

The background of the entire page is an aerial photograph. The top portion shows rugged, snow-covered mountain peaks under a clear blue sky. The middle portion shows a lush green valley with a winding road and a large reservoir. The bottom portion shows a large concrete dam structure spanning across the valley, with a road leading up to it.

Verbund

March 2021

GREEN FINANCING FRAMEWORK

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Introduction

VERBUND's mission is to energise the future with clean electricity from our renewable energy plants and innovative solutions. VERBUND is Austria's largest utility company. VERBUND's value chain comprises the generation, transportation, trading and sale of electrical energy and other energy sources as well as the provision of energy services. In 2020, the Group generated annual revenue of around €3.2bn with approximately 2,870 employees. VERBUND has been listed on the Vienna Stock Exchange since 1988, with 51% of the share capital held by the Republic of Austria.



Strategy and Rationale

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.

Efficient generation of electricity from hydropower is and will remain the core business of VERBUND as one of Europe's biggest producers of electricity from hydropower. VERBUND's strategy is twofold: maintaining the value of its 129 existing hydropower plants while continuously improving its flexible generation facilities so that the Group can continue to ensure carbon-free base-load and peak-load energy generation in its core markets of Austria and Germany. By implementing initiatives such as the Digital Hydro Power Plant pilot project VERBUND is setting new standards in the digitalisation of hydropower. In addition to maintaining value and optimising the existing generation portfolio, VERBUND focuses its activities on harnessing existing hydropower potential in an environmentally compatible manner.

Complementing its hydropower activities, VERBUND will place increased emphasis on the expansion of renewable energy sources from onshore wind power plants and photovoltaic installations in the coming years. Here, VERBUND will be concentrating not only on achieving organic growth in its existing core markets, but also on acquiring attractive wind and photovoltaic plants in Europe. VERBUND's 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. Combined with the flexible generation facilities, this will enable VERBUND to make a major contribution to decarbonisation in Austria and Europe.

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 Austrian 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. Extensive investment in the Austrian transmission grid is required for this and will be secured through the implementation of the network development plan. This sustainable expansion of the transmission grid is pivotal to the achievement of Austria's climate targets.

The use of VERBUND's thermal power plants is instrumental to maintaining security of supply in Austria. The power plants at the Mellach site acts as a bridge to a low-carbon energy future. To advance decarbonisation efforts, the Mellach district heating power plant was converted to gas operation in 2020. Further down the line, promising technologies for the future of energy such as hydrogen, will also be researched and tested at the

Mellach site. VERBUND sees itself as a partner to its customers in the energy sector, especially in relation to the development of innovative, sustainable solutions.

The electricity trading activities serve to optimise the marketing of VERBUND's own generation, with innovative green electricity and flexible products enhancing the value of its electricity. However, VERBUND is also continuously expanding its portfolio with customer focused commercial products and new services. In the sales area VERBUND offers consumers clean electricity and climate-neutral gas, along with other energy-related products and innovative solutions to promote the efficient use of energy. Particularly in the case of cross-sectoral projects involving alternative energy sources and new storage technologies, VERBUND is positioning itself as a leading enterprise in the field of sector coupling together with its partners from business and society.

VERBUND is a catalyst for the future of energy in Austria, safeguarding a secure supply of electrical energy for business and society. VERBUND provides decisive support for the system integration of volatile renewable generation and is shaping Europe's energy industry as a driver of sector coupling.

Strategic pillars of VERBUND's 2030 strategy

Efficient hydropower generation

Maintaining the value of existing hydropower generation, optimising the flexible generation portfolio and commercial exploitation of existing opportunities to grow hydropower.

New renewables generation

Long-term, profitable expansion of around 20–25% of the total electricity generated by VERBUND from onshore wind power plants and photovoltaic systems by 2030 to advance decarbonisation.

Sustainable Expansion and safe grid operation

Sustainable expansion of the transmission grid as the basis for safe operation and a liquid electricity market in Austria and Europe and a measure to integrate the build out of new renewables.

Security of supply

Use of existing, flexible gas-fired power plants to maintain domestic security of supply in Austria as a bridge to a low-carbon energy future.

Customer-centric solutions

Innovative partner for customers in the energy sector and development of sustainable solutions with alternative energy sources and new storage systems

Rationale for ESG financing

To support the 2030 Strategy and broader sustainability aims, VERBUND has not only incorporated ESG-related considerations into the daily operations of all subsidiaries and the central function, but also looked to reflect its commitment to sustainability through the raising of Green financing. VERBUND has a proven long-term track record in Green finance, as one of the first corporate issuers in this space, and has consistently been one of the thought leaders in this area.

- In 2014 VERBUND AG was the first corporate in the DACH region 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.¹
- 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.²
- In 2018 VERBUND issued an ESG-linked syndicated loan, whose margin is (solely) tied to VERBUND's ESG-rating.

VERBUND has a stated aim to be the market leader in green finance. Through this new 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.

It is VERBUND's vision in green finance not only to finance green projects with a positive impact on ESG related items but also to develop the green finance market with new innovative products and to make a substantial contribution to Europe's climate targets.



¹ VERBUND has fully allocated the issue as of Jan 2021 and has produced reporting which includes: *The Impact Reporting 2020* and the *Green Bond Fully Allocated reports*

² VERBUND has provided investors with an *Annual Review 2020* and *Annual Review 2019* for its Green Schuldschein

Commitment to the Sustainable Development Goals

As Austria's leading utility, VERBUND supports the United Nations' 17 Sustainable Development Goals ("SDGs"). VERBUND focuses our commitment on all those SDGs which can be significantly impacted by its business activities. VERBUND sees especially SDG 7 "Affordable and Clean Energy" as a core target in the spirit of its corporate vision "Giving energy to the future with clean electricity and innovative solutions." Generation from hydropower and wind power does not produce any direct greenhouse gas emissions. This means that by purchasing electricity generated by VERBUND, customers are making an active contribution to lowering carbon emissions in support of SDG 13 – "Climate action". VERBUND implements numerous measures to minimize the impact of its power plant construction and operation activities on plants, animals and humans. VERBUND takes existing regions of ecological importance into consideration and invest in projects that either secure or improve plant and animal biodiversity. This supports SDG 15 – "Life on Land" in particular.

