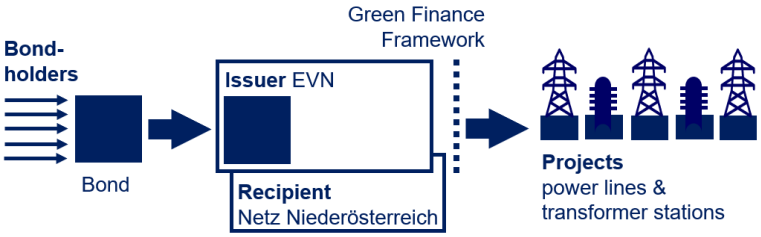
sustainability · research · consulting

Sustainability Second Party Opinion

EVN Green Private Placement / Bond 2020-2035

Bond with ecological purpose: power grid strengthening by EVN



● Funds of the issuance will be used to finance and refinance the investment into machinery and construction works of Austrian utility Netz Niederösterreich GmbH (100% subsidiary of EVN AG) in Lower Austria.

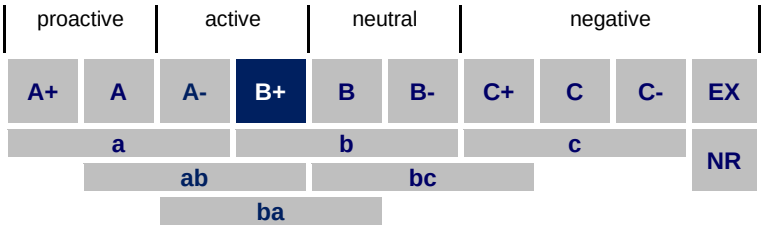
▶ The expansion of power grids is necessary to reach out to decentralized renewable energy sources like wind and photovoltaic power plants for a more sustainable energy system and therefore contribute to a positive climate impact development.

▶ Social Risks in the supply chain exist, most particularly considering the working conditions in raw material production and construction, but they are managed by EVN and major partner APG.

▶ The thematic areas of proceeds of EVN`s Green Finance Framework may expect a high sustainability quality and **are in line with the Green Bond Principles.**

▶ EVN received an above average rfu-sustainability rating (B in 6/2020).

▶ The overall rating based on all the factors is ba This is an above average result, reflecting the characteristics of a green bond.



A+ … C- are the ratings of the rfu sustainability model. This applies up to 100 single criteria for measuring a company's or project´s ecological and social quality. Small characters express indicative ratings based on a reduced data rate. Other possible characters are EX (excluded) and NR (no Rating).

9/2020

Key Data

Issuer: EVN AG
ISIN: AT0000A2JSN2
Interest rate: 0,85 %
Volume: 101 mil EUR
Tenor: 15 years

Explanations

rfu, which was founded in 1997, is based in Austria and is a provider of sustainability research, audits for sustainable financial products and other services related to sustainable investment. rfu was entrusted with creating an external sustainability survey (a so-called Second Party Opinion) by the issuer of this bond.

This Second Party Opinion intends (a) to describe the use of proceeds in a comprehensible manner and to evaluate their (b) ecological and (c) social impact verbally and by a rating. This includes (d) the suitability of processes to select funded projects, transparency as well as (e) the issuer's own sustainability.

The concept of sustainability is a comprehensive one, which means that the ecological and the social dimensions as well as specific emphases (e.g. "social bonds" or "green bonds") are taken into consideration. International standards (in particular the "Green Bond Principles" and the "Social Bond Principles") are reflected where relevant.

Legend

Blue Boxes contain descriptions of relevant framework conditions. Texts after "●" present concrete characteristics. After "▶", interpretations and evaluations can be found.

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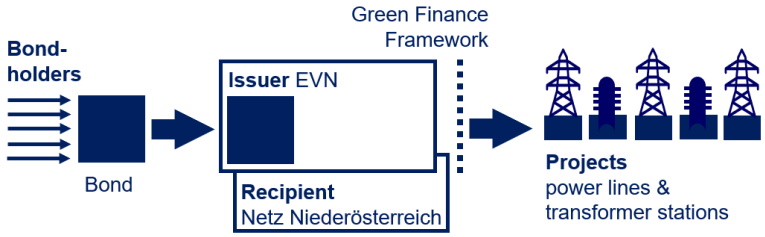
A. Description of the Use of Proceeds

? *"For which projects will the proceeds of the bond be used?"*

A.1. Projects

The proceeds will be used to expand power grid networks in Weinviertel for better integration and more capacity for renewable energy (wind parks and photovoltaic plants) with an investment volume of **105.8 mil EUR**.

