

SECOND PARTY OPINION (SPO)

Sustainability Quality of the Issuer and Asset Pool

Redes Energéticas Nacionais SGPS S.A.
2 February 2021

VERIFICATION PARAMETERS

Type(s) of instruments contemplated	<ul style="list-style-type: none">• Green bonds (including private placements), loans, promissory notes (Schuldscheindarlehen) and any other green finance instrument
Relevant standards	<ul style="list-style-type: none">• ICMA Green Bond Principles and LMA Green Loan Principles
Scope of verification	<ul style="list-style-type: none">• Redes Energéticas Nacionais SGPS S.A.'s Green Finance Framework (as of 09.2020)• Redes Energéticas Nacionais SGPS S.A Green Portfolio (as of 26.08.2020)
Lifecycle	<ul style="list-style-type: none">• Pre-issuance verification
Validity	<ul style="list-style-type: none">• Until material modification to the framework and the asset pool

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Overall Evaluation of the Green Finance Instrument

Redes Energéticas Nacionais SGPS S.A. (REN) commissioned ISS ESG to assist with its Green Finance Instruments by assessing three core elements to determine the sustainability quality of the Financing Instruments:

1. REN's Green Finance Framework – benchmarked against the International Capital Market Association's (ICMA) Green Bond Principles (GBPs) and the LMA Green Loan Principles (GLPs).
2. The asset pool – whether the projects aligned with ISS ESG's issue-specific key performance indicators (KPIs) (See Annex 2).
3. REN's sustainability performance, according to the ISS ESG Corporate Rating.

ISS ESG ASSESSMENT SUMMARY

SPO SECTION	SUMMARY	EVALUATION ¹
Part 1: Performance against GBPs and GLPs	REN has defined a formal concept for its Green Finance issuance regarding use of proceeds, processes for project evaluation and selection, management of proceeds and reporting. This concept is in line with the ICMA GBPs and the LMA GLPs.	Positive
Part 2: Sustainability quality of the asset pool	The overall sustainability quality of the asset pool in terms of sustainability benefits, risk avoidance and minimisation is good based upon the ISS ESG Green KPIs. The Green KPIs contain a clear description of eligible asset categories which include: Integration and enhancement of the transmission capacity for renewable energy. All assets of the asset pool are located in Portugal, a highly regulated and developed country. Legislative frameworks in those countries set minimum standards, which reduce environmental and social risks.	Positive
Part 3: Issuer sustainability performance	The issuer itself shows a good sustainability performance and has been given a rating of B, which classifies it as 'Prime' by the methodology of the ISS ESG Corporate Rating. It is rated 9 th out of 49 companies within its sector as of 02.02.2021. This equates to a high relative performance, with a Decile Rank ² of 2.	Status: Prime Rating: B Decile Rank: 2

¹ ISS ESG's present evaluation will remain valid until any modification of the Green Finance Framework or addition of new assets into the asset pool by the issuer and as long as the Corporate Rating does not change (last modification on the 17.12.2020). The controversy check of the underlying assets has been conducted on the 18.08.2020.

² Rank relative to industry group. 1 indicates a high relative ESG performance, while 10 indicates a low relative ESG performance.



Contribution of the Green Finance Instrument to the UN SDGs

Based on the assessment of the sustainability quality of the green finance asset pool and using a proprietary methodology, ISS ESG assessed the contribution of REN's green finance instrument to the Sustainable Development Goals defined by the United Nations (UN SDGs).

This assessment is displayed on 5-point scale (see Annex 2 for methodology):



Each of the financing instrument's Use of Proceeds categories has been assessed for its contribution to, or obstruction of, the SDGs:

USE OF PROCEEDS	CONTRIBUTION OR OBSTRUCTION	SUSTAINABLE DEVELOPMENT GOALS
Integration and enhancement of the transmission capacity for renewable energy	Significant Contribution	 

ISS ESG SPO ASSESSMENT

PART I: GREEN BOND PRINCIPLES (GBP) AND GREEN LOAN PRINCIPLES (GLP)

1. Use of Proceeds

The net proceeds of REN's Green Finance Instruments will be used to finance and/or refinance, in whole or in part, new or existing green assets ("Eligible Assets") from any of the Green Eligible Categories as defined in the table below.