VERBUND not only supports the environmentally-focused SDGs but also commits itself to have a positive social impact. In this sphere, VERBUND focuses on SDG 4 "Quality education" and SDG 5 "Gender equality". The diversity of VERBUND's workforce is a major success factor for the company. VERBUND focuses on having a good balance of male and female employees and have created several initiatives designed to ensure a balanced gender ratio. One of these initiatives is the VERBUND Gender Balance project which aims to create a company culture that is both diverse and intergenerational. Another initiative is the VERBUND women's scholarship, which has supplied financial aid to highly qualified female students at the Technical University of Vienna since 2009.

To ensure the smooth operation of its plants, VERBUND relies on having highly qualified employees. Consequently, all of its employees are not only trained regularly but VERBUND also schools its own apprentices in two vocations: electrical engineering and metalworking.

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 its strategy, culture and day-to-day operations.



Environmental and Social Risk Management

VERBUND has established a Corporate Responsibility Committee (“CRC”). The CRC is chaired by a member of the Executive Board. The members of the CRC are as follows: one management representative from each of the companies included in the consolidated financial statements, all divisional heads from the holding company, the chairperson of the Group’s employee representatives, the Group Compliance Officer, the head of Corporate Responsibility, the Group Sustainability Officer, the Group Environmental Officer and the Group Health Officer. The Corporate Responsibility Committee deals with the topics of sustainability and environment as well as with the reporting on occupational health and safety strategies and accessibility.

With respect to these topics, the CRC’s tasks and areas of responsibility include the following: advising Executive Board members on the strategic issues under their purview, defining strategic corporate responsibility targets and passing on suggestions from the companies and holding company divisions represented on the committee to the sustainability team. The CRC furthermore ensures that executives and employees at the respective companies and holding company divisions sufficiently adhere to sustainability principles, and it approves the basic concept proposed by the sustainability team for the non-financial content of the Integrated Annual Report.

In order to systematically anchor the concept of sustainability within the Group, VERBUND has implemented a Corporate Responsibility (“CR”) management system in accordance with the requirements of ONR 192500 (Social Responsibility of Organisations).³

On a regular basis VERBUND reviews environmental, social and governance issues to determine their relevance for the Group and conducts detailed analyses of strengths, weaknesses, opportunities and threats. As part of this analysis, VERBUND identifies possibilities to influence the individual core subjects and thus the environment and society as well as how these influence VERBUND.

A variety of approaches are used to measure the effectiveness of the CR management system. These include the numerous KPIs that are calculated and published each year in VERBUND’s Integrated Annual Report. Once a year, the CR management system is reviewed in the context of an evaluation performed by the top management level. Periodic internal audits are also conducted to ensure that the CR management system complies with the regulatory standard and the principle of appropriateness. If any issues are discovered, corrective action is taken to ensure continuous improvement of the CR management system and the underlying targets.

In addition, VERBUND has implemented environmental management systems in accordance with ISO 14001 at all power plants and grid facilities, as well as the large administrative sites. New plants are integrated into the environmental management system as quickly as possible after commissioning and included in the scope of the certificate during the subsequent audit.

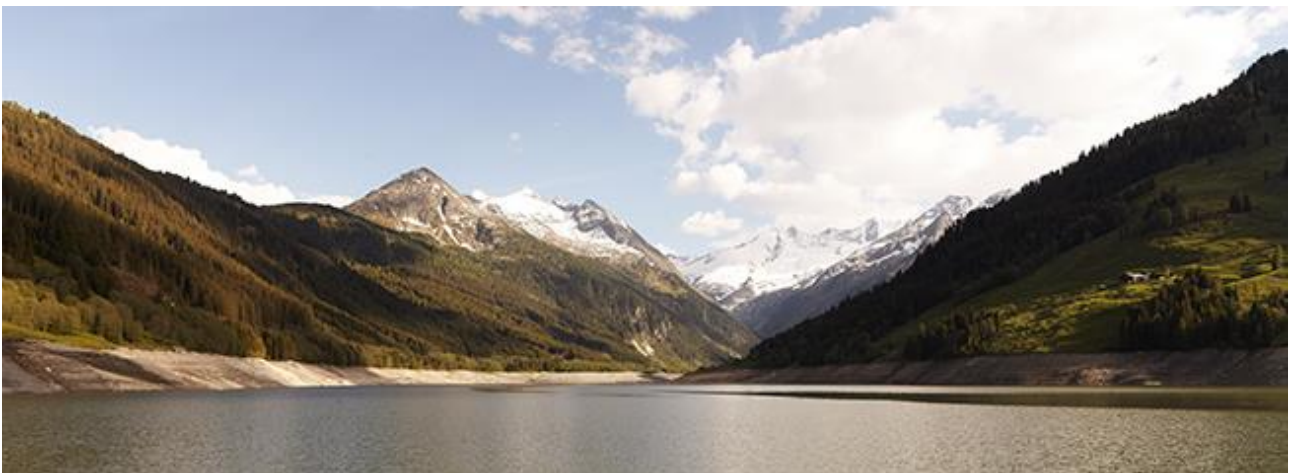
³ ONR 192500 is the Austrian standard implementing the international ISO 26000 standard for corporate social responsibility

Sustainability Related Reporting by VERBUND

In 1994, VERBUND pre-empted the trend towards statements on environmentally relevant factors by being one of the first companies in Austria to prepare an 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 the sustainability measures in the GRI guidelines aligned Integrated VERBUND Annual Report. This report is published concurrently with VERBUND's Communication on Progress ("COP") that describes the company's efforts to implement the Ten Principles of the UN Global Compact.

