

# SECOND PARTY OPINION

on the sustainability of Iberdrola's Green Bond

V.E considers that Iberdrola's Bond is aligned with the four core components of the ICMA's Green Bond Principles 2021 ("GBP") and is in line with best practices identified by V.E.

## Issuance

Contribution to Sustainability:



- Advanced
- Limited
- Robust
- Weak

	Weak	Limited	Robust	Advanced
Expected impacts				
ESG risks management				

SDG Mapping



Characteristics of the Bond

Project Category	⇒ Renewable Energy
Project Locations	France and Germany
Existence of Framework	Yes
Share of Refinancing	No refinancing
Look-back Period	N/A

## Issuer

ESG Performance as of September 2021



- Advanced
- Limited
- Robust
- Weak

	Weak	Limited	Robust	Advanced
Environment				
Social				
Governance				

Controversial Activities

The Issuer appears to be involved in 2 of the 17 controversial activities screened under our methodology:

- |   |   |   |   |
|---|---|---|---|
| <input type="checkbox"/> Alcohol              | <input checked="" type="checkbox"/> Fossil fuels industry | <input type="checkbox"/> High interest rate lending | <input type="checkbox"/> Pornography                |
| <input type="checkbox"/> Animal welfare       | <input type="checkbox"/> Coal                             | <input type="checkbox"/> Human embryonic stem cells | <input type="checkbox"/> Reproductive medicine      |
| <input type="checkbox"/> Cannabis             | <input type="checkbox"/> Gambling                         | <input type="checkbox"/> Military                   | <input type="checkbox"/> Tobacco                    |
| <input type="checkbox"/> Chemicals of concern | <input type="checkbox"/> Genetic engineering              | <input checked="" type="checkbox"/> Nuclear power   | <input type="checkbox"/> Unconventional oil and gas |
| <input type="checkbox"/> Civilian firearms    |   |   |   |

ESG Controversies

Number of controversies	7
Frequency	Occasional
Severity	High
Responsiveness	Reactive

## Coherence

Coherent
Partially coherent
Not coherent

V.E considers that the contemplated Bond is coherent with Iberdrola's strategic sustainability priorities and sector issues and that it contributes to achieving the Issuer's sustainability commitments.

## Key findings

V.E considers that Iberdrola's Bond is aligned with the four core components of the GBP and best practices identified by V.E.

### Use of Proceeds - aligned with GBP and best practices identified by V.E

- The Eligible Category is clearly defined and detailed, the Issuer has communicated the nature of the expenditures, eligibility criteria, and the locations of Eligible Projects.
- The Environmental Objective is clearly defined, relevant and set in coherence with sustainability objectives defined in international standards for the Eligible Category.
- The Expected Environmental Benefit is clear, precise, relevant, and measurable. It will be quantified for the Eligible Category in the reporting.
- The Issuer has transparently communicated that there will be no refinancing.

### Evaluation and Selection - aligned with GBP and best practices identified by V.E

- The process for Project Evaluation and Selection has been clearly defined and detailed by the Issue. The process is well-structured in all the evaluation and selection steps (including the proposal, selection, validation, and monitoring of Eligible Projects). The roles and responsibilities are clear and include relevant internal expertise. The process is publicly disclosed in the Framework and in this SPO.
- The eligibility criteria (selection) for project selection have been clearly defined and detailed by the Issuer for the Eligible Category.
- The process applied to identify and manage potentially material ESG risks associated with the projects is publicly disclosed in this SPO. The process is considered advanced: it combines monitoring, identification, corrective, and preventive measures for all projects (see detailed analysis on pages 16-18).

### Management of Proceeds - aligned with GBP and best practices identified by V.E

- The process for the Management and Allocation of Proceeds is clearly defined and detailed and is publicly available in the Framework and in the hereby SPO.
- The allocation period will be 24 months or less.
- Net proceeds of the Bond will be placed in the Iberdrola's general treasury and tracked by the Issuer in an appropriate manner and attested in a formal internal process.
- Information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed in the Framework.
- For as long as the Bond is outstanding, the Issuer has committed to periodically adjust the balance of tracked net proceeds to match allocations to Eligible Projects.
- The Issuer has provided information on the procedure that will be applied in case of project/asset divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the Green Financing Instruments Framework within 24 months or less.



#### Reporting - aligned with GBP and best practices identified by V.E

- The Issuer has committed to report on the Use of Proceeds on an annual basis, until full allocation and on a timely basis in case of material developments for the allocation reporting, and until Bond maturity for the impact reporting. The report will be publicly available on the Issuer's website.
- The Issuer has committed to include in the reports relevant information related to the allocation of Bond proceeds and the expected sustainable benefits of the Eligible Projects. The Issuer has also committed to report on material developments and controversies related to the Eligible Projects.
- The reporting methodology and assumptions used to report on environmental benefits of the Eligible Category will be publicly disclosed.
- An external auditor will verify the tracking and allocation of funds to Eligible Projects until full allocation and in case of material changes. An external auditor will verify the reporting on the environmental benefits of Eligible Projects until bond maturity.

## Contact

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# SCOPE

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V.E was commissioned to provide an independent Second Party Opinion (“SPO”) on the sustainability credentials and management of the Green Bond<sup>1</sup> (“Bond”) to be issued by Iberdrola (the “Issuer”) in compliance with the Framework for Green Financing (the “Framework”) created to govern their Issuance (the “Issuance”).

Our opinion is established according to V.E’s Environmental, Social and Governance (“ESG”) exclusive assessment methodology and to the latest version of the voluntary guidelines of ICMA’s Green Bond Principles (“GBP”) - edited in June 2021.

Our opinion is built on the review of the following components:

- Issuance: we assessed the coherence between the Bond and the Issuer’s environmental commitments, the Bond’s potential contribution to sustainability and its alignment with the four core components of the GBP 2021.
- Issuer: we assessed the Issuer’s ESG performance, its management of potential stakeholder-related ESG controversies and its involvement in controversial activities.<sup>2</sup>

Our sources of information are multichannel, combining data (i) gathered from public sources, press content providers and stakeholders, (ii) from V.E’s exclusive ESG rating database, and (iii) information provided from the Issuer, through documents.