Recipient is the Netz Niederösterreich GmbH, a 100% subsidiary of EVN AG. which is headquartered in Austria. EVN AG provides electricity, gas and environmental services in the Province of Lower Austria and South East Europe (see chapter E.).



- Netz Niederösterreich GmbH is a 100% subsidiary of EVN AG. Main activities include construction and operation of power grids and gas distribution systems in Lower Austria.

- The federal province of Lower Austria strives towards a transition to 100% renewable energy and the amount of renewable energy in the network is already high (net zero carbon neutrality). Therefore, **the amount of transported renewable energy in the planned grid expansion is very high** and will rise in the nearer future.

- The **invested capital of 105.8 mil EUR for grid development** in Lower Austria can be attributed to the supply chain, most importantly transformer station equipment (e.g. transformers, switchboards, ...) and power line equipment. The rest is made up of planning, building and electric works.

List of power lines and transformer stations:

Location	Beginning of operation	Facility type	Investment costs in TEUR
transformer station Zaya	2022	2 transformers a 300 MVA	48 383.0
transformer station Neusiedl/Zaya	2022	expansion of 110 kV grid node	14 351.1
110 kV line Deutsch Altenburg - Lassee	2022	15.2 km 110 kV double line	10 070.0
110 kV line Peigarten - Poysdorf	2019	40 km110 kV double line	9 870.0
transformer station Lassee	2023	new transformer station	6 174.0
transformer station Bisamberg	2021	expansion of transformer station; additional 110 kV busbar	5 220.0
transformer station Deutsch Altenburg	2024	new building and exchange of transformers	4 438.8
transformer station Eibesbrunn	2023	new 20 kV switchgear and expansion of 110 kV transformers	2 978.0
110 kV line Eggenburg – Japons	2020	25.2 km long 110 kV line	2 310.0
transformer station Spannberg	2019	expansion of transformer station	1 221.9
transformer station Gaweinstal	2020	expansion 110 kV network node	758.0
Total			**105 774.7**

? *"What are the major determinants of sustainability along the value chain?"*

A.2. Topics of Material Importance

The following topics are of material importance for the environmental and social quality of the bond and will consequentially influence the sustainability of future funding.

- **Climate impact of power grids and their importance for energy transition**
- **Other environmental impacts throughout life cycle**
- **Social impacts in the supply chain**
- **Social impacts of the operation of transmission lines and transformer stations**

These are the parameters on which the following impact analysis is focusing.

B. Ecological Impact of Use of Proceeds

? *"What is the impact of use of proceeds on the natural environment?"*

In terms of environmental impacts, the concept of planetary boundaries serves as a point of reference. A life cycle-oriented perspective is applied for this Second Party Opinion, and factors of material importance are derived from this.

B.1. Climate Impacts of Power Grids and their Importance for Energy Transition

The transition from fossil-based modes of consumption and production towards renewable energy is one of the most essential steps for global society to reduce the magnitude of climate change but also atmospheric aerosol loading and ocean acidity. Renewable energy plays a major role in energy transition towards a more climate friendly energy production. Wind power or photovoltaic power plants are built decentralized at regions with suitable conditions for energy production. These regions are often aside from centralized grid networks and transformer stations. Therefore, the expansion of the power grid is necessary to reach out to decentralized renewable energy sources like wind and photovoltaic power plants for a more sustainable energy system in Austria.

● Grid development is necessary for **the transformation towards a carbon neutral energy system**. Decentralization is an important piece in this process to connect renewable energy sources like wind farms or photovoltaic parks with the energy grid, households and (future) energy storage systems like pump storage plants, power to gas or power to heat. The integration of small producers like private households, "prosumers" and companies in a smart grid network is an important factor for network stability and control-energy balance. Currently EVN is already working in this direction and is strongly investing in the "intelligence" of the network. EVN currently does research on the implementation of battery storage (2.5 MW Lithium Ion Cells) as well as on power to gas technology for energy storage and usage in order to control energy flows when needed.

