

Remuneration policy of VERBUND AG

Introduction

In accordance with Section 78a and Section 98a of the Austrian Stock Corporation Act (Aktiengesetz, AktG), the Supervisory Board of listed companies is to prepare a remuneration policy for the members of the Executive Board and of the Supervisory Board. The Supervisory Board developed the following remuneration policy for the first time to submit to the Annual General Meeting in June 2020 in accordance with Section 78a of the Austrian Stock Corporation Act (AktG). The remuneration policy is regularly reviewed and submitted to the Annual General Meeting every fourth year at the least. In the event of significant amendment, the remuneration policy will be resubmitted to the next Annual General Meeting.

In developing the remuneration policy, the Supervisory Board shall rely on statutory provisions and other applicable legal regulations for orientation, in particular on the provisions of the Regulation on Specimen Contracts (Bundes-Vertragsschablonenverordnung, B-VV) and the Austrian Code of Corporate Governance.

The remuneration policy offers an overview of the principles of Executive Board and Supervisory Board remuneration and describes how this serves to foster the corporate strategy and long-term performance of the Company. The Remuneration Committee of the Supervisory Board is responsible for designing and implementing Executive Board remuneration on the basis of the remuneration policy. A detailed account of the implementation of the remuneration policy is provided in the annual remuneration report which will be submitted to the Annual General Meeting for a vote annually beginning in 2021.

A. Remuneration policy for members of the Executive Board of VERBUND AG (Section 78a of the Austrian Stock Corporation Act (AktG))

1. Fostering the corporate strategy and long-term performance of the Company

Remuneration of members of the Executive Board is linked to implementation of the strategy and the long-term performance of the Company. The components of remuneration are designed to support the strategic objectives and thus to provide a basis for the Company's long-term and sustainable performance. The components comprise a fixed annual basic salary, a short-term remuneration component (annual variable remuneration), a long-term remuneration component (long-term incentive plan, LTIP), as well as insurance and pension contributions and in-kind elements.

For the member of the Executive Board, the basic salary represents a fixed income commensurate with his or her responsibility, with the scope and the complexity of his or her activity and with his or her role within the Executive Board. It is at a competitive level in order to ensure that the Company is able to secure top management candidates in this competitive labour market.

The performance-related, variable remuneration components beyond this basic salary reflect the strategic orientation of the Company and provide incentives for a reasonable balance between the need to optimise business activities and to grow VERBUND's corporate value in the medium to long term.

Binding every member of the Executive Board to VERBUND's strategy through individual targets and performance incentives ensures the sustainable performance of the Company in line with shareholder interests.

2. Components of remuneration

2.1. Fixed remuneration components not related to performance:

- **Basic salary:**
The fixed basic salary of the members of the Executive Board is paid out monthly as a salary; employment contracts stipulate 14 payments per year.
- **Payments in kind:**
For the duration of the Executive Board contract, members of the Executive Board are provided with a company car; if available, members of the Executive Board are entitled to use the services of a driver depending on the purpose and duration of the respective business trip. In addition, members of the Executive Board are entitled to accident and repatriation insurance at the expense of VERBUND.
- **Vacation:**
Members of the Executive Board are due an annual holiday leave of 30 working days. The holiday entitlement expires after two years from the end of the year in which it was granted. Under Section 10 of the Leave Act (Urlaubsgesetz, UrlG), mutatis mutandis, unused and unexpired holiday leave shall be compensated upon termination of the employment relationship.
- **Pension contributions:**
All members of the Executive Board are entitled to a defined contribution pension plan. For the duration of the Executive Board contract, VERBUND makes contributions to a pension fund (APK Pensionskasse AG) equivalent to 10% of the basic salary, thus fulfilling the requirements of Section 3 of the Regulation on Specimen Contracts (B-VV). The actual amount of the company pension depends on the amount of capital available in the pension fund. Annuitisation is carried out according to the business plan of the pension fund. The pension benefit is based on the eligibility criteria of the Austrian statutory pension. All capital market and actuarial risks are borne by the members of the Executive Board; there is no obligation for VERBUND to make additional contributions.

2.2. Variable, performance-related remuneration components:

- **Short-term variable remuneration:**
Every member of the Executive Board receives variable remuneration based on annual targets to be concluded between the Supervisory Board's Remuneration Committee and the member of the Executive Board. It is adequately linked to one-year performance criteria and includes both financial and non-financial criteria.
The variable remuneration is limited to a maximum of 70% of the annual basic salary. The maximum

target achievement is 100%; exceeding maximum achievement is not possible. For full target achievement, 70% of the annual basic salary is paid out as variable remuneration; payout takes place in 14 equal monthly partial amounts after the approval of the annual financial statements.

