



## SECOND PARTY<sup>1</sup> OPINION ON SUSTAINABILITY OF IBERDROLA'S GREEN BOND<sup>2</sup>

Issued in November 2016

### SCOPE

Vigeo Eiris, as an external expert, was commissioned to provide an independent opinion on the sustainability credentials and management of the Green Bond (the “Bond”) considered by Iberdrola (the “issuer”). Our opinion is established according to our assessment methodology on corporate social responsibility and related to Environmental, Social and Governance (ESG) risks. It's based on the review of the three components of a sustainable green bond, in line with the Green Bond Principles:

- Issuer: document-based evaluation of the ESG commitments, performance, controversies and risk management of Iberdrola
- Project framework: document-based analysis of the eligible project categories and the process for the categorization and selection of the projects and of the evaluation process for their ESG risks and impacts by the related Business Divisions.
- Reporting framework: document based assessment of the reporting commitments related to fund allocation, to environmental benefits, to ESG mitigation in the management of refinanced projects and to their ESG impacts

Vigeo Eiris has carried out its due diligences based on information gathered from Iberdrola, press content and stakeholders, especially the Green Bond framework and list of selected projects.

### VIGEO EIRIS OPINION

Vigeo Eiris confirms that the bond considered by Iberdrola is a Green Bond, aligned with the Green Bond Principles. Vigeo Eiris reaches a reasonable<sup>3</sup> level of assurance on the sustainability of the bond:

- Iberdrola displays an overall advanced<sup>2</sup> ESG performance (see Part I).
- The framework defined by Iberdrola for this Green Bond is considered to be robust<sup>2</sup> (see Part II):
  - The net proceeds of the issuance will be used to refinance Renewable Energy Projects in Spain, which contribute to climate change mitigation and energy transition.
  - Moreover, Eligible Projects will meet additional ESG criteria, which cover specific ESG risks at corporate level for defined Eligible Projects attesting their sustainable value and their responsible management (see Part II).
- The issuer's reporting commitments are robust, covering the fund allocation the environmental benefits, and partially the ESG management of projects with reporting at corporate level, showing an overall reasonable level of assurance on its capacity to report on the Green Bond's use and impacts (see Part III).

<sup>1</sup> Second Party Opinion – Green Bond Principles: This opinion is to be considered as the “Second Party Opinion” described in the Voluntary Process Guidelines for Issuing Green Bonds, issued by Green Bond Principles, 2016. <http://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/GBP-2016-Final-16-June-2016.pdf> ; see “Consultant review”

<sup>2</sup> The “Green Bond” is to be considered as the potential forthcoming bond, which issuance is subject to market conditions.

<sup>3</sup> Vigeo Eiris' scales of assessment (detailed definitions are available on page 11):

Performance: Advanced, Robust, Limited, Weak.  
Level of Assurance: Reasonable, Moderate, Weak.

## **Part I. ISSUER**

### Level of the issuer's ESG performance:

As of October 2016, Iberdrola's CSR performance is advanced and has significantly improved since the last review (October 2014). Iberdrola is ranked in the top quarter of the "Electric & Gas utilities" Vigeo sector which covers 48 European companies. Iberdrola's approach towards its ESG pillars is heterogeneous: it achieves advanced performance for its Environmental and Social pillars, while the Governance domain remains robust.

### ESG risk mitigation:

Vigeo's level of assurance on Iberdrola management of the ESG risk factors of the company, related to its human capital, reputation, operational efficiency and legal security, is reasonable.

### Stakeholder-related ESG controversies<sup>4</sup> and disputable activities<sup>5</sup>:

As of November 2016, Iberdrola faces frequent allegations, with three cases with high level of severity. Iberdrola's responsiveness ranges from reactive to remediative: the company has remained globally transparent on the controversies and is reactive, including in cases with high level of severity.

Iberdrola is involved in 1 of 9 disputable activities analysed : nuclear activity. According to the company, Iberdrola was selected by FTSE4 GOOD as the 1<sup>st</sup> company with nuclear assets and is providing exhaustive information on nuclear indicators<sup>6</sup>.

## **Part II. PROJECT FRAMEWORK**

### Use of proceeds:

In line with Iberdrola's commitments and with its CSR and Sustainability policies, the net proceeds of the green bond will be used to refinance, in whole or in part, Renewable Energy Projects. These projects are projects of conception, construction, operation and/or maintenance of renewable energy production units, produced from onshore wind power located in Spain.

