



SECOND PARTY OPINION¹ ON THE SUSTAINABILITY OF IBERDROLA'S GREEN BOND²

Issued in February 2017

SCOPE

Vigeo Eiris was commissioned to provide an independent opinion on the sustainability credentials and management of the Green Bond (the "Bond") considered by Iberdrola (the "Issuer"), according to Vigeo Eiris' Environmental, Social and Governance (ESG) assessment methodology, in line with the Green Bond Principles guidelines.

The opinion is based on the review of the two following components :

- Issuer: document-based evaluation of Iberdrola's ESG performance, controversies and capacity to mitigate these risks.
- Issuance: analysis of the coherence between the Green Bond framework and Iberdrola's strategy and commitments, and document-based evaluation of the Green Bond framework, including:
 - ▶ analysis of the process for categorisation and selection of assets eligible to the use of proceeds, and the process for evaluation of their environmental and social risks and impacts
 - ▶ assessment of reporting systems dedicated to information, monitoring and control related to fund allocation, to management and impacts of financed projects.

Vigeo Eiris' sources of information are gathered from our rating database, from Iberdrola, press content providers and stakeholders. Vigeo Eiris has carried out its due diligence from the 30th of January to the 23rd of February 2017, complemented by interviews with involved managers.

We were able to access to all appropriate documents and to meet all solicited people. We consider that the provided information enable us to establish our opinions with a reasonable level of assurance on their completeness, precision and reliability.

VIGEO EIRIS' OPINION

Vigeo Eiris confirms that the Bond intended by Iberdrola is a "Green Bond" with positive contribution to sustainable development.

Vigeo Eiris reaches a reasonable³ level of assurance on the sustainability of the Bond:

- Iberdrola displays an overall advanced³ ESG performance (see Part I).
- The Green Bond framework elaborated by the Issuer for this Bond is considered to be robust (see Part II):
 - ▶ The net proceeds of the Bond issuance will be used to refinance Renewable Energy projects in Spain, UK and Germany, which contribute to climate change mitigation and to energy transition, in line with two United Nations Sustainable Development Goals.
 - ▶ The processes for categorisation, selection and evaluation of Eligible Assets are clearly defined and robust, and would enable documented and transparent governance of the Bond.
 - ▶ The Issuer's reporting commitments and process are robust, covering the fund allocation and environmental benefits of selected assets (outputs and impacts), reaching an overall reasonable level of assurance on its capacity to report on the Green Bond's use and impacts.

¹ Second Party Opinion – Green Bond Principles: This opinion is to be considered as the "Second Party Opinion" described by the Green Bond Principles (2016 edition in the 'External Review' section). The Green Bond Principles include the Voluntary Process Guidelines for Issuing Green Bonds and the Guidance for Borrowers of Social Bonds (see: www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-Bonds/)

² The "Green Bond" is to be considered as the potential forthcoming Bond, which issuance is subject to market conditions.

³ Definition of Vigeo Eiris' scales of assessment (as detailed on the last page of this document):

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

Part I. ISSUER

Level of the Issuer's sustainability performance

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

Vigeo Eiris' assurance that ESG risk factors of Iberdrola are adequately managed is reasonable, including reputational, human capital and operational risks.

Stakeholder-related ESG controversies⁴ and involvement in controversial activities⁵

As of February 2017, Iberdrola faces occasional allegations regarding Business Behavior and Environment. The severity ranges from minor to high based on the analysis of its impact on the company and its stakeholders. The company is overall reactive: it reports transparently in most of the cases to cooperate with interested parties or to take corrective actions.

Regarding the 9 disputable activities analysed by Vigeo Eiris, Iberdrola's involvement in Nuclear energy is major (due to nuclear-related activities). According to the company, Iberdrola was selected by FTSE4 GOOD as the 1st company with nuclear assets and is providing exhaustive information on nuclear indicators⁶.