- Long-term variable remuneration (long-term incentive plan):

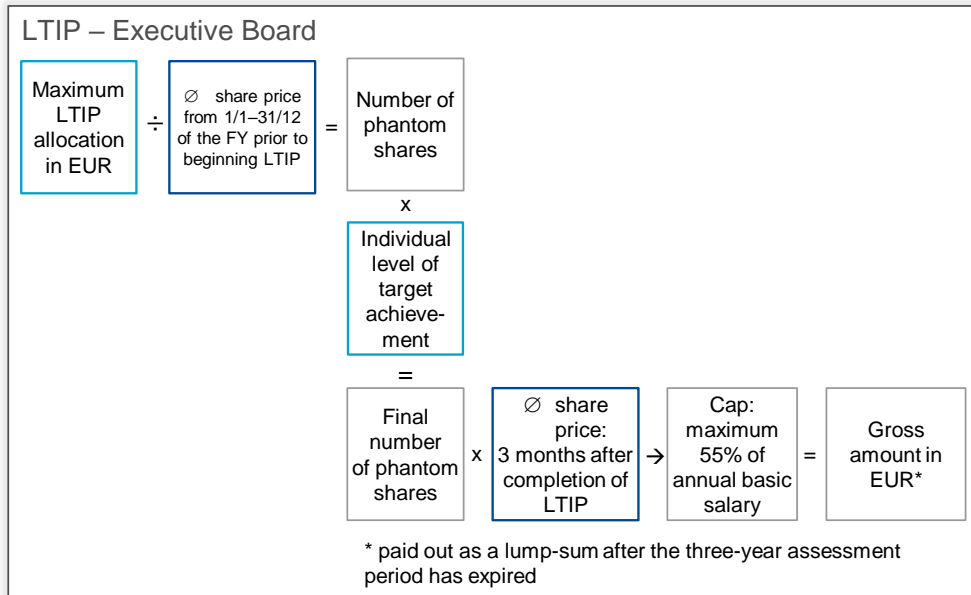
The long-term incentive plan (LTIP) is a long-term remuneration instrument for members of the Executive Board to promote medium- and long-term value creation. The goal is to align the interests of the management with those of the shareholders and at the same time to avoid undue risk. The members of the Executive Board are measured against medium-term performance criteria, and the amount of the long-term variable remuneration distributed depends on the share price. The LTIP is a phantom share plan under which no “real” shares are distributed. The long-term variable remuneration is reflected in “virtual” shares, whereby the specific amount of this long-term variable remuneration depends not only on the individual target achievement but also on the value of VERBUND shares on the Vienna stock market.

During the term of the Executive Board contract, an LTI plan including individual sustainable, medium- and/or long-term targets (performance criteria) is concluded annually through the Supervisory Board’s Remuneration Committee as a rule covering a three-year period. Similar to the short-term variable remuneration, financial criteria which best support these specifications are used. The LTIP is limited to a maximum (“cap”) of 55% of the fixed basic salary. This maximum amount is converted into “phantom shares” at the beginning of each three-year assessment period. This conversion is based on the average of the daily closing prices of VERBUND shares on the Vienna stock market in the last full financial year prior to the beginning of the LTI plan. Based on the specific level of target achievement (maximum of 100%, this maximum is not to be exceeded) of the agreed medium- and long-term performance criteria, the final number of phantom shares is determined at the end of the three-year assessment period.

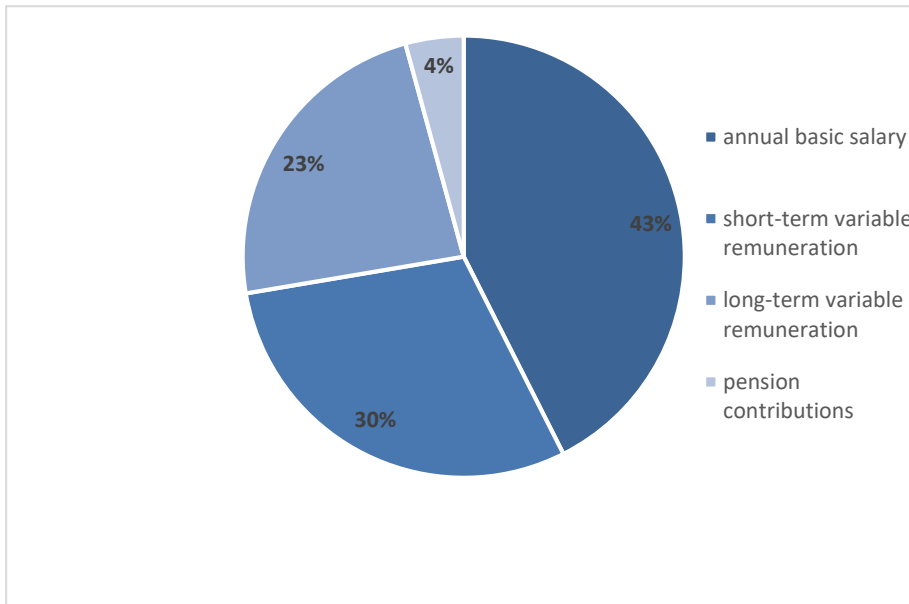
The number of phantom shares attained using this method of determination is multiplied by the value of VERBUND shares at the end of the LTI plan, using the average of the daily closing price in the three subsequent calendar months following the end of the period. The specific payout amount is ultimately limited by the cap defined at the beginning (55% of the annual basic salary in the first year).

