



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

20 November 2017

### 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	2010-2016	2017	Total financed through this Green Bond	Residual financing needs to be financed by other means	Total Project Costs
<b>A Energy efficiency improvements of hydropower plants</b>					
“Ybbs”	31.0	0.0	31.0	113.0	144.0
“Reisseck II”	359.0	0.0	180.2	204.8	385.0
<b>B Wind power</b>					
“Lower Austria”	93.5	0.0	83.5	10.0	93.5
“Hunsrück”	205.3	0.0	205.3	0.0	205.3
<b>Total (in mEUR)</b>	<b>688.8</b>	<b>0.0</b>	<b>500.0</b>	<b>327.8</b>	<b>827.8</b>

### 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 2016

Relevant environmental indicators of VERBUND can be found on pages 122 – 126 of the Integrated Annual Report 2016, while key social data are disclosed on pages 111 – 121.

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

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

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

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/en-at/about-verbund/power-plants/our-power-plants/rhineland-wind-farm>

## 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 the verifications of the last two years can be found in the original Second Party Opinion from 2014 and the Annual Verifications of 2015 and 2016. The following solely contains updated information.

### A. Energy efficiency improvements of hydropower plants

#### Summary of Project Category

- Project category A includes the same projects as at 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.
  - ✓ For 1 out of the 2 hydropower projects certification of an environmental management system according to ISO 14001 standard has been acquired. As of November 2017, no certification has been acquired for the second hydropower project.
    - ✓ The ISO 14001 certification for Ybbs is still valid.
    - Reisseck II is not yet ISO 14001 certified, however VERBUND plans certification as soon as possible. Reisseck II has been operational since December 2016.
    - As in 2014, for 100% of financed hydropower projects, no information is available on comprehensive plans/measures regarding natural water balance and runoff regimes.
- A.2. Working conditions during construction and maintenance work
  - ✓ For 100% of financed hydropower projects, health and safety procedures remain in place.

#### Impact indicator: Energy performance

Based on new ENTSO-E-Mix calculations, which assume a shift away from coal-fired power plants towards less carbon intensive power plants for the coming years, the currently expected CO<sub>2</sub> avoidance through the hydropower projects will be about 411,000 tonnes.

## B. Wind power

### Summary of Project Category

- Project category B includes the same projects as at 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.
  - ✓ As of November 2017, 100% of wind power projects are operated directly by VERBUND and are therefore covered by VERBUND's ISO 14001 certification.
- B.3. Community dialogue
  - ✓ For 100% of financed wind power projects, no changes have occurred. Community dialogue is being conducted with affected stakeholders.
    - ✓ As of November 2017, measures are implemented in line with the ISO 14001 certification ensuring that all stakeholder concerns are addressed for 100% of financed wind power projects.
- 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.
    - ✓ As of November 2017, health and safety management systems in line with the ISO 14001 certification are in place for all financed wind power projects.

### Impact indicator: Energy performance

Based on new ENTSO-E-Mix calculations, which assume a shift away from coal-fired power plants towards less carbon intensive power plants for the coming years, the currently expected CO<sub>2</sub> avoidance through the wind power projects will be about 2.8 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 rated “Prime”, meaning that it fulfils oekom research’s demanding requirements regarding sustainability performance in its sector



As at 20 November 2017, this rating puts VERBUND AG in place 4 out of 179 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:

- Facilitation of the energy transition and resource efficiency
- Environmentally safe operation of plants and infrastructure
- Accessibility and reliability of energy and water supply
- Business ethics and government relations
- Worker safety and accident prevention

In all of these key issues, VERBUND AG achieved a rating result that was above the average of the sector. A significant outperformance was achieved in “Environmentally safe operation of plants and infrastructure”, “Facilitation of the energy transition and resource efficiency” and “Business ethics and government relations”.

The company is involved in retailing and trading of nuclear power, accounting for approximately 5% of net sales and the processing of fossil fuels, coal and natural gas, accounting for less than 5% of net sales. 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 of VERBUND AG”.

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

Robert Haßler, CEO

oekom research AG

Munich, 20 November 2017

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## 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 decision making. 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.

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## Annex

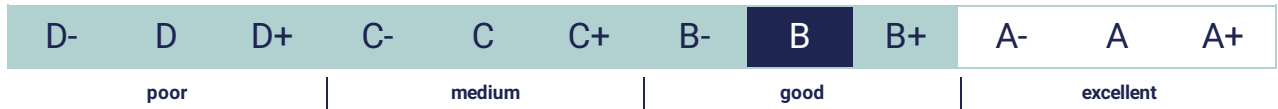
- Annex 1: oekom Corporate Rating of VERBUND AG



oekom Corporate Rating

Verbund AG

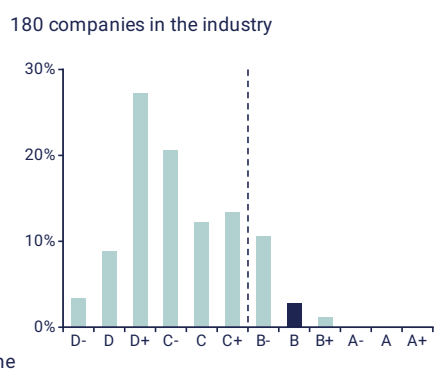
Industry	Utilities	Status	<b>Prime</b>	<div style="border: 1px solid black; padding: 5px;">                 Corporate Responsibility  <span style="background-color: #90EE90; padding: 2px 5px;">Prime</span> </div> rated by oekom research
Country	Austria	Rating	<b>B</b>	
ISIN	AT0000746409	Prime Threshold	<b>B-</b>	



