



SECOND PARTY¹ OPINION ON SUSTAINABILITY OF IBERDROLA'S GREEN BOND

Issued in September 2016

SCOPE

Vigeo Eiris was commissioned to provide an independent opinion on the sustainable credentials of the Green Bond to be issued by Iberdrola according to the Vigeo Eiris Environmental, Social and Governance (ESG) assessment methodology. The opinion is based on the review of the three components of a sustainable green bond, in line with the Green Bond Principles:

- Issuer: Analysis of Iberdrola's ESG performance, controversies on ESG issues and capacity to mitigate these risks.
- Project framework: Analysis of the eligible projects category and expected sustainability benefits (use of proceeds), the evaluation and selection process and the ESG integration by the related Business Divisions.
- Reporting framework: Assessment of reporting capacity and commitments for projects fund allocation, sustainability benefits and ESG project management.

Vigeo Eiris's sources of information are gathered from Iberdrola, press content providers and stakeholders. Vigeo Eiris reviewed documents supplied by the issuer, especially the Green Bond framework and list of selected projects.

VIGEO EIRIS OPINION

Vigeo Eiris confirms that the bond to be issued by Iberdrola is a Green Bond, aligned with the Green Bond Principles and Vigeo Eiris' level of assurance on the sustainability of the bond is reasonable²:

- Iberdrola displays an overall advanced² ESG performance (see Part I.).
- The framework elaborated by Iberdrola for this Green Bond is considered to be robust² (see Part II.):
 - The net proceeds of the issuance will be used to refinance Renewable Energy Projects, which contribute to climate change mitigation and energy transition.
 - In addition, Eligible Projects will meet Iberdrola's ESG policies, which cover specific ESG risks at corporate level for defined Eligible Projects attesting their sustainable value and responsible management (see Part II).
- The reporting commitments cover the fund allocation and the environmental benefits, and partially the responsible management of projects with reporting at corporate level, showing an overall consistent level of transparency and capacity to report on the Green Bond (see Part III.).

Part I. ISSUER

Level of the issuer's ESG performance:

As of August 2016, Iberdrola's CSR performance is advanced and has significantly improved since the last review (October 2014). Iberdrola is ranked in the top quarter of the "Electric & Gas utilities" Vigeo sector which covers 43 European companies. Iberdrola's approach towards its ESG pillars is heterogeneous: it achieves advanced performance for its Environmental and Social pillars, while the Governance domain remains robust.

¹ Second Party Opinion – Green Bond Principles: This opinion is to be considered as the "Second Party Opinion" described in the Voluntary Process Guidelines for Issuing Green Bonds, issued by Green Bond Principles, 2016.
<http://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/GBP-2016-Final-16-June-2016.pdf> "Consultant review"

² Vigeo Eiris' scales of assessment (detailed definitions are available on page 6):

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

ESG risk mitigation:

Vigeo's level of assurance on Iberdrola management of the ESG risk factors of the company, related to its human capital, reputation, operational efficiency and legal security, is reasonable.

Stakeholder-related ESG controversies³ and disputable activities⁴:

As of August 2016, Iberdrola faces frequent allegations. Iberdrola is overall reactive: it reports transparently in most of cases, including cases with high level of severity, and remedial actions have been taken for other cases.

Regarding the 9 disputable activities analysed by Vigeo Eiris, Iberdrola is involved in nuclear activity. According to the company, Iberdrola was selected by FTSE4 GOOD as the first Company with nuclear assets and is providing exhaustive information regarding nuclear indicators⁵.

Part II. PROJECT FRAMEWORK

Use of proceeds:

In line with its commitments and CSR and Sustainability policies, the net proceeds of the green bond will be used to refinance, in whole or in part, Renewable Energy Projects. These projects are existing projects of conception, construction, operation and/or maintenance of renewable energy production units, produced from wind power, which are located in the United Kingdom (UK).