● The listed projects are **in alignment with the #mission2030 strategy** which aims to reach an 100% share of renewable energy in consumer power consumption until 2030. The "Stromzukunft Österreich 2030" report indicates, that the achievement of this goal depends, amongst others, on the connection of pump storage plants in the west with renewable energy sources in the east and the power grid development in Weinviertel, Burgenland and Brucker Becken. The planned grid development projects serve this claim.

● Life cycle analysis states, that the **carbon footprint of transmission lines and transformer stations is dominated by power losses** in the energy networks which are responsible for over 90% of CO_2. In Austria power losses in grid networks amount about 1-7% of transported energy which equals 3.1 TWh. Power losses in the EVN network are about 4%, which is a good performance in comparison with global losses (8.25%) and European losses (6.44%). A decentralised distribution network with short transmission routes, a conversion to higher voltage levels, fitting transformer size and improvement of connection quality of conductors are some examples for reducing transmission and distribution losses.

● A notable factor for climate change is the **usage of SF_6 isolation gas**, of which one kilogram equals 23 900 kilograms of CO_2. Further it stays in the atmosphere for 3200 years. SF_6 has a share of 0.5% in annual climate gas emissions, but the longevity is not considered. The reduction of SF_6 losses is recommended. In EVN transformer stations, the usage of air-insulated gear is common. SF_6 insulated components are the exception, but where it is used, regular reviews and remote monitoring is implemented. EVN also watches out for new alternatives to substitute SF_6 in the future.

● Major **climate impacts in the supply chain** appear in connection with production of electrical substations and high voltage transmission lines. EVN collaborates with different companies in the construction process, who are underlying the EVN Green Finance Framework and the EVN integrity clause. Legal compliance concerning environmental standards of suppliers are mandatory, further efforts for a sustainable development are requested. Minimization of resource consumption, emissions and waste should be avoided as far as possible.

● The investments have to be discussed in the context of **EVN's general climate and energy policy**. While related goals and measures have partly been formulated, a Paris-conform target and an according strategy is not published yet.

▶ **Increasing renewable energy capacities are one of the most important measures for climate change mitigation. Therefore, investments to adjust grids are necessary. It can be expected that the bond`s use of proceeds for the discussed power grid expansion contributes to a further development towards a decentralized, renewable energy system. The degree of innovation concerning an extensive implementation of innovative storage technologies is in line with other utilities.**

B.2. Other Environmental Impacts throughout Life Cycle

Most environmental impacts of power networks are found in the **supply chain through the exploration and processing of raw materials for major components.** For transmission lines, these are: steel lattice towers, insulators, foundation and conducting cables; for transformer stations: circuit breaker, foundations and transformers. In addition, high voltage transmission can negatively impact biodiversity and especially animals.

● **Regional environmental risks** in terms of insufficient legislative frameworks have to be considered rather low but can be expected further upstream in the value chain.

● For building and construction works **land use change** (e.g. clearing of stretches of woodland) can occur. A negative impact on the biological environment and habitats is possible. For projects with an impact on environment and especially in conservation areas (e.g. 110 kV line Deutsch Altenburg-Lasse) compensation measurements and management plans are officially ordered and implemented. Measurements include new areas for Nationalpark Donau-Auen, forest-aisle-management, partially underground cables, bird protection and ecological construction supervisory. Conflicts with nature conservation institutions occur in some projects.

