Sustainability Report / 2014

IBERDROLA

Sustainability Report / 2014

External evaluations of the Iberdrola Group

Indices and studies	Iberdrola's ranking
MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM	Total score: 86 points.
FTSE4Good	First utility with nuclear assets to be selected on the index.
CDP CLIMATE DISCLOSURE LEADER 2014	Carbon Disclosure Leadership Index (CDLI) Score: 99 points.
CDP CLIMATE PERFORMANCE LEADER 2014	Carbon Performance Leadership Index A.
GLOBAL ROUNDTABLE ON CLIMATE CHANGE	Participant company.
Carbon Ranking GLOBAL 800	Leading Spanish utility.
NYSE EURONEXT	Selected company.
ROBECOSAM Sustainability Award Silver Class 2015	Sustainability Yearbook 2014: "Silver Class" in the electricity sector.
European Business Awards	Honourable Mention in Environment and Sustainability.
NEWSWEEK'S GREEN RANKINGS 2014	Leading most sustainable Spanish utility and third worldwide.
merco	Leading company in Spain in the utilities sector: electricity, gas, and water.
Corporate Responsibility Prime rated by oekom research	Classified as *Prime*.
FUNDACIÓN COMPROMISO Y TRANSPARENCIA	Leading company on the Ibex 35 in *Transparency ranking 2014*.

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Presentation

As has become customary every year, Iberdrola hereby presents its *Sustainability Report*, in this case for financial year 2014, which was approved by its Board of Directors at its meeting of 17 February 2015, after a report from the Corporate Social Responsibility Committee of the Board of Directors.

This report has been prepared in accordance with the recommendations of the *Sustainability Reporting Guidelines* as well as the *Electric Utilities Sector Supplement*, both of the *Global Reporting Initiative* (GRI Guidelines), version G4. Iberdrola publishes this report in order to give its stakeholders a true and accurate view of its performance during financial year 2014, in compliance with the commitments assumed in the Company's *General Corporate Social Responsibility Policy*.

Readers of this *Sustainability Report 2014* may also view the *Annual Corporate Governance Report 2014*, the *Annual Financial Report 2014*, and the *Information Supplementary to the Sustainability Report 2014*, as well as the *Integrated Report for February 2015*, all of which are accessible at www.iberdrola.com, and which contain additional useful information for a complete understanding of Iberdrola's activities during the financial year and of its future prospects.

Note: The figures included in this translation follow the customary English convention, with figures in thousands separated by a comma (,) and decimals indicated by a full stop (.).

Part I. General standard disclosures

1. Strategy and analysis

G4-1 Statement from the most senior decision-maker

Dear friends,

I am pleased to once again present *Iberdrola's Sustainability Report*, which provides a thorough and transparent account of the Company's economic, social, and environmental performance in 2014, in accordance with the guidelines of the Global Reporting Initiative (GRI).

During the past year, we continued to carry out our business activities in accordance with a sustainable business model based on:

__the long-term, geographic diversification, a focus on regulated activities, the quality of our assets, efficiency, and financial strength;

__the ongoing promotion of ethics, transparency, good governance, innovation, and inclusion;

__while sharing the benefits achieved with society as a whole and generating trust through continuous dialogue and engagement with our stakeholders.

This is the model that has made Iberdrola one of the leading utilities worldwide, which currently produces and supplies electricity –in a clean, reliable, and responsible manner– to approximately one hundred million people, primarily in the United Kingdom, the United States of America, Mexico, Brazil, and Spain, while fostering their economic and social development at the same time.

Economic recovery and good results

During 2014, economic recovery finally took hold in our main markets, with growth rates exceeding 2% in the United Kingdom, the United States of America, and Mexico, and with a very significant trend shift in Spain, where the economy grew by 1.4%. Brazil, on the other hand, experienced a slight slowdown.

From the regulatory standpoint, especially noteworthy is the energy reform spearheaded by President Peña Nieto in Mexico, which is designed to guarantee more efficient and sustainable supply for all Mexicans and entails new growth opportunities for our Company in that country.

In 2014, Iberdrola continued making significant efforts to optimise operating and financial management within the entire Group, in order to make further progress towards the achievement of the targets set in the *2014-2016 Outlook* approved last year.

__Gross operating income (EBITDA) increased by 3.1% compared to the previous year, to the sum of 6,965 million euros, while net profit came to 2,327 million euros, in both cases surpassing the targets set on Investor Day in February 2014.

__The Group managed to further increase its financial strength, reducing debt by more than 1,492 million euros, to 25,344 million euros[1], which allowed us to reduce the net debt/EBITDA ratio to 3.6x, from 4x in 2013. This meant a big step towards our goal of bringing net debt to 25,000 million euros by year-end 2016 and of achieving a net debt/ EBITDA ratio below 3.5x.

1 As adjusted by the dividend paid in December.

The Company's good performance throughout the year has allowed it to maintain its commitment to the compensation of its shareholders, which comes to 0.27 euro per share, with total shareholder return[2] at 30.1%.

Service to society

In 2014, we continued to deepen our commitment to one of our key principles: to serve the communities in which we operate, maximising our contribution and our economic and social impact therein. We did that by means of:

__investments: almost 3,000 million euros, primarily devoted to networks and clean generation;

__procurement: in excess of 5,400 million euros, from more than 18,000 suppliers;

__service quality improvement and innovative solutions for our customers;

__tax payments: 10,500 million euros (5,500 million euros in direct contributions plus 5,000[3] million euros in indirect and induced contributions);

__and maintenance and creation of stable and high-quality employment: almost 1,800 new hires, bringing our workforce close to 30,000 people, plus approximately 700 scholarship recipients. In all, Iberdrola gives direct, indirect, or induced employment to 350,000[3] people all over the world.

In this area of human resources, particularly significant are the efforts undertaken in connection with:

__knowledge management and training: more than one million hours for 90% of the workforce, accounting for almost 3% of working hours;

__professional promotion: 2,300 promotions;

__active equality policy: progressive equalisation of the number of men and women on the payroll, making Iberdrola the leading European company as to the number of women on the Board of Directors (36%), who also chair two of its four committees;

__reconciliation of work and family life: our Company is recognised as a "family-responsible company";

__international geographic mobility: more than 200 people have moved to another country;

__and occupational safety: pursuing a goal of 0 accidents within the Group and at our contractors.

As a result of all of the foregoing, the last labour environment survey shows an increase in team pride, which stands at 8.5 points out of 10, and in employee satisfaction, with a score of 8 points.

At our Company, we are deeply committed to the future of the new generations, to their education and employability, and we have thus continued to advance:

__the international scholarship programme for young graduates from Spain, the United States of America, Mexico, and Brazil, which by 2015 will have granted 400 scholarships entailing an overall investment of 7.5 million euros; and

__measures to support entrepreneurs, as is the case with the corporate venture capital programme Iberdrola Ventures-PERSEO, which has invested almost 50 million euros in start-ups since its launch in 2008.

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2 Total shareholder return (TSR): includes the dividends received by the shareholders and the increase in price of the shares.

3 Annual impact estimated by *Analistas Financieros Internacionales (Afi)*, based on Iberdrola's business during the 2009-2013 period.

As a responsible and sustainable enterprise, we believe that corporate governance, ethics, innovation, respect for the environment and biodiversity, the support for culture, and social actions are also key aspects at our Company.

__In 2014, our Corporate Governance System remained at the forefront for good practices and was distinguished with the World Finance Corporate Governance award granted by the publication *World Finance* and, more recently, with the Best Corporate Governance Europe award given by *Ethical Boardroom*.

__We continued to foster ethical behaviour and compliance, and our work in this field earned us recognition from international institutions like the Ethisphere Institute and at the Annual Compliance Awards.

__We dedicated 170 million euros to R&D+i activities, primarily in connection with smart grids, clean generation, and offshore wind energy. We are now the most innovative utility in Spain and the fifth in Europe according to the ranking compiled by the European Commission.

__We continued to protect the environment and biodiversity and to contribute to the fight against climate change, improving the ratio of emission-free installed capacity, which already stands at 62%, and reducing the intensity of emissions by 5% compared to those in 2013.

__We continued to promote art and culture, through initiatives like a plan for the restoration of Romanesque churches in Spain and Portugal and our support for the Binghamton Philharmonic Orchestra in the United States of America and the National Theatre of Scotland in the United Kingdom.

__In the field of social actions, we developed initiatives like the *Social Aid Programme* in Spain, to which we dedicated approximately one million euros in 2014 in order to improve the living conditions of almost 80,000 people who are socially vulnerable or excluded. In addition, almost 500,000 people directly or indirectly benefited from the international Corporate Volunteering Programme.

__In 2014, we launched the programme *Electricity for All* (*Programa electricidad para todos*), designed to strengthen activities for promoting access to electricity in emerging and developing countries. Various initiatives are already under way in Brazil, Rwanda, and Ethiopia within the framework of this programme.

__Finally, we successfully completed an issuance of "green bonds" in April, thus becoming the first Spanish company and the second European utility to have implemented such an initiative. The funds raised (750 million euros) are to be used in sustainable and socially responsible projects.

This business vision and this commitment of Iberdrola's to sustainability make the Company a leader on indices like the Dow Jones Sustainability, FTSE4Good, Oekom, and Carbon Disclosure indices, among others. In 2014, we also received the prestigious international Responsible Capitalism 2014 award, granted by the FIRST group.

The future

In the upcoming years, we will continue to develop our sustainable business model focused on the long term. For this purpose, we will continue to implement our investment programme in the amount of 11,200 million euros in the 2014-2016 period, to be used primarily in the areas of electricity transmission and distribution networks and renewable energy in our primary markets.

Our main projects include new wind farms in the United States of America, the United Kingdom, Mexico, and Brazil; an undersea cable that will connect Scotland, Wales, and England; the implementation of smart grids in Spain; the construction and expansion of combined cycle plants in Mexico; and the installation of new hydroelectric capacity in Brazil.

Looking to the future, we are confident that we will continue creating value for our shareholders, employees, customers, suppliers, and all of the regions in which we operate, aware of the essential role played by our Company as a driver of economic and social development. Because Iberdrola serves society and, more importantly, the well-being of people.

Ignacio S. Galán,
Chairman of Iberdrola

G4-2 Key impacts, risks, and opportunities

1. Iberdrola's key impacts on sustainability

The Group's commitment to sustainability is articulated through five operating principles:

__Competitiveness of energy products supplied.

__Safety in the supply of energy products.

__Reduction in the environmental impact of operations.

__Creation of value for shareholders, customers and suppliers, attending to corporate profits as one of the foundations for the future sustainability of the Company and the Group.

__The social dimension of the Group's activities.

Competitiveness

Iberdrola seeks competitiveness in the energy products supplied through efficiency in the energy generation, transmission, and distribution processes. This priority allows us to offer products at the best price possible, the use of technologies with lower operating and maintenance costs, and a diversified mix with the most competitive energy sources based on climate or market conditions.

Security of supply

Iberdrola's strategy focuses on ensuring security in the supply of energy products, using locally-produced primary energy sources whenever possible, employing the use of renewable energy resources, and ensuring the reliability and availability of generation, transmission, and distribution facilities.

The Group also works to maintain a high quality of service that ensures the availability of energy for customers, to have a robust transmission and distribution network to handle extraordinary events, and to provide the means necessary to restore service as quickly as possible. The Group also encourages the responsible use of energy, supporting energy savings and efficiency measures.

Environmental dimension

The production and distribution of electricity are industrial activities with a potential impact on the natural environment, caused in order to satisfy the consumption needs of consumers as a whole. In the environmental dimension, there are global impacts throughout the electricity lifecycle on biodiversity, climate, the ozone layer, and acid rain, and local impacts on the consumption of natural resources, emissions, waste, effluents, electromagnetic fields, and the visual landscape. A detailed description of these types of impacts can be found at www.iberdrola.com, under "Environment". Actions to control and reduce these impacts are described both in the section of this report dealing with the environmental dimension and on the website.

Various actions are being taken to reduce the environmental impact of its operations, such as the generation of energy with lower emissions, the commencement of biodiversity programmes, efficiency in operations, which entails a sustainable use of natural resources, the prevention of pollution, and the

appropriate management of waste generated by activities. The Group also attempts to make a rational and sustainable use of water and to manage the risks associated with its scarcity.

Social dimension

The transformation experienced by Iberdrola in recent years as a result of its internationalisation has led to the appearance of new and significant challenges, both internal and external, in the management of the Company's social environment.

Iberdrola will continue to strengthen its commitment in the area of social responsibility in coming years, such that the whole Company promotes ethical and responsible behaviour within the entire value chain in all of the countries in which it does business.

The Company's activities have an impact on its stakeholders, and the relationship models that Iberdrola has established with its customers, employees, and suppliers are reflected in the various chapters of this report, which also sets forth the model for the management of relations with the communities it serves, promoting mechanisms for dialogue and communication and taking measures to facilitate their economic and social development, as well as fostering employment and supply chain policies.

Economic dimension

Iberdrola has a clear economic impact as a driver of industrial activity in the areas in which it operates, through the investments it makes and the corresponding creation of jobs. It also generates a broad range of service activities in these areas and contributes economic resources to local governments. The challenge is for these activities to be sustainable over time, for which reason the financial management of the Group is based on three pillars:

__The optimisation of its investment capacity, ensuring an effective use of third-party and the Company's own capital, as well as appropriate rates of return that can create value for the Group.

__Efficient operational management of the assets deployed by the Group.

__Maintaining a financial structure that contributes to strengthening the Group's asset base, thus facilitating the accomplishment of its objectives.

2. Long-term risks and opportunities. Comprehensive risk system

As provided in the Company's *General Risk Control and Management Policy*, the Iberdrola Group has a comprehensive risk control system in place, the purpose of which is to provide assurances to both shareholders and other stakeholders and to the markets in general in terms of economic profitability and environmental and social impact, by properly managing the risk/opportunity ratio. The following are the main features of such system:

__A structure of risk policies and limits approved by the boards of directors of the various companies of the Group. The policies are available in full or in a summarised version at www.iberdrola.com.

__Identification and assessment of, and establishment of priorities for, the new key risks of the businesses and the Group.

__Quarterly monitoring and control of the impact of risks on the profit and loss account, which, within the framework of the Company's governance model, is analysed by its Operating Committee, and supervised by the Audit and Risk Supervision Committee.

__Analysis and control of the risks associated with new investments.

As a whole, the system described above makes it possible to explicitly manage the risks associated with the economic, environmental, and social dimensions and the impact that the materialisation of any of them may have on the public perception of the Company. The Company has a *Reputational Risk Framework Policy* in place for this purpose to manage and control reputational risk from both the ethical perspective of the Group's corporate activities as well as in its activities relating to the quality of electric supply and customer service.

A more detailed description of this system can be found in section "E" of the *Annual Corporate Governance Report 2014* and in the "Main Risk Factors Associated with the Activities of the Iberdrola Group" section of the Consolidated Management Report that is part of the *Annual Financial Report 2014*, all of which are available at www.iberdrola.com.

These documents describe in detail the review conducted by the Company to identify the risks faced by the Group, i.e. risks inherent in the various countries, industries, and markets in which it operates and in the activities that it performs that might prevent it from accomplishing its objectives or successfully implementing its strategies. Such risks are identified in the Risk Management System, which also reviews the Company's exposure to risks of various kinds, which are managed and mitigated through individual monitoring and decision-making: business risk, credit risk, country risk, financial, regulatory, and operational risks, environmental risks, risks relating to new investments, and reputational risks.

2. Organisational profile

G4-3 Name

Iberdrola, S.A.

G4-4 Primary brands, products, and services

Iberdrola is a global operator, with the brand names listed in the table below at year-end 2014.

The "Iberdrola" brand reflects the corporate vision and values and is based on the Company's strategy, which gives it credibility and strength, fulfilling its commitment to leadership in the development of clean energy in Spain and of wind energy worldwide.

Iberdrola's brand architecture

	Energy business	Non-energy business
Europe/Asia	IBERDROLA IBERDROLA DISTRIBUCIÓN ELÉCTRICA	IBERDROLA Inmobiliaria IBERDROLA Ingeniería y Construcción
United Kingdom	SCOTTISHPOWER SP ENERGY NETWORKS SCOTTISHPOWER RENEWABLES	IBERDROLA Engineering & Construction
United States of America	IBERDROLA USA CENTRAL MAINE POWER IBERDROLA RENEWABLES NYSEG RG&E ENSTOR — Exploitation and development of Company's natural gas storage assets, purchase/sale, and brokering	IBERDROLA Energy Projects
Latin America	Mexico: IBERDROLA Brazil: ELEKTRO neoenergia	IBERDROLA Ingeniería y Construcción

The table above only shows the most important brands having the largest presence; the Company has other brands at the local and business level.

The main products that Iberdrola makes available to its customers are electricity and natural gas. It also offers a broad array of products, services, and solutions in the areas of:

__Improvement in the consumer's quality of life, peace of mind, and safety.

__Energy efficiency and services.

__Protection of the environment: renewable energy and sustainable mobility.

__Quality of electricity supply and safety of facilities.

__Assembly of electricity infrastructure.

__Comprehensive management of energy facilities and supplies.

It also provides the following services through its subsidiaries: engineering and construction of electricity generation, distribution, and control facilities; operation and maintenance of electricity generation facilities; land management and development; and the sale and lease of housing, offices, and retail premises. More detailed information in this regard can be found at www.iberdrola.com.

G4-5 Headquarters

The registered office of Iberdrola is:
Plaza Euskadi número 5
48009 Bilbao, Biscay
Spain

G4-6 Countries where there are significant operations

Iberdrola and its subsidiaries and affiliates carry out their activities in almost thirty countries, eighteen of which are considered significant with respect to sustainability issues.

The countries in which they operate, the activities performed in each of them, and the criteria used to define their significance are set forth in section G4-17 of this report.

G4-7 Nature of ownership and legal form

Iberdrola is a *sociedad anónima* (public limited company) organised under Spanish law.

At 31 December 2014, its share capital totalled 4,791,362,250 euros, represented by 6,388,483,000 shares of the same class and series, each having a nominal value of 0.75 euro. All shares give the holders thereof the same rights. The approximate distribution of equity interests is as follows:

__Foreign entities 60%

__Domestic entities 16%

__Retail investors 24%

G4-8 Markets served

In the countries of operation, described in section G4-17, the Iberdrola Group provides the products and services described in section G4-4 to many different types of customers in the residential, commercial, and corporate spheres as reflected in indicator EU3. The same types of products and services will be provided in other countries should legal, economic, and social circumstances be appropriate, in line with the Company's strategic approach.

G4-9 Main Indicators

The following sections include the principal figures for Iberdrola, the corporate structure of which is set forth in indicator G4-42 of this report.

Employees

Employees[4]	2014	2013
Spain	10,838	11,198
United Kingdom	6,856	7,380
United States	5,057	5,041
Mexico	736	672
Brazil	3,745	3,722
Other countries	155	244
Basic boundary	27,387	28,257
Expanded boundary	29,597	30,532

Operations (centres of activity)

The Iberdrola Group has identified more than 1,200 sites at which the Company operates. In order to adequately manage a large number of them from the viewpoint of the issues dealt with in the GRI Guidelines, rationalisation criteria have been used to address them; accordingly, the number of Iberdrola's locations of operation at year-end 2014 is deemed to be 127 for the purposes of this report.

4 The figures in the table reflect the number of employees at year-end 2014, without distinguishing between full-time/part-time employees. To perform statistical analysis regarding labour costs, it is recommended to use the number of employees in terms of Full Time Equivalents (FTEs): 27,463 in 2014 and 28,189 in 2013.

Detailed information on these locations and on the criteria used to define them can be found in the document *Information Supplementary to the Sustainability Report 2014* available at www.iberdrola.com.

Net sales (net revenue)

Net sales (€ millions)	2014	2013
Iberdrola consolidated total	30,032	31,077

Total capitalisation, broken down in terms of debt and equity

Total market capitalisation (€ millions)	2014	2013
Share capital	4,971	4,680
Equity of controlling company	35,040	34,585
Bank borrowings	28,349	28,452
Gross property, plant, and equipment in use	89,474	82,173
Accumulated amortisation and depreciation	(37,861)	(34,204)

Products or services provided

Products or services provided	2014	2013
Iberdrola total		
Net electricity production (GWh)	138,892	136,435
Electricity distributed (GWh)	214,613	214,873
Gas supplies to users (GWh)	85,092	80,303

Total assets

Total assets (€ millions)	2014	2013
Iberdrola consolidated total	93,771	89,787

Beneficial ownership

No shareholder holds a controlling interest in the Company's equity structure. Below is a table showing those shareholders who hold a significant interest in the share capital of, or voting rights in, Iberdrola as of 31 December 2013 and 2014.

Significant shareholders and percentage of direct and indirect voting rights (%)	31/12/2014	31/12/2013
Qatar Investment Authority	9.647	9.524
ACS, Actividades de Construcción y Servicios, S.A.	3.965	5.645
Banco Financiero y de Ahorros, S.A.	N/A	5.069
Kutxabank, S.A.	3.601	4.006
BlackRock, Inc.	3.023	3.043
Société Générale, S.A.	N/A	4.111

Sales and costs by geographic area

Sales (net amount in € millions)	2014	2013
Spain	14,364	15,286
United Kingdom	8,803	9,655
United States	3,286	3,176
Mexico	1,657	1,419
Brazil	1,641	1,282
Other	281	259
Iberdrola consolidated total	30,032	31,077

Costs (€ millions)	2014	2013
Spain	9,318	10,227
United Kingdom	6,522	7,642
United States	1,471	1,444
Mexico	1,228	1,013
Brazil	1,228	955
Other	176	160
Iberdrola consolidated total	19,943	21,441

G4-10 Workforce

Employees[5]	2014		2013	
	Men	Women	Men	Women
By type of employment				
Full-time	20,846	5,415	21,342	5,496
Part-time	199	927	224	1,195
By type of contract				
Permanent	20,714	6,244	21,231	6,578
Temporary	331	98	335	113
Basic boundary	21,045	6,342	21,566	6,691

The policies followed with subcontracted personnel are described in indicator EU17.

A breakdown by geographic area can be found in the *Information Supplementary to the Sustainability Report 2014*, available at www.iberdrola.com.

5 The total number of employees and the definitions of the boundaries are in indicators G4-9 and G4-17 of this report.

G4-11 Employees covered by collective bargaining agreements

Generally speaking, collective bargaining agreements of the Iberdrola Group apply to all employees working under an employment relationship and for the account of the companies of the Group, regardless of the type of contract entered into, the professional group to which they are assigned, their occupation, or the job performed.

However, issues relating to the corporate organisation, the law of each country, or even usage and custom in each country lead to certain groups being expressly excluded from the scope of collective bargaining agreements (for example, executives in Spain are not covered by the agreement). This is why there is not 100% coverage, as indicated in the table below:

Employees covered by a collective bargaining agreement	2014	2013
Basic Boundary		
Number of employees	21,221	22,042
Percentage of employees	77.49	78.00

A breakdown by geographic area can be found in the *Information Supplementary to the Sustainability Report 2014*, available at www.iberdrola.com.