ICMA/LMA GREEN ELIGIBLE CATEGORY	DESCRIPTION OF ELIGIBLE ASSETS:	ELIGIBILITY CRITERIA	CONTRIBUTION TO EU ENVIRONMENTAL OBJECTIVES ³	SHARE OF THE ASSET POOL
Renewable Energy	Electricity grid assets built for the sole purpose of connecting renewable energy to the grid (including powerlines and related infrastructure such as substations)	100%	<ul style="list-style-type: none"> - EU Environmental Objective 1: Climate Change Mitigation (Article 10) - Substantial contribution to EU Objective 1: (1.a) Generating, transmitting, storing, distributing or using renewable energy in line with Directive (EU) 2018/2001, including through using innovative technology with a potential for significant future savings or though necessary reinforcement or extension of the grid 	100%
	Electricity grid assets aimed at integrating and enhancing the transmission capacity for renewable energy in the Portuguese electricity grid	Apply the renewable power generation capacity ratio in Portugal to the full electricity grid asset value ⁴		
Energy Efficiency	Fibre optic cable and network assets	100%	- EU Environmental Objective 1: Climate Change Mitigation (Article 10)	-

³ Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending regulation (EU) 2019/2088. See: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2020.198.01.0013.01.ENG&toc=OJ:L:2020:198:TOC

⁴ The renewable power generation capacity ratio is defined as the renewables installed capacity versus all sources electricity capacity in the Portuguese transmission grid. According to the Portuguese Renewable Energy Association, in May 2020 the renewable power generation ratio in Portugal corresponded to 71.63%: <https://www.apren.pt/en/renewable-energies/production>

			<ul style="list-style-type: none"> - Substantial contribution to EU Objective 1: (1.b) Improving energy efficiency, except for power generation activities as referred to in Article 19(3) (1.g) Establishing energy infrastructure required for enabling decarbonisation of energy systems 	
Green Buildings	<p>New, existing and/or refurbished office buildings which meet any of the following criteria:</p> <ul style="list-style-type: none"> • Office buildings belonging to the top 15% low carbon buildings in Portugal defined via Energy Performance Certificates. Buildings with EPC label ≥ “A” qualify • Office buildings that have achieved or are in process of achieving an environmental certification such as: <ul style="list-style-type: none"> ○ BREEAM certification “Very Good” and/or above ○ LEED certification “Gold” and/or above ○ DGNB certification “Gold” and/or above ○ Any other comparable environmental certification • Refurbished buildings where the refurbishment results 	100%	<ul style="list-style-type: none"> - EU Environmental Objective 1: Climate Change Mitigation (Article 10) - Substantial contribution to EU Objective 1: (1.b) Improving energy efficiency, except for power generation activities as referred to in Article 19(3) 	-

	in energy savings of at least 30%			
Clean Transportation	Low-carbon transportation vehicles: fully electrified vehicles within REN's own fleet	100%	- EU Environmental Objective 1: Climate Change Mitigation (Article 10) - Substantial contribution to EU Objective 1: (1.c) Increasing clean or climate-neutral mobility	-

Opinion: ISS ESG considers the Use of Proceeds description provided by REN's Green Finance Framework as complete and aligned with the GBPs and the GLPs. Environmental benefits are described, quantified and align with the EU Environmental objectives⁵. Lastly, ISS ESG finds the approach used by REN in selecting the eligible portion of the electricity grid as strong and in line with best market practice.

2. Process for Project Evaluation and Selection

REN has established a clear decision-making process to determine the eligibility of the nominated assets, in accordance with the description of the eligibility criteria mentioned in the Use of Proceeds section of the Framework.

The selection of the assets is carried out by REN's Green Finance Working Group ("GFWG"), composed of members of the Finance, Communication & Sustainability and Operational Services teams. Eligible Green Asset selection and evaluation is based on:

- Expected eligible amounts;
- Eligibility Criteria described within REN's Green Finance Framework;
- Clear positive environmental contribution of the selected assets toward reducing CO₂ emissions or facilitating the reduction thereof, if applicable.

In addition to ensuring that the assets financed and/or refinanced through the Green Finance Instrument proceeds under the Framework are evaluated and selected based on compliance with the Eligibility Criteria, REN complies with applicable national, European and international environmental and social standards and regulations, to ensure a stringent management of any potential negative environmental and social impacts associated with the Eligible Assets.

Lastly, REN's Sustainability Guidelines and Policies define minimum standards for the business processes, including those financed with the proceeds of Green Finance Instruments issued under this Framework. REN also applies risk management measures in its capital allocation decisions which are supported by company-wide planning, reporting and controlling systems.

⁵ ISS ESG did not assess if REN's eligibility criteria fully align with the EU Taxonomy (specifically the Do No Significant Harm criteria).

