of newly-installed renewables capacity by 31 December 2032 from baseline 31 December 2020.
- **Sustainability Performance Target Observation Date:** 31 December 2032
- **Rationale for SPT calibration:** VERBUND has taken the following steps to calibrate its targets against the forecast rate of renewable energy capacity expansion for the North European region, with a view to reconfirming the level of ambition accompanying these targets. VERBUND has selected the year ending 31 December 2020 as the baseline year, which reflects the current level of installed renewables capacity and transformer capacity has been selected as the most logical data point for the purposes of assessing the ambition of the targets established, given the general upward trend in both KPIs over time. For the purposes of calibration, VERBUND has assessed its targets against the projected increase in renewable energy capacity for the North European region, matched by renewable energy technology (hydropower, wind power and photovoltaic (PV) solar), over the same 12-year time period over which VERBUND plans to increase its renewable energy installed capacity. The calibration of the VERBUND's targets compare to the projected growth in the regional market for the same mix of renewables technologies.
- **Factors supporting the achievement of the target:**
  - Regulatory - EU and/or national regulatory developments and policy mechanisms (in particular financial support mechanisms) which favour renewable energy generation.
  - Power Prices - National/regional power price outlook – firmer pricing outlook generally improves economic case for capacity expansion.

<sup>14</sup> This information is displayed by the issuer in its Green Financing Framework and Bond Documentation and have been copied over in this report by ISS ESG for clarity.

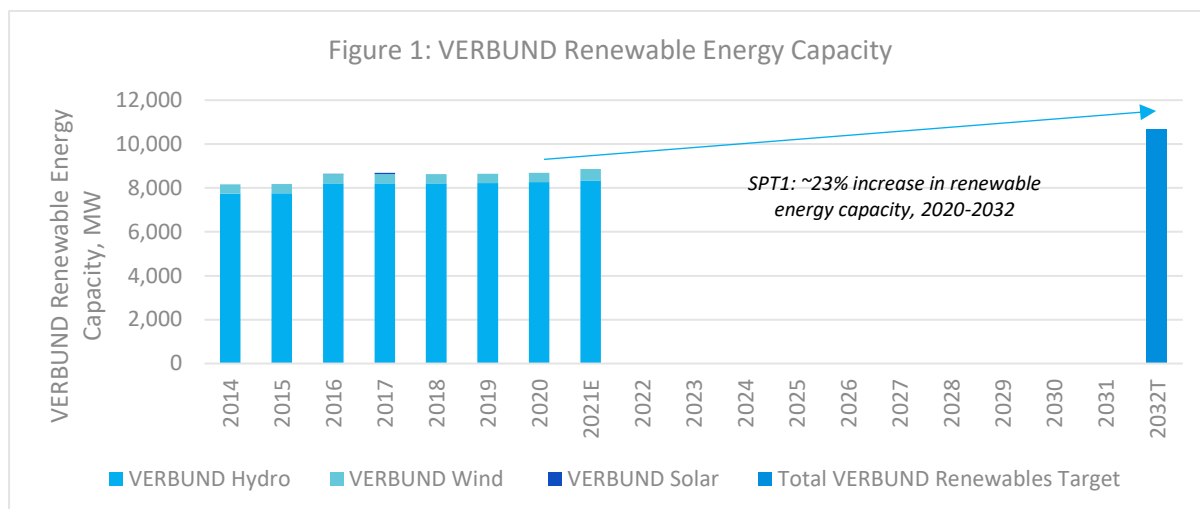
- Commodity Prices/Labour Costs - Reduced global cost of commodities and materials used in renewable energy infrastructure (e.g. steel, cement, silicone) and reduced labour costs in the construction industry may improve the economic case for renewable energy projects. cost of carbon (e.g. EU EUAs) may serve to improve the economics of renewable energy vs alternative generation technologies, incentivising the construction of increased renewable energy capacity.
- Technology - Advancements in renewable energy generation technology may serve to reduce costs and improve the economics of renewables, incentivising the progress of projects.
- **Factors putting the achievement of the target at risk:**
  - Permitting - VERBUND may not be successful in securing the planning permissions and associated permits required to proceed with renewables infrastructure projects.
  - Competition - VERBUND faces increased competition from both sector peers and non-sector peers for access to renewable energy projects. Such competition may impact on the VERBUND's ability to secure participation in renewables projects on acceptable terms.
  - Power Prices - Changes to the power price outlook (including demand projections) may negatively impact on the anticipated economics of projects, reducing the strength of the case for proceeding.
  - Grid Integration – Technical Challenges - Failure to manage technical challenges associated with increased penetration of intermittent power supplies may result in regulatory intervention which may constrain the opportunity for renewables.
  - Equipment availability and suppliers - VERBUND is reliant on suppliers of renewable energy generation equipment to progress its plans to increase renewable energy capacity and transformer capacity. Failure to source the required equipment on acceptable terms may impact on VERBUND's ability to deliver against the Sustainability Performance Targets.
  - Business combinations - VERBUND may seek to engage in business combinations in order to secure access to project development opportunities which may assist in meeting the SPTs. Failure to consummate such business combination efforts may adversely impact on the VERBUND's ability to meet SPTs.