The total target achievement of the individual member of the Executive Board is a maximum of 100%. Exceeding 100% achievement is possible within the individual performance criteria and can be carried over to the target achievement of other performance criteria. Regardless of this, exceeding 100% achievement is not possible for overall target achievement.

A new LTIP is concluded on 1 January of each year for the duration of the Executive Board contracts. Each individual LTIP is paid out as a lump-sum payment in each case after the three-year assessment period has expired and after the results of the previous financial year have been approved.



In maximum target achievement, the ratio of the individual remuneration components is as follows:



- Performance criteria:**
 Performance criteria can include both direct financial (e.g. Group result, cash flow, etc.) and non-financial targets (such as targets related to environment and sustainability, occupational health and safety, etc.) as well as indirect financial targets (e.g. performance compared to a selected peer group of European utilities). The specific performance criteria and their weighting are defined in an annual target setting process. After the end of the financial year, the Supervisory Board's Remuneration

Committee evaluates the results of business activities. Fulfilling the agreed-upon financial and non-financial targets is determined by the Remuneration Committee using predetermined KPIs and a standard evaluation form.

3. Details on how the terms of remuneration and employment for the employees of the Company were taken into consideration in defining the remuneration policy

The Company's goal is to have competitive terms of remuneration and employment both for the employees as well as for members of the Executive Board which optimally foster and support strategy implementation. The Company aims to attract, motivate and retain highly qualified employees from the sector and, to this end, continually tracks market trends and internationally proven methods. VERBUND strives to achieve long-term employment relationships. As for the members of the Executive Board, the basic salary and the salary components of the employees are also defined in accordance with internationally recognised procedures for setting a remuneration structure customary for the market and the industry. The corresponding statutory provisions and collective wage agreements were observed in the process.

The principles applicable for employees are applied in a modified form to the Executive Board. Generally speaking, the Company's remuneration structure is designed to be highly competitive in the energy industry. This is also supported by annual target agreements with employees. For a portion of the colleagues, employment contracts stipulate target-related, performance-oriented remuneration components. In addition, the remuneration packages for employees comprise a balanced and transparent mix of fixed and occasionally variable, monetary and non-monetary components. The basic salaries are designed to be appropriate for the market and fair. They are oriented to the position and the expertise of the respective colleague. Business success is a determining factor in equal measure for the performance-oriented remuneration scheme for employees and for the variable remuneration of members of the Executive Board. The general provisions for pension plans for members of the Executive Board are oriented to the labour-management agreements applicable to the employees, in conformity with the provisions of the Regulation on Specimen Contracts (B-VV) and the law governing the filling of positions (Stellenbesetzungsgesetz, StBesG).

In addition, the Company reinforces its position as an attractive employer in the energy industry through an array of other remuneration components such as one-time bonuses and insurance benefits. In addition, the Company offers flexible working hours and promotes mobile working arrangements. Employees' terms of employment and the ongoing revisions of these terms have a direct influence on the individual remuneration of each member of the Executive Board in that they define non-financial performance criteria such as workplace safety, the advancement of women and compliance including the corresponding measurable KPIs. The Company offers employees health programmes and attractive digital training and continuing education programmes. In addition, regardless of gender, the Company favourably supports parental leave, part-time work during parental leave and leave for caretaking.

In keeping with those of the Executive Board, contracts of top-level management employees were converted to participation in the LTIP without increasing overall remuneration.