We carried out our due diligence assessment from February 14<sup>th</sup> to February 22<sup>nd</sup>, 2022. We consider that we were provided access to all documents and interviewees we solicited. For this purpose, we made reasonable efforts to verify the accuracy of all data used as part of the assessment.

## Type of External Reviews supporting this Framework

<input checked="" type="checkbox"/>	Pre-issuance Second Party Opinion	<input checked="" type="checkbox"/>	Independent verification of impact reporting
<input checked="" type="checkbox"/>	Independent verification of funds allocation	<input type="checkbox"/>	Climate Bond Initiative Certification

<sup>1</sup> The “Green Bond” is to be considered as the bond to be potentially issued, subject to the discretion of the Issuer. The name “Green Bond” has been decided by the Issuer: it does not imply any opinion from V.E.

<sup>2</sup> The 17 controversial activities screened by V.E are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Fossil Fuels industry, Unconventional oil and gas, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco.

# COHERENCE

Coherent
Partially coherent
Not coherent

V.E considers that the contemplated Bond is coherent with Iberdrola’s strategic sustainability priorities and sector issues and that it contributes to achieving the Issuer’s sustainability commitments.

The Electric & Gas Utilities sector has a major role to play in the fight against climate change and energy efficiency through the promotion and development of renewable energy sources, energy efficiency and reduction in Greenhouse Gas (GHG) emissions.

Companies are expected to set ambitious climate change strategies, supported by appropriate targets and widespread environmental management systems. However, renewable energy facilities such as wind farms call for specific measures to ensure biodiversity protection, health and safety and the promotion of sustainable relations with the communities where they operate. Finally, companies are also expected to promote energy efficiency measures for their end customers and provide energy savings that will contribute to decarbonisation.

Iberdrola produces and supplies electricity to around 100 million people in the countries in which it operates. The company is focused on driving the energy transition to a more sustainable world through its investments in renewable energy, smart grids, large-scale energy storage, digital transformation, new technologies like green hydrogen and energy services for its customers.

Iberdrola has committed to reduce its emissions intensity to 50 gCO<sub>2</sub>/kWh globally by 2030 and to achieve carbon neutrality at the global level before 2050.<sup>3</sup>

- Iberdrola has incorporated the Sustainable Development Goals defined by the United Nations for the period 2015-2030 into the company’s strategy, its Sustainability Policy, and its Bylaws, including the concept of “Social Dividend”. In line with its activity, Iberdrola focuses on an affordable and clean energy supply and action for the climate. In addition, the company reports that it has increased the investment in Research, Development & Innovation activities, it promotes the protection of land ecosystems life and works to create partnerships to achieve these goals. Iberdrola is committed to contributing to the social and economic development of the communities in which it operates and to protecting the environment through its sustainable energy business model.
- The company has also set a target for absolute GHG emissions reductions (Scope 1, 2 and 3) that has been approved by the Science Based Target Initiative and is consistent with the Paris Agreement.
- On the occasion of the Paris 2017 Climate Finance Day, Iberdrola, along with eight of Europe’s largest industrial issuers of green bonds, publicly announced its undertaking to further develop the green bond market with placing green bonds at the heart of its project financing and business lines, and to implement stringent reporting procedures. The company issued its first green bond in 2014, and since then has intensified its financing in the Socially Responsible Investing focused market, having issued over EUR 13.2 billion through capital markets in a total of 18 operations.<sup>4</sup>

As part of its business strategy and of the 2020-2022 Sustainable Development Plan “Energy to thrive”, Iberdrola acknowledges the importance of ESG factors for its medium- and long-term targets linked to the fight against climate change.<sup>5</sup> The associated projects, tasks, and objectives are grouped into several key areas and monitored, measured as well as evaluated in accordance with international sustainability standards. Main targets for 2022 include:

<sup>3</sup> Iberdrola’s website (February 2022): [Climate Action | Measures to mitigate climate change - Iberdrola](#)

<sup>4</sup> Iberdrola’s website (February 2022): <https://www.iberdrola.com/shareholders-investors/investors/financial-income/information-related-to-green-finance>

<sup>5</sup> [https://www.iberdrola.com/wcorp/gc/prod/en\\_US/corporativos/docs/gsm21\\_IA\\_SustainabilityReport20.pdf](https://www.iberdrola.com/wcorp/gc/prod/en_US/corporativos/docs/gsm21_IA_SustainabilityReport20.pdf) (p. 99 ff.)

- Environmental targets: increase in green energy consumption, contribute to digitalisation and expansion of networks, reduce emissions and water consumption, invest in R&D, produce green hydrogen, install recharging points, invest in clean energy, reforestation, recycle waste.
- Social targets: increase employee training hours, support different social initiatives and programs, drive employment, grant scholarships, provide access to energy, ensure permanent contracts, promote equal opportunities, create customer-tailored products.
- Governance-related targets: promote cybersecurity, foster responsible supply, events, and financing, improve compliance, implement best practices in the Governance and Sustainability System, introduce new system for centralized purchases.

With the "Energy to thrive" plan, Iberdrola is contributing to the UN SDGs, putting the spotlight principally on SDG 13 (climate action) and SDG 7 (affordable and clean energy). To ensure compliance with the SDGs, the company has established an SDG Advisory Committee that reviews the actions in place. Iberdrola was selected by the OpenODS Index<sup>6</sup> as the benchmark organization with the highest score among the 35 Spanish Ibx companies in terms of alignment, localization, implementation, and monitoring of the SDGs.

By creating a Bond to finance and refinance Renewable Energy assets, the Issuer coherently aligns with its sustainability strategy and commitments and addresses important sustainability issues of the sector.

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<sup>6</sup> OpenODS Index Platform (February 2022): [OpenODS Index](#)

# ISSUANCE

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Iberdrola has described the main characteristics of the Bond within a formalised Framework for Green Financing that covers the four core components of the GBP 2021 (the last updated version was provided to V.E on January 31<sup>st</sup>, 2022). The Issuer has made this document publicly accessible on Iberdrola's website,<sup>7</sup> in line with good market practices.