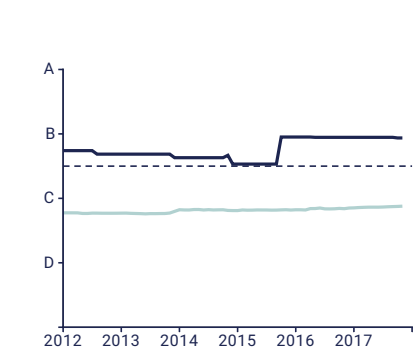
Industry Leaders

Company name (in alphabetical order)	Country	Grade
Oersted A/S	DK	B
REN - Redes Energeticas Nacionais SGPS SA	PT	B+
Terna Rete Elettrica Nazionale SpA	IT	B+

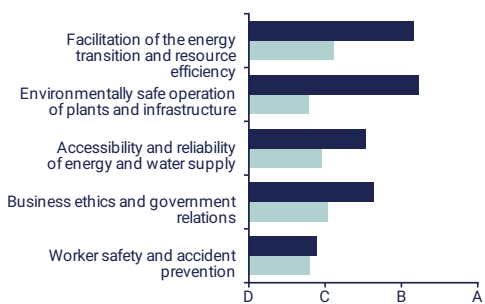
Distribution of Ratings



Rating History



Key Issue Performance

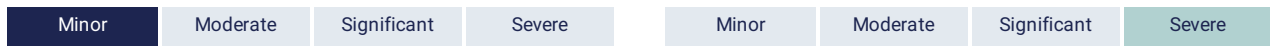


Strengths and Weaknesses

- + very low carbon intensity of electricity generation due to high renewable share
- + target to achieve 100% of renewable energy generation by 2020
- + implementation of an ambitious strategy to reduce greenhouse gas emissions
- + comprehensive measures to ensure the sustainable operation of hydropower plants
- + quantitative targets set and various incentives offered to achieve energy savings among customers
- comparatively high accident rate

Controversy Monitor

<b>Company</b>		<b>Industry</b>	
Controversy Score	-2	Maximum Controversy Score	-44
Controversy Level	Minor	Controversy Risk	Severe



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

## Methodology - Overview

**oekom Corporate Rating** - The oekom Universe comprises more than 3,800 companies (mostly companies in important national and international indices, but also small and mid caps drawn from sectors with direct links to sustainability as well as significant non-listed bond issuers).

The assessment of a company's social and environmental performance is based on approximately 100 environmental, social and governance criteria, selected specifically for each industry. All criteria are individually weighted and evaluated and the results are aggregated to yield an overall score (rating), in which the key issues account for at least 50 per cent of the total weight. In case there is no relevant or up-to-date company information available on a certain criterion and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the criterion is graded 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 itself as well as information from 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.

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.

**Controversy Monitor** - The oekom Controversy Monitor is a tool for assessing and managing reputational and financial risks associated with companies' negative environmental and social impacts.

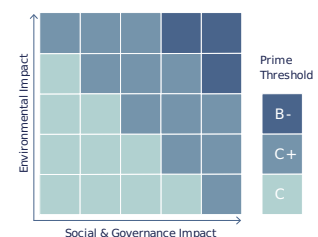
The controversy score is a unit of measurement for the number and severity of a company's current controversies. All controversial business areas and business practices receive a negative score, which can vary depending on the significance, number and severity of the controversies. Both the company's score and the maximum score obtained in the industry are displayed.

For better classification, the scores are assigned different levels: minor, moderate, significant and severe. The industry level relates to the average controversy score.

Only controversies for which reliable information from trustworthy sources is available are recorded. In addition to proven misconduct and activities of companies, alleged misconduct and activities are also assessed when the facts and circumstantial evidence provided by those sources, taking into account the experience of specialised analysts for each topic, is estimated to be sufficiently reliable. It should be noted that large international companies are more often the focus of public and media attention. Thus, the information available on those companies is often more comprehensive than for less prominent companies.

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

**Industry Classification** - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analysed is classified in a Sustainability Matrix. Depending on this classification, the two dimensions of the oekom Corporate Rating, 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).



**Industry Leaders** - List (in alphabetical order) of the top three companies in an industry from the oekom 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.

**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).

**Status & Prime Threshold** - 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 sustainability leaders in that industry.

**Strengths & Weaknesses** - Overview of selected strengths and weaknesses of a company with regard to the key issues of the industry from a sustainability point of view.