



SECOND PARTY OPINION¹ ON THE SUSTAINABILITY OF THE €500M GREEN LOAN² TO BE SIGNED BETWEEN IBERDROLA AND BBVA

February 2017

SCOPE

Vigeo Eiris was commissioned to provide an independent opinion on the sustainability credentials and management of the Green Loan (the "Loan") considered by Iberdrola (the "Borrower"), according to Vigeo Eiris' Environmental, Social and Governance (ESG) assessment methodology. The opinion is based on the review of the two following components :

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

Vigeo Eiris' sources of information are gathered from our rating database, from Iberdrola, press content providers and stakeholders. Vigeo Eiris has carried out its due diligence from the 27th of January to the 8th of February 2017.

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

VIGEO EIRIS' OPINION

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

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

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

¹ Second Party Opinion: This opinion is to be considered as an opinion delivered by an external and independent sustainability consultant after due diligence process, as described by the Green Bond Principles (2016 edition in the 'External Review' section). www.icmagroup.org/Regulatory-Policy-and-Market-Practice/green-bonds/

² The "Green Loan" is defined as the potential forthcoming Loan, which application is subject to both bank and Borrower's decisions.

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

Level of Performance: Advanced, Robust, Limited, Weak.

Level of Assurance: Reasonable, Moderate, Weak.

Part I. BORROWER

Level of the Borrower's sustainability performance

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

ESG risk mitigation

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

Stakeholder-related ESG controversies⁴ and involvement in controversial activities⁵

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

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

Part II. LOAN APPLICATION

Use of proceeds:

In line with Scottish Power Transmission's Business Plan by 2021 and Iberdrola's CSR and Sustainability policies, the net proceeds of the loan will be used to refinance, in whole or in part, Transmission projects, included in the category of Transmission, Distribution and Smart grids Projects as described in the Green Loan framework. These projects are projects of building, operation and maintenance of electric power distribution and transmission networks that contribute to connect renewable energy production units (wind farms) and/or to improve networks, and are located in Scotland.

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

In addition, Vigeo Eiris considers the Eligible Projects align with the following UN Sustainable Development Goals: 7. Affordable and clean energy, 12. Responsible Consumption and Production.



7 Affordable and Clean Energy



12 Responsible Production and Consumption

Process for project evaluation and selection:

The process for the evaluation and selection of eligible projects is defined and disclosed to the bank through the hereby document. It relies on:

- Use of proceeds requirements, i.e. Transmission, Distribution and Smart grids Projects definition
- An exclusion criteria in case of any litigation related to ESG matters, based on the integration of ESG factors at Transmission, Distribution and Smart grids Project level, according to the following principles defined in the Borrower'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

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

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

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

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

- **Social dimension:** Improvement of Health & Safety and Employment Conditions, Respect of human rights, Sustainable local insertion and Access to energy and prevention of fuel poverty
- Iberdrola's commitment on the absence of any litigation in material ESG matters which is material in the context of the group since 2013, regarding the refinancing of allocated shares of these existing projects.

The process for evaluation and selection of eligible projects will use internal expertise: the integration of ESG factors in the project management and the project fulfilment with Iberdrola's CSR and Sustainability policies is double checked by the Sustainability team. The list of eligible projects to be refinanced by the proceeds of the Loan has been set up according to the requirements of the Green Loan 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 Borrower's commitments is robust, in line with the Borrower's CSR rating profile.

The list of selected Eligible Projects have been set up by Iberdrola and are located in the UK, owned and managed by Scottish Power Transmission with 100% to 53% owned subsidiary of Iberdrola. Vigeo Eiris provides a reasonable level of assurance on these projects, regarding the use of proceeds requirements, as Transmission, Distribution and Smart grids Projects.

Management of proceeds

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

The net proceeds of the loan will be managed within the Iberdrola's treasury liquidity portfolio, in cash or other liquidity instruments that do not include GHG intensive activities nor controversial activities. Iberdrola will track investments of the funds allocated to Eligible projects and commits in avoiding double counting with other bond proceeds. All the management of funds will be reviewed annually by external auditor.