Below are listed some examples of relevant policies and measures implemented by REN in order to ensure a proper mitigation of environmental risks:

- **Environmental Policy⁶**: REN acts in accordance with its Environmental Policy based on the commitments to protect the environment, mitigate the impacts of its activity, use natural resources rationally, prevent pollution and support the development of renewable energies, while conducting its business;
- **Strategic environmental assessment⁷**: Environmental policy instrument designed to ensure an assessment of the environmental consequences of certain plans and programmes and their prior adoption;
- **Environmental Impact Assessment**: Environmental policy instrument designed to ensure an assessment of the environmental consequences of certain projects;
- **Minimization measures⁸**: In the environment in which it operates, REN generates various environmental impacts, although usually negligible, they are subject to mitigation and monitoring measures necessary to guarantee the development of the company's activities in a sustainable manner.

REN complies with high sustainability and social standards, within its organization and when interacting with other stakeholders, ensuring to correctly address social risks. Please see below some examples of relevant Codes:

- **REN Group Code of Conduct⁹**: The Code of Conduct establishes the set of principles and values in terms of professional ethics that must be recognized and adopted by all workers at the service of REN;
- **Código de Conduta Empresas e VIH (REN Group Code and Principles)**: In 2005, REN adhered to the ten principles of the United Nations Global Compact, of which it is a founding member of the Portuguese Network, committing itself to accept and "to incorporate the principles of the Global Compact in its daily strategy and activities, and to promote this initiative and its principles with its employees, partners, customers and the general public";
- **Supplier Code of Conduct¹⁰**: REN promotes and safeguards, strictly collaborating with its partners, principles of sustainable development, striving to continuously generate value for all stakeholders.

REN's strong evaluation and selection process, corporate sustainability and risk management framework, helps to mitigate potential environmental and social risks associated with the Eligible Green Assets, in accordance with the recommendation of the EU Taxonomy in relation to the 'Do No Significant Harm Assessment'. In the unlikely case of specific asset-related risks, REN intends to transparently inform investors within its Green Finance Report.

The REN Green Finance Working Group ("GFWG") will also be responsible to:

- Monitor the Eligible Green Asset Portfolio;
- Exclude assets that no longer comply with the Eligibility Criteria or have been disposed of and replace them, on a best effort basis;

⁶ https://www.ren.pt/en-GB/sustentabilidade/protecao_ambiental/politica_ambiental/

⁷ https://www.ren.pt/en-GB/sustentabilidade/protecao_ambiental/politica_ambiental/avaliacao_ambiental/avaliacao_ambiental_estrategica/

⁸ https://www.ren.pt/en-GB/sustentabilidade/protecao_ambiental/politica_ambiental/avaliacao_ambiental/medidas_minimizacao/

⁹ https://www.ren.pt/pt-PT/investidores/governo_da_sociedade/codigo_de_conduta

¹⁰ https://www.ren.pt/en-GB/o_que_fazemos/fornecedores/codigo_de_conduta_do_fornecedor

- As Green Finance Instruments mature, remove the oldest assets from the Eligible Green Asset Portfolio for an equivalent amount, to ensure that Green Finance Instruments continue to fund new assets;
- Validate annual reporting for investors;
- Maintain the Green Finance Framework up to date in order to reflect any changes with regards to the evolution of REN's sustainability strategy and targets and to be in-line with market best practices and latest standards.

Opinion: ISS ESG considers the Process for Project Evaluation and Selection description provided by REN's Green Finance Framework as complete and aligned with the GBPs and the GLPs. The projects selected show alignment with the sustainability strategy of the issuer. Moreover, REN has established transparent processes ensuring that environmental risks attached to the use of proceeds are mitigated. Additionally, involving relevant internal expertise in the Green Finance Working Group ('GFWG') reflects best market practices.

3. Management of Proceeds

REN intends to allocate the net proceeds from its Green Finance Instruments to an Eligible Green Asset Portfolio, selected in accordance with the Eligibility Criteria and project evaluation and selection process. This portfolio consists of new and/or existing assets.

Over time, REN will strive to maintain a level of allocation for the Eligible Green Asset Portfolio which matches or exceeds the balance of net proceeds from its outstanding Green Finance Instruments.

Additional Eligible Green Assets will be added to REN's Eligible Green Asset Portfolio to the extent required, in accordance with the Eligibility Criteria.

Activated eligible green assets shall qualify for refinancing without a specific look-back period, provided that at the time of issuance they follow the relevant Eligibility Criteria. In case REN would select Eligible green capital expenditures or operating expenditures, they shall qualify for refinancing with a maximum three-year look-back period before the issuance year of the Green Finance Instrument. REN intends to fully allocate the proceeds within 24 months after the issuance date of the Green Financing capital for instruments.

Pending the allocation or reallocation, as the case may be, of the net proceeds to Eligible Green Assets, REN will invest the balance of the net proceeds, at its own discretion, into bank deposits, investment funds, money market funds or liquid marketable instruments, until the allocation to new Eligible Green Assets. If for any reason, any assets were no longer eligible, REN will use its best efforts to substitute such asset, as soon as practical once an appropriate eligible substitution option has been identified.

