



**SECOND PARTY OPINION<sup>1</sup>**  
**ON THE SUSTAINABILITY OF AVANGRID'S GREEN BOND<sup>2</sup>**  
To be issued in November 2017

**SCOPE**

Vigeo Eiris was commissioned to provide an independent opinion on the sustainability credentials and management of Avangrid's (the "issuer") proposed Green Bond issuance (the "bond"), according to Vigeo Eiris' Environmental, Social and Governance (ESG) assessment methodology, and on the alignment with the Green Bond Principles voluntary guidelines (the "GBP").

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

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

Vigeo Eiris' information sources are obtained from our issuers' rating database, press content providers, the issuer and stakeholders, complemented by interviews with involved departments and managers, via telecommunications software. Vigeo Eiris has carried out its due diligence from October 6<sup>th</sup> to November 9<sup>th</sup> 2017.

Vigeo Eiris has been able to access to all appropriate documents and to speak to all solicited people. Vigeo Eiris considers that the provided information allows the delivery of an opinion with a reasonable level of assurance on its completeness, precision and reliability.

**VIGEO EIRIS' OPINION**

**Vigeo Eiris confirms that the bond considered by Avangrid is a "Green Bond" with positive contribution to sustainable development, aligned with the Green Bond Principles.**

**Vigeo Eiris reaches a reasonable<sup>3</sup> level of assurance on the bond's contribution to sustainability.**

- **Issuer:** Avangrid displays an overall good<sup>3</sup> ESG performance (see Part I).
  - ▶ Avangrid achieves an advanced performance in the Environmental pillar, and good performances in both the Social and Governance pillars. Vigeo Eiris' assurance that Avangrid's ESG risk factors are adequately managed ranges from moderate for reputational risks, to reasonable for human capital, operational and legal risks.
  - ▶ Avangrid faces one isolated controversy<sup>4</sup> of high severity regarding the Business Behavior domain. Avangrid is overall reactive: the company reports in a detailed way on its position on this case.
  - ▶ Regarding the 15 controversial activities<sup>5</sup> analyzed by Vigeo Eiris, Avangrid's involvement in Fossil Fuels Industry is minor. Avangrid has no involvement in any of the 14 other controversial activities.

<sup>1</sup> Second Opinion – Green Bond Principles: this opinion is to be considered as the "Second Party Opinion" described by the Green Bond Principles (2017 edition in the "External Review" section). The Green Bond Principles include the Voluntary Process Guidelines for Issuing Green Bonds (see: [www.icmagroup.org](http://www.icmagroup.org)).

<sup>2</sup> The "Green Bond" is to be considered as the potential forthcoming bond, which issuance is subject to market conditions.

<sup>3</sup> Definition of Vigeo Eiris' scales of assessment (as detailed in the "Methodology section" of this document):

Level of Evaluation: Advanced, Good, Limited, Weak.

Level of Assurance: Reasonable, Moderate, Weak.

<sup>4</sup> The opinion delivered on stakeholder-related ESG controversies is not a conclusion on the creditworthiness of the issuer or its financial obligations.

<sup>5</sup> The 15 controversial activities analysed by Vigeo Eiris are: Alcohol, Animal welfare, Chemicals of concern, Civilian firearms, Fossil Fuels industry, Coal, Tar sands and oil shale, Gambling, Genetic engineering, High interest rate lending, Military, Nuclear power, Pornography, Reproductive medicine, and Tobacco. Companies involvement in controversial activities relies on the ownership of +20% of a company shares or voting rights.

