



Annual Verification of the Sustainability Quality of the
Green Bond
issued in 2014 by VERBUND AG

14 November 2016

Aim and Scope of the Annual Verification

In 2014 VERBUND AG commissioned oekom research to assist with the issuance of its Green Bond by verifying and confirming the sustainable added value of the bond using the criteria and indicators of a sustainability framework concept.

Additionally, VERBUND AG commissioned oekom research to carry out an annual verification in order to provide investors with assurance that the financed projects still comply with the eligibility criteria and that possible new projects are selected accordingly.

oekom research's mandate included the following services:

- Reassessment of compliance of the financed projects with the verification framework criteria.
- Annual review and classification of VERBUND AG sustainability performance on the basis of the oekom Corporate Rating.

Overall Re-evaluation of the Green Bond

oekom's overall evaluation of the Green Bond issued by VERBUND AG remains positive:

- The overall sustainability quality of the bond and the sustainability performance of each of the funded assets in terms of sustainability benefits and risk avoidance and minimisation remains good (Part II of this Annual Verification).
- The issuer itself shows a good sustainability performance (Part III of this Annual Verification).

Part I – Details on Proceeds

1) Use of Proceeds

The proceeds of this Green Bond are exclusively used to finance and refinance projects in Austria and Germany, related to renewable energies. Projects are financed fully or partly.

The following categories had been chosen for allocating the proceeds of this issuance (figures in millions of euros):

| Project | 2010-2015 | 2016 | Total financed through this Green Bond | Residual financing needs to be financed by other means | Total Project Costs |
|--|--------------|------------|--|--|---------------------|
| A Energy efficiency improvements of hydropower plants | | | | | |
| “Ybbs” | 31.0 | 0.0 | 31.0 | 113.0 | 144.0 |
| “Reisseck II” | 359.0 | 0.0 | 180.2 | 204.8 | 385.0 |
| B Wind power | | | | | |
| “Lower Austria” | 93.5 | 0.0 | 83.5 | 10.0 | 93.5 |
| “Hunsrück” | 205.3 | 0.0 | 205.3 | 0.0 | 205.3 |
| Total | 688.8 | 0.0 | 500.0 | 327.8 | 827.8 |

2) Management of Proceeds

Details regarding the Management of Proceeds can be found in the initial Second Party Opinion from 2014.

3) Reported Proceeds and Impacts 2015

Relevant environmental indicators of VERBUND can be found on page 116 of the Integrated Annual Report 2015, while key social data are disclosed on page 104.

<https://www.verbund.com/en-at/about-verbund/investor-relations/finanzpublikationen>

Links to the websites of the financed projects in Austria are published on the following website:

<https://www.verbund.com/de-at/ueber-verbund/investor-relations/finanzierung/anleihen>

General information on VERBUND's activities in Germany, including a reference to the wind power projects, is provided via the following website:

<https://www.verbund.com/de-at/ueber-verbund/kraftwerke/unsere-kraftwerke/windpark-rheinland>

Part II – Sustainability Quality of the Green Bond

1) Green Bond Verification Framework

Details of the individual criteria and indicators for the two project categories can be found in Annex 1 "Green Bond Verification Framework" of the initial Second Party Opinion from 2014.

2) Re-evaluation of the Projects refinanced by the Green Bond

Methods

oekom research has reassessed compliance of the financed projects with the verification framework criteria.

The re-evaluation was carried out using information and documents provided to oekom research, partly on a confidential basis, by VERBUND AG (e.g. building licenses, Green Bond portfolio including data on location, equipment manufacturers).

Findings

Findings from the initial verification as well as last year verification can be found in the original Second Party Opinion from 2014 and the Annual Verification of 2015. The following only contains additional information.

A. Energy efficiency improvements of hydropower plants

Summary of Project Category

- Project category A includes the same projects as during initial verification
 - Ybbs
 - Reisseck II

- A.1. Consideration of environmental aspects during planning and operation
 - ✓ For 100% of relevant hydropower projects, compensatory measures to mitigate environmental impacts remain implemented.
 - ✓ Renaturation measures are continuously monitored and complemented if needed.
 - ✓ Further spawning grounds have been established.
 - ✓ Building site facilities have been removed and the areas renaturated.
 - ✓ In 2014, for 100% of relevant hydropower projects, certification of an environmental management system according to ISO 14001 standard had been acquired or was planned following completion in 2015.
 - ✓ The ISO 14001 certification process for Reisseck II has been postponed, due to the fact that the plant is not operational yet.
 - ✓ The ISO 14001 certification for Ybbs is still valid.
 - As in 2014, for 100% of financed hydropower projects, no information is available on standards regarding natural water balance and runoff regimes.
 - Still, no information is available on plans/measures regarding natural water balance and runoff regime management.
- A.2. Working conditions during construction and maintenance work
 - ✓ For 100% of financed hydropower projects, health and safety procedures remain in place.
 - ✓ Health and safety management system remains in place.
 - ✓ Induction training for subcontractors still part of the management system.