G4-12 Description of supply chain

Introduction

The Iberdrola Group's supply chain consists of two different processes:

__the acquisition of material and equipment and the procurement of works and services, handled by the Group's Procurement Division, which is within the Finance and Resources Division.

__the acquisition of fuel, handled by the Wholesale and Retail Business.

Both processes have their own specific characteristics in their various phases: registration and classification of suppliers, bidding process, execution of contracts, monitoring of contractual terms, and quality control, but both are guided by the same principles emanating from the corporate policies and the *Code of Ethics*, which are approved by the Company's Board of Directors and are available at www.iberdrola.com.

Acquisition of material and equipment and procurement of works and services

Iberdrola placed orders with more than 18,300 suppliers during 2014. The following table shows the economic volume of purchases by Iberdrola for these types of supplies, as well as a geographic breakdown thereof:

General supply of equipment, works, and services (€ millions)	2014	2013
Spain	1,316	1,364
United Kingdom	1,610	1,572
United States	1,057	840
Mexico	332	217
Brazil	165	180
Other	119	186
Basic boundary	4,599[1]	4,359

(1) Volume of supplies billed during the year. Supplies in the amount of 5,400 million euros were awarded during the same year.

These high purchase volumes boost growth in those countries in which the Company engages in procurement, favouring the business, industrial, and social development thereof through the creation of employment at service providers and their auxiliary industries.

Acquisition of fuel

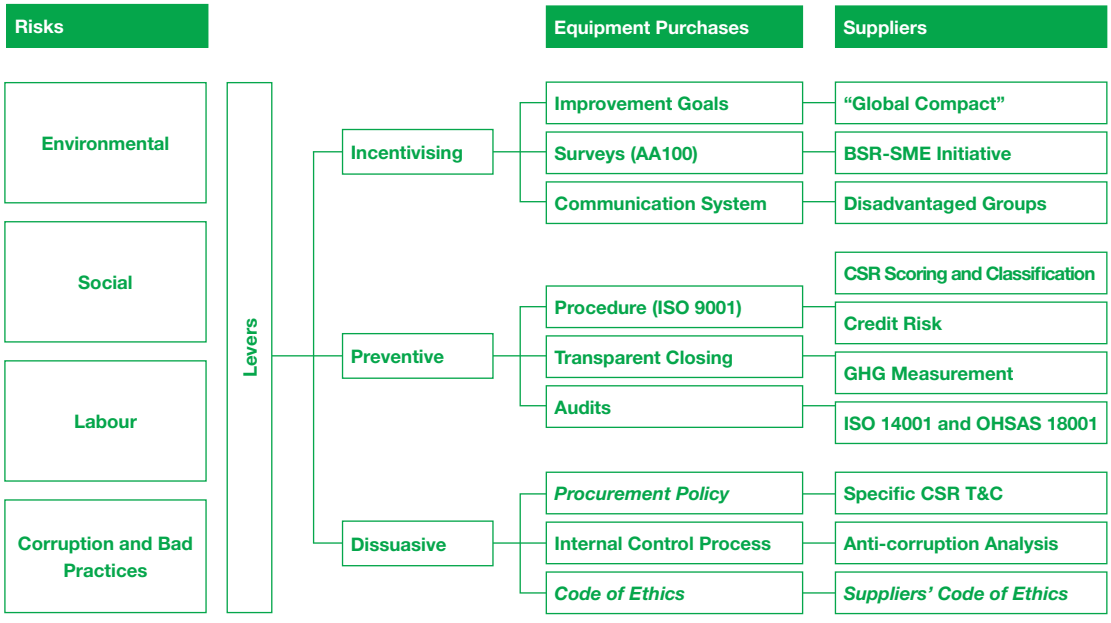
Iberdrola dedicated approximately 4,220 million euros to the acquisition of coal, natural gas, and uranium in 2014. Except for uranium, which is acquired in Spain exclusively through the Empresa Nacional de Uranio (Enusa), acquisitions of coal and natural gas are made on the international market, mainly through long-term commercial relationships with approximately 33 large domestic and international suppliers and traders.

Management of supply chain

The Procurement Division, within its area of responsibility, has a *Global Supplier Management Model* that is applicable to the Iberdrola Group, the purpose of which is the creation of long-term value through the management of opportunities and of the risks stemming from relevant economic, environmental, and social variables.

The rapid and comprehensive transformation carried out by Iberdrola in recent years has also multiplied its responsibility as a global Company to thousands of suppliers that place orders during the year and are located in different parts of the world.

The chart below shows the main mechanisms of the supplier management model:



The Procurement Division develops various initiatives designed to ensure sustainability in the supply chain, including ethical commitments and commitments of respect for human rights and the fight against corruption, taking as a starting point the principles established in the *Policy on Respect for Human Rights*, in the *Procurement Policy*, and particularly in the *Suppliers' Code of Ethics*. Below is a list of such initiatives:

- Registration, classification, and evaluation of suppliers:

Suppliers (both new and existing) are reviewed, classified, and evaluated internally within the context of the proposed purchase transaction, according to their specialisation, the criticality of supply, the total amount of the purchase, or the low possibility of substitution, inasmuch as the foregoing may negatively and significantly affect the achievement of the company's strategic objectives in the event of non-performance or defective performance. In this connection, priority will be given to suppliers that have advanced management systems certified by a third party and, in particular:

_An environmental management system that fosters the use and development of environmentally friendly technology.

_Quality management system.

_Occupational risk prevention system.

_Corporate social responsibility action plan.

In evaluating the supplier, sustainability has a weight of 40% in the total score, with the other 60% being credit risk and technical solvency.

– Evaluation of risks of supplier corruption. The procurement process carried out by the Group's Procurement Division includes an evaluation of the risk of supplier corruption and the performance of due diligence reviews on suppliers considered to present the greatest risk.

Credit risk review at suppliers. In order to prevent the potential negative consequences for Iberdrola of suppliers failing to honour their commitments, the Procurement Division has a credit risk management system for the main suppliers of the Group.

– Policies and procedures. The policies and procedures established by the Group in this connection include the following:

__*Procurement Policy* and procurement procedures: these establish the global framework for the control and management of procurement processes, with particular emphasis on fulfilment of the ethical commitments of the professionals of the Group and of its suppliers.

__*Suppliers' Code of Ethics*: considering that suppliers are strategic stakeholders, the Company has established specific action principles for them in their area of activity, aligned in any case with the principles and values of the Group, which are set forth in the *Suppliers' Code of Ethics*, and which must be accepted by the Group's suppliers and is attached to the respective agreements.

– Specific clauses in the contracting conditions of the Iberdrola Group. These conditions include contractual provisions requiring the parties to act within the most stringent levels of safety, occupational risk prevention, environmental protection, and respect for and protection of human rights, as well as to eliminate all forms of forced and compulsory labour, prevent any form of child labour, eliminate all discrimination practices, fight against corruption, etc.

- In-house and external training and communication. Training courses for all personnel working in the Procurement Division on the principles laid down in the *Procurement Policy* and on CSR in the supply chain were completed during the financial year. All suppliers are notified of the *Suppliers' Code of Ethics* during the bidding stage, and such *Code* is part of the documentation both in the request for bids and in the final contractual documents executed with the awardee supplier. Some specific supplier training actions were conducted at the Group during the financial year and will also be carried out in coming financial years.

- Supplier involvement campaigns: To improve the status of suppliers with lower performance in the area of sustainability, improvement and awareness-raising activities are conducted throughout the year in order for suppliers to achieve certification. The results achieved with these actions are reflected in the following table:

Amount awarded to suppliers with management systems (%)[6]	2014	2013
Basic boundary		
Amount awarded to qualified suppliers	92.3	86.8
Certified quality management system (ISO 9001 or equivalent)	83.7	84.4
Certified environmental management system (ISO 14001 or equivalent)	76.9	75.0
Certified risk prevention management system (OHSAS 18001 or equivalent)	71.5	69.1

Fuel purchases are also subject to the general principles stemming from Iberdrola's social responsibility policies in order to foster socially responsible actions, respect for the environment, and the prevention of occupational risks at supplier companies.

Iberdrola carries out an internal evaluation of its main fuel suppliers in accordance with economic, logistics, environmental, and social standards. Aspects assessed are: the existence of an environmental policy, information regarding CO2 emissions, emission reduction initiatives, energy efficiency, biodiversity conservation, occupational health and safety, equal opportunity, human rights, and ethical behaviour (anti-bribery and anti-corruption practices).

When establishing supply contracts, apart from agreeing on contractual elements that respect the law applicable in the countries involved in the transaction, Iberdrola negotiates the inclusion of clauses regarding social responsibility. Currently, all contracts for imported coal and for uranium have these types of clauses. These clauses are being included in new natural gas contracts.

Iberdrola has recently adhered to the international BetterCoal initiative, which includes the leading European coal-purchasing energy companies. Its aim is to set a standard for ethical, environmental, and social conduct, evaluate the conduct of producers through audits, create a database with the results of such evaluations, and improve producers' actions.

Iberdrola is not aware of any external complaints during 2014 with respect to the supply chain, and has not cancelled any supply contract or order upon grounds relating to human rights, corruption, labour practices, or environmental practices.

In 2014, the main suppliers of general supplies of the Group were: *ABB, Alstom, Babcock, Balfour Beatty, Elecnor, Gamesa, General Electric, IBM, Quanta Services,* and *Siemens*.

6 Scope: Suppliers of materials, equipment, works, and services with orders for amounts equal to or greater than €400,000 during the year, which represents more than 90% of the total amount contracted (information as at the end of November 2014).

G4-13 Significant changes during the financial year

Changes in activities and/or in operations

In the course of their business, the various subsidiaries and affiliates of Iberdrola have carried out transactions that change the composition of their assets.

__On 10 February 2014, Iberdrola reported that its wholly-owned subsidiary Iberdrola Energía, S.A. had sold part of its equity interest in EDP - Energias de Portugal, S.A. in successive transactions.

On 11 February, the CNMV was notified that Iberdrola Energía, S.A. had entrusted UBS Limited with the sale of shares representing 1.979% of the share capital of EDP - Energias de Portugal, S.A. This sale was completed on 12 February and was made through an accelerated bookbuilding targeting only qualified and institutional investors.

Subsequently, on 8 May, the Company announced the expiration of the last derivatives contract on shares of EDP - Energias de Portugal, S.A., such that the entire interest of Iberdrola Energia, S.A. in EDP - Energías de Portugal, S.A. was sold on that date.

__On 12 February, Iberdrola notified the CNMV of the transfer by Iberdrola Energía, S.A. of its entire direct equity interest (22.6%) in the Brazilian company Itapebi Geração de Energia, S.A. to Termopernambuco, S.A., a wholly-owned subsidiary of Neoenergia, S.A. As a result of such process, Iberdrola now has an indirect stake in Itapebi Geração de Energia, S.A. equal to 39% of its share capital.

__On 18 February, the CNMV was notified of the resolution to implement a programme for the repurchase of the Company's own shares, in reliance on the authorisation granted by the shareholders at the General Shareholders' Meeting held on 26 March 2010 under item eight on the agenda. From that date, Iberdrola regularly sent information to the CNMV on the share repurchase programme until 28 April 2014, the date on which it ended. Accordingly, the Company acquired a total of 42,161,696 own shares (0.662%) of the share capital of IBERDROLA by way of implementation of the share repurchase programme.

__Subsequently, the execution of the notarised instrument recording the reduction in share capital through the retirement of own shares was reported on 8 May.

__On 30 May, the Company notified the CNMV of the execution by Iberdrola and the US company Corpus Christi Liquefaction, LLC, a subsidiary of Cheniere Energy Inc., of a liquefied natural gas supply agreement.

__On 30 July 2014, notice was given of the execution of an agreement between Iberdrola Generación, S.A. and BP Global Investments Ltd. transferring 25% of the share capital of Bahía Bizkaia Electricidad, S.L.

Changes in capital structure

In January 2014, the second increase in capital approved at the General Shareholders' Meeting held on 22 March 2013 was implemented, on occasion of what would have been the traditional payment of the interim dividend for financial year 2013.

In addition, the shareholders acting at the General Shareholders' Meeting of Iberdrola held on 28 March 2014 approved two increases in capital by means of a scrip issue in order to again implement the *Iberdrola Flexible Dividend* system, implementing the first increase in capital in July 2014. The second of the increases in capital approved in 2013 was implemented in December 2014.

Participation in external initiatives

G4-14 Precautionary principle

The precautionary principle is included in Iberdrola's *Environmental Policy* approved by its Board of Directors, and its application is reflected by its wager on more environmentally efficient production technologies, particularly renewable energy, which is more effective in the fight against climate change and less harmful to biodiversity.

The precautionary approach also materialises through the consideration of environmental risk within the comprehensive risk management system, the prevention and mitigation instruments contemplated therein, and the widespread use of environmental impact assessments as a preventive tool in the development of infrastructure projects.

The implementation of the *Environmental Management System* (the core function of which is to analyse, prevent, and mitigate risks) is also key in the application of the precautionary principle within the organisation. Within the framework of these management systems, emergency drills are conducted at facilities, and the causes of incidents are analysed in order to prevent any possible future accidents. Another key component of these management systems is training, which allows the principles underpinning such systems to be disseminated across the organisation.

Following the guidelines established in the Group's environmental policies approved by the Board of Directors, in 2014 Iberdrola implemented a corporate model for the management of the environmental risks of all the group's businesses. Such model is supported by a methodology and a reporting system that are unique for the corporation and its businesses.

G4-15 Externally developed principles or initiatives to which the organisation subscribes or which it endorses

The Company has subscribed to or endorsed external initiatives aligned with sustainable development and encouraged its affiliated companies to adhere to them. Iberdrola supports or subscribes to:

__The Global Compact since 2002. It has also committed to other initiatives of the Global Compact in connection with human rights and has a wide range of policies governing respect for human rights, a *Code of Ethics* that applies to all employees, and a Declaration of the Chairman acknowledging the importance of such rights in the conduct of the Company's business activities.

__The BetterCoal initiative, which promotes corporate social responsibility standards in the international coal supply chain as well as transparency in information on the transactions of the main producers.

__The international organisation Carbon Disclosure Project (CDP), through its Road to Paris 2015 project, which is encouraging the adoption by states of binding and ambitious measures at the Climate Summit to be held in the French capital. And it has reaffirmed its commitment to the fight against climate change within the framework of the Climate Summit organised by the United Nations Organization (UNO) in New York in September.

ScottishPower supported the Scotland Lights Up Malawi action, which promotes climate justice by investing in solar energy through research and education.

Iberdrola Renovables has endorsed various initiatives, such as the Offshore Wind Accelerator, the Radar Working Group, and the Technology Innovation Centre, as well as the Oregon Business Climate Declaration, all of them in the area of renewable energy.

Elektro, in addition to being committed to the Global Compact since 2007, in 2014 carried out the *Promoção da Economia Verde e Inclusiva* (*Promotion of Green and Inclusive Economy*) as part of the initiatives of the United Nations Conference on Sustainable Development (Rio+20), which adds to its ongoing commitments such as *Empresa Amiga da Criança* (*Child Friendly Company*) to protect children and adolescents from labour abuse.

In Spain, the Company participated with Universidad Politécnica de Valencia in seminars and workshops on hydroelectric facilities and production, and continued with the Mini-REIS Project (Hydroelectric Generation) Project, which seeks to establish a methodology for the measurement and economic valuation of the ecosystemic services provided by the construction of new infrastructure.

Iberdrola has provided support to the communities affected by Hurricane Odile in the state of Baja California Sur, along with the Mexican Red Cross.

Initiatives to promote electric vehicles were carried out in the United States of America, where Iberdrola, as a member of the *National Edison Electrical Institute*, developed the *Fleet Electrification Initiative*; Scottish Power has continued its involvement with the *Ultra Low Carbon Vehicle Demonstrator Glasgow* programme, managed by *The Strategy Board* and the *Department for Transport*, and the *Plugged-In Places* programme together with the *Office of Low Emission Vehicles*.

G4-16 Principal associations to which the organisation belongs

Iberdrola is a member of numerous organisations related to its activities. In order to understand the Company's commitment thereto, as well its participation in committees, the contributions made by the Company, and its strategic involvement in such organisations, the reader should refer to the public information or websites of such organisations. The most significant organisations are listed in the following table:

International	
World Association Nuclear Operator (WANO)	European Wind Energy Association (EWEA)
Institute for Nuclear Power Operations (INPO)	Global Wind Energy Council (GWEC)
Scotland Europa	European Ocean Energy Association (EOEA)
International Electrotechnical Commission/European Committee for Electrotechnical Standardisation (IEC/ Cenelec)	International Council on Large Electricity Systems (Cigre)
International Conference on Large Power Networks (Cired)	European Ocean Energy Association
BetterCoal	Nuclear Industry Association
The G9 Offshore Wind Health and Safety Association	Smart Life
Electric Power Research Institute (EPRI)	International Emissions Trading Association (IETA)
Global Sustainable Electricity Partnership	Alliance For Rural Electrification (ARE)

Spain	
Sociedad Nuclear Española	Asociación Empresarial Eólica (AEE)
Sociedad Española de Protección Radiológica	Club Español de la Energía
Foro de la Industria Nuclear Española	Unión Española Fotovoltaica (UNEF)
Asociación Española del Gas (SEDIGAS)	Red Española del Pacto Mundial
Asociación Española de Profesionales de Compras, Contratación y Aprovisionamiento (Aerce)	Asociación Española para la Calidad (AEC)
Asociación Española de la Industria Eléctrica (UNESA)	Círculo de Empresarios
Confederación Española de Organizaciones Empresariales (CEOE/CEPYME)	Cámara de Comercio de España
Subcomité Técnico de Normalización SC1. (Aenor: AEN/CTN 207/SC 10)	Club de Excelencia en Sostenibilidad

United Kingdom	
The Confederation of British Industry	Joint Environment Programme
The Scottish Council for Development and Industry	Generators Safety and Integrity Programme
Energy UK - Energy Efficiency Group & ECO Group	Institute of Asset Management
Energy Networks Association	Industrial & Power Association
Fuel Poverty Advisory Group for England	Ministerial EV Strategy Group
Scottish Fuel Poverty Forum & ECO Sub-Group	Scottish Parliament & Business Exchange
Department for Energy and Climate Change - Energy Company Obligation Steering Group & Green Deal Advisory Group	All Party Parliamentary Group for Energy Studies, Parliamentary Renewable & Sustainable Energy Group & All Party Parliamentary Corporate Responsibility Group
Energy & Efficiency Industrial Partnership, Energy & Utility Skills & National Skills Academy for Power	Scottish Environment Link
2020 Climate Group	Green Alliance
Renewable UK	Scottish Renewables

United States of America	
Business Council of New York State	American Wind Energy Association (AWEA)
Maine State Chamber of Commerce (MSCC)	Renewable Energy New England (New England States)
Maine & Company	Mid-Atlantic Renewable Energy Coalition (PJM States)
Northeast Gas Association (NGA)	Renewable Northwest Project
American Gas Association (AGA)	The Wind Coalition
Gas Technology Institute	American Wind Energy Association
Edison Electric Institute (EEI)	

Mexico	
Empre-Bask México, A.C.	Cámara Española de Comercio, A.C.
Asociación Mexicana de Energía A.C	Consejo Empresarial Mexicano de Comercio Exterior Inversión y Tecnología, A.C.
Confederación Patronal de la República Mexicana (Coparmex)	Asociación Mexicana de Energía Eólica

Brazil	
Associação Brasileira de Distribuidoras de Energia Elétrica (Abradee)	Câmara Americana de Comèrcio (Amcham)
Associação Brasileira das Relações Empresa Cliente (Abrarec)	Associação Brasileira de Comunicação Empresarial (Aberje)
Fundação Nacional da Qualidade (FNQ)	Associação Brasileira de Energia Eólica (Abeeólica)

2.1. Organisational profile

GRI Sector Supplement Indicators

EU1 Installed capacity

Installed capacity by energy source (MW)	2014	2013
Hydroelectric	9,869	9,869
Renewable[7]	14,652	14,306
Thermal coal-fuel	3,178	3,178
Combined cycle	12,742	12,995
Cogeneration	1,238	1,233
Nuclear	3,410	3,410
Iberdrola total	45,089	44,992

The information by geographic area is available in the *Information Supplemental to the Sustainability Report 2014*, available at www.iberdrola.com.

EU2 Energy output

Net energy output by source of energy (GWh)	2014	2013
Hydroelectric	20,636	17,678
Renewable[7]	33,863	33,983
Thermal coal-fuel	12,102	12,589
Combined cycle	42,126	42,454
Cogeneration	5,734	6,843
Nuclear	24,431	22,888
Iberdrola total	138,892	136,435

7 Renewable: wind, solar, mini-hydro.

The information by geographic area is available in the *Information Supplemental to the Sustainability Report 2014*, available at www.iberdrola.com.

EU3 Electricity users and producers

Electricity users (%)	2014	2013
Iberdrola total		
Residential	90.3	90.3
Industrial	1.0	0.9
Institutional	0.9	0.9
Retail	5.6	5.8
Other	2.2	2.1

Users who are producers (no.)	2014	2013
Iberdrola total		
Users that are also producers of electricity	69,587	41,630

The Group managed 29 million supply points at year-end 2014.

The information by geographic area is available in the *Information Supplemental to the Sustainability Report 2014*, available at www.iberdrola.com.

EU4 Transmission and distribution lines

Power lines[8] (Km)	2014	2013
Transmission		
Overhead	29,446	35,240
Underground	960	1,165
Iberdrola total	30,406	36,406
Distribution		
Overhead	846,281	829,885
Underground	187,868	186,248
Iberdrola total	1,034,149	1,016,134

Due to the nature of the respective electric systems, the voltage levels used for the transmission and distribution of power are not the same in all countries. In Latin America, transmission lines are deemed to be those with a nominal voltage equal to or greater than 69 kV; in the United States of America and in the United Kingdom, transmission lines are deemed to be those with a nominal voltage equal to or greater than 132 kV; in Spain, transmission lines are deemed to be those with a nominal voltage greater than 220 kV.

The information by geographic area is available in the *Information Supplemental to the Sustainability Report 2014*, available at www.iberdrola.com.

EU5 Allocation of CO_2 emissions allowances or equivalent

Of Iberdrola's facilities, only the European facilities are subject to trading in emissions rights, which does not affect the thermal generation facilities in Mexico, Brazil, or the United States of America.

The European facilities have not received free trading rights since 2013, for which reason they have had to obtain them at auction to offset the emissions produced by the facilities in Spain and the United Kingdom. Only the Tarragona Power combined cycle plant, with emissions of 213 kt CO_2, received an allotment of 26,253 rights.

Total emissions of the European facilities in 2014 were 15.4 million tonnes, 9% less than the prior year, and which were covered by purchases on the market and surpluses from prior years.

8 Lengths of lines are calculated by circuit, regardless of the number of circuits for each power line. A double-circuit 5 km line is considered to be 10 km.