VERBUND has also published other supporting documents that outline its position on sustainability and provide an overview of the specific contribution towards achieving the Sustainable Development Goals

- Sustainability Policy⁴
- Responsible Energy brochure⁵
- Climate Report⁶



⁴ <https://www.verbund.com/-/media/verbund/ueber-verbund/verantwortung/sustainability-policy.ashx>

⁵ <https://www.verbund.com/-/media/verbund/ueber-verbund/verantwortung/nachhaltigkeit/energy-with-responsibility.ashx?ori=1&la=en>

⁶ <https://www.verbund.com/-/media/verbund/ueber-verbund/verantwortung/umwelt/klimaschutz/verbund-climate-report-en.ashx>

Alignment with Voluntary Market Standards

This Framework has been established to support the future issuance of sustainable financing instruments, including Green Bonds, Sustainability-Linked Bonds or a combination of the two. This Framework has been developed in alignment with the Green Bond Principles 2018⁷, and the Sustainability-Linked Bond Principles, 2020⁸. The Framework also aligns with the most recent draft Delegated Acts of the EU Taxonomy (“EU Taxonomy”), published in November 2020.⁹


Green Bond Principles

Use of Proceeds

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 prior to the date of any issuance. 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.

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	SDG alignment
Renewable Energy	D35.11 and F42.22 ¹⁰ D35.12 and D35.13 ¹¹	Investments relating to the construction, development, acquisition, maintenance, and/or operation of renewable energy installations including solar and wind power, hydropower ¹² , and associated grid infrastructure	Projects may include the following: <ul style="list-style-type: none"> • Refurbishment and expansion of a hydropower plant • Power grid projects that facilitate transmission of renewable energy 	

⁷ <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/green-bond-principles-gbp/>

⁸ <https://www.icmagroup.org/sustainable-finance/the-principles-guidelines-and-handbooks/sustainability-linked-bond-principles-slbp/>

⁹ <https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/12302-Climate-change-mitigation-and-adaptation-taxonomy>

Note: hydropower does not have a corresponding NACE code

¹⁰ Electricity Generation Using Solar Photovoltaic Technology, Electricity Generation Using Concentrated Solar Power Technology and Electricity Generation from Wind Power

¹¹ Transmission and Distribution of Electricity

¹² Only hydropower assets developed in European Union countries and subject to EU environmental legislation will be considered eligible for allocation

		<p>The corresponding EU Taxonomy criteria are:</p> <ul style="list-style-type: none"> • Electricity Generation from Hydropower • Electricity Generation Using Solar Photovoltaic Technology • Electricity Generation from Windpower • Transmission and Distribution of Electricity 		
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Process for Project Evaluation and Selection

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
- 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.



Management of Proceeds

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 Group Finance.

VERBUND will establish a register of Eligible Green Projects and will track allocations matched to any Green Bond proceeds. This process will be managed by VERBUND Group Finance.

Pending full allocation of an amount equivalent to the net proceeds of the Green Bond to the Eligible Green Projects, the net proceeds will be invested on a temporary basis in accordance with the relevant internal treasury policies, in cash, cash equivalents or similar instruments (including green, social and/or sustainability bonds issued by other issuers).

Reporting

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.

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 potential qualitative and quantitative metrics illustrating the substantial contribution to the Environmental Objectives of the Eligible Green Projects are shown in Annex I. The selection of qualitative and quantitative metrics used in the Impact Report is subject to the availability of suitable information and data.

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. The criteria are aligned with the EU Taxonomy and are checked by the external reviewer within the process of providing a second-party opinion. The full description of associated requirements can be found in the Annexes of the EU Taxonomy.

An external reviewer has 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 each Eligible Green Project category can be found in the second-party opinion.

External Review

ISS ESG has provided a Second Party Opinion on VERBUND's Green Financing Framework. The Second Party Opinion is available at www.iss-esg.com

VERBUND also intends to commission a compliance review 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.

Sustainability-Linked Bond Principles

This section is intended to demonstrate alignment of this element of the Framework with the 5 core components of the recommendations of the Sustainability-Linked Bond Principles:

1. Selection of Key Performance Indicators (KPIs)
2. Calibration of Sustainability Performance Targets (SPTs)
3. Bond characteristics
4. Reporting
5. Verification

Rationale for SLB issuance and consistency with overall business strategy

VERBUND believes that the business is already demonstrating alignment with the goals of the Paris Agreement on Climate Change. One of VERBUND's goals is to reduce the VERBUND - specific direct

greenhouse gas emissions (Scope 1) to below 19g CO₂e 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:

1. Efficient generation of electricity from hydropower;
2. Expansion of electricity generation from renewable energy sources such as wind and solar power;
3. Sustainable expansion and safe operation of the Austrian high-voltage grid;
4. Use of the flexible power plants to maintain security of supply in Austria; and,
5. 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 2 and pillar 3 above. The proposed issuance is therefore fully coherent with, and aligned to, the current strategic direction.

Selection of Key Performance Indicators (KPIs)

VERBUND has selected the following KPIs for the purposes of supporting potential future Sustainability-Linked financing instruments.

