



SECOND PARTY OPINION ON IBERDROLA'S GREEN BOND

VIGEO OPINION

Iberdrola meets all international standards requirements in terms of sustainable development. The company is positioned among the best performers of the sector Electric & Gas Utilities rated by Vigeo. The company's performance is outstanding on environmental issues and HR management system is also one of its major strengths.

According to Vigeo, the environmental purpose of projects endorsed by the Green Bond is clearly defined. Following our analysis, we have a satisfactory level of assurance on the environmental purpose of the refinanced investments from 2005, i.e. projects fitting in the definition of "green" projects, excluding conventional electricity production, and on Iberdrola's practices in terms of Corporate Social Responsibility. We have not identified any major risk of non-compliance on environmental, social and governance issues (ESG) since 2005 in the divisions targeted by the Green Bond.

The selection criteria for future projects are coherent with Iberdrola's sustainability vision and commitments, cover most of major environmental, social and governance (ESG) issues and act as incentives to develop sustainable investments.

In addition to the reporting on the investments made from the Green Bond proceeds, Iberdrola will also report on the environmental and social performance of these investments, which is encouraged by Vigeo. Impact indicators selected are relevant and their GRI compliance is verified by a third party.

In light of these elements and of our interactions with Iberdrola, we consider that the projects that will be financed or refinanced through this Green Bond contribute to facilitating the transition to a low-carbon economy, fighting against climate change and developing social business.

SCOPE

Iberdrola is issuing a « Green Bond » to refinance previous investments, for projects in renewable energy, transmission, distribution and smartgrids (which will exclude project financing from bonds in its business division on conventional electricity production), and to finance new projects in renewable energy, transmission, distribution and smartgrids, that contribute to the transition to a low-carbon and climate resilient economy, in line with its sustainable development commitments.

Iberdrola has commissioned Vigeo to advise on the Green Bond framework, i.e. the definition of eligible projects and the creation of environmental and social criteria, and to provide an independent second party opinion on the Green Bond, including an opinion both on the issuer and on the environmental purpose and responsible management for endorsed projects, i.e. for previous investments since 2005 and for future projects.

Iberdrola is fully responsible for attesting the compliance with its commitments defined in the established framework. The opinion delivered by Vigeo neither focuses on financial performance of the Bond, nor on the effective allocation of funds' use of proceeds, nor on the verification of the compliance with the selection framework for nominated projects.

METHODOLOGY AND REFERENCE POINTS

Analysis of the issuer regarding international standards in terms of social responsibility

Vigeo considers that the first step in the analysis of a Green Bond consists in analyzing the issuer performance in terms of social responsibility. Iberdrola has been evaluated by Vigeo Rating since 2005 on its social responsibility performance (cf. Vigeo profile), based on a rating framework aligned with public international standards, in compliance with the ISO 26000 norm, and organized in 6 domains : Environment, Human Resources, Human Rights, Community Involvement, Business Behavior and Corporate Governance. Vigeo's review uses publicly available information from the company & stakeholders.

Analysis of eligible projects

A Green Bond Framework has been developed to establish suitable definitions and environmental and social criteria, which has to be respected/met/matched by both refinanced and future nominated projects

Projects definition and process

The environmental "green" purpose of eligible projects as part of the Bond has been precisely defined with Vigeo, in regards to the Iberdrola's priorities. The projects endorsed by Iberdrola as part of the Bond must match one of these categories defined below and detailed in appendix I:

- ✓ Renewable Energy Projects :
 - Conception, construction and installation of renewable energy production units
 - Energy produced from renewable non-fossil sources
 - In the form of hydro, geothermal, wind, solar, or other renewable energy
- ✓ Transmission, Distribution and Smart grid Projects
 - Building, operation and maintenance of electric power distribution and transmission networks, that contribute to:
 - Connect renewable energy production units to the network
 - Improve networks in terms of demand-size management, energy efficiency, access to electricity and prevention of fuel poverty

In addition to these targeted categories, cases of divestment and third party verification addressed by Iberdrola to ensure financing of eligible green projects.