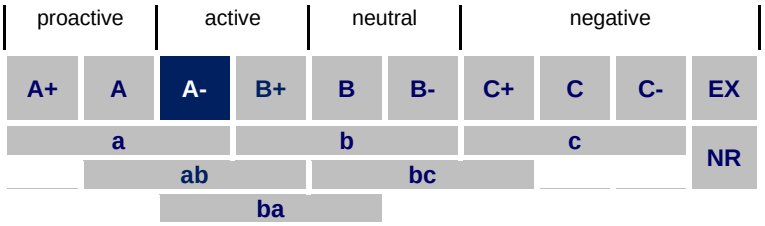
● Usage of **oil in transformer stations** could be critical because of its emission into environment. One 110 kV transformer needs about 22 tons of mineral oil for cooling, isolation and so forth. EVN applies a more environmentally friendly alternative (esther) only in water conservation areas and in particularly sensitive regions. Security measures (e.g. oil sumps) are implemented to prevent leakage and emissions to soil and/or ground water.

● EVN is applying an **integrity clause to all of its suppliers and sub-suppliers**, which mentions the "**protection of the environment" and the "reduction in the use of resources, waste and emissions".** Self-Assessments of suppliers are obligatory for all suppliers and are randomly checked based on country and industry risk analysis. These standards apply to all business partners. Screening of suppliers and business partners happens in Austria with an external compliance database and software.

● Considering the **end-of-life,** metals used in transmission lines are well suited for recycling. EVN states a high importance of recycling and re-use at grid development (re-use of cables and concrete demolition material).

▶ **EVN is aware of major environmental risks in the supply chain and during operation and is taking suitable measures to reduce them. Occasional conflicts with nature conservation institutions occur.**

B.3. Rating - Ecological Impact of Use of Proceeds



C. Social Impact of Use of Proceeds

? *"What is the impact of use of proceeds on society and its major stakeholders?"*

C.1. Social Impacts in the Supply Chain

Before and during the construction phase significant social impacts can occur **(a) in dialog with residents** and **(b) in working conditions at the construction project** itself. The Ludwig-Boltzmann Institute states, that especially the construction industry has major social problem areas (e.g. safety and health). Potential critical aspects concerning **working conditions can also appear on part of suppliers.** In Copper, ore and general mining industries the violations of working conditions and severe impact on local communities can be found frequently.

- EVN has taken first measures towards an **ethical supply chain management**. The company's integrity clause includes a broad range of important social issues including human rights, labour rights, discrimination and health and safety. An operationalisation and monitoring systems of these aspects exist partially.

- APG, the most important partner, will conduct the construction of the transmission lines and transformers. **The integrity clause is also valid for all sub-companies.** APG itself has a "Supplier Code of Conduct" which defines the terms which have to be met by their suppliers. Human Rights, Equality, working conditions, anti-corruption and environmental protection are part of this Code, but very shortly described. Documents on operationalisation and monitoring systems were not available.

- Legislative standards in Austria and Europe are considered to be very good, but there is still a risk of exploitation especially for foreign workers on construction sites.

▶ **Social risks in the supply chain exist, most particularly considering the working conditions in raw materials production and construction. EVN and APG apply some legal compliance orientated social procurement criteria within their supply chain.**

C.2. Social Impacts of the Operation of Transmission Lines and transformer stations

Transformer stations and especially transmission lines have sometimes been accompanied by conflicts with local communities and civil society (e.g. NGOs) with landscape issues and electromagnetic fields as the most common issues. Access to electricity and security of supply have a high influence on quality of life. An adequate expansion of power grids is necessary for energy transition and the development of renewable energy systems. Democratization of energy supply through participatory funding and integration of small electricity generators or storages should become more popular in coming years.

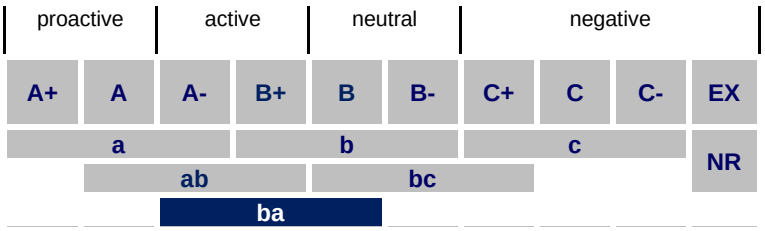
- Integration of stakeholders varies in relation to different projects and legal processes (Umweltverträglichkeitsprüfung, …) e.g. information for municipalities, information events for citizens and face to face conversations with landowners. EVN tries to involve all stakeholders at different stages of the project planning process.