KPI 1: Newly-installed production capacity of hydropower, wind power and photovoltaic (PV) solar renewable energy, measured as Megawatts (MW)¹³

KPI 2: Additional transformer capacity to facilitate interaction with the grid and integrate renewable energy generation, measured as MegaVoltAmperes (MVA)¹⁴

Basis of selection

The Sustainability-Linked Bond Principles recommend that the selected KPIs be relevant, core and material to the issuer’s overall business, and of high strategic significance to the issuer’s current and/ or future operations.¹⁵

¹³ "KPI 1" means newly-installed production capacity of hydropower, wind power and photovoltaic (PV) solar renewable energy (together, "Relevant Renewable Energy") of the Issuer (including its Subsidiaries), measured as Megawatts ("MW")

¹⁴ "KPI 2" means additional installed transformer capacity of the Issuer (including 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, measured as MegaVolt-Amperes (the "Transformer Capacity"), measured as MegaVolt-Amperes ("MVA")

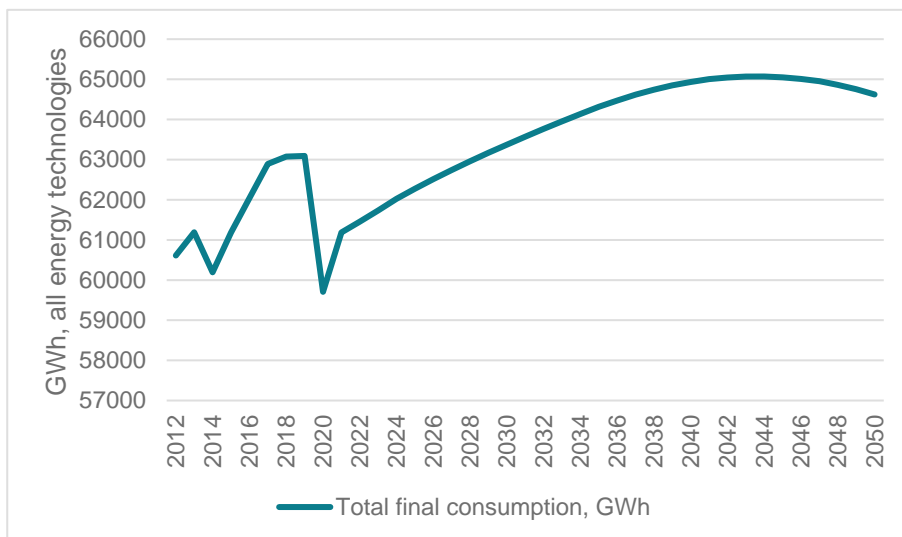
¹⁵ VERBUND has also taken into account the latest guidance published by the ECB regarding acceptance of bonds with coupon structures linked to certain sustainability performance targets (SPTs) as eligible collateral for Eurosystem credit operations and for outright purchases in Eurosystem monetary policy operations. VERBUND believes that the KPIs selected within this Framework are fully aligned with the EU Environmental Objective of Climate Mitigation, and UN Sustainable Development Goal No. 7 (Affordable and Clean Energy)

KPI 1

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. VERBUND derived 97.3% of its revenue in 2020 from renewable energy provision for VERBUND AG.

For the purposes of illustration, the chart enclosed below highlights the projected increase in demand for energy in an overall Austrian context. As per EU and national targets, an increasing proportion of the supply to meet this increased demand will need to be provided from renewable energy sources.

Austria – Projected Energy Demand



Source: Bloomberg New Energy Outlook¹⁶, latest data available

KPI 2

VERBUND believes that the selection of KPI 2 also demonstrates alignment with the Sustainability-Linked Bond Principles. The rationale for selection is further detailed below.

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. Such challenges include¹⁷:

- technical challenges around the intermittent nature of wind and solar-based electricity generation;

¹⁶ <https://www.bnef.com/>; refer to relevant disclaimers

¹⁷ Source: UK Energy Research Centre: <https://ukerc.ac.uk/publications/the-costs-and-impacts-of-intermittency-2016-update/>

- increased system costs associated with raising of reserve requirements. Grid operators already need to hold flexible generators in reserve, in case conventional power stations go out of service. Short-term fluctuations in the output of wind and solar can mean more reserve is needed;
- Increased system cost due to need to maintain enough capacity to meet peak demand at all times;
- Increased costs relating to the need for strengthening of electricity transmission networks;
- costs associated with curtailment, where for example, windfarm output is wasted because there is not enough grid capacity to get the power to customers;
- system costs relating to the efficiency of conventional power stations, which can be impaired if they have to turn on and off in response to variable renewable generation instead of operating steadily; and,
- increase in renewables and reduction in fossil fuel plant changes the resilience of the electricity system by reducing 'inertia', which traditionally stems from the spinning mass of steam-driven turbines.

One of the main indicators for the effective interaction of generation capacity with the transmission grid is 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.

During the development of the annual National Network Development Plan ('NEP'), APG defines the requirements for the transmission grid, and the project promoters and distribution system operators report their requirements for additional connection to the transmission system. As a result of this planning process, the need for new connection points (substations) with additional transformer capacity have been identified.

This facilitation of new renewables capacity integration serves as the basis for the fulfilment of national and EU climate goals, which are also defined in the National Energy and Climate plans, which are binding and reported directly to the European Commission by each member state. Failure to reach these climate goals would risk severe economic and ecological consequences.

The additional transformer capacity identified implies a higher rate of capacity installation growth compared to previous years. Therefore additional and meaningful efforts must be made to facilitate the new additional grid connections in order to reach EU climate goals and more importantly, to avoid delaying the energy transition, and risk the anticipated negative ecologic and economic consequences.



Calibration of Sustainability Performance Targets (SPTs)

VERBUND believes that availability of attractively-priced, reliable, low-carbon electricity is key to the overall effort to decarbonise the economy. Demand for electricity supply with such characteristics is expected to increase as industry sectors currently reliant on fossil fuels increasingly seek to meet their energy needs via renewable electrical energy.