3. Material aspects and boundaries

G4-17 Entities included in the organisation's consolidated financial statements and in the boundary of this report

A. Introduction

Iberdrola, with a presence in almost thirty countries, has followed the GRI recommendations in defining the boundary of this report, taking into account the entities in which it has control, those in which it has significant influence, and the activities that are significant for the Group from the economic, environmental, and social standpoint.

For purposes of this report, the following terms have the meanings set forth below:

__"Iberdrola" or the "Company": the Spanish company Iberdrola, S.A., parent company of the Iberdrola Group.

__"Iberdrola Group" or the "Group": Iberdrola (as parent company) and the group of subsidiaries over which Iberdrola has the power of control or joint control.

__"Affiliated companies" or "Affiliates": the group of companies in which Iberdrola has a percentage interest but not the power to exercise control. Some of these companies, identified below, are included in this report because they are deemed to be companies over which significant influence is exercised for purposes hereof.

The companies in which Iberdrola owns a direct or indirect equity interest are listed in the document *Annual Consolidated Financial Statements and Consolidated Management Report for the Financial Year ended 31 December 2014*.

The Group is subject to industry regulations on the separation of activities, which seek to avoid any interference by companies conducting liberalised activities in the management of companies carrying out regulated activities, in order to ensure transparent, non-discriminatory, and efficient management of the electricity and gas systems. As a general rule, such regulations allow for the performance of certain activities, such as production and sale (liberalised activities), under the free competition system, in comparison with others that, due to their nature, must be carried out as a monopoly, including electricity and gas distribution and transmission/transportation (regulated activities). Iberdrola has the power to financially supervise the management of regulated companies, but may under no circumstances instruct them regarding day-to-day management. For their part, regulated companies must not share non-public commercially sensitive information with liberalised companies when knowledge thereof might entail a competitive advantage. In particular, as regards the energy businesses of the Group in Spain, on 10 December 2014, the Board of Directors of Iberdrola España, S.A.U. approved the *Code for the Separation of Activities of the Companies of the Iberdrola Spain Group Carrying out Regulated Activities in Spain*.

B. Information boundaries of this report

The presentation of the Company's public information is subject to the following external determining conditions:

__The scope and basis of presentation of financial information must comply with established statutory requirements.

__The environmental and social information, on the other hand, is presented voluntarily; there are no statutory requirements that define it, and it is based on the consideration of "significant impacts", such that it refers to those activities of the Group that are deemed to be significant for sustainability purposes.

To reconcile these determining conditions, Iberdrola has established three quantitative information boundaries: basic boundary, expanded boundary, and global boundary.

B1. Basic boundary

This boundary is formed by Iberdrola, S.A., its significant subsidiaries for sustainability purposes, and its fully or proportionately consolidated affiliates that are significant for sustainability purposes.

The subsidiaries or affiliates within this boundary are all those that operate in the countries listed in table B.1.1. and that carry out the activities described therein.

B.1.1 Significant countries and activities for the Iberdrola Group in terms of sustainability and included in the 2014 reporting boundary.

	Group Office	Electricity production		Transmission and/or Distribution of electricity or gas	Supply of electricity and/or gas (1)		Gas storage	Engineering and Construction (2)		Real estate
		Conventional	Renewable (3)		Wholesale market	Retail market		Construction and/ or operation of large facilities	Other projects	
Spain(4)	X	X	X	X	LIB	LIB		X	X	X
UK	X	X	X(5)	X	LIB	LIB	X	X	X	
USA	X		X	X	LIB	REG	X	X	X	
Mexico	X	X	X					X	X	
Brazil	X		X	X		REG			X	
Portugal	X	X(6)	X		LIB	LIB(6)			X	
Romania	X		X					X		
Algeria	X							X		
Greece	X		X(5)							
Germany	X				LIB	LIB		X		
South Africa	X							X		
France	X				LIB	LIB				
Hungary	X		X							
Russia	X							X		
Kenya	X							X		
Italy	X		X		LIB				X	
Canada	X				LIB		X(7)	X(7)		
Honduras								X		

1) Types of sales activities:

LIB: activities in liberalised markets, independent of distribution activities.

REG: activities in regulated markets, together with distribution activities. The supply to these markets has not been considered as an activity in the wholesale market.

2) These activities are described in detail at www.iberdrolaingenieria.com.

3) Environmental information regarding renewables activities in Brazil and Portugal is not consolidated because it is not integrated into the corporate systems as of the date of preparation of this report. Furthermore, no social or environmental information is included on facilities in Italy, Spain, the United Kingdom, and the United States of America in which the company has an interest of less than 50%.

4) Any reference to the 5th Collective Bargaining Agreement includes the following companies at 31 December 2014: Iberdrola S.A., Iberdrola España S.A.U., Iberdrola Generación, S.A.U. Iberdrola Generación España, S.A.U., Iberdrola Operación y Mantenimiento S.A.U., Iberdrola Generación Nuclear S.A.U., Iberdrola Clientes S.A.U., Iberdrola Distribución Eléctrica S.A.U. and Iberdrola Renovables Energía, S.A.U.

5) Renewables activities from the Republic of Ireland are included in the United Kingdom and renewables activities from Cyprus are included in Greece.

6) Electricity and/or gas conventional production and sales from Portugal are included in Spain.

7) These activities are not significant from the environmental standpoint. In the labour area, the respective information is included in the information for the United States of America.

At affiliate nuclear plants, the percentage interest held by Iberdrola in each of them is used to consolidate environmental performance data: Vandellós (28%), Almaraz (52.69%); Trillo (49%), and Ascó (15%). For social information, on the other hand, because of the structure of the available information systems, nuclear plants are consolidated according to the percentage interest held by Iberdrola in the economic interest grouping (*agrupación de interés económico*) created for that purpose; such interest is 51.41% in the case of Trillo-Almaraz and 14.59% in the case of Ascó-Vandellós.

Cogeneration companies that are subsidiaries of Iberdrola Cogeneración, in which the interest held is 99%, consolidate their environmental and social information applying a percentage of 100%.

The subsidiaries or affiliates operating in the countries shown in table B.1.2. below are excluded from the basic boundary because their activities are considered to be non-significant for the Group.

B.1.2. Non-significant countries and activities for the Iberdrola Group in terms of sustainability, excluded from the 2014 basic reporting boundary.

	Group Office	Electricity or gas supply and/or gas storage	Engineering and Construction	Real estate
Belgium, France, and Poland.	X			
Belgium, Holland, and Switzerland.		X		
Bulgaria, Qatar, Egypt, Slovakia, France, Lithuania, Montenegro, Poland, Ukraine, and Venezuela.			X	
Portugal, Bulgaria, and Mexico.				X

Despite the fact that they are not included in the charts and tables of the basic boundary, these activities are managed by Iberdrola in the same manner as significant activities, and the following standards are applied:

__The qualitative aspects set forth in this report, such as the principles and corporate policies that the Iberdrola Group adopts and publishes, as well as business strategies, apply to all activities of the subsidiaries of the Group, in all countries in which they operate, without prejudice to the effective decision-making capacity of regulated companies, in accordance with laws and regulations governing the separation of activities. This includes the information on management focus, objectives, and performance set forth in this report.

__In the countries and activities that are not included in the quantitative basic boundary, the application is ensured of the same procedures and processes as those applied within the Group, thus ensuring the guarantees as to work, basic rights, and environmental protection that derive therefrom.

B.2. Expanded boundary

Applying the changes in laws and regulations that affect the presentation of the Group's financial information, some affiliated companies have modified their consolidation procedure, as explained in sections G4-22 and G4-23 of this report. Despite the fact that such change has been made, for the purposes of this report, Iberdrola considers the activities carried out by such companies as described below to be significant:

__The electricity production activities of Nuclenor, S.A.

__The most significant activities carried out by the Brazilian group Neoenergia, in the area of generation, distribution, and supply of energy, which activities are conducted through Neoenergia, S.A. and its subsidiaries (the electricity distribution companies Celpe, Coelba, and Cosern, the hydroelectric and thermal power generation companies Itapebi, Termopernambuco, Afluente, NC Energía, Rio, Bahia, Goias Sul, Corumba, and the cogeneration companies Energyworks Brasil, Ltda. and Capuava Energy, Ltda.). Also included in the environmental information are the Baguari and Dardanelos plants, which are not significant in labour matters, while NC Energia is not included therein as it is not significant for environmental purposes.

The information regarding these activities will only be included in those indicators that Iberdrola considers necessary to provide an appropriate global view of the Company.

Equity share and integration applied

	Financial consolidation		Share of integration in information (%)		
	Method	Equity share (%)	Financial	Environmental and Social	Electricity users
Coelba	E	42.76	42.76	42.76	100
Cosern	E	39.95	39.95	39.95	100
Celpe	E	34.96	34.96	34.96	100
Rest of Neoenergia	E	39.00	39.00	39.00	N/A
Nuclenor	E	50.00	50.00	50.00	N/A

E: Integration by equity method

Accordingly, the "expanded boundary" includes the activities carried out in the "basic boundary" plus the activities of Nuclenor, S.A. and those of the Brazilian Neoenergia Group.

In terms of sustainability, at these affiliated companies Iberdrola promotes the policies approved within the Group through the decision-making bodies of such companies, and includes significant information thereon in this report.

As a supplement and to the extent deemed relevant, the information on this expanded boundary may include significant events concerning other affiliated companies.

B3. Global boundary (Iberdrola Total)

This includes all of the activities carried out by the Group, its subsidiaries, and its affiliates.

The financial information included in this *Sustainability Report 2014* is taken from the document entitled *Annual Financial Statements, Management Report, and Audit Report for Financial Year 2014*.

Other non-financial information, such as operating information of the Group, results from adding to the "expanded boundary" the information of affiliates consolidated by the equity method that are not considered significant for purposes of this report, as well as the information on the activities included in table B.1.2., which is included under the heading "Other".

B4. Summary of the information boundaries by country

Following the GRI recommendation, the information in this report is structured by country. The table below shows the structure of information by country applied to the boundaries described above:

Structure of information by country in this report	
Basic boundary = Iberdrola, S.A., subsidiaries, and affiliates consolidated in whole or in part.	Spain United Kingdom United States Mexico Brazil Other countries Basic boundary
Expanded boundary = basic boundary plus the affiliates considered significant for sustainability purposes, consolidated by the equity method in accordance with applicable laws and regulations.	Significant affiliates(1) Basic boundary
Global boundary = expanded boundary plus the "Other" not included in other boundaries.	Other Iberdrola Total

(1) Nuclenor, S.A. activities and Neoenergia Group activities.

C. Limitations on scope of information

Based on the standards set forth above, Iberdrola believes that this report reflects the economic, environmental, and social performance of the Company in a reasonable and balanced manner. Existing limitations and differences, described in the preceding sections, have a limited influence on aggregate overall data, which, in the opinion of Iberdrola, would not affect a reader's assessment of the Company's performance.

In the future, quantitative information may be included with respect to other activities of subsidiaries or affiliates to the extent that such information contributes to an understanding of the activities carried out by Iberdrola.

D. Additional information

Iberdrola holds indirect interests in the following companies located in jurisdictions regarded as tax havens under the provisions of Royal Decree 1080/1991 of 5 July:

Registered name	Nationality	Activities
Damhead Creek Finance Limited	Cayman Islands	This wholly-owned subsidiary of ScottishPower (DCL) Limited was created to finance the *Damhead Creek* independent power project in England. The winding-up of the company has been completed and it is currently being dissolved by the Cayman Islands Commercial Registry.
ScottishPower Insurance Limited	Isle of Man	This wholly-owned subsidiary of ScottishPower Investments Ltd. was created as an insurer of the ScottishPower Group. As of the date hereof, this company no longer insures the assets of the Group but is maintained with the expectation of potential claims regarding past insured activities which are being discontinued. The insurance department of ScottishPower is reviewing possible options for the disposal thereof.

The standards previously defined in this section regarding the application of corporate principles and policies also apply to the above entities, specifically, the *Good Tax Practices Policy*. Operations at these companies are carried out pursuant to applicable regulations, and in no event do such companies engage in tax evasion, money laundering, or the financing of unlawful activities. The same standard applies to other companies of the Group that may operate in other countries and which, though not covered by the above-mentioned Royal Decree, may be considered as tax havens by certain social organisations using different standards in this regard.

G4-18 Process for defining the report content and the Aspect Boundaries and implementation of the GRI principles
G4-19 Material Aspects identified
G4-20 Aspect Boundary within the organisation
G4-21 Aspect Boundary outside the organisation

Iberdrola has been using GRI's *Sustainability Reporting Guidelines* as a model for preparing its annual sustainability report since 2003.

According to GRI, these guidelines are the result of a process in which various stakeholders throughout the world have participated, with representatives from business, unions, civil society, the financial markets, auditors, and specialists from various disciplines in the business area, regulators, and governmental bodies from various countries.

Iberdrola is, in turn, a multinational company with a presence in countries on various continents and with diverse economic and social models, and in recent years it has developed systems and processes to obtain the information needed to meet requests in this regard both by GRI, with its recommendations, and by other areas with heightened awareness on sustainability issues, such as the Dow Jones Sustainability Index and the Carbon Disclosure Project.

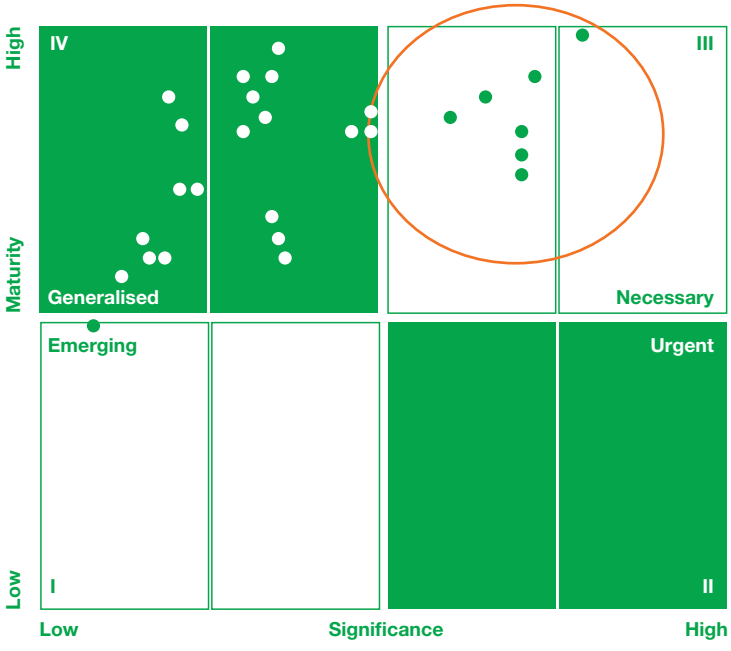
Iberdrola therefore believes that the issues identified in the GRI guidelines and in the Electric Utilities Sector Supplement are based on the broad participation of corporate stakeholders and sufficiently meet the requirements of materiality to be included in its sustainability report, with no exclusions.

The report for financial year 2014 also maintains the information on the issues identified in the GRI guidelines, providing continuity to the information from prior financial years. These issues are specifically identified in Annex 1 to this report.

Iberdrola has also performed its own *Materiality Analysis* in order to identify specific issues of interest relating to the Company's activities, which analysis was performed with the advice of an independent external firm.

In this analysis, carried out in financial year 2013 and considered valid for all purposes for financial year 2014, nine issues have been identified as "necessary" based on the levels of maturity and significance of the issues of interest relating to the activities carried out by the Group, as shown in the table below:

Materiality Analysis of the IBERDROLA Group



Most significant material issues

Electricity generation
Renewable energy development
Price risk management
Climate change strategy
Business opportunities
Government relations / public policy / lobbying
Customer relations management
Local community impacts and benefits
Transmission and distribution

The various sections of this report where a more specific response is given to these issues is indicated in the following table:

Most significant issues	Special interest topics	Iberdrola's response
Electricity generation	Energy mix, energy efficiency, thermal efficiency, and nuclear energy.	Management Approach: "Demand-side Management" and "Decommissioning of Nuclear Plants". G4-2, G4-EU1, G4-EN5 through G4-EN7.
Renewable energy development	Investment in new energy generation sources. Integration within the energy mix. CO_2 avoided and projected MW of renewable energy.	Management Approach: " Availability and Reliability" and "System Efficiency" G4-14, EU10, and G4-EN6.
Climate change strategy	Emissions reductions; emissions trading; carbon capture and storage; carbon footprint, etc.	Specific Management Approach to the Environmental Dimension G4-EC2, G4-EN15 through G4-EN21.
Business opportunities	Innovation and development; products favouring efficiency and energy savings; certified energy from renewable sources; development of electric vehicles; etc.	Management Approach: "Demand-side Management" and "Research and Development". G4-EN6.
Price risk management	Energy and fossil fuels prices and taxes.	Management Approach: "Costs of Supply"
Customer relations management	Management of customer satisfaction and improvements in billing systems. Programmes for improved access to electricity by vulnerable groups.	Management Approaches: "Product and Service Labelling", "Customer Privacy", "Access" and "Provision of Information". G4-PR3 and G4-PR5.
Relations with governments and activities with an influence on public policies	Constructive and transparent dialogue with local and national governments. Need for a stable regulatory framework.	Management Approach: "Public Policy"
Impacts on and benefits for local communities	Social impact of Company's operations. Dialogue with stakeholders on infrastructure development. Guarantee of universal access to energy.	Management Approaches: "Local Communities", "Access" and "Iberdrola's Contribution to the Community"
Transmission and distribution	Reliability of supply systems, energy efficiency, and development of smart grids.	Management Approach: "Research and Development" EU4 and EU12

Together with the global processes to identify and respond to material aspects, which Iberdrola strengthens in its public information, the Company has developed a methodology for direct dialogue with its stakeholders based on the AA1000 Assurance Standard, through the consultation and response processes described in indicator G4-27.

G4-22 Restatements of information provided in previous reports

Owing to legal requirements, Iberdrola has applied international financial reporting standard IFRS-11 to its financial information for financial years 2013 and 2014. It has been necessary to adopt the following decisions to give consistency both to the financial and the environmental and social information included in this report:

__To restate financial year 2013 applying the same standards applied to financial year 2014, to make the information of such financial years consistent and comparable. Along the same lines, it has not been deemed appropriate to restate financial year 2012, due to the little value it contributes to the public information process.

__To limit the information set forth in all the tables of this report to financial years 2013 and 2014. Continuing to show information on three financial years in the charts and tables, as has been Iberdrola's customary practice, would have resulted in lack of consistency between the information for financial year 2012 and that for subsequent years. This limitation will be corrected in the next annual report.

__To adjust the information boundaries of this report to the aforementioned circumstances, so as to make it possible for the reader to cross-check the financial, environmental, and social information reliably. The process for definition of such boundaries is described in section G4-17 of this report.

G4-23 Significant changes in the report's scope or aspect boundaries

During financial year 2014, there were no significant changes in the scope, boundary, or measurement methods applied in the report, such that the Group's main indicators can still be compared to those from previous financial years, subject to the limitations described in the preceding section.

4. Stakeholder engagement

G4-24 Stakeholder groups engaged by the organisation

Iberdrola's strategic approach attaches significance to the Company's relations with the groups that are affected by its activities (stakeholders) from a twofold standpoint: from the social responsibility standpoint, by responding to their expectations and needs, and from the reputational standpoint, by managing these stakeholders' perceptions of the Company.

There are many stakeholders within a corporate group such as that of Iberdrola. For practical purposes, in order to provide information about them in a concise manner and considering their significance to the Company's activities, eight large categories of stakeholders have been established:

- **Workforce**
- **Shareholders and financial community**
- **Regulatory entities**
- **Customers**
- **Suppliers**
- **Media**
- **Society**
- **Environment**

In order to properly manage the different issues that can arise with each stakeholder group, the businesses and corporate areas of the Group also identify such subgroups as they deem relevant for specific attention thereto.

G4-25 Basis for selection of stakeholders

The identification and selection of Iberdrola Group stakeholders is carried out through processes of internal reflection conducted by the management team, and relationships are established with strategic stakeholders with a view to satisfying both their expectations and the needs of the Company. The various CSR and Reputation Committees within the Group review the significance of specific stakeholders, based on the characteristics of their own activities and on the impact that meeting or not meeting their expectations may have on the Company's results.

G4-26 Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group

The commitment to stakeholders is one of the significant components of corporate sustainability. At Iberdrola, policies, general strategies, and global CSR lines of action are defined at the corporate level and applied at all businesses and in all geographical areas where the Company operates. In particular, the Board of Directors approved a Stakeholder Relations Policy on 17 February 2015. The global lines of action of this policy conform to local needs by means of the required CSR programmes and projects, which are applied at the local level. This enables the Company to manage the impacts of Company actions on society as a whole more effectively, such that the balance is positive for communities, customers, employees, and other stakeholders.

Iberdrola has been applying the AA1000 Assurance Standard since 2006 in order to systematically and rigorously manage engagement with its stakeholders in accordance with the principles of inclusiveness, materiality, and responsiveness established in such standard, through a process that is subject to independent external assurance. The Company has been adjusting application of the AA1000 standard, both to the successive versions of the standard and to the expansion and organisational changes at Iberdrola.

The application of the AA1000 standard has a twofold approach at the Company:

__Global approach: applied at corporate areas.

__Local approach: applied at the businesses (Networks, Wholesale and Retail, Renewables, Engineering and Construction).

Iberdrola structures the process of relations with its stakeholders through the following stages:

__Establishment of communication channels with each stakeholder group.

__Appointment of persons responsible for the organisation of the channels.

__Identification of the most significant matters detected in each channel.

__Drafting a Company response to the significant matters detected.

The communication channels established have their own specific characteristics as to format, responsibilities, depth of the relationship, and frequency of use, from the channels that are continuously available, such as mailboxes and portals, to those used on an annual or multi-annual basis, such as surveys, to other non-periodic channels, all of which, as a whole, help make up what the Company considers to be a close relationship with its stakeholders.

Iberdrola's most significant pathways for dialogue with these groups are summarised in the following table:

Stakeholder	Significant pathways for dialogue and communication	Other pathways for dialogue
Workforce	Mixed subcommittees or committees with the participation of workers; employee surveys; Global Employee Office; worker suggestion boxes.	Meetings with the chairman; specific meetings; internal magazines; intranet.
Shareholders and financial community	Personal contact with investors in fixed-income securities and equities, contact with shareholders, and office of the shareholder.	Periodic bulletins; corporate website; specific phone and e-mail service; information micro site and specific channel for shareholders on the website (OLS); Shareholders' Club; IPhone, IPad, and Android apps for investors.
Regulatory entities	Consultation, official formalities, and meetings with various EC regulatory bodies, national, regional, and local levels.	Relationship through industry organisations and direct contact.
Customers	Onsite and remote channels for direct customer relations; systems for complaints and claims; customer satisfaction surveys at the engineering and construction subsidiary.	Relationship channels with consumers' associations, consumer institutions, and municipal consumer information offices (OMICs); various types of customer sales contacts at the engineering and construction subsidiary.
Suppliers	Supplier portal on the corporate website, Supplier Service Centre, and supplier satisfaction surveys.	Supplier registration and classification processes; conferences with business organisations; meetings with suppliers; web mailbox; supplier improvement campaigns.
Media	Press releases; individual and group meetings; query mailbox on the website; communication channels on social networks.	Multimedia channel on the corporate website.
Society	Direct relationships with national, regional, and local government authorities; participation in business confederations and chambers of commerce; relationships with social organisations.	Projects of collaboration with social organisations; participation in forums, seminars, and conferences; direct relations with environmental and social groups in the areas of power plants and wind farms.
Environment	Specific mailbox on the corporate website; climate change website; social networks providing environmental information; supplier survey.	Environmental impact assessment processes; European Commission consultations and other public consultations; collaboration projects; various types of meetings and contacts.