Eligible Projects' contribution to sustainable development is positive, due to expected environmental benefits on climate change mitigation and on energy transition.

### Process for project evaluation and selection:

The process for the evaluation and selection of eligible projects is defined and publically available on Iberdrola's website<sup>7</sup>, through the hereby document. It relies on:

- Use of proceeds requirements, i.e. Renewable Energy Projects with environmental benefits
- An exclusion criteria in case of any litigation related to ESG matters, based on the integration of ESG factors at Renewable Energy Project level, according to the following principles defined in the issuer's CSR and Sustainability policies<sup>8</sup>:
  - **Environment:** Environmental management, Protection of biodiversity, Atmospheric emissions and Energy management
  - **Creation of value:** ESG risk management, Responsible Customer Relation, Sustainable Procurement, Promotion of Business Ethics
  - **Social dimension:** Improvement of Health & Safety and Employment Conditions, Respect of human rights, Sustainable local insertion and Access to energy and prevention of fuel poverty
- Iberdrola's commitment on the absence of any litigation in material ESG matters which is material in the context of the group since 2008, regarding the refinancing of these existing projects.

<sup>4</sup> The opinion delivered on stakeholder-related ESG controversies is not a conclusion on the creditworthiness of Iberdrola or its financial obligations.

<sup>5</sup> Disputable activities analysed by Vigeo Eiris: Alcohol, Animal maltreatment, Armament, Hazardous chemicals, Gambling, GMOs in food & feed, Nuclear energy, Sex industry, Tobacco.

<sup>6</sup> Reporting on nuclear indicators: [www.iberdrola.es/reputation-sustainability/main-initiatives-indexes/management-nuclear-performance-indicators/](http://www.iberdrola.es/reputation-sustainability/main-initiatives-indexes/management-nuclear-performance-indicators/)

<sup>7</sup> [www.iberdrola.es/accionistas-inversores/relacion-inversores/renta-fija/bonos-verdes/](http://www.iberdrola.es/accionistas-inversores/relacion-inversores/renta-fija/bonos-verdes/)

<sup>8</sup> Iberdrola's Sustainability Policy [www.iberdrola.es/webibd/ec/prod/en/doc/responsabilidad\\_sostenibilidad.pdf](http://www.iberdrola.es/webibd/ec/prod/en/doc/responsabilidad_sostenibilidad.pdf)

Iberdrola's existing related commitments are exhaustive, covering all ESG specific risks for defined Renewable Energy Projects. These sustainability commitments applied to the whole business divisions of the group and Renewable Energy projects are fully integrated in each business division.

The integration of these ESG factors in the project management and the project fulfilment with Iberdrola's CSR and Sustainability policies is double checked by the Sustainability team. The list of eligible projects to be refinanced by the proceeds of the bond has been set up according to the requirements of the green bond framework, involving internal skills within Business Development, Environment and Finance teams.

Vigeo Eiris considers that summary criteria are defined for project evaluation and selection, and the integration of sustainability issues in the issuer's commitments is robust, in line with the issuer's CSR rating profile.

The list of selected eligible projects, located in Spain and managed by Companies with 100% to 55% owned subsidiary of Iberdrola, have been set up by Iberdrola. Vigeo Eiris provides a reasonable level of assurance on these projects, regarding the use of proceeds requirements, as Renewable Energy Projects, contributing to climate change mitigation and energy transition.

#### Management of proceeds

The rules for the management of proceeds are clearly defined by the issuer and would enable a transparent allocation process.

The issuer has committed that the net proceeds of the Bond issuance will be managed within Iberdrola's treasury liquidity portfolio, in cash or other liquidity instruments that do not include GHG intensive activities nor disputable activities. Iberdrola will track investments of the proceeds allocated to Eligible projects.

### **Part III. REPORTING FRAMEWORK**

Iberdrola is committed to report annually and until the maturity date of the Bond, in its Sustainability Report, on:

- Use of the Green Bond proceeds: list of refinanced projects, with related description, fund allocation and compliance of selected projects with the green bond framework.
- Environmental benefits: annual estimates of climate benefits of each eligible projects financed by the bond, then aggregated at bond level, in terms of installed capacity (MW), of CO<sub>2</sub> emissions avoidance and of the annual production of renewable energy (MWh per year).

Conditions and process for monitoring are clearly defined and selected reporting indicators are relevant on the use of proceeds and environmental benefits. Iberdrola's reporting commitments comply with the Green Bond Principles guidelines.