VERBUND has therefore set the ambitious targets detailed below to increase renewable electricity generation, to ensure the required supply is available to support the planned transition to a lower-carbon economy.

Key factors which are relevant to the ability of VERBUND to meet the specified targets include (but are not limited to)¹⁸ those listed below.

Details of factors which may adversely impact on VERBUND's ability to meet SPTs:

Category	Description
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 the SPTs.

¹⁸ Further risk issues which may impact on the ability of VERBUND to deliver against the Sustainability Performance Targets detailed here are set out in the relevant bond offering documentation (see 'Risk Factors').

Details of factors which may serve to support VERBUND's efforts to achieve SPTs:

Category	Description
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. Carbon price outlook - Increased cost of carbon (e.g. EU EUAs ¹⁹) 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.

Sustainability Performance Target 1 (SPT1)

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 2032²⁰

Sustainability Performance Target 2 (SPT2)

From a baseline of 30,810 MVA²¹ as at 31 December 2020, installation of additional transformer capacity of 12,000 MVA by 31 December 2032.²²

In alignment with the recommendations of the Sustainability-Linked Bond Principles, VERBUND has taken the steps outlined below to calibrate SPTs, with a view to reconfirming the level of ambition accompanying the targets.

VERBUND's current 'baseline' capacity with respect to installed renewable energy capacity is noted below. VERBUND has selected the year ending 31 December 2020 as the baseline year against which the Sustainability Performance Targets will be assessed. This baseline, which reflects the current level of installed renewables capacity and transformer capacity has been selected as the most logical data point for the

¹⁹ European Union Allowance – an instrument representing the right to emit one tonne of carbon dioxide equivalent, which is traded on the EU Emissions Trading System.

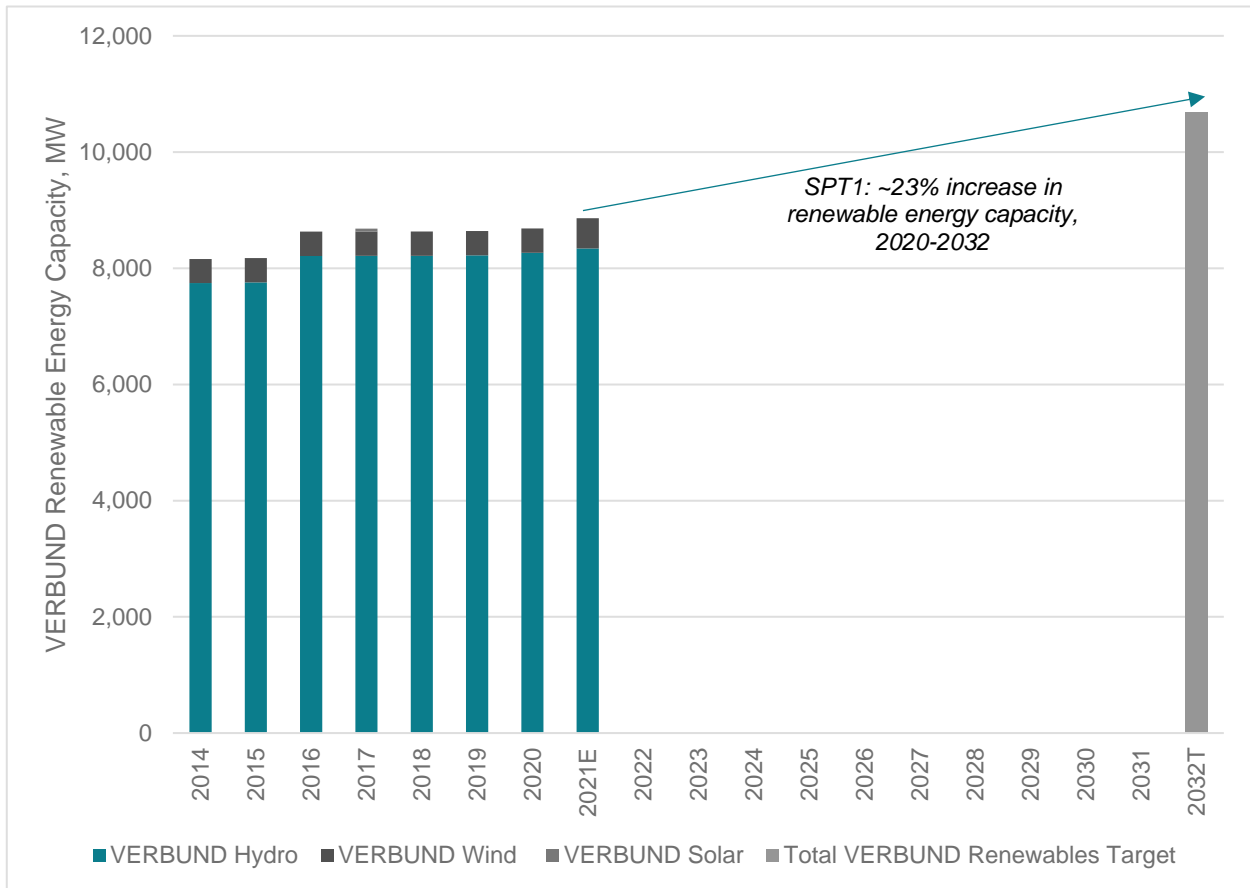
²⁰ 'Newly-installed renewables capacity' (see Footnote 13 for definition) is that which results from installations commissioned after 31 December 2020

²¹ Relevant data is currently published on APG's website. It will be included in the next edition of APG's annual report as of 31 December 2021. APG Website: [About Us \(apg.at\)](https://www.apg.at)

²² 'Additional transformer capacity' (see Footnote 14 for definition) is that which is commissioned after 31 December 2020. Note: 1MVA transformer capacity corresponds to facilitation of approximately 1 MW of renewable energy integration

purposes of assessing the ambition of the targets established, given the general upward trend in both KPIs over time.