Eligible Projects' contribution to sustainable development is positive, due to expected environmental benefits on climate change mitigation and energy transition.

Process for project evaluation and selection:

The process for evaluation and selection of eligible projects to be refinanced is defined and publically available on Iberdrola's website⁶, through the hereby document, and relies on:

- Use of proceeds requirements, i.e. Renewable Energy Projects with environmental benefits
- An exclusion criteria in case of any litigation related to ESG matters, based on the integration of ESG factors at Renewable Energy Project level, according to the following principles defined by Iberdrola's CSR and Sustainability policies⁷:
 - **Environment:** Environmental management, Protection of biodiversity, Atmospheric emissions and Energy management
 - **Creation of value:** ESG risk management, Responsible Customer Relation, Sustainable Procurement, Promotion of Business Ethics
 - **Social dimension:** Improvement of Health & Safety and Employment Conditions, Respect of human rights, Sustainable local insertion and Access to energy and prevention of fuel poverty
- Iberdrola's commitment on the absence of any litigation in ESG matters which is material in the context of the group since 2012, regarding the refinancing of these existing projects.

Iberdrola's existing related commitments are exhaustive, covering all ESG specific risks for defined Renewable Energy Projects. These sustainability commitments applied to the whole business divisions of the group and Renewable Energy projects are fully integrated in each business division.

The integration of these ESG factors in the project management and the project fulfilment with Iberdrola's CSR and Sustainability policies is double checked by the Sustainability team. The list of eligible projects to be financed by the proceeds of the bond has been set up according to the requirements of the green bond framework, involving internal skills within Business Development, Environment and Finance teams.

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

³ The opinion delivered on stakeholder-related ESG controversies is not a conclusion on the creditworthiness of Iberdrola or its financial obligations.

⁴ Disputable activities analysed by Vigeo Eiris: Alcohol, Animal maltreatment, Armament, Hazardous chemicals, Gambling, GMOs in food & feed, Nuclear energy, Sex industry, Tobacco.

⁵ Reporting on nuclear indicators: www.iberdrola.es/reputation-sustainability/main-initiatives-indexes/management-nuclear-performance-indicators/

⁶ www.iberdrola.es/accionistas-inversores/relacion-inversores/renta-fija/bonos-verdes/

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

The list of selected eligible projects, all located in the UK and managed by ScottishPower Renewables, fully owned subsidiary of Iberdrola, have been set up by Iberdrola: we provide a reasonable level of assurance on these projects regarding the use of proceeds requirements, as Renewable Energy Projects, contributing to climate change mitigation and energy transition. However, Vigeo Eiris expresses reserves with regard to the ESG risk management by ScottishPower, due to its involvement in several significant allegations, especially regarding customer relations, even if it is reactive in most of cases.

Management of proceeds

The net proceeds of the Bond issuance will be managed within Iberdrola's treasury liquidity portfolio, in cash or other liquidity instruments that do not include GHG intensive activities nor disputable activities. Iberdrola will track investments of the proceeds allocated to Eligible projects.

Part III. REPORTING FRAMEWORK

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

- Use of the Green Bond proceeds: list of financed projects, with related description, fund allocation and compliance of selected projects with the green bond framework.
- Environmental benefits: annual estimates of climate benefits of each eligible project financed by the bond, then aggregated at bond level

Selected reporting indicators are exhaustive and relevant regarding use of proceeds and environmental outcomes, showing a consistent capacity to transparently report on fund allocation and project benefits.

Concerning responsible management of selected projects, Iberdrola will report at corporate level only, through the annual Sustainability Report. Eligible Projects are fully integrated in business divisions, covered by the overall annual corporate reporting, which covers integration of all ESG issues. No information will be provided at project level, apart from any potential litigation or breach of ESG indicators observed at project level, which is an area of improvement.

Vigeo Eiris provides a reasonable level of assurance on Iberdrola' reporting commitments.