Reporting

Iberdrola commits to report annually and until the maturity date of the Loan, in a dedicated report provided to the bank, on:

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

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

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

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

EXTERNAL REVIEW

Iberdrola's Green Loan application is supported by external reviews, provided by:

- The sustainability consultant review, i.e. the hereby Second Party Opinion performed by Vigeo Eiris, on the sustainability credentials of the Green Loan, based on pre-application commitments and covering all the Loan dimensions, i.e. Borrower commitments, projects (use of proceeds and ESG integration) and reporting (process and KPIs).
- An annual verification, i.e. the Third Party auditor, covering the tracking of the Loan proceeds during the fund allocation process and the reporting metrics until the maturity date of the Loan.

Paris, February 8th, 2017



Muriel CATON
Director of Vigeo Eiris Enterprise



Laurie CHESNE
Senior Sustainability consultant

Disclaimer

Transparency on the relation between Vigeo Eiris and the Borrower: Vigeo Eiris has executed 4 audit missions for Iberdrola (second party opinion delivery on green Loan in April 2014, and in April, September and November 2016) and no established relationship (financial or others) exists between Vigeo Eiris and Iberdrola.

This opinion aims to explain for investors why the Green Loan 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 Loan. 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 Loan, nor on the effective allocation of its proceeds. Vigeo Eiris is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction. .

DETAILED RESULTS

Part I. BORROWER

Level of Iberdrola's ESG performance

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

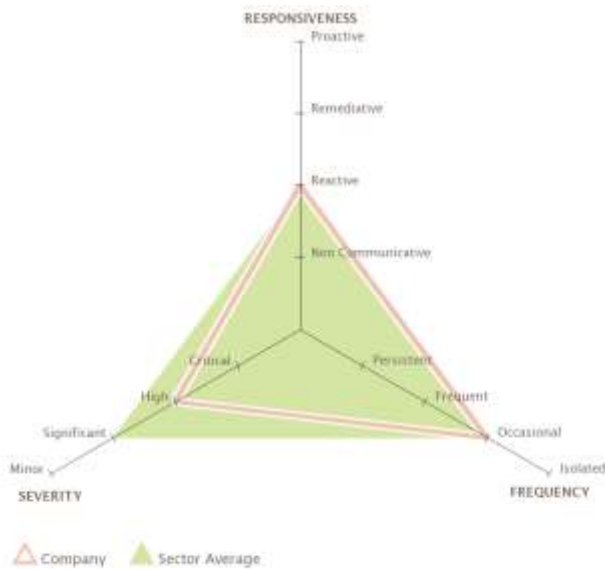
Domain	Comments	Opinion assessment level
Environment	<p>Iberdrola's performance in the Environment domain is considered as advanced, above the sector average. It has significantly improved since the last review, in particular in terms of development of renewable energy, management of energy consumption and air emissions from fossil-based generation activities, and energy demand-side management. This increase is mainly due to relevant measures implemented broadly within the Group, and to effective results, especially on customer's energy savings and with a low thermal carbon factor compared to the sector average, decreasing by 5% between 2013 and 2015. The company's environmental strategy remains advanced with robust commitments through its. Specific targets have been set with regard to CO₂ emissions and to development of renewable energy. Iberdrola's share of energy generation from renewable sources (35,58%) stands among the second quartile of the sector.</p> <p>Of note however, the company remains limited in Management of energy consumption and GHG from Transmission & Distribution activities, and has faced frequent controversies of minor severity regarding environmental pollution and protection of biodiversity, while being overall reactive and to report transparently on the cases.</p>	Advanced
		Robust
		Limited
		Weak
Social	<p>Iberdrola's performance on the Social pillar is advanced, above the sector average and has improved since the last review.</p> <p>Regarding the Human Resources domain, the performance remains robust. Iberdrola has issued a formalised policy to promote labour relations, which is monitored jointly with employee representatives in the majority of the Company's operations. In terms of career management, line managers are evaluated on their performance in terms of HR management and most employees had performance interviews. As for health & safety issues, most of Iberdrola's operations are covered by OHSAS 18001 certified system, and relevant measures are implemented for contractors and sub-contractors.</p> <p>Iberdrola's performance in the Human Rights domain is now advanced, above the sector average. The company issued formalised Human rights promotion policy supported by significant measures. Regarding non-discrimination issues, Iberdrola's performance is now robust due to the continuously increased share of women in management positions. Labour rights promotion remains stable and limited since the last review.</p> <p>Iberdrola's performance in the Community Involvement domain is advanced and has improved due to the absence of controversy. Social impact assessment and development programs have been initiated, and reports extensive measures to improve the access to energy. Iberdrola has maintained a robust performance in responsible customer relations. It has also formalized an accessible system to handle complaints.</p> <p>Otherwise, Iberdrola has improved its performance on the integration of social factors in the supply chain and is now advanced, due to better formalized and exhaustive commitments and means allocated.</p>	Advanced
		Robust
		Limited
		Weak
Governance	<p>Iberdrola's performance in the Corporate Governance domain is robust and stands above the sector average. The Board and its committees display globally a high level of independence, and the Board oversees CSR issues. In addition, the performance in terms of audit & internal controls has improved: the Audit Committee oversees CSR risks and has a comprehensive role, the internal control system is supported by a confidential reporting system, and a significant ESG reporting audited by a 3rd party is published. However, major voting rights restrictions have been identified.</p> <p>Iberdrola's performance in the Business Behavior domain has improved and is now robust, above the sector average. Iberdrola's performance remains advanced in terms of Prevention of Corruption and is now robust on the prevention of anti-competitive practices, mainly due to more efforts identified to involve employees in the detection and reporting. Iberdrola's performance remains limited in responsible lobbying.</p>	Advanced
		Robust
		Limited
		Weak

