

# SECOND PARTY OPINION

## on the sustainability of Iberdrola's Green Bond

V.E is of the opinion that Iberdrola's Bond is **aligned** with the four core components the Green Bond Principles 2018 ("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	[Advanced]			
ESG risks management	[Robust]			

#### SDG Mapping



#### Characteristics of the Bond

Green Project Category	⇒ Renewable Energy
Project locations	France and Germany
Existence of framework	Yes
Estimated share of refinancing	Estimated at less than 50%
Look back period	24 months

Follows the key recommendations of the TEG Proposal for an EU Green Bond Standard (June 2019).

### Issuer

#### ESG Performance as of June 2020



○ Advanced    ○ Limited

○ Robust    ○ Weak

	Weak	Limited	Robust	Advanced
Environment	[Advanced]			
Social	[Advanced]			
Governance	[Advanced]			

#### Controversies

Number of controversies	3
Frequency	Isolated
Severity	Significant
Responsiveness	Reactive

#### Controversial Activities

The Issuer appears to be involved in 3 of the 17 controversial activities screened under our methodology:

- Alcohol
- Fossil fuels industry
- High interest rate lending
- Pornography
- Animal welfare
- Coal
- Human embryonic stem cells
- Reproductive medicine
- Cannabis
- Gambling
- Military
- Tar sands and oil shale
- Chemicals of concern
- Genetic engineering
- Nuclear power
- Tobacco
- Civilian firearms

### Coherence

Coherent
Partially coherent
Not coherent

We are of the opinion that the contemplated Bond are coherent with Iberdrola's strategic sustainability priorities and sector issues and contribute to achieving the Issuer's sustainability commitments.



## Keys findings

V.E is of the opinion 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, the eligibility criteria and the location of Eligible Projects.
- The Environmental Objective is clearly defined, it is relevant for all the eligible projects and set in coherence with sustainability objectives defined in international standards.
- The Expected Environmental Benefit is clear and precise, it is considered relevant, measurable, and will be quantified for all the eligible projects in the reporting.
- The Issuer has transparently communicated the estimated share of refinancing at bond level and it is less than 50%.
- The look-back period for refinanced eligible projects will be equal or less than 24 months from the issuance date, in line with good market practices.

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

- The Process for Project Evaluation and Selection has been clearly defined by the Issuer, it is considered structured. The roles and responsibilities are clear and include relevant internal expertise. The Process is disclosed in the Framework.
- Eligibility criteria 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 E&S risks associated with the eligible projects is publicly disclosed in the hereby SPO. The Process is considered robust: it combines monitoring, identification and corrective measures for all projects (see detailed analysis on pages 14 - 16).

### 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 Second Party Opinion.
- The allocation period will be 24 months or less.
- Net proceeds of the Bond will be 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.
- 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 bond framework.

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

- The Issuer has committed to report on the Use of Proceeds annually, until Bond maturity. The report will be publicly available until bond maturity. The report will be externally verified, this verification will also be made publicly available.
- The reporting will cover relevant and exhaustive 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 developments/issues/controversies related to the projects.



- The reporting methodology and assumptions used to report on environmental benefits of the Eligible projects 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 Indicators used to report on environmental and social benefits of the eligible projects until bond maturity.

## Contact

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# SCOPE

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V.E was commissioned to provide an independent opinion (thereafter “Second Party Opinion” or “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 its 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 ICMA’s Green Bond Principles (“GBP”) - edited in June 2018.

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 2018.
- 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 and interviews conducted with the Issuer’s managers and stakeholders involved in the Bonds issuance, held via a telecommunications system.

We carried out our due diligence assessment from December 15<sup>th</sup>, 2020 to February 1<sup>st</sup>, 2021. We consider that we were provided with access to all the appropriate documents and interviewees we solicited. Reasonable efforts have been made to verify data accuracy.

## Scope of External Reviews

<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

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Coherent
Partially coherent
Not coherent

We are of the opinion that the contemplated Bond is coherent with Iberdrola's strategic sustainability priorities and sector issues and contribute 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. However, renewable energy facilities such as wind farms or hydropower infrastructures call for specific measures to ensure biodiversity protection, health and safety and the promotion of sustainable relations with the communities where they operate. The complexity and specificities of impacts related to renewable energy generation also imply comprehensive environmental strategies backed by widespread environmental management systems.

Iberdrola produces and supplies electricity to around 100 million people in the countries in which it operates. The company focuses on the development of clean energy. Iberdrola is pioneering the rollout of smart grids and has an energy storage capacity in excess of 4 GW.