EXTERNAL REVIEW

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

- The hereby Vigeo Eiris' review ("Second Party opinion"), as CSR consultant, on sustainability credentials of the Green Bond, based on pre-issuance commitments and covering all the bond dimensions, i.e. issuer commitments, project (use of proceeds and ESG integration) and reporting (purpose of this mission).
- An external third party audit (on ESG and/or financial aspects) on the annual verification of the tracking of the bond proceeds, the compliance of the selected projects with the above eligibility process and the reporting metrics, during the fund allocation process, until the maturity date of the Bond.

More detailed results are provided in the next pages for each component.

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

Paris, September 7th 2016



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Disclaimer

Transparency on the relation between Vigeo Eiris and the issuer: Vigeo Eiris has executed 2 audit mission for Iberdrola (second party opinion delivery on green bond in April 2014 and April 2016) and no established relationship (financial or others) exists between Vigeo Eiris and Iberdrola.

This opinion aims to explain for investors why the Green Bond is considered as sustainable and responsible, based on the information which has been made available to Vigeo Eiris and which has been analyzed by Vigeo Eiris. Providing this opinion does not mean that Vigeo Eiris certifies the materiality, the excellence or the irreversibility of the projects financed by the Green Bond. Iberdrola is fully responsible for attesting the compliance with its commitments defined in its policies, for their implementation and their monitoring. The opinion delivered by Vigeo Eiris neither focuses on financial performance of the Green Bond, nor on the effective allocation of 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 Iberdrola or its financial obligations.

DETAILED RESULTS

Part I. ISSUER

Level of Iberdrola's ESG performance:

As of August 2016, Iberdrola displays an overall advanced ESG performance.

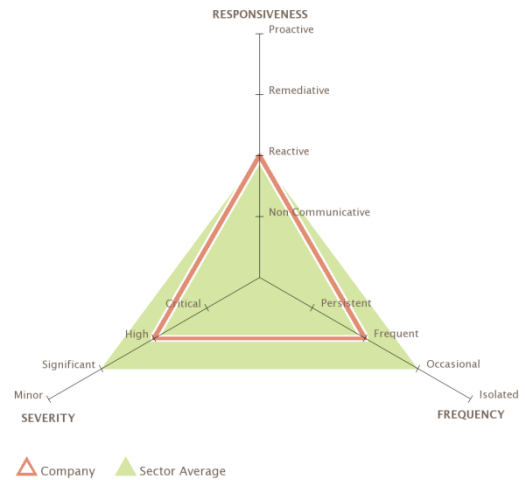
Domain	Comments	Opinion assessment level
Environment	<p>Iberdrola's performance in the Environment domain is considered as advanced, above the sector average, and has significantly improved since the last review, in particular in terms on the management of energy consumption and air emissions from fossil-based generation activities and energy demand-side management. This increase is mainly due to relevant measures implemented broadly within the Group, and to effective results, especially on customer's energy savings and with a low thermal carbon factor compared to the sector average, decreasing by 5% between 2013 and 2015. The company's environmental strategy remains advanced with robust commitments through its Policy against Climate Change, Biodiversity Policy and Environmental Policy, and specific targets have been set with regard to CO₂ emissions and in terms of developing renewable energy. Iberdrola's share of energy generation from renewable sources (35,58%) stands among the second quartile of the sector. Of note however, the company has faced some controversies of minor severity regarding environmental pollution and protection of biodiversity, but the company is overall reactive and reports transparently on these 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 is robust. In terms of career management, line managers are evaluated on their performance in terms of HR management and the majority of employees had performance interviews. As for health & safety issues, most of Iberdrola's operations are covered by OHSAS 18001 certified system., and relevant measures are also implemented for contractors and sub-contractors.</p> <p>Iberdrola's performance in the Human Rights domain is advanced. With regard to the promotion of human rights, Iberdrola has issued a formalised policy supported by significant measures including training, which concerns the majority of the company's security workforce. Regarding non-discrimination issues, Iberdrola has increased the share of women in management positions continuously over the past three years.</p> <p>Iberdrola's performance in the Community Involvement domain is advanced, which has improved since the last review due to absence of controversies.</p> <p>Iberdrola has maintained significant measures to ensure responsible customer relations and respect contractual agreements and formalized an accessible system to handle complaints. Otherwise, Iberdrola has increased its performance on the integration of social factors in the supply chain criteria due to formalized commitments which cover all relevant issues in the sector and a better transparency on the coverage of the means allocated.</p>	Advanced
		Robust
		Limited
		Weak
Governance	<p>Iberdrola's performance in the Corporate Governance domain is robust and stands above the sector average. The Board and its committees display globally a high level of independence, and the Board oversees CSR issues. In addition, the performance in terms of audit & internal controls has improved: the Audit Committee oversees CSR risks and has a comprehensive role, the internal control system is supported by a confidential reporting system, and a significant ESG reporting audited by a 3rd party is published. However, major voting rights restrictions have been identified.</p> <p>Iberdrola's performance in the Business Behaviour domain is robust and above the sector average. Iberdrola's performance remains advanced in terms of Prevention of Corruption and is now robust on the prevention of anti-competitive practices, mainly due to more efforts identified to involve employees in the detection and reporting. Iberdrola's performance remains limited in responsible lobbying.</p>	Advanced
		Robust
		Limited
		Weak