Opinion: ISS ESG finds the Management of Proceeds proposed by REN aligned with the GBPs and the GLPs. REN has defined the expected allocated period of the proceeds and has set a clear procedure in case of divestment, reflecting best market practice.

4. Reporting

REN will report on the allocation of net proceeds and associated environmental benefits annually until the proceeds of each Green Finance Instruments have been fully allocated, and as necessary in the event of material changes or in case of substitution of Eligible Green Assets. This report will be made available within the Investor Relations' section on REN's website¹¹.

Allocation Reporting

The allocation report may provide:

- The aggregated amount of allocation of the net proceeds to the Eligible Green Assets, at category and sub-category level, with a description or selected case studies if feasible;
- The balance of any unallocated proceeds invested in bank deposits, investment funds, money market funds, or liquid marketable instruments;
- The proportion of net proceeds used for financing versus refinancing;
- Where and if relevant, the breakdown per type of Eligible Green Asset.

Impact Reporting

REN intends to report on the environmental impacts of the Eligible Green Assets funded with the Green Finance Instruments proceeds through a dedicated impact report¹². REN intends to align, on a best effort basis, the reporting with the portfolio approach described in "Handbook – Harmonized Framework for Impact Reporting (April 2020)"¹³.

The impact reporting will provide:

- A brief description of the Eligible Green Assets;
- Where feasible, metrics regarding Eligible Green Assets' environmental impacts, as described below:

ICMA/LMA ELIGIBLE CRITERIA	POTENTIAL IMPACT REPORTING INDICATORS TO BE PROVIDED AT ELIGIBLE CATEGORY LEVEL
Renewable Energy	<ul style="list-style-type: none"> • Capacity (and production) of renewable energy connected in the grid (in MW) • Estimated avoided CO₂ emissions (in tCO₂e per year)
Energy Efficiency	<ul style="list-style-type: none"> • Fiber optic cable and network assets <ul style="list-style-type: none"> - Estimated avoided CO₂ emissions (in tCO₂e per year) - Energy consumption savings

¹¹https://www.ren.pt/en-GB/investidores/relacoes_com_investidores

¹² Impact Reporting may be supplemented by qualitative and/or case-study reports on outcomes and impacts of the Eligible Green Assets funded. Where relevant, information may be provided on data reporting and impact assessment methodologies to increase transparency.

¹³ To be found here: <https://www.icmagroup.org/green-social-and-sustainability-bonds/impact-reporting/>

Green Buildings	<ul style="list-style-type: none">• Average primary energy consumption savings (in MJ/m²) compared to the Portuguese average• Avoided CO₂ emissions (in tCO₂e per year)• Environmental certification type and level (if applicable)• EPC label (if applicable)
Clean Transportation	<ul style="list-style-type: none">• Number of electric vehicles acquired in REN's own fleet• Estimated avoided CO₂ emissions (in tCO₂e per year)

Opinion: ISS ESG finds that the reporting proposed by REN is in line with industry best practices. REN commits to report on the allocation of proceeds on an annual basis. Additionally, clear environmental impact metrics have been established reflecting best market practices.

External review

Second Party Opinion

ISS ESG will review the portfolio of Eligible Green Assets, as well as the alignment of REN's Green Finance Framework with ICMA's 2018 Green Bond Principles and the LMA's 2020 Green Loan Principles. ISS ESG will provide a Second Party Opinion (SPO) that will be made available on REN's website¹⁴.

Annual Audit / Limited Assurance on the Allocation Reporting

REN intends to obtain a limited assurance report by its auditor on the allocation of each Green Finance Instrument's proceeds. Such report will be incorporated within the REN Green Finance Report.

¹⁴ https://www.ren.pt/en-GB/investidores/relacoes_com_investidores

PART II: SUSTAINABILITY QUALITY OF THE ASSET POOL

Integration and enhancement of the transmission capacity for renewable energy

As a Use of Proceeds category, integration and enhancement of the transmission capacity for renewable energy has a significant contribution to the SDG 7 “Affordable and clean energy” and SDG 13 “Climate action”.

The table below presents the findings of an ISS ESG assessment of the assets (re-) financed against ISS ESG’s KPIs.

ASSESSMENT AGAINST ISS ESG KPI

Site selection

- 91% of assets comply with the latest national legislation concerning flora and fauna preservation, minimizing environmental and social impacts during infrastructural projects.
- ✓ The remaining 9% of assets are located in the Natural 2000 networks. These areas became protected after the infrastructure was installed. REN is taking relevant steps to minimize the environmental impacts in those locations.