## Alignment with the Green Bond Principles

### Use of Proceeds



The net proceeds of the Bond will exclusively finance or refinance, in part or in full, projects falling under one Green Project Category ("Eligible Category"), as indicated in Table 1.

- The Eligible Category is clearly defined and detailed, the Issuer has communicated the nature of the expenditures, eligibility criteria, and the locations of Eligible Projects.
- The Environmental Objective is clearly defined, relevant and set in coherence with sustainability objectives defined in international standards for the Eligible Category.
- The Expected Environmental Benefit is clear, precise, relevant, and measurable. It will be quantified for the Eligible Category in the reporting.
- The Issuer has transparently communicated that there will be no refinancing.

#### BEST PRACTICES

- ⇒ The definition and eligibility criteria (selection) are clear and in line with international standards for the Eligible Category.
- ⇒ Relevant environmental benefit is identified and measurable for all project categories.
- ⇒ The Issuer has transparently communicated that there will be no refinancing.

<sup>7</sup> <https://www.iberdrola.com/shareholders-investors/investors/fixed-income/information-related-to-green-finance>

Table 1. V.E' analysis of the Eligible Category, Sustainability Objectives and Expected Benefits as presented in the Issuer's Framework.

- Nature of expenditures: CAPEX<sup>8</sup> for 2022 and 2023
- Locations of Eligible Projects:<sup>9</sup> France and Germany

ELIGIBLE CATEGORY	DESCRIPTION	SUSTAINABILITY OBJECTIVES AND BENEFITS	V.E'S ANALYSIS
Renewable Energy	<p>Offshore wind power projects:</p> <ul style="list-style-type: none"> <li>- One project located in Saint-Brieuc<sup>10</sup> (France) with a planned installed capacity reaching 496 megawatts (MW) with a production estimated at 1,822 gigawatt hours (GWh) per year.<sup>11</sup></li> <li>- One project in the Baltic Eagle close to Rügen island<sup>12</sup> (Germany) with a planned installed capacity reaching 476 megawatts (MW).</li> </ul>	<p><u>Climate Change Mitigation</u></p> <p>-</p> <p>Avoidance of CO<sub>2</sub> emissions<sup>13</sup></p>	<p>The Eligible Category is clearly defined and detailed. The Issuer has communicated the nature of the expenditures, the eligibility criteria, and the location of each eligible project.</p> <p>The Environmental Objective is clearly defined and set in coherence with sustainability objectives set in the international standards.</p> <p>The Expected Environmental Benefit is clear, it is considered relevant, measurable, and will be quantified in the reporting.</p> <p>The Eligible Category complies with the Technical Screening Criteria outlined in the First Delegated Act on Sustainable Activities for Climate Change Adaptation and Mitigation Objectives report on the EU Taxonomy published in June 2021.<sup>14</sup></p>

<sup>8</sup> The Issuer reports that the expenditures in these two assets already allocated to a prior Green Instrument (Green Bond issued in February 2021) have been excluded for the purpose of this Bond's allocations.

<sup>9</sup> Projects will be eligible only if they are financed by Iberdrola, S.A. itself and not by other Iberdrola subsidiaries for which Iberdrola, S.A. does not guarantee.

<sup>10</sup> <https://www.iberdrola.com/about-us/lines-business/flagship-projects/saint-brieuc-offshore-wind-farm>

<sup>11</sup> Output is expected to be zero in 2022.

<sup>12</sup> <https://www.iberdrola.com/about-us/lines-business/flagship-projects/baltic-eagle-offshore-wind-farm>



<sup>13</sup> Output is expected to be zero in 2022.

<sup>14</sup> [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=PI\\_COM:C\(2021\)2800](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=PI_COM:C(2021)2800)

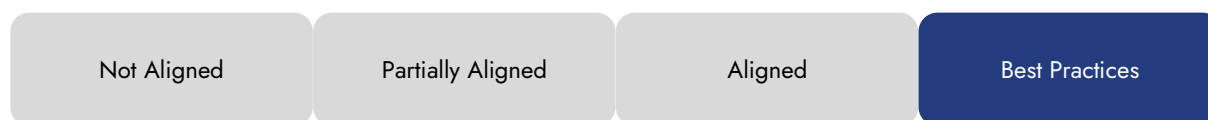


SDG Contribution

The Eligible Category is likely to contribute to two of the United Nations’ Sustainable Development Goals (“SDGs”), namely:

ELIGIBLE CATEGORY	SDG	SDG TARGETS
Renewable Energy		7.2. By 2030, increase substantially the share of renewable energy in the global energy.
		The projects are likely to contribute to SDG 13 which consists in adopting urgent measures to combat climate change and its impacts.

## Evaluation and Selection of Eligible Projects



- The process for Project Evaluation and Selection has been clearly defined and detailed by the Issue. The process is well-structured in all the evaluation and selection steps (including the proposal, selection, validation, and monitoring of Eligible Projects). The roles and responsibilities are clear and include relevant internal expertise. The process is publicly disclosed in the Framework and in this SPO.
- The eligibility criteria (selection) for project selection have been clearly defined and detailed by the Issuer for the Eligible Category.
- The process applied to identify and manage potentially material ESG risks associated with the projects is publicly disclosed in this SPO. The process is considered advanced: it combines monitoring, identification, corrective, and preventive measures for all projects (see detailed analysis on pages 16-18).

### Process for Project Evaluation and Selection

The process is as follows:

- The evaluation and selection of Eligible Projects is performed and coordinated by Iberdrola's Finance and Treasury Department relying on representatives from several areas of the Iberdrola. The list of Eligible Projects is set up by the Business and Environmental teams, based on internal expertise, and submitted to the Finance Department for validation and selection. The Finance Department checks with the Sustainability Department, Legal and Corporate Social Responsibility (among others) if the projects are available and checks internally that double counting is avoided.
- The respect of use of proceeds requirement is verified by the Business and Financial teams.
- The project fulfilment with Iberdrola's Sustainable Development policies and the absence of any ESG matters are verified by the Sustainability and CSR teams (application of the exclusion criteria). Iberdrola's Finance Department is responsible for coordinating the whole process for identification and selection of Eligible Projects.