- Iberdrola has incorporated the Sustainable Development Goals defined by the United Nations for the 2015-2030 horizon into the company's strategy, its Sustainability Policy and its Bylaws, including the concept of "Social Dividend". In line with its activity, Iberdrola focuses its efforts on an affordable and clean energy supply and action for the climate. In addition, the Group reports that it has increased the investment in R&D&I activities, it promotes the respect of land ecosystems life and works in the creation of partnerships to achieve these goals. Iberdrola commits to implement its contribution to the social and economic development of the communities in which it operates and the protection of the environment through its sustainable energy business model.
- 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 and place 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, with hybrid green bonds issued in 2017 and 2018 and 2019, a green bond issued in November 2017 by the corporation subsidiary Avangrid and a green Loan issued in 2019 by Iberdrola.

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

# ISSUANCE

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The Issuer has described the main characteristics of the Bond within a formalised Framework which covers the four core components of the GBP 2018 (the last updated version was provided to V.E on 5<sup>th</sup> May 2020). The Issuer has committed to make this document publicly accessible on Iberdrola's website, 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, the eligibility criteria and the location of Eligible Projects.
- The Environmental Objective is clearly defined, it is relevant for all the eligible projects and set in coherence with sustainability objectives defined in international standards.
- The Expected Environmental Benefit is clear and precise, it is considered relevant, measurable, and will be quantified for all the eligible projects in the reporting.
- The Issuer has transparently communicated the estimated share of refinancing at bond level and it is less than 50%.
- The look-back period for refinanced eligible projects will be equal or less than 24 months from the issuance date, in line with good market practices.

We consider that the Eligible Category is clearly defined and follows the key recommendations of the TEG Final report on the EU Taxonomy (March 2020).

#### BEST PRACTICES

- ⇒ Content, eligibility and exclusion criteria are clear and in line with international standards for all eligible projects.
- ⇒ Relevant environmental benefits are identified and measurable for all eligible projects.
- ⇒ The issuer has transparently communicated the estimated share of refinancing at bond level and it is less than 50%.
- ⇒ The look-back period for refinanced projects is equal or less than 24 months, in line with good market practices.

Table 1. V.E' analysis of the Eligible Category, Sustainability Objective and Expected Benefit as presented in the Issuer's Framework and internal documentation.

- Nature of expenditures: CAPEX
- Location of Eligible Projects: France and Germany

ELIGIBLE CATEGORY	DESCRIPTION	SUSTAINABILITY OBJECTIVE AND BENEFIT	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>3</sup> (France) with a planned installed capacity reaching 496 megawatts (MW) with a production estimated at 1,820 gigawatt hours (GWh) per year</li> <li>- One project close to Rügen island<sup>4</sup> (Germany) with a planned installed capacity reaching 476 megawatts (MW).</li> </ul>	<p><b>Climate change mitigation</b></p> <p>–</p> <p>Avoidance of CO2 emissions</p>	<p>The Eligible Project is clearly defined and detailed, the Borrower 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 defined in 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 Projects comply with the Technical Screening Criteria outlined in the Technical Annex of the Technical Expert Group final report on the EU Taxonomy published in March 2020.<sup>5</sup></p>

<sup>3</sup> <https://www.iberdrola.com/about-us/lines-business/flagship-projects/saint-brieuc-offshore-wind-farm>

<sup>4</sup> <https://www.iberdrola.com/about-us/lines-business/flagship-projects/baltic-eagle-offshore-wind-farm>

<sup>5</sup> [https://ec.europa.eu/info/sites/info/files/business\\_economy\\_euro/banking\\_and\\_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes\\_en.pdf](https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy-annexes_en.pdf).



SDG Contribution

The Eligible Category is likely to contribute to two of the United Nations’ Sustainable Development Goals (“SDGs”), namely: SDG7. Affordable and Clean Energy and SDG13. Climate Action.

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 effects.



## Evaluation and Selection of Eligible Projects



- The Process for Project Evaluation and Selection has been clearly defined by the Issuer, it is considered structured. The roles and responsibilities are clear and include relevant internal expertise. The Process is disclosed in the Framework.
- Eligibility criteria 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 E&S risks associated with the eligible projects is publicly disclosed in the hereby SPO. The Process is considered robust: it combines monitoring, identification and corrective measures for all projects (see detailed analysis on pages 14 - 16).

### Process for Project Evaluation and Selection

The process is as follows:

- The evaluation and selection of Eligible Projects is performed by Iberdrola's Finance Department relying on representatives from several areas of 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 Environmental 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:
  - Selection decisions are internally documented by the Issuer.
  - An external auditor will annually verify the compliance of the Eligible Projects with the eligibility criteria and process, as defined in the Framework for Green Financing.

### Eligibility Criteria

The process relies on explicit eligibility criteria, relevant to the environmental objectives defined for the Eligible Category.

- The selection criteria are based on the description defined Table 1 in the Use of Proceeds section for each Bond.
- The exclusion criterion applied in case of any material litigation related to ESG matters, based on the integration of ESG factors at project level, according to the principles defined in Iberdrola's Sustainable Development policies<sup>6</sup>.