## Ambition

### Against company's past performance

VERBUND sets the SPT to install 2,000 MW of new renewable energy capacity from 31 December 2020 to 31 December 2032. This equates to a compound annual growth rate (CAGR) of >1.7% of newly-installed renewable energy capacity. As of 31 December 2020, the installed renewables capacity of VERBUND is 8,687 MW. The renewables capacity of VERBUND has remained fairly stable in the course of the past 5 years. However, it is important to note that historical data on installed renewables capacity, including baseline year of this target, have not been verified by an external verifier.

As the current installed renewables capacity of the issuer will remain in operations until 2032, the SPT equates to a significant increase of the total VERBUND renewables capacity of 23% in the next 12 years and represent a higher rate of increase than in the past 5 years (see Figure 1). Limitation of this conclusion is linked to the fact that historical data has not been verified by external verifier.



Source: VERBUND Green Financing Framework

Factors in the electric utilities sector, and in Austria and Europe, where VERBUND operates, could support the achievement of this target. For example, European Union (EU) regulations are favoring renewable energy generation and price outlook in this region generally improves economic case for renewables capacity expansion. Technology advancements in renewable energy are also likely to induce reduced costs and improve further the economic case for capacity expansion. However, some other factors could put the achievement of VERBUND’s SPT at risk. Such factors include for example permitting and competition which could limit the ability of the issuer to expand its renewables capacities. The achievement of this target would also depend on the equipment availability and suppliers’ ability to provide this equipment.

In order to further strengthen its ambition against past performance, VERBUND could commit to shut down or not invest further in conventional fuels- and gas-powered electricity generation plants which account for 3% of the electricity generated by the company in 2020.

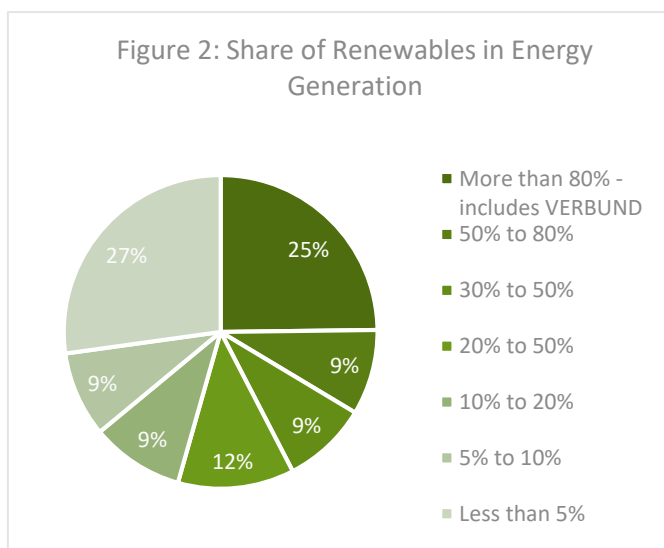
In this context and compared to the baseline year, the SPT set by VERBUND is perceived by ISS ESG as ambitious against the company’s past performance. However, this ambition level can only be partially judged due to fact that historical data have not been verified by a third party.

**Against company’s sectorial peers**

ISS ESG conducted a benchmarking of the SPT set by VERBUND against the Electric Utilities peer group of 205 listed companies derived from the ISS ESG Universe.

As of 18.03.2021, ISS ESG evaluates VERBUND as a good performer in terms of GHG emissions intensity of its operation against its industry peers. According to ISS ESG data, VERBUND ranks 39<sup>th</sup> out of 205 companies in the Electric Utilities Industry in terms of GHG emissions intensity.

Furthermore, as of 18.03.2021, ISS ESG evaluates that VERBUND belongs to the top



Source: ISS ESG data, as of 18.03.2021



25% of its peer group in terms of current share of renewables in electricity generation (see Figure 2).

However, it was not possible to benchmark VERBUND specific SPT against other targets set by the peer group regarding increase of renewables capacity installed due to the lack of reported targets and comparable scope between different peers located in different geographies with specific energy mix and technological limitations.

ISS ESG concludes that the SPT set by the issuer is ambitious compared to Electric Utilities sector practices in terms of renewable energy capacity installed on total energy mix. The SPT defined by VERBUND should maintain the company's position as one of the top performers in terms of carbon intensity of energy generation and share of renewable energy in total energy mix over time. No comparison of the SPT against other targets set by peer group regarding increase of renewables capacity installed was possible due to the lack of reported targets and comparable scope.