Impact indicator: Energy performance

Based on new ENTSO-E-Mix calculations, which assume a higher carbon intensity of fossil fuelled power plants over the coming 10 years, the currently expected CO₂ avoidance through the hydropower projects will be about 434,000 tonnes.

B. Wind power

Summary of Project Category

- Project category B includes the same projects as during initial verification
 - Lower Austria
 - Hunsrück

- B.1. Consideration of environmental aspects during planning and operation
 - ✓ For 100% of new-built wind power projects, environmental protection measures remain implemented.
 - ✓ Crane population is continuously monitored around the German wind-power plants, accounting for 71% of the loans' volume.
 - ✓ At the Germany-based wind power plants, accounting for 71% of the loans' volume, measures are taken to protect the life of bats (e.g. bat boxes, switch-off times, monitoring). No such information is available for Austria-based wind power plants, accounting for 29% of the loans' volume.
 - ✓ In 2014, for 100% of wind power projects, certification of an environmental management system according to ISO 14001 standard had been acquired or was planned.
 - For three projects, located in Austria and accounting for 29% of the loans' volume, certification according to ISO 14001 has been acquired. The Germany-based projects, accounting for 71% of the loans' volume, are operated by a subcontractor. VERBUND plans a revision of the management concept for 2017. Environmental certification will be taken into account as a criterion.
- B.3. Community dialogue
 - ✓ For 100% of financed wind power projects, no changes have occurred. Community dialogue is being conducted with affected stakeholders.
 - ✓ Affected citizens and stakeholders can raise concerns during operation through hotlines, email-services, project websites, leaflets, dialogue platforms and project offices on-site.
 - For all Austria-based projects, accounting for 29% of the loans' volume, measures are implemented in line with the ISO 14001 certification ensuring that all stakeholder concerns are addressed. For the Germany-based projects, accounting for 71% of the loans' volume, no information is available on how VERBUND AG manages stakeholder concerns internally.
- B.4. Working conditions during construction and maintenance work
 - ✓ In 2014, for 100% of financed wind power projects, a health and safety management was implemented.
 - ✓ For all Austria-based projects, accounting for 29% of the loans' volume, health and safety management systems are still in place.

- ✓ The Germany-based projects, accounting for 71% of the loans' volume, are operated by a subcontractor. It remains unclear whether the subcontractor has implemented a health and safety management system. However, in Germany, high standards regarding health and safety are in place during construction and maintenance work (in accordance with e.g. the German Occupational Safety Act – Arbeitsschutzgesetz/ ArbSchG and the German Federal Immission Control Act).
- ✓ As in 2014, for 100% of financed wind power projects, all subcontractors working at company sites relating to this project category received training ensuring an adequate introduction to the sites' health and safety procedures.
- B.5. Social standards in the supply chain
 - As in 2014, there is still no information available on how compliance with social standards in the extended supply chain in countries with insufficient statutory standards is ensured.

Impact indicator: Energy performance

Based on new ENTSO-E-Mix calculations, which assume a higher carbon intensity of fossil fuelled power plants over the coming 10 years, the currently expected CO₂ avoidance through the wind power projects will be about 3.2 million tonnes.

Part III – Assessment of VERBUND AG’s Sustainability Performance

In the oekom Corporate Rating with a rating scale from A+ (excellent) to D- (poor), VERBUND AG was awarded a score of B and classified as “Prime”. This means that the company performed well in terms of sustainability, both compared against others in the industry and in terms of the industry-specific requirements defined by oekom research. In oekom research’s view, the securities issued by the company thus all meet the basic requirements for sustainable investments.



As at 14.11.2016, this rating puts VERBUND AG in place 3 out of 180 companies rated by oekom research in the “Utilities” sector.