G4-27 Key topics and concerns that have been raised through stakeholder engagement

The process of managing the pathways for dialogue described in the preceding section means that, following the assessment of the information received, the issues that are most important for the various stakeholders are identified. Such issues are reviewed by the internal organisations involved, and a response is generated by the Company that seeks to improve the satisfaction of such stakeholders in connection with the matters in question. Iberdrola believes that its responses, as a whole, provide a proper and acceptable balance for its stakeholders.

The table below presents the most significant issues raised during financial year 2014 and a summary of the Company's responses:

Stakeholder	Main issues raised by each group	Iberdrola's response
Workforce	Labour conditions generally Health and safety conditions Training offered to employees	Management approaches set forth in the "Labour practices and work ethics" chapter, G4-LA5 through G4-LA11. G4-LA13, G4-LA16.
Shareholders and financial community	Financial and economic situation of the Company Dividends of the Company Participation at the General Shareholders' Meeting	Management approach: "Economic performance", G4-1, G4-2, G4-9, G4-EC1, "Corporate governance model" chapter of the Integrated Report.
Regulatory entities	Safety of supply Economic aspects of supply Environmental sustainability	Management approach: "Public policies". G4-1, G4-2. "Regulatory environment" chapter of the Integrated Report.
Customers	Issues relating to collection and billing process Process for handling customer suggestions and complaints Issues relating to rates	Management approach: "Access (to electric power)", G4-PR4, G4-PR7 through G4-PR9. "Customers" specific web page on the corporate website.
Suppliers	Responsible management of procurement Relationship of Procurement Area with suppliers Promotion of CSR and Reputation issues at the Group level	G4-12, G4-EC9, G4-EN32 and 33, G4-LA14 and 15, G4-HR10 and 11, G4-SO9 and 10. Procurement Portal on the corporate website.
Media	Issues relating to regulation Company strategy and positioning Issues relating to consumption and social action	Management approaches: "Public policies", "Iberdrola's contribution to the community", and "Customer health and safety". G4-1, G4-2.
Society	Regulatory, innovation, and environment issues Compliance with, and handling of, environmental requirements Iberdrola's contribution to the community	Management approaches: "Research and development", "Public policies", "Iberdrola's contribution to the community", and those relating to the Environmental Dimension.
Environment	Climate change Biodiversity Energy efficiency	Management approaches: "System efficiency" and "Biodiversity". G4-14, G4-EC2, EU11, EU12, EU13, G4-EN11 through G4-EN14.

Iberdrola prepares an annual *AA1000 Compliance Report*, which summarises the results obtained through the aforementioned channels with respect to the issues raised by each stakeholder and the type of response provided by the Company.

The methodology described in the preceding sections (G4-24 through G4-27) enables the Company to identify material issues through direct sources. Such review is completed with that made through indirect sources, such as the *Dow Jones Sustainability Index*, the *Carbon Disclosure Project*, the *Materiality Analysis*, etc., described in indicators G4-18 through G4-21.

Considering all the methods described above, Iberdrola believes it has a robust stakeholder management system, which allows it to respond both directly through the channels of dialogue with its stakeholders, and indirectly through various public information formats, such as this report, the *Integrated Report*, or the corporate website.

5. Report profile

G4-28 Reporting period

2014

G4-29 Date of previous report

2013

G4-30 Reporting cycle

Annual

G4-31 Contact point for questions regarding the report

General questions regarding this report may be addressed to Iberdrola's Communication Division at C/ Tomás Redondo, 1 - 28033 Madrid – Spain, or via comunicacion@Iberdrola.es.

Specific questions relating to the environment may be addressed to Iberdrola's Innovation, Quality, and Environment Division at C/ Tomás Redondo, 1 - 28033 Madrid – Spain, or via medioambiente@Iberdrola.es.

The addresses and telephone numbers of the various Iberdrola centres worldwide can be found under "Contact" at www.iberdrola.com.

GRI Content Index

G4-32 GRI Index with respect to the 'in accordance' option chosen

This report has been prepared in accordance with the GRI "comprehensive" option. Due to its length, the GRI content index is located in *Annex 1* to this Report.

G4-33 External assurance for the report

Iberdrola subjects its annual information, including the annual accounts and management reports (both individual and consolidated with those of its subsidiaries), to external independent assurance by Ernst & Young, and likewise has the sustainability report verified by KPMG. *Annex 4* hereto includes the external independent assurance report

6. Governance

Structure and composition of governance

G4-34 Governance structure

Board of Directors

Position	Director	Status	Date of Last Appointment	Ending Date
Chairman & CEO	Mr José Ignacio Sánchez Galán	Executive	26-03-2010	26-03-2015
Director	Mr Xabier de Irala Estévez	Proprietary[1]	22-06-2012	22-06-2016
Director	Mr Íñigo Víctor de Oriol Ibarra	Independent	22-06-2012	22-06-2016
Director	Ms Inés Macho Stadler	Independent[2]	22-06-2012	22-06-2016
Director	Mr Braulio Medel Cámara	Independent	22-06-2012	22-06-2016
Director	Ms Samantha Barber	Independent	22-06-2012	22-06-2016
Director	Ms María Helena Antolín Raybaud	Independent	26-03-2010	26-03-2015
Director	Mr Santiago Martínez Lage	Independent	26-03-2010	26-03-2015
Director	Mr José Luis San Pedro Guerenabarrena	Other external	22-06-2012	26-03-2015
Director	Mr Ángel Jesús Acebes Paniagua	Independent	22-06-2012	26-03-2015
Director	Ms Georgina Kessel Martínez	Independent	28-03-2014	28-03-2018
Director	Ms Denise Mary Holt	Independent	24-06-2014	27-03-2015
Director	Mr José W. Fernández	Independent	17-02-2015	27-03-2015
Director	Mr Manuel Moreu Munaiz	Other external	17-02-2015	27-03-2015

Secretary (non-member): Mr Julián Martínez-Simancas Sánchez.
Counsel (non-member): Mr Rafael Mateu de Ros Cerezo.

(1) Mr Xabier de Irala Estévez was appointed at the proposal of Bilbao Bizkaia Kutxa (BBK) (now, Kutxabank, S.A.).
(2) Ms Inés Macho Stadler is lead independent director (*consejera coordinadora*).

Executive Committee

The Executive Committee has all the powers inherent to the Board of Directors, except for those powers that may not be delegated pursuant to legal or by-law restrictions.

The core activities of this Committee consist of submitting proposals and reports to the Board of Directors regarding all those strategic decisions, investments, and divestitures that are significant for the Company or its Group, assessing their alignment with the budget and the strategic plans of the Company, and analysing and monitoring business risks, taking into consideration the environmental and social aspects thereof.

Executive Committee

Position	Director	Status
Chair	Mr José Ignacio Sánchez Galán	Executive
Member	Mr Xabier de Irala Estévez	Proprietary
Member	Ms Inés Macho Stadler	Independent
Member	Mr José Luis San Pedro Guerenabarrena	External
Member	Mr Ángel Jesús Acebes Paniagua	Independent

Secretary (non-member): Mr Julián Martínez-Simancas Sánchez.

Audit and Risk Supervision Committee

This is a permanent internal informational and consultative body within the Board of Directors, without executive powers, with informational, advisory, and proposal-making powers within its scope of activity. It carries out duties relating to the supervision of the internal audit function, namely, review of the internal control and risk monitoring systems, the process of preparing the economic and financial information, auditing of accounts, and compliance, all upon the terms established in its regulations, available at www.iberdrola.com.

Audit and Risk Supervision Committee

Position	Director	Status
Chair	Ms Georgina Kessel Martínez	Independent
Member	Mr José W. Fernández	Independent
Member	Ms Denise Mary Holt	Independent

Secretary (non-member): Mr Rafael Sebastián Quetglas.

Appointments and Remuneration Committee

This is a permanent internal informational and consultative body within the Board of Directors, without executive powers, with informational, advisory, and proposal-making powers in connection with the selection, appointment, re-election, removal, and remuneration of the Company's directors and senior officers upon the terms established in its regulations, available at www.iberdrola.com.

Appointments and Remuneration Committee

Position	Director	Status
Chair	Ms Inés Macho Stadler	Independent
Member	Mr Iñigo Víctor de Oriol Ibarra	Independent
Member	Mr Santiago Martínez Lage	Independent

Secretary (non-member): Mr Rafael Mateu de Ros Cerezo

Corporate Social Responsibility Committee

This is a permanent informational and consultative body created by the Board of Directors, without executive duties, with powers in the areas of revision and update of the Corporate Governance System and supervision of the social responsibility, sustainability, and reputation policies, upon the terms established in its regulations, available at www.iberdrola.com.

Corporate Social Responsibility Committee

Position	Director	Status
Chair	Ms Samantha Barber	Independent
Member	Mr Braulio Medel Cámara	Independent
Member	Ms María Helena Antolín Raybaud	Independent

Secretary (non-member): Mr Fernando Bautista Sagüés

G4-35 Delegation of authority from highest governance body to senior executives and other employees

The Executive Committee and the chairman & chief executive officer have all the powers of the Board of Directors, except for those powers that may not be delegated pursuant to legal or by-law restrictions. In addition, the Company has a structure of executives and authorised employees to implement its strategy and basic management guidelines, with powers provided under two operating principles: one, the principle of joint action, which governs all powers that are of a decision-making or organisational nature, and the other, the principle of severability, which governs the exercise of powers of mere representation.

G4-36 Executive-level positions with responsibility for economic, social, and environmental topics

The Company's organisation has various divisions, the responsibilities of which are as follows: the Finance and Resources Area is responsible for financial matters; both the aforementioned area and the Office of the General Secretary and Secretary of the Board of Directors are responsible for social matters, and the Chairman's Office is responsible for environmental matters.

The heads of these divisions form part of the Operating Committee, which is chaired by the chairman & chief executive officer, thus assuring that information is provided directly to the Board of Directors. Apart from the foregoing, the highest-level persons responsible for these divisions appear before the Board of Directors when it so requests.

G4-37 Processes for consultation between stakeholders and the Board of Directors

Iberdrola has published a *Shareholder Engagement Policy* in order to establish a permanent dialogue with its shareholders.

As provided by article 3 of the *General Corporate Governance Policy*, in order to encourage the informed and responsible participation of the shareholders at the General Shareholders' Meeting, the shareholders are provided access to a *Shareholder's Guide*, a disclosure document intended to encourage participation at the General Shareholders' Meeting, and *Rules of Implementation for the Management of the General Shareholders' Meeting* that standardise, further develop, adapt, and make more specific the provisions of the Company's Corporate Governance System concerning the exercise of shareholders' rights in connection with the holding of the General Shareholders' Meeting.

As provided by applicable law, an Electronic Shareholders' Forum is made available on the corporate website at the time of the call to the General Shareholders' Meeting.

Iberdrola also asks a specialised external firm to review the procedures followed with respect to the holding of the General Shareholders' Meeting, including the processing of absentee votes and of proxy-voting and the counting of votes on proposed resolutions, in order to safeguard shareholders' rights and guarantee transparency. The firm Deloitte Advisory, S.L. was in charge of this review at the 2014 General Shareholders' Meeting.

As from the date of publication of the call to the General Shareholders' Meeting, such information as is deemed necessary for the informed attendance of the shareholders at the meeting is made available to them at www.iberdrola.com, both in Spanish and in English.

From the date of publication of the call to the General Shareholders' Meeting through and including the fifth day prior to the date set for the meeting to be held on first call, the shareholders may request in writing the information or clarifications that they deem are required, or ask the written questions they deem relevant, regarding the matters contained in the agenda for the meeting. In addition, upon the same prior notice and in the same manner, the shareholders may request information or clarifications or ask written questions regarding the information accessible to the public that has been provided by the Company to the National Securities Market Commission since the holding of the last General Shareholders' Meeting, as well as the auditor's reports on the annual financial statements and individual management reports of the Company and those consolidated with its subsidiaries as of the last financial year-end.

The Company also has several specific channels of communication for providing information to shareholders and investors, including the following:

a) The Shareholders' Office (*Oficina del Accionista*). From the call to the General Shareholders' Meeting through the end thereof, the shareholders can rely on the support of the Shareholders' Office, which has a specific site for such purpose at the premises of the meeting in order to resolve any issues that the attendees may raise prior to the commencement of the meeting, as well as to serve and provide information to the shareholders who wish to use the floor.

Furthermore, the Shareholders' Office is in contact with those shareholders who have voluntarily entered their names in its database, and provides a specific service to minority shareholders for the organisation of presentations and events prior to the General Shareholders' Meeting.

b) The Shareholders' Club (*Club del Accionista*). This is an open and permanent communication channel of the Company with the financial community and shareholders who voluntarily join such Club and are interested in monitoring the evolution of the Company on an ongoing basis.

c) The Investor Relations Office (*Oficina de Relaciones con Inversores*). This responds on a regular and personalised basis to the questions of analysts and institutional and qualified investors in equities, fixed-income securities, and socially responsible investments.

The corporate website has activated an interactive system (OLS - On Line Shareholders) that allows shareholders (who may access the system with their user name and password) to ask questions either publicly or confidentially, access frequently asked questions regarding various issues, and, with respect to the General Shareholders' Meeting, solicit information or clarifications or ask questions regarding the items on the agenda, as well as to watch the live proceedings.

Moreover, various channels and tools are available to Iberdrola's employees in order for them to contact and communicate with corporate governance bodies of the Company. These include the meetings that Iberdrola's chairman & CEO holds with employees throughout the world, whether face-to-face or via the internet, at which all employees are able to ask their questions and/or make suggestions, and to which an immediate response is provided. Additionally, the employees hold meetings with their superiors in order to address all kinds of matters relating to the Iberdrola Group.

As a supplement to the foregoing, there is a direct channel by which the workers' representatives, through the committees specified in the collective bargaining agreements, can bring their petitions, suggestions, and needs to the attention of the managing bodies in connection with various issues relating to the Group's labour relations.

In line with the recommendations set out in the *Unified Good Governance Code* and with leading international best practices, Iberdrola provides its employees a channel of communication with the Audit and Risk Supervision Committee allowing for the confidential reporting of possible irregular conduct in the financial and accounting areas that might that be significant, as well as an *Employee Ethics Mailbox (Buzón ético)* to communicate conduct that may entail a violation of the *Code of Ethics*.

The Board of Directors has a Corporate Social Responsibility Committee, the composition and duties of which are described in section G4-34. Its powers include the power to "Review and analyse the expectations of stakeholders and ensure that they are taken into account in formulating *Social Responsibility Policies*".

This Committee has various tools to carry out its duties to review, analyse, and advise on this issue, including the power to access any information or documents of the Company relating to this matter and the power to access the cooperation or advice of outside professionals.

The *Integrated Activities Report of the Committees of the Board of Directors 2014*, available at www.iberdrola.com, identifies the reports prepared by these committees and the appearances requested thereby during the financial year:

__through internal appearances, the committee reviews the relations of the various organisations with their stakeholders through the implementation of the *AA1000 Assurance Standard*, described in indicator G4-26 of this report.

__through external appearances, the committee has the opportunity to understand the viewpoints of outside organisations and experts with respect to the Company's economic, environmental, social, and corporate governance performance.

G4-38 Composition of the highest governance body

As stated in section G4-34, the Board of Directors has fourteen members, one of whom is executive, one proprietary, two assigned to the category of other external, and the other ten independent. Within this last category, five are women, one of whom, Ms Inés Macho Stadler, is lead independent director (*consejera coordinadora*) and chair of the Appointments and Remuneration Committee. In addition, Ms Samantha Barber and Ms Georgina Kessel Martínez are the chairs of the Corporate Social Responsibility Committee and the Audit and Risk Supervision Committee, respectively.

This section also breaks down the composition of the consultative committees of the Board of Directors: the Audit and Risk Supervision Committee, the Appointments and Remuneration Committee, and the Corporate Social Responsibility Committee.

G4-39 State whether the chair of the highest governance body is also an executive officer and the reasons for this arrangement

The chairman of the Board of Directors is also the chief executive of Iberdrola. He has been granted by delegation all the powers of the Board of Directors, except for those powers that may not be delegated pursuant to legal or by-law restrictions. Item seven of the agenda for the General Shareholders' Meeting to be held on 27 March 2015 sets forth the proposal for his re-election. Such proposal is supported by a specific report prepared by the Board of Directors in support thereof, as well as by a report prepared by an independent expert of international renown.

Iberdrola has a decentralised management model as provided in the *General Corporate Governance Policy* (available at www.iberdrola.com), which clearly defines the duties of supervision and management within the Group.

At Iberdrola, the chairman of the Board of Directors has executive status, which circumstance is specifically assessed by the Appointments and Remuneration Committee and by the Board of Directors when evaluating his performance. While not a *sine qua non* requirement, this is of unquestionable benefit to the Company, as has been amply demonstrated by the good performance of the Iberdrola Group and its achievements in recent years, and as shown in the annual assessment of the chairman's performance of his duties by an independent external firm since 2010.

Moreover, the Company has implemented a system of checks and balances to ensure that the bodies delegated with executive powers are under the effective supervision of the Board of Directors, as described in section C.1.22 of the *Annual Corporate Governance Report 2014*.

In particular, it should be noted that the *Regulations of the Board of Directors* significantly strengthen the powers of the lead independent director (*consejero coordinador*), beyond those provided by law.

In this regard, on 17 February 2015, at the proposal of the Appointments and Remuneration Committee, the Board of Directors resolved to ratify the appointment of Ms Inés Macho Stadler as lead independent director. Ms Inés Macho Stadler is also a member of the Executive Committee.

G4-40 Selection and nomination of the members of the highest governance body

The appointment, re-election, and separation of directors is the purview of the shareholders at the General Shareholders' Meeting.

Vacancies that occur may be filled by the Board of Directors on an interim basis until the next General Shareholders' Meeting, whereat the shareholders shall confirm the appointments or elect the persons who should replace directors who are not ratified, or it shall withdraw the vacant positions.

The Appointments and Remuneration Committee advises the Board of Directors regarding the most appropriate configuration thereof and of its committees as regards size and balance among the various classes of directors existing at any time. For such purpose, the Committee will review the structure of the Board of Directors and of its committees on a regular basis, particularly when vacancies occur within such bodies.

In any event, the Board of Directors, and the Appointments and Remuneration Committee within the scope of its powers, shall endeavour to ensure that the candidates submitted to the shareholders at a General Shareholders' Meeting for appointment or re-election as directors, as well as the directors appointed directly to fill vacancies in the exercise of the power of the Board of Directors to make interim appointments, are respectable and qualified persons, widely recognised for their expertise, competence, experience, qualifications, training, availability, and commitment to their duties, while at the same time endeavouring to ensure gender diversity in the composition of the Board of Directors.

When the Board of Directors deviates from the proposals and reports of the Appointments and Remuneration Committee, it shall give reasons for so acting and shall record such reasons in the minutes.

G4-41 Processes for avoiding conflicts of interest within the highest governance body

The *Regulations of the Board of Directors* provide that having interests in any way opposed to those of the Company constitutes a ground of incompatibility for appointment as director and, if applicable, triggers the director's obligation to resign. They also provide that competence to hold office is a requirement to be appointed as director of the Company, and expressly prescribe that directors must resign when their continuance in office may, due to their lack of competence, jeopardise, directly, indirectly, or through their related persons, the faithful and diligent performance of their duties in furtherance of the corporate interest, which is understood as the common interest of all shareholders of an independent company, oriented towards the accomplishment of its object, in accordance with the provisions of applicable law and the Corporate Governance System of Iberdrola. The Board of Directors may request a director subject to any circumstance of incompatibility to resign from office and, if applicable, may propose the director's removal from office to the shareholders at a General Shareholders' Meeting.

For such purposes, the aforementioned *Regulations* provide that it shall be deemed that a director lacks or, if applicable, has ceased to possess, the competence required to hold office when there is a structural and permanent situation of conflict between the director (or a person related thereto or, in the case of a proprietary director, between the shareholder or shareholders that proposed or made the director's appointment, or persons directly or indirectly related thereto) and the Company or the companies forming part of the Group.

Independently of the foregoing, the *Regulations of the Board of Directors* also regulate the specific conflict of interest situations that might affect the directors and persons related thereto that involve a direct or indirect conflict of their personal interest or that of their related person with that of the Company or the companies within its Group. As provided therein, the directors must give notice of conflicts of interest in which they are involved and must abstain during the deliberations and voting on the matter in question. Section D.6 of the *Annual Corporate Governance Report 2014* describes the mechanisms used to detect, determine, and resolve potential conflicts of interest between Iberdrola and its directors, officers, and significant shareholders.

For its part, the first section of article 42 of the *Regulations of the Board of Directors* provides that "any transaction by the Company or the companies forming part of its Group with directors, with shareholders that own a shareholding interest that is equal to or greater than that legally regarded as significant at any time or that have proposed the appointment of any of the directors of the Company, or with the respective related persons, shall be subject to the approval of the Board of Directors, or in urgent cases, of the Executive Committee, following a report from the Appointments and Remuneration Committee.

In the event that authorisation has been granted by the Executive Committee due to the urgency of the matter, the Executive Committee shall give notice thereof to the Board of Directors at its next meeting in order for it to be ratified."

In addition, the second section of such article provides that "the Board of Directors, through the Appointments and Remuneration Committee, shall ensure that transactions between the Company or the companies forming part of its Group and the directors, the shareholders mentioned in the preceding section, or the respective related persons are carried out under arm's length conditions and with due observance of the principle of equal treatment of shareholders in the same situation."

Highest governance body's role in implementing the vision, values, and strategy

G4-42 Highest governance body's and senior executives' roles in the development, approval, and updating of the organisation's vision, mission, values, strategies, policies, and goals

The corporate and governance structure of the Company and of the Group, which form an essential part of the Company's Corporate Governance System, is defined on the grounds described below, which duly differentiate between the duties of day-to-day administration and effective management, on the one hand, and those of supervision and control, on the other:

a) Attribution to Iberdrola, S.A. and, in particular, to its Board of Directors, of the duties relating to establishing the Group's policies and strategies and the basic guidelines for the management thereof, as well as general supervision of the development of such policies, strategies, and guidelines, and of decisions on matters of strategic importance at the Group level.

b) Assumption by the chairman of the Board of Directors & chief executive officer, with the technical support of the Operating Committee, and by the rest of the management team of the duty of organisation and strategic coordination within the Group through the dissemination, implementation, and monitoring of the general strategy and basic management guidelines established by the Board of Directors.

c) The function of organisation and strategic coordination is also articulated through country subholding companies. Such entities group together equity stakes in the head of business companies carrying out their activities within the various countries in which the Group operates, and centralise the provision of services common to such companies, always in accordance with the provisions of applicable law and especially the legal provisions regarding the separation of regulated activities. Country subholding companies have boards of directors that include independent directors and their own audit committees, internal audit areas, and compliance units or divisions.