- **Issuance:** Avangrid has established a Framework for Green Financing (the “bond framework”) which applies to the contemplated Green Bond issuance. The bond framework is coherent with its main ESG strategic priorities and is considered to be good (see Part II). The issuer is committed to make its Green Financing framework and this Second Party Opinion publicly accessible on its website<sup>6</sup>.
  - ▶ Eligible Projects fall into two categories, namely “renewable energy” and “transmission and distribution network”, which contribute to climate change mitigation, energy transition and management, in line with three United Nations Sustainable Development Goals (the “UN SDGs”). Objectives and expected environmental benefits associated with the Eligible Projects are visible, precise, measurable and relevant. The net proceeds of Avangrid’s first bond issuance will be used to refinance Renewable energy projects.
  - ▶ The process for project evaluation and selection is clearly defined. The evaluation and selection process is considered to be good in terms of transparency and governance, and relies on relevant selection criteria. The integration of environmental and social factors in risk management is good, in line with Avangrid’s ESG performance.
  - ▶ The rules for the management of proceeds are clearly defined by the issuer and would enable a documented and transparent allocation process.
  - ▶ The reporting commitments and process are good, covering the funds allocation and environmental benefits of selected projects (outputs and impacts), reaching an overall reasonable level of assurance on the issuer’s capacity to report on the Green Bond’s use and impacts. Vigeo Eiris has recommended using other ESG qualitative and quantitative indicators to report on the management of environmental and social risks associated with the projects.

**EXTERNAL REVIEW**

Avangrid’s Green Bond issuance is supported by external reviews:

- **Consultant review:** the hereby Vigeo Eiris’ Second Party Opinion, as sustainability consultant, on the sustainability credentials of the Green Bond, based on pre-issuance commitments and covering the key features of the Green Bond, in line with the four core components of the Green Bonds Principles (use of proceeds, process for project evaluation and selection, management of proceeds and reporting).
- **Verification:** a third-party auditor verification of the allocation of funds from the Green Bond proceeds, at full allocation of the proceeds.

*This opinion is valid as of the date of issuance limited to Avangrid’s 2017 first Green Bond.*

Paris, November 17<sup>th</sup> 2017



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**Disclaimer**

Transparency on the relation between Vigeo Eiris and the issuer: Vigeo Eiris has executed 7 audit and consultancy missions for Iberdrola Group and its subsidiaries over the past 5 years.

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. 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 financial performance of the Green Bond, nor on the effective allocation of its proceeds. Vigeo Eiris is not liable for the induced consequences when third parties use this opinion either to make investments decisions or to make any kind of business transaction. The opinion delivered on stakeholder-related ESG controversies is not a conclusion on the creditworthiness of the issuer or its financial obligations. We do not express an opinion as a score when controversial activities, products and services are not prohibited by international standards or treaties. The controversial activities research provides screening on companies to identify involvement in business activities that are subject to philosophical or moral beliefs: it consists exclusively in highlighting the involvement of companies in a given activity and in qualifying the threshold of involvement without inferring any opinion. The information does not suggest any approval or disapproval on their content from Vigeo Eiris.

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

<sup>6</sup> [www.avangrid.com](http://www.avangrid.com)

**DETAILED RESULTS**

**Part I. ISSUER**

Level of the issuer's ESG performance

Avangrid's overall approach to manage ESG related issues is good.

The issuer displays heterogeneous performances on the three ESG pillars: Avangrid achieves an advanced performance in the Environmental pillar, and good performances in both the Social and Governance pillars. Vigeo Eiris' assurance that Avangrid's ESG risk factors are adequately managed ranges from moderate for reputational risks, to reasonable for human capital, operational and legal risks.