Part II. ISSUANCE

Coherence of the issuance

As a Spanish multinational leader in the energy sector, Iberdrola produces and supplies electricity to some 100 million people in the countries in which it operates. The company focuses on the development of clean energy, making it the first renewable producer amongst European utilities and the second cleanest power company in the USA, with almost zero emissions. Iberdrola is pioneering the rollout of smart grids and has an energy storage capacity in excess of 4 GW. To support its strategy and ambition, Iberdrola issued three Green Bonds in 2016 to (re)finance renewable energy projects.

Iberdrola's Green Bond Framework is coherent with its main strategic priorities, and contributes to achieve its commitments and objectives. Vigeo Eiris has a reasonable level of assurance on Iberdrola's willingness and capacity to align the objectives and the management of this Green Bond with relevant issues in terms of environmental responsibility.

Use of proceeds

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

Vigeo Eiris estimates that the environmental objectives and expected benefits from the Eligible Projects are visible, precise, relevant and measurable. The Eligible Projects' contribution to sustainable development is considered to be positive, due to expected environmental benefits associated with defined categories on climate change mitigation and on energy transition.

In addition, Vigeo Eiris considers the Eligible Projects align with the following UN Sustainable Development Goals:

- 7. Affordable and clean energy
- 12. Responsible Consumption and Production.



Eligible Projects are onshore and offshore wind farms, which are located in the UK, Spain and Germany, owned and managed by Iberdrola's subsidiaries, and with 100% to 57% of the projects owned by Iberdrola. A list of selected eligible projects has been set up by Iberdrola. In case this list were to be modified, the Issuer has committed that all eligible projects will have to comply with the defined evaluation and selection framework for this Green Bond.

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

⁵ The 9 controversial activities analysed by Vigeo Eiris are: Alcohol, Animal maltreatment, Armament, Hazardous chemicals, Gambling, Genetically Modified Organisms in food & feed, Nuclear energy, Sex industry, Tobacco. The controversial activities research provides screening on companies to identify involvement in business activities that are subject to philosophical or moral beliefs.

⁶ Reporting on nuclear indicators: www.iberdrola.es/reputation-sustainability/main-initiatives-indexes/management-nuclear-performance-indicators/

Vigeo Eiris provides a reasonable level of assurance regarding the use of proceeds and selection criteria, as Renewable Energy Projects such as defined in the Green Bond framework.

Process for project evaluation and selection:

The process for the evaluation and selection of eligible projects is defined and publically available on Iberdrola's website⁷, through the hereby document. It relies on:

- Use of proceeds requirements, i.e. Renewable Energy Projects with environmental benefits
- An exclusion criteria in case of any litigation related to ESG matters, based on the integration of ESG factors at Renewable Energy Project level, according to the following principles defined in the Issuer's CSR and Sustainability policies⁸:
 - **Environment:** Environmental management, Protection of biodiversity, Atmospheric emissions and Energy management
 - **Creation of value:** ESG risk management, Responsible Customer Relation, Sustainable Procurement, Promotion of Business Ethics
 - **Social dimension:** Improvement of Health & Safety and Employment Conditions, Respect of human rights, Sustainable local insertion and Access to energy and prevention of fuel poverty
- Iberdrola's commitment on the absence of any litigation in material ESG matters which is material in the context of the group since 2010, regarding the refinancing of these existing projects.

The process for evaluation and selection of eligible projects will use internal expertise: the integration of ESG factors in the project management and the project fulfilment with Iberdrola's CSR and Sustainability policies is double checked by the Sustainability team. The Issuer has committed that the list of eligible projects to be refinanced by the proceeds of the Bond will be set up according to the requirements of the Green Bond framework, involving internal skills within Business Development, Environment and Finance teams.

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

Management of proceeds

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

The net proceeds of the bond will be managed within the Iberdrola's treasury liquidity portfolio, in cash or other short term and liquid instruments that do not include GHG intensive activities nor controversial activities. Iberdrola will track investments of the proceeds allocated to Eligible Projects and commits in avoiding double counting with other Green Bonds or Loan proceeds. All the management of funds (allocation process) will be reviewed annually by external auditor.

Reporting

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

- Use of the Green Bond proceeds: list of (re)financed projects, with related description, fund allocation and compliance of selected projects with the Green Bond framework.
- Environmental benefits: annual estimates of climate benefits (output and/or impacts) of each Eligible Projects financed by the bond, then aggregated at bond level.

Conditions and process for monitoring are clearly defined and selected reporting indicators are relevant on the use of proceeds and environmental benefits.

The reporting commitments comply with the Green Bond Principles guidelines. Regarding monitoring and reporting on ESG management, Iberdrola will report at corporate level only, through its annual Sustainability Report, apart from any potential litigation or breach of ESG indicators observed at project level. We have further recommended to reinforce reporting related to projects ESG management.

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

⁷ www.iberdrola.es/accionistas-inversores/relacion-inversores/renta-fija/bonos-verdes/

⁸ Iberdrola's Sustainability Policy www.iberdrola.es/webibd/gc/prod/en/doc/responsabilidad_sostenibilidad.pdf

EXTERNAL REVIEW

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

- The sustainability consultant review, i.e. the hereby Second Party Opinion performed by Vigeo Eiris, on the sustainability credentials of the Green Bond, based on pre-issuance commitments and covering all bond dimensions, i.e. Issuer's sustainability profile and commitments related to the issuance (use of proceeds, evaluation, selection and allocation processes and reporting).
- An annual verification, i.e. the Third Party auditor, covering the management of funds (allocation process) during the fund allocation process and the process used for the reporting metrics until the maturity date of the Bond.

Paris, February 27th, 2017



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Disclaimer

Transparency on the relation between Vigeo Eiris and the Issuer: Vigeo Eiris has executed 5 audit missions for Iberdrola (Second Party Opinion delivery on Green Bonds in April 2014, April, September and November 2016 and on Green Loan in January 2017) and no established relationship (financial or others) exists between Vigeo Eiris and Iberdrola.

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

DETAILED RESULTS

Part I. ISSUER

Level of Iberdrola's ESG performance

As of October 2016, Iberdrola's overall approach to manage ESG related issues is advanced.

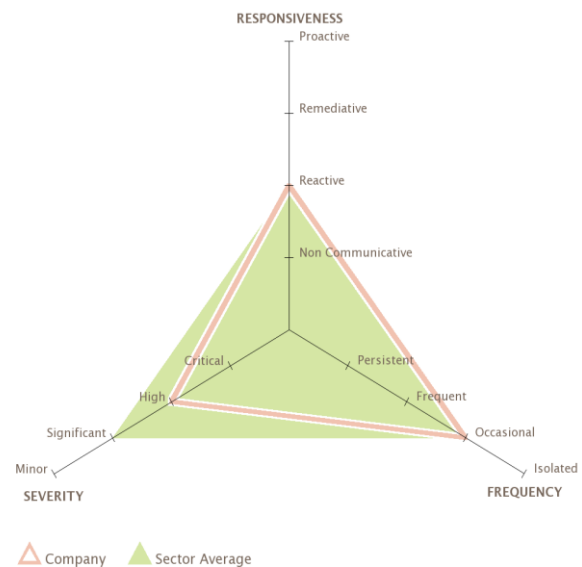
| Domain | Comments | Opinion assessment level |
|-------------|---|--------------------------|
| Environment | <p>Iberdrola's performance in the Environment domain is considered as advanced, above the sector average. It has significantly improved since the last review, in particular in terms of development of renewable energy, management of energy consumption and air emissions from fossil-based generation activities, and energy demand-side management. This increase is mainly due to relevant measures implemented broadly within the Group, and to effective results, especially on customer's energy savings and with a low thermal carbon factor compared to the sector average, decreasing by 5% between 2013 and 2015. The company's environmental strategy remains advanced with robust commitments through its. Specific targets have been set with regard to CO₂ emissions and to development of renewable energy. Iberdrola's share of energy generation from renewable sources (35,58%) stands among the second quartile of the sector.</p> <p>Of note however, the company remains limited in Management of energy consumption and GHG from Transmission & Distribution activities, and has faced frequent controversies of minor severity regarding environmental pollution and protection of biodiversity, while being overall reactive and to report transparently on the cases.</p> | Advanced |
| | | Robust |
| | | Limited |
| | | Weak |
| Social | <p>Iberdrola's performance on the Social pillar is advanced, above the sector average and has improved since the last review.</p> <p>Regarding the Human Resources domain, the performance remains robust. Iberdrola has issued a formalized policy to promote labour relations, which is monitored jointly with employee representatives in the majority of the Company's operations. In terms of career management, line managers are evaluated on their performance in terms of HR management and most employees had performance interviews. As for health & safety issues, most of Iberdrola's operations are covered by OHSAS 18001 certified system, and relevant measures are implemented for contractors and sub-contractors.</p> <p>Iberdrola's performance in the Human Rights domain is now advanced, above the sector average. The company issued formalised Human rights promotion policy supported by significant measures. Regarding non-discrimination issues, Iberdrola's performance is now robust due to the continuously increased share of women in management positions. Labour rights promotion remains stable and limited since the last review.</p> <p>Iberdrola's performance in the Community Involvement domain is advanced and has improved due to the absence of controversy. Social impact assessment and development programs have been initiated, and reports extensive measures to improve the access to energy. Iberdrola has maintained a robust performance in responsible customer relations. It has also formalized an accessible system to handle complaints.</p> <p>Otherwise, Iberdrola has improved its performance on the integration of social factors in the supply chain and is now advanced, due to better formalized and exhaustive commitments and means allocated.</p> | Advanced |
| | | Robust |
| | | Limited |
| | | Weak |
| Governance | <p>Iberdrola's performance in the Corporate Governance domain is robust and stands above the sector average. The Board and its committees display globally a high level of independence, and the Board oversees CSR issues. In addition, the performance in terms of audit & internal controls has improved: the Audit Committee oversees CSR risks and has a comprehensive role, the internal control system is supported by a confidential reporting system, and a significant ESG reporting audited by a third party is published. However, major voting rights restrictions have been identified.</p> <p>Iberdrola's performance in the Business Behavior domain has improved and is now robust, above the sector average. Iberdrola's performance remains advanced in terms of Prevention of Corruption and is now robust on the prevention of anti-competitive practices, mainly due to more efforts identified to involve employees in the detection and reporting. Iberdrola's performance remains limited in responsible lobbying.</p> | Advanced |
| | | Robust |
| | | Limited |
| | | Weak |

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

- Euronext Vigeo Eiris World 120
- Euronext Vigeo Eiris Europe 120
- Euronext Vigeo Eiris Eurozone 120

Stakeholder-related ESG controversies and Involvement in controversial activities

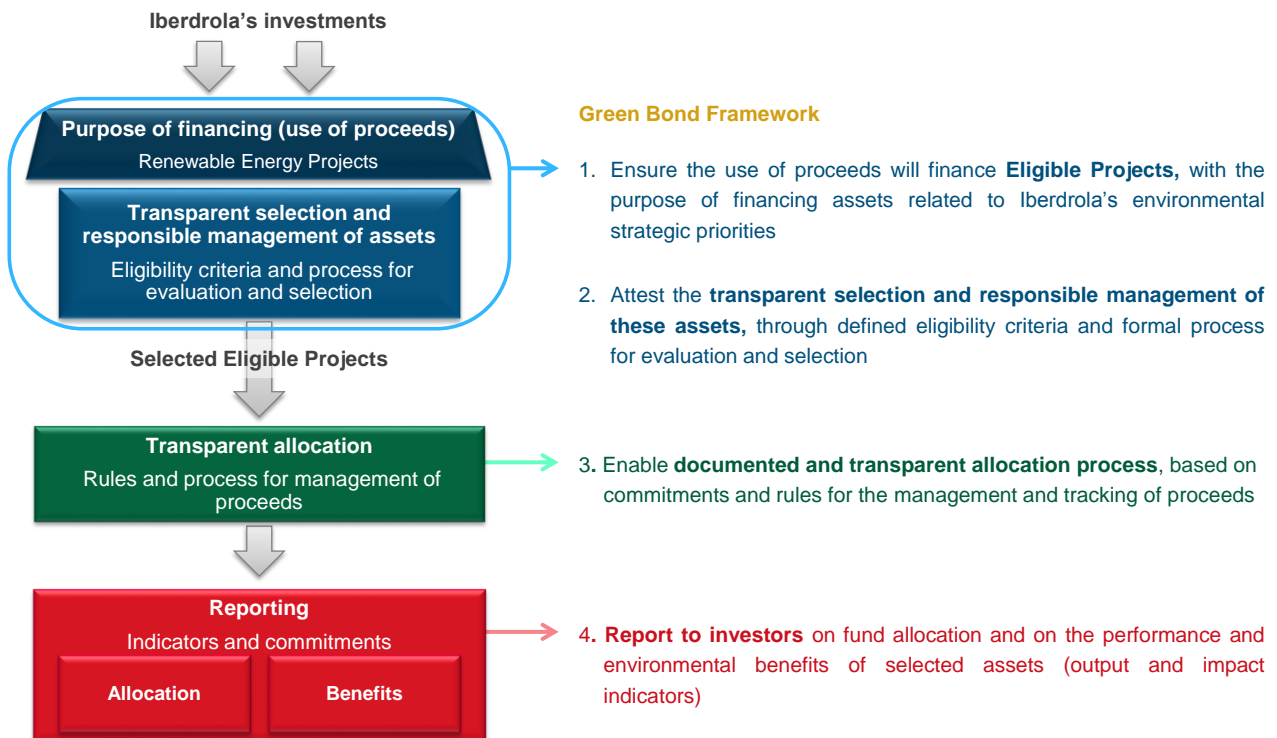
- **Frequency:** As of January 2017, Iberdrola faces occasional allegations: the Company is involved in 18 stakeholder-related ESG controversies, on several domains:
 - Environment (4 cases especially on biodiversity and Industrial accidents and pollution)
 - Human resources (2 cases especially on health & safety and reorganisation)
 - Business Behavior (12 cases, especially on customer relations, corruption and anti-competitive practices)
- **Severity:** The level of severity ranges from minor to high: the company faces 8 cases of minor severity, 6 cases of significant severity and 4 cases of high severity (related to customer relations, corruption and anti-competitive practices).
- **Responsiveness:** Iberdrola is overall reactive: the company reports transparently in 12 cases, implements remedial actions for 2 cases and is not communicative in 2 cases.



Regarding the 9 controversial activities analysed by Vigeo Eiris, Iberdrola's involvement in Nuclear energy is major, based on an estimation of the level of the company's involvement (10-20%) regarding its nuclear-related activities, which account for around 10.9% of Iberdrola 2015 revenues in 2015. In 2015, 7.3% of Iberdrola's power generation capacity and 16.9% of its energy production were nuclear based. Iberdrola was selected by FTSE4 GOOD as the 1st company with nuclear assets and is providing exhaustive information on nuclear indicators.

Iberdrola is not involved in any of the 8 other controversial activities analysed by Vigeo Eiris.

Part II. ISSUANCE



Coherence of the issuance

As a Spanish multinational leader in the energy sector, Iberdrola produces and supplies electricity to some 100 million people in the countries in which it operates. The company focuses on the development of clean energy, making it the first renewable producer amongst European utilities and the second cleanest power company in the USA, with almost zero emissions. 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 and its Sustainability Policy. 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, promotes the respect for the life of land ecosystems and works for create 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 its protection of the environment through its sustainable energy business model.
- To support its strategy and ambition, Iberdrola issued three Green Bonds in 2016 and contracted one Green Loan in 2017 representing 3250 m€ making it the most frequent and biggest worldwide corporate issuer in 2016. In line with its commitments and with its CSR and Sustainability policies, the green bonds and loan proceeds have been used to (re)finance renewable energy and transmission projects, which contribute to climate change mitigation and energy management.

Iberdrola's Green Bond Framework is coherent with its main strategic priorities, and contributes to achieve its commitments and objectives. Vigeo Eiris has a reasonable level of assurance on Iberdrola's willingness and capacity to align the objectives and the management of this Green Bond with relevant issues in terms of environmental responsibility.

Use of proceeds

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

* Existing and on-going projects means projects under construction with estimated commissioning dates in 2017, and/or projects in operation with operational dates as from 2010.

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

| Eligible Projects | Definition | Sustainability benefits | Vigeo Eiris' analysis |
|----------------------------------|---|---|--|
| Renewable Energy projects | Financing of, or investments in development, construction, installation and maintenance of renewable energy production units - Energy produced from renewable non-fossil sources, more specifically from wind power (onshore and offshore) | Climate change and Energy transition - Avoidance of GHG emissions | The definition is clear and the content is relevant. The objectives are visible, measurable and relevant. |

- List of selected eligible projects

Eligible projects correspond to wind onshore and offshore projects, located in Spain, the UK and Germany. Regarding the refinancing of the existing projects, Iberdrola states that there has not been any litigation in material ESG matters which is material in the context of the group since 2010, in its yearly register document ('Documento de Registro de Acciones').

A list of selected eligible projects has been set up by Iberdrola. In case this list were to be modified, the Issuer has committed that all eligible projects will have to comply with the defined evaluation and selection framework.

| Company | Name of park | Location | Installed capacity (mw) | Participation iberdrola | Operational date |
|--------------------------------------|--------------------|----------|-------------------------|-------------------------|------------------|
| BIONOR EÓLICA | VALDELANAVE | Spain | 10 | 60% | 2012 |
| CANTABER GENERACIÓN EÓLICA, S.L. | SEGREDAL | Spain | 36 | 69% | 2012 |
| IBERDROLA RENOVABLES CASTILLA Y LEON | VENTOSA DEL DUCADO | Spain | 44 | 95% | 2012 |
| IBERDROLA RENOVABLES CASTILLA Y LEON | VIÑAS | Spain | 38 | 95% | 2010 |

| Company | Name of park | Location | Installed capacity (mw) | Participation iberdrola | Operational date |
|---------------------------|---------------------|----------|-------------------------|-------------------------|------------------|
| IBERENOVA PROMOCIONES | PEÑAFLO III | Spain | 49 | 100% | 2012 |
| IBERENOVA PROMOCIONES | PEÑAFLO IV | Spain | 49 | 100% | 2012 |
| PW Renewable UK, Ltd-CÓD | CLACHAN FLATS | UK | 15 | 100% | 2009 |
| PW Renewable UK, Ltd-CÓD | MARK HILL | UK | 56 | 100% | 2013 |
| PW Renewable UK, Ltd-CÓD | EWE HILL 16 | UK | 22 | 100% | 2016 |
| PW Renewable UK, Ltd-CÓD | KILGALLIOCH | UK | 239 | 100% | 2014 |
| PW Renewable UK, Ltd-CÓD | HARE HILL EXTENSION | UK | 33,15 | 100% | 2015 |
| IB.RENOV.OFFSHORE DEUTSCH | WIKINGER | Germany | 350 | 100% | 2017 |

Vigeo Eiris provides a reasonable level of assurance on the use-of-proceeds and additional selection criteria as defined in the Green Bond framework, as Renewable Energy Projects contributing to climate change mitigation and energy transition.

We consider that the Eligible Assets' contribution to sustainable development is positive, due to the expected environmental benefits associated with defined categories on climate change mitigation and on the energy transition.

In addition, Vigeo Eiris considers that the Green Projects align with the following United Nations Sustainable Development Goals (UN SDGs):

Contribution to achieving the UN SGD 7. Affordable and clean energy



The UN SDG 7 consists in ensuring universal access to affordable, reliable, sustainable and modern energy, with targets by 2030 on the share of renewable energy in the global energy mix and the promotion of investment in energy infrastructure and clean energy technology. By using the green Bond proceeds to finance Eligible Projects related to the defined Renewable Energy Projects, the Issuer is contributing to the UN SDG 7, with regards to the above-mentioned targets.

Contribution to achieving the UN SGD 12. Responsible Consumption and Production



The UN SDG 12 consists in ensuring sustainable consumption and production patterns, with targets by 2030 on the achievement of sustainable management and efficient use of natural resources. By using the Green Loan to refinance Eligible Projects related to the defined Renewable Energy Projects, the Issuer is contributing to the UN SDG 12, with regards to the above-mentioned targets.

Process for project evaluation and selection

The Issuer is committed to attest the transparency and efficiency of selection process and the responsible management of the proceeds and financed assets, through defined Eligibility Criteria as defined within the existing Green Bond framework, which have been evaluated by Vigeo Eiris using our evaluation methodology based on international and sectors standards, in line with the Green Bond Principles guidelines.

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

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

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

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

- Iberdrola's summary criteria are defined for project evaluation and selection
- Iberdrola's existing related commitments are exhaustive, covering all ESG specific risks for defined Renewable Energy Projects, and applying to the whole business divisions of the group. Renewable Energy projects are fully integrated in each business division
- the integration of ESG issues in the project evaluation and selection process is robust, in line with the Issuer's ESG rating profile.

Management of proceeds:

Vigeo Eiris considers that the Issuer’s rules for management of proceeds are clearly defined and would enable a transparent allocation process.

- The net proceeds of the Bond issuance will be managed within Iberdrola’s treasury liquidity portfolio, in cash or other short term and liquid instruments that do not include GHG intensive activities nor disputable activities.
- Iberdrola will track investments of the proceeds allocated to Eligible projects and commits in avoiding double counting with other green bond or loan proceeds. This tracking is integrated into the annual financial reporting process.
- The overall share of refinancing is 100% (i.e. refinancing of projects financed from 2010).
- All the management of funds (allocation process) will be reviewed annually by external auditor.
- In case of asset divestment, Iberdrola commits to use the net proceeds to refinance other Eligible Projects which are compliant with the current framework.

Reporting

The Issuer commits to annually and transparently report on the Green Bond, in its Annual Sustainability Report, and until the maturity date of the Bond, on:

- Use of proceeds: list of financed projects, with related description, fund allocation and compliance of selected projects with the Green Bond framework.

| Reporting indicators at project level | Reporting indicators at Bond level |
|--|--|
| <ul style="list-style-type: none"> - List of financed projects with related description (type, location, operation date) - Amounts invested (in EUR) - Iberdrola’s share (in %) | <ul style="list-style-type: none"> - List of financed project - Amount in € invested in the bond portfolio - Number of projects |

- Environmental benefits: annual estimates of climate benefits (outputs and/or impacts) of each Eligible Projects (re)financed by the Bond, then aggregated at Bond level

| Benefits | Outputs reporting indicators | Impacts reporting indicators |
|---------------------------|--|---|
| Climate change mitigation | <ul style="list-style-type: none"> - Installed renewable energy capacity of the wind farms (in MW) - Annual renewable energy produced by the wind farms (in MWh) | <ul style="list-style-type: none"> - Annual GHG emissions avoided (in tCO2e) |

Responsible management (i.e. ESG indicators) of each project is monitored at corporate level only: Eligible Projects are fully integrated in each business divisions, covered by the overall annual group reporting, which is disclosed in the annual Sustainability Report, available on the Issuer website. We have recommended to reinforce the information on responsible management at project level.

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

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

METHODOLOGY

In Vigeo Eiris' 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 organization, activity or transaction. In this sense, Vigeo Eiris writes an opinion on the Issuer's Corporate Social Responsibility as an organization, and on the objectives, management and reporting of the projects to be (re)financed by this transaction.

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

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

Our research and rating procedures are subject to internal quality control at three levels (analysts, heads of cluster sectors, internal review by the audit department for second party opinions) complemented by a final review and validation by the Direction of Methods. A right of complaint and recourse is guaranteed to all companies under our review, including three levels: first, the team linked to the company, then the Direction of Methods, and finally Vigeo Eiris' Scientific Council. All collaborators are signatories of Vigeo Eiris' Code of Ethics.

Part I. ISSUER

NB : The Issuer performance, i.e., commitments, processes, results of the Issuer, related to ESG issues have been assessed through a complete process of rating and benchmark developed by Vigeo Eiris Rating. Furthermore, this assessment has been completed based on additional information provided by the Issuer to Vigeo Eiris Enterprise using the ESG assessment methodology developed by Vigeo Eiris.

Level of the Issuer's ESG performance

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

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

Stakeholder-related ESG controversies and involvement in controversial activities

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 on unproven facts.

Vigeo Eiris provides an opinion on companies' controversies risks mitigation based on the analysis of 3 factors:

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

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

In addition, 9 controversial activities have been analysed following 30 parameters to verify if the company is involved 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 precise nature of the controversial products or services provided by the company.

Part II. ISSUANCE

The Green Bond framework has been evaluated by Vigeo Eiris according to the Green Bond Principles and our methodology based on international standards and sector guidelines applying in terms of ESG management and assessment.

Use of proceeds

The use of proceeds requirements are defined to ensure that the funds raised are used to finance and/or refinance an Eligible Projects and are traceable within the issuing organisation. Each Project endorsed shall comply with at least one of the Eligible Projects category definition in order to be considered as an Eligible Project. Vigeo Eiris evaluates the relevance, visibility, and measurability of the associated environmental and/or social objectives. The sustainability purpose of the Green Bond related Eligible Projects has been precisely defined, with regard to the Issuer's commitments, and assessed based on the described and estimated benefits of Eligible Projects. The contribution of Eligible Projects to sustainable development is evaluated based on the United Nations Sustainable Development Goals.

Process for project evaluation and selection

The evaluation and selection process has been assessed by Vigeo Eiris regarding its transparency, governance and efficiency. The relevance and exhaustiveness of selection criteria and associated supporting elements integrated in the Green Bond framework, and the coherence of the process are analysed based on material issues considered in Vigeo Eiris' methodology.

Management of proceeds

The rules for the management of proceeds and the allocation process have been evaluated by Vigeo Eiris regarding their transparency, coherence and efficiency.

Reporting

Reporting indicators, processes and methodologies are defined by the Issuer to enable annual reporting on fund allocation, environmental benefits (output and impact indicators) and on the responsible management of the Eligible Projects financed by the Green Bond proceeds, collected at project level and potentially aggregated at Bond level. Vigeo Eiris has evaluated the relevance of the reporting framework according to three principles: transparency, exhaustiveness and effectiveness.

- Scale of assessment for processes and commitments: Weak, Limited, Robust, Advanced.
- Scale of level of assurance on Issuer's capacity: Reasonable, Moderate, Weak.

VIGEO EIRIS'S ASSESSMENT SCALES

| Performance evaluation | | Level of assurance | |
|------------------------|---|--------------------|--|
| Advanced | Advanced commitment; strong evidence of command over the issues dedicated to achieving the objective of social responsibility. Reasonable level of risk management and using innovative methods to anticipate emerging risks. | Reasonable | Able to convincingly conform to the prescribed principles and objectives of the evaluation framework |
| Robust | Convincing commitment; significant and consistent evidence of command over the issues. Reasonable level of risk management. | Moderate | Compatibility or partial convergence with the prescribed principles and objectives of the evaluation framework |
| Limited | Commitment to the objective of social responsibility has been initiated or partially achieved; fragmentary evidence of command over the issues. Limited to weak level of risk management. | Weak | Lack or unawareness of, or incompatibility with the prescribed principles and objectives of the evaluation framework |
| Weak | Commitment to social responsibility is non-tangible; no evidence of command over the issues. Level of insurance of risk management is weak to very weak. | | |

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