4. Other contract elements

- **Repayment:**
VERBUND stipulates in its contracts that an appropriate share of variable remuneration can be reclaimed if these amounts are subsequently found to have been paid out on the basis of obviously incorrect or manipulated data or if the member of the Executive Board is subsequently found to have engaged in a serious violation of national and international criminal law.
Furthermore, in regard to long-term variable remuneration, the Supervisory Board's Remuneration Committee reserves the right in the event of serious events or (reputational) damage which jeopardise the Company's existence during the term and/or prior to payment of the LTI plan(s) to reduce the payments in kind resulting from the respective LTI plan by any amount down to zero, at its discretion. As an example, such a serious event could be a serious failure of the internal control system, which qualifies as gross misconduct in judicial and legal terms and which can be proven to have resulted in massive damages.
- **D&O insurance:**
VERBUND has taken out pecuniary loss liability insurance in favour of its Boards; the members of the Executive Board are included under this insurance. The costs are borne by the Group.
- **Contract term:**
Employment contracts for members of the Executive Board have a three-year term with the option to renew for a further two years. The total term is thus in keeping with the five year maximum in accordance with the Austrian Stock Corporation Act (AktG) and the Regulation on Specimen Contracts (B-VV).
- **Termination provisions:**
If a member of the Executive Board is dismissed prematurely due to an important reason for which they are at fault (Section 27 of the Salaried Employees Act (Angestelltengesetz, AngG) and Section 75(4) of the Austrian Stock Corporation Act (AktG)), it is possible to terminate the contractual relationship immediately with no further obligation by the Company. In the event of a dismissal for other important reasons, the employment contract can be terminated at the end of the calendar quarter after giving a six-month notice. If the employment contract of a member of the Executive Board is terminated prematurely without an important reason, then, at best, a settlement payment can be negotiated taking into account the circumstances surrounding the departure and the Company's economic position. Such a settlement shall not satisfy more than the remaining term of the contract; it shall not exceed the total annual pay. In any case, the member of the Executive Board is not granted a settlement in the event of premature termination at fault.

5. Procedures for defining, reviewing and implementing the remuneration policy, for avoidance of and handling conflicts of interest

The remuneration policy for members of the Executive Board was discussed in the Remuneration Committee and in the Supervisory Board and was adopted by the Supervisory Board for submission to the Annual General Meeting in its meeting on 17 March 2020. It is based on international benchmarks

and is regularly reviewed to ensure that it is up to date and revised as needed, and presented to the Annual General Meeting in the event of material changes, or at the latest at every fourth financial year. For the review, preparation, implementation and realisation of the policy, the Supervisory Board or the Remuneration Committee can use the services of external experts. The principles for remuneration of the members of the Supervisory Board were developed on the basis of the Regulation on Specimen Contracts (B-VV) applicable for VERBUND. A judicial review is subsequently conducted by commissioned law firms and supplemented by the findings of a market analysis.

The remuneration policy is implemented by entering into contracts with members of the Executive Board exclusively on the basis of these requirements. The remuneration policy is usually further implemented on an ongoing basis by setting annual targets in line with the strategy (targets applicable for short-term variable remuneration and for LTIP), additionally by determining the actual level of target achievement and, if necessary, by further measures necessary to implement the remuneration policy. The Supervisory Board and its Remuneration Committee are responsible for reviewing the policy.

To avoid conflicts of interest, members of the Executive Board must have the express consent of the Supervisory Board in order to operate a company or to accept supervisory board mandates in companies outside of the VERBUND Group or in which VERBUND has no shareholding. Furthermore, they may not engage in any activity in a line of business in which VERBUND operates or take up an equity interest in another company.

Each member of the Executive Board must disclose any personal conflict of interest without delay.

6. Deviation from the remuneration policy

The remuneration policy is based on the Regulation on Specimen Contracts (B-VV) in accordance with the law governing the filling of positions (StBesG) and is generally binding for all employment contracts for members of the Executive Board.

According to the legal requirements, however, the Supervisory Board is entitled to deviate from the remuneration policy under extraordinary circumstances. Extraordinary circumstances are constituted whenever deviating from the remuneration policy is necessary for the long-term performance of the Company or to ensure its profitability. In connection with this, the Supervisory Board retains the right to adjust the annual basic salary accordingly and to raise the upper threshold for remuneration taking into consideration, on one hand, the performance of the member of the Executive Board and the constitution of the Executive Board and, on the other hand, the Company's profitability and what is customary for the market.

Furthermore, in regard to long-term variable remuneration, the Supervisory Board's Remuneration Committee reserves the right in the event of serious events or (reputational) damage which jeopardise the Company's existence during the term and/or prior to payment of the LTI plan(s) to reduce the payments in kind resulting from the respective LTI plan by any amount down to zero, at its discretion. As an example, such a serious event could be a serious failure of the internal control system, which qualifies as gross misconduct in judicial and legal terms and which can be proven to have resulted in massive damages.