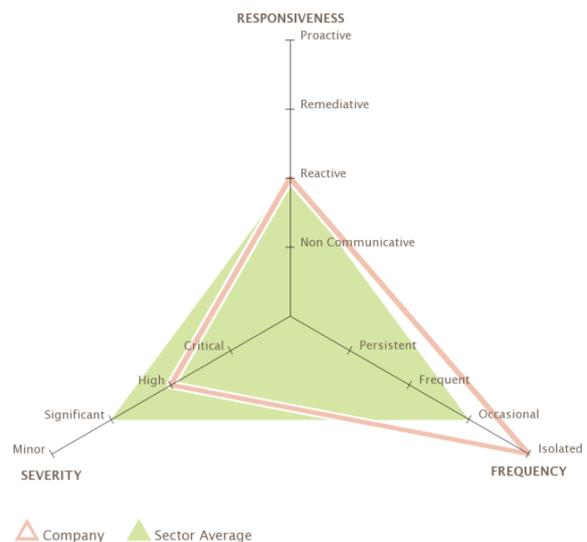
Domain	Comments	Opinion
Environment	Avangrid's performance in the Environment pillar is advanced. Avangrid has defined a clear environmental strategy that addresses all its environmental impacts with quantitative targets, in particular with its "Policy against Climate Change" and "Environmental Policy".	Advanced
	The company has set an ambitious objective to reduce its carbon footprint by committing to reduce its CO <sub>2</sub> emissions intensity by 25% by 2020 (compared to a 2015 baseline) and to be carbon neutral by 2035. It has also committed to invest \$9 billion in the period 2017-2020 for the development of renewable energy.	Good
	All of the company's sites have appropriate environmental management systems in place to help reduce environmental risks. They also include regular monitoring of the progress and effectiveness of the mitigation and control measures applied; and internal and external audits.	Limited
	The company's environmental performance indicators are based on Global Reporting Initiative methodology and are set forth in an environmental scorecard, which allows the analysis of the environmental performance of the company and each of its businesses. The company publicly discloses relevant environmental key performance indicators and displays improvement trends in most indicators over the last two years. Noteworthy, the company has a low global carbon factor, supported by a high share of renewable generation (the company's installed capacity in renewable sources corresponds to 88% of the company's total installed capacity).	Weak
Social	Avangrid's performance in the Social pillar is good. The company's performance in the Human Rights domain is advanced. Avangrid has formalized policies to address fundamental labor rights and non-discrimination. The company has provided employees with some information on their trade union rights through its Code of Business Conduct and Ethics introductory training. The company has an Ethics and Compliance anonymous helpline and the share of women in management positions has increased continuously over the past three years.	Advanced
	The company's performance in the Human Resources domain is good. The company has formalized policies that address most of the issues under analysis, namely social dialogue, career management and health and safety. Avangrid has allocated significant means to address health and safety issues including training, remuneration based on H&S performance; and the majority of sites have a certified H&S management system.	Good
	The company's performance in the Community Involvement domain is limited. Avangrid has addressed social and economic development and access to energy in formalized policies. The company has allocated some financial resources in the form of charitable donations to local initiatives through Avangrid Foundation. Areas of improvement include disclosing indicators on social and economic development. Of note, the company is part of Iberdrola's "Electricity for All" program. Avangrid has been transparent on its tax payments.	Limited
		Weak

Domain	Comments	Opinion
Governance	Avangrid's performance in the Governance pillar is good.	
	The company's performance in the Corporate Governance domain is good. Avangrid's Board of Directors has displayed a high level of independence with regular elections and meetings. The Audit Committee appears to play a comprehensive role in overseeing internal and external controls, and ESG risks are covered by the internal control system. Overall, shareholders voting rights seem to be respected. The company created a Compensation, Nominating and Corporate Governance Committee in 2016. ESG performance objectives are considered in the determination of variable remuneration of senior executives, but information on performance targets is not disclosed. Of note, in 2017, Avangrid has been recognized for the second consecutive year as the North American utility with the best corporate governance practices by the Ethical Boardroom <sup>7</sup> .	Advanced
		Good
	The company's performance in the Business Behavior domain is good and almost advanced. Avangrid has addressed most of the issues under this domain in formalized policies. The service continuity on electricity has increased over the past two years. The company has established an appropriate system to ensure that relevant employees are made personally responsible for preventing corruption and ethics violations including annual training and disciplinary actions. The company has an advanced system to monitor its suppliers' compliance with social standards, though the company has not disclosed KPIs.	Limited
		Weak

#### Stakeholder-related ESG controversies

Avangrid is involved in one stakeholder-related ESG controversy related to the Business Behavior domain, more precisely to customers relations.