The traceability and verification of the selection and evaluation of the projects is ensured throughout the process:

- At the beginning of each transaction, a project evaluation is carried out covering the entire lifecycle of the project (incl. conception, construction, and full operation time). Monitoring and control of the compliance of the selected projects with the Eligibility Criteria is performed at least twice a year for the plants included in the Bond. If a project no longer complies with the Eligibility Criteria, the Finance and Treasury Department commits to reallocate the funds to another Eligible Project.
- Iberdrola will monitor potential ESG controversies related to the selected projects, on a continuous basis throughout the lifetime of the projects. In case a project faces a controversy, the Finance and Treasury Department (in contact with the Sustainability Department), commits to reallocate the funds to another Eligible Project.
- The decision-making process will be traceable through a continuous exchange of emails (or other available means of internal communication) between the decision-makers involved in the selection of projects.

### Eligibility Criteria

The process relies on explicit Eligibility Criteria (selection) relevant to the environmental objectives defined for the Eligible Category:

- The selection criteria are based on the description defined in Table 1 in the Use of Proceeds.
- The exclusion criteria applied in case of any material litigation related to ESG matters are based on the integration of ESG factors at project level, according to the principles defined in Iberdrola's Sustainable Development policies.<sup>15</sup>

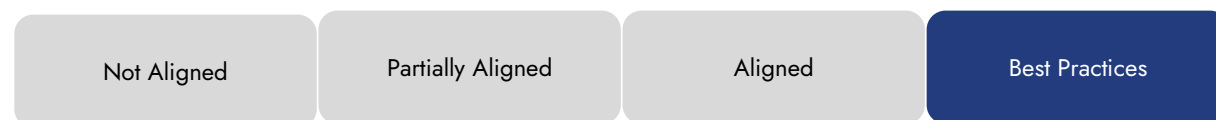
#### BEST PRACTICES

- ⇒ Eligibility and exclusion criteria for project selection are clearly defined and detailed for the Eligible Category.
- ⇒ The Issuer reports that it will monitor compliance of selected projects with eligibility and exclusion criteria specified in the Framework throughout the life of the Bond and has provided details on content, frequency, duration and on procedure adopted in case of non-compliance.
- ⇒ The Issuer reports that it will monitor potential ESG controversies associated with the financed Projects/Assets throughout the life of the Bond and has provided details on the procedure in case a controversy is found.

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<sup>15</sup> Sustainable Development Policy: [https://www.iberdrola.com/wcorp/gc/prod/en\\_US/corporativos/docs/general\\_sustainable\\_development\\_policy.pdf](https://www.iberdrola.com/wcorp/gc/prod/en_US/corporativos/docs/general_sustainable_development_policy.pdf)

## Management of Proceeds



- The process for the Management and Allocation of Proceeds is clearly defined and detailed and is publicly available in the Framework and in the hereby SPO.
- The allocation period will be 24 months or less.
- Net proceeds of the Bond will be placed in the Iberdrola's general treasury and tracked by the Issuer in an appropriate manner and attested in a formal internal process.
- Information on the intended types of temporary placement for the balance of the unallocated net proceeds is publicly disclosed in the Framework.
- For as long as the Bond is outstanding, the Issuer has committed to periodically adjust the balance of tracked net proceeds to match allocations to Eligible Projects.
- The Issuer has provided information on the procedure that will be applied in case of project/asset divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the Green Financing Instruments Framework within 24 months or less.

## Management Process

- In case of refinancing operating projects, no dedicated tracking of funds will be conducted.
- In case of future project expenditures, the Bonds' proceeds will be managed through a dedicated tracking process aiming to ensure traceability.
- The Issuer has committed to allocating all proceeds to the Eligible Projects at settlement or within 24 months and has committed to using temporary placements for the balance of unallocated proceeds which do not include GHG intensive or controversial activities, in line with best market practices.
- In case of project divestment, Iberdrola commits to use the net proceeds to finance and/or refinance other Eligible Projects which are compliant with the current Framework as soon as the divestment is effective.
- Iberdrola is committed to performing an external audit of the already invested capital from the accounting records in order to check the correct use of proceeds.

### BEST PRACTICES

- ⇒ The allocation period is 24 months or less.
- ⇒ The Issuer has committed not to invest temporarily unallocated net proceeds in GHG intensive activities or controversial activities.
- ⇒ The Issuer has provided information on the procedure that will be applied in case of project/asset divestment or postponement and it has committed to reallocate divested proceeds to projects that are compliant with the Framework within 24 months or less.

## Reporting



- The Issuer has committed to report on the Use of Proceeds on an annual basis, until full allocation and on a timely basis in case of material developments for the allocation reporting, and until Bond maturity for the impact reporting. The report will be publicly available on the Issuer's website.
- The Issuer has committed to include in the reports relevant information related to the allocation of Bond proceeds and the expected sustainable benefits of the Eligible Projects. The Issuer has also committed to report on material developments and controversies related to the Eligible Projects.
- The reporting methodology and assumptions used to report on environmental benefits of the Eligible Category will be publicly disclosed.
- An external auditor will verify the tracking and allocation of funds to Eligible Projects until full allocation and in case of material changes. An external auditor will verify the reporting on the environmental benefits of Eligible Projects until bond maturity.

## Indicators

The Issuer has committed to transparently communicate at Project level, on:

- Allocation of proceeds: The indicators selected by the Issuer to report on the allocation of proceeds are relevant and exhaustive:

### REPORTING INDICATORS

- ⇒ The list of Eligible Projects financed, including a brief description
- ⇒ Invested Capex attributable to the Bond (in EUR), incl. some individual information
- ⇒ Percentage of allocated proceeds vs. unallocated proceeds, if any (in %)
- ⇒ Share of financing vs. refinancing, if any (in %)

The Issuer has committed to report on the Environmental Benefits on a pro rata basis of the Bond proceeds contribution to the total cost of the project and Iberdrola's ownership.

