



EU Taxonomy alignment exercise for a Verbund AG green bond

The EU Taxonomy stems from the EU's Sustainable Action Plan to finance sustainable economic growth in Europe. It covers a range of economic activities and has a set of criteria for each which must be met in order for them to be categorized as sustainable/green. In order to give a clear idea of what the EU Taxonomy means for NN Investment Partners as a green bond investor, we have provided an example alignment exercise.

In order to carry out this exercise we have chosen a green bond we hold in our portfolio. It was issued in 2014 by Austria's largest electricity provider, Verbund AG (ISIN: XS1140300663). This green bond was issued to finance hydropower and wind power activities.

On the following pages we go through the steps we took to arrive at this alignment figure and show how this can be used to then calculate the bond's contribution to the portfolio's alignment.

Having assessed these activities, we can conclude that this bond is **57% aligned with the EU Taxonomy**.

Any company names used in this report are for illustration purposes only. Company name, explanation, and arguments are given as an example and do not represent any recommendation to buy, hold or sell the stock. The security may have been removed from portfolio at any time without any pre-notice.

1 Identify the activities conducted by the company, issuer or covered by the financial product (e.g. use of proceeds) that could be eligible

We go through the use of proceeds section of the green bond framework of the issuer and check which activities are involved and if these would potentially qualify as eligible activities under the EU Taxonomy.


Use of proceeds: Hydropower and Wind power


- Energy efficiency improvement of two hydropower plants
 - Run-of-river power plant Ybbs-Persenbeug in Lower Austria
 - Pumped storage unit Reisseck II in Carinthia
- Eight wind power plants
 - Three newly built wind power plants with a capacity of 57 MW in Lower Austria (Hollern II, Petronell II and Bruck-Göttlesbrunn II)
 - Five plants with a capacity of 86 MW in the Hunsrück region of Rhineland-Palatinate in Germany (Dörrebach, Dichtelbach, Ellern, Hochsteinchen, Stetten)

2 For each activity, assess whether the company/ issuer meets the relevant criteria for a substantial contribution


We assess whether the use of proceeds contributes to the climate mitigation objective. Climate mitigation, generally speaking, means a reduction in human-produced emissions of greenhouse gases.

Hydropower

Ybbs-Persenbeug – as this is a run-of-river hydropower facility, it meets the mitigation criteria and thresholds.  **YES**

Reisseck II – no power density calculation given. Hydropower plants should conduct a product carbon footprint (PCF) or greenhouse gas (GHG) lifecycle assessment. No GHG lifecycle assessment has been carried out so this plant does not provide enough information to pass the mitigation criteria and thresholds.  **NO**

Wind power





Wind power is not currently required to perform a PCF or GHG lifecycle assessment, so these facilities meet the mitigation criteria and thresholds.  **YES**

3 Verify that the Do No Significant Harm (DNSH) criteria are met by the issuer

Once we have established the contribution to one of the environmental objectives, we assess whether it harms any of the other environmental objectives.

Hydropower





Ybbs-Persenbeug

- **Adaptation:**
There are no obvious measures taken to adapt the project to future climate impacts nor evidence that the activity is enabling adaptation.  **NO**
- **Water:**
There is no information available on standards regarding natural water balance and runoff regimes.  **NO**
- **Pollution:**
At Ybbs-Persenbeug, bedload management is established. In addition, the left bank island backwater area was reconnected to the Danube and the riverbank was restructured in 2014.  **YES**
- **Ecosystems:**
Not located within key biodiversity areas (UNESCO Natural World Heritage Sites, UNESCO Man and Biosphere Reserves, wetlands designated under the Ramsar Convention, IUCN Protected Areas I-IV). Project has an environmental management system in place according to the ISO 14001 standard.  **YES**