Community dialogue

- ✓ 100% of assets feature community dialogue as an integral part of the planning process (e.g. sound information of communities, community advisory panels and committees, surveys and dialogue platforms, grievance mechanisms and compensation scheme).

Environmental aspects of construction

- ✓ 100% of transmission assets fulfill high environmental standards at construction phase (e.g. noise mitigation, minimization of environmental impact during construction work, research and mitigation regarding soil warming).
- ✓ For 100% of cables, low-impact methods are applied during cable-laying (e.g. consideration of breeding periods and affected fauna and flora).

Standards for decommissioning and recycling

- ✓ For 100% of assets, operational safety is ensured (e.g. control centre, electrical flow and substation monitoring).

Energy efficiency

- ✓ 100% of assets have high standards regarding energy efficiency in transmission networks (e.g. state-of-the-art technology).

Working conditions

- ✓ 100% of assets provide for high labour and health and safety standards for construction and maintenance work according to Portuguese legislation (e.g. ILO core conventions).

Controversy assessment

A controversy research was conducted at the issuer level and revealed no controversy that could be attributed to REN.

PART III: ASSESSMENT OF REN'S ESG PERFORMANCE

The ISS ESG Corporate Rating provides a rating and then designates a company as 'Prime¹⁵' or 'Not Prime' based on its performance on basic ESG requirements. It is also assigned a Decile Rank, indicating this relative industry group performance, with 1 indicating a high relative ESG performance, and 10 a low relative ESG performance.

COMPANY	STATUS	RATING	DECILE RANK
Redes Energéticas Nacionais SGPS S.A.	PRIME	B	2

This means that the company performed well in terms of sustainability, both compared against others in the industry and in terms of the industry-specific requirements defined by ISS ESG.

As of 02.02.2021, this rating places REN 9th out of 49 companies rated by ISS ESG in the Utilities/Network Operators sector.

Key Challenges facing companies in terms of sustainability management in this sector are:

- Facilitation of the energy transition and resource efficiency
- Environmentally safe operation of plants and infrastructure
- Accessibility and reliability of energy and water supply
- Business ethics and government relations
- Worker safety and accident prevention

In all of the key issues, REN rates above the average for the sector:

- A very significant outperformance was achieved in "Accessibility and reliability of energy and water supply", "Worker safety and accident prevention" and "Business ethics".

The company has no significant controversy.

Details on the rating of the issuer can be found in Annex 1.

¹⁵ Prime is only awarded to the top sector performers, often less than 10% of companies within the respective sector.

DISCLAIMER

1. Validity of the SPO: Until material modification are made to REN's Green Finance Framework and asset pool.
2. ISS ESG uses a scientifically based rating concept to analyse and evaluate the environmental and social performance of companies and countries. In doing so, we adhere to the highest quality standards which are customary in responsibility research worldwide. In addition, we create a Second Party Opinion (SPO) on bonds based on data from the issuer.
3. We would, however, point out that we do not warrant that the information presented in this SPO is complete, accurate or up to date. Any liability on the part of ISS ESG in connection with the use of these SPO, the information provided in them and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
4. All statements of opinion and value judgements given by us do not in any way constitute purchase or investment recommendations. In particular, the SPO is no assessment of the economic profitability and credit worthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
5. We would point out that this SPO, in particular the images, text and graphics contained therein, and the layout and company logo of ISS ESG and ISS-ESG are protected under copyright and trademark law. Any use thereof shall require the express prior written consent of ISS. Use shall be deemed to refer in particular to the copying or duplication of the SPO wholly or in part, the distribution of the SPO, either free of charge or against payment, or the exploitation of this SPO in any other conceivable manner.

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ANNEX 1: ISS ESG Corporate Rating

The following pages contain extracts from REN's 2020 ISS ESG Corporate Rating.

REN - Redes Energéticas Nacionais SGPS S.A.

Corporate ESG Performance

Prime

RATED BY ISS ESG

Company Information

Country
Portugal

ISIN
PTRELOAM0008

Industry
Utilities/Network Operators

Key Results

Rating
B

Decile Rank
2

Transparency Level
Very High

Performance score
65.02

Status
Prime

Prime Threshold
C+

Absolute Rating

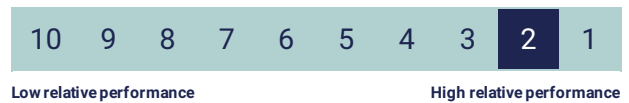


The assessment of a company's sustainability performance is based on approximately 100 criteria, selected specifically for each industry. A company's failure to disclose, or lack of transparency, regarding these matters will impact a company's rating negatively.