- Environmental benefits: The indicators selected by the Issuer to report on the environmental benefits are clear, relevant, and exhaustive:

ELIGIBLE CATEGORY	ENVIRONMENTAL BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS
Renewable Energy	<ul style="list-style-type: none"> <li>- Installed capacity (in MW)</li> <li>- Attributable capacity (in MW) to the bond</li> <li>- Annual attributable renewable energy produced (in GWh)</li> </ul>	<ul style="list-style-type: none"> <li>- Annual attributable GHG emissions avoided (in tCO<sub>2e</sub> per year)</li> </ul>

#### BEST PRACTICES

- ⇒ The Issuer will report on the Use of Proceeds until Bond maturity.
- ⇒ The Issuer report will be publicly available.
- ⇒ The reporting will cover relevant information related to the allocation of Bond proceeds and to the expected sustainable benefits of the projects. The Issuer has also committed to report on material development related to the projects, including ESG controversies.
- ⇒ The Issuer will report on the allocation of proceeds and on environmental benefits at project level.
- ⇒ The indicators selected by the Issuer are exhaustive with regards to allocation reporting.
- ⇒ The indicators selected by the Issuer are clear and relevant and cover all expected benefits associated with the Eligible Projects.
- ⇒ The reporting methodology and assumptions used to report on the environmental benefits of the Eligible Projects will be disclosed publicly.
- ⇒ Environmental benefits and impacts will be externally verified until Bond maturity.

## Contribution to sustainability

### Expected Impacts

The potential positive Impact of the Eligible Projects on environmental objectives is considered to be advanced.

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Renewable Energy	ADVANCED	<p>Incorporating renewable energy is a key issue for energy providers to contribute to a less carbon-intensive and more sustainable energy system. According to the International Energy Agency (IEA), the demand for renewable energy continues to grow. Global wind additions in 2023-2025 could range from 65 GW to 100 GW per year.<sup>16</sup> Increasing the share of renewable energy is, therefore, crucial to meet demand and achieve international decarbonization targets.</p> <p>According to the IEA in 2020, France’s electricity mix is already mostly powered by low carbon sources (more than 90%, making the implementation less relevant than in Germany where - according to the IEA - about 46% of electricity is produced from fossil fuels (including Coal, Oil and Gas).</p> <p>According to the IPCC<sup>17</sup> median emissions for offshore wind is 12g CO<sub>2</sub>eq/kWh and a maximum at 35g CO<sub>2</sub>eq/kWh. GHG emissions originating from wind power are compliant with the threshold of 100g CO<sub>2</sub>/kWh. The projects should avoid the creation of new negative impacts. The projects are the best available technology in the sector to contribute to the claimed objective in the location/context of the projects.</p> <p>By following the Technical Screening Criteria outlined in the First Delegated Act on Sustainable Activities for Climate Change Adaptation and Mitigation Objectives report on the EU Taxonomy, the category follows one of the most stringent available standards to contribute to the claimed objective in the context of the projects.</p>
OVERALL ASSESSMENT	ADVANCED	

<sup>16</sup> <https://www.iea.org/reports/renewables-2020/wind>

<sup>17</sup> [https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc\\_wg3\\_ar5\\_annex-iii.pdf](https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc_wg3_ar5_annex-iii.pdf)

## ESG Risks Identification and Management systems in place at project level

The identification and management of the environmental, social and governance risks associated with the Eligible Projects are considered advanced.

### ENVIRONMENTAL RISKS

#### Environmental Management Systems

Iberdrola ensures that all projects are managed under an Environmental Management System based on international procedures and standards that are audited by recognised independent agencies. The Issuer currently holds the ISO 14001 certification. This standard applies to the areas of generation, transport, distribution and marketing of products, management of offices, and general services. In particular, in 2020, 77.29% of energy was generated in certified facilities.

#### Environmental Impact Assessment (EIA)

EIA studies, which generally include a social impact assessment, are performed at Iberdrola's locations of operation prior to the construction of the facilities and in accordance with the current law in each of the countries and must be approved by the competent public authorities.<sup>18</sup> The scope of an EIA study also depends on the characteristics of the assets to be installed.

An EIA covering both construction and operation phases has been or will be conducted for each Eligible Project. Specific environmental risks have been identified and dedicated environmental management plans are implemented at the project level. In addition, according to the Issuer, environmental incidents and anomalies are monitored and mitigation and compensation measures are implemented.

#### Eco Design/End of life decommissioning

When conducting the EIA, the decommissioning of windfarm components is considered. The regulated licences and permits for each project included requirements for ensuring the asset is suitably decommissioned. Through Wind-Europe and Sustainability Working Group of Solar Power Europe, Iberdrola sits on working groups dedicated to new sustainable systems for recycling wind turbine blades.<sup>19</sup>

#### Biodiversity

Ecological monitoring is conducted at project level according to Iberdrola's Flora & Fauna monitoring program and quantitative indicators are documented. Iberdrola has a dedicated Integration and Restoration Plan for the Landscape (PIRP) starting at the end of the construction phase and has defined a Compensation Programme for each Eligible Projects. In addition, employees and contractors receive trainings on biodiversity issues.

As of January 2022, Iberdrola is updating its Biodiversity Strategy.

#### Pollution prevention and control

Dedicated procedures are in place. During construction phases, noise, dust, and vibrations are monitored and mitigation measures are reported to be implemented in case of irregularities and/or incidents. Iberdrola regularly performs audits on the construction site and technicians (employees and contractors) receive trainings on this topic.