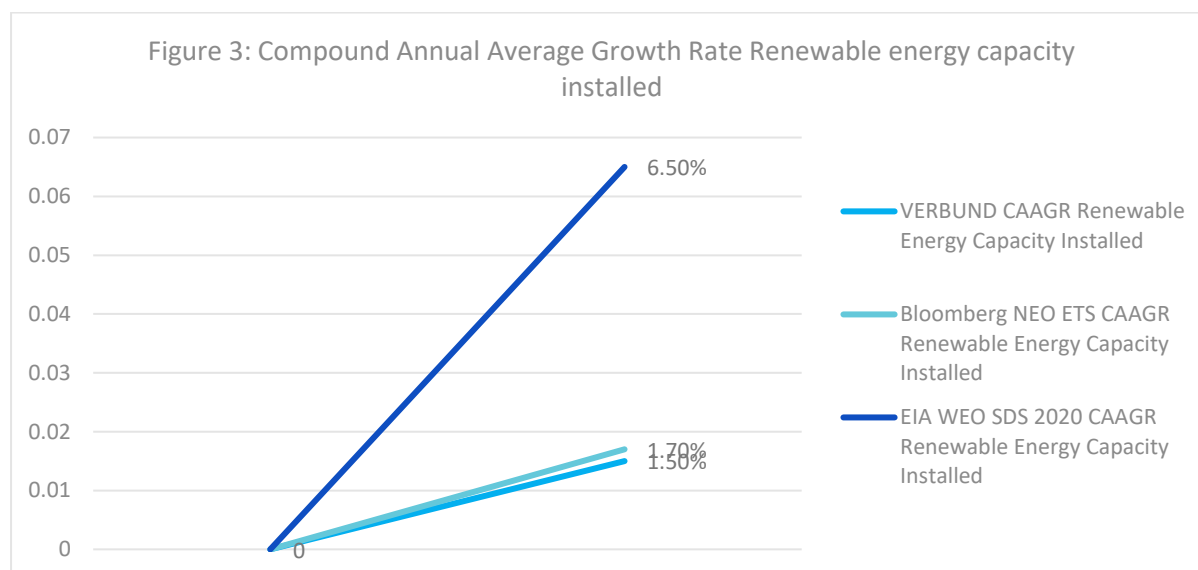
### Against regional targets

#### North European projects and European Union targets

VERBUND benchmarked its SPT against North Europe Renewable Energy Capacity Growth Forecast by Technology (MW) and Compound Annual Growth Rate for renewable energy capacity for North Europe region provided by Bloomberg New Energy Outlook Economic Transition Scenario<sup>15</sup> as of 27.01.2021. This scenario does not have the ambition to align with the Paris Climate Goals. Regional forecasts for the Northern European region anticipate that the annual CAGR will be approximately 1.5% for the equivalent period. As from the 31 December 2020 baseline, VERBUND's target demonstrates a compound annual growth rate (CAGR) of >1.7% of newly-installed renewable energy capacity. Thus, VERBUND's will install more new renewable energy capacity than the average of the rest of its sector in North Europe on the basis of economic-led projections provided by Bloomberg New Energy Outlook Economic Transition Scenario.

ISS ESG complemented the benchmarking exercise conducted by the issuer by a comparison of its SPT in terms of Compound Annual Growth Rate for renewable energy capacity against the International Energy Agency (IEA) Sustainable Development Scenario (SDS) for the European Union as part of its publication, World Energy Outlook 2020 (WEO, 2020). This scenario has the ambition to align with the Paris Climate Goals. According to this scenario, the Compound Annual Average Growth Rate for renewable energy capacity in European Union should be 6.5% from 2019 to 2030 (see Figure 3). When compared with this scenario, the SPT calibrated by VERBUND does not align with the SDS. It is worth pointing out that VERBUND already generates 97% of its electricity through renewable sources and provides approximately a third of the renewables capacity of the current Austrian energy mix. According to the SDS, 72% of renewable energy will be needed in the European Union energy mix by 2030 while VERBUND's renewables generation represents already 97% of its own mix. Thus, the comparison with the SDS can only be of limited relevance as it provides CAAGR Renewable Energy Capacity Installed for the power generation sector in the European Union and regardless of the starting point of a specific company.

<sup>15</sup> [Bloomberg New Energy Outlook Economic Transition Scenario](#) is an economics-led scenario that employs a combination of near-term market analysis, least-cost modelling, consumer uptake and trend-based analysis to describe the deployment and diffusion of commercially available technologies. Over the long-term, policy drivers are removed to uncover the underlying economic fundamentals of the energy transition.



ISS ESG finds that the SPT is ambitious against Compound Annual Growth Rate for renewable energy capacity for North Europe region provided by Bloomberg New Energy Outlook Economic Transition Scenario which does not have the ambition to align with the Paris Climate Goals. VERBUND’s SPT represents a significantly lower Compound Annual Growth Rate for renewable energy capacity than projected by the IEA SDS for the European Union. However, it is worth pointing that VERBUND’s share of renewable capacity in its own current energy mix (97%) already exceed targets for the European Union electricity capacity for 2030 (72%). Going forward, VERBUND could improve the ambition of its target on newly installed renewables capacity by aligning it with EIA SDS CAAGR projections or other climate scenario which the ambition to align with the Paris Climate Goals.

**UN Sustainable Development Goals**

In addition, ISS ESG, using a proprietary methodology, assessed that the SPT achievement would have a positive contribution to the SDGs 7 “Affordable and clean energy” and 13 “Climate action”.

**Measurability & comparability**

- **Verification of baseline year data:** The issuer did not get an external verification on the baseline year data for the KPI associated with this SPT. Thus, ambition level can only be partially judged due to fact that historical data have not been verified by a third party.
- **Historical data:** The issuer provided relevant historical data for the past 5 years. However, this data has not been verified by an external verifier.
- **Benchmarkable:** The SPT is benchmarkable as it is quantified. However, due to the lack of reported metrics by peer group and comparability with Paris Climate Goals aligned scenarios, the SPT can only be benchmarked to an extent. This limitation cannot be attributed to the issuer.
- **Timeline:** The issuer defined a precise timeline related to the SPT achievement, including the target observation date, the trigger event and the frequency of SPTs measurement.