In this sector, oekom research has identified the following issues as the key challenges facing companies in term of sustainability management:

- Climate protection, renewables and resource efficiency
- Safe operation of plants and infrastructure
- Reliable energy and water supply for the entire population
- Business ethics
- Worker safety and accident prevention

In all of these key issues, VERBUND AG achieved a rating result that is well above the average of the sector.

The company is involved in retailing and trading of nuclear power, with an estimated percentage of sales over 5% of total turnover and the processing of fossil fuels, coal and natural gas, with an estimated percentage of sales less than 5% of total turnover. Other than this, the company is not involved in any controversial areas of business or business practices and does not breach any of the other exclusion criteria frequently applied by sustainability-oriented investors.

Details on the rating of the issuer can be found in Annex 1 “oekom Corporate Rating VERBUND AG”.

A handwritten signature in blue ink, appearing to read "A. Geyer", is written over a faint, circular official stamp.

oekom research AG

Munich, 14 November 2016

Disclaimer

1. oekom research AG 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.

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About oekom research

oekom research is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries with regard to their environmental and social performance. oekom research has extensive experience as a partner to institutional investors and financial service providers, identifying issuers of securities and bonds which are distinguished by their responsible management of social and environmental issues. More than 100 asset managers and asset owners routinely draw on the rating agency's research in their investment decisionmaking. oekom research's analyses therefore currently influence the management of assets valued at over 600 billion euros.

As part of our Green 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 verify the compliance with the criteria in the selection of projects and draw up an independent second party opinion so that investors are as well informed as possible about the quality of the loan from a sustainability point of view.

Contact: oekom research AG, Goethestraße 28, 80336 Munich, Germany, tel: +49 / (0) 89 / 54 41 84-90, e-mail: info@oekom-research.com

Annex

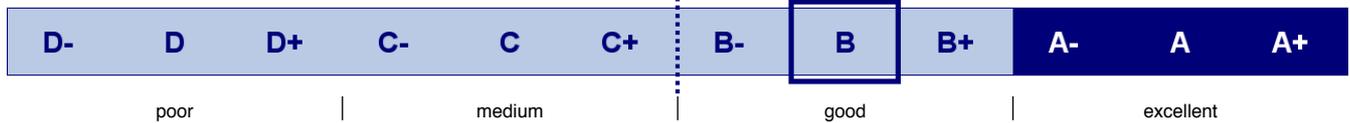
- Annex 1: oekom Corporate Rating VERBUND AG

oekom Corporate Rating

Verbund AG

Industry: Utilities
 Country: Austria
 ISIN: AT0000746409

Status: **Prime**
 Rating: **B**
 Prime Threshold: **B-**



Competitive Position

Industry Leaders

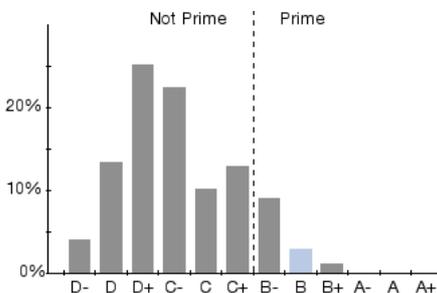
(in alphabetical order)

- REN - Redes Energeticas Nacionais SGPS SA (PT) B+
- Terna Rete Elettrica Nazionale SpA (IT) B+
- Verbund AG (AT) B

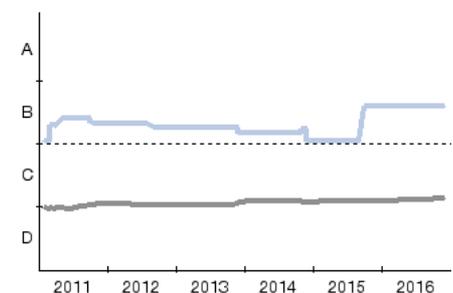
Company Industry

Distribution of Ratings

(180 companies in the industry)

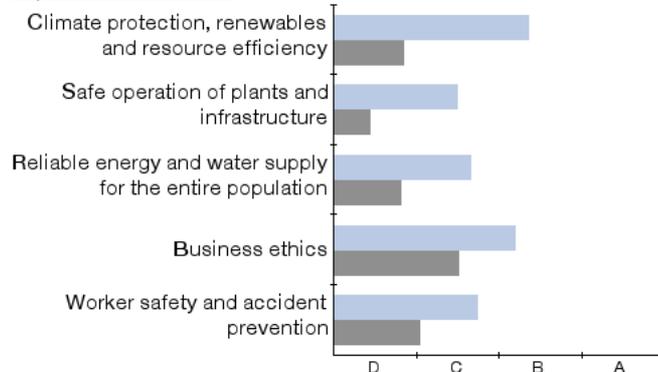


Rating History



Key Issues

Key Issue Performance



Strengths and Weaknesses

- + low carbon intensity of electricity generation due to high renewable share
- + target to achieve 100% of renewable energy generation by 2020
- + good programmes to support socially disadvantaged customers
- + very short average interruption time in power transmission
- comparatively high accident rate
- significant job cuts planned until 2020