Regarding the responsible management of the eligible projects, Iberdrola will report at corporate level only, through its annual Sustainability Report, apart from any potential litigation or breach of ESG indicators observed at project level. We have further recommended to reinforce reporting related to projects ESG management.

Vigeo Eiris considers that Iberdrola's overall reporting commitments are robust, providing a reasonable level of assurance on Iberdrola's capacity to report regularly and transparently on fund allocation and impacts of financed projects.

### **EXTERNAL REVIEW**

Iberdrola's Green Bond issuance is supported by external reviews, provided by:

- The sustainability consultant review, i.e. the hereby Second Party opinion performed by Vigeo Eiris, on the sustainability credentials of the Green Bond, based on pre-issuance commitments and covering all the bond dimensions, i.e. issuer commitments, project (use of proceeds and ESG integration) and reporting (processes and KPIs).
- An annual verification, i.e. the Third Party ESG and financial auditor, covering the tracking of the bond proceeds, the compliance of the selected projects with the above eligibility process and the reporting metrics, during the fund allocation process, until the maturity date of the Bond.

*This opinion is valid as of the date of issuance limited to Iberdrola's Green Bond*

Paris, November 23<sup>rd</sup>, 2016



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Director



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#### Disclaimer

Transparency on the relation between Vigeo Eiris and the issuer: Vigeo Eiris has executed 3 audit mission for Iberdrola (second party opinion delivery on green bond in April 2014 and April and September 2016) and no established relationship (financial or others) exists between Vigeo Eiris and Iberdrola.

This opinion aims to explain for investors why the Green Bond is considered as sustainable and responsible, based on the information which has been made available to Vigeo Eiris and which has been analyzed by Vigeo Eiris. Providing this opinion does not mean that Vigeo Eiris certifies the materiality, the excellence or the irreversibility of the projects financed by the Green Bond. Iberdrola is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by Vigeo Eiris neither focuses on financial performance of the Green Bond, nor on the effective allocation of proceeds. Vigeo Eiris is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction.

## DETAILED RESULTS

### Part I. ISSUER

#### Level of Iberdrola's ESG performance:

As of October 2016, Iberdrola displays an overall advanced ESG performance.

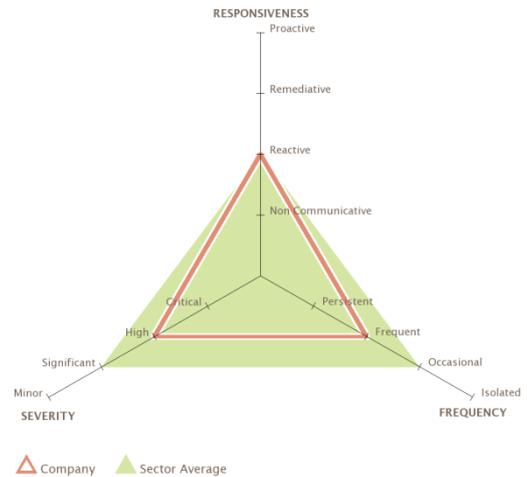
Domain	Comments	Opinion assessment level
Environment	<p>Iberdrola's performance in the Environment domain is considered as advanced, above the sector average. It has significantly improved since the last review, in particular in terms of development of renewable energy, management of energy consumption and air emissions from fossil-based generation activities, and energy demand-side management. This increase is mainly due to relevant measures implemented broadly within the Group, and to effective results, especially on customer's energy savings and with a low thermal carbon factor compared to the sector average, decreasing by 5% between 2013 and 2015. The company's environmental strategy remains advanced with robust commitments through its. Specific targets have been set with regard to CO<sub>2</sub> emissions and to development of renewable energy. Iberdrola's share of energy generation from renewable sources (35,58%) stands among the second quartile of the sector.</p> <p>Of note however, the company remains limited in Management of energy consumption and GHG from Transmission &amp; Distribution activities, and has faced frequent controversies of minor severity regarding environmental pollution and protection of biodiversity, while being overall reactive and to report transparently on the cases.</p>	Advanced
		Robust
		Limited
		Weak
Social	<p>Iberdrola's performance on the Social pillar is advanced, above the sector average and has improved since the last review.</p> <p>Regarding the Human Resources domain, the performance remains robust. Iberdrola has issued a formalised policy to promote labour relations, which is monitored jointly with employee representatives in the majority of the Company's operations. In terms of career management, line managers are evaluated on their performance in terms of HR management and most employees had performance interviews. As for health &amp; safety issues, most of Iberdrola's operations are covered by OHSAS 18001 certified system, and relevant measures are implemented for contractors and sub-contractors.</p> <p>Iberdrola's performance in the Human Rights domain is now advanced, above the sector average. The company issued formalised Human rights promotion policy supported by significant measures. Regarding non-discrimination issues, Iberdrola's performance is now robust due to the continuously increased share of women in management positions. Labour rights promotion remains stable and limited since the last review.</p> <p>Iberdrola's performance in the Community Involvement domain is advanced and has improved due to the absence of controversy. Social impact assessment and development programs have been initiated, and reports extensive measures to improve the access to energy. Iberdrola has maintained a robust performance in responsible customer relations. It has also formalized an accessible system to handle complaints.</p> <p>Otherwise, Iberdrola has improved its performance on the integration of social factors in the supply chain and is now advanced, due to better formalized and exhaustive commitments and means allocated.</p>	Advanced
		Robust
		Limited
		Weak
Governance	<p>Iberdrola's performance in the Corporate Governance domain is robust and stands above the sector average. The Board and its committees display globally a high level of independence, and the Board oversees CSR issues. In addition, the performance in terms of audit &amp; internal controls has improved: the Audit Committee oversees CSR risks and has a comprehensive role, the internal control system is supported by a confidential reporting system, and a significant ESG reporting audited by a 3rd party is published. However, major voting rights restrictions have been identified.</p> <p>Iberdrola's performance in the Business Behavior domain has improved and is now robust, above the sector average. Iberdrola's performance remains advanced in terms of Prevention of Corruption and is now robust on the prevention of anti-competitive practices, mainly due to more efforts identified to involve employees in the detection and reporting. Iberdrola's performance remains limited in responsible lobbying.</p>	Advanced
		Robust
		Limited
		Weak