## Supporting strategy and action plan

In order to achieve this SPT, VERBUND will invest in new installation of renewable energy capacity in wind, solar and hydropower power. This is part of the VERBUND 2030 sustainability strategy. No information is available to ISS ESG on VERBUND's intention to shut down or not invest further in conventional fuels- and gas-powered electricity generation plants which accounts for 3% of the electricity generated by the company.

ISS ESG concludes that VERBUND has defined an action plan to achieve this SPT.

**Opinion on SPT calibration:** ISS ESG finds that the SPT calibrated by VERBUND is ambitious against the company's past performance. However, this ambition level can only be partially judged due to fact that baseline year and further historical data have not been verified by a third party. The SPT is also judged as ambitious compared to Electric Utilities sector practices in terms of renewable energy capacity installed on total energy mix. The SPT defined by VERBUND should maintain the company as one of the top performers in terms of carbon intensity of energy generation and share of renewable energy in total energy mix over time. The SPT is ambitious against Compound Annual Growth Rate for renewable energy capacity for North Europe region provided by Bloomberg New Energy Outlook Economic Transition Scenario which does not have the ambition to align with the Paris Climate Goals. VERBUND's SPT represents a significantly lower Compound Annual Growth Rate for renewable energy capacity than projected by the IEA SDS for the European Union. However, it is worth point that VERBUND's share of renewable capacity in its own current energy mix (97%) already exceed targets for the European Union electricity capacity for 2030 (72%). Going forward, VERBUND could improve the ambition of its target on newly installed renewables capacity by aligning it with EIA SDS CAAGR projections or other climate scenario which the ambition to align with the Paris Climate Goals.

## KPI 2: ADDITIONAL TRANSFORMER CAPACITY

### 2.1. KPI selection

#### KPI selected by the issuer

##### FROM ISSUER'S FRAMEWORK

- **KPI:** Additional transformer capacity to facilitate interaction with the grid and integrate renewable energy generation, measured as MegaVoltAmperes (MVA).
- **SPT:** From a baseline of 30,810 MVA as at 31 December 2020, installation of additional transformer capacity of 12,000 MVA by 31 December 2032.
- **Rationale:** VERBUND believes the integration of renewables into the energy grid presents a number of challenges, which are clearly relevant, core and material to the business of a power utility. These are described in the issuer's framework. Due to these challenges, additional and meaningful efforts must be made to facilitate the new additional grid connections in order to reach EU climate goals and more importantly, not to slow down the energy transition and risk the anticipated negative ecologic and economic consequences.
- **Baseline performance:** 30,810 MVA
- **Baseline year:** 31 December 2020
- **Target year:** 31 December 2032

- **Target goal:** installation of additional transformer capacity of 12,000 MVA, summing up to 42,810 MVA of transformer capacity by 31 December 2032
- **Scope:** VERBUND derives 97.3% of its revenue in 2020 from renewable energy provision for VERBUND AG.
- **Calculation methodology:** Additional transformer capacity of VERBUND (including its subsidiaries) installed to facilitate interaction with the grid and integrate renewable energy generation, measured as MegaVoltAmperes (MVA). Defined as additional installed transformer capacity of VERBUND and its subsidiaries, installed to facilitate interaction with the grid and integrate Renewable Energy (as defined in Art. 2 No. 1 of Directive (EU) 2018/2001 of the European Parliament and of the Council on the promotion of the use of energy from renewable sources (recast)) generation ("Transformer Capacity").

## Materiality and relevance

Facilitation of the energy transition and resource efficiency is considered as a key ESG issue faced by the Electric Utilities sector according to key ESG standards<sup>16</sup> for reporting and ISS ESG assessment. Energy utilities are at the forefront of this development as the decarbonization of power generation has become a focal point of efforts to mitigate climate change. Companies of this sector have a strong role to play in the decarbonization of the entire economy by providing low-carbon or carbon neutral electricity to the grid.

To support such transition, companies constantly require additional transformer capacity. One of the main indicators for the effective interaction of generation capacity with the transmission grid is in fact the total installed transformer capacity. A transformer generally enables the interaction of lower voltages (power plants, renewable generation, and load) with the high-voltage transmission grid, which is required for an efficient wide-area transportation of electrical energy.

ISS ESG finds that the KPI selected by the issuer related to the installing of additional transformer capacity to facilitate interaction with the grid and integrate renewable energy generation is:

- **Relevant** to VERBUND's business as its industry is still highly-GHG emitting and exposed to climate change mitigation solutions (e.g. provision of low-carbon, accessible and reliable electricity to grids).
- **Core** to the issuer's business as installing of additional transformer capacity facilitates renewable energy integration in Austria and Europe and affects key processes and operations that are core to the business model of the issuer (e.g. electricity generation and integration to grid).
- **Material** to VERBUND from an ESG perspective as it is one of the key ESG issues faced by the Electric Utilities industry and hence VERBUND can have material impact on energy transition and climate change mitigation by achieving this KPI. Furthermore, the KPI is applicable for VERBUND and subsidiaries and thus covers a material scope of the issuer's activities, noting that renewable energy is associated to 97.3% of the issuer's revenue in 2020.