Controversy Monitor

Company

Controversy Score: -4
 Controversy Level: Moderate



Industry

Maximum Controversy Score: -44
 Controversy Risk: Severe



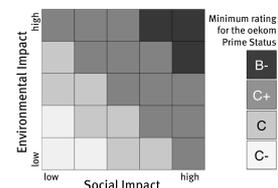
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Verbund AG

Methodology - Overview

| | |
|--------------------------|--|
| oekom Corporate Rating | <p>The oekom Universe comprises more than 3,800 companies (mostly companies in important national and international indices, but also small & mid caps drawn from sectors with links to sustainability as well as significant non-listed bond issuers).</p> <p>The assessment of the social and environmental performance of a company is generally carried out with the aid of approx. 100 social and environmental criteria, selected specifically for each industry. All criteria are individually weighted, evaluated and aggregated to yield an overall score (Rating). In case there is no relevant or up-to-date company information available on a certain criterion, it is graded with a D-.</p> <p>In order to generate a comprehensive picture of each company, our analysts collect information relevant to the rating both from the company itself and from independent sources. During the rating process, considerable importance is attached to cooperating extensively with the company under evaluation. Companies are regularly given the opportunity to comment on the results and provide additional information.</p> <p>An external rating committee assists the analysts at oekom research with the content-related design of industry-specific criteria and carries out a final plausibility check of the rating results at the end of the rating process.</p> |
| Controversy Monitor | <p>The oekom Controversy Monitor is a tool for assessing and managing reputational and financial risks associated with companies' negative environmental and social impacts.</p> <p>The controversy score is a measure of the number and extent of the controversies in which a company is currently involved: all controversial business areas and business practices are assigned a negative score, which varies depending on the significance and severity of the controversy. Both the score of the portrayed company and the maximum score obtained in the industry are displayed.</p> <p>For better classification, the scores are assigned to different levels: minor, moderate, significant and severe. The industry level relates to the average controversy score.</p> <p>Only controversies, for which reliable information from trustworthy sources is available, are recorded. It should be noted that large international companies are more often the focus of public and media attention and available information is often more comprehensive than for less prominent companies.</p> |
| Distribution of Ratings | <p>Overview of the distribution of all company ratings of an industry from the oekom Universe (company portrayed in this report: light blue). The industry-specific Prime threshold (vertical dotted line) is also shown.</p> |
| Industry Classification | <p>The social and environmental impacts of industries differ. Therefore, subject to its relevance, each industry analysed is classified in a Sustainability Matrix.</p> <p>Depending on this classification, the two dimensions of the oekom Corporate Rating, i.e. the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the oekom Prime Status (Prime threshold) are defined (absolute best-in-class approach).</p> |
| Industry Leaders | <p>List (in alphabetical order) of the top three companies in an industry from the oekom Universe at the time of generation of this report.</p> |
| Key Issue Performance | <p>Overview of the company's performance with regard to important social and environmental issues that are key to the industry, compared to the industry average.</p> |
| Rating History | <p>Trend in the company's rating over time and comparison to the average rating in the industry.</p> |
| Rating Scale | <p>Companies are rated on a twelve-point scale from A+ to D-:</p> <ul style="list-style-type: none"> A+: the company shows excellent performance. D-: the company shows poor performance. <p>Overview of the range of scores achieved in the industry (light blue) and display of the industry-specific Prime threshold (vertical dotted line).</p> |
| Status & Prime Threshold | <p>Companies are categorised as Prime if they achieve/exceed the minimum sustainability performance requirements (Prime threshold) defined by oekom for a specific industry (absolute best-in-class approach) in the oekom Corporate Rating. Prime companies rank among the leaders in that industry.</p> |
| Strengths & Weaknesses | <p>Overview of selected strengths and weaknesses of a company with regard to relevant social and environmental criteria.</p> |



Please note that all data in this report relates to the point in time at which the report was generated.