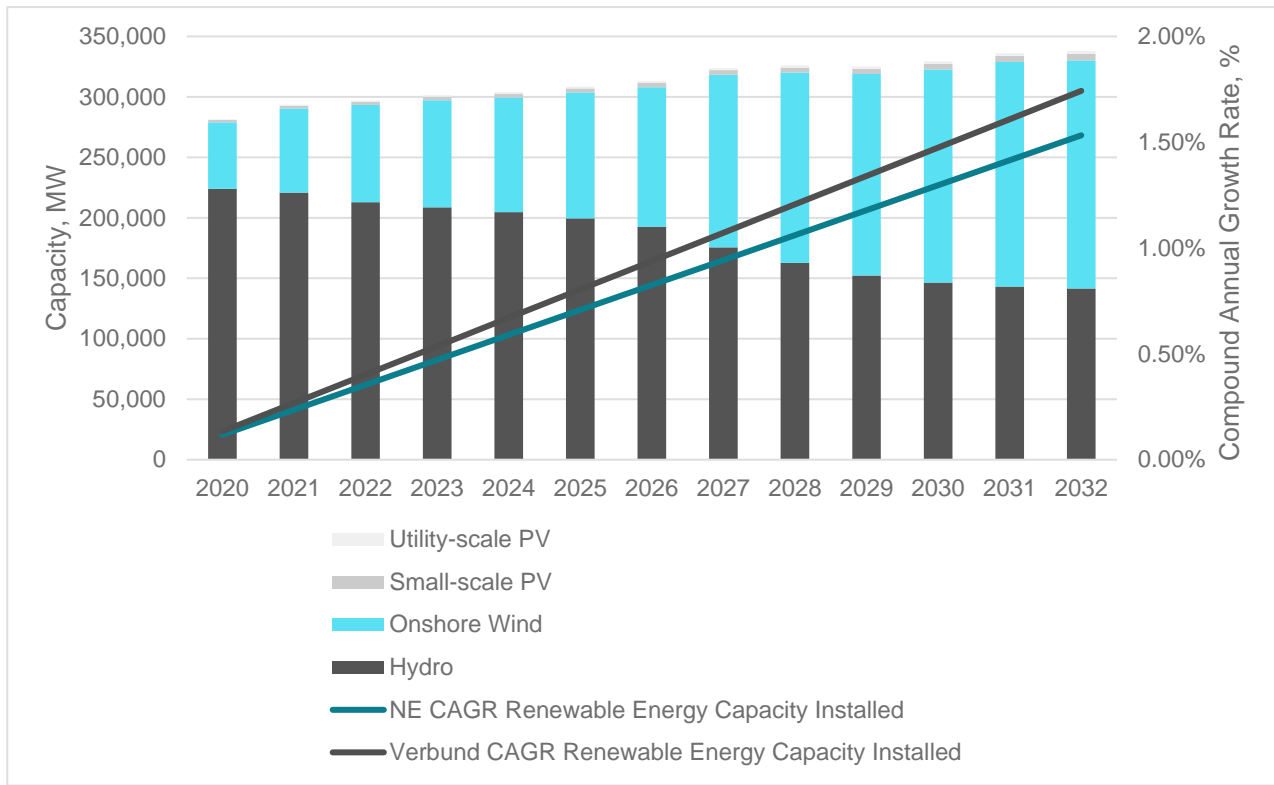
VERBUND Renewable Energy Capacity Installation Track Record and Planned Capacity Expansion



Source: VERBUND Integrated Annual Report 2020

For the purposes of calibration of SPT1, 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, Solar PV), over the same 12-year time period over which VERBUND plans to increase its renewable energy installed capacity. The calibration of VERBUND's targets compared to the projected growth in the regional market for the same mix of renewables technologies is illustrated in the chart below on a straight-line basis.

North Europe Renewable Energy Capacity Growth Forecast by Technology (MW), & CAGR for renewable energy capacity for North Europe (NE) and VERBUND (%), RHS



Source: Bloomberg New Energy Finance, latest dataset available

The chart above highlights the following:

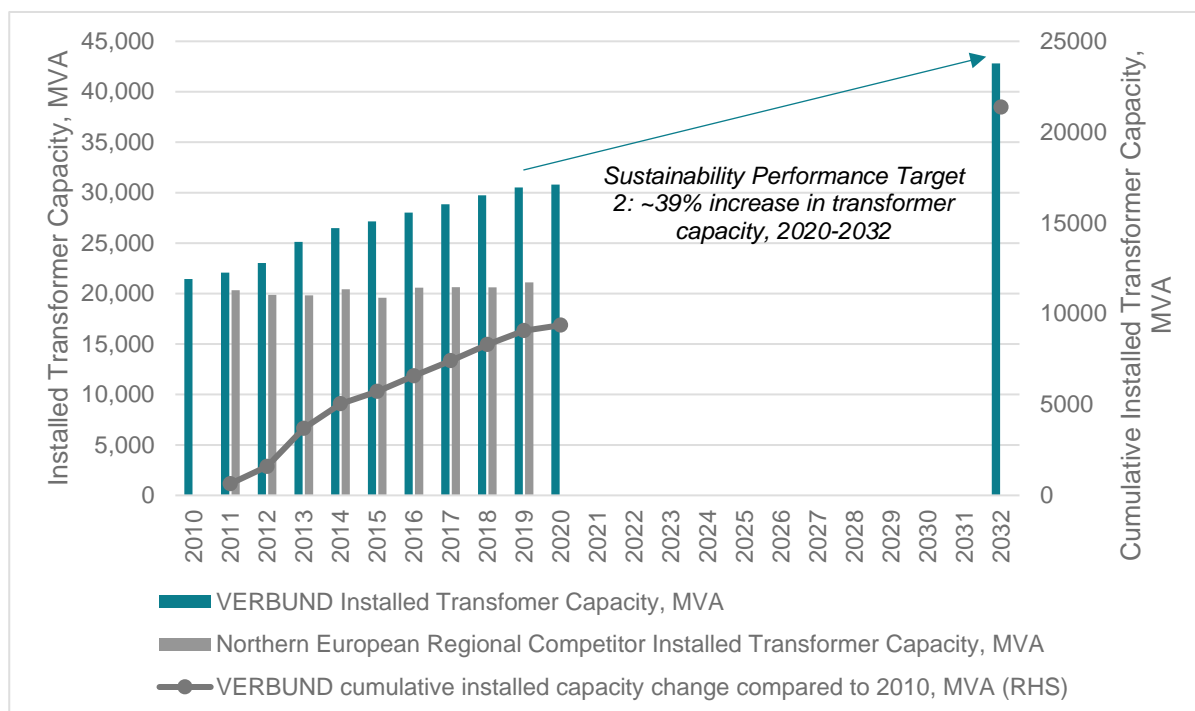
SPT 1 of 2,000 MW newly-installed by 31 December 2032 implies a rate of change (increase) in capacity which exceeds the forecasted regional rate of capacity installation, matching for type of renewable energy technology (i.e. hydropower, onshore wind and solar PV).

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. Regional forecasts for the Northern European²³ region anticipate that the annual CAGR will be approximately 1.5% for the equivalent period.

Regarding calibration of SPT2, VERBUND has compared its targeted transformer capacity growth targets with relevant data published by sector peers, where such published data exists. This comparison is illustrated in the chart below.

²³ Source: Bloomberg New Energy Outlook, latest dataset available (<https://www.bnef.com/>, refer to relevant disclaimers)

VERBUND Installed Transformer Capacity Growth – Historical Trends, Baseline and Target



Source: Company Information. Competitor's installed Transformer Capacity refers to Substations, Extra High Voltage and High Voltage grid infrastructure.

VERBUND believes that installing the targeted 12,000 MVA (+39%) represents an ambitious growth target in comparison with installation trends reported by a selected sector peer (peer selected based on availability of published data only²⁴), as illustrated in the chart above.

Bond characteristics

VERBUND has set out below the proposed adjustment to the characteristics of any Sustainability-Linked financing instrument, which will be applied in the event that VERBUND does not achieve both of the specified Sustainability Performance Targets (SPTs) by the relevant Target Observation Date.

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 25 bps 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.

²⁴ Note: There is currently limited disclosure by industry sector peers of relevant comparable data concerning installed transformer capacity. VERBUND has drawn on data published by a German state grid operator peer.

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.

Reporting

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.

The scope of reporting shall include:

- Up-to-date information concerning the performance of VERBUND²⁵ against the selected KPIs and SPT1 and SPT2. Performance against KPIs will be reported for VERBUND, including where relevant, subsidiaries;
- Where suitable data is available, an indication of the environmental benefits attributable to the achievement of the KPIs (e.g. tCO2e 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.

Verification

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 Assurance²⁶ 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)²⁷. The output of the Assurance procedures shall be made publicly available in the annual integrated report of VERBUND AG until and including the observation date. 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.

²⁵ Note on Scope of Reporting: Performance will be reported for VERBUND, as defined in the relevant Offering Document (see 'Description of the Issuer').

²⁶ <https://www.icaew.com/archive/technical/audit-and-assurance/assurance/process/scoping/assurance-decision/limited-assurance-vs-reasonable-assurance>

²⁷ <https://www.icmagroup.org/sustainable-finance/external-reviews/>

No later than 30 April following the Sustainability Performance Target Observation Date, VERBUND will provide via the company website, an 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.



Annex I – Impact Reporting

Green Bond Principles Eligible Category	Description	Indicative Reporting metrics	Additional Information
Renewable Energy	Electricity Generation from Hydropower	Renewable Energy Capacity Added (MW): tCO _{2e} avoided	<p>Environmental Management:</p> <ul style="list-style-type: none"> new generation facilities are incorporated into the certified environmental management system (e.g. ISO 14001) as quickly as possible after commissioning and included in the scope of the certificate <p>Working conditions during construction and maintenance:</p> <ul style="list-style-type: none"> for all projects, a health and safety management is implemented all projects are located in countries with high statutory standards on occupational health and safety all subcontractors working at company sites relating to this project category receive induction training ensuring an adequate introduction to site health and safety procedures <p>Stakeholder Information: for all projects:</p> <ul style="list-style-type: none"> general Information about hydro power investment projects is publically available (e.g. integrated annual report, VERBUND website) for projects with issues regarding environment / local communities - local communities / stakeholders are engaged with adequate measures (e.g. project information on local level, information material, VERBUND website)
Renewable Energy	Electricity Generation Using Solar Photovoltaic Technology	Renewable Energy Capacity Added (MW) tCO _{2e} avoided	<p>Environmental Management:</p> <ul style="list-style-type: none"> for operations and maintenance of all plants operated by VERBUND Green Power (operations management), a certified environmental management system is implemented (e.g. ISO 14001) <p>Working conditions during construction and maintenance:</p> <ul style="list-style-type: none"> for all projects, a health and safety management is implemented all projects are located in countries with high statutory standards on occupational health and safety (Europe) all subcontractors working at company sites relating to this project category receive induction training ensuring an adequate introduction to site health and safety procedures <p>Stakeholder Information: for all projects:</p>