<sup>16</sup> Key ESG Standards include SASB and TCFD, among others.

## Consistency with overall company's sustainability strategy

VERBUND has a long-standing history of commitments related to energy transition and climate change mitigation. During the past 10 year, VERBUND has had a gradual increase of installed transformer capacity raising from approximately 21,4400 MVA in 2010 to 30,810 MVA in 2020.

ISS ESG finds that the KPI 1 selected by the issuer is consistent with the issuer's strategy towards 2030. ISS ESG conducted a detailed assessment of the consistency of this KPI with the issuer's sustainability strategy in [section I.B.](#) of this report.

## Measurability

- **Material scope and perimeter:** The KPI selected covers material operations and activities of the issuer, as it covers the activities of VERBUND AG and its subsidiaries. The KPI relates to increase of transformer capacity for renewable energy integration in Austria and Europe, which already accounts for 92.4% of the revenue of the issuer and 97% of the electricity generated by VERBUND in 2020.
- **Quantifiable:** The KPI selected is measurable and quantifiable. However, the calculation methodology for this KPI is based on company's own internal data collection and verification system which is subject to internal control framework. The KPI calculation does not refer to any external standard as no such standard is commonly used in the market.
- **Externally verifiable:** The KPI selected could be externally verifiable. However, this KPI and associated past performance data has not been verified by an external verifier.
- **Benchmarkable:** This KPI is commonly reported by Electric Utilities companies and quantifiable, thus benchmarkable.

**Opinion on KPI selection:** ISS ESG finds that the KPI selected is core, relevant and material to the issuer's business model and consistent with its sustainability strategy. It is appropriately measurable, quantifiable, externally verifiable and benchmarkable. It covers a material scope of the operations and activities of VERBUND.

## 2.2. Calibration of SPT

### SPT set by the issuer

#### FROM ISSUER'S FRAMEWORK<sup>17</sup>

- **Sustainability Performance Target:** From a baseline of 30,810 MegaVoltAmperes (MVA) as at 31 December 2020, installation of additional transformer capacity of 12,000 MVA by 31 December 2032.
- **Sustainability Performance Target Trigger:** Establishing 12,000 MVA of additional transformer capacity by 31 December 2032 from baseline 31 December 2020.
- **Sustainability Performance Target Observation Date:** 31 December 2032
- **Rationale for SPT calibration:** VERBUND has compared its targeted transformer capacity growth targets with relevant data published by sector peers, where such published data exists. VERBUND believes that

<sup>17</sup> This table is displayed by the issuer in its Green Finance Framework and have been copied over in this report by ISS ESG for clarity.

installing the targeted 12,000 MVA (+39%) represents an ambitious growth target in comparison with installation trends reported by a selected sector peer, a German state grid operator.

• **Factors supporting the achievement of the target:**

- Regulatory - EU and/or national regulatory developments and policy mechanisms (in particular financial support mechanisms) which favour renewable energy generation.
- Power Prices - National/regional power price outlook – firmer pricing outlook generally improves economic case for capacity expansion.
- Commodity Prices/Labour Costs - Reduced global cost of commodities and materials used in renewable energy infrastructure (e.g. steel, cement, silicone) and reduced labour costs in the construction industry may improve the economic case for renewable energy projects. cost of carbon (e.g. EU EUAs) may serve to improve the economics of renewable energy vs alternative generation technologies, incentivising the construction of increased renewable energy capacity.
- Technology - Advancements in renewable energy generation technology may serve to reduce costs and improve the economics of renewables, incentivising the progress of projects.

• **Factors putting the achievement of the target at risk:**

- Permitting - VERBUND may not be successful in securing the planning permissions and associated permits required to proceed with renewables infrastructure projects.
- Competition - VERBUND faces increased competition from both sector peers and non-sector peers for access to renewable energy projects. Such competition may impact on the VERBUND's ability to secure participation in renewables projects on acceptable terms.
- Power Prices - Changes to the power price outlook (including demand projections) may negatively impact on the anticipated economics of projects, reducing the strength of the case for proceeding.
- Grid Integration – Technical Challenges - Failure to manage technical challenges associated with increased penetration of intermittent power supplies may result in regulatory intervention which may constrain the opportunity for renewables.
- Equipment availability and supplies - VERBUND is reliant on suppliers of renewable energy generation equipment to progress its plans to increase renewable energy capacity and transformer capacity. Failure to source the required equipment on acceptable terms may impact on VERBUND's ability to deliver against the Sustainability Performance Targets.
- Business combinations - VERBUND may seek to engage in business combinations in order to secure access to project development opportunities which may assist in meeting the SPTs. Failure to consummate such business combination efforts may adversely impact on the VERBUND's ability to meet SPTs.