Iberdrola is included in the following Vigeo Eiris Indices (as the date of publication):

- Euronext Vigeo Eiris Europe I20
- Euronext Vigeo Eiris Eurozone I20

**Stakeholder-related ESG controversies:**

- **Frequency:** As of November 18<sup>th</sup> 2016, Iberdrola faces frequent allegations: the Company is involved in 20 stakeholder-related ESG controversies, regarding several domains:
  - Business Behavior (11 cases especially on customer relations and anti-competitive practices)
  - Environment (6 cases especially on biodiversity and Industrial accidents and pollution)
  - Human resources (2 cases especially on health and safety)
  - Community Involvement (1 case on access to energy).
- **Severity:** The level of severity ranges from minor to high: the company faces 9 cases of minor severity, 8 cases of significant severity and 3 cases of high severity (related to customer relations and corruption).
- **Responsiveness:** Iberdrola is overall reactive: the company reports transparently in most of cases, and remedial actions have been taken for other cases, especially for cases with high level of severity.



Sources: Factiva research and Company's sources

**Involvement in disputable activities:**

Iberdrola's level of involvement in nuclear energy is major, based on an estimation of the level of the company's involvement (5-10%) regarding its nuclear-based power generation capacity and energy production. According to the company, Iberdrola was selected by FTSE4 GOOD as the first Company with nuclear assets and is providing exhaustive information regarding nuclear indicators.

Iberdrola is not involved in any of the other 8 disputable activities analyzed by Vigeo Eiris.

**Part II. PROJECT FRAMEWORK**



**Project Selection Framework**

1. Ensure the **refinancing of Renewable Energy Projects from wind power**, according to Iberdrola's Sustainability policy 
2. Attest the **Sustainable Value of the project** through ESG commitments in line with Iberdrola's Sustainability Policy in 3 areas:
  -  Environment
  -  Creation of value
  -  Social dimension

**Use of proceeds:**

The net proceeds of the Green Bond issuance will be used to refinance, in whole or in part, Eligible Projects, defined as Renewable Energy projects, and will meet Iberdrola's Environmental, Social and Governance (ESG) policies, evaluated by Vigeo Eiris. These projects are existing projects\* located in Spain and managed by several project companies.

\* Existing projects means projects under construction with estimated commissioning dates in 2016, and/or projects in operation with operational dates as from 2008.