<sup>6</sup> Iberdrola's Sustainability Policy - [www.iberdrola.es/webibd/gc/prod/en/doc/responsabilidad\\_sostenibilidad.pdf](http://www.iberdrola.es/webibd/gc/prod/en/doc/responsabilidad_sostenibilidad.pdf)



#### BEST PRACTICES

- ⇒ Eligibility and exclusion criteria for project selection are clearly defined and detailed for all of the projects.
- ⇒ 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 instrument 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 projects throughout the life of the instrument and has provided details on frequency, content and procedures in case a controversy is found on a project.



## 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 Second Party Opinion.
- The allocation period will be 24 months or less.
- Net proceeds of the Bond will be 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.
- 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 bond framework.

## Management Process

- In case of refinancing operating projects and considering that projects costs were fully disbursed in the past, no separate management of proceeds is ensured. No dedicated tracking of funds given the nature of the refinancing operation will be then conducted.
- In the case of future project costs, the Bond's proceeds will be managed through a dedicated tracking process aiming to ensure traceability.
- The Issuer has committed to allocate all proceeds to the Eligible Projects at settlement or within 24 months and has committed to use 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 months as soon as the divestment is effective.
- Iberdrola is committed to perform 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 bond framework.



## Monitoring & Reporting



- The Issuer has committed to report on the Use of Proceeds annually, until Bond maturity. The report will be publicly available until bond maturity. The report will be externally verified, this verification will also be made publicly available.
- The reporting will cover relevant and exhaustive 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 developments/issues/controversies related to the projects.
- The reporting methodology and assumptions used to report on environmental benefits of the Eligible projects 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 indicators used to report on environmental and social benefits of the eligible projects until bond maturity.

### Indicators

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

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

REPORTING INDICATORS
⇒ Invested capital attributable to the Green Financing instrument (in euros)
⇒ Percentage of allocated proceeds vs unallocated proceeds, if any (in %)
⇒ Share of financing vs. refinancing (in %)

The Issuer has committed to report on the environmental benefits on a pro rata basis of the Green Bond proceeds contribution to the total cost of the project and Iberdrola’s group ownership.

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

ELIGIBLE CATEGORY	ENVIRONMENTAL BENEFITS INDICATORS	
	OUTPUTS AND OUTCOMES	IMPACT INDICATORS
Renewable energy	Installed capacity (in MW) or lifetime extension (years) Attributable capacity (MW) or attributable lifetime extension (years) to the financing instrument Annual attributable renewable energy produced (MWh)	Annual attributable GHG emissions avoided (in tCO2e per year)



## 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 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 Category.
- ⇒ The reporting methodology and assumptions used to report on environmental benefits of the Eligible projects will be disclosed publicly.
- ⇒ External verification of E&S benefits & impacts until full allocation and in case of material changes.



## Contribution to sustainability

### Expected Impacts

The potential positive impact of the eligible projects on environmental and social objectives is considered to be advanced.

ELIGIBLE CATEGORY	EXPECTED IMPACT	ANALYSIS
Renewable energy	ADVANCED	Incorporating renewable energy is a key issue for energy providers. According to the International Energy Agency in 2019, 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 International Energy Agency electricity is still produced at 46% by fossil fuels including (Coal, Oil and Gas). According to the IPCC median emissions for offshore wind is 12 gCO <sub>2</sub> eq/kWh and a maximum at 35 gCO <sub>2</sub> eq/kWh. The projects should avoid the creation of new negative impacts. The project is the best available technology in the sector to contribute to the claimed objective in the location/context of the project.

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

The identification and management of the environmental and social risks associated with the Eligible Projects are considered robust<sup>7</sup> and appear to follow the "Do-not-significant-harm" principle and minimum social safeguards recommended by the TEG Final Report on the EU Taxonomy (March 2020).

	ELIGIBLE CATEGORY
	RENEWABLE ENERGY
Environment Management Systems and Environmental Impact Assessment	X
Eco Design/End of life decommissioning	X
Protection of Biodiversity	X
Pollution prevention and control	X

<sup>7</sup> The "X" indicates the E&S risks that have been activated for each Eligible Category.



Management of environmental risks in the supply chain	X
Health and Safety	X
Human and labour rights	X
Social factors in the supply chain	X
Business Ethics	X
OVERALL ASSESSMENT	ROBUST

### Environmental Impact Assessment

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

### Biodiversity

Ecological monitoring is conducted at project level according to Iberdrola's Flora & Fauna monitoring programme 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.

### Pollution prevention and control

Dedicated procedures are in place. During construction phase, 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.

### 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 environmental management plan, ecological systems compensation plan and emergency plan. Additionally, Iberdrola regularly performs on site suppliers' audits.

### Health and Safety

Iberdrola performs, at 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.

### 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.

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 human rights 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.