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

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

Stakeholder-related ESG controversies

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

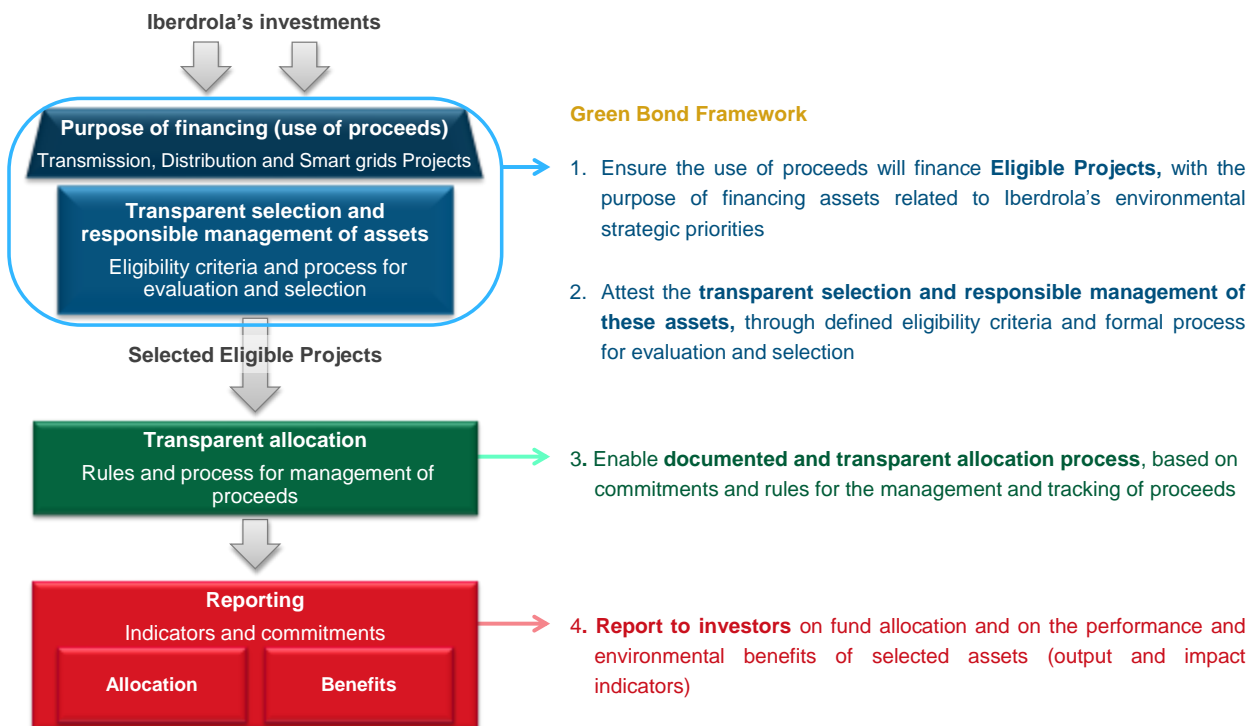


Involvement in controversial activities

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

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

Part II. LOAN APPLICATION



By 2021, Scottish Power Transmission (SPT)'s Business Plan defines the following outputs for the network:

- 65% of our total investment to 2021 is aimed at accommodating a large increase in offshore and onshore wind generation in Scotland (around 11 GW by 2020) in accordance with the UK's legally binding targets for Renewable Generation and decarbonisation of the economy.
- This target requires associated increases in the export capacity from the SPT transmission network from 3.3 GW at April 2013 to close to 7GW by March 2021.
- Connect an additional 2.5GW of Renewable Generation in the licence area and facilitate 6GW in Scottish Hydro-Electric Transmission Limited's (SHETL) licence area, delivering the target of 11GW for all Scotland
- Ensure that the UK meets its Renewable targets under the industry agreed Gone Green scenario

All strategic investment challenges relate to transferring power from renewable generators to centres of demand and to ensuring a sufficient transfer capacity for energy demand-size management.

Use of proceeds

In line with this Business Plan and investment needs, the net proceeds of the Green Loan will be used to refinance Transmission projects, included in the category of Transmission, Distribution and Smart grids Projects as described in the Green Loan framework, and which meet Iberdrola's Environmental, Social and Governance (ESG) policies, evaluated by Vigeo Eiris. These projects are existing projects* located in the UK (Scotland), owned and operated by SPT, Iberdrola's subsidiary.

* Existing projects means projects under construction with estimated commissioning dates from 2017 to 2018 (date of completion) and/or projects in operation with operational dates as from 2010.

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

Eligible Projects	Definition	Sustainability benefits
Transmission, Distribution and Smartgrids 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 demand-size management, energy efficiency, access to electricity 	Climate change mitigation <ul style="list-style-type: none"> - Connection of renewable energy to the network - Avoidance of GHG emissions Energy management <ul style="list-style-type: none"> - Improvement of network efficiency and electricity transport capacity - Reduction of system constraints related to an increase in North-South power flows

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

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

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



The UN SDG 7 consists in ensuring universal access to affordable, reliable, sustainable and modern energy, with targets by 2030 on the share of renewable energy in the global energy mix and the universal access to affordable, reliable and modern energy services. By using the Green Loan to refinance Eligible Projects related to the defined Transmission, Distribution and Smartgrids Projects, the Borrower is contributing to the UN SDG 7, with regards to the above-mentioned targets.

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



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

Process for project evaluation and selection:

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

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

- The respect of use of proceeds requirement, i.e. the definition of Transmission, Distribution and Smartgrids Projects 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 dedicated report once the Borrower has approved and determined a project as eligible through this selection process.

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

- Iberdrola's summary criteria are defined for project evaluation and selection
- Iberdrola's existing related commitments are exhaustive, covering all ESG specific risks for defined Eligible Projects. These sustainability commitments applied to the whole business divisions of the group and Transmission, Distribution and Smartgrids Projects are fully integrated in each business division
- ESG integration in project management is robust, in line with the Borrower's ESG profile.

List of selected eligible projects

The list of selected Eligible Projects has been set up by Iberdrola. All are Transmission, Distribution and Smart grids Projects located in Scotland, owned and managed by Scottish Power Transmission (SPT) with 100% to 31.5% owned subsidiary of Iberdrola. The Scottish Power Energy Networks (SPEN) Integrated Management System, covering all aspects of transmission and distribution activities (SPT is a subsidiary of SPEN), is externally certified to ISO14001:2004, ISO9001 and OHSAS18001.

Regarding the refinancing of these existing projects, Iberdrola states that there has not been any litigation in material ESG matters which is material in the context of the group since 2013, in its yearly register document ('Documento de Registro de Acciones'). The Borrower also considers that, in accordance with its Sustainability Report 2015, selected projects are compliant with the above described process.

Transmission lines for Renewables connection				
Project name	Generation Technology to be connected	Capacity	% SPT Ownership	Estimated date of completion
GC: Harestanes	Wind farm	220 MW	82%	2013
GC: Brockloch Rig	Wind farm	75 MW	100%	2017
GC: Fallago	Wind farm	180 MW	85%	2013
GC: Whitelee Extension	Wind farm	270 MW	53%	2011
GC: Blacklaw Extension	Wind farm	69 MW	86%	2015
GC: Aikengall II	Wind farm	110 MW	90%	2016
GC: Moffat 400/132kV Substation	Wind farm	240 MVA	100%	2013