The Use of proceeds criteria and expected environmental benefits have been defined in the table below:

Eligible Projects	Definition	Sustainability benefits
<b>Renewable Energy projects</b>	Financing of, or investments in development, construction, installation and maintenance of renewable energy production units - Energy produced from renewable non-fossil sources, more specifically from wind power (onshore)	<b>Climate change and Energy transition</b> - Avoidance of GHG emissions

Vigeo Eiris considers that the contribution of the eligible projects to sustainable development is positive, due to environmental benefits which have been described and will be assessed and quantified annually, using impact reporting (see Part III.).

#### Process for project evaluation and selection:

Based on the described process, the evaluation and selection of eligible projects will use internal expertise:

- The respect of use of proceeds requirement, i.e. the definition of Renewable Energy Project is doubled checked by business and environmental teams
- The project fulfilment with Iberdrola's CSR and Sustainability policies and absence of any ESG matters are doubled checked by the Sustainability team (application of the exclusion criteria)
- The list of selected Eligible Projects is set up by business and environmental teams, based on internal expertise, and submitted to the Finance Department for validation and selection.

Projects will be added to the report once the issuer has approved and determined a project as eligible through this selection process.

Iberdrola's evaluation and selection process has been assessed by Vigeo Eiris regarding the exhaustiveness and relevance of ESG criteria and associated commitments implemented at project level, applied to the whole business divisions of the group and consistent with Iberdrola Sustainability Policy. We consider that:

- Iberdrola's summary criteria are defined for project evaluation and selection
- Iberdrola's existing related commitments are exhaustive, covering all ESG specific risks for defined Renewable Energy Projects.
- Our level of assurance on ESG integration in the project selection is robust, in line with the issuer's CSR rating profile.

#### List of selected eligible projects

The list of selected eligible projects has been set up by Iberdrola. All are wind onshore projects, located in Spain. Regarding the refinancing of these existing projects, Iberdrola states that there has not been any litigation in material ESG matters which is material in the context of the group since 2008, in its yearly register document ('Documento de Registro de Acciones'). The Issuer also considers that, in accordance with its Sustainability Report 2015, selected projects are compliant with the above described process.

Company	Name of park	Installed capacity (mw)	Participation iberdrola	Operational date
BIONOR EÓLICA	Valdelanave	10	60%	2012
Energías Renovables de la Región de Murcia	Cabras	22	100%	2012
Iberdrola Energías Renovables de Andalucía	Doña Benita	32	100%	2008
Iberdrola Energías Renovables de Castilla La Mancha	Sabina	48	100%	2008
Iberdrola Energías Renovables de Galicia	Vieiro	20	100%	2008
Iberdrola Renovables Castilla y Leon	Argañoso	22	95%	2009
Iberdrola Renovables Castilla y Leon	Bullana	38	95%	2009
Iberdrola Renovables Castilla y Leon	Bureba	12	95%	2010
Iberdrola Renovables Castilla y Leon	Carril	28	95%	2008
Iberdrola Renovables Castilla y Leon	Cerro Blanco	42	95%	2009

Company	Name of park	Installed capacity (mw)	Participation iberdrola	Operational date
Iberdrola Renovables Castilla y Leon	Cotera	18	95%	2009
Iberdrola Renovables Castilla y Leon	Cueza	8	95%	2010
Iberdrola Renovables Castilla y Leon	Paramo Vega	18	95%	2009
Iberdrola Renovables Castilla y Leon	Radona I	24	95%	2009
Iberdrola Renovables Castilla y Leon	Radona II	32	95%	2009
Iberdrola Renovables Castilla y Leon	Sombrio	28	95%	2008
Iberdrola Renovables Castilla y Leon	Valdecarrion	34	95%	2010
Iberdrola Renovables Castilla y Leon	Valdeperondo	46	95%	2010
Iberdrola Renovables Castilla y Leon	Ventosa del Ducado	44	95%	2012
Iberdrola Renovables Castilla y Leon	Viñas	38	95%	2010
Ibernova Promociones	Bolaños	24	100%	2008
Ibernova Promociones	Dos Pueblos	20	100%	2008
Producciones Energéticas Asturianas, S.L.	Candal	38	82%	2012
Sistemas Energéticos de la Higuera	Cerro Higuera	44	55%	2009
Sistemas Energeticos Nacimiento	Nacimiento	24	100%	2008
Sistemas Energeticos Tacica de Plata	Tacica de Plata	26	100%	2008
<b>TOTAL</b>		<b>740</b>		

Vigeo Eiris provides a reasonable level of assurance on these projects regarding the use-of-proceeds requirements, as Renewable Energy Projects, contributing to climate change mitigation and energy transition.