The agreed performance criteria of the respective LTI plan are generally unchangeable unless events occur during the term which were neither foreseeable at the date the targets were agreed to in each case, nor could they have been foreseen. Such events include massive regulatory interventions representing a departure from long-term market conditions, national or supranational (economic) sanctions against significant market participants, acts of war or extraordinary natural catastrophes. When an event such as this occurs, the Chairman of the Supervisory Board can refer the matter to the Remuneration Committee, which will make the final decision on any amendment of the current LTI plan within an expressly granted scope of discretion after hearing the member of the Executive Board concerned.

Furthermore, in the event of a change of control of VERBUND AG, all current LTI plans will be concluded, one final assessment will be carried out and the resulting claims to long-term variable remuneration will be paid out, calculated on the basis of the average price of VERBUND shares on the Vienna stock market over the previous three months.

B. Remuneration policy for members of the Supervisory Board of VERBUND AG (Section 98a of the Austrian Stock Corporation Act (AktG))

1. Principles and objectives

The remuneration policy is intended to ensure that the members of the Supervisory Board are granted remuneration for their work that is appropriate to their tasks and their responsibilities and that is in line with the Company's position. It should ensure that the Supervisory Board is able to fulfill its tasks independently and in this way it fosters the sustainable corporate strategy and VERBUND's positive long-term performance.

Remuneration for members of the Supervisory Board should be designed within the normal range and in such a way that the most qualified persons can be obtained for the work on the Supervisory Board. In addition, the board should be balanced in professional and personal terms. In achieving this balance, particular attention is to be given to diversity aspects concerning the representation of both genders, a balanced age structure, internationality, and educational and professional backgrounds of the members.

2. Components of remuneration

In accordance with the VERBUND AG Articles of Association, each member of the Supervisory Board receives an annual remuneration in addition to the reimbursement of cash expenses and an attendance fee for each meeting.

The amount of the attendance fee and the annual remuneration (basic salary) is set by resolution of the Annual General Meeting. In doing so, the Annual General Meeting appropriately reflects the various functions of the members of the Supervisory Board such as Chairman, Vice-Chairman or membership in committees.

Because the employee representatives carry out their role in the Supervisory Board on a voluntary basis in accordance with Section 110(3) of the Austrian Labour Constitution Act (Arbeitsverfassungsgesetz, ArbVG), the annual basic salary does not apply.

The members of the Supervisory Board including the employee representatives are entitled to the attendance fee as it is set by the Annual General Meeting for participation in meetings of the Supervisory Board and its committees.

There are no plans for performance-based remuneration components.
No loans or advances were paid out to members of the Supervisory Board.

The Supervisory Board remuneration (annual basic salary and attendance fees) are paid to members of the Supervisory Board retrospectively for the respective financial year. The members of the Supervisory Board (including employee representatives) receive reimbursement of cash expenses (e.g. travel costs) after submitting documentation.

The members of the Supervisory Board can be included in a D&O insurance policy (pecuniary loss liability insurance), the costs of which are borne by the Company.

At the Annual General Meeting held on 17 April 2013, a remuneration scheme was last adopted for members of the Supervisory Board. This establishes the annual remuneration for the members elected by the Annual General Meeting and the attendance fees (for all members) (see Section entitled Remuneration of members of the Supervisory Board in the Consolidated Corporate Governance Report 2019).

3. Supervisory Board term of office

If the Annual General Meeting does not resolve otherwise, members are elected to the Supervisory Board for the maximum term under law of five years.

Other than the appointment resolutions of the Annual General Meeting, no contractual relationships under labour law exist between VERBUND and the elected members of the Supervisory Board.

With members appointed as employee representatives, there are also no contractual relationships concerning the membership in the Supervisory Board.

Upon termination of the membership in the Supervisory Board, the member of the Supervisory Board therefore has no claims other than the payment of the (proportionate, if applicable) remuneration in accordance with Item 2.

4. Process concerning the remuneration policy

The remuneration policy was prepared by resolution of the Supervisory Board in its meeting on 17 March 2020 and adopted for submission to the 73rd Annual General Meeting. It is regularly reviewed to ensure that it is up to date and revised as needed, and presented to the Annual General Meeting in the event of material changes, or at the latest at every fourth financial year.

Since binding decisions about the specific design of remuneration for members of the Supervisory Board are made solely by the Annual General Meeting, conflicts of interest in connection with the remuneration policy are avoided.

Vienna, 17 March 2020



MMag. Thomas Schmid
Chairman of the Supervisory Board