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



Stakeholder-related ESG controversies:

- **Frequency:** As of August 2016, Iberdrola faces frequent allegations: the Company is involved in 19 stakeholder-related ESG controversies, regarding several domains:
 - Business Behavior (11 cases especially on customer relations and anti-competitive practices)
 - Environment (6 cases especially on biodiversity and Industrial accidents and pollution)
 - Human resources (2 cases especially on health and safety)
 - Community Involvement (1 case on access to energy).
- **Severity:** The level of severity ranges from minor to high: the company faces 9 cases of minor severity, 7 cases of significant severity and 3 cases of high severity (related to customer relations and corruption).
- **Responsiveness:** Iberdrola is overall reactive: the company reports transparently in most of cases, and remedial actions have been taken for other cases, especially for cases with high level of severity. The company is non communicative on one remaining case, related to customer relations involving ScottishPower.



Sources: Factiva research and Company's sources

Involvement in disputable activities:

Iberdrola's level of involvement in nuclear energy is major, based on an estimation of the level of the company's involvement (5-10%) regarding its nuclear-based power generation capacity and energy production. According to the company, Iberdrola was selected by FTSE4 GOOD as the first Company with nuclear assets and is providing exhaustive information regarding nuclear indicators.

Iberdrola is not involved in any of the 8 other disputable activities analyzed by Vigeo Eiris.

Part II. PROJECT FRAMEWORK



Project Selection Framework

1. Ensure the **refinancing of Renewable Energy Projects from wind power**, according to Iberdrola's Sustainability policy
2. Attest the **Sustainable Value of the project** through ESG commitments in line with Iberdrola's Sustainability Policy in 3 areas:

- Environment
- Creation of value
- Social dimension

Use of proceeds:

The net proceeds of the Green Bond issuance will be used to refinance, in whole or in part, Eligible Projects, defined as Renewable Energy projects, and will meet Iberdrola's Environmental, Social and Governance (ESG) policies, evaluated by Vigeo Eiris. These projects are existing projects* located in the United Kingdom and managed by Scottish Power Renewables.

* Existing projects means projects under construction with estimated commissioning dates in 2016, or in operation with operational dates as from 2012.

Use of proceeds criteria and expected environmental benefits have been defined in the table below:

Eligible Projects	Definition	Sustainability benefits
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)	Climate change and Energy transition - Avoidance of GHG emissions

The Eligible Projects' contribution to sustainable development is positive, due to environmental benefits of these projects, which have been described and will be assessed and quantified annually, using impact reporting (see Part III.).