- **Frequency:** the frequency is considered isolated.
- **Severity:** the severity of this event is considered high based on the analysis of its impact on the company and stakeholders.
- **Responsiveness:** Avangrid is reactive: the company reports in a detailed way on its position on this case.



#### Involvement in controversial activities

Regarding the involvement in the 15 controversial activities analyzed by Vigeo Eiris, Avangrid has a minor involvement in the Fossil Fuels Industry. The company has an estimated turnover from fossil fuels which is between 0-10% of total company turnover. Turnover is derived from two natural gas thermal power plants, Klamath Cogeneration and Klamath Peakers, and from the storage of natural gas. The company owns and operates four natural gas storage facilities: Caledonia Energy Partners (Mississippi), Freebird Gas Storage (Alabama), Enstor Grama Ridge Storage and Transportation (New Mexico) and Enstor Katy Storage and Transportation (Texas).

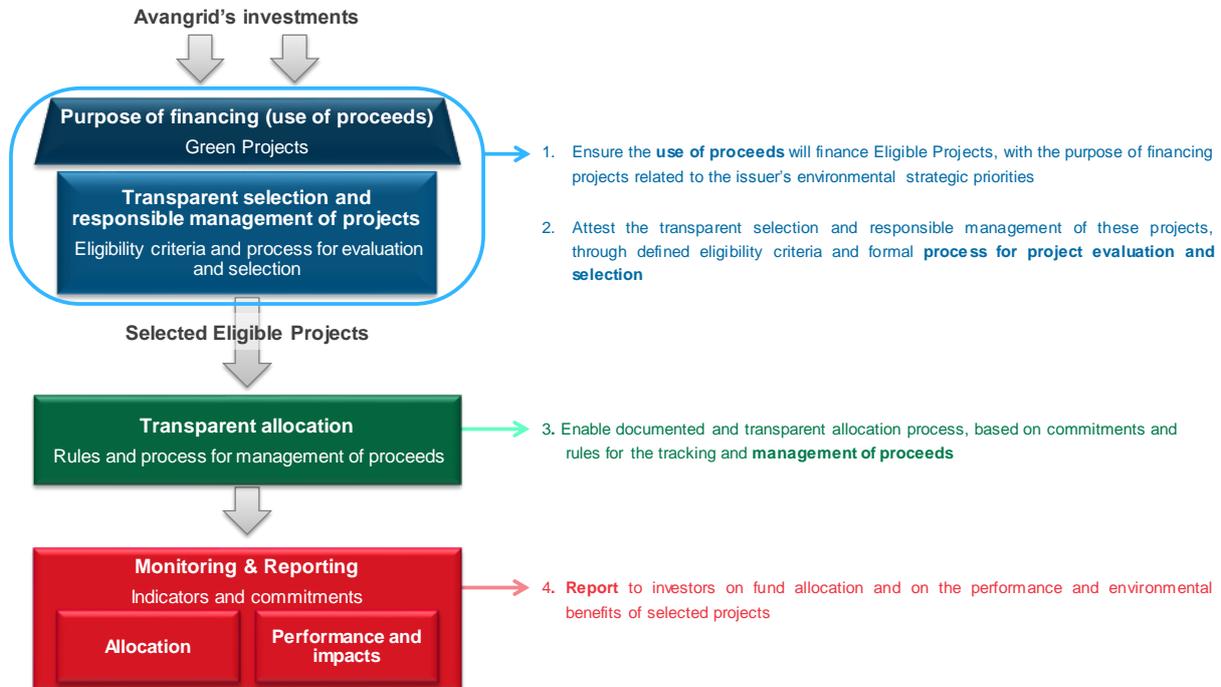
Avangrid has no involvement in any of the other 14 controversial activities analyzed by Vigeo Eiris.

<sup>7</sup> Ethical Boardroom is a magazine and website that provides in depth coverage and analysis of global governance issues (see: [ethicalboardroom.com](http://ethicalboardroom.com)).