#### Adaptation to climate change and its major consequences

The Issuer reports to pay close attention to the solidity of its design criteria, operation and maintenance procedures, and measures required for their effectiveness and efficiency. Since certain plants/components are sensitive to climatic

<sup>18</sup> [Sustainability Report 2020 \(iberdrola.com\)](#) (p. 276)

<sup>19</sup> <https://cordis.europa.eu/article/id/128476-new-sustainable-system-for-recycling-wind-turbine-blades/it>



variables such as temperature, humidity, or extreme weather events, Iberdrola reports to analyse and define design-specific production optimisation. The site studies and equipment specifications are complemented by these two tools: one internal prediction system which includes extreme weather events forecasting (Meteoflow) and another tool to monitor and ensure the maximum lifespan of the facilities and optimise asset management (Domina). According to the Issuer, these tools make it possible to anticipate failures, improve availability and carry out less expensive repairs. In addition, Iberdrola states that it has internal policies and procedures that contribute to the resilience of its assets.

#### Management of environmental risks in the supply chain

Dedicated guides including environmental guidelines are reported to be available for contractors and suppliers. They are contractually obliged to comply with Iberdrola's dedicated plans including an environmental management plan, ecological systems compensation plan and emergency plan. Additionally, Iberdrola regularly performs on site suppliers' audits.

## SOCIAL RISKS

### Health and Safety

Iberdrola performs, at the project level, periodic inspections to guarantee compliance with the HSE plan, and detect incidents and non-conformities. Penalties are reportedly applied in case of repeated incidents. In addition, employees and contractors receive safety training. Iberdrola monitors and documents several H&S indicators including working hours and the number of accidents (frequency and gravity). Medical posts with doctors and nurses are installed in each site. To ensure a high level of safety, Iberdrola affirms to follow the principle that its employees may not, under any circumstances, perform risky work unless they have the necessary means and knowledge to mitigate or eliminate the effects of the risk. The Issuer reports that this principle of conduct is part of its Safety Policy and is supported by the Global Safety Department.

### Respect of human and labour rights

Iberdrola has adopted a Code of Ethics applying to employees, suppliers, contractors, or business partners. Due diligence and monitoring systems linked to human rights violations risks as well as dedicated action plans are implemented. Additionally, internal and external whistleblowing systems are in place to report human and labour rights violations as well as grievance mechanisms to address local stakeholders' complaints. Audits are reported to be performed (including contractors and subcontractors) to guarantee Iberdrola's compliance with the Code of Ethics as well as the local legislation.

In 2020, following the human rights analysis carried out with independent experts, a gap analysis was performed to identify opportunities for improvement. Thanks to this analysis, Iberdrola has reviewed its operating procedures linked to the management and mitigation of potential impacts on local communities, developed guidelines linked to public consultations with communities, reviewed complaints, and grievance mechanisms to facilitate access to remedies for victims; strengthened the human rights due diligence in its supply chain.

### Social factors in the supply chain

The selection of suppliers relies on the Corporate Purchasing procedures and tools, which are developed at corporate level. Suppliers are required to comply with the provisions of the Code of Ethics and are audited annually on ESG and safety issues. A dedicated whistleblowing system has been implemented for supplier in order to receive and address Iberdrola's Code of ethics violations within the supply chain.

The Issuer reports that one of its main objectives is to ensure that, by 2022, at least 70% of its main suppliers are subject to sustainable development policies and standards (including diversity and inclusion criteria). To this end, a supplier sustainability assessment model has been implemented using an external platform (GoSupply) and has been externally validated by Forética. The assessment of a supplier is reported to cover the supplier's performance in various areas,

including the identification of targets related to the Sustainable Development Goals (SDGs), the management of climate change risks, the circular economy strategy, human rights due diligence, etc. The supplier must provide evidence and documentation for its statements and performance. Suppliers that fall below the defined threshold receive an individual ESG improvement plan. Suppliers that do not meet the minimum ESG requirements may be excluded from working with the Issuer, which is indicated in the ESG improvement plan.

## GOVERNANCE RISKS

### Business Ethics

Iberdrola has adopted a Code of Ethics applying to employees, suppliers, contractors, or business partners. Iberdrola's internal audit divisions are responsible for supervising the implementation of the company's internal control system covering, among others, policies related to crime prevention, anti-corruption as well as anti-fraud and conduct constituting bribery. Crime prevention programmes are also subject to external independent reviews. Additionally, the Issuer states that it is certified for the standards UNE-ISO 37001 anti-bribery management systems<sup>20</sup> and UNE 19601 management system for criminal compliance<sup>21</sup>. Iberdrola reports that the application of the Code of Ethics is ensured by the Compliance Unit. In addition, there is a Compliance Department in each Country company and/or in the Head Office. Its responsibilities include the application of the "zero tolerance" principle towards unlawful acts and situations of corruption and fraud. Employees, suppliers, and shareholders have the possibility to report unlawful behaviours through internal channels anonymously. With respect to third party relationships, the Issuer reports that it has implemented a fraud and corruption risk assessment process.

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<sup>20</sup> [ISO - ISO 37001 — Anti-bribery management systems](#)

<sup>21</sup> [UNE 19601:2017 Management system for criminal compliance. Requirements with guidance for use. - European Standards \(en-standard.eu\)](#)

# ISSUER



Iberdrola, S.A. is engaged in the generation, transmission, distribution, sale, and retail of electricity. The company generates electricity through several resources including hydroelectric, nuclear, and cogeneration. Iberdrola also stores, trades in and retails natural gas. In 2020, the company acquired Aalto Power, a French renewables company, for EUR 100 million and Avangrid's Board of Directors approved the acquisition of PNM Resources.

## Level of ESG performance

The Issuer's ESG performance was assessed through a complete process of rating and benchmark.

As of September 2021, Iberdrola displays an overall advanced ESG performance, ranking 5<sup>th</sup> in our "Electric & Gas Utilities" sector which covers 66 companies. Iberdrola's performance is considered advanced in the Environmental, Social and Governance pillars.