Process for project evaluation and selection:

The evaluation and selection of eligible projects based on the described process will use internal expertise:

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

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

Vigeo Eiris considers that summary criteria are defined for project evaluation and selection.

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

- Iberdrola's existing related commitments are exhaustive, covering all ESG specific risks for defined Renewable Energy Projects.
- Vigeo's level of assurance on ESG integration in the project selection is robust, in line with the issuer's CSR rating profile.

List of selected eligible projects

The list of selected eligible projects have been set up by Iberdrola. Regarding the refinancing of these existing projects, Iberdrola states that there has not been any litigation in ESG matters which is material in the context of the group since 2012, in its yearly register document ('Documento de Registro de Acciones'). The Issuer also considers that, in accordance with its Sustainability Report 2015, selected projects are compliant with the above described process.

Company	Name of the project	Type of project	Country	Installed Capacity (MW)
Scottish Power Renewables	WHITELEE Ext	Wind onshore	UK	217
Scottish Power Renewables	MIDDLETON	Wind onshore	UK	12
Scottish Power Renewables	LYNEMOUTH	Wind onshore	UK	26
Scottish Power Renewables	BEINN AN TUIRC 2	Wind onshore	UK	44
Scottish Power Renewables	CARLAND CROSS EXTENSION	Wind onshore	UK	20
Scottish Power Renewables	COAL CLOUGH REPOWERING	Wind onshore	UK	16
Scottish Power Renewables	BLACKLAW EXTN	Wind onshore	UK	38
Scottish Power Renewables	BLACKLAW EXTN PH2	Wind onshore	UK	25
Scottish Power Renewables	DERSALLOCH	Wind onshore	UK	69
Scottish Power Renewables	EWE HILL	Wind onshore	UK	14
TOTAL				481

Vigeo Eiris provides a reasonable level of assurance on these projects regarding the use-of-proceeds requirements, as Renewable Energy Projects, contributing to climate change mitigation and energy transition.

However, because selected projects are fully integrated in the scope of responsibilities of ScottishPower, the fully owned subsidiary of Iberdrola, Vigeo Eiris expresses reserves with regard to the ESG risk management by ScottishPower, due to its involvement in several allegations:

- As of August 2016, the company faced 7 controversies involving ScottishPower: 5 cases relate to customer relations mainly due to customer service failures regarding complaints, billing and handling calls.
- The severity ranges from minor to high (2 cases with legal penalties), with a majority of significant controversies.
- The company is overall reactive and implements remedial actions for impacted stakeholders in response to most of controversies faced, but is non communicative in one remaining case. In particular, regarding the cases with high level of severity, ScottishPower allocated significant means, established regular dialogue with the regulator and assumed its penalties.

Management of proceeds:

The net proceeds of the Bond issuance will be managed within Iberdrola’s treasury liquidity portfolio, in cash or other liquidity instruments that do not include GHG intensive activities. Iberdrola will track investments of the proceeds allocated to Eligible projects. This tracking is integrated into the annual financial reporting process. The overall share of refinancing is 100% (i.e. refinancing of projects financed from 2012).

In case of asset divestment, Iberdrola will use the net proceeds to finance other Eligible Projects which are compliant with the current framework.

Part III. REPORTING FRAMEWORK



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

- Use of the Green Bond proceeds: list of financed projects, with related description, fund allocation and compliance of selected projects with the green bond framework.
- Environmental benefits: annual estimates of climate benefits of each eligible project financed by the bond, then aggregated at bond level

Responsible management of each project is monitored at corporate level only: Renewable Energy projects are fully integrated in each business divisions, covered by the overall annual group reporting, which considers all ESG issues and is made in the annual Sustainability Report, available on the issuer website. No information on responsible management of each financed projects will be monitored at project level, which is an area of improvement.