Management of proceeds:

Iberdrola’s commitments and rules for the management of proceeds are clearly defined and would enable a transparent allocation process.

The net proceeds of the Bond issuance will be managed within Iberdrola’s treasury liquidity portfolio, in cash or other liquidity instruments that do not include GHG intensive activities nor disputable activities. Iberdrola will track investments of the proceeds allocated to Eligible projects. This tracking is integrated into the annual financial reporting process. The overall share of refinancing is 100% (i.e. refinancing of projects financed from 2008).

In case of asset divestment, Iberdrola will use the net proceeds to refinance other Eligible Projects which are compliant with the current framework.

**Part III. REPORTING FRAMEWORK**



**Reporting Framework**

- 3. Report to investors on **financed projects** and **environmental benefits**, via reporting indicators (ex-post evaluation)

Iberdrola is committed to report annually in its Sustainability Report and until the maturity date of the Bond, on:

- Use of the Green Bond proceeds: list of refinanced projects, with related description, fund allocation and compliance of selected projects with the green bond framework.
- Environmental benefits: annual estimates of climate benefits of each eligible project refinanced by the bond, then aggregated at bond level

Responsible management of each project is monitored at corporate level only: eligible projects are fully integrated in each business divisions, covered by the overall annual group reporting, which considers all ESG issues and is made in the annual Sustainability Report, available on the issuer website. We have recommended to reinforce the information on responsible management at project level.

All the main ESG issues are measured by Iberdrola, reported annually in its Sustainability Report and their GRI compliance is verified by a third party. An auditor's attestation will be delivered at least yearly till the maturity of the bond on the amounts of eligible projects refinanced and on environmental metrics.

In order to report on the impact measured, Iberdrola could substitute any of the selected indicators when it considers that it is convenient and could integrate any other indicators when appropriate to disclose the performance of such projects.

**Fund allocation:**

Category	Aggregated at bond level
Use of proceeds	<ul style="list-style-type: none"> <li>- List of refinanced project (type, location, operation date)</li> <li>- Amount in € invested in the portfolio</li> </ul>

**Environmental benefits:**

Benefits	Reporting indicators	Methodology and assumptions
Climate change mitigation	Installed capacity of the renewable energy plant (in MW by source)	Estimation of the nominal capacity of production installed
	Annual renewable energy produced (in MWh per year)	Annual production of renewable energy
	Annual GHG emissions avoided (in tCO <sub>2</sub> e)	Estimation of annual Greenhouse Gas (GHG) emissions avoided (Scope 2)

## METHODOLOGY

In Vigeo Eiris' view, Environmental, Social and Governance (ESG) factors are intertwined and complementary and cannot be separated when assessing the management of ESG in any organization or in any activity, including the issuance of bonds. In this sense, Vigeo Eiris writes an opinion on the issuer's corporate responsibility as an organization, and on the objectives, the management and the reporting of the projects financed by this bond.

Vigeo Eiris' methodology to define and to assess corporate ESG performance is based on criteria aligned with public international standards, in compliance with the ISO 26000 guidelines, and organized in 6 domains: Environment, Human Resources, Human Rights, Community Involvement, Business Behavior and Corporate Governance. The evaluation framework has been customized regarding material issues, based on the Electric & Gaz Utilities assessment framework, project specificities and emerging issues.

Vigeo Eiris reviewed information provided by the issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources will be considered as long as they are public, documented and traceable. Vigeo Eiris has reviewed documents and websites of the issuer, related to the bond evaluation (especially the Green Bond framework and 2015 Sustainability Report).

### **Part I. ISSUER**

#### Level of the issuer's ESG performance:

Iberdrola has been evaluated by Vigeo Eiris in September 2016 on its CSR performance, based on 25 relevant ESG drivers organized in the 6 sustainability domains. Iberdrola's performance has been assessed by Vigeo Eiris on the basis of its:

- Leadership: relevance of the commitments (content, visibility and ownership)
  - Implementation: coherence of the implementation (process, means, control/reporting)
  - Results: indicators, stakeholders feedbacks and controversies
- Scale for assessment of ESG performance: Advanced, Robust, Limited, Weak.