## Ambition

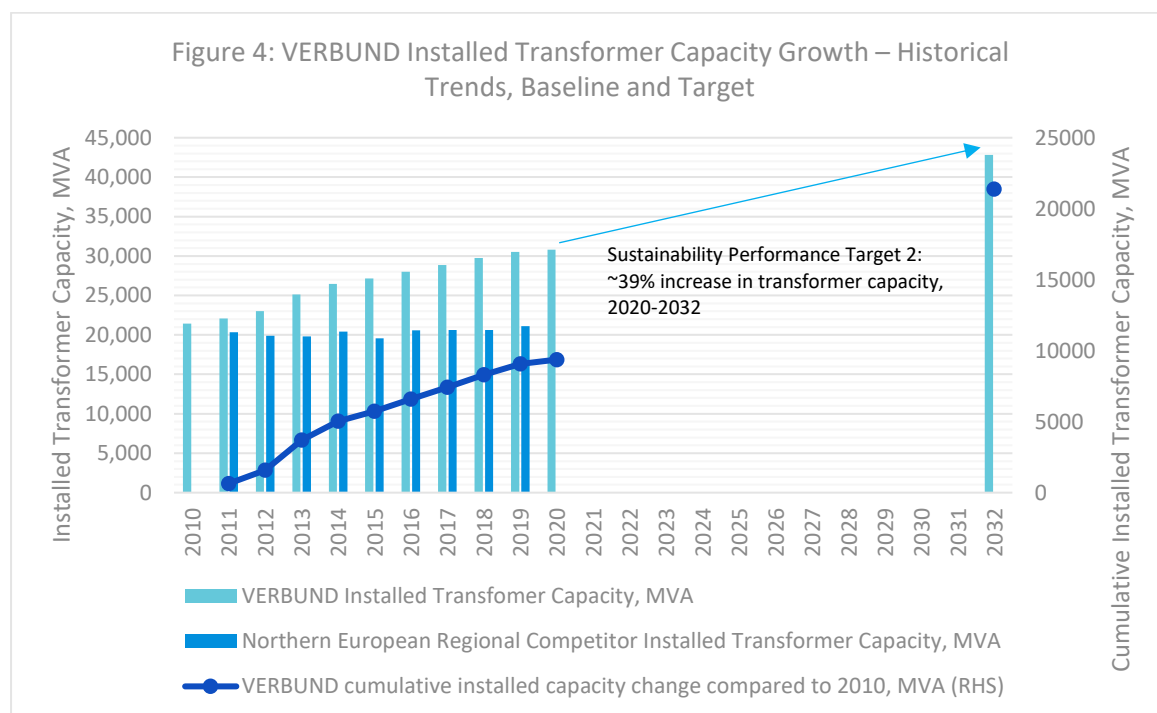
### Against company's past performance

VERBUND sets the SPT to install 12,000 MVA of transformer capacity from 31 December 2020 to 31 December 2032. As of 31 December 2020, the installed renewables capacity of VERBUND is 30,810 MVA. From 2010 to 2020, VERBUND installed transformer capacity grew of approximately 37%, equating to a yearly average growth of approx. 3.7%. However, it is important to note that historical data on installed transformer capacity, including baseline year of this target, have not been verified by an external verifier.

As the current installed transformer capacity of the issuer will remain in operations until 2032, the SPT equates to a significant increase of the total VERBUND renewables capacity of approximately 39%, which equates to 3.2% yearly average growth. While the SPT set by VERBUND represent a significant increase of the transformer capacity of VERBUND, this increase will occur at a lower annual average



rate than in the past (see Figure 4). Limitation of this conclusion is linked to the fact that historical data and baseline year has not been verified by external verifier.



Source: VERBUND Green Financing Framework, March 2021

Factors in the electric utilities sector and in Austria, where VERBUND operates, could support the achievement of this target. For example, European Union (EU) regulations are favoring renewable energy generation and price outlook in this region generally improves economic case for renewables and transformer capacity expansion. However, some other factors could put the achievement of VERBUND’s SPT at risk. Such factors include for example technical challenges associated with increased penetration of intermittent power supplies that could result in regulatory intervention which may constrain the opportunity for renewables.

In this context and compared to the baseline year, the SPT set by VERBUND is perceived by ISS ESG as ambitious against the company’s past performance. However, this ambition level can only be partially judged due to fact that the baseline year and historical data have not been verified by a third party.

#### Against company’s sectorial peers

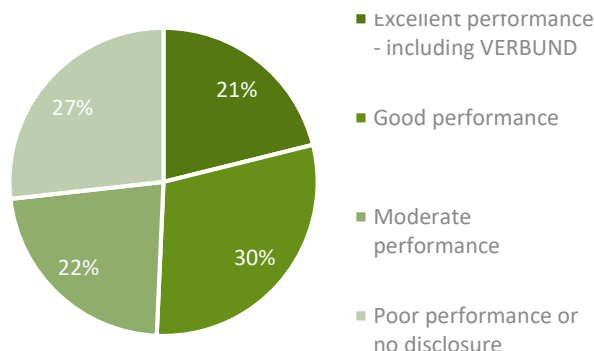
VERBUND has benchmarked its SPT against a single competitor, a German state grid operator. Installation trend of this competitor has remained stable in the last ten years. VERBUND concluded that its SPT (+39% of installed transformer capacity towards 2032 compared to 2020) represents an ambitious growth rather in comparison with installation trends reported by this single competitor.