DOMAIN	COMMENTS	OPINION
Environment	<u>Iberdrola's performance on the Environment pillar is considered advanced.</u>	Advanced
	The company commits to all of the issues under review in the Environment domain. Iberdrola has set the goal of reaching global carbon neutrality before 2050 and reducing its emissions intensity to 50 gCO <sub>2</sub> /kWh globally by 2030. In addition, it has also set a goal of GHG emissions of absolute scope 1, 2 and 3, which has been approved by the Science-Based Target initiative. Iberdrola commits to reduce absolute Scope 1, 2 and 3 GHG emissions by 20% by 2030 from a 2017 base-year. In 2019, 83% of the production sites were covered by a certified environmental management system. Moreover, Iberdrola reports that its sites are ISO 14001 and EMAS certified. The company is a signatory of the Global Compact and communicates on this principle. In addition, almost 73% of its total installed capacity is from renewables. Comprehensive measures appear to be in place to protect biodiversity including biotope management plans.	Robust
	In the 2018-2022 strategic outlook, the company has planned an investment of EUR 11.5 million in renewable energies, to increase installed capacity in the United States, the United Kingdom, Spain, Portugal, Brazil, and Mexico. The resources allocated cover the following technologies: Hydro, Wind and Solar. Iberdrola has reported offering "Green Energy", a product that comes exclusively from renewable sources.	Limited
	The company promotes the use of efficient air conditioning and lighting, micro-generation, variable speed engine mechanisms, smart thermostats, and global energy management systems in third-party buildings.	Weak

Social	<u>Iberdrola's performance on the Social pillar is considered advanced.</u>	Advanced
	Iberdrola's commitment to health and safety is backed by extensive measures including risk assessments and OHSAS 18001 certifications and an Occupational Safety and Health Policy.	
	To prevent discrimination and promote diversity, Iberdrola reports to have allocated extensive measures in all of its sites including affirmative action programs, training and monitoring of salary disparities. The company's commitment to human rights is backed by permanent systems including internal and external audits, and external investigation of allegations.	Robust
	Iberdrola reports extensive measures to reduce fuel poverty and improve access to energy including social tariffs, rural electrification programs and customer assistance. Capacity building programs and social impact assessments are among the measures allocated to promote local social and economic development. Lastly, Iberdrola reports transparently on taxes paid in all the countries where it operates.	Limited
	Iberdrola maintains to have a formalised commitment on responsible contractual agreements in its Corporate Governance System, its Stakeholder Relations Policy, and its Customer Relationship Management Report.	Weak
Governance	<u>Iberdrola's performance on the Governance pillar is considered advanced.</u>	Advanced
	The Audit Committee plays a comprehensive role in overseeing internal and external controls, and now all CSR risks inherent to the company's business operations seem to be covered by its internal controls system. In addition, the company's CSR strategy is presented to investors covering relevant CSR issues namely climate change and H&S. Moreover, 62% of the Board is considered independent and 38% of directors are women. Finally, climate change objectives are considered in the executives' variable remuneration.	
	The company has issued a formalised commitment to preventing corruption in its Anti-Corruption and Anti-Fraud Policy and its Code of Ethics, there is a dedicated structure responsible of corruption issues. The company's compliance system is reported to work according to ISO 19600 Compliance management system. In addition, internal and external audits are conducted to ensure internal verification of the compliance with the company's Code of Conduct and to prevent corruption and anti-competitive practices, respectively.	Limited
		Weak

## Management of ESG Controversies

As of February 2022, Iberdrola faces seven stakeholder-related ESG controversies, linked to four of the six domains we analyse:

- Business Behaviour, in the criteria of “Customer relations”, “Social standards in the supply chain”, “Corruption” and “Anti-competitive practices”.
- Environment, in the criteria of “Biodiversity” and “Protection of water resources”.
- Community Involvement, in the criterion of “Social and Economic Development”.
- Human Rights, in the criterion of “Fundamental Human Rights”.

Frequency: On average, the controversies faced are considered “occasional”<sup>22</sup>; above the sector average.

Severity: On average, the level of severity of the case, based on the analysis of the impact on both the Issuer and its stakeholders, is considered “high”<sup>23</sup>; in line with the sector.

Responsiveness: Iberdrola is considered overall “reactive”<sup>24</sup>; in line with the sector.

## Involvement in Controversial Activities

The Issuer appears to be involved in two of the 17 controversial activities screened under our methodology, namely:

- Fossil Fuel Industry (major involvement): Iberdrola has an estimated turnover from fossil fuels which is below 33% of total turnover. This turnover is derived from fossil fuel-powered electricity generation and the storage of natural gas.
- Nuclear Power (major involvement): Iberdrola has an estimated turnover from involvement in nuclear power which is less than 10% of total turnover. This turnover is derived from the generation of electricity from nuclear power and the provision of services to the nuclear power industry.

The Issuer appears to be not involved in any of the other 15 controversial activities screened under our methodology, namely: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Coal, Unconventional oil and gas, Gambling, Genetic engineering, Human embryonic stem cells, High interest rate lending, Military, Pornography, Reproductive Medicine and Tobacco.

The controversial activities research provides screening of companies to identify involvement in business activities that are subject to philosophical or moral beliefs. The information does not suggest any approval or disapproval on their content from V.E.

<sup>22</sup> V.E scale of assessment: Isolated / Occasional / Frequent / Persistent.

<sup>23</sup> VE scale of assessment: Minor / Significant / High / Critical.

<sup>24</sup> VE scale of assessment: Non-communicative / Reactive / Remediative / Proactive.

# METHODOLOGY

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In V.E's view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organisation, activity or transaction. In this sense, V.E provides an opinion on the Issuer's ESG performance as an organisation, and on the processes and commitments applicable to the intended issuance.

Our Second Party Opinions (SPOs) are subject to internal quality control at three levels (Analyst, Project Manager and Quality Reviewer). If necessary, this process is complemented by a final review and validation by the Expertise Committee and Supervisor. A right of complaint and recourse is guaranteed to all companies under our review.

## COHERENCE

Scale of assessment: not coherent, partially coherent, coherent

This section analyses whether the activity to be financed through the selected instrument is coherent with the Issuer's sustainability priorities and strategy, and whether it responds to the main sustainability issues of the sector where the Issuer operates.