- There are some conflicts with neighbours and landowners in a few planned projects. In the UVP process, which is mandatory for some of the included projects, they are able to articulate their objections and have legal party status. An early dialog process with landowners should increase participation in project planning. Compensation payments are offered, and a private legal agreement is the aspired goal. If this process fails, the compelling necessity in public interest is alleged and a compulsory servitude is registered.

- EVN invests large amounts into the network infrastructure, net stability and security of supply is high.

▶ **Transformer stations and especially transmission lines contribute directly to the sustainable development goal 7 ("Affordable and clean energy"). Various stakeholder dialogues are an integral part of EVN's procedure throughout the planning and building processes.**

C.3. Rating - Social Impact of Use of Proceeds



D. Management of Proceeds & Reporting

? *"How does the issuer evaluate and select the projects funded and ensure the ongoing compliance with the framework?"*

D.1. Process of Evaluating and selecting Projects

The issuer is responsible for the use of the proceeds for sustainable, especially ecological, purposes. Therefore, environmental and social criteria and processes are necessary to ensure their initial and ongoing fulfillment. This includes an impact assessment. The Green Bond Principles recommend the definition of qualitative and quantitative criteria (key performance indicators) as far as this is possible to measure the sustainability impacts.

● EVN has published a **Green Finance Framework** in March 2020 (Update August 2020), featuring **five areas eligible** for funding.

- **renewable energy**: wind, small-scale hydro, photovoltaic, biomass and power grid
- **energy efficiency:** smart meters and district heating
- **pollution prevention and control:** waste incineration
- **clean transportation:** e-mobility infrastructure
- **water**: drinking water, treatment facilities, water distribution systems and filters

● The company mentions "material controversies" and "major concerns about impact on environment" as **exclusion filters** but has not yet defined this in detail. As **minimum criterion** the framework refers to the European Union's "Taxonomy Technical Report", which includes certain "do no significant harm" criteria and the eligibility.

● The company has defined a broad set of information to assess potential projects, the "EVN **key performance indicators**" (KPIs). These are first and foremost basic characteristics of financed projects (e.g. location, expenditures, technical details), but include also process-related information (e.g. stakeholder involvement) and impact indicators (e.g. avoidance of CO_2-emissions, eligibility according to European Union's "Taxonomy Technical Report").

● A **Green Finance Committee** has been established and includes internal representatives from various departments. Responsibility and process are described in the internal documentation. Its responsibilities include the verification of compliance with the eligibility criteria and the KPIs.

▶ **The thematic areas of EVN´s Green Finance Framework may expect a high sustainability quality and are in line with the Green Bond Principles. An internal committee will monitor the process.**

D.2. Management of Proceeds

The issuer is responsible for assuring a comprehensible tracking of allocated funds (e.g. sub-accounts, sub-portfolios, internal tracking). The issuer has to define clear procedures and measures to cover the proceeds with suitable investments.

● An internal data system is in place to monitor the outstanding proceeds of Green Financing instruments. Tracking of investment operations is integrated into book keeping and cost accounting.

● The proceeds for this bond will be used **exclusively** to **refinance** mentioned planned and existing projects. The framework generally allows refinancing of up to 30 months old projects. Future projects can be financed up to 36 months before being operational.

● The Framework allows the temporary allocation of **unallocated proceeds** in any form of cash, bank deposit or other forms of available current financial asset. Social or environmental criteria for financial assets have not been specified in a policy. The issuer has provided reasonable documentation, demonstrating that adequate eligible assets are available for this green bond.

▶ **The procedures of EVN ensure an appropriate management of proceeds from a green bond. All proceeds will be used for financing of planned and existing but relatively young power grid expansions. Fresh money for green projects shall be provided through future emissions.**

? *"In which manner and quality is information regarding the sustainability of the bond available?"*

D.3. Reporting

Transparency and traceability of use of proceeds are two of the major characteristics of a green or social bond. Therefore, the issuer should provide investors and other interested stakeholders with reasonable information on the most relevant sustainability aspects.