Social factors in the supply chain

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 Group’s internal control system covering, among others corruption, fraud and conduct constituting bribery.

EU taxonomy (March 2020) – DNSH screening

The identification and management of the environmental and social risks associated with the Eligible Projects cover the “Do-no-significant-harm” principle and minimum social safeguards recommended by the TEG Final report on the EU Taxonomy (March 2020).

	RENEWABLE ENERGY
	OFFSHORE WIND PROJECTS
Mitigation	N/A
Adaptation	X
Water	X
Circular Economy	X
Pollution	N/A
Ecosystem	X
<b>Overall DNSH</b>	<input checked="" type="checkbox"/>

# 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, coal and cogeneration. Iberdrola also stores, trades in and retails natural gas.

## Level of ESG performance

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

As of June 2020, Iberdrola displays an overall advanced ESG performance, ranking 2<sup>nd</sup> in our "Electric & Gas Utilities" sector which covers 66 companies.

DOMAIN	COMMENTS	OPINION
Environment	<p><b>We reach an advanced assurance on Iberdrola's performance in the Environment pillar.</b></p> <p>The Company commits to all of the issues under review in the Environment domain. Iberdrola aims to reach global carbon neutrality by 2050 and expects its emissions intensity in Europe to be practically zero 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. In addition, 70% of its total installed capacity is from renewables. Comprehensive measures appear to be in place to protect biodiversity including biotope management plans.</p>	Advanced
		Robust
		Limited
		Weak
Social	<p><b>We reach an advanced assurance on Iberdrola's performance in the Social pillar.</b></p> <p>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.</p> <p>To prevent discrimination and promote diversity, Iberdrola seems to have allocated extensive measures in all of its sites including affirmative action programmes, 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.</p> <p>Iberdrola reports extensive measures to reduce fuel poverty and improve access to energy including social tariffs, rural electrification programmes and customer assistance. Capacity building programmes 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.</p>	Advanced
		Robust
		Limited
		Weak



Governance	<p><b>We reach an advanced assurance on Iberdrola's performance in the Governance pillar.</b></p> <p>Iberdrola has set up an Audit Committee that 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&amp;S. Moreover, 64% of the Board is considered independent and 43% of directors are women. Finally, climate change objectives are considered in the executives' variable remuneration.</p> <p>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, external audits are conducted to prevent corruption and anti-competitive practices.</p>	Advanced
		Robust
		Limited
		Weak

## Management of ESG Controversies

As of today, Iberdrola is facing 3 stakeholder-related ESG controversies, linked to two of the six domains we analyse:

- Community Involvement, in the criterion of "Social and Economic Development".
- Business Behaviour, in the criteria of "Information to customers" and "Customer relations".

Frequency: On average, the controversies are considered isolated, in line with the sector.

Severity: On average, the level of severity is significant based on the analysis of their impact on the Company and its stakeholders, in line with the sector.

Responsiveness: Iberdrola is overall reactive, in line with the sector.

## Involvement in Controversial Activities

As of November 2020, Iberdrola displays involvement in three of the 17 controversial activities screened under V.E's methodology, namely:

- Fossil Fuel Industry (major involvement): Iberdrola has an estimated turnover from fossil fuels which is between 33% and 50% of total turnover. This turnover is derived from fossil fuel-powered electricity generation and the storage of natural gas.
- Coal (major involvement): Iberdrola has an estimated turnover from coal which is less than 5% of total turnover. This turnover is derived from the generation of electricity from coal.
- Nuclear Power (major involvement): Iberdrola has an estimated turnover from involvement in nuclear power which between 10% and 33% 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 controversial activities screened under our methodology, namely: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, 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.

# 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, following three levels: first, the team in contact with the company; then the Executive Director in charge of Methods, Innovation & Quality; and finally, V.E's Scientific Council. All employees are signatories of V.E's Code of Conduct, and all consultants have also signed its add-on covering financial rules of confidentiality.

## 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 2018 ("GBP") 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 and/or social objectives, as well the management of the associated potential negative impacts and externalities.

### Expected positive impact of the activities on environmental and/or social objectives

The expected positive impact of activities on environmental and/or social 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; or to respond to an important social need at country level;<sup>8</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); or targeting those populations most in need;
- iii) the magnitude and durability of the potential impact of the proposed activity on the environmental and/or social objectives (capacity to not just reduce, but to prevent/avoid negative impact; or to provide a structural/long-term improvement);
- iv) only for environmental objectives, the extent to which the activity is adopting the best available option.

### Activities' ESG risk management

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 Issuer's 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.

### Management of stakeholder-related ESG controversies

A controversy is an information, a flow of information, or a contradictory opinion that is 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 based on unproven facts.

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).

<sup>8</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.



- **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 advanced expected impact combined with a weak level of assurance of E&S risk management.	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.
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.



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