Country subholding companies are responsible for disseminating, implementing, and ensuring compliance with the policies, strategies, and general guidelines of the Group in each of the countries in which it operates, taking into account the characteristics and unique aspects of such countries. In this regard, country subholding companies facilitate the coordination of the companies in which they hold interests, while observing the laws and regulations concerning the separation of regulated activities.

d) Assumption of decentralised executive responsibilities by the head of business companies of the Group. Such companies are in charge of the day-to-day and effective management of each business, as well as of day-to-day control. The head of business companies are organised through their respective boards of directors, which include independent directors, where appropriate, and their own management bodies; they may also have their own audit committees, internal audit areas, and compliance units or divisions.

This corporate and governance structure of the Group operates jointly with the Group's business model, which entails a global integration of the businesses and is focused on maximising the operational efficiency of the various business units and assures the dissemination, implementation, and monitoring of the general strategy and basic management guidelines for each of the businesses, mainly through the exchange of best practices among the various companies of the Group and without reducing the decision-making autonomy of each of them.

The Operating Committee is an internal committee of the Company within the Group's corporate and governance structure, which provides a level of technical, information, and management support for the definition, supervision, organisation, and monitoring of general management guidelines as well as for the strategic planning of the businesses managed by the Group's head of business companies, in accordance with the Group's business model.

The organisational model is structured into the decentralised business units and the centralised corporate governance and control functions, which can be viewed at www.iberdrola.com.

Powers of the highest governance body and evaluation of its performance

G4-43 Highest governance body's knowledge of economic, environmental, and social topics

Section 14 of the *General Corporate Governance Policy* provides that "The Company has a programme to provide directors with information and updates in response to the need for professionalisation, diversification, and qualification of the Board of Directors.

Furthermore, in order to improve their knowledge of the Group, presentations are made to the directors regarding the businesses of the Group. In addition, a portion of each meeting of the Board of Directors tends to be dedicated to a presentation on financial, legal, or socio-political issues of significance to the Group.

The directors have access to a specific application, the directors' website, which facilitates the performance of their duties and the exercise of their right to receive information. Such information as is deemed appropriate for the preparation of meetings of the Board of Directors and the committees thereof in accordance with the agenda, as well as materials relating to the director training programmes and the presentations made to the Board of Directors, is posted on such website.

In addition, once approved, the minutes of meetings of the Board of Directors and of the committees thereof, or an abstract or summary thereof, are posted on the directors' website.

On an annual basis, the Board of Directors evaluates its operation and the quality of its work, the performance by the chairman of the Board of Directors & chief executive officer of his work, and the operation of the committees. The Board of Directors is assisted by a prestigious independent firm for these purposes."

In order to facilitate the directors' discharge of their duties, the following initiatives have been implemented:

__The approval by the Board of Directors of the *Directors' Code of Ethics* of Iberdrola, which provides the directors with an overall view of the rights and duties inherent in their position and is continuously updated.

__The directors' website, on which the call to, and the documents for preparation of, each meeting of the Board of Directors are published.

__The development of an information programme for the directors of Iberdrola pursuant to the provisions of the *Regulations of the Board of Directors*, which seeks to achieve the ongoing update of directors and consists of presentations, informational notes, and posts that are included in the directors' website regarding matters of interest to the directors of the Company, issues of general interest, and specific information on corporate governance and corporate social responsibility.

__The holding of informational meetings led by officers and employees of the Group, at which information is provided regarding activities related to the various business and corporate areas of the Company, as well as training presentations delivered by well-known professionals from outside the Company, at which the directors receive information on matters of topical interest.

G4-44 Highest governance body's performance

The *Regulations of the Board of Directors* provide that the Board shall annually evaluate: its operation and the quality of its work; the performance of duties by the chairman of the Board of Directors and by the chief executive officer, based on the report submitted thereto by the Appointments and Remuneration Committee; and the operation of its committees, in view of the report submitted thereto by such committees. For such purpose, the chairman of the Board of Directors shall organise and coordinate the aforementioned evaluation process with the chair of each committee.

The Company has drawn on the cooperation of PricewaterhouseCoopers Asesores de Negocio, S.L. to perform the evaluation of financial year 2014. The evaluation process is structured in two phases: a first phase during which information is obtained from the directors; and a second phase during which such information is analysed and conclusions are drawn, in order to identify potential areas for improvement and implement specific measures that may help to further improve Iberdrola's Corporate Governance System.

The Board of Directors completed this evaluation process for financial year 2014 through the adoption of the corresponding resolution at its meeting of 17 February 2015.

Highest governance body's role in risk management

G4-45 Procedures of the highest governance body to supervise the identification and management of economic, environmental, and social performance, as well as its role in the implementation of due diligence processes and in stakeholder consultations

The Board of Directors of Iberdrola is structured as described in section G4-34 of this report, with monitoring duties being carried out by the consultative committees thereof that supervise the economic, social, and environmental performance of the Company. Such duties include both the supervision of the risks and opportunities associated with the Group's activities and compliance with international principles, codes, and standards applicable to high-responsibility tasks. The Board of Directors and its consultative committees perform periodic evaluations of the aforementioned aspects of performance, drawing for such purpose on external information of interest thereto, with the assistance of external independent advisers, and on information provided to them by the rest of the organisation itself, primarily through periodic appearances of the Group's executives at committee meetings.

The Audit and Risk Supervision Committee, the Appointments and Remuneration Committee, and the Corporate Social Responsibility Committee have prepared an *Integrated Activities Report for financial year 2014*, available at www.iberdrola.com.

G4-46 Highest governance body's role in reviewing the effectiveness of the management of economic, environmental, and social risks and opportunities

G4-47 Frequency of the highest governance body's review of economic, environmental, and social impacts, risks, and opportunities

These roles are described in Section E - "Risk Control and Management Systems" of the *Corporate Governance Report 2014*, and risks are reviewed at least quarterly.

Highest governance body's role in preparing the Sustainability Report

G4-48 Highest body that reviews and approves the report

The Board of Directors of Iberdrola is the body responsible for reviewing the *Sustainability Report 2014*, which was approved by the Board of Directors on 17 February 2015, the date of preparation of the Company's annual accounts.

Highest governance body's role in evaluating economic, environmental and social performance

G4-49 Process for communicating critical concerns to the highest governance body
G4-50 Critical concerns communicated to the highest governance body

The highest-level persons in charge of the various business divisions and corporate divisions have a presence on the Operating Committee referred to in section G4-42 of this report. It is chaired by the chairman & chief executive officer, who reports in turn to the Board of Directors.

The critical concerns reported to and considered by the Board of Directors are principally:

__Preparation of accounts and proposed allocation of profits/losses.

__Periodic public information.

__Budgets and definition of objectives.

__Significant investments and divestments.

__Grant of powers of attorney.

__Remuneration of the Board of Directors and senior management.

__Approval of various annual reports.

__Call to the General Shareholders' Meeting, formulation of proposed resolutions, and the corresponding reports of the directors.

__Update of corporate policies.

__Evaluation of the Board of Directors.

__Approval of risk limits and indicators.

__Implementation of increases and reductions in capital approved by the shareholders at the General Shareholders' Meeting.

__Financial transactions (debt and equity).

__Interim appointment of directors.

__Hiring of the Auditor.

Remuneration and incentives

G4-51 Remuneration policies for the highest governance body and senior executives, as well as the relationship to economic, environmental, and social performance

The *Annual Director Remuneration Report 2014*, which includes an explanation of the *Director Remuneration Policy*, individually describes the remuneration received by each director. The current version of the *Director Remuneration Policy* approved by Iberdrola is available at www.iberdrola.com. This policy implements, among other things, the structure for the remuneration of the directors for their activities as such and the structure of the executive directors' remuneration for the performance of their executive duties, based on a series of parameters that are in line with the standard remuneration for companies in the industry. This report was submitted to a consultative vote of the shareholders at the General Shareholders' Meeting held on 28 March 2014, and was approved with only 1.37% of the shares represented in person and by proxy voting against.

The *Director Remuneration Policy* and the *Senior Officer Remuneration Policy* seek to comply with the good governance recommendations generally recognised in the international markets on remuneration issues. In particular, the remuneration policy for the executive directors and the senior officers includes a significant variable component linked mainly to the performance of the Company with respect to certain specific and pre-established economic/financial, industrial, and operational parameters that are quantifiable and aligned with the strategic goals of the Company and the Group for the purpose of retaining and motivating the executive directors and for the creation of long-term value. Weight is also to be given to goals in the areas of corporate governance and corporate social responsibility, as well as to the individual performance of the executive directors.

As regards aspects relating to the Company's economic, environmental, and social performance, variable remuneration for the management team of the Iberdrola Group takes into account variable parameters linked to financial as well as environmental and social aspects.

G4-52 Process for determining the remuneration of the highest governance body and senior executives, stating whether independent consultants are involved

As provided in the *By-Laws* and the *Regulations of the Board of Directors* of Iberdrola, the Board of Directors, at the proposal of the Appointments and Remuneration Committee, is the body with power to set the remuneration of directors, except for such remuneration as consists of the delivery of shares of Iberdrola or of options thereon or which is indexed to the price of the shares of Iberdrola, which must be submitted for the approval of the shareholders at the General Shareholders' Meeting. The Appointments and Remuneration Committee is a consultative committee chaired by and made up exclusively of independent directors.

Pursuant to article 52.1 of the *By-Laws*, the overall limit to the amounts allocated by Iberdrola to the directors each year as remuneration, including, in the case of executive directors, remuneration payable for performing executive duties, as well as the funding of a reserve to meet the liabilities assumed by the Company in connection with pensions, payment of life insurance premiums, and payment of severance to former and current directors, is 2% of the consolidated group's profit for the financial year, after allocations to cover the legal and other mandatory reserves and after declaring a dividend to the shareholders of not less than 4% of the share capital.

Specifically, the by-law mandated allocation was 19 million euros in 2014 (it was 25.7 million euros in 2013).

The price of the shares or options thereon, or any remuneration established by reference to the listing price, which in any event must be approved by the shareholders at the General Shareholders' Meeting, shall not be included in the calculation for the purposes of such limit.

G4-53 Report how stakeholders' views are sought and taken into account regarding remuneration

The *Director Remuneration Report* for financial year 2014 was submitted to a consultative vote of the shareholders at the General Shareholders' Meeting held on 22 March 2013, which had a quorum of more than 82.2%, and only received 1.37% of the votes against.

G4-54 Report the ratio of the annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median annual total compensation for all employees (excluding the highest-paid individual) in the same country

G4-55 Report the ratio of percentage increase in annual total compensation for the organisation's highest-paid individual in each country of significant operations to the median percentage increase in annual total compensation for all employees (excluding the highest-paid individual) in the same country

Iberdrola's Corporate Governance Model provides for the existence of a holding company, Iberdrola S.A., and for country subholding companies in the main countries in which it does business, as shown in indicator G4-42 of this report and described on the Company's website.

The main countries in which the Iberdrola Group does business are Spain, the United Kingdom, the United States of America, Mexico, and Brazil, and the remuneration ratios are set forth in the table below. The management structure has been adjusting to this corporate structure in Spain during financial year 2014, and the information provided corresponds to the highest-paid management position in that country during financial year 2014.

Country [1]	Highest level of remuneration	Indicator G4-54	Indicador G4-55
Spain [2]	Indicator	17.67	N/A
United States	Director (CCO)	14.49	2.23
United Kingdom	Director (CCO)	9.53	1.27
Mexico	Corporate Director	8.48	0.17
Brazil	Director/Chair	33.61	2.74

(1) Country composition: Spain: Generation, Distribution, Retail, Renewables, and Engineering; United States of America: Networks, Renewables, Gas, and Engineering; United Kingdom: ScottishPower (including Renewables) and Engineering; Mexico: Generation, Renewables, and Engineering; Brazil: Elektro.

(2) Composition of total annual remuneration: fixed salary, fixed and variable salary supplements, and annual variable remuneration, excluding the long-term incentive plan which corresponds to the entire workforce, whether permanent or temporary and whether full-time or part-time, the latter calculated as salary equivalents to full-time.

***The Annual Director Remuneration Report* for financial year 2014, available at www.iberdrola.com, describes the remuneration of the Board of Directors of the holding company Iberdrola S.A.**

7. Ethics and integrity

G4-56 Description of values, principles, standards, and norms of behaviour such as codes of conduct and codes of ethics

Ethics is at the core of the Iberdrola Group's strategy, its business model, and its decision-making chain. Iberdrola works in order to ensure that its commitment to ethics and respect for the environment are the foundation for a sense of belonging and for the trust of all the people and the various stakeholders with whom the Company interacts.

As a reflection of this business culture that is respectful of the natural and social environment, Iberdrola has formulated the vision and values applicable to the entire Group, a detailed description of which can be found at www.iberdrola.com.

The basic commitments on which the Group's vision is based include its firm commitment to ethics and corporate responsibility.

The vision and values of the Group, far from constituting a mere declaration of principles, are integrated into its day-to-day management, in all its areas of activity. The vision and values of the Group are included in the Company's *Code of Ethics,* in existence since 2002, which establishes a set of principles and guidelines for conduct to ensure the ethical and responsible behaviour of the Group's professionals in their activities. These principles and guidelines for conduct apply to all of the Group's professionals, regardless of seniority, geographic or functional location, or the company of the Group to which they provide their services.

The body charged with ensuring that the *Code of Ethics* applied is the Compliance Unit (the Unit), which was set up by the Board of Directors in December 2012, following the highest corporate ethics standards, as an internal and permanent collective body connected to the Corporate Social Responsibility Committee and with duties in the regulatory compliance area. The Unit's main duties include ensuring that the *Code of Ethics* is applied and the dissemination of a preventative culture based on "zero-tolerance" towards the commission of unlawful acts and fraud.

The Group also has policies, codes, and procedures to govern conduct in various areas relating to these matters, including the following, among others: *Crime Prevention and Anti-Fraud Policy, Directors' Code of Ethics, Procedure for Conflicts of Interest and Related-Party Transactions with Directors, Significant Shareholders and Senior Officers, Internal Regulations for Conduct in the Securities Market,* and *Internal Regulations for the Processing of Inside Information*.

This ethical and good governance commitment is transmitted to third parties with which the group is connected through various initiatives, which include the *Suppliers' Code of Ethics*, which sets forth the Group's firm commitment to not allow any corrupt, fraudulent, or illegal practice, or practices contrary to the policies and principles of the Company in the area of corporate social responsibility in its supply chain.

In addition, the Wholesale and Retail Business has the *Sales Code of Ethics*, which has been reviewed by the Compliance Unit during the financial year, and the purpose of which is to establish the principles that are to govern the conduct of sales representatives and external sales teams with respect to customers.

In addition, compliance divisions have been established at each country subholding company and/or head of business company of the Group, which are structured as internal independent areas linked to the respective Audit and Compliance Committee, with duties in the area of regulatory compliance and in the prevention and correction of unlawful or fraudulent conduct.

G4-57 Internal and external mechanisms for seeking advice on ethical and lawful behaviour

G4-58 Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organisational integrity

Since its inception, the Compliance Unit has established a global operating framework through the definition and monitoring of a robust and traceable ethics and compliance system, designed on the basis of the parameters set forth in best international practices on control, compliance, fraud prevention, and the fight against corruption (Compliance System).

The Group's reporting channels

One of the basic elements of the Compliance system is to establish detection and/or monitoring mechanisms to verify the effectiveness of the controls and prevention activities carried out at the Group.

One of such mechanisms are the ethics channels. Such channels for reporting and asking questions are essential to foster a culture of integrity and compliance with the law within the Group. Ethics mailboxes give the employees of the Group a transparent tool to report conduct that could entail an irregularity or an act contrary to the law or to the rules of conduct set forth in our *Code of Ethics*. All information received through these channels is treated as confidential information.

In addition, ethics mailboxes coexist with other helpline reporting mechanisms available at some country subholding companies and/or head of business companies of the Group, such as, for example, Elektro and Iberdrola USA, where such mechanisms are anonymous and are also accessible to third parties.

In any event, there is an express commitment at the Group, reflected in the Code of Ethics, not to take reprisals against those using these channels.

All professionals who have reasonable indications that any irregularity or any act contrary to the law or to the rules of conduct of the *Code of Ethics* has been committed must report it through the aforementioned channels.

Furthermore, the Group also has a Shareholders' Ethics Mailbox as a channel of communication through which shareholders can report conduct that may entail a breach of the Company's Corporate Governance System or the commission by any professional of the Group of an act contrary to the law or to the rules of conduct of the *Code of Ethics*. This mailbox is available on the Group's corporate website, specifically within the interactive system provided for the shareholders known as "OLS – On-Line Shareholders".

Processing and investigation

As laid down in the *Code of Ethics*, it falls upon the Compliance Unit to process the reports made through the reporting channels, except in cases where the report affects an employee assigned to a country subholding company or head of business company that has a Compliance Division.

The right to privacy, to a defence, and the presumption of innocence of the persons under investigation are guaranteed in all investigations.

In addition to the investigation work and the possible disciplinary action that may derive from it, the situations reported through these ethics channels are reviewed in detail by the Compliance Unit in order to identify possible corrective actions and suggest improvements in the control, prevention, and mitigation systems so as to try to prevent a future repetition of the irregular situations detected.

Communications received during financial year 2014

As regards the communications received through the ethics mailboxes and existing similar channels in the Group, a total of 327 communications were received in financial year 2014, of which 132 were queries and 195 reports. In addition, of the total complaints received, 94% were admitted for processing, and in only 12% of the cases was it shown that there had been irregular conduct or conduct contrary to the *Code of Ethics* leading to some type of disciplinary action.

Part II. Specific standard disclosures

This section provides a description of the material aspects affecting the Iberdrola Group, defined based on the standard described in indicator G4-19 of this report.

In each aspect, there is a description of the Company's focus to properly manage and report on the results achieved, by means of the corresponding indicators. If several of these aspects are managed with a similar focus, the focus is described for one of them and a corresponding cross-reference is made in the others.

In managing the material aspects identified, there are also tools, processes, and procedures that are generalised throughout the Company and apply to all of them, and which are described below and should be taken into account in order to understand the manner in which Iberdrola carries out its activities and manages the economic, environmental, and social impacts thereof.

Generic management approach, applicable to all aspects of this report

Policies and commitments

The Company's Corporate Governance System is made up of the *By-Laws*, the *Corporate Policies*, the internal corporate governance rules, and other internal codes and procedures.

The Group thus has a set of *Corporate Policies* that develop the principles reflected in the Corporate Governance System and that contain the guidelines governing the actions of the Company and the companies of its Group, as well as the directors, officers, and employees thereof, within the framework of the vision and values of the Company.

The companies of the Group assume a set of principles and values that express their commitment to corporate governance, business ethics, and corporate social responsibility. The awareness, dissemination, and implementation thereof serve to guide the activities of the Board of Directors and its committees and of the decision-making bodies of the Company in its relations with shareholders, investors, customers, suppliers, and the general public.

These policies are grouped into three categories:

__*Corporate governance and regulatory compliance policies*.

__*Risk policies*.

__*Social responsibility policies*.

And can be viewed in full or in summary in the "Shareholders and Investors" tab at www.iberdrola.com.

Iberdrola has also assumed certain public commitments that guide the activities of the Group:

__By subscribing to various initiatives relating to the environmental and social dimensions of its activities, which are listed in indicator G4-15 of this report.

__By its membership within certain business and social organisations, such as those described in indicator G4-16 of this report, and which are identified by their objectives and purposes.

These policies and commitments serve to guide the Company and its workforce to manage their activities, and specifically the aspects dealt with in this document.

Responsibilities

Indicator G4-42 of this report describes the organisational model of the Iberdrola Group and its responsible persons. The responsibilities of the corporate functions or business units regarding the various aspects dealt with in this report are the following:

__Aspects relating to corporate governance and that affect the legal area are the responsibility of the Office of the General Secretary and Secretary of the Board of Directors.

__Aspects relating to labour practices are the responsibility of the Human Resources Division, within the Finance and Resources Division.

__Aspects relating to the environment are the responsibility of the Innovation, Quality, and Environment Division.

__Aspects relating to procurement are the responsibility of the Procurement and Insurance Division, within the Finance and Resources Division if referring to general supplies, and the responsibility of the Wholesale and Retail Business if referring to the procurement of fuel.

__Aspects relating to regulation and public policies are the responsibility of the General Businesses Division of the Group.

__Aspects relating to the products sold, demand, customers, and other related issues are the responsibility of the Wholesale and Retail Business if referring to liberalised markets like Spain or the United Kingdom and the responsibility of the Networks Business if referring to regulated markets like the United States of America or Brazil.

__Aspects relating to production facilities are the responsibility of the Wholesale and Retail Business or the Renewables Business, each within their scope of activity, and those relating to transmission and distribution facilities are the responsibility of the Networks Business. These three businesses are within the General Businesses Division of the Group.

By way of complement:

__The Operating Committee, made up of the chairman, the Group's business CEO, and directors of corporate functions and business units, is an internal committee providing technical support and information, both with respect to the duties of supervision, organisation, and monitoring of the general management guidelines, as well as strategic planning of the businesses managed by the head of business companies of the Group; and

__The Compliance Unit, as an internal permanent collective decision-making body, linked to the Company's Corporate Social Responsibility Committee, which performs duties in the area of regulatory compliance and the Company's Corporate Governance System, particularly in the area of crime prevention.

To exercise these responsibilities, the Iberdrola model provides that they are assumed in a decentralised manner by the country subholding companies and head of business companies in each country, which are organised through their respective boards of directors. The head of business companies occupy themselves with the effective management of each of the businesses, as well as the day-to-day management and control thereof.

Goals, resources, and results

Iberdrola periodically publicises its medium- and long-term goals using various formats: *Investor Day*, a description of which is available at www.iberdrola.com, is one of the most important events to externally communicate the future prospects of the Company. As additional information, Iberdrola annually publishes its *Integrated Report*, which is also available on the corporate website.

Internally, the various businesses and corporate organisations determine their annual goals in harmony with the strategic goals of the Company, both financial and non-financial, directed specifically towards the activities for which they are responsible. The results obtained with respect to the established goals are used to establish the annual variable remuneration of the Company's management team by means of a procedure audited by the Company's Internal Audit Division.

To reach these goals, Iberdrola has an annual process for assigning resources, by establishing the corresponding income and expense budgets, which are approved by the Company's Operating Committee. The achievements obtained by Iberdrola are reflected in the performance of the various quantitative indicators covered by the various aspects dealt with in this report.

By way of complement, the businesses and corporate areas have defined specific goals in the area of corporate social responsibility, which are contained in the 2013-2014 CSR Plan. The Group's Corporate Social Responsibility and Reputation Committee is responsible for monitoring these goals, the results of which are presented to the Corporate Social Responsibility Committee of the Board of Directors. At year-end 2014, the results obtained at the close of such plan were obtained, reaching 96% of the goals established, and the preparation of a new *2015-2017 CSR Plan* has commenced.