No for Adaptation and Water

Yes for Pollution and Ecosystems = 50%

Reisseck

- **Adaptation:**
As this project is pumped storage and water scarcity will have an increasing impact on climate change, it fits the categorization of an activity which is enabling adaptation.  **YES**
- **Water:**
There is no information available on standards regarding natural water balance and runoff regimes.  **NO**
- **Pollution:**
There is no information available on pollution.  **NO**
- **Ecosystems:**
 - An Environmental Impact Assessment of Reisseck II has been conducted.
 - Environmental impacts have been mitigated through compensatory measures like the installation of a fish ladder, renaturation projects, creation of spawning grounds and frog fences, professionally managed re-settlement of protected animals and reforestation.
 - The project has an environmental management system in place according to the ISO 14001 standard.
 - Alternative/compensatory spawning grounds are continuously monitored with respect to their ecological quality and biodiversity.
 - Five hectares of cleared woodland have been reforested and are protected from deer browsing; growth of new trees will be monitored for three years.
 - Fish ladder functionality has been evaluated and works well, according to an external expert report.  **YES**

No for Water and Pollution

Yes for Adaptation and Ecosystems = 50%

Wind power

• Adaptation:

There are no obvious measures taken to adapt the project to future climate impacts nor evidence that the activity is enabling adaptation. ❌ NO

• Water:

Turbines are all land turbines, none are offshore. ✅ YES

• Circular economy:

No ambition has been stated to maximise recycling at end of life based on waste management plans, dismantling/decommissioning processes at time of decommissioning. ❌ NO

• Ecosystems:

- For all newly built wind power plants, the company conducted life cycle assessments in accordance with the ISO 14040 standard and in collaboration with the Environment Agency Austria.
- None of the projects funded are located within key biodiversity areas (UNESCO Natural World Heritage Sites, UNESCO Man and Biosphere Reserves, wetlands designated under the Ramsar Convention, IUCN Protected Areas I-IV).
- For all projects relating to new-built wind power plants, comprehensive environmental impact statements have been compiled.
- For 100% of the projects, the environmental impact during construction work has been minimised by restrictions regarding material transport, use of low-emission trucks, use of low-noise power supply and deconstruction of storage areas.
- Environmental protection measures have been implemented covering the restriction of noise emissions, monitoring of birds and bats and the delivery of compensation areas.
- During planning and construction of wind power park Ellern, Germany, the project developer Juwi did not properly assess the environmental impacts of the project, especially with respect to bats and the wildcat population. This was prior to the acquisition by Verbund. At the Germany-based wind power plants, measures are taken to protect the life of bats (e.g. bat boxes, switch-off times, monitoring).
- At the Germany-based wind power plants and two of the Austria-based plants, bird monitoring is conducted in the surrounding area. Measures include surveying of breeding and incubation seasons, monitoring of passage migration and mapping activities.
- The crane population is continuously monitored around the German wind power plants.
- Recurring inspections are carried out to monitor noise at the Germany-based wind power plants and one of the Austria-based wind power plants.
- In 2014 certification of an environmental management system according to ISO 14001 standard had been acquired or was planned for 100% of projects.
- For three projects, located in Austria, certification according to ISO 14001 has been acquired. The Germany-based projects, are operated by a subcontractor. No ISO certifications were planned for these plants, and no information is available on whether the environmental management system is upheld there. ✅ YES

No for Adaptation and Circular economy

Yes for Water and Ecosystems = 50%

4 Conduct due diligence to avoid any violation to the minimum social safeguards

We assess whether or not minimum social safeguards have been employed at both project and issuer level.

Hydropower

Community dialogue

For the one project that includes structural modifications of an existing hydropower plant, affected communities (including local councils, mayors, and residents) have been informed through hotlines, email services, project websites, leaflets, dialogue platforms and project offices on-site.

Working conditions during construction and maintenance work

For 100% of the projects, a health and safety management is implemented. In addition, 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.

Wind power

Community dialogue

For all newly built wind power projects, affected communities (including local councils, mayors, and residents) have been informed through hotlines, email-services, project websites, leaflets, dialogue platforms and project offices on-site. For all Austria-based projects, measures are implemented in line with the ISO 14001 certification ensuring that all stakeholder concerns are addressed. For the Germany-based projects, no information is available on how Verbund AG manages stakeholder concerns internally.

Working conditions during construction and maintenance work

Health and safety management is implemented for 100% of the projects, all of which 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 training ensuring an adequate introduction to site health and safety procedures.

Social standards in the supply chain

100% of the projects' wind power mills are (or have been) manufactured in countries with high statutory standards regarding labour rights and working conditions such as freedom of association, working time and payment (Austria and Germany). All suppliers have to ensure a safe and non-discriminatory working environment and are obliged by Verbund AG to provide detailed information on health and safety issues such as acquired certifications, authorised representatives and accident rates.