Transparency Level



Decile Rank

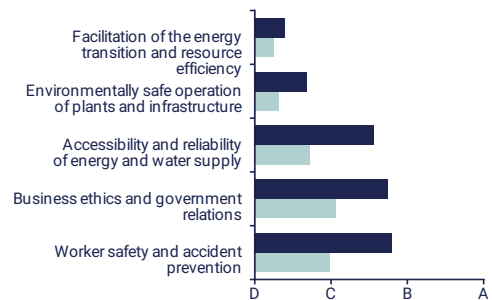


Industry Leaders

Company name (in alphabetical order)	Country	Grade
Alliander N.V.	NL	B+
Italgas S.p.A.	IT	A-
Red Eléctrica Corp. S.A.	ES	B+

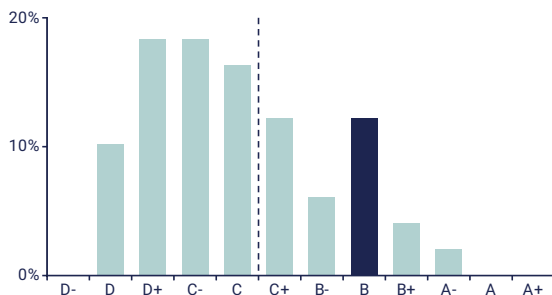
Legend: ■ Industry ■ Company --- Prime

Key Issue Performance

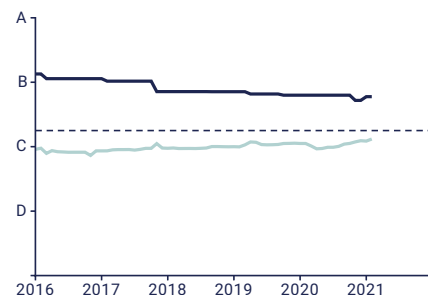


Distribution of Ratings

49 companies in the industry



Rating History



REN - Redes Energéticas Nacionais SGPS S.A.

Analyst Opinion

Sustainability Opportunities

REN is organised into two main business segments, electricity and natural gas. The electricity segment comprises the operation of transmission networks and the management of the public electricity supply system as well as the management of power purchase agreements in Portugal. The gas segment includes the transport of natural gas and the overall management of the Portuguese natural gas system, as well as the operation of an LNG regasification terminal and underground storage of natural gas. To a minor extent, the company is also engaged in the telecommunications business. As an electricity network operator, REN may play an important role in the transition to a more sustainable energy system by connecting renewable energies to the network and by transporting electricity based on renewable sources over long distances. The company presents a comprehensive strategy in this regard.

Sustainability Risks

For an electricity and gas network operator, the main social issues include ensuring a reliable energy supply and system stability, and health and safety of employees and contractors. REN has taken adequate measures to ensure the reliability of the power transmission network and performs very well in terms of the average interruption time of the network. In addition, the company has established group-wide health and safety management systems, many of which are certified according to the OHSAS 18001 standard. Nevertheless, there may be some deficiencies in the company's management approach, as the accident rate for contractors is comparatively high. With regard to business ethics, the company's code of conduct covers the most relevant issues at least on a general basis, including corruption and antitrust, and various measures are taken to ensure compliance with the provisions of the code.

On the environmental side, the main risks concern network losses and gas leakages, and the possible biodiversity impacts of grid operations. The company shows a good management approach with regard to all of these issues. Furthermore, REN has set adequate targets to reduce natural gas and SF6 emissions from the gas and electricity network.

Governance Opinion

Concerning REN's governance structure, its chair of the board, Rodrigo Costa, is also the CEO of the company and only 38.5% of its board members are independent (as at May 27, 2020). A fully independent board committee has been established to oversee audits. There is also a nomination committee, which, however, only consists of a minority of independent members. There is no evidence on a remuneration committee. The company discloses its remuneration policy for executives, including long-term components, which could incentivize sustainable value creation.

No independent sustainability board committee has been established. However, sustainability performance objectives seem to be integrated into the variable remuneration of members of the executive management team at least to some extent, although the targets are not clearly specified.

The company's code of conduct covers the most relevant issues at least on a general basis, including corruption and antitrust, and various measures are taken to ensure compliance with the provisions of the code.

REN - Redes Energéticas Nacionais SGPS S.A.

Methodology - Overview

The ESG Corporate Rating methodology was originally developed by Institutional Shareholder Services Germany (formerly oekom research) and has been consistently updated for more than 25 years.

ESG Corporate Rating - The ESG Corporate Rating universe, which is currently expanding from more than 8,000 corporate issuers to a targeted 10,000 issuers in 2020, covers important national and international indices as well as additional companies from sectors with direct links to sustainability and the most important bond issuers that are not publicly listed companies.

