



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

To be issued in November 2017

SCOPE

Vigeo Eiris was commissioned to provide an independent opinion on the sustainability credentials and management of the Green Perpetual Capital Securities (hereafter the "Hybrid Bond") considered to be issued by Iberdrola (the "Issuer"), according to Vigeo Eiris' Environmental, Social and Governance (ESG) assessment methodology, and aligned with the Green Bond Principles voluntary guidelines (the "GBP").

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

- **Issuer:** document-based evaluation of the Issuer's ESG performance, controversies and capacity to mitigate the associated risks.
- **Issuance:** analysis of the coherence between Iberdrola's Green Bond framework and Iberdrola's strategy and commitments, and document-based evaluation of the Green Bond framework.

Vigeo Eiris' information sources are obtained from our issuers' rating database, press content providers, the Issuer and stakeholders. Vigeo Eiris has carried out its due diligence from November 7th to November 10th 2017.

We were able to access to all appropriate documents but no interview has been conducted. We consider that the provided information enables us to establish our opinions with a limited level of assurance on their completeness, precision and reliability.

VIGEO EIRIS' OPINION

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

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

Issuer: Iberdrola displays an overall advanced³ ESG performance (see Part I)

- ▶ The Issuer ranks 7th out of 48 European companies rated in the Vigeo Eiris "Electric and Gas utilities" sector. Iberdrola displays advanced performance on the Environmental and Social pillars and a robust performance on the Governance pillar. Vigeo Eiris' assurance that Iberdrola's ESG risk factors are adequately managed is reasonable for all reputational, human capital, operational and legal risks.
- ▶ Iberdrola is involved in occasional controversies regarding different ESG domains. The severity ranges from minor to high. The company is overall reactive: it reports transparently in most cases.
- ▶ Regarding the 15 controversial activities analysed by Vigeo Eiris⁴, Iberdrola has a major involvement in Fossil Fuels, Coal and Nuclear energy (due to nuclear generated electricity) sectors. Iberdrola has no involvement in any of the 12 other controversial activities.

¹ Second Party Opinion – Green Bond Principles: This opinion is to be considered as the "Second Party Opinion" described by the Green Bond Principles (2017 edition, "External Review" section). The Green Bond Principles include the Voluntary Process Guidelines for Issuing Green Bonds (see: www.icmagroup.org).

² The "Green Hybrid 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 in the "Methodology section" of this document):
Level of Performance: Advanced, Robust, Limited, Weak.
Level of Assurance: Reasonable, Moderate, Weak.

⁴ The 15 controversial activities analysed by Vigeo Eiris are: Alcohol, Animal welfare, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Tar sands and oil shale, Gambling, Genetic engineering, High interest rate lending, Military, Nuclear Power, Pornography, Reproductive Medicine and Tobacco. Companies involvement in controversial activities relies on the ownership of +20% of a company shares or voting rights.

Issuance: Iberdrola's Green Hybrid Bond framework is robust. We have recommended that the Issuer publicly discloses this framework (see Part II).

- ▶ The net proceeds of the Bond issuance will be used to finance and/or refinance Renewable Energy projects in the UK and Germany. Vigeo Eiris considers that the environmental objectives and expected benefits from the Eligible Projects are visible, precise, measurable and relevant. The Eligible Projects' contribution to sustainable development is considered to be positive, due to expected environmental benefits on climate change mitigation and energy transition, aligned with two United Nations Sustainable Development Goals (the "UN SDGs"), 7 and 13.
- ▶ The process for categorisation, selection and evaluation of Eligible Projects is considered to be robust in terms of transparency and governance, and relies on relevant selection criteria. The integration of environmental and social factors in risk management is robust, in line with Iberdrola's ESG performance.
- ▶ The rules for the management of proceeds are clearly defined and would enable a documented and transparent allocation process. All the management of funds (allocation process) will be reviewed annually by an external auditor.
- ▶ The Issuer's reporting commitments and process are robust, covering the fund allocation and environmental benefits of selected projects. The Issuer is committed to report annually, publicly and until the redemption of the Bond, at bond level. Vigeo Eiris reaches an overall reasonable level of assurance on the Issuer's capacity to report on the Green Hybrid Bond's use and impacts. We have recommended to report on fund allocation and environmental impacts at project level.

EXTERNAL REVIEW

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

- ▶ Consultant review: the hereby Vigeo Eiris' Second Party Opinion, as sustainability consultant, on the responsible credentials of the Bond, based on pre-issuance commitments, covering the key features of the Bond, aligned with the four core components of the Green Bond Principles (use of proceeds, evaluation, selection and allocation processes and reporting).
- ▶ Verification: an annual third party auditor verification covering the management of the funds (allocation process) during the fund allocation process and the process used for the reporting metrics until the maturity date of the Bond.

This opinion is valid as of the date of issuance limited to Iberdrola's November 2017 Green Hybrid Bond.

Paris, November 10th, 2017



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Disclaimer

Transparency on the relation between Vigeo Eiris and the Issuer: Vigeo Eiris has executed 7 audit missions for Iberdrola (Second Party Opinion deliveries on Green Bonds in April 2014, April, September and November 2016, February and September 2017, and on Green Loan in January 2017). Vigeo Eiris has not executed any consultancy mission over the past 5 years and no established relationship (financial or other) exists between Vigeo Eiris and Iberdrola.

This opinion aims to explain for investors why the Green Hybrid 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 Hybrid 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 Hybrid 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.

The opinion delivered on stakeholder-related ESG controversies is not a conclusion on the creditworthiness of the Issuer or its financial obligations. We do not express an opinion as a score when controversial activities, products and services are not prohibited by international standards or treaties. The controversial activities research consists exclusively in highlighting the involvement of companies in a given activity and in qualifying the threshold of involvement without inferring any opinion. The information does not suggest any approval or disapproval on their content from Vigeo Eiris.

Restriction on distribution and use of this opinion: the opinion is provided by Vigeo Eiris to the Issuer and can only be used by the Issuer. The distribution and publication is at the discretion of the Issuer, submitted to Vigeo Eiris approval.

DETAILED RESULTS

Part I. ISSUER

Level of the issuer'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. 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 in the second quartile of the sector.</p> <p>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 reporting 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. 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 has 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 has remained limited since the last review.</p> <p>Iberdrola's performance in the Community Involvement domain is advanced and has improved. Social impact assessment and development programs have been initiated, and the Company reports extensive measures to improve the access to energy.</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 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 of these practices. Iberdrola's performance remains limited in responsible lobbying.</p>	Advanced
		Robust
		Limited
		Weak

Iberdrola is included in the following Vigeo Eiris Indices:

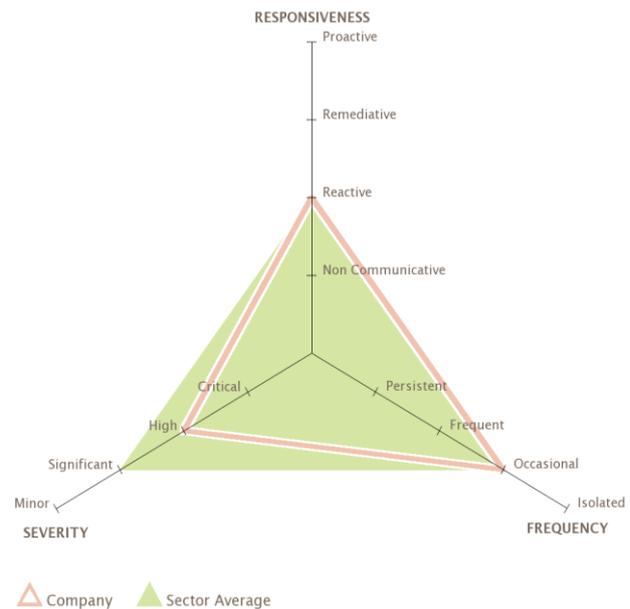
- Euronext Vigeo Eiris World 120
- Euronext Vigeo Eiris Europe 120
- Euronext Vigeo Eiris Eurozone 120.

Stakeholder-related ESG controversies

Iberdrola is involved in 17 stakeholders-related controversies located on Europe and the United States, regarding different ESG domains:

- Environment (4 cases, especially on biodiversity and on Industrial accidents and pollution)
- Human resources (2 cases, especially on health & safety and on reorganisation)
- Business Behavior (11 cases, especially on customer relations, anti-competitive practices, and corruption)

- **Frequency:** the overall frequency is considered occasional.
- **Severity:** the level of severity ranges from minor to high: the company faces 8 cases of minor severity, 6 cases of significant severity and 3 cases of high severity (related to customer relations, corruption and anti-competitive practices).
- **Responsiveness:** Iberdrola is overall reactive: the company reports transparently in 15 cases (reacting to 11 cases, implementing remedial actions for 2 cases, proactively implementing systematic remedial action in 2 cases), and is not communicative in 2 cases, including one of significant severity.



Involvement in controversial activities

Regarding the 15 controversial activities analysed by Vigeo Eiris, Iberdrola's is involved in 3 of them:

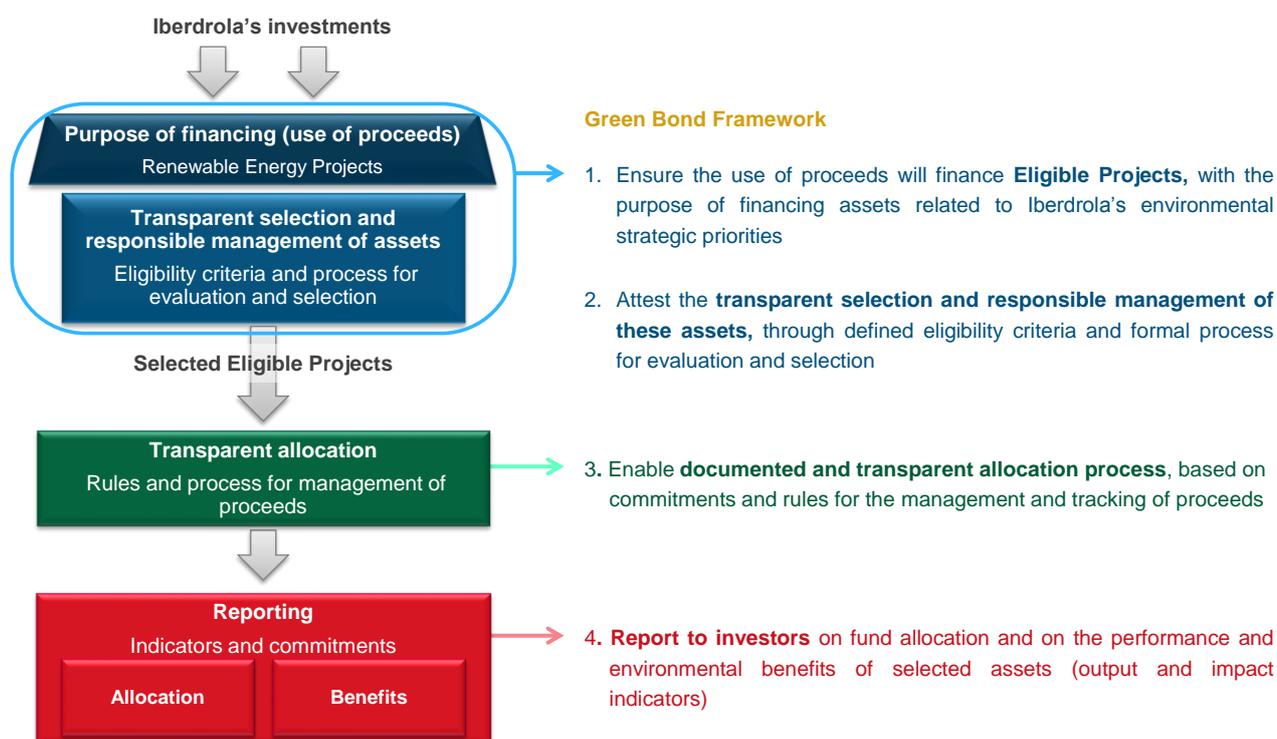
- ▶ **Nuclear Power:** Iberdrola declares that nuclear energy generation turnover accounts for 3% of the total company's turnover (2016). Nuclear power represents 18% of the company's total power generation fuel mix. Iberdrola was selected by FTSE4 GOOD as the 1st company with nuclear assets and is providing exhaustive information on nuclear indicators.
- ▶ **Fossil Fuel:** Iberdrola has an estimated turnover from fossil fuels which is between 33-50% of the total company's turnover. This turnover is derived from the generation of electricity from fossil fuels and the storage of natural gas. The company owns and operates 23 combined cycle gas plants, 29 co-generation plants and two thermal power plants. Fossil fuels represent 43% of the total company power generation fuel mix. Additionally, the company owns and operates 4 gas storage facilities in the U.S.A.
- ▶ **Coal:** Iberdrola declares that its turnover from coal represents 0,5% of the total company's turnover (2016). This turnover is derived from the generation of electricity from coal. The Company reports it has 874 MW of installed capacity fuelled from coal, representing 1.9% of its mix. In terms of generation, 2.8% of the electricity generated in 2016 was derived from coal. Of note, the Company publicly announced this week the closure of its two remaining coal plants.

Iberdrola is not involved in any of the 12 other controversial activities analysed by Vigeo Eiris.

Part II. ISSUANCE

Iberdrola has established a framework which applies to the contemplated Green Hybrid Bond issuance. We have recommended to the Issuer to publicly disclose its detailed Green Bond framework, including its commitments, processes and criteria.

The framework is composed of four steps, aligned with the GBP, as presented in the following process:



Coherence of the issuance

As a Spanish multinational leader in the energy sector, 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, 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. Aligned 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.
- To support its strategy and ambition, Iberdrola issued five Green Bonds since 2016 and has contracted one Green Loan in 2017, in total representing 4700 m€, making it the most frequent and biggest worldwide corporate issuer in 2016⁵. Aligned 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.

Vigeo Eiris considers that Iberdrola's Green Bond Framework is coherent with its main strategic priorities, and that it contributes to achieve its commitments and objectives.

Vigeo Eiris reaches a reasonable level of assurance on Iberdrola's capacity to align the objectives and the management of this Green Hybrid Bond with relevant issues in terms of environmental responsibility.

⁵<https://www.climatebonds.net/2017/03/green-bond-pioneer-awards-2017-leadership-green-finance-glittering-event-london%E2%80%99s-guildhall>

Use of proceeds

The net proceeds of the Green Hybrid Bond will be used to (re)finance, in whole or in part, Eligible Projects defined as Renewable Energy Projects, and will meet Iberdrola's Environmental, Social and Governance (ESG) policies.

The Eligible Projects are existing and/or on-going projects⁶ located in the UK and Germany, managed by several project companies which are Iberdrola's subsidiaries. The use of proceeds criteria and the expected environmental benefits have been defined and evaluated in the table below:

Eligible Projects	Definition	Objectives	Sustainability benefits	Vigeo Eiris' opinion
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)	To produce low carbon energy To improve the renewable energy mix of Iberdrola To reduce the necessity and load factor of the fossil fuel generation	Climate change mitigation and Energy transition <i>GHG emissions avoidance</i>	The definition is clear and the content is relevant. The objectives are visible, precise, measurable and relevant.

- List of selected projects⁷

For this Green Hybrid Bond issuance, Iberdrola identified a list of projects which comply with the above-mentioned definition. Selected projects correspond to wind onshore and offshore projects.

Company	Name of project	Location	Total installed capacity (MW)	Iberdrola's participation	Operational date
SCOTTISH POWER RENEWABLES	WHITELEE	UK	322	100%	2008
	HARESTANES	UK	136	100%	2014
	KILGALLIOCH	UK	239	100%	2017
	GLEN APP	UK	22	100%	2017
	EWE HILL 16	UK	37	100%	2017
	HARE HILL EXTENSION	UK	30	100%	2017
IB.RENOV.OFFSHORE DEUTSCH	WIKINGER	Germany	350	100%	2017

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. Because the bond is Green Perpetual Capital Securities, the Issuer would potentially add new assets within the Green Hybrid Bond portfolio in the future, aligned with the current framework. In this case, the hereby opinion will be updated by Vigeo Eiris.

Vigeo Eiris considers that the defined category of Eligible Projects, their objectives and the expected environmental benefits are clearly formalized and are transparent, in line with the GBP guidelines.

In addition, Vigeo Eiris considers that the proposed Eligible Projects would have a positive contribution to sustainable development, aligned with the following United Nations Sustainable Development Goals (UN SDGs):



Contribution to achieving the UN SDG 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 Hybrid 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 SDG 13. Climate action

The UN SDG 13 consists in building resilience and adaptive capacity to its adverse effects, developing sustainable low-carbon pathways to the future, and accelerating the reduction of global greenhouse gas emissions. By using the Green Hybrid Bond to finance Renewable Energy projects, the Issuer is contributing to the UN SDG 13, with regards to the above-mentioned targets.

⁶ 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 2008.

⁷ Some of the projects may have already been partially selected in previous Iberdrola's green bonds, but required additional fundings and/or weren't totally financed in the previous Bond

Process for project evaluation and selection

The process for the evaluation and selection of eligible projects is clearly defined and is made publicly available on Iberdrola's website⁸ through the publication of the hereby document. We have recommended to publicly disclose the process, the selection criteria and related commitments.

The process relies on the following relevant selection criteria:

- Use of proceeds requirements, based on the definition of Renewable Energy Projects and associated environmental objectives and benefits
- Exclusion criterion: the Issuer has committed to exclude any eligible project facing
 - Material controversie(s) related to material ESG issue(s) and/or
 - Legal litigation(s) related to material ESG issue(s) for which the Issuer has been subject to a final and material condemnatory sentence.

In order to assess controversies and issues, the selection process includes a certain level of materiality which is defined for each KPI utilized to measure selection criteria. Materiality levels consider the relevance of the controversy, the frequency, but also the mitigation measures that the company might have subsequently taken. Selection criteria are subject to internal analysis prior to projects allocation. In particular, "litigations" means To have a definitive condemnatory sentence and "accidents" means to have a definitive condemnatory sentence that considers the Company made material negligence.

- ESG criteria according to the following principles defined in the Issuer's CSR and Sustainability policies⁹:
 - **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

Regarding the refinancing of selected projects, Iberdrola has committed on the absence of litigation related to material ESG matters since 2008 reported in its yearly register document ("Financial Statements").

We noted that two of the selected projects faced each a controversy (Whitelee and Kilgallioch) related to water pollution and health & safety, with significant severity. The Issuer is reactive, reporting in a detailed way on its position to these cases, and has voluntarily taken specific corrective actions. Both issues are currently under investigation following the corresponding legal procedures, and no sentence has been issued yet

The process for 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 the Business and Environmental teams
- The project fulfillment with Iberdrola's CSR and Sustainability policies and the 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. Finance Department checks with Sustainability Department, Legal and Corporate Social Responsibility if the projects are available, and checks internally that double counting is avoided.

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

The evaluation and selection process is considered to be robust in terms of governance. The management of ESG risks would be implemented at project level, applied to the whole business divisions of the group and consistent with Iberdrola Sustainability Policy. Renewable Energy projects would be fully integrated in each business division.

⁸ <https://www.iberdrola.com/shareholders-investors/investors/fixed-income/information-related-to-green-bonds>

⁹ Iberdrola's Sustainability Policy www.iberdrola.es/webibd/gc/prod/en/doc/responsabilidad_sostenibilidad.pdf

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. The overall share of refinancing is between 95% and 100% (i.e. refinancing of projects financed since 2008). The remaining proceeds will be allocated by the end of 2017.
- In case of unallocated proceeds, Vigeo Eiris has recommended that the issuer use temporary placements for the balance of unallocated proceeds which do not include GHG intensive or controversial activities.
- Iberdrola will track investments of the proceeds allocated to Eligible Projects and commits to avoid double counting with other green bonds or loans proceeds. This tracking is integrated into the annual financial reporting process.
- All the management of funds (allocation process) will be reviewed annually by an external auditor.

Reporting

The Issuer commits to annually and publicly report on the Green Hybrid Bond, in its Annual Sustainability Report, and until the redemption date of the hybrid bond, on:

- Use of proceeds: list of (re)financed projects, with related description and compliance of selected projects with the Green Bond framework, and total investment per bond

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) - Iberdrola’s share in the project company (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 the (re)financed projects 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)

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.

Beyond the GBP guidelines, the Issuer has also committed to monitor and report on the ESG management of the Eligible Projects and on its results both at corporate and at project level for the most relevant facts, including ESG key performance indicators, to be disclosed in the annual report to the Bond investors.

Overall, Vigeo Eiris reaches a reasonable level of assurance on the Issuer’s capacity to regularly and transparently report on its Green Hybrid Bond, aligned with the GBP guidelines. We have recommended to report on fund allocation and environmental benefits at project level.

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 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 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

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.

Involvement in controversial activities

15 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 Hybrid Bond framework has been evaluated by Vigeo Eiris according to the Green Bond Principles and to 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 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 Eligible Project. Vigeo Eiris evaluates the relevance, visibility, and measurability of the associated environmental and/or social objectives. The sustainability purpose of the Green Hybrid 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 Hybrid 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	
Advanced	Advanced commitment; strong evidence of command over the issues dedicated to achieving the objective of social responsibility. Reasonable level of risk management and using innovative methods to anticipate emerging risks.
Robust	Convincing commitment; significant and consistent evidence of command over the issues. Reasonable level of risk management.
Limited	Commitment to the objective of social responsibility has been initiated or partially achieved; fragmentary evidence of command over the issues. Limited to weak level of risk management.
Weak	Commitment to social responsibility is non-tangible; no evidence of command over the issues. Level of insurance of risk management is weak to very weak.

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



vigeo eiris
Rating

vigeo eiris
Enterprise

Vigeo Eiris is a global provider of environmental, social and governance (ESG) research to investors and public and private corporate. The agency evaluates the level of integration of sustainability factors into organizations' strategy and operations, and undertakes a risk assessment to assist investors and companies' decision-making

Vigeo Eiris offers two types of services through separate business units

- ▶ **Vigeo Eiris rating** offers databases, sector-based analyses, ratings, benchmarks and portfolio screening, to serve all ethical and responsible investment strategies.
- ▶ **Vigeo Eiris enterprise** works with organizations of all sizes, from all sectors, public and private in order to support them in the integration of ESG criteria into their business functions and strategic operations.

Vigeo Eiris methodologies and rating services adhere to the strictest quality standards and have been certified to the independent ARISTA® standard. Vigeo Eiris is an approved verifier for CBI (Climate Bond Initiative). Vigeo Eiris' research is referenced in several international scientific publications.

Vigeo Eiris is present in Paris, London, Boston, Brussels, Casablanca, Milan, Montreal, Santiago, Stockholm and Tokyo and has a team of 200. The agency works with partners through its Vigeo Eiris Global Network.

For more information: www.vigeo-eiris.com