## ISSUANCE

Alignment with the Green and/or Social Bond Principles

Scale of assessment: Not aligned, Partially aligned, Aligned, Best Practices

*The Framework has been evaluated by V.E according to the ICMA's Green Bond Principles - June 2021 ("GBP") and the LMA's Green Loan Principles – February 2021 ("GLP") and on our methodology based on international standards and sector guidelines applicable in terms of ESG management and assessment.*

Use of proceeds

The definition of the Eligible Projects and their sustainable objectives and benefits are a core element of Green/Social/Sustainable Bonds and Loans standards. V.E evaluates the clarity of the definition of the Eligible Categories, as well as the definition and the relevance of the primary sustainability objectives. We evaluate the descriptions of the expected benefits in terms of relevance, measurability and quantification. In addition, we map the potential contribution of Eligible Projects to the United Nations Sustainable Development Goals' targets.

Process for evaluation and selection

The evaluation and selection process is assessed by V.E on its transparency, governance and relevance. The eligibility criteria are assessed on their clarity, relevance and coverage vs. the intended objectives of the Eligible Projects.

Management of proceeds

The process and rules for the management and the allocation of proceeds are assessed by V.E on their transparency, traceability and verification.

Reporting

The monitoring and reporting process and commitments defined by the Issuer are assessed by V.E on their transparency, exhaustiveness and relevance, covering the reporting of both proceeds' allocation and sustainable benefits (output, impact indicators).

## Contribution to sustainability

Scale of assessment: Weak, Limited, Robust, Advanced

V.E's assessment of activities' contribution to sustainability encompasses both the evaluation of their expected positive impacts on environmental objectives, as well the management of the associated potential negative impacts and externalities.

### Expected positive impact of the activities on environmental objectives

The expected positive impact of activities on environmental objectives to be financed by the Issuer or Borrower is assessed on the basis of:

- i) the relevance of the activity to respond to an important environmental objective for the sector of the activity;<sup>25</sup>
- ii) the scope of the impact: the extent to which the expected impacts are reaching relevant stakeholders (i.e. the issuer, its value chain, local and global stakeholders);
- iii) the magnitude and durability of the potential impact of the proposed activity on the environmental objectives (capacity to not just reduce, but to prevent/avoid negative impact; or to provide a structural/long-term improvement);
- iv) the extent to which the activity is adopting the best available option.

### ESG risk management for eligible activities

The identification and management of the potential ESG risks associated with the eligible projects/activities are analysed on the basis of V.E's ESG assessment methodology, international standards and sector guidelines applicable in terms of ESG management and assessment.

## ISSUER

### Issuer's ESG Performance

Scale of assessment of ESG Performance: Weak, Limited, Robust, Advanced

NB: The Issuer's level of ESG performance (i.e. commitments, processes, results of the Issuer related to ESG issues), has been assessed through a complete process of rating and benchmarking developed by V.E. The Issuers ESG performance has been assessed by V.E 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.

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<sup>25</sup> The importance of a specific social need at country level is assessed on the basis of the country performance on the priority SDG that the project is targeting using data from Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G., Woelm, F. 2020. The Sustainable Development Goals and COVID-19. Sustainable Development Report 2020. Cambridge: Cambridge University Press.

## Management of Stakeholder Related ESG Controversies

V.E defines a controversy as public information or contradictory opinions from reliable sources that incriminate or make allegations against an issuer regarding how it handles ESG issues as defined in V.E ESG framework. Each controversy may relate to several facts or events, to their conflicting interpretations, legal procedures or non-proven claims.

V.E 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 is considered as long as it is public, documented and traceable.

V.E provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

- **Frequency:** reflects for each ESG challenge the number of controversies that the Issuer has faced. At corporate level, this factor reflects on the overall number of controversies that the Issuer has faced and the scope of ESG issues impacted (scale: Isolated, Occasional, Frequent, Persistent).
- **Severity:** the more a controversy is related to stakeholders' fundamental interests, proves actual corporate responsibility in its occurrence, and have caused adverse impacts for stakeholders and the company, the higher its severity is. Severity assigned at the 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).

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, V.E's 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.

## Involvement in Controversial Activities

17 controversial activities have been analysed following 30 parameters to screen the company's involvement in any of them. The company's level of involvement (Major, Minor, No) in a controversial activity is based on:

- An estimation of the revenues derived from controversial products or services.
- The specific nature of the controversial products or services provided by the company.

## V.E'S ASSESSMENT SCALES

Scale of assessment of Issuer's ESG performance or strategy and financial instrument's Contribution to sustainability		Scale of assessment of financial instrument's alignment with Green and/or Social Bond and Loan Principles	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the sustainability objective. An advanced expected impact combined with an advanced to robust level of E&S risk management & using innovative methods to anticipate new risks.	Best Practices	The Instrument's practices go beyond the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles by adopting recommended and best practices.
Robust	Convincing commitment; significant and consistent evidence of command over the issues. A robust expected impact combined with an advance to robust level of assurance of E&S risk management or an advanced expected impact combined with a limited level of assurance of E&S risk management.	Aligned	The Instrument has adopted all the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.
Limited	Commitment to the objective of sustainability has been initiated or partially achieved; fragmentary evidence of command over the issues. A limited expected impact combined with an advanced to limited level of assurance of E&S risk management; or a robust expected impact combined with a limited to weak level of assurance of E&S risk management; or an advance expected impact	Partially Aligned	The Instrument has adopted a majority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles, but not all of them.



	combined with a weak level of assurance of E&S risk management.		
Weak	Commitment to social/environmental responsibility is non-tangible; no evidence of command over the issues. A weak expected impact combined with an advanced to weak level of assurance of E&S risk management or a limited expected impact with a weak level of assurance of E&S risk management.	Not Aligned	The Instrument has adopted only a minority of the core practices of the ICMA's Green and/or Social Bond Principles and/or of the Loan Market Association's Green Loan Principles.

## STATEMENT ON V.E' S INDEPENDENCE AND CONFLICT-OF-INTEREST POLICY

Transparency on the relation between V.E and the Issuer: V.E has not carried out any audit mission or consultancy activity for Iberdrola. No established relation (financial or commercial) exists between V.E and Iberdrola. Independence, transparency, quality and integrity requirements are all formalised within our Moody's Code of Conduct.

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