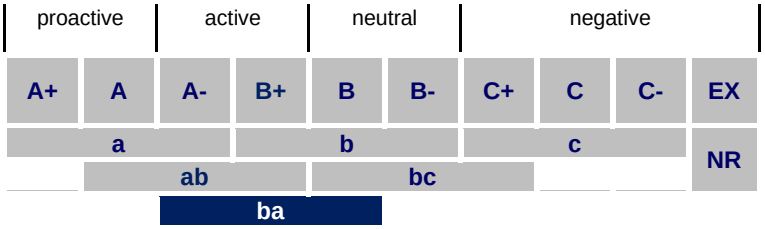
● EVN is committed to providing **annual reporting** on the green bond. This will include an overview on use of proceeds and certain key performance indicators.

● For **impact assessment** avoidance of CO_2 emissions are difficult to measure but implicit existing, using the assumption that the financed projects contribute to the expansion of renewable energy (wind parks and photovoltaic plants).

● Prior to issuing EVN intends to inform potential investors with a Second Party Opinion.

▶ **Reports about use of proceeds accompanied by several key indicators are planned on an annual basis. A Second Party Opinion is published prior to issuance.**

D.4. Rating - Management of Proceeds & Reporting



E. The Issuer's Sustainability Performance

? *"How is the issuer's sustainability performance, in general, regardless of the Green Bond Framework at hand?"*

E.1. The Issuer's Sustainability

The evaluation of the issuer´s sustainability is carried out by means of the "rfu Sustainability Rating Model". It is based on six stakeholder groups (employees, society, customers, market partners, investors, environment) and supplemented by a value chain analysis of the products or services. Overall, the rfu Sustainability Model includes about 100 single criteria, which are operationalized by approximately 400 quantitative and qualitative indicators. The features of the criteria will be aggregated to an overall rating on a scale from A+ to C- over several levels. If data is not sufficient, there will be an indicative rating from a to c.

● **Profile:** EVN AG, headquartered in Austria, provides electricity, gas and environmental services in the Province of Lower Austria and South East Europe. The most important markets are Austria, Germany, Bulgaria and North Macedonia. Customers include private consumers, corporates as well as municipalities. The company has 6,908 employees (FTE) and sales amount to 2,204.0 mil EUR (2018/19). With a stake of 51% the company's main shareholder is the Province of Lower Austria. Wiener Stadtwerke GmbH holds 28.4%. 19.6% are free float and the remaining 1% are the company´s own shares.

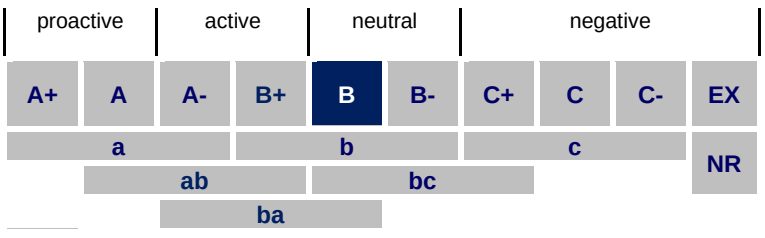
● **Sustainability strategy and management:** The company provides an integrated report including state of the art sustainability information. Clear goals and associated measures have been defined but lack a Paris-conform fossil fuel exit road map. Supply security is given a higher relevance according to the materiality matrix than climate protection and is reflected by the investment made in both fields. Sustainability aspects are not yet fully integrated in the business segment natural gas. An external advisory council for social and environmental questions and a customer advisory board have been introduced. Sustainability measures are first and foremost focused on the Austrian market, Bulgaria and North Macedonia receive little attention.

● **Products and services:** The provision of electrical energy, natural gas and heat represent the most important business segments. These services are essential to modern society but cause a deep ecological footprint. The company provides various services to its customers ranging from water and waste services to energy efficiency consultations. Roughly one third of the electricity is produced by EVN's production capacities. The mix is far more GHG-intensive than the Austrian average and roughly equals the European average (see Chapter B.). Despite the closure of its coal power plant Dürnrohr in 2019, coal still accounts for a relatively high proportion of EVN's generation.

