

SECOND PARTY OPINION¹

ON THE SUSTAINABILITY OF IBERDROLA'S GREEN BOND

April 2020

SCOPE

Vigeo Eiris was commissioned to provide an independent opinion (thereafter "Second Party Opinion" or "SPO") on the sustainability credentials and management of the green bond² ("the Bond") to be issued by Iberdrola ("the Issuer") in compliance with its "Framework for Green Financing" ("the Framework").

Our opinion is established according to Vigeo Eiris' Environmental, Social and Governance ("ESG") exclusive assessment methodology and to the ICMA's Green Bond Principles ("GBP") voluntary guidelines, edited in June 2018.

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

- 1) **Issuer:** we assessed the Issuer's ESG performance³, its management of potential stakeholder-related ESG controversies and its involvement in controversial activities⁴.
- 2) **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.

Our sources of information are multichanneled, combining information from (i) public sources, press content providers and stakeholders, (ii) Vigeo Eiris' exclusive ESG rating database, and (iii) provided by the Issuer through documents.

We carried out our due diligence assessment on the Bond issuance, in line with the the last review of the Framework, from January 31st to April 1st, 2020. We consider that we were provided with access to all the appropriate documents we solicited. To this purpose we use our reasonable efforts to verify such data accuracy.

VIGEO EIRIS' OPINION

Vigeo Eiris is of the opinion that Iberdrola's Bond is aligned with the four core components of the Green Bond Principles 2018.

We express a reasonable assurance⁵ (our highest level of assurance) on the Issuer's commitments and on the contribution of the contemplated Bond to sustainability.

1) Issuer (see Part I):

- ▶ As of October 2019, Iberdrola displays an overall advanced ESG performance. The Issuer's managerial approach appears advanced in the Environmental and Social pillars and good in the Governance pillar. Our assurance that the Issuer's risk factors are adequately managed is reasonable, including reputational, human capital, legal and operational risks.
- ▶ As of today, Iberdrola is facing 6 controversies related to the Business Behaviour and Community involvement domains (criteria "Information to customers" and "Customer relations" for the Business Behaviour domain and criterion "Social and Economic Development" for the Community Involvement domain). The frequency of the controversies is considered occasional. The severity of their impact on both the company and its stakeholders is considered high. Iberdrola is considered overall reactive.

¹ This opinion is to be considered as the "Second Party Opinion" described in the GBP voluntary guidelines (June 2018 Edition) edited by the International Capital Market Association (www.icmagroup.org).

² 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 Vigeo Eiris.

³ The Issuer's ESG performance was assessed in October 2018 by a complete process of rating and benchmark developed by Vigeo Eiris. All potential evolutions and data published after this date are not included in the rating.

⁴ The 17 controversial activities analysed by Vigeo Eiris are: Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Tar sands and oil shale, Gambling, Genetic engineering, High interest rate lending, Human Embryonic Stem Cells, Military, Nuclear power, Pornography, Reproductive medicine, and Tobacco.

⁵ The definitions of Vigeo Eiris' scales of assessment can be found in the Methodology section.

- ▶ The Issuer is involved in 3 of the 17 controversial activities screened under our methodology. Iberdrola has a major involvement in Fossil Fuels and Coal, a minor involvement in Nuclear power (due to nuclear generated electricity activities), and no involvement in any of the 14 other controversial activities.

2) Issuance (see Part II):

We are of opinion that the contemplated Bond is coherent with Iberdrola's main sustainability priorities and sectorial issues, and contributes to achieve its sustainability commitments.

Use of Proceeds

- ▶ The net proceeds of the Bond will exclusively finance or refinance, in part or in full, projects (the "Eligible Projects") falling under one category of the Framework, namely: Renewable energy. The Issuer has provided a list of the Eligible Projects to Vigeo Eiris, covering projects of wind and photovoltaic technologies. We consider that the Eligible Projects are clearly defined.
- ▶ The Eligible Projects are intended to contribute to one main environmental objective, namely climate change mitigation. This objective was formalized in the Framework and applies to the present Bond. It is considered to be clearly defined and relevant.
- ▶ The Eligible Projects are expected to provide clear environmental benefits. The installed capacities of the Eligible Projects to be (re)financed have been communicated to Vigeo Eiris. The Issuer has committed to assess and, as feasible, quantify the expected environmental benefits of the Bond issued.
- ▶ In addition, the Eligible Projects are likely to contribute to two of the United Nations' Sustainable Development Goals ("SDGs"), namely : Goal 7. Affordable and Clean energy and Goal 13. Climate Action.
- ▶ The Issuer communicated on the estimated share of refinancing for its Bond issuance which will be around 60%. The Issuer has committed that, in case of re-financing, a look-back period of maximum 24 months from the Bonds' issuance date will be applied, in line with market practices.