ISS ESG completed this assessment by benchmarking the issuer's SPT set by VERBUND against the Electric Utilities peer group of 205 listed companies derived from the ISS ESG Universe. The ISS ESG Corporate Rating assesses the integration of the renewable energy into the grid of Electric Utilities companies. According to the assessment of this indicator for the companies in peer group, VERBUND belongs to the top 21% of its peer group in facilitating integration of renewable energy into the grid by having set a target on this topic and implementing measures to support the achievement of this target (see Figure 5).

Figure 5: Strategy and measures to integrate renewable energy into grid

Source: ISS ESG data, as of 18.03.2021



ISS ESG concludes that the SPT set by the issuer is ambitious compared to Electric Utilities sector practices in terms of installing transformer capacity and increasing integration of renewable energy into grid.

#### Against international targets

To the best of VERBUND and ISS ESG knowledge, no international or regional targets can be used to benchmark this SPT on installed transformer capacity. However, it is worth noting that the EU Taxonomy defines that installation of transformer supporting the integration of renewable energy into the grid as a green activity substantially contributing to climate change mitigation under activity code (under conditions of complying with Technical Screening Criteria, Do No Significant Harm Criteria and Minimum Social Safeguards).

ISS ESG cannot conclude on the ambition of this SPT against international target due to the lack of international target covering installation of transformer capacity.

#### UN Sustainable Development Goals

In addition, ISS ESG, using a proprietary methodology, assessed that the SPT achievement would have a positive contribution to the SDGs 7 "Affordable and clean energy" and 13 "Climate action".

#### Measurability & comparability

- **Verification of baseline year data:** The issuer did not get an external verification on the baseline year data for the KPI associated with this SPT. Thus, ambition level can only be partially judged due to fact that historical data have not been verified by a third party.
- **Historical data:** The issuer provided relevant historical data for the past 5 years. However, this data has not been verified by an external verifier.
- **Benchmarkable:** The SPT is benchmarkable as it is quantified. However, due to the lack of international or regional target related to this KPI, the SPT can only be benchmarked to an extent. This limitation cannot be attributed to the issuer.

- **Timeline:** The issuer defined a precise timeline related to the SPT achievement, including the target observation date, the trigger event and the frequency of SPTs measurement.

### Supporting strategy and action plan

In order to achieve this SPT, VERBUND will invest in new installation of transformer capacity in wind, solar and hydropower power. This is part of the VERBUND 2030 sustainability strategy. VERBUND has taken some measures to support integration of renewable energy into grid including investment programmes, special solutions to transport or integrate renewable energy sources and demand management programmes.

**Opinion on SPT calibration:** ISS ESG finds that the SPT calibrated by VERBUND as ambitious against the company's past performance. However, this ambition level can only be partially judged due to fact that the baseline year and historical data have not been verified by a third party. The SPT also have been judged as ambitious compared to Electric Utilities sector practices in terms of installing transformer capacity and increasing integration of renewable energy into grid. No conclusion is possible on the ambition of this SPT against international target due to the lack of international target covering installation of transformer capacity. The target is set in a clear timeline, is benchmarkable and supported by a credible strategy and action plan.

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1. Validity of the SPO: As long as VERBUND's Green Financing Framework remains unchanged.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
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## ANNEX 1: Methodology

### Assessment of the contribution and association 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, ISS ESG identifies the extent to which VERBUND's Green Bond contributes to related SDGs.

### Alignment of the concept set for transactions against the Sustainability-Linked Bond Principles, as administered by ICMA

ISS ESG reviewed the Sustainability-Linked Finance Framework of VERBUND, as well as the concept and processes for issuance against the Sustainability-Linked Bond Principles administered by the ICMA and the Sustainability-Linked Loan Principles, as administered by the Loan Market Association. Those principles are voluntary process guidelines that outline best practices for financial instruments to incorporate forward-looking ESG outcomes and promote integrity in the development of the Sustainability-Linked Financial Instruments market by clarifying the approach for issuance.

ISS ESG reviewed the alignment of the concept of the VERBUND's issuance with mandatory and necessary requirements as per the Appendix II - SLB Disclosure Data Checklist of those principles, and with encouraged practices as suggested by the core content of the Principles.

### Analysis of the KPI selection and associated SPT

In line with the voluntary guidance provided by the Sustainability-Linked Bond Principles, ISS ESG conducted an in-depth analysis of the sustainability credibility of the KPI selected and associated SPT. ISS ESG analysed if the KPI selected is core, relevant and material to the issuer's business model and consistent with its sustainability strategy thanks to its long-standing expertise in evaluating corporate sustainability performance and strategy. ISS ESG also reviewed if the KPI is appropriately measurable by referring to key GHG reporting protocols and against acknowledged benchmarks.

ISS ESG analysed the ambition of the SPTs against VERBUND's own past performance (according to VERBUND's reported data), against VERBUND's peer group Products and against international benchmarks such as the Paris agreement) and the UN SDGs (according the ISS ESG proprietary methodology). Finally, ISS ESG evaluated the measurability & comparability of the SPT, and the supporting strategy and action plan of VERBUND.