There is no information available concerning the question of how compliance with such standards is ensured for suppliers further down in the supply chain in countries with insufficient statutory standards.

Verbund as an issuer

Verbund AG is a signatory to the UN Global Compact and supports the Ten Principles of the United Nations Global Compact on human rights, labour, environment and anti-corruption.

5 Calculate alignment with the EU Taxonomy

The breakdown of how the bond's proceeds are being used = 42% hydropower and 58% wind power. In our calculation we apply a 50% weight to mitigation and a 50% weight to DNSH criteria.¹

Hydropower – 42% of bond

1: Ybbs	15% of hydropower allocation
2: Mitigation	50%
3: DNSH	25%
Alignment	75%
Total alignment	11% of allocation

1: Reisseck	85% of hydropower allocation
2: Mitigation	0%
3: DNSH	25%
Alignment	25%
Total alignment	21% of allocation

Hydropower 32% combined alignment

13% weighted alignment

Wind power – 58% of bond

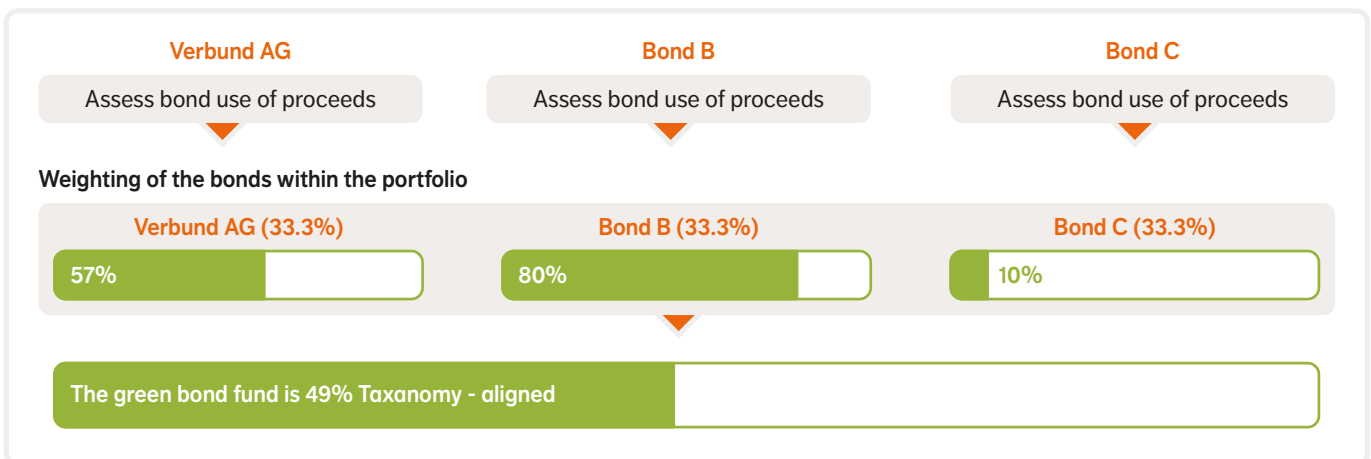
2: Mitigation	50%
3: DNSH	25%
Alignment	75%

44% weighted alignment

Total alignment of Verbund AG's 2014 green bond with the EU Taxonomy is 57%.

Now that we have a percentage alignment for the whole bond (57%), we look at the weighting of the bond within the portfolio as shown in the figure. In the case of our Verbund AG bond this is 33.33%.

We then use this figure to calculate the percentage alignment with the EU Taxonomy which the bond brings to the portfolio, which is **19% for the Verbund AG bond.**²



1 The 50/50 weighting is a decision taken by NN IP to weight the contribution to an environmental objective to be as important as the harming of other environmental objectives. For now, there is no firm guidance on this weighting so other investors may weight this differently.

2 This portfolio weighting is used for illustrative purposes only and does not reflect the real holdings in our portfolio.

The information used in this alignment exercise comes from the following documents: **Verbund**: 2017 Annual Verification Report, 2015 Annual Verification Report, Sustainability Report 2014. **Oekom-ISS**: Second Party Opinion 2014.

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