The assessment of a company's social & governance and environmental performance is based on approximately 100 environmental, social and governance indicators per sector, selected from a pool of 800+ proprietary indicators. All indicators are evaluated independently based on clearly defined performance expectations and the results are aggregated, taking into account each indicator's and each topic's materiality-oriented weight, to yield an overall score (rating). If no relevant or up-to-date company information with regard to a certain indicator is available, and no assumptions can be made based on predefined standards and expertise, e.g. known and already classified country standards, the indicator is assessed with a D-

In order to obtain a comprehensive and balanced picture of each company, our analysts assess relevant information reported or directly provided by the company as well as information from reputable independent sources. In addition, our analysts actively seek a dialogue with the assessed companies during the rating process and companies are regularly given the opportunity to comment on the results and provide additional information.

Analyst Opinion - Qualitative summary and explanation of the central rating results in three dimensions:

- (1) Opportunities - assessment of the quality and the current and future share of sales of a company's products and services, which positively or negatively contribute to the management of principal sustainability challenges.
- (2) Risks - summary assessment of how proactively and successfully the company addresses specific sustainability challenges found in its business activity and value chain, thus reducing its individual risks, in particular regarding its sector's key issues.
- (3) Governance - overview of the company's governance structures and measures as well as of the quality and efficacy of policies regarding its ethical business conduct.

Controversial Business Practices - The assessment of companies' sustainability performance in the ESG Corporate Rating is informed by a systematic and comprehensive evaluation of companies' ability to prevent and mitigate ESG controversies. ISS ESG conducts research and analysis on corporate involvement in verified or alleged failures to respect recognized standards for responsible business conduct through Norm-Based Research.

Norm-Based Research is based on authoritative standards for responsible business conduct such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights and the Sustainable Development Goals.

As a stress-test of corporate disclosure, Norm-Based Research assesses the following:

- Companies' ability to address grievances and remediate negative impacts
- Degree of verification of allegations and claims
- Severity of impact on people and the environment, and systematic or systemic nature of malpractices

Severity of impact is categorized as Potential, Moderate, Severe, Very severe. This informs the ESG Corporate Rating.

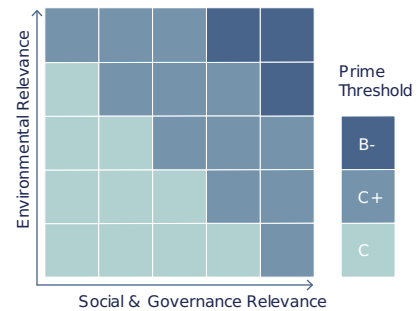
Decile Rank - The Decile Rank indicates in which decile (tenth part of total) the individual Corporate Rating ranks within its industry from 1 (best – company's rating is in the first decile within its industry) to 10 (lowest – company's rating is in the tenth decile within its industry). The Decile Rank is determined based on the underlying numerical score of the rating. If the total number of companies within an industry cannot be evenly divided by ten, the surplus company ratings are distributed from the top (1 decile) to the bottom. If there are Corporate Ratings with identical absolute scores that span a division in decile ranks, all ratings with an equal decile score are classified in the higher decile, resulting in a smaller number of Corporate Ratings in the decile below.

REN - Redes Energéticas Nacionais SGPS S.A.

Methodology - Overview

Industry Classification - The social and environmental impacts of industries differ. Therefore, based on its relevance, each industry analyzed is classified in a Sustainability Matrix.

Depending on this classification, the two dimensions of the ESG Corporate Rating, the Social Rating and the Environmental Rating, are weighted and the sector-specific minimum requirements for the ISS ESG Prime Status (Prime threshold) are defined (absolute best-in-class approach).



Industry Leaders - List (in alphabetical order) of the top three companies in an industry from the ESG Corporate Rating universe at the time of generation of this report.

Key Issue Performance - Overview of the company's performance with regard to the key social and environmental issues in the industry, compared to the industry average.

Performance Score - The ESG Performance Score allows for cross-industry comparisons using a standardized best-in-class threshold that is valid across all industries. It is the numerical representation of the alphabetic ratings (D- to A+) on a scale of 0 to 100 with 50 representing the prime threshold. All companies with values greater than 50 are Prime, while companies with values less than 50 are Not Prime. As a result, intervals are of varying size depending on the original industry-specific prime thresholds.

Rating History - Development of the company's rating over time and comparison to the average rating in the industry.

Rating Scale - Companies are rated on a twelve-point scale from A+ to D-:

A+: the company shows excellent performance.

D-: the company shows poor performance (or fails to demonstrate any commitment to appropriately address the topic).