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

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

Fund allocation:

Category	Aggregated at bond level
Use of proceeds	<ul style="list-style-type: none"> - List of financed project (type, location, operation date) - Amount in € invested in the portfolio

Environmental benefits:

Benefits	Reporting indicators
Climate change mitigation - Reduction of GHG emissions	<ul style="list-style-type: none"> - Installed power in MW by source - GHG emissions avoided in teqCO2 - Annual production in MWh

METHODOLOGY

In Vigeo Eiris' view, Environmental, Social and Governance factors are intertwined and complementary and cannot be separated when assessing the management of ESG in any organization or in any activity, including the issuance of bonds. In this sense, Vigeo Eiris writes an opinion on the issuer's corporate responsibility as an organization, and on the objectives, the management and the reporting of the projects financed by this bond.

Vigeo Eiris' methodology to define and to assess corporate 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, project specificities and emerging issues.

Vigeo Eiris reviewed information provided by the issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources will be considered as long as they are public, documented and traceable. In total, Vigeo Eiris has reviewed documents and websites of Iberdrola related to the bond evaluation (especially the Green Bond framework and 2015 Sustainability Report).

Part I. ISSUER

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

Level of the issuer's ESG performance:

Iberdrola has been evaluated by Vigeo Eiris in October 2014 on its social responsibility performance, based on 25 relevant ESG drivers organized in the 6 sustainability domains. Iberdrola's ESG performance has been assessed by Vigeo Eiris on the basis of three "items":

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

Stakeholder-related ESG controversies and involvement in disputable activities:

A controversy is information, a flow of information, or contradictory opinions that are 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 three factors :

- Severity: the more a controversy will relate to stakeholder's 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).
- Scale for assessment of ability to mitigate stakeholder-related ESG controversies: Advanced, Robust, Limited, Weak.

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

In addition, 9 disputable activities have been analysed following 30 parameters to verify if the company is involved in one of them. The company's level of involvement (Major, Minor, No) in a disputable activity is based on:

- An estimation of the revenues derived from disputable products or services
- The precise nature of the disputable products or services provided by the company

Part II. PROJECT FRAMEWORK

Use of proceeds:

The use-of-proceeds requirements are defined to ensure that the funds raised are used to (re)finance an eligible project and are traceable within the issuing organization, and include the management of proceeds. Each project endorsed shall comply with all of the eligible project criteria in order to be eligible.

Vigeo Eiris has reviewed the integration of ESG factors in the evaluation and selection process, aiming at a responsible management of financed projects, regarding the exhaustiveness and the relevance of ESG criteria and associated commitments, based on 16 relevant criteria, regarding Environment, Human Resources, Human Rights, Business Behaviour, Local Communities and Governance domains and taking into account ESG issues of Iberdrola's sector.

The sustainability purpose of the bond's associated eligible projects has been precisely defined, with regard to Iberdrola's commitments, and assessed regarding described and estimated benefits of the eligible projects. The contribution of eligible projects to Sustainable Development is evaluated regarding the UN Sustainable Development Goals.

Process for project evaluation and selection:

The evaluation and selection process has been assessed by Vigeo Eiris regarding the exhaustiveness and relevance of ESG selection criteria and associated supporting elements integrated in the Green Debt Instrument framework, and the coherence of the process. The analysis was conducted focusing on the most relevant drivers regarding projects issues - based on 15 relevant ESG drivers, aligned with public international standards - and on the evaluation methodology.

- Scale for assessment of ESG integration in the selection process: Advanced, Robust, Limited, Weak.

Part III. REPORTING FRAMEWORK

Reporting indicators are selected from existing indicators to enable annual reporting on fund allocation, environmental and social benefits and on responsible management of the project financed by the Green Bond proceeds, collected at project level and aggregated at bond level. Vigeo Eiris has evaluated the relevance of these indicators according to three principles: transparency, exhaustiveness and effectiveness.

- Scale of level of assurance on reporting on the project: 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

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