A. Economic dimension

The aspects dealt with in this chapter are the following:

Aspects of the GRI-G4 Guidelines

Economic performance
Market presence
Indirect economic impacts
Procurement practices

Specific Aspects of the GRI-G4 Electric Utilities Sector Supplement

Availability and reliability
System efficiency
Demand-side management
Research and development
Decommissioning of nuclear plants

Specific Aspects of the Iberdrola Group

Costs of Supply
"Green Bonds"

The information boundaries used in this chapter are defined in section G4-17 of this report.

Aspect: Economic performance

Management Approach

The electricity sector is a significant driver of the economy, to which it contributes through major annual investments and the creation of jobs, both direct and indirect. Its function in the current energy environment is to provide safe, competitive, and sustainable supply, in which clean technologies are critical in combating climate change and reducing dependence on fossil fuels.

Over the past decade, Iberdrola has engaged in a process of significant growth and internationalisation that has made it one of the leading electricity companies in the world. This strong position was achieved through a sound, long-term industrial plan that is both profitable and creates value, based on a business strategy of sustainable growth.

Energy is globally trending towards moderate growth in the medium and long term, supported by the economic recovery. Iberdrola's strategy for the 2014-2016 period will be based on consolidating its financial strength, investing in regulated businesses, and continuing to implement efficiency improvements; thereby maintaining the same strategic pillars that enabled the successful navigation of the global economic and financial crisis. These strategic pillars are:

__Balanced risk profile

__Operational efficiency

__Financial strength

A summary of this strategy can be found in the document *Outlook 2014-2016*, which can be accessed through its corporate website in the *Shareholders and Investors* section.

Iberdrola's financial results for the year are summarised in the annual financial information for 2014, which is available online at www.iberdrola.com. Alongside these results, the company also requires its companies to explain how they are achieved and to evaluate them in terms of sustainability. In Iberdrola's case, this comprehensive overview can be seen in the *Sustainability Report 2014* along with the aforementioned financial information. In addition, the *Integrated Report February 2015*, the quarterly reports on results, and other economic information of interest can be found at www.iberdrola.com.

G4-EC1 Direct economic value generated and distributed

Direct economic value generated, distributed, and retained (€ millions)	2014	2013
Iberdrola consolidated		
Revenue (sales and other income)	31,434	32,241
Operating costs	19,916	21,441
Employee remuneration (excluding company social security costs)	2,086	1,998
Payments to providers of capital	2,753	2,554
Payments to government	2,441	2,680
Community investments	27	24
Economic value retained	4,211	3,545

Tax contribution (€ millions)[1]	2014	2013
Iberdrola consolidated		
Company contributions	2,441	2,680
Contributions due to third-party payments	3,064	2,933
Total	**5,505**	**5,613**

(1) Analistas Financieros Internacionales (Afi) has estimated that the total annual tax contribution of the Company is approximately 10,500 million euros, based on Iberdrola's activities during the 2009-2013 period.

A breakdown by geographic area can be found in the *Information Supplementary to the Sustainability Report 2014*, available at www.iberdrola.com.

G4-EC2 Financial implications and other risks and opportunities for the organisation's activities due to climate change

Iberdrola includes climate change as a cross-cutting element in managing risks and opportunities in its business plans. The following risks of climate change have been identified: potential impact on hydroelectric energy production, projected renewable energy production, cooling needs of thermal plants, thermal efficiency of generating plants, levels of growth in energy demand, and soundness of the transmission and distribution infrastructure. The specific implications of each of these risks are constantly being reviewed, and are included in the Company's operational planning.

Iberdrola has a *Policy against Climate Change*, in which it commits to supporting international conventions to address this environmental problem, encouraging the development of efficient technologies from the standpoint of greenhouse gas emissions, boosting efficient energy use, and increasing its customers' awareness of the importance of engaging in responsible energy consumption.

In September 2014, at the Climate Summit in New York, Iberdrola endorsed the goals set by the Carbon Disclosure Project via its *Road to Paris 2015* initiative, which aims to bring down emissions and promote responsible corporate policies on climate change:

1. Cutting GHG emissions to limit global warming to less than 2° Celsius.

2. Providing information on climate change through the Group's main channels.

3. Promoting responsible corporate policies on climate change.

To that end, Iberdrola's goal is to achieve a 30% reduction in emissions intensity by the year 2020, compared to 2007.

In order to compile the Company's efforts to adapt to the consequences of climate change, a special information section has been created on the corporate website: www.togetheragainstclimatechange.com/en

Iberdrola has increased the transparency and communication of its climate change policies and is taking the steps needed to reduce emissions. These actions to combat climate change are part of the Company's global strategy, and range from the production of low-carbon energy, to the development of high-efficiency products and services.

Once these types of factors are identified and managed, they have a lower impact in the short and medium term than other risks and opportunities.

G4-EC3 Coverage of the organisation's defined benefit plan obligations

In Spain, the companies signing the *5th Collective Bargaining Agreement* jointly sponsor a voluntary employee pension plan in which 98% of the workforce participates.

The periodic contributions made under this system and under the current Collective Bargaining Agreement is determined as a percentage of each employee's annual pensionable salary. Iberdrola does not have any unmet financial commitments pending under this plan.

In the United Kingdom, 95% of the workforce participate in the pension plans in one form or another:

__The defined-benefit plan has two pension plan schemes, based on company and seniority. They have been closed to new members since 1 April 2006.

__The defined-contribution plan has a pension scheme that is based on a percentage of each employee's annual pensionable salary. This scheme is optional for employees and is co-funded by the company and employees.

Iberdrola Networks USA has five defined-benefit plans, covering union and non-union employees, for which the company makes the contribution, with benefits being based on salary and years of service. As of 1 January 2014, all defined-benefit plans were closed to new members.

It also has defined-contribution plans with distinct and separate operations covering employees who are both subject and not subject to the collective agreement. Employees can make contributions as a percentage of their pre-tax salary (generally up to 50%). Almost 100% of the workforce is eligible to join these defined-contribution plans, with some 89% having signed up.

The Renewables USA Business has a corporate defined-benefit plan, with contributions assumed by the company and benefits determined based on salary and years of service. Vesting in this plan was frozen as at 30 April 2011. It also has a defined-contribution plan with three different types of company contributions. Employees can make contributions as a percentage of their pre-tax salary. 100% of the workforce belongs to these defined-contribution plans.

Elektro has a defined-benefits plan for employees who joined before 31 December 1997, and a mixed plan (70% of salary as defined benefit and 30% as defined contribution) for those who joined after 1 January 1998. 80% of the workforce belongs to these defined-contribution plans. The rest of the affiliates in Brazil have pension plans for all their employees, with contributions made by the company and by employees based on previously-agreed percentages, except for employees of the following companies: Iberdrola Brasil, Iberdrola Operação e Manutenção (operator of the Termopernambuco plant), Iberdrola Renovaveis do Brasil, Iberdrola Construção e Serviços, and Enerbrasil.

Commitments to unionised employees in Iberdrola Mexico, consisting of agreed benefits in the event of death, disability or retirement, and which are included in Combined Cycle tenders, are funded out from internal funds. A defined-contribution pension plan is being implemented in 2015.

G4-EC4 Financial assistance received from governments

Assistance received

Financial assistance received by the Iberdrola Group is shown in the following table on a consolidated basis:

Financial assistance (€ millions)	2014	2013
Capital subsidies	0	12
Investment tax credits[9]	0	20
Emissions rights	0	0
Assistance for other items included in the GRI Protocol	0	0
Iberdrola consolidated total	0	32

A breakdown by geographic area can be found in the *Information Supplementary to the Sustainability Report 2014*, available at www.iberdrola.com.

Government participation in shareholding structure

The Iberdrola Group is not aware of government participation in the shareholding structure.

9 Créditos fiscales a la inversión.

Aspect: Market Presence

Management Approach

The Iberdrola Group has hiring procedures that comply with the principles of non-discrimination and equal opportunity, and has selection processes based on candidate merits, ensuring the application of such principles.

The management approaches described in the "Labour Practices and Decent Work" chapter of this report are applied to both remuneration as well as the selection of professionals.

G4-EC5 Ratios of entry level wage to local minimum wage

Iberdrola's hiring terms, which are contained in the various collective bargaining agreements of the Group, guarantee that the entry level salaries applied at the Company are the same for men and women. However, due to the specific nature of the workforces of certain companies and the weighting of the calculations made, the statistical treatment of information at the Group level gives the figures in the following table and in the *Information Supplementary to the Sustainability Report 2014*, but should not be interpreted to show a difference in hiring terms between both groups.

Basic entry level wage compared to local minimum wage (%)	2014	2013
Men	163.43	158.67
Women	149.41	134.41
Basic boundary	160.87	152.25

G4-EC6 Senior management hired from the local community

The principles of non-discrimination and equal opportunity applied at the Iberdrola Group are contained in both the *Code of Ethics* and in various collective agreements, policies and procedures that have been approved and implemented, such as:

__The *5th Collective Bargaining Agreement and the Recruitment and Selection Policy*, applied in Spain.

__The Collective Bargaining Agreement and the policies on equal opportunity, anti-age discrimination, people with disabilities, equal pay, harassment, and flexible working policies, as applied in the United Kingdom.

__The Collective Bargaining Agreement and policies on sexual harassment, equal employment opportunity, harassment and discrimination, as applied in the United States.

The application of all these instruments ensure that selection processes are based on the candidate's merits, enabling non-discriminatory participation in these processes.

In implementing these procedures, Iberdrola's approach is to promote and favour the hiring of employees in the geographic boundaries in which it operates, also encouraging these individuals to reach executive positions in the corresponding companies. In 2014, for companies within the expanded boundary, 97.80% of management personnel was local, where management personnel is defined as anyone with management responsibilities at the Company.

Aspect: Indirect economic impacts

Management Approach

In addition to the direct economic impacts that occur as a consequence of the cash flows that are generated, the Iberdrola Group also brings about additional effects or indirect impacts such as those described in this aspect.

G4-EC7 Development and impact of infrastructure investments and services supported

During the construction and operation of its facilities, Iberdrola carries out certain infrastructure activities that are unrelated to its facilities and without a specific commercial purpose, but rather that are intended to meet the needs of the social environment, resolving existing shortcomings in the local communities. A summary of these projects with strong social impact during 2014 is provided below:

Infrastructure

In Mexico it has participated in the improvement of various educational centres, the electrification of public areas, street paving, and expansions of potable water and sewage networks.

In Brazil, work has been performed for the recovery, maintenance, and conservation of gardens and urban street furniture. In the field of street lighting, an initiative was launched to replace over 2,000 existing sodium vapour lamps with 1,098 new LED-type lamps, yielding estimated energy savings of in excess of 2,600 MWh/year.

It also built a bridge in Hungary and cooperated on the refurbishment and maintenance of schools in Greece and Romania.

Services

Significant service activities include support for professional formation and training in areas near Iberdrola's facilities. *Energy Classrooms* near the wind farms in Spain were visited by more than 14,000 people in 2014.

Brazil is the site of major energy efficiency programmes for public buildings, such as municipal governments, schools, assistance centres, etc.; in total, 83 public buildings have been renovated in 23 different municipalities, yielding energy savings of close to 1,700 MWh/year.

Also worthy of note is the collaboration with Hydrographic Confederations and other bodies in Spain to enable various activities near the hydroelectric reservoirs (sports events, reproduction of certain species, etc.), by adjusting flows at certain times.

G4-EC8 Significant indirect economic impacts

Indirect impacts of the businesses and facilities

From an economic standpoint, the expansion of electricity systems drives the regional economy in the region where it occurs and creates employment opportunities, contributing to economic and social improvement.

Positive effects include:

__Facilities for the production, transmission, and distribution of electrical energy are built in dispersed geographic locations. This contributes to the generation of economic activity and jobs in urban and rural environments.

__These same facilities create significant indirect employment in the region in the form of local contracting companies, creating demand for lodging, security, health, mechanical, and transport services, etc.

__Professional training is promoted and skilled labour boosted in local communities, such as services for maintaining wind farms.

__Local communities are supported through the sponsorship of the initiatives of social and environmental institutions and organisations.

__Due to their geographic reach, electricity activities generate fees, taxes, and duties at the local, regional, and national levels.

Negative effects can be considered to include the following:

__The landscape impact of the facilities, especially large ones, and the possible negative effects (during construction or operation) on traditional activities, particularly in the rural environment, such as ranching, hunting, or fishing.

__Environmental risks, which may give rise to undesirable consequences for the environment, such as spills and improper emissions, or waste management; these situations might occur despite the demanding operational practices developed by the Group.

Indirect impacts of the supply chain

The high volumes of Iberdrola's purchases (described in the G4-12 indicator) of equipment, works, and services, as well as fuel, becomes an engine for growth in the countries in which the Company is present.

Entrepreneurial support

Iberdrola supports the creation and strengthening of new business products through a number of significant initiatives, including the following during 2014:

__In 2014, Iberdrola procured a volume equivalent to 41.7 million euros from companies in Spain that have been operating for less than 4 years, which is clear support for entrepreneurs.

__Iberdrola's venture capital program, *Iberdrola Ventures - Perseo*, funded with 70 million euros, is an opportunity for companies dedicated to sustainable energy-related technologies.

__In both Spain and in the United Kingdom, United States of America, and Brazil, there has been technical, human, and financial support for various initiatives aimed at supporting entrepreneurs and creating new companies.

Aspect: Procurement practices

Management Approach
G4-EC9 Spending on local suppliers

Iberdrola maintains a strategy of creating value in the regions in which it operates.

The volume of purchases made by the Company each year spurs indirect employment in auxiliary industries and at service providers.

But aside from purely economic benefits, Iberdrola acts as a market driver on sustainability and responsibility, encouraging suppliers to improve their environmental, ethical, and social record through actions that foster excellence in their management, beyond mere technical quality, thereby helping suppliers become more competitive.

The following table shows the volume of procurement from local suppliers.

Acquisition or contracting of materials, equipment, works, and services from local suppliers (%)	2014	2013
Spain	84	87
United Kingdom	91	83
United States	99	99
Mexico	60	64
Brazil	100	100
Other	40	67
Basic boundary	87	86

Electric utilities sector specific aspects

Aspect: Availability and reliability

Aspect: System efficiency

Management Approach

Spain

The planning of generation in Spain is a government function and is indicative in nature, as participants make investment decisions within a free-market environment.

Analysing the reliability of the short-term electricity supply is a task assumed by the System Operator, to which Iberdrola contributes significantly through a cutting-edge renewable energy control centre.

The Networks Business also contributes to guaranteeing reliability, performing studies to identify the short- and long-term investments needed to meet new demand and to renew older facilities by adopting more modern technologies, with a view to guaranteeing a more operational and reliable network.

United Kingdom

A large part of the United Kingdom's generating facilities is reaching the end of its use life, and the government is determining energy policy and regulation to enable renewal without endangering the safety of supply. There will be auctions of capacity in which the government will calculate the amount of capacity required, depending upon its system reliability target, and industry players will offer their facilities until need is met. December 2014 saw the first of these auctions, in which both existing plants and new projects took part. Iberdrola is developing new projects in the technologies promoted by government policy over the next decade: offshore wind and combined cycle.

In the field of electricity transmission networks, in the United Kingdom the business is governed by the RIIO-T1 plan over the 2013-2021 period. Significant investments are being considered during this period with a dual purpose: first, to increase the transmission capacity of interconnections between Scotland and England, and second, to enable the evacuation of energy from all renewable facilities expected in the short to medium term. Both objectives will make it possible to guarantee reliable, high-quality service in the coming years.

United States of America

Iberdrola is among the leading producers of wind energy in the United States of America. The construction of a new electricity transmission corridor from Canada to the United States of America through the state of Maine is an element that will allow for the integration of growing wind production, improving grid stability and the reliability of both systems.

The Group's North American companies act in accordance with the laws and regulations of the states in which they operate. In the state of New York, the companies participate in planning activities through official bodies, ensuring that they can meet short- and long-term demand under proper conditions of reliability and safety.

The System Operator (ISO) operates within the reliability margins set by the North American Electric Reliability Council, the Northeast Power Coordinating Council, and the New York State Reliability Council (NYSRC). NYSRC sets the installed capacity reserve margin, as well as the required level generating capacity, such that the loss of load in the New York control region is no more than one day per ten years. In New England, ISO-NE sets installed capacity requirements (ICR) using similar criteria.

In the state of Maine, transmission and distribution companies have no authority over energy planning, and cooperate with official bodies on operational matters that may be required by such bodies. Maine's Electricity Restructuring Act provides that the subsidiary CMP has no obligation to supply electricity. All retail supply is contributed by competitive electricity providers and suppliers of standard electricity service selected by the Main Public Utilities Commission.

Mexico and Brazil

The Group's subsidiaries and affiliates in these countries manage production plants and large electricity distribution areas in close cooperation with governments to develop systems to help them attain their energy planning goals, achieving the desired balance between available resources and the quality and reliability of the electricity supply.

The Group's subsidiaries and affiliates in this region participate in developing generating facilities (thermal, hydraulic, and wind power) and electricity networks.

Fuel

A key element in managing the availability of electricity service is the supply of the necessary fuel. Iberdrola ensures it has a global portfolio for gas and coal supplies that is flexible and geographically diverse. This is in addition to a stable, long-term, and low-risk supply of nuclear fuel.

The risk of fuel cost is managed using financial contracts that fix the price of the fuel at a particular time. They are primarily used to fix the costs of coal and gas under long-term contracts. Derivatives must also be used to cover fuel costs in euros, as physical purchases are always made in U.S. dollars.

EU10 Programmed capacity to address projected long-term electricity demand

The companies of the Iberdrola Group have no direct responsibility for long-term planning processes for the corresponding electricity systems in the countries in which they operate.

Public authorities conduct the studies needed to anticipate the long-term needs of the respective electricity system, and Iberdrola's companies act as market agents, making investment decisions that are consistent with their business plans.

EU11 Average efficiency of thermal plants

The efficiency of Iberdrola's generating facilities is shown in the following table:

Average thermal efficiency[10] at generating facilities (%)	2014	2013
Combined cycles	53.09	52.23
Conventional thermal	34.29	34.15
Cogeneration	55.46	57.62
Expanded boundary	49.05	49.02

Detailed information on thermal efficiency in the various countries can be found in the *Information Supplementary to the Sustainability Report 2014*, available at www.iberdrola.com.

EU12 Transmission and distribution losses

Transmission and distribution network losses (%)	2014	2013
Expanded boundary		
Transmission		
United Kingdom	1.29	1.30
United States	3.94	3.98
Brazil	0.60	0.60
Distribution		
Spain	7.63	8.45
United Kingdom	N/Av.[11]	N/Av.[11]
United States	4.65	4.66
Brazil	11.02	10.71

10 Average of efficiencies weighted by the annual production of each thermal power plant.
11 The procedure for calculating losses is under review by the regulatory agency Ofgem.

Loss reduction programmes have been implemented in all regions to improve the reliability and availability of the supply network, which has made it possible to reduce, or at least maintain, the level of losses. These programmes are the following:

__Implementation of remote management and development of smart grids.

__Maintenance work on networks and substations: installation of new substations, inspection and replacement of equipment; cleaning and clearing of vegetation in line corridors, fire risk analysis, thermal imaging, increased helicopter inspections, etc.

__Acquisition of new transformers providing an average 20% reduction in losses.

__Inspection of supply points and improved contract management; inspection of facilities and regularisation of customers, regularisation of illegal connections, replacement of electromechanical meters with electronic ones, inspection processes, incentivising the detection of fraud, development of information technology systems for prompt follow-up on inspections, etc.

__The following activities are noteworthy in Brazil: reduction of losses in public lighting systems, improved access to meters, increase in inspections (reduction in illegal connections and connections of market stands and street vendors), increase in number of condenser batteries, installation of remote measurement systems, improvement in billing process and cutoffs for non-payment, and shielding of low voltage grids. Most of these activities are focused on reducing non-technical losses.

__In the United States of America, CMP is developing the Maine Power Reliability Program in order to improve the reliability of the system and reduce losses as well as other improvements in the transmission grid.

Aspect: Demand-side management

Management Approach

As part of its demand-side management programmes, Iberdrola's main objective is to improve energy efficiency and the smart use of active electrical grids to contribute to the more efficient use of energy by consumers. The types of actions taken include those relating to information, training, and the supply of solutions and technologies that help them improve energy efficiency and reduce the environmental impact of their energy habits and consumption. Iberdrola engages in demand-side management in all areas of electricity distribution for its various types of customers.

The most significant specific features of this type of programme in each market are as follows:

Spain and Portugal

Iberdrola sells a wide range of products and services that promote efficiency, energy saving, and environmental protection:

__Energy efficiency: capacitor banks, energy audits, efficient air conditioning and lighting, microgeneration, home automation systems and other solutions.

__Renewable energy facilities: solar thermal and photovoltaic energy.

__Comprehensive management of energy supplies.

__Electromobility.

In 2014 close to 800,000 customers benefited from products and services that improve energy efficiency.

Iberdrola also participated in the *Plan to promote efficiency in energy consumption* (PPEC 2013-2014) in Portugal, led by the Portuguese regulator ERSE.

Other activities to promote energy efficiency were also carried out through the website, campaigns, customer invoices, etc.

United Kingdom

In the residential customer market, ScottishPower is participating in the *Warmth Without the Worry* Programme and the *Energy Company Obligation (ECO) Programme*, promoted by the British government, the purpose of which is to reduce CO_2 emissions and heating costs.

The Company's projects in the area of commercial and industrial customers are focused primarily on efficient lighting, monitoring of energy consumption by users, air conditioning and heating system optimisation, variable-speed engine mechanisms, and global energy management systems in third-party buildings, among others.

United States of America

In Maine, residential demand-side management programmes are developed by the *Efficiency Maine Trust*, rather than by electricity companies directly. There are currently two pilot programmes: the first, in a coastal community to develop and monitor the effectiveness of energy efficiency measures, demand responsiveness, and distributed generation; and the second, with the *Maine Public Utilities Commission* to develop flexible tariffs for residential customers, based on smart meters.

The Group's distribution companies in New York currently have three demand-side management programmes for residential customers, and another three programmes for commercial as well as industrial and institutional customers.

Brazil

Elektro is developing two energy efficiency programmes for residential customers, alongside the National Electrical Energy Agency (*Agencia Nacional de Energía Eléctrica*) (Anneal). The first, which is aimed at low-income customers, focuses on light replacement, refrigerators, and solar heating, and has worked with over 49,000 users. The second is aimed at education for efficient use of energy, and has worked with 305 schools and taught over 1,500 teachers and 37,000 students. In the commercial, industrial, and institutional segments, programmes focus on the training of electrical energy managers and the holding of seminars on energy efficiency for industrial customers.