Process for Projects Evaluation and Selection

- ▶ The governance and process for the evaluation and selection of the Eligible Projects are formalized in the Framework. We consider that the process is reasonably structured, transparent and relevant.
- ▶ The process relies on explicit eligibility criteria (selection and exclusion) relevant to the environmental objective defined for the Eligible Projects.
- ▶ The identification and management of the environmental and social risks associated with the Eligible Projects are considered good.

Management of Proceeds

- ▶ The rules for the management of proceeds are clearly defined and will be verified. We consider that they would enable a documented and transparent allocation process.

Reporting

- ▶ The reporting process and commitments appear to be good, covering both the funds allocation and the environmental benefits of the Eligible Projects.

Iberdrola has committed that its Green Bond will be supported by external reviews:

- A pre-issuance consultant review: the hereby Second Party Opinion delivered by Vigeo Eiris, covering all the features of the Bond, based on pre-issuance assessment and commitments, to be made publicly available by the Issuer on its website⁶, at the date of issuance.
- An annual verification: an external verification performed by a third-party auditor, covering the allocation of funds, the compliance in all material aspects, of (i) the actual allocation of proceeds to the Eligible Green Assets and their alignment with the eligibility criteria and (ii) the impact reporting, annually and until the Bond's full allocation and in case of any material change.

The validity of this Second Party Opinion is limited to Iberdrola's Green Bond issued in April 2020.

Paris, April 1st, 2020

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Disclaimer

Transparency on the relation between Vigeo Eiris and the Issuer: Vigeo Eiris has executed previous audit missions for Iberdrola (Second Party Opinion deliveries on previous Green Instruments – bonds and loans) and no consultancy over the past 5 years. No established relationship (financial or other) exists between Vigeo Eiris and Iberdrola.

This opinion aims at providing an independent opinion on the sustainability credentials and management of the Bond, based on the information which has been made available to Vigeo Eiris. Vigeo Eiris has neither interviewed stakeholders out of the Issuer's employees, nor performed an on-site audit nor other test to check the accuracy of the information provided by the Issuer. The accuracy, comprehensiveness and trustworthiness of the information collected are a responsibility of the Issuer. Providing this opinion does not mean that Vigeo Eiris certifies the effectiveness, the excellence or the irreversibility of the assets to be financed by the Bond. The Issuer 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 the financial performance of the 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.

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 are at the discretion of the Issuer, submitted to Vigeo Eiris for approval.

⁶ <https://https://www.iberdrola.com/>

DETAILED RESULTS

Part I. ISSUER

Iberdrola 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

As of Vigeo Eiris' last rating, in October 2018, Iberdrola's global ESG performance is considered advanced.