Environmental and social criteria

On the basis of ISO26000 guidelines, of a review of Iberdrola's Policies and Guidelines on Sustainability and of internal interviews concerning business activities and practices in place, Vigeo guided Iberdrola by elaborating ESG criteria (Environment, Social / Societal and Governance) for eligible projects. These criteria focus on responsible project management and/or to its contribution to facilitating the energy transition as well as its social business development. Each project endorsed shall comply with these criteria.

In total 12 criteria have been determined and aligned to 3 domains within Iberdrola's Sustainability Vision:

- Environment: manage environmental impacts and fight against climate change
- Creation of value: conduct business ethically, engaging with suppliers, subcontractors and clients in a responsible way
- Social dimension : ensure the well-being of employees and local communities

These 12 criteria are detailed in appendix II and are available on Iberdrola's website.

The eligible projects could be future or existing projects, i.e. projects already funded by the previous bonds targeted in the operation, i.e. since 2005. To be selected as an eligible project, future investments will be analyzed according to the environmental and social criteria defined.

Previous projects have been reviewed on the basis of the three following points of reference, enabling Vigeo to have a satisfactory level of assurance:

- A sample of projects financed, representing around 50% of the bonds buyback (in amount of money). It enables Vigeo to give an opinion of the green purpose of the projects, i.e. that they fit in one of the two categories defines above
- Vigeo Rating's analysis of Iberdrola's performances since 2005. It enables to give an opinion on responsible management and/or its contribution to facilitating the energetic transition as well as its social business development
- Iberdrola's yearly statement of assurance that the company does not have any litigation in ESG matters which are material in the context of the group, since 2005.

Analysis of impact reporting

Quantitative and/or qualitative performance indicators have been selected by Vigeo to measure environmental and social impacts of the investments funded by Green Bond proceeds. Vigeo has appreciated the relevance of these indicators according to three principles, aligned with GRI: completeness, effectiveness and intelligibility for stakeholders.

These impact indicators are detailed in appendix III and will be used by Iberdrola to report annually in a dedicated Green Bond section in its Sustainability Report.

Paris, April 7th 2014.

Appendix I: Green projects definition

“**Eligible Green Projects**” include “Renewable Energy Projects” (as defined below) and “Transmission, Distribution and Smart grid Projects” (as defined below) which meet a set of environmental and social criteria and approved both by Iberdrola and Vigeo (as defined in appendix II). The eligible projects could be future or existing projects, i.e. existing projects means projects already funded by 4 previous bonds issued as from 2005.

In case of project divestment, the Issuer will use the net proceeds to finance other Eligible Green Project with the above described process.

A dedicated appendix will be included within the Sustainability Report, which is verified by an independent third party and will focus on new projects financed by the issuance and on the compliance of the net proceeds’ allocation with the above described process. Regarding the refinancing of existing projects, Iberdrola states that there has not been any litigation in ESG matters which is material in the context of the group since 2005, in its yearly Register Document (Documento de Registro de Acciones), and also considers that, in accordance to its annual Sustainability Report, investments financed by previous bonds are compliant with the above described process.

Green Projects Categories	Definition	Location
Renewable energy Projects	Financing of, or investments in conception, construction and installation of renewable energy production units <ul style="list-style-type: none"> ✓ Energy produced from renewable non-fossil sources ✓ In the form of hydro, geothermal, wind, solar, waves, tidal or other renewable energy 	Worldwide, especially where IBERDROLA already operates (Spain, US, Brazil, UK, Mexico, ...)
Transmission, Distribution and Smart grid Projects	Financing of, or investments in building, operation and maintenance of electric power distribution and transmission networks, that contribute to: <ul style="list-style-type: none"> ✓ Connect renewable energy production units to the network ✓ Improve networks in terms of energy demand-size management, energy efficiency, access to electricity 	Spain and UK