## Part II. ISSUANCE

Avangrid has established a Framework for Green Financing (the “bond framework”) which applies to the contemplated Green Bond issuance. The issuer is committed to make its Green Financing framework and this Second Party Opinion publicly accessible on its website.

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



### Coherence of the issuance

**Avangrid's Green Financing framework is coherent with the issuer's main ESG strategic priorities, and contributes to achieve its commitments and objectives. Vigeo Eiris has a reasonable level of assurance on Avangrid's capacity to integrate relevant issues in terms of environmental responsibility.**

Avangrid states that the development of clean energy and respect of the environment are pillars of its energy production model and operations. In this sense, the company has established Corporate Policies to enforce its commitment to the environment and sustainable development. In particular, Avangrid is committed to develop renewable energy and reduce its corporate carbon footprint.

The company has made official this commitment by setting the objective to increase renewables installed capacity by more than 30% by 2020 (compared to a 2015 baseline), to reduce its CO<sub>2</sub> emissions intensity by 25% by 2020 (compared to a 2015 baseline) and to be carbon neutral by 2035. In 2016, the company's carbon emissions intensity decreased by 9% to 58g CO<sub>2</sub>/kWh compared to 2015 and was eight times lower than the U.S. utility industry average. Moreover, 88% of the company's generation capacity comes from renewable energy sources.

By issuing a Green Bond to finance the defined “renewable energy” and “transmission and distribution networks” projects, Avangrid coherently responds to its commitment to the above-mentioned targets.

#### Use of proceeds

**Vigeo Eiris estimates that the definition of the Eligible Projects is clear and that the objectives and expected benefits associated with the Eligible Projects are visible, precise, measurable and relevant, aligned with the Green Bond Principles.**

**Vigeo Eiris considers that the Eligible Projects' contribution to sustainable development is positive due to the expected environmental benefits, associated with the defined categories, on climate change mitigation and energy transition and management.**

The net proceeds of the Green Financing Instrument will be used to finance and refinance, in whole or in part, existing and future Eligible Projects that will fall into the following two categories :

- Renewable energy projects from wind (onshore and offshore) and solar (photovoltaic or Concentrating Solar Power Plant) energy.
- Transmission and distribution networks projects having the purpose of connecting renewable energy sources or reducing greenhouse gas emissions through installation of equipment that will improve system efficiency or energy use management (e.g. automated metering).

Eligible Projects will contribute to defined sustainability objectives, have expected environmental benefits and will meet a set of eligibility criteria defined by the issuer.

For this bond issuance, Avangrid intends to limit the selected projects to "renewable energy" projects only, which operation started in 2017, or are expected to be in operation within 24 months after the issuance date. All projects will be refinanced and are located in the United States.

Definitions of the Eligible Projects categories according to the bond framework:

Eligible Projects categories	Definitions	Sustainability objectives	Environmental benefits	Vigeo Eiris analysis
<b>Renewable energy</b>	<p>Investment in the construction and development of renewable electricity production units:</p> <ul style="list-style-type: none"> <li>• Wind (onshore and offshore)</li> <li>• Solar (photovoltaic and Concentrating Solar Power Plant)</li> </ul> <p>&gt; Projects located in the US</p>	<p>Produce low carbon energy</p> <p>Improve the renewable energy mix of Avangrid</p> <p>Reduce the necessity and load factor of the fossil fuel generation</p>	<p>Climate change mitigation and energy transition</p> <p><i>GHG emissions avoidance (renewable electricity generation)</i></p>	<p>The definition is clear and the content is relevant:</p> <ul style="list-style-type: none"> <li>• Alignment with Avangrid's strategy.</li> </ul> <p>The objectives and expected environmental benefits are visible, precise, measurable and relevant.</p>
<b>Transmission and distribution network</b>	<p>Investment in transmission and distribution projects having the purpose of:</p> <ul style="list-style-type: none"> <li>• Connecting renewable energy sources or</li> <li>• Reducing greenhouse gas emissions through installation of equipment that will improve system efficiency or energy use management (e.g. automated metering, transmission built for the purpose of connecting renewable generation resources)</li> </ul> <p>&gt; Projects located in the US</p>	<p>Connect renewable energy sources</p> <p>Improve the network efficiency and electricity transport capacity</p>	<p>Climate change mitigation</p> <p><i>GHG emissions reduction and avoidance</i></p> <p>---</p> <p>Energy management</p> <p><i>Energy savings</i></p>	<p>The definition is clear and the content is relevant:</p> <ul style="list-style-type: none"> <li>• Alignment with Avangrid's strategy.</li> </ul> <p>The objectives and expected environmental benefits are visible, precise, measurable and relevant.</p>

For its 2017 first Green Bond issuance, Avangrid identified three projects which fall into the “Renewable energy” category:

Project	Location	Detailed technology	Operational date	Total capacity installed (MW)	Avangrid's participation share
A 208 MW wind farm in North Carolina	NC.Perquimans & Pasquotank	Wind <i>104 (Gamesa G114, 2.0 MW)</i>	2017	208	100%
A 56 MW solar farm in Oregon	OR.Crook	Solar <i>SunPower Oasis 3 plant</i>	2017	56.25	100%
A 75 MW wind farm in Colorado	CO.Prowers	Wind <i>36 (6 Gamesa G114, 2.0 MW and 30 Gamesa G114, 2.1 MW)</i>	2017	75	100%

In addition, Vigeo Eiris considers that the defined Eligible Projects categories are in line with three United Nations Sustainable Development Goals: 7. Affordable and clean energy, 12. Responsible consumption and production, and 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. More precisely, SDG 7 targets by 2030 include to substantially increase the share of renewable energy in the global energy mix by 2030 and to promote investment in energy infrastructure and clean energy technology.

By using the Green Bond proceeds to finance Eligible Projects related to both defined Eligible Projects categories, Avangrid is contributing to the UN SDG 7, with regards to the above-mentioned target.



*Contribution to achieving the UN SGD 12. Responsible consumption and production*

The UN SDG 12 consists in ensuring sustainable consumption and production patterns. More precisely, SDG 12 targets include achieving sustainable management and efficient use of natural resources.

By using the Green Bond proceeds to finance Eligible Projects related to the defined “Transmission and distribution networks” category, Avangrid is contributing to the UN SDG 12, with regards to the above-mentioned target.



*Contribution to achieving the UN SGD 13. Climate action*

The UN SDG 13 consists in taking urgent action to combat climate change and its impacts. Energy companies can contribute to this goal by supporting the transition to net-zero carbon energy, and by developing and sharing scalable systems to improve the resource efficiency and sustainability of production across the value chain.

By using the Green Bond proceeds to finance Eligible Projects related to both defined Eligible Projects categories, Avangrid is contributing to the UN SDG 13, with regards to the above-mentioned contributions.

Process for project evaluation and selection

**Vigeo Eiris estimates that the process for project evaluation and selection is clearly defined. The process is good in terms of transparency and governance, and relies on relevant selection criteria. As a result, the process is considered aligned with the Green Bond Principles.**

The process for evaluation and selection of Eligible Projects to be refinanced is clearly defined and formalized in Avangrid’s bond framework.

Avangrid’s process is reasonably structured:

- The evaluation and selection of Eligible Projects is based on relevant internal expertise with well-defined internal roles and responsibilities:
  - For this first issuance, the list of Eligible Projects to be refinanced by the bond has been established collectively within Avangrid’s organization and according to the requirements of the framework.
  - Avangrid has established a Green Financing Committee which will quarterly verify if all projects continue to comply with the eligibility criteria established by the bond framework. In the case a project fails to meet the eligibility criteria, the Green Financing Committee will be charged with substituting it with an alternative Eligible Project.
  - The Committee will be chaired by Avangrid’s Treasurer and integrated by management representatives in charge of the production of the Sustainability Report, representatives from the relevant businesses segments, a representative from the legal staff and a representative from the CEO’s staff.
- The verification and traceability is ensured throughout the process:
  - Meetings will be organized by the Committee Chair, who will create meeting minutes, which will be shared with the Assistant Corporate Secretary.
  - In addition, an independent party will verify the allocation of funds from the Green Bond proceeds. Such verification will be made at full allocation. If proceeds were not allocated at settlement date, Vigeo Eiris recommended undergoing annual verifications.

The process relies on the following relevant selection criteria:

- Use of proceeds criteria based on the definition of each Eligible Projects' category, complemented by additional relevant criteria.
- One exclusion criterion, applied in the case of any material adverse events, clearly defined as an event reportable to the U.S. Securities and Exchange Commission, related to Avangrid's Corporate Governance and Regulatory Policies, Social Responsibility Policies and Compliance Policies at the Project level that result in litigation or material regulatory sanctions or fines.

The integration of environmental and social factors in risk management is good, in line with Avangrid's ESG performance.

#### Management of proceeds

**Vigeo Eiris considers that Avangrid's rules for management of proceeds are clearly defined and would enable a documented and formalized transparent allocation process, aligned with the Green Bond Principles.**

The net proceeds of the note will be managed either within Avangrid's treasury liquidity portfolio or through "projects companies" (i.e. companies established to hold specific Eligible Projects).

Avangrid has committed to allocate all proceeds to the Eligible Projects at settlement or, within 24 months thereof.

Unallocated proceeds will be managed and tracked in two ways:

- When net proceeds flow into the general corporate treasury, unallocated proceeds will be tracked through the general accounting and management reporting systems in which expenditures on Eligible Projects can be identified.
- When net proceeds flow into a project company, Avangrid will establish separate accounts and is committed to invest unallocated funds in liquid short-term investment instruments.

Vigeo Eiris has recommended that the issuer use temporary placements for the balance of unallocated proceeds which do not include GHG intensive or controversial activities.

Avangrid's treasury department will track and report on proceeds disbursement in its Sustainability Report until all net proceeds are disbursed.

In addition, an independent party will verify the allocation of funds from the Green Bond proceeds. Vigeo Eiris has recommended enlarging the scope of the verification to include the internal tracking method of the Green Bond proceeds.

#### Monitoring & Reporting

**The process for data collection, consolidation and reporting has been clearly defined in the bond framework, including relevant people from across the Group, including at project level.**

**The reporting commitments of the issuer comply with the Green Bond Principles, covering both fund allocation and environmental benefits of financed projects. Vigeo Eiris considers that Avangrid's overall reporting commitments are good, leading to a reasonable level of assurance on the issuer's capacity to regularly report on the Green Bond use of proceeds and environmental benefits.**

The process for monitoring, data collection, consolidation and reporting is clearly defined and formalized, and is based on relevant internal and external expertise:

- Relevant people across Avangrid's business segments will be in charge of collecting and transmitting environmental and social information through the dedicated Group's internal system, at facilities and/or units levels. Management representatives will be in charge of the production of the Sustainability Report (including the Vice President of External Communications).
- Iberdrola's sustainability management unit will coordinate the work for producing the impact reporting, using recognized and publicly accessible methodologies<sup>8</sup>.

Although not specifically verified at Avangrid's level, it is worth mentioning that the Group's reporting is annually verified by a third-party.

<sup>8</sup> Iberdrola declares to draw up its GHG emissions reports according to the requirements established in standard UNE-EN-ISO 14064-1:2012: "Greenhouse Gases. Part 1: Specification with guidance at the organization level for quantification and reporting of greenhouse gas emissions and removals". And that the GHG inventory is verified with a limited assurance engagement.

Annually and until the maturity date of the bond, Avangrid is committed to make its bond's reporting publicly accessible, aligned with the Green Bond Principles.