## ANNEX 2: ISS ESG Corporate Rating

The following pages contain methodology description of the ISS ESG Corporate Rating.

# VERBUND AG

Corporate ESG Performance  
**Prime**  
 RATED BY  
**ISS ESG**

## Company Information

Country  
Austria

ISIN  
AT0000746409

Industry  
Utilities/Electric Utilities

## Key Results

Rating  
**B**

Decile Rank  
**1**

Transparency Level  
**Very High**

Status  
**Prime**

Performance score  
**64.29**

Prime Threshold  
**B-**

## Absolute Rating

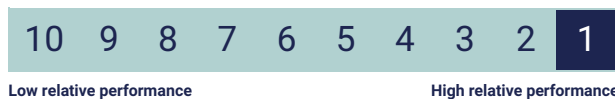


The assessment of a company's sustainability performance is based on approximately 100 criteria, selected specifically for each industry. A company's failure to disclose, or lack of transparency, regarding these matters will impact a company's rating negatively

## Transparency Level



## Decile Rank

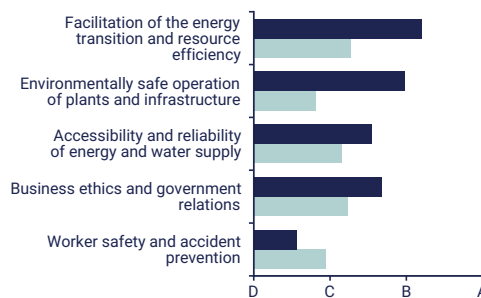


## Industry Leaders

Company name (in alphabetical order)	Country	Grade
EDP-Energias de Portuga...	PT	B
ERG SpA	IT	B
Orsted A/S	DK	B+

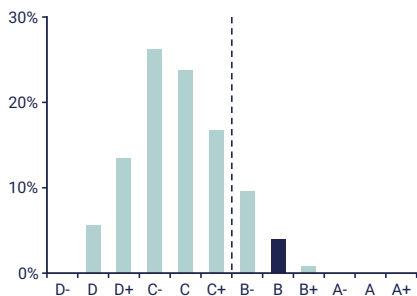
Legend: ■ Industry ■ Company --- Prime

## Key Issue Performance

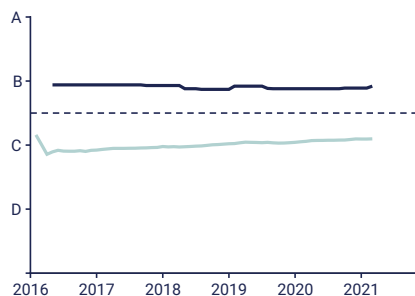


## Distribution of Ratings

126 companies in the industry



## Rating History



# VERBUND AG

## Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

**ESG Corporate Rating** - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-.

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

**Analyst Opinion** - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

**Norm-Based Research - Severity Indicator** - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
- Degree of verification of allegations and claims
- Severity of impact on people and the environment, and systematic or systemic nature of malpractices

Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

**Decile Rank** - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

**Distribution of Ratings** - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

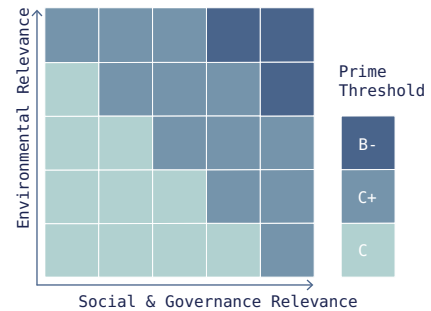


# VERBUND AG

## Methodology - Overview

**Industry Classification** - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



**Industry Leaders** - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

**Key Issue Performance** - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

**Performance Score** - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

**Rating History** - Development of the company's rating over time and comparison to the average rating in the industry.

**Rating Scale** - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

**Sources of Information** - A selection of sources used for this report is illustrated in the annex.

**Status & Prime Threshold** - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

**Transparency Level** - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.

## ANNEX 3: Quality management processes

### SCOPE

VERBUND commissioned ISS ESG to compile a Green Financing SPO. The Second Party Opinion process includes verifying whether the Green Financing Framework aligns with the Green Bond Principles, Sustainability-Linked Bond Principles, Draft Model of EU Green Bond Standard, Draft EU Taxonomy (Delegated Acts December 2020 version) and to assess the sustainability credentials of its Green Bond and Sustainability-Linked Bonds, as well as the issuer's sustainability strategy.

### CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA Green Bond Principles & Sustainability-Linked Bond Principles
- Draft Model of EU Green Bond Standard & Draft EU Taxonomy (Delegated Acts December 2020 version)

### ISSUER'S RESPONSIBILITY

VERBUND's responsibility was to provide information and documentation on:

- Framework
- Eligibility criteria
- Documentation of ESG risks management at the asset level

### ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Green Bond to be issued by VERBUND based on ISS ESG methodology and in line with the ICMA Green Bond Principles, Sustainability-Linked Bond Principles & EU Green Bond Standard.

The engagement with VERBUND took place from January to March 2021.

### ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

## About ISS ESG SPO

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 / Social Bond Principles), 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 SPO 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/>

For Information about SPO services, contact:

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