#### Stakeholder-related ESG controversies and involvement in disputable activities:

A controversy is information, a flow of information, or contradictory opinions that are public, documented and traceable, allegation against an issuer on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation on unproven facts.

Vigeo Eiris provides an opinion on companies' controversies risks mitigation based on the analysis of three factors :

- Severity: the more a controversy will relate to stakeholder's fundamental interests, will prove actual corporate responsibility in its occurrence, and will have adverse impacts for stakeholders and the Company, the highest its severity. Severity assigned at corporate level will reflect the highest severity of all cases faced by the Company (scale: Minor, Significant, High, Critical);
  - Responsiveness: ability demonstrated by an issuer to dialogue with its stakeholders in a risk management perspective and based on explanatory, preventative, remediating or corrective measures. At corporate level, this factor will reflect the overall responsiveness of the Company for all cases faced (scale: Proactive, Remediate, Reactive, Non Communicative);
  - Frequency: reflects for each ESG challenge the number of controversies faced. At Corporate level, this factor reflects on the overall number of controversies faced and scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- Scale for assessment of ability to mitigate stakeholder-related ESG controversies: Advanced, Robust, Limited, Weak.

The impact of a controversy on a company's reputation reduces with time, depending on the severity of the event and the company's responsiveness to this event. Conventionally, Vigeo Eiris' controversy database covers any controversy with Minor or Significant severity during 24 months after the last event registered and during 48 months for High and Critical controversies.

In addition, regarding the involvement in disputable activities, 9 disputable activities have been analyzed following 30 parameters to verify the level of involvement of the issuer in a disputable activity (scale: Major, Minor, No), based on:

- An estimation of the revenues derived from disputable products or services
- The precise nature of the disputable products or services provided by the company

## Part II. PROJECT FRAMEWORK

### Use of proceeds:

The use-of-proceeds requirements are defined to ensure that the funds raised are used to (re)finance an eligible project and are traceable within the issuing organization, and include the management of proceeds. Each project endorsed shall comply with all of the eligible project criteria in order to be eligible.

Vigeo Eiris has reviewed the integration of ESG factors in the evaluation and selection process, aiming at a responsible management of the financed projects, regarding the exhaustiveness and the relevance of ESG criteria and associated commitments, based on 16 relevant criteria, regarding Environment, Human Resources, Human Rights, Business Behaviour, Local Communities and Governance domains and taking into account ESG issues of Iberdrola's sector.

The sustainability purpose of the bond's associated eligible projects has been precisely defined, with regard to Iberdrola's commitments, and assessed regarding described and estimated benefits of the eligible projects. The contribution of eligible projects to Sustainable Development is evaluated regarding the UN Sustainable Development Goals.

### Process for project evaluation and selection:

The evaluation and selection process has been assessed by Vigeo Eiris regarding the exhaustiveness and relevance of ESG selection criteria and associated supporting elements integrated in the Green Debt Instrument framework, and the coherence of the process. The analysis was conducted focusing on the most relevant drivers regarding projects issues - based on 15 relevant ESG drivers, aligned with public international standards - and on the evaluation methodology.

- Scale for assessment of ESG integration in the selection process: Advanced, Robust, Limited, Weak.

## Part III. REPORTING FRAMEWORK

Reporting indicators are selected from existing indicators to enable annual reporting on fund allocation, environmental and social benefits and on responsible management of the project financed by the Green Bond proceeds, collected at project level and aggregated at bond level. Vigeo Eiris has evaluated the relevance of these indicators according to three principles: transparency, exhaustiveness and effectiveness.

- Scale of level of assurance on reporting on the project: Reasonable, Moderate, Weak

## VIGEO EIRIS S ASSESSMENT SCALES

Performance evaluation	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the objective of social responsibility. Reasonable level of risk management and using innovative methods to anticipate emerging risks.
Robust	Convincing commitment; significant and consistent evidence of command over the issues. Reasonable level of risk management.
Limited	Commitment to the objective of social responsibility has been initiated or partially achieved; fragmentary evidence of command over the issues. Limited to weak level of risk management.
Weak	Commitment to social responsibility is non-tangible; no evidence of command over the issues. Level of insurance of risk management is weak to very weak.

Level of assurance	
Reasonable	Able to convincingly conform to the prescribed principles and objectives of the evaluation framework
Moderate	Compatibility or partial convergence with the prescribed principles and objectives of the evaluation framework
Weak	Lack or unawareness of, or incompatibility with the prescribed principles and objectives of the evaluation framework