- The reporting will be included in Avangrid's Sustainability Report and will include key underlying methodology and/or assumptions used in the quantitative determination.
- The Green Financing Committee will review and ratify the reporting to be made in Avangrid's Sustainability Report.
- Projects will be added to the report once the issuer has approved and determined a project as eligible.

The selected reporting indicators related to the use of proceeds and the environmental benefits are relevant for the defined Eligible Projects categories.

- Avangrid has identified reporting indicators consisting in:
  - Green financing instrument characteristics.
  - Use of proceeds.
  - Environmental benefits.
- Impact reporting indicators will be calculated by Iberdrola, based on project information collected by Avangrid and relying on clearly defined and recognized calculation methodology.
- The management of environmental and social risks of each project will be reported at corporate level only, through the annual Group Sustainability Report, which is available on the Group's website.
- For all Eligible Projects, Avangrid may integrate additional qualitative or quantitative indicators as considered appropriate to disclose relevant performances or details on the projects.
  - Vigeo Eiris has recommended using other ESG qualitative and quantitative indicators to report on the management of the projects, depending on the available information and ESG matters relevance.

## METHODOLOGY

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

Vigeo Eiris' methodology to define and to assess corporate 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 & Gas Utilities North America assessment framework, projects specificities and emerging issues.

Vigeo Eiris reviewed information provided by the issuer, press content providers and stakeholders (partnership with Factiva Dow Jones: access to the content of 28,500 publications worldwide from reference financial newspapers to sector-focused magazines, local publications or Non-Government Organizations). Information gathered from these sources will be considered as long as they are documented and traceable. Vigeo Eiris has reviewed documents and websites of the issuer (including but not limited to "Avangrid Framework for Green Financing", "Corporate Governance Guidelines", "General Corporate Social Responsibility Policy", "Sustainability Policy", "Code of Business Conduct and Ethics", "Sustainability Report 2016", "Projects under consideration for this issuance"), related to the bond evaluation and interviewed members from several departments of the issuer.

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

### Part I. ISSUER

*NB: the issuer performance, i.e., commitments, processes, results of the issuer, related to ESG issues have been assessed through a complete process of rating and benchmark developed by Vigeo Eiris Rating. Furthermore, this assessment has been completed by Vigeo Eiris Enterprise based on additional public information and stakeholders' views and opinion collected from public documentation.*

#### Level of the issuer's ESG performance

Avangrid has been evaluated by Vigeo Eiris on its ESG performance, based on 24 relevant ESG drivers organized in the 6 sustainability domains. Avangrid'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, Good, Limited, Weak.

#### Stakeholder-related ESG controversies

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

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

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

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

Involvement in controversial activities

15 controversial activities have been analyzed following 30 parameters to verify if the company is involved in any of them. The company’s level of involvement (Major, Minor, No) in a controversial activity is based on:

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

**Part II. ISSUANCE**

*The Green Bond 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 Eligible Projects and are traceable within the issuing organization. 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 Bond related Eligible Projects has been precisely defined, with regard to the issuer’s commitments, and assessed based on the described and estimated benefits of Eligible Projects. The contribution of Eligible Projects to sustainable development is evaluated based on the United Nations Sustainable Development Goals.

Process for project evaluation and selection

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

Management of proceeds

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

Reporting

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

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

**VIGEO EIRIS’ ASSESSMENT SCALES**

Level of 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.
Good	Convincing commitment; significant and consistent evidence of command over the issues. Reasonable level of risk management.
Limited	Commitment to the objective of social responsibility has been initiated or partially achieved; fragmentary evidence of command over the issues. Limited to weak level of risk management.
Weak	Commitment to social responsibility is non-tangible; no evidence of command over the issues. Level of insurance of risk management is weak to very weak.

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





vigeo eiris  
Rating

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Enterprise

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

Vigeo Eiris offers two types of services through separate business units

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

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

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

For more information: [www.vigeo-eiris.com](http://www.vigeo-eiris.com)