Increasing Scotland-England interconnectors: Transmission lines				
Project name	Technology	Capacity	% SPT Ownership	Estimated date of completion
TIRG: Strathaven-Harker	OHL Uprating	800 MW	100%	2010
TIRG: Beaully-Denny	Network Capacity Increase	1200 MW	100%	2018
TIRG: South-West Scotland	Wind farm Shared Infrastructure	240 MVA	100%	2016
WW: B6 MSCDN	Reactive Compensation	1100 MW	100%	2015
WW: B6 Series Compensation	Reactive Compensation	1100 MW	100%	2017
WW: East-West Upgrade	OHL Uprating		100%	2018
WW: Hunterston-Kintyre	Undersea HVAC Link	240 MW	100%	2016

Vigeo Eiris provides a reasonable level of assurance on these projects regarding the use-of-proceeds requirements, as Transmission, Distribution and Smartgrids Projects, contributing to climate change mitigation, by connecting renewable energy (wind farms) to the network (from North and Central Scotland to England & Wales), and energy management by improving electricity transport capacity and reducing system constraints related to an increase in North-South power flows.

Management of proceeds:

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

The net proceeds of the Loan application 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. This tracking is integrated into the annual financial reporting process. The overall share of refinancing is 100% (i.e. refinancing of projects financed from 2013).

Iberdrola commits in avoiding double counting between the proceeds allocated to the 2014 Green Bonds and this 2017 Green Loan, with accounting tracking of investments and including investments only from 2013.

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

Reporting

Iberdrola commits to annually and transparently report on the Green Loan, in a dedicated report provided to the bank, and until the maturity date of the Loan, on:

- Use of proceeds: list of refinanced projects, with related description, fund allocation and compliance of selected projects with the green Loan framework.

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

- Environmental benefits: annual estimates of climate benefits (outputs and/or impacts) of each eligible project refinanced by the Loan, then aggregated at Loan level

Benefits	Outputs reporting indicators	Impacts reporting indicators
Climate change mitigation	<ul style="list-style-type: none">- Installed capacity of the connected wind farms (in MW)- Annual renewable energy produced by the connected wind farms (in MWh)	<ul style="list-style-type: none">- Annual GHG emissions avoided by the connected wind farms (in tCO2e)
Energy management	<ul style="list-style-type: none">- Networks build / in operation in terms of transmission capacity (MVA or MW), and if relevant of cable lengths (km of lines) or substations (kV)	

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

All the main ESG issues are measured by Iberdrola, reported annually in its Sustainability Report and their GRI compliance is verified by a third party. An auditor's attestation will be delivered yearly to provide external verification that the issuer is fulfilling the commitments described in its green financing framework related to project selection, use of the funds and environmental benefits.

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

METHODOLOGY

In Vigeo Eiris' view, Environmental, Social and Governance (ESG) factors are intertwined and complementary. As such they cannot be separated in the assessment of ESG management in any organization, activity or transaction. In this sense, Vigeo Eiris writes an opinion on the Borrower's Corporate Social Responsibility as an organization, and on the objectives, management and reporting of the projects to be (re)financed by this transaction.

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

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

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

Part I. BORROWER

NB : The Borrower performance, i.e., commitments, processes, results of the Borrower, 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 Borrower to Vigeo Eiris Enterprise using the ESG assessment methodology developed by Vigeo Eiris.

Level of the Borrower's ESG performance

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

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

Stakeholder-related ESG controversies and involvement in controversial activities

A controversy is an information, a flow of information, or a contradictory opinion that is public, documented and traceable, allegation against an Borrower on corporate responsibility issues. Such allegations can relate to tangible facts, be an interpretation of these facts, or constitute an allegation on unproven facts.

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

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

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

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

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

Part II. LOAN APPLICATION

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

Use of proceeds

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

Process for expenditure evaluation and selection

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

Management of proceeds

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

Reporting

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

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

VIGEO EIRIS'S ASSESSMENT SCALES

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

Vigeo SAS

Les Mercuriales
40 rue Jean Jaurès
93170 Bagnoleux – France
+33 (0) 1 55 82 32 40
contact@vigeo.com

www.vigeo-eiris.com

Boston
info@eiris.org

Brussels
contact@vigeobelgium.com

Casablanca
contact@vigeo.com

London
info@eiris.org

Milan
italia@vigeo.com

Montreal
contact@vigeo.com

Santiago
contact@vigeo.com

Tokyo
contact@vigeo.com