Overview of the range of scores achieved in the industry (light blue) and indication of the grade of the company evaluated in this report (dark blue).

Distribution of Ratings - Overview of the distribution of the ratings of all companies from the respective industry that are included in the ESG Corporate Rating universe (company portrayed in this report: dark blue).

Sources of Information - A selection of sources used for this report is illustrated in the annex.

Status & Prime Threshold - Companies are categorized as Prime if they achieve/exceed the sustainability performance requirements (Prime threshold) defined by ISS ESG for a specific industry (absolute best-in-class approach) in the ESG Corporate Rating. Prime companies are sustainability leaders in their industry and are better positioned to cope with material ESG challenges and risks, as well as to seize opportunities, than their Not Prime peers. The financial materiality of the Prime Status has been confirmed by performance studies, showing a continuous outperformance of the Prime portfolio when compared to conventional indices over more than 14 years.

Transparency Level - The Transparency Level indicates the company's materiality-adjusted disclosure level regarding the environmental and social performance indicators defined in the ESG Corporate Rating. It takes into consideration whether the company has disclosed relevant information regarding a specific indicator, either in its public ESG disclosures or as part of the rating feedback process, as well as the indicator's materiality reflected in its absolute weight in the rating. The calculated percentage is classified in five transparency levels following the scale below.

0% - < 20%: very low

20% - < 40%: low

40% - < 60%: medium

60% - < 80%: high

80% - 100%: very high

For example, if a company discloses information for indicators with a cumulated absolute weight in the rating of 23 percent, then its Transparency Level is "low". A company's failure to disclose, or lack of transparency, will impact a company's ESG performance rating negatively.

ANNEX 2: Methodology

ISS ESG Green KPIs

The ISS ESG Green KPIs serve as a structure for evaluating the sustainability quality – i.e. the social and environmental added value – of the use of proceeds of REN’s Green Finance Instruments.

It comprises firstly the definition of the use of proceeds category offering added social and/or environmental value, and secondly the specific sustainability criteria by means of which this added value and therefore the sustainability performance of the assets can be clearly identified and described.

The sustainability criteria are complemented by specific indicators, which enable quantitative measurement of the sustainability performance of the assets and which can also be used for reporting.

To review the KPIs used in this SPO, please contact Federico Pezzolato (details below) who will send them directly to you.

Asset evaluation methodology

ISS ESG evaluates whether the assets included in the asset pool match the eligible project category and criteria listed in the Green KPIs.

All percentages refer to the amount of assets within one category (e.g. wind power). Additionally, the assessment “no or limited information is available” represented by a red circle, either indicates that no information was made available to ISS ESG or that the information provided did not fulfil the requirements of the ISS ESG Green KPIs. ISS ESG requires a minimum of 50% of the asset pool to positively qualify against the KPIs, represented by a green tick.

The evaluation was carried out using information and documents provided to ISS ESG on a confidential basis by REN (e.g. Due Diligence Reports). Further, national legislation and standards, depending on the asset location, were drawn on to complement the information provided by the issuer.

Assessment of the contribution and association to the SDGs

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method, ISS ESG identifies the extent to which REN’s Green Finance Instruments contributes to related SDGs and has a positive association with their respective sub-targets.

ANNEX 3: Quality management processes

SCOPE

AFC commissioned ISS ESG to compile a Green Finance SPO. The Second Party Opinion process includes verifying whether the Green Finance Framework aligns with the ICMA GBPs and the LMA GLPs and to assess the sustainability credentials of its Green Finance Instruments as well as the issuer's sustainability strategy.

CRITERIA

Relevant Standards for this Second Party Opinion

- ICMA GBPs and LMA GLPs
- ISS ESG KPI set: Transmission capacity for renewable energy

ISSUER'S RESPONSIBILITY

RENS's responsibility was to provide information and documentation on:

- Framework
- Asset pool
- Documentation of ESG risks management at the asset level

ISS ESG'S VERIFICATION PROCESS

ISS ESG is one of the world's leading independent environmental, social and governance (ESG) research, analysis and rating houses. The company has been actively involved in the sustainable capital markets for over 25 years. Since 2014, ISS ESG has built up a reputation as a highly-reputed thought leader in the green and social bond market and has become one of the first CBI approved verifiers.

ISS ESG has conducted this independent Second Party Opinion of the Green Finance Instrument to be issued by REN based on ISS ESG methodology and in line with the ICMA GBPs.

The engagement with REN took place in August and September 2020.

ISS ESG'S BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About ISS ESG SPO

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green / Social Bond Principles), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent SPO so that investors are as well informed as possible about the quality of the bond / loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For Information about SPO services, contact:

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