● **Stakeholder relations:** Employee relations emphasize gender equality and work-life balance. Various indicators and measures suggest positive working conditions. Certified integrated management systems cover the majority of activities. In supply chain management an integrity clause is applied including rather superficial social and ecological purchasing criteria. For certain fields pro-active measures have been taken (purchase contract for renewables) and in exceptional cases business relations were stopped. The company was subject to various conflicts with stakeholders in the past (NGOs, customers in Bulgaria). Research and development increasingly include sustainability related fields.

▶ **EVN received an above average rfu-sustainability rating (B in 6/2020), but a growing number of asset owners is going to introduce fossil divestment strategies. This leads to a risk of being downgraded by investors and sustainability rating agencies. The transition towards becoming a renewable energy provider has being intensified, but a further reduction of fossil fuels remains top priority. The relationship with selected stakeholders (e.g. employees) is above the industry average.**

E.2. Rating - the Issuer's Sustainability Performance



F. Total Evaluation

? *"What is the total sustainability rating of the green bond?"*

The total evaluation of the sustainability quality of a bond or SSD within a Second Party Opinion carried out by rfu is the result of the aggregation of the four sub-ratings of (1) the ecological impact of use of proceeds, (2) the social impact of use of proceeds, (3) management of proceeds & reporting and (4) sustainability of the issuer.

F.1. Evaluation & Rating of Subsections

▶ Ecological Impact of Use of Proceeds **A-**

The expansion of power grids is necessary to reach out to decentralized renewable energy sources like wind and photovoltaic power plants for the transformation towards carbon neutral energy systems. The transition to renewable energy is one of the most essential steps for global society to reduce the magnitude of climate change. While environmental risks in the supply chain, construction phase and during operation exist, negative impacts are expected to be reduced through measures taken by EVN and major partner APG.

▶ Social Impact of Use of Proceeds **ba**

Social Risks in the supply chain exist, most particularly considering the working conditions in raw material production and construction, but they are managed by EVN and major partner APG. An ethical supply chain management is implemented by EVN and the company`s integrity clause includes a broad range of important social issues. Access to electricity and security of supply have a high influence on quality of life. Various stakeholder dialogues are an integral part of EVN's procedure throughout the planning and building processes.

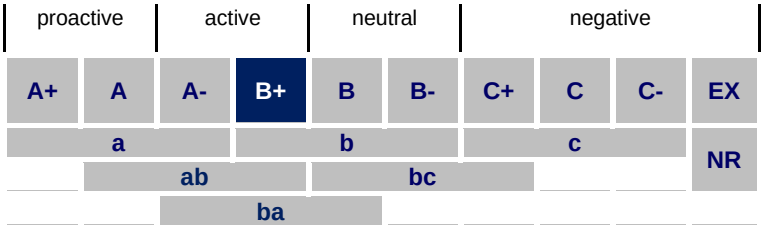
▶ Management of Proceeds & Reporting **ba**

The thematic areas of EVN´s Green Finance Framework may expect a high sustainability quality and are in line with the Green Bond Principles. An internal committee will monitor the process. The procedures of EVN ensure an appropriate management of proceeds from a green bond. All proceeds will be used for financing planned and refinancing of existing but relatively young grid development projects. Fresh money for green projects shall be provided through future emissions. Reports about use of proceeds accompanied by several key indicators are planned on an annual basis. A Second Party Opinion is published prior to issuance.

▶ Issuer's Sustainability Performance **B**

EVN received an above average rfu-sustainability rating (B in 6/2020) but a growing number of asset owners is going to introduce fossil divestment strategies. This leads to a risk of being downgraded by investors and sustainability rating agencies. The transition towards becoming a renewable energy provider has being intensified, but a further reduction of fossil fuels remains top priority. The relationship with selected stakeholders (e.g. employees) is above the industry average.

F.2. Total Rating



Legal Disclaimer

This Second Party Opinion is provided for information purposes only and is no recommendation for the purchase or sale of the securities of the companies rated.

The information used is based on sources that are regarded as being reliable and have been chosen to the best of our knowledge and belief. The rating is based on subjective models and interpretations of the persons entrusted with the analyses and on the knowledge available at the editorial deadline. rfu will not assume any liability for the correctness, completeness and accuracy of information and evaluations contained and reserves to make amendments or supplements, at any time.

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