Domain	Comments	Opinion
Environment	<p>Iberdrola's performance in the Environment domain is considered as advanced and the company ranks above the sector average.</p> <p>The Company displays an advanced environmental strategy and specific targets have been set with regard to CO2 emissions and to development of renewable energy. The share of revenues covered by an environmental management system is significant. The Company's carbon factor is relatively low due to significant involvement in CCGT and CHP, in the second quartile of the sector. The company has set quantified targets in terms of developing renewable energy, with an investment of EUR 11.5 million in renewable energies and an installed capacity of 7.1 GW expected to be installed during the 2018-2022 period, including the 714 MW East Anglia I offshore wind farm. In 2017, the installed capacity of renewable sources (29,112 MW) represented 60% of total installed capacity, which stands among the top quartile of the sector, and the share of energy generation from renewable sources stood at 35%, above the sector average.</p> <p>Iberdrola set ambitious quantitative targets to reduce its carbon intensity by 2030 and 2050. The group has a major involvement in technologies developed to reduce air emissions (SOx, NOx, Particulates, Mercury) and has invested in R&D for the development of carbon capture and storage and new combustion techniques. Its SO2 and NOx emissions normalised to production have decreased continuously over the past five years. Iberdrola's particles emissions linked to thermal energy production decreased but not continuously by 18% between 2015 and 2017.</p> <p>Comprehensive measures are reported to be allocated to protect biodiversity and to prevent pollution and the specific volume of total radioactive nuclear waste produced decreased by 47% between 2013 and 2017. However, the company's performance is considered limited regarding the Management of energy consumption and GHG from Transmission & Distribution activities.</p>	Advanced
		Good
		Limited
		Weak
Social	<p>Iberdrola's performance on the Social pillar is advanced and the company ranks above the sector average.</p> <p>Regarding the Human Resources domain, the company's performance is advanced. Iberdrola reported that 100% of its employees received training, and the majority had performance interviews. The number of training hours per employee shows a positive trend. As for health & safety issues, most of Iberdrola's operations are covered by OHSAS 18001 certified system, and extensive measures are reported to be allocated, including for contractors and sub-contractors.</p> <p>Iberdrola's performance in the Human Rights domain is advanced. Extensive measures are implemented in the majority of operations to prevent discrimination. Furthermore, the share of women in management positions has increased since 2013 and 77.8% of the employees are covered by trade union. The company has issued a formalised commitment to freedom of association and the right to collective bargaining in its Corporate Governance System and its Policy on Respect for Human Rights, but its unclear whether monitoring measures are in place.</p> <p>Iberdrola's performance in the Community Involvement domain is advanced. Iberdrola implemented extensive measures to reduce fuel poverty and improve access to energy. It reports to conduct social impact assessments as well as social and infrastructure development programmes. Furthermore, the Company is transparent on tax payments.</p> <p>Iberdrola displays an advanced performance on the integration of social factors in the supply chain.</p>	Advanced
		Good
		Limited
		Weak
Governance	<p>Iberdrola's performance in the Corporate Governance domain is considered good and above the sector average. The Board and its committees display a high level of independence, and the Board oversees CSR issues. The internal control system has a comprehensive role and the Audit Committee oversees CSR risks. Executive remuneration is linked to targets set for customer satisfaction. However, major voting rights restrictions were identified.</p> <p>On the topics of Business Ethics, the Company set up internal controls to prevent corruption and anti-competitive practices.</p>	Advanced
		Good
		Limited
		Weak

Management of stakeholder-related ESG controversies

As of today, the review conducted by Vigeo Eiris identified six stakeholder-related ESG controversies against Iberdrola, linked to two of the six domains we analyse:

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

Frequency: Overall, the controversies are considered occasional, below the sector average.

Severity: The severity of their impact on both the company and its stakeholders is considered high, above the sector average.

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

Involvement in controversial activities

As of our latest assessment in October 2019, Iberdrola was involved in 3 of the 17 controversial activities screened under Vigeo Eiris’ methodology. Below is the estimation of the level and type of company involvement:

- Major involvement in Fossil Fuels: Grupo 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.
- Major involvement in Coal: Grupo Iberdrola has an estimated turnover from coal which is less than 10% of total turnover. 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 1.8% of its capacity. In terms of generation, 1.1% of the electricity generated in 2018 was derived from coal.
- Major involvement in Nuclear power: Grupo Iberdrola has an estimated turnover from involvement in nuclear power which between 5% and 10% of total turnover. This turnover is derived from the generation of electricity from nuclear power and the provision of services to the nuclear power industry.

Iberdrola does not appear to be involved in any of the 15 other controversial activities screened under Vigeo Eiris’ methodology, namely Alcohol, Animal welfare, Cannabis, Chemicals of concern, Civilian firearms, Unconventional oil and gas, Gambling, Genetic engineering, High interest rate lending, Human Embryonic Stem Cells, Military, Pornography, Reproductive Medicine and Tobacco.

The controversial activities research provides screening on 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 Vigeo Eiris.

Part II. ISSUANCE

Coherence of the Issuance

Context note: 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.

We are of opinion that the contemplated Bond is coherent with Iberdrola's main sustainability priorities and sectorial issues, and contributes to achieve its sustainability commitments.

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 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, 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 projects, Iberdrola coherently responds to its commitment in terms of development of clean energy, as well as it aligns to one main issue of the sector in terms of environmental responsibility.

Use of proceeds

The net proceeds of the Bond will exclusively finance or refinance, in part or in full, projects (the “Eligible Projects”) falling under one category of the Framework, namely: Renewable energy. The Issuer has provided a list of the Eligible Projects to Vigeo Eiris, covering projects of wind and photovoltaic technologies. We consider that the Eligible Projects are clearly defined.

The Eligible Projects are intended to contribute to one main environmental objective, namely climate change mitigation. This objective was formalized in the Framework and applies to the present Bond. It is considered to be clearly defined and relevant.

The Eligible Projects are expected to provide clear environmental benefits. The installed capacities of the Eligible Projects to be (re)financed have been communicated to Vigeo Eiris. The Issuer has committed to assess and, as feasible, quantify the expected environmental benefits of the Bond issued.

The Issuer communicated on the estimated share of refinancing for its Bond issuance which will be around 60%. The Issuer has committed that, in case of re-financing, a look-back period of maximum 24 months from the Bonds’ issuance date will be applied, in line with market practices.

Eligible Category of the Eligible Projects	Definition	Environmental objective and benefits	Vigeo Eiris’ analysis
<p>Renewable energy projects</p>	<p>(Re)financing of renewable energy production units</p> <p><i>(see detailed list in the table below)</i></p>	<p>Climate change mitigation</p> <p>---</p> <p><i>Avoidance of CO₂ emissions</i></p> <p><i>Increase of renewable energy installed capacity and generation</i></p>	<p>The definition of the Eligible Category of the Eligible Projects is clear.</p> <p>The environmental objective was formalized in the Framework and considered clearly defined and relevant.</p> <p>The Eligible Projects are considered to provide clear environmental benefits which are clearly defined in the Framework and internal documentation.</p>

Below are the details on the Eligible Projects for this Bond’s issuance:

Company	Nominated Project name	Country	Renewable Energy Technology	Capacity (MW)	Operation Date (Year)
Energ. Renov. Venta III	FV CUYOACO	México	Photovoltaic	200	2020
Ib Renov. Del Baijjo	Santiago EO	México	Onshore wind	105	2019
Ib Renov. Del Centro	Santiago FV	México	Onshore wind	170	2018
Ib Renov. Del Noroeste	Hermosillo	México	Onshore wind	100	2018
SPW Renewables UK	Halsary	UK	Onshore wind	30	2020
SPW Renewables UK	Beinn an Tuirc3	UK	Onshore wind	50	2020
Iber. Renovables Castilla y León	Fuenteblanca (EO)	Spain	Onshore wind	10	2020
Peache	Huesa (EO)	Spain	Onshore wind	18	2020
Peache	Orbaneja (EO)	Spain	Onshore wind	32	2020
Peache	Valdesantos (EO)	Spain	Onshore wind	14	2020
SE Loma del Viento	Puylobo (EO)	Spain	Onshore wind	49	2020
Iberjalón	PE EL PRADILLO (EO)	Spain	Onshore wind	23	2019
SE Serra de Lourenza	Ballestas	Spain	Onshore wind	44	2019
SE Jaralón	Casetones	Spain	Onshore wind	28	2019
Panondres	Panondres	Spain	Onshore wind	21	2020
Iber. Renovables Castilla y León	PE Martín de la Jara	Spain	Onshore wind	36	2021

In addition, the Eligible Projects are likely to contribute to two of the United Nations' Sustainable Development Goals ("SDGs"), namely : Goal 7. Affordable and Clean energy and Goal 13. Climate Action.



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 for all. More precisely, SDG 7 targets by 2030 include:

- 7.2 Increase substantially 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 Bond proceeds to (re)finance the selected Eligible Projects, the Issuer is contributing to the UN SDG 7, with regards to the above-mentioned targets.



Contribution to achieving the UN SGD 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 Bond proceeds to (re)finance the selected Eligible Project, the Issuer is contributing to the UN SDG 13, with regards to the above-mentioned targets.

Process for Project Evaluation and Selection

The governance and process for the evaluation and selection of the Eligible Projects are formalized in the Framework. We consider that the process is reasonably structured, transparent and relevant.

The process for evaluation and selection of Eligible Projects is clearly defined and formalized in Iberdrola's "Framework for Green Financing".

Iberdrola's process is reasonably structured:

- The process for the evaluation and selection of Eligible Projects is based on relevant internal expertise, with well-defined roles and responsibilities:
 - The whole procedure from the initial selection to the reporting is documented in the Framework.
 - The evaluation and selection of Eligible Projects is performed by Iberdrola's Finance and Treasury 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 team (application of the exclusion criteria).
 - Iberdrola's Finance and Treasury Department is responsible for coordinating the whole process for identification and selection of Eligible Projects.
- The verification and traceability throughout the process is partially defined but appears to be overall ensured throughout the process:
 - The traceability is overall 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.

The process relies on explicit eligibility criteria (selection and exclusion) relevant to the environmental objective defined for the Eligible Projects.

The eligibility is based on:

- The eligibility criteria set in the Framework (alignment with the selection criteria, expected benefits and comprehensiveness of the project evaluation).
- An 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 policies⁷.

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

The Issuer's processes and measures to manage environmental and social risks associated with the Eligible Projects are good for both the construction and ongoing operation phase.

Environmental risks:

- An **Environmental Impact Assessment (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.
- In terms of **biodiversity**, ecological monitorings are 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.
- Regarding the risks of **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.
- In terms of **atmospheric emissions**, Iberdrola and its contractors monitor GHG emissions during the construction phase of the projects.
- Concerning **Iberdrola's 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.

Social Risks:

- As regards **Health & 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.
- Concerning the **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.

⁷ Iberdrola's Sustainability Policy - www.iberdrola.es/webibd/gc/prod/en/doc/responsabilidad_sostenibilidad.pdf

- Regarding **integration of 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.
- Concerning **Business Ethics**, Iberdrola has adopted a Code of Ethics applying to employees, suppliers, contractors or business partners. Iberdrola's internal audit divisions are responsible for supervising the implementation of the Group's internal control system covering, among others corruption, fraud and conduct constituting bribery.

Management of proceeds

The rules for the management of proceeds are clearly defined and will be verified. We consider that they would enable a documented and transparent allocation process.

The allocation and tracking processes are clearly defined:

- 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. This is 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.

Traceability and verification of both the tracking method and allocation of the proceeds, are ensured throughout the process :

- 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.

Monitoring & Reporting

The reporting process and commitments appear to be good, covering both the funds allocation and the environmental benefits of the Eligible Projects.

The processes for monitoring, data collection, consolidation and reporting are clearly defined by the Issuer in internal documentation. An area for improvement is formalizing these processes in the Framework.

The process is structured and based on relevant internal expertise and involves relevant departments of the Issuer:

- The CSR department is responsible for collecting the environmental data with the support of relevant departments involved in the Eligible Projects and to draft the Sustainability Report.
- The Finance and Treasury Department is responsible for collecting the information linked to the funds allocation and draft the dedicated allocation section of the Sustainability Report.

The Issuer has committed to report annually and until the maturity of the Bond and later in case of material changes through the publicly accessible Iberdrola's annual Sustainability Report and through the Issuer's website⁸. The reporting will be at Bond level.

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

- Project related description (name, type of project, location, operation date) as well as the existence or absence of material litigations linked to ESG criteria,
- The allocation of proceeds: the selected reporting indicators related to the fund's allocation cover all the relevant information related to the Eligible Category:

Reporting indicators
<ul style="list-style-type: none"> - Invested capital attributable to the Green Financing instrument (in euros) - Percentage of allocated proceeds vs unallocated proceeds (if any) (in %)

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

An area for improvement consists in reporting on the share of refinancing and co-financing within the annual reports.

- Environmental benefits: the selected reporting indicators are relevant.

Outputs reporting indicators	Impacts reporting indicators
<ul style="list-style-type: none"> - 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) 	<ul style="list-style-type: none"> - Annual attributable GHG emissions avoided (in tCO₂e per year)

Calculations methodologies will be defined and included in each reporting.

An external auditor will annually verify the fund allocation, the compliance with all material respects of the eligibility criteria, until the full allocation of proceeds and later in the case of any material change in the list of Eligible Projects, and the reporting metrics, until the maturity date of the Bond.

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 process and commitments applying to the intended issuance.

Vigeo Eiris' methodology for the definition and assessment of the corporation's ESG performance is based on criteria aligned with public international standards, in compliance with the ISO 26000 guidelines, and is organized in 6 domains: Environment, Human Resources, Human Rights, Community Involvement, Business Behaviour and Corporate Governance. Our evaluation framework of the material ESG issues have been adapted, based on our generic Electric & Gas Utilities' ESG assessment frameworks and on specific issues considering the Issuer's business activity.

Our research and rating procedures are subject to internal quality control at three levels (analysts, heads of cluster sectors, and internal review by the audit department for second party opinions) complemented by a final review and validation by the Director of Methods. Our SPO are also subject to internal quality control at three levels (consultants in charge of the mission, Supervisor, and final review and validation by the Executive Director of the Issuer Business Unit. 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 Director of Methods, and finally Vigeo Eiris' Scientific Council.

All employees are signatories of Vigeo Eiris' Code of Ethics, and all consultants have also signed its add-on covering financial rules of confidentiality.

Part I. ISSUER

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 Vigeo Eiris.

Level of the Issuer's ESG performance

Issuer's ESG 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.

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.

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

Vigeo Eiris 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 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).
- 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).

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

17 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 specific nature of the controversial products or services provided by the company.

Part II. ISSUANCE

The Framework has been evaluated by Vigeo Eiris according to the GBP 2018 and on our methodology based on international standards and sector guidelines applying in terms of ESG management and assessment.

Use of proceeds

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

Process for evaluation and selection

The evaluation and selection process has been assessed by Vigeo Eiris on its transparency, governance and relevance. The eligibility criteria have been assessed on their explicitness and relevance vs. the intended objectives of the Eligible Projects. The identification and management of the ESG risks associated with the Eligible Projects are analysed based Vigeo Eiris' ESG assessment methodology, international standards and sector guidelines applying in terms of ESG management and assessment.

Management of proceeds

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

Reporting

Monitoring process and commitments, Reporting commitments, reporting indicators and methodologies are defined by the Issuer to enable transparent reporting on the proceeds allocation and tracking, on the sustainable benefits (output and impact indicators) and on the responsible management of the Eligible Projects financed. Vigeo Eiris has evaluated the reporting based on its transparency and relevance.

VIGEO EIRIS' 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
Good	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.		



Vigeo Eiris is an independent international provider of environmental, social and governance (ESG) research and services for investors and public & private organizations. We undertake risk assessments and evaluate the level of integration of sustainability factors within the strategy and operations of organizations.

Vigeo Eiris offers a wide range of services:

- ▶ **For investors:** decision making support covering all sustainable and ethical investment approaches (including ratings, databases, sector analyses, portfolio analyses, structured products, indices and more).
- ▶ **For companies & organizations:** supporting the integration of ESG criteria into business functions and strategic operations (including sustainable bonds, corporate ratings, CSR evaluations and more).

Vigeo Eiris is committed to delivering client products and services with high added value: a result of research and analysis that adheres to the strictest quality standards. Our methodology is reviewed by an independent scientific council and all our production processes, from information collection to service delivery, are documented and audited. Vigeo Eiris has chosen to certify all its processes to the latest ISO 9001 standard. Vigeo Eiris is an approved verifier for CBI (Climate Bond Initiative). Vigeo Eiris' research is referenced in several international scientific publications.

With a team of more than 240 experts of 28 different nationalities, Vigeo Eiris is present in Paris, London, Brussels, Casablanca, Hong Kong, Milan, New York, Rabat and Santiago de Chile.

The Vigeo Eiris Global Network, comprising 4 exclusive research partners, is present in Brazil, Germany, Israel and Japan.

For more information: www.vigeo-eiris.com