			<ul style="list-style-type: none"> • general Information about projects is published (e.g. integrated annual report, VERBUND website) • For projects with issues regarding environment / local communities: • Involvement of local communities / stakeholders with adequate measures (e.g. project information on local level, information material, VERBUND website)
Renewable Energy	Electricity Generation from Windpower	Renewable Energy Capacity Added (MW) tCO ₂ e avoided	<p>Environmental Management:</p> <ul style="list-style-type: none"> • for operations and maintenance of all plants operated by VERBUND Green Power (operations management), a certified environmental management system is implemented (e.g. ISO 14001) <p>Working conditions during construction and maintenance:</p> <ul style="list-style-type: none"> • for all projects, a health and safety management is implemented • all projects are located in countries with high statutory standards on occupational health and safety • all subcontractors working at company sites relating to this project category receive induction training ensuring an adequate introduction to site health and safety procedures <p>Stakeholder Information:</p> <ul style="list-style-type: none"> • for projects with issues regarding environment / local communities - • local communities / stakeholders are engaged with adequate measures (e.g. project information on local level, information material, VERBUND website)
Renewable Energy	Transmission and Distribution of Electricity	Expected tCO ₂ e avoided Additional transformer capacity (MVA) (Average) Annual avoided curtailment (renewable energy)(GWh/year)	<p>Environmental Management:</p> <ul style="list-style-type: none"> • new grid facilities are incorporated into the certified environmental management system (e.g. ISO 14001) and included in the scope of the certificate • Taking security of supply into account, APG supports regional nature conservation projects in the area of power line routes <p>Working conditions during construction and maintenance:</p> <ul style="list-style-type: none"> • A health and safety management is implemented • All subcontractors working at company sites relating to this project receive induction training ensuring an adequate introduction to site health and safety procedures <p>Stakeholder Information:</p> <ul style="list-style-type: none"> • for projects with issues regarding environment / local communities - • local communities / stakeholders are engaged with adequate measures (e.g. project information on local level, information material, VERBUND website)

Disclaimer

The information and opinions contained in this Framework are provided as at the date of this document and are subject to change without notice.

VERBUND does not assume any responsibility or obligation to update or revise such statements, regardless of whether those statements are affected by the results of new information, future events or otherwise.

This Framework represents current VERBUND policy and intent, is subject to change and is not intended nor can be relied on, to create legal relations, rights or obligations.

This Framework is provided for information purposes only and does not constitute or form part of, and should not be construed as, an offer or invitation to sell VERBUND Bonds, or the solicitation of an offer to underwrite, subscribe for or otherwise acquire any debt or bonds of VERBUND, and nothing contained herein shall form the basis of or be relied on in connection with any contract or commitment whatsoever.

Any decision to purchase any VERBUND Bonds should be made solely on the basis of the information to be contained in any offering document produced in connection with the offering of such bonds.

Prospective investors are required to make their own independent investment decisions. No representation is made as to the suitability of any VERBUND Bonds to fulfil environmental and sustainability criteria required by prospective investors. Each potential purchaser of VERBUND Bonds should determine for itself the relevance of the information contained or referred to in this Framework or the relevant bond documentation for such VERBUND Bonds regarding the use of proceeds and its purchase of VERBUND Bonds should be based upon such investigation as it deems necessary.

VERBUND has set out its intended policy and actions in this Framework in respect of use of proceeds, project evaluation and selection, management of proceeds and investor reporting, in connection with VERBUND Bonds. However, it will not be an event of default or breach of contractual obligations under the terms and conditions of any VERBUND Bonds if the VERBUND fails to adhere to this Framework, whether by failing to fund or complete Eligible Green Projects or to ensure that proceeds do not contribute directly or indirectly to the financing of the excluded activities as specified in this Framework, or by failing (due to a lack of reliable information and/or data or otherwise) to provide investors with reports on uses of proceeds and environmental impacts as anticipated by this Framework, or otherwise.

In addition, it should be noted that all of the expected benefits of the Projects as described in this Framework may not be achieved. Factors including (but not limited to) market, political and economic conditions, changes in Government policy (whether with a continuity of the Government or on a change in the composition of the Government), changes in laws, rules or regulations, the lack of available suitable projects being initiated, failure to complete or implement projects and other challenges, could limit the ability to achieve some or all of the expected benefits of these initiatives.

In addition, each environmentally-focused potential purchaser of VERBUND Bonds should be aware that Eligible Green Projects may not deliver the environmental or sustainability benefits anticipated, and may result in adverse impacts. On this basis, all and any liability, whether arising in tort, contract or otherwise which any purchaser of VERBUND Bonds or any other person might otherwise have in respect of this Framework or any VERBUND Bonds as a result of any failure to adhere to or comply with this Framework is hereby disclaimed.

The Sustainability-Linked Financing elements of this Framework contain certain forward-looking statements that reflect VERBUND management's current views with respect to future events and financial and operational performance of VERBUND. These forward-looking statements are based on VERBUND's current expectations and projections about future events. Because these forward-looking statements are subject to risks and uncertainties, actual future results or performance may differ materially from those expressed in or implied by these statements due to any number of different factors, many of which are beyond the ability of VERBUND to control or estimate precisely. You are cautioned not to place undue reliance on the forward-looking statements (as well as information and opinions) contained herein, which are made only as of the date of this document and are subject to change without notice. VERBUND does not undertake any obligation or responsibility to release any updates or revisions to any forward-looking statements and/or information to reflect events or circumstances after the date of publication of this Framework. The information contained in this Framework does not purport to be comprehensive and, unless differently specified in this Framework, has not been independently verified by any independent third party.

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