Annex II : ESG Criteria

Criteria	Commitments
Environment protection	Manage environmental impacts and fight against climate change
Environmental management	Environmental impact assessment (direct and indirect impacts on all the environmental issues) and implementation of appropriate measures to limit, mitigate or compensate negative impacts
	Environmental requirements included in the project's specifications
	Project conducted within an environmental management system implemented (ISO 14001 certification or equivalent), with targets, guidelines and appropriate monitoring to report
Accident prevention and control	Implementation of an accidental pollution prevention plan, including minimizing the risks of spills and fires
Protection of biodiversity	Impact analysis on biodiversity, from design to dismantling, including habitat restoration, and implementation of appropriate action plan and/or partnership with NGO's
	Training on biodiversity issues for employee involved in environmental responsibilities
Fight against climate change and management of emissions	Assessment of direct and indirect emissions generated by the project (GHG, Nox, SO ₂ , ...), and implementation of preventive measures
	Contribution to the decrease in GHG emissions at business division level
Creation of value	Conduct business ethically, engaging with suppliers, subcontractors and clients in a responsible way
ESG risk management	Reputation ESG risk assessment quarterly
Responsible Customer Relations	Promotion of with the Sales and Marketing Code of Ethics
Sustainable procurement	Conduction of a satisfaction survey with suppliers
	Assessment of the suppliers' ESG performances, assistance on areas of improvement by purchasers
	Integration of environmental and social requirements in the contracts with suppliers
Promotion of business ethics	Respect of ethical practices by employees and contractors via Code of Ethics in contracts
	Training of the employees about business ethics, including the purchasers
Social dimension	Ensure the well-being of both employees and local communities
Quality of Health & Safety and Employment Conditions	Safety risk assessment, implementation of appropriate measures for employees and contractors and monitoring
	Promotion of employment conditions higher than the minimum legal requirements of each country, whenever feasible
Respect for fundamental human rights	Training of all employees on Iberdrola's Code of Ethics
	Implementation of a whistle blowing system, for internal and external incidents reporting
	Human rights clauses included in investment agreements and contracts, and human rights analysis in case of extension in a new country, i.e. where Iberdrola has never operated
Sustainable local insertion	Project contributed in local economy, via local purchases or local employment
	Social impact assessment, including impacts on local population, health problems and cultural heritage, and implementation of appropriate initiatives to improve communities well-being
Promotion of access to energy	Dialogue with local stakeholders during construction and operational phases
	Implementation of energy access programs for vulnerable populations

Annex III : Reporting indicators

All the main issues identified in the ESG criteria above are measured by Iberdrola with relevant indicators, reported annually in its Sustainability Report and a third part verifies whether they are compliant with the GRI standard.

Impact indicators (as defined below) are selected from Iberdrola's indicators already existing in order to report annually on main impacts of the investments financed by the green bond proceeds to investors, at business division level and wherever possible at specific projects level.

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

Domain	Impacts assessed	Indicator
Renewable energy	Installed power and renewable source	Installed power in MW Amount in € invested
	GHG emissions avoided	GHG emissions avoided in teqCO2
Transmission, Distribution and Smart grid Projects	Connected networks	Amount in € invested Networks build / in operation (km of lines) Renewable capacity connected
	Smart grid	Number of smart meters installed Amount in € invested
Environment	Biodiversity	List of measures carried out to protect biodiversity
	Fight against climate change and management of emissions	GHG emissions intensity in teqCO2 / unit % reduction of GHG emissions intensity
Social dimension	Sustainable local insertion	Number of local job created (direct and indirect)
		List of social initiatives
	Access to energy	Number of people provided with access to clean power
	Communities' well-being	List of well-being improvement initiatives
Creation of value	Responsible procurement	% suppliers satisfaction Average supplier's scoring