Affiliates in Brazil also run demand-side management programmes. In the residential segment, Celpe, Coelba, and Cosern focus on lighting replacement, refrigerators, and other low-performing household appliances, as well as on training teachers, students, and the general population in rational energy use. In the commercial sector, Coelba has a programme to donate efficient fridges and lighting systems to non-profit institutions. In the institutional segment, Celpe, Coelba, and Cosern have carried out a range of projects relating to energy efficiency and solar energy.

Aspect: Research and development

Management Approach

As part of a solid strategy. which is set out in the *Innovation Plan 2012-2014*, innovation is Iberdrola's primary tool for ensuring the Company's sustainability, efficiency, and competitiveness, based on three principles:

__Efficiency: focused on the continuous optimisation of operations, management of the lifecycle of facilities and equipment, reducing operating and maintenance costs, and reducing environmental impact.

__New products and services: respond to the needs of customers in an increasingly global and competitive market. These are projects that create business models designed to offer ever more efficient and environmentally-friendly supply of energy, equipment, and technology, including energy efficiency, electrical vehicles, smart networks, and distributed energy resources.

__Disruptive technology and business models, which allow the Company to face the energy challenges of the future. Through *Perseo*, Iberdrola's corporate venture capital programme, there is investment in technologies and new disruptive businesses that ensure the sustainability of the energy model.

Thanks to human and financial efforts (170 million euros in 2014) allocated to R&D+i, Iberdrola is in the vanguard of developing new products, services, and business models that are transforming the energy sector.

Some of the innovative initiatives are set out below, classified by major category:

Renewable energy

In 2014, work continued on R&D+i projects specifically designed to develop solutions to reduce the cost of offshore wind energy, in which Iberdrola is a leading player: projects such as *Sedar, Innpacto Openfoam* and *FP7 Eera Dtoc*, in the energy resource field, the *Low-Impact* gravity foundations project, the Leanwind offshore technology project, and the various lines of action within the ambitious *OWA (Offshore Wind Accelerator)* programme, promoted by the *Carbon Trust* in the United Kingdom.

In Scotland, a study has begun into fatigue in offshore pilings for chalky soils, the *TLPWind project*, which aims to develop a next generation floating wind turbine model and a related innovative installation system, to boost the installation of offshore wind farms in areas around the United Kingdom where it isn't currently viable because of the water depth.

The European *Best Path* project has been launched, with a view to demonstrating new technologies that enable the incorporation of renewable energy sources into European networks. The *SmartWind* project is working on storage technology models and simulations relating to wind farms.

In terms of improving wind farm operations, work has continued on the gradual improvement of major operational systems such as *Core, Domina, Meteoflow*, and the recent expansion of *Meteoflow Offshore*. This is on top of new systems allowing better analysis of component reliability, such as the *Darwind, Oleo*, and *Mineroil projects*.

Clean generation technologies

In 2014, efforts in the generation area centred on operational flexibility and efficiency, respect for the environment, and improved safety at facilities:

Flexibility, operational efficiency, and safety of facilities: The *Filtraciones* project is underway, with the goal of developing a new methodology for carrying out efficient inspections of water channels. With respect to facility safety, there has been a successful completion of the *Insroca, Siro*, and *Ecrigen* projects, which developed experimental prototypes and new methodologies to help ensure the structural integrity of generation assets and maximise their life cycle.

In the nuclear segment, the *Migres* and *Resonuc* projects are of note. The goal of the former is to research and develop a new process for the comprehensive management of the control rods and channels used, enabling them to be managed in a more sustainable manner. The goal of the *Resonuc* project is to research and develop a technological solution to mitigate resonance in critical nuclear plant systems, ensuring their optimal operation as a key factor in the safety and reliability of such plants.

Environment: Iberdrola is firmly committed to reducing the environmental impact of its generating plants, undertaking an ambitious project called *Co2Formare*, focused on cooling systems at plants and reducing their environmental impact. The *Desox* and *Coeben-II* projects were successfully concluded in 2014. The latter, which was undertaken at the Velilla del Rio Carrión thermal plant, generated the necessary technical know-how to also be transferred to the Longannet and Lada thermal plants. The *Desox* project, undertaken at the Lada thermal plant, increased the yield of the plant's desulfurisation facility.

Retail – New projects and services

Innovation is essential in retail activities, in order to be able to offer customers the products and services best suited to their needs. Iberdrola is continuously working on the development of new products and services, including the launch in 2014 of new products like the 100% online *Conect@* energy offer, and new services like the launch of *Electricity Protection (Protección Eléctrica)*.

Smart grids

The Group's R&D+i activities in electric energy distribution focus on optimising the distribution grid, with an emphasis on worker safety, environmental issues, as well as improved quality of supply. Iberdrola is blazing a path in smart grid development through various projects in all countries where it distributes electricity.

In Europe, Iberdrola leads the *UpGrid project*, where it seeks to enhance its ability to integrate active demand and distributed generation under low voltage. Work continues on the *Grid4eu* and *iGreenGrid* projects in developing specific methods for integrating renewable energy into the electricity distribution networks, and on *Discern*, for comparing various smart grid solutions to find the most optimal set of architectures. In Spain, Iberdrola continues to work on the *Price* project, the goal of which is to meet the needs identified for the development of a smart grid within an efficient, safe, and sustainable framework.

In the field of the standardisation and maintenance of overhead lines, the following projects were completed: *Tabon*, to develop technology to verify and inspect lines, *Matusalen*, to develop a system for determining the ageing of medium voltage cables in underground lines, and *Silectric*, on new insulators for overhead lines and high-voltage switch gear.

Projects are being carried out along this line in Scotland to strengthen smart grids. Noteworthy is the *ARC* project, the goal of which is to accelerate the process of connecting renewables within the distribution grid, and *Flexnet*, to develop solutions and technologies allowing for improving and increasing the capacity of the grid. In Brazil, there are innovative projects like *Vants* and *Robô* to inspect distribution grids; projects to install underground grids in the cities to reduce the impact of overhead lines, and projects to improve electrical enclosures. Also noteworthy is the *Elektrobus* project, which is intended to develop a prototype of a vehicle with an electrical propulsion system using ultra-condensers. In the United States of America, there is the *Integrated Aerial Damage Assesment System* project, the purpose of which is to develop an aerial system to assess damages to the electrical grid after heavy storms.

Iberdrola has an R&D+i technology centre in Qatar. Together with the state-owned Qatari company Kahramaa, it continues a process to define and launch a pilot smart grid project. Within the framework of the Iberdrola Chair of Universidad de Salamanca, an agreement has been signed for the exchange of professors from Qatari institutions and to jointly collaborate on R&D+i projects in the region. An agreement has also been reached between Qatar University and Universidad de Salamanca to jointly present an R&D project to the Qatar National Research Funds (QNRF).

Iberdrola Ventures - Perseo

Iberdrola Ventures - Perseo is Iberdrola's €70 million corporate venture capital programme, dedicated to investment in innovative technologies and business models to ensure the sustainability of the energy model. Since it was established in 2008, more than €48 million has been invested through the programme in start-ups developing technology and new businesses in the energy sector worldwide. The main activities in 2014 included:

__An investment in the Californian company *QBotix*, which develops tracking systems using robotics, designed to significantly reduce the cost of developing and operating photovoltaic solar plants.

__The launch of the *Open Innovation Ventures programme*, to boost cooperation with technology partners in order to accelerate the development of new products of interest to Iberdrola. The first activity under this programme was the creation of the *Gdes Tech4Services venture*, owned by Iberdrola and Grupo Dominguis, to develop and market technologies and new products for use in the operation and maintenance of assets in the electric sector.

Aspect: Decommissioning of nuclear plants

Management Approach

Empresa Nacional de Residuos Radiactivos S.A. (Enresa) has been responsible for decommissioning nuclear power plants since 1984. This company is also in charge of managing radioactive waste and spent fuel.

Enresa prepares the *General Radioactive Waste Plan* (*Plan General de Residuos Radiactivos*) (PGRR), which is the basic document setting forth the strategies to be followed and activities to be carried out in Spain in the fields of decommissioning nuclear power plants and managing radioactive waste and spent fuel. The plan also includes a financial/economic study of such activities, which is submitted for approval every 4 years to, or upon the request of the Ministry of Industry, Energy and Tourism (MINETUR).

A fund managed by Enresa has been set up to finance the activities contained in the PGRR. The fund includes provisions for the decommissioning of nuclear power plants, with a cost representing approximately 22% of the total cost of Enresa's past, present, and future activities.

In addition, Iberdrola allocates funds to cover the pre-decommissioning stage of its nuclear power plants. Pre-decommissioning means the period between the definitive shutdown of the plant and the moment when the ownership of the plant passes to Enresa for it to commence decommissioning. This is an estimated period of 3 years, during which all spent fuel - from both the reactor and the pool - must be removed, treated, and stored in containers.

As a company that owns part or all of 8 nuclear reactors, Iberdrola makes contributions to the fund for the decommissioning of nuclear plants, as mentioned in the management approach, through a fee, which is calculated to cover all management expenses for radioactive waste, spent fuel, and the decommissioning of such plants.

Nuclenor, S.A., a company 50%-owned by Iberdrola, allocated funds for the pre-decommissioning of the Garoña nuclear plant to pay the expenses that will arise once the plant ceases commercial operation.

Specific aspects of the Iberdrola Group

Aspect: Supply costs

Management Approach

The cost of electricity supply is taking on a greater role in the political and social agenda. The principal challenge is to reconcile secure and environmentally friendly supply with the use of renewable energy at prices that are competitive and can be afforded by society as a whole.

The electricity sector, which by nature is a basic service for society, is broadly regulated in the various countries in which Iberdrola operates, with varying levels of liberalisation in each. The most significant issues being debated and regulatory developments currently occurring in these countries are described below:

European Union

__Within the current context, the impact of high energy costs on the competitiveness of European industry and the well-being of citizens is one of the issues of greatest concern in the European Union. The accords on the 2030 framework for climate and energy propose measures for meeting environmental targets whilst allowing energy prices to remain competitive.

__Various initiatives are being adopted to improve this situation. In January 2014 the European Commission released an analysis of the components of final energy prices, making it possible to identify the measures required to reduce them.

__There are measures to support industrial sectors at risk of being pushed off-shore because of carbon emission costs within Europe, and to protect vulnerable customers.

Spain

__Rates paid by electricity consumers incorporate costs derived from the pursuit of strategic energy goals: environmental (aid for renewable energy and the costs of reducing CO_2 emissions), industrial (interruptibility of large consumers and aid for co-generation), social (subsidies for domestic coal mining and for electricity in non-mainland territories), economic (recovery of tariff deficits from previous years), and public finance.

__Less than half the costs of electricity supply are directly related to providing the service, and the remainder to subsidies and taxes. With some supply costs below the European average, the end prices of electrical energy for Spanish consumers are higher than the Community average.

United Kingdom

__There is intense public debate on electricity and gas prices, with the involvement of political leaders and wide media coverage. This will be on the agenda in the run-up to the general election in May, with the government championing more competition and the opposition championing more regulation.

__The recent decline in international gas prices partly offset the rising costs of the energy policy. There is pressure to cut prices, but the position is complicated by hedging and by the opposition's promise to freeze prices.

__The required future investment in networks and cleaner generation will also entail greater price pressure.

United States of America

__Tariff revisions currently under discussion or preparation reflect pressure by regulators to limit returns on capital, while at the same time maintaining the investments required to improve the network infrastructure.

__The closure of coal plants, following the appearance of unconventional gas and new regulations being drawn up by the Environmental Protection Agency (EPA), may increase pressure on gas and electricity prices.

__Restrictions on transporting natural gas by pipeline in the Northeast may lead to volatility in electricity market prices during periods of extreme weather.

__The development of smart grids, the rapid replenishment of supplies in the face of extreme weather conditions, and the integration of new energy sources into the system require major investment, which sometimes conflicts with the goal of limiting compensation to the companies.

Mexico

__Energy reforms were launched in 2014, with one of the key goals being to reduce system costs in order to lower electricity prices for end users. The reform is ongoing at the corresponding regulatory bodies.

Brazil

__The unfavourable water situation is driving the use of more expensive thermal generation and an increase in energy price rises on the spot market.

__In early 2015, the ceiling price on the energy spot market was cut from €263.4/MWh (822 Brazilian reais/MWh) to €124.3/MWh (388 Brazilian reais/MWh), as a mitigation measure.

__The unintended exposure of distributors to the short-term market led to a cash flow imbalance throughout 2014. This was recognised and alleviated by the government, earmarking specific funds that will be covered by upcoming tariff adjustments.

As an electricity operator in these countries, Iberdrola will maintain a spirit of cooperation with regulators of the electricity supply systems to help to define their growth and to operate within the established regulations, supporting frameworks that expand free-market activities and market transparency and incentivise required investments and efficient operations and that send efficient signals to consumers such that they are not penalised with costs unrelated to the supply of electricity.

Aspect: "Green bonds"

Management Approach

Iberdrola is the first Spanish company to issue "green bonds" in order to diversify its sources of financing. The difference with such bonds is that the issuer undertakes to invest the proceeds in sustainability projects such as: renewable energy, research into more efficient energy sources, cleaner cars, etc. There is also a commitment to regularly report on the return on investment in terms of the sustainability of such projects.

On 24 April 2014, the Company issued a "Green Bond" targeted at SRI (Socially Responsible Investing) investors. The definition of the types of eligible projects for the proceeds can be found in the "*Second Party Opinion on Iberdrola's Green Bond*", prepared by Vigeo and available on the corporate website. It is important to note that before companies can issue such financial assets they must have a strong track record on sustainability, as recognised by Vigeo in the case of Iberdrola, as can be seen in the aforementioned document.

The Report on Green Bond Returns can be found in Annex 3 of this report.

B.- Environmental dimension

The aspects dealt with in this chapter are the following:

Aspects of the GRI-G4 Guidelines

(Those indicators that require additional information per the electric utilities sector supplement are identified with (*))

Materials (*)

Energy

Water (*)

Biodiversity (*)

Emissions (*)

Effluents and waste (*)

Products and services

Compliance

Transport of persons and products

Expenditures and investments

Supplier environmental assessment

Environmental grievance mechanisms

The information boundaries used in this chapter are defined in section G4-17 of this report.

Introduction

In the environmental area, Iberdrola first applies the management elements described in the "General Management Approach" section of this report. It also applies other management elements as described below.

Specific Management Approach to the Environmental Dimension

Policies

Iberdrola has four specific corporate policies for environmental management:

__*Sustainability Policy*,

__*Environmental Policy*,

__*Policy against Climate Change*,

__*Biodiversity Policy*,

all approved by the Board of Directors and available at www.iberdrola.com.

Organisation

Reporting to the senior management of the Group, the organisations responsible for the environment adopt a decentralised structure, based on the subsidiarity principle, such that with the appropriate corporate coordination, all environmental matters are dealt with and resolved by the affected business in each geographic region. The following are available for this purpose:

__The Innovation, Environment, and Quality Division, which proposes the management policies, models, and systems, sets environmental guidelines and the targets associated therewith, publicises environmental performance, and coordinates all environmental action of the Company. This Division reports directly to the Office of the Chairman.

__Environmental Divisions at the businesses are responsible for maintaining the environmental management systems, mainly based on the ISO 14,000 standard, including compliance with legal obligations, setting environmental goals, making plans for improvement, and generally performing all operational duties relating to the environment within the scope of the business in each region.

Management systems

Iberdrola develops its environmental dimension in accordance with an Environmental Management System, the purpose of which is to create a common framework that allows for the coordination of the different environmental management systems of each of the businesses. The main elements making up this model are:

__Corporate environmental policies described above.

__Five environmental directives around which the performance indicators are evaluated:
- _Preserve biodiversity
- _Prevent pollution
- _Achieve operational excellence

_Optimise waste management
_Collaborate with stakeholders

__Environmental performance indicators, based on GRI methodology and set forth in an environmental scorecard, which allows for an analysis of the environmental performance of the Company and each of its businesses.

__Environmental goals and action plans of the Group.

__Management of environmental risks through identification and preventive management thereof through mitigation and control measures.

__Management of the public information-reporting needs of the Company (sustainability report, participation in sustainability roadshows, etc.).

__Specific environmental management systems (EMS) of the businesses, based on the UNE-EN ISO 14001:2004 and EMAS standards.

The application of this management model is reinforced with a series of complementary activities, such as: monitoring of environmental regulation at the regional level; specific training of employees on environmental aspects, dedicating more than 15,800 hours to this type of training in 2014; the supplier tracking and information model; the consideration of the environment in the Company's Comprehensive Risk System; the Incident and Anomaly Information System; and a long-standing relationship with the various stakeholders involved, through various means of communication, such as environmental forums.

Furthermore, it should be pointed out that to calculate the indicators of this report, the data are based on direct measurements, in accordance with the corresponding protocols. In those cases in which it is not possible to perform these measurements, widely recognised international normalisation standards are followed to estimate and calculate the data. It is also important to consider that 84.1% of the Group's installed capacity is subject to management systems under the UNE-EN ISO 14001 and UNE-EN ISO 9001 standards.

Certifications

All annual certifications were renewed in 2014, including the audit monitoring the certification of the Global Environmental Management System, which was implemented in accordance with the UNE-EN ISO 14001:2004 standard in Spain, and the renewal of the greenhouse gas inventory certificate in accordance with the UNE ISO 14064-1:2006 standard.

With these activities, 85% of the Group's energy was produced under certified environmental management systems in 2014. More information is available at www.iberdrola.com.

Aspect: Materials

Management Approach

The consumption of fuel (natural gas, coal, etc.) in the production of electricity is deemed significant, and lesser quantities of chemical products, lubricating oils, refrigerants, and other products are also consumed.

Iberdrola's strategy, based on the use of production technologies with lower emissions, is achieving a reduction in the consumption ratios for fuel, energy, water, and other materials per GWh produced (i.e. eco-efficiency).

Chemical products are managed in accordance with good management practices, avoiding the risks of damage to the natural environment.

Polychlorinated biphenyls (PCBs), potentially harmful substances used by the manufacturers of electric equipment for their optimal characteristics such as dielectric insulation, have a residual presence in the activities of Iberdrola. As specified by international treaties on the management of chemical products that are damaging to the ozone layer, the use thereof has been restricted in most countries since 2010, for which reason Iberdrola's policy has been to eliminate their presence at its facilities.

G4-EN1 Materials used by weight or volume

Use of materials

The basic materials that Iberdrola uses to produce energy are fuels, the consumption of which is set forth in the following table:

Basic materials	2014	2013
Expanded boundary		
Coal (t)	5,292,521	5,504,487
Fuel (t)	34,705	35,188
Natural gas (Nm^3)	9,819,978,549	8,504,282,590
Gas-oil (m^3)	54,480	15,221
Uranium (Tep)	6,653,787	6,239,144
Biomass and WDF[12] (t)	3,357	2,134

12 Waste Derived Fuel (WDF): the Tarragona Power combined cycle plant and some cogeneration plants in Spain can operate with this fuel.

Distribution of fuels consumed (%)	Coal	Fuel-oil	Natural Gas	Gas-oil	Uranium	Biomass and WDF
Expanded boundary						
Spain	21.4	100	8.2	8.2	100	98.4
United Kingdom	78.6	0	13.1	1.8	0	1.6
United States	0	0	4.7	0	0	0
Mexico	0	0	70.3	89.4	0	0
Brazil	0	0	3.7	0.5	0	0
Other countries	0	0	0	0	0	0

Generation by technology and country (GWh)	Spain	United Kingdom	United States	Mexico	Brazil	Other countries
Expanded boundary						
Combined cycles	1,189	5,459	1	34,557	921	0
Wind	12,263	3,110	14,869	671	550	1,454
Nuclear	24,431	0	0	0	0	0
Coal	2,472	9,630	0	0	0	0
Hydroelectric	17,742	716	392	0	1,786	0
Cogeneration	2,010	6	2,287	1,224	207	0
Other technologies	945	0	0	0	0	0
Biomass and WDF	0	0	0	0	0	0

As shown in the following table, 80% of the expanded boundary is achieved using local sources of energy, available in the country where the electricity is generated.

Production with local sources of energy	(%)
Expanded boundary	80
Spain[13]	92
United Kingdom	59
United States	87
Mexico	63
Brazil	100
Other countries	100

There is also consumption of chemical products, which are used (to a much lesser extent) in the generation processes, basically in tasks consisting of the purification of gases and effluents and the reconditioning of equipment. The consumption of these types of products and others such as oil and grease for maintenance can be viewed at www.iberdrola.com.

Elimination of PCBs

Polychlorinated biphenyls (PCBs) are substances that are not produced by the Company's activity, but rather were sold during the last century by manufacturers of electrical equipment and used mainly in transformers and condensers due to their optimal characteristics as a dielectric insulation. There are PCBs at the Group's facilities in Brazil, with a residual presence in Spain and the United States of America, mainly within transformers with pure pyralene oil, condenser batteries, and auxiliary service transformers.

In Spain, the process that commenced in 1999 to eliminate all equipment manufactured with PCB fluids or contaminated with a concentration exceeding 500 ppm of PCB has concluded. There is currently no pyralene transformer or transformer contaminated with more than 500 ppm of PCBs. Although the period set by law for the elimination thereof ended in 2010, Iberdrola maintains a service for the analysis, withdrawal, and elimination of equipment containing PCBs, including the performance of a free diagnosis with no commitment.

There are also no transformers in the United States of America that contain PCBs. The use of equipment with PCBs must be eliminated in the other countries by the year 2025, pursuant to the Stockholm Treaty.

13 Nuclear fuel acquired from the Spanish company Enusa is considered local.

At the Elektro subsidiary in Brazil, 46 t of pyralene and PCB-contaminated equipment was managed during 2014, and there are 611 t to be eliminated in the coming years. Only 1.13% of the transformers in operation contain these substances.

At the affiliate Celpe in Brazil, there are 9 transformers with a PCB content of between 50 and 200 mg/kg, which is only 1% of all transformers.

G4-EN2 Percentage of materials used that are recycled input materials

There is no substitute in the market for the principal materials used by Iberdrola, for which reason management focuses on the efficient use of energy, water, and chemical products, through the best available technologies and optimising the current systems.

At some Mexican plants and at the Klamath plant in the United States of America, treated waste water is reused in the cooling systems, avoiding the use of river or dam water, while at the same time engaging in activities to improve the efficient use of energy, as described in indicator G4-EN6.

Biomass and waste derived fuel (WDF) are included as recovered material, representing 0.01% of this type of fuel consumed during the year, as reflected in indicator G4-EN3.

Aspect: Energy

Management Approach

Iberdrola takes action and works throughout the entire energy chain in order to optimise the use of energy:
__Efficiency in production: introducing the newest and most advanced equipment and technology.
__Efficiency in transmission and distribution: making substantial investments to reduce losses from grids.
__Efficiency at the final point of use: adopting measures to reduce consumption within the Company's own facilities and promoting the rational use of energy by users, who are also offered a wide range of products and services linked to energy conservation.

This information is expanded upon in indicators G4-EN3 to G4-EN7.

Iberdrola is subject to applicable regulations in all of the countries or regions in which it has a presence, with the most significant being legislation regarding environmental assessment, trading in emissions rights, water management, and air quality.

G4-EN3 Energy consumption within the organisation

Internal energy consumption, which includes all of the Iberdrola Group's facilities, buildings and offices, is calculated by adding together the following items:

__Consumption of fuels from non-renewable and renewable (biofuel and biomass) sources.
__Total consumption of electricity and other fuels for heating purchased from third parties at buildings/offices.

__Consumption of electricity purchased from third parties at generating facilities.

and subtracting:

__Steam sold to third parties.

The following table shows the evolution of Iberdrola's internal energy consumption in recent years:

Internal energy consumption (GJ)	2014	2013
Spain	347,816,948	347,277,870
United Kingdom	150,175,505	164,069,056
United States	18,455,787	22,753,513
Mexico	269,059,484	252,754,800
Brazil	43,729	39,518
Other countries	18,004	20,319
Basic boundary	785,570,456	786,915,076
Expanded boundary	797,810,770	798,411,786

The largest part of Iberdrola's energy consumption is fuel consumption. The following table shows this consumption in recent years:

Fuel consumption (GJ)	2014	2013
Expanded boundary		
Generating plants	735,649,366	726,388,577
Cogeneration	56,051,306	64,146,582
Non-generating	1,527,726	3,471,219
Total	793,228,398	794,006,378

The non-generating facilities are: Daldowie (thermal drying) and Hatfield (gas storage) in the United Kingdom, and the Enstor plants (gas storage and distribution) in the United States of America.

Fuel consumption by primary source (%)

Fuel consumption by primary source (%)	2014	2013
Expanded boundary		
Natural Gas	47.17	48.54
Uranium	35.88	34.40
Coal	16.74	16.84
Fuel-oil	0.17	0.18
Gas-oil	0.03	0.03
Biomass/WDF	0.01	0.01

Fuel consumption at the generation plants (combined cycle, conventional thermal, nuclear, cogeneration, and biomass) and at the non-generation plants indicated above is taken into account.

Internal consumption for generation (GJ)

The electricity used for internal consumption (total consumption of energy generated internally and imported from the grid) at the production facilities (conventional thermal, combined cycle, cogeneration, nuclear, renewable, and biomass, together with the energy used for pumping at the hydroelectric stations) is reflected in the following table:

Internal consumption for generation (GJ)	2014	2013
Expanded boundary		
Generating plants	10,644,748	9,119,792
Cogeneration	1,378,411	839,846
Hydroelectric generation	13,591,463	16,547,527
Renewables	295,049	8,207,344
Non-generating plants	86,112	86,908
Total	**25,995,783**	**27,261,511**

Energy consumption in buildings

Energy consumption in buildings (MWh)	2014	2013
Expanded boundary	176,310	182,604

The systems for monitoring and managing the consumption of energy in buildings improved during 2014, especially in Spain, the United Kingdom, and the United States of America, as described in indicator G4-EN6.

G4-EN4 Energy consumption outside of the organisation

The most significant consumption of energy outside of the organisation is consumption associated with the transportation of fuel, the transportation of products by suppliers, and the transportation of employees both for business as well as from their home to their workplace, for which there is information regarding the distances covered and the amounts of fuel transported. Work is currently being performed to obtain appropriate conversion factors to determine the energy consumption corresponding to this indicator in units of energy. The data on CO_2 emissions caused by these activities are reflected in indicator G4-EN17.

G4-EN5 Energy intensity

Fossil fuel consumption (tep/GWh)

The following table shows fuel consumption at the thermal generation plants over the net production of such plants.

Fossil fuel consumption (tep/GWh)[14]	2014	2013
Expanded boundary	202	200

Internal Energy Consumption (GJ/GWh)

The following table represents total internal energy consumption within the total net production of the Group.

Intensity of internal energy consumption (GJ/MWh)	2014	2013
Expanded boundary	5.74	5.85

14 Conversion factor used: 1GJ= 0.023888889 Tep.

G4-EN6 Reduction of energy consumption

The generation of hydroelectric energy and other renewables, together with the supply of steam to the industrial client at the cogeneration facilities, avoided an equivalent consumption in non-renewable primary energy of 208,289,268 GJ/year.

Areas		Actions and initiatives	Energy (GJ/year)	
			2014	2013
Expanded boundary				
Renewables		Primary energy savings through the production of renewable energy	121,902,948	122,035,536
Hydroelectric		Primary energy savings through hydroelectric generation	74,818,080	65,843,402
Cogeneration		Savings through the supply of heat energy (steam) within the Group	11,568,240	13,784,634
Network efficiency		Savings from network efficiency in Spain, United States, and Brazil	1,888,426	2,300,423
Retail	Spain	Green energy supplied	1,416,306	1,736,472
	USA	Green energy supplied	235,055	246,005

Efficiency of the energy power grid

Indicator EU12 of this report shows the electricity losses of the transmission and distribution networks of the Iberdrola Group. All companies of the group take action to control or reduce such losses, including:

__Reduction in the length of lines through construction of new substations and increase in power of existing substations, increase in voltage and improvement of power factor, implementation of remote management, and maintenance of grids and substations.

__Supply points inspections and contract management improvements, customer monitoring, regulation of clandestine hookups, replacement of electromechanical meters with electronic meters, etc.

__Strengthening of field activities with supply point inspections and first-level reviews to reduce administrative and non-technical losses.

Efficiency in thermal generation

Various actions have been taken at various plants to avoid leaks, reduce internal consumption, optimise start-up time and procedure, and install recirculation systems, among others.

It should be pointed out that approximately 7,300 GJ were saved due to actions in Spain, such as at the Escombreras Combined Cycle plant, and as a result of the redesign of the processes; 18,709 GJ were saved at the Aceca Combined Cycle plant due to changes in the start-up procedure; and a saving of 6,184 GJ was achieved at the Garoña Nuclear Plant due to the optimisation of the systems required for the implementation of requirements and tests for monitoring and control of the heating and air conditioning.

Efficiency at buildings

The implementation of efficiency measures has continued at the buildings and offices of the Company throughout the world. Work is continuing to improve acclimatisation (heating and air conditioning) performance, thermal insulation and lighting of buildings, as well as automation of the facilities associated therewith.

In Spain, there have been renovations of acclimatisation units and interior lighting at several buildings with an energy saving of 956 GJ. At Iberdrola Renewables US, a saving of 1,877 GJ was achieved due to monitoring the turning on and off of lights at night.

G4-EN7 Reductions in energy requirements of products and services

Efficient products and services

Fostering eco-efficiency (reduction of environmental impact per production unit) forms part of the Group's strategy. Its goal is to encourage the responsible consumption of energy and to foster the use of renewable generation sources in order to help to reduce emissions of CO_2 into the atmosphere.

In addition to electricity and gas, Iberdrola sells a wide range of products and services that favour efficiency, energy savings, and care for the environment.

Energy savings of green products and services (GJ)	2014	2013
Expanded boundary		
Solar photovoltaic energy	662,400	668
Energy audits and plans	48,870	103,068
Energy management systems	0	25,448
Other savings and efficiency activities	4,193,492	252,286
Total	**4,904,762**	**381,470**

The increase in solar photovoltaic power production is mainly due to Mexico, with production of 14,400 GJ, and South Africa, with a 96 MW photovoltaic plant with annual production of 648,000 GJ.

The increase in other savings and efficiency activities is mainly due to 3,415,946 GJ corresponding to wind farms at external customers. A total of 349.8 MW has been installed, with 18 MW corresponding to Poland, 80 MW to Romania, 101 MW to South Africa, 76.8 to Kenya, and 74 NW to Honduras.

To encourage and promote energy efficiency, Iberdrola uses various means, such as advertising campaigns and collaboration agreements with consumer associations, businesses, and governments. It also contributes to the care of the environment with:

__Management of internal waste and customer waste.

__Requiring suppliers to comply with environmental laws.

__Promoting electronic billing as an ecological alternative to the use of paper, through awareness-raising campaigns, mailings, promotions, APP for customers, etc.

Spain: www.iberdrola.es/clientes/index
Brazil: www.elektro.com.br
United Kingdom: www.scottishpower.co.uk/energy-efficiency/
United States:
NYSEG: www.nyseg.com/Energyefficiencyprograms/default.html
RG&E: www.rge.com/Energyefficiencyprograms/default.html
CMP: www.cmpco.com

Sustainable mobility

Iberdrola continued working in 2014 on the development and implementation of the electric mobility concept, in harmony with its strategy of environmental protection, fostering of clean sources and sustainable development, and its commitment to innovation and to its customers, including:

__The *Green Mobility* solution with Iberdrola's *Green Charge* and *eElectric Vehicle*, as well as the *Green Energy* solution.

__Agreements and alliances reached with auto manufacturers (Peugeot, BMW, Seat, etc.).

__Active participation in standardisation groups and in R&D+i projects for electric mobility.

Aspect: Water

Management Approach

Water requires energy and energy requires water; which makes it a necessary resource for the activities of the Group. Iberdrola's awareness regarding the sustainable use of water is a reality; it is included in one of the 5 pillars of activity within the commitment made by the Group, as reflected in the *Sustainability Policy*.

To avoid significant impacts, the maximum limits of inland water collection and consumption, and the permits associated therewith, are established and controlled by the government of each country. The government also establishes and controls surface level limits and ecological flows at the hydroelectric generation reservoirs.

In Spain and the United Kingdom the operation of the hydroelectric plants conforms to the requirements of the *Water Framework Directive*, while the thermal generation plants operate under the *Integrated Pollution Prevention and Control Directive*. In order to comply with this regulation, water is included as an important natural resource within the environmental management systems.

Within the Group's activities, the largest volume of water collection occurs at the thermal plant cooling systems, of which a small part is consumed in the process (by evaporation) the majority is returned to the natural environment, following advanced treatment to ensure its quality, whilst the remainder is used for internal services and other processes.

Continuous improvement is sought for processes of the facilities (indicator G4-EN10), so that the extraction and consumption of water is the minimum possible and has minimal impact on the environment. In addition, extraction of water is avoided in areas with water stress, and attempts are made to recycle and reuse water to the maximum extent possible.

In addition to seeking improvement in processes, there is significant concern for the efficient and responsible use of running water by employees at offices and control buildings. For this purpose, there are awareness-raising campaigns and the installation of efficient systems to reduce the consumption of water, such as taps with photoelectric cells.

In recent years, the replacement of less efficient production technologies such as conventional thermal generation (coal and fuel-oil) by renewables and combined cycles has led to a reduction in water consumption per GWh produced. The intensity of water consumption at the Group by 2014 sales was 61% less than the other utilities.[15]

15 https://www.cdp.net/Documents/Consultation/2014/CDP-priority-sectors-water-2015.pdf

G4-EN8 Total water withdrawal by source

In this indicator, tables will be used to show the use made of water in each of the processes of the various technologies and facilities, and the sources thereof.

Water use in thermal generation

Cooling, process and auxiliary service systems at thermal plants are the Group's systems that require the largest use of water for their operation. This resource is obtained mainly from surface water, seawater or estuaries, and it is partially returned to the environment as steam and the rest included in discharges from the facilities.

The following shows the extraction and total discharge of water at the thermal generation facilities (coal, combined cycle, nuclear, and cogeneration) in 2014, and the volume used in each part of the system.

Water use (hm^3)	Total withdrawal	Evaporation in cooling	Withdrawal process and auxiliary services	Discharge [16]
Expanded boundary				
Generating plants	2,729.34	79.75	1,490.65	1,181.38
Cogeneration	7.44	2.18	6.62	2.16
Total[17-18]	2,736.78	81.93	1,497.27	1,183.54

16 The total discharge figure includes the return from cooling, the return of water from processes used, and rainwater collected at some thermal facilities without an independent storm sewer system.

17 Cooling systems in the UK are open circuits or aero-condensers, for which reason it is estimated that the evaporated water volume is practically nil, except for steam from cogeneration. Figures include the Daldowie thermal drying facility and the Hatfield gas storage unit.

18 Data is not provided for the Energyworks Brazil or Capuava Energy cogeneration plants because water and steam are provided by the industrial user and there is no water treatment at the facilities.

The water extracted for cooling thermal plants may be inland water or seawater. In turn, cooling can be performed in a closed circuit, by a cooling tower where part of the withdrawn water is evaporated, or in an open circuit, fully returning the withdrawn water to the environment without any process that could modify the physical chemical nature of the water other than a slight temperature increase due to its use in the cooling process. As can be seen in the following table, most of the withdrawn water is seawater or salt water.

Source of withdrawal of cooling water	Gross water withdrawal (hm^3)[19]	Net water withdrawal (hm^3)[20]
Expanded boundary		
Sea and salt water	2,003.73	11.27
Rivers and groundwater	291.18	17.23
Lakes and reservoirs	382.54	45.27
Purification of waste water	8.21	8.16
Total	**2,685.66**	**81.93**

Water consumption at offices and control facilities

Water consumption at offices and facilities (m^3)	2014	2013
Expanded boundary[21]	**365,932**	**445,022**

19 Gross water withdrawal: total volume of gross water withdrawal for cooling.
20 Net water withdrawal: volume of water evaporated in cooling.
21 In Spain, includes offices, substations and control buildings of wind farms.

Water consumption has decreased in 2014 by the amounts shown in the Information Supplementary to the Sustainability Report.

Water use

In addition to the withdrawal of water in the thermal generation and cogeneration facilities, water is used in wind generation systems and at offices, although to a lesser extent. The following table provides a breakdown of the withdrawn volume per withdrawal source.

Source of gross water withdrawal (m^3)	2014	2013
Expanded boundary		
Surface water (sea, river, lakes, reservoirs, wetlands)	2,725,254,208	3,044,885,843
Groundwater	957,770	1,395,523
Rainwater directly withdrawn and stored	1,047	0
Purified waste water	12,294,178	12,737,246
Municipal water supply or supply from other water companies	6,036,976	6,857,370
Total	**2,744,544,180**	**3,065,875,982**

Use of water is defined as water withdrawn minus water discharged (G4-EN22) into the environment (salt water is included in water discharged).

Water use[22]	2014	2013
Expanded boundary		
Total water use (hm^3)	70.69	133.12
Water use/overall production (m^3/GWh)	508.98	976.00
Water use/overall sales (m^3/ $)	1.95	3.11
Water use/overall sales (m^3/ €)	2.35	4.28

22 Does not include thermal generation in the United Kingdom.

Water cycle in hydraulic generation[23]

Water used in hydraulic generation is not considered withdrawn and thus it is shown in a separate table. The table below shows net water used in hydraulic generation, defined as turbined water less pumped water, in Spain, the United Kingdom, and Brazil.

Water use in hydraulic generation (hm^3)	2014	2013
Expanded boundary		
Net water use	88,222.92	96,816
Volume of pumped water	3,519.66	4,350
Annual increase of reservoir water	1,031.20	2,395

Net hydraulic production (GWh)	2014	2013
Basic boundary	18,850.15	15,494.80
Expanded boundary	20,635.71	17,284.00

Additional information, such as withdrawal locations and discharges from the thermal facilities, can be found at www.iberdrola.com.

G4-EN9 Water sources significantly affected by withdrawal of water

No incidents were recorded during financial year 2014 that significantly affect water resources or the habitats associated with the water-collection points, which are for the most part significant masses of fresh water or salt-water. As can be seen in indicator G4-EN8, 74.61% of the water withdrawn is salt-water or brackish water and does not occur in protected areas.

At the La Laguna and Monterrey combined cycle plants in Mexico and at the Klamath cogeneration plant in the United States of America, the water collected for cooling comes from municipal wastewater treatment stations and is treated at the Company's plants, producing a positive impact by returning water to the environment that is of higher quality than that withdrawn.

All water collection is strictly regulated by government authorities, which assign permits and determine the maximum allowed volumes of collection to ensure that there are no significant impacts.

23 Hydraulic generation in the United States, which is 1.15% of installed hydraulic capacity, is not included because the information is not available. Hydraulic generation in Brazil in which the Company has an interest is included for 2014.

The Iberdrola Group does not have any plants located in areas considered to have water stress. These areas can be seen on the following websites:

www.fao.org/nr/water/aquastat/data/query/results.html

www.grida.no/publications/other/ipcc_tar/?src=/climate/ipcc_tar/wg2/180.htm

G4-EN10 Percentage and total volume of water recycled and reused

94% of the water collected at thermal generation and cogeneration facilities was returned to the receptor environment in a physicochemical condition that allows it to be utilised by other users without affecting the natural environment. 3% of the collected water was consumed and/or retained in the various processes and 3% was returned to the environment in the form of steam generated at the cooling systems of the thermal power plants.

In the case of cogeneration and the Tarragona Power combined cycle plant, part of the withdrawn water is reused as steam, supplying thermal energy equal to 3,213.4 GWh, which is used in industrial processes or heating systems.

The reuse of wastewater for the cooling systems of some plants in Mexico (Monterrey, La Laguna) and in the United States of America (Klamath) is also noteworthy. At the La Laguna plant, all water withdrawn is wastewater, which is filtered at the facility. And at the Klamath plant in the United States of America, 93.9% of treated wastewater was used for all of its processes.

At the thermal plants with closed or semi-open systems, water withdrawn is reused at the cooling towers an average of approximately three cycles per m^3 before being purged. It is therefore estimated that reuse was 2,045.80 hm^3.

At some of ScottishPower's wind farms, the control buildings have rooftop rainwater collectors and storage tanks to re-use the water.

Aspect: Biodiversity

Management Approach

The biological resources of the earth are fundamental for humanity's economic and social development. Iberdrola's activities require certain natural resources (water, fossil fuels, wind, solar energy) to obtain electrical energy, which is subsequently distributed and sold over a broad geographic area. The development of these activities causes interactions with various ecosystems, landscapes, and species, mainly during the phases of construction and operation of facilities, as shown in the document *Environmental Effects of the Electric Energy Production and Distribution* available at www.iberdrola.com.

The aim is to carry out the Company's activities and establish new projects in a sustainable manner, which allows for balanced coexistence, conserving and protecting natural resources. Biodiversity and ecosystems have a leading role in the business strategy, reflected in various instruments:

__*Biodiversity Policy*, applicable to Iberdrola's entire geographical area, and policies specific to some subsidiaries, such as ScottishPower, Iberdrola Renewables USA, and Elektro.

__Environmental monitoring and control plans, and implementation of management systems, most of them homologated to ISO 14001 or EMAS standards, in order to prevent and control environmental risks.

__Operation of existing facilities in compliance with the permits granted by the environmental regulatory authorities of each region, and subject to restrictions and obligations that ensure the protection of the local environment.

__Management focus on new infrastructure projects, not only to comply with laws applicable to the handling of projects, but also taking one step further, by consulting various stakeholders regarding the projects prior to commencing work and incorporating good construction practices. Environmental Impact Studies (through mechanisms for the identification and mitigation of impacts that take into account various alternatives and establish corrective measures to avoid, mitigate or offset possible harm) are prepared and implemented prior to beginning construction. Promotion of species and habitats by managing positive conservation and research of the sites is also undertaken within a wide environment. Activities are both regulatory as well as voluntary, with the goal of obtaining a positive net balance with respect to the environment.

Aspects relating to biodiversity are managed through four priority lines of action:
1. **Mediation**, for the protection, conservation, and sustainable use of the environment (air, water, soil, fauna, flora, and landscape).
2. **Information**, through impact assessment and the development and application of guidelines on biodiversity for new projects.
3. **Relations** with stakeholders.
4. **Commitment** to form, make aware of, and communicate both internally and externally.

These lines of action group together the basic principles of action defined in the *Sustainability Policy*, and are put into practice with specific activities that are classified in the following categories:
a) To avoid and/or mitigate the impact and restore natural assets: includes preventive, palliative and compensatory actions.
b) Impact assessment: includes pre-construction studies, monitoring during and after construction, as well as studies of specific species.
c) Networking: includes cooperation, sponsoring and financing activities.
d) Awareness-raising and communication: includes internal and external training and education, awards, publications, etc.

Iberdrola has worked many years with biodiversity programmes and plans, with a permanent management and attending the following action lines:

__Fauna and flora management at electricity distribution lines.

__Biodiversity plans: Biodiversity Action Plans (BAPs) in the United Kingdom. (www.scottishpower.com/pages/generation.asp)

__Habitat management plans at ScottishPower Renewables.

__Avian and Bat Protection Plan (ABPP) at Iberdrola Renewables USA.

__Environmental Programme in the Generation Business. Gathers numerous activities to reduce the risk of environmental impact (emissions, noise, discharges, etc.) at thermal generation facilities.

__Bird Migration Programme, sponsored by Fundación Iberdrola www.fundacióniberdrola.org // www.migraciondeaves.org.

__Habitat Compensation Programme at the Maine Power Reliability Program project, of the subsidiary CMP – www.mainpower.com/environmental-steward.htm.

For more information, go to the website and see the *2011-2013 Biodiversity Report*, which sets forth the management approach, strategies, and progress in the activities implemented by the various businesses and in regions in which Iberdrola has a presence.

G4-EN11 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas

Within the activities of the Group, the infrastructure occupying the largest part of the territory are dams, electrical power lines, and wind farms.

In all, the presence of the Group's dams in protected areas represents 1.66% (18,972 ha) of the total surface area thereof. Regarding power lines, in Spain they have increased compared to 2013, since they include more protection figures than in previous years. Within the Renewables Business, there is an insignificant presence of wind farms in protected areas such as the Nature 2000 Network, and the facilities pre-date the declarations of protected space. There are also some wind farms near these areas.

Facility	Location with respect to protected area	Affected surface area/ length	Type of protection [24]
Expanded boundary			
Spain			
Reservoirs	Interior	18,972 ha	Biosphere reserves, Ramsar wetlands, Nature 2000 Network, national parks, and nature parks.
Electric lines	Interior	18,229 km (16.05 %)	Nature 2000 Network, Ramsar wetlands, national parks, and Biosphere reserves.
Substations	Interior	83 facilities (8.76% of the total)	Nature 2000 Network.
Transformer centres	Interior	4,973 centres (5.25% of total centres	Nature 2000 Network.
Wind farms	Interior	139.14 ha	Nature 2000 Network (insignificant presence compared to total. There are also some min-hydro plants.)
United Kingdom			
Thermal and hydro generating facilities	Interior or nearby	3,264 ha (12 production centres)	Ramsar wetlands, SPA, SAC, and SSSI.
Electric lines	Interior	2,891 km (8%)	NSA, SPA, SAC, Ramsar, NNR, SSSI.
Substations	Interior	8,799 centres (8.14% of the centres)	NSA, SPA, SAC, Ramsar, NNR, SSSI.
Wind farms	Adjacent	4 wind farms	Nature 2000 Network and SAC, SSSI.
Wind farms	Partially interior	12 wind farms	11 wind farms located partially within covered peat bogs, habitat included in the *UK Priority Biodiversity Action Plan* and in Annex 1 of the EU Habitats Directive. One wind farm located in a wintering area for swans and geese.
Wind farms	Nearby	283 ha	The planting of 283 ha of native woodland habitat included in the *UK Priority Biodiversity Plan* is under development at 9 wind farms.

24 Names of principal protected areas:
SPA: Special Protection Area for birds, pursuant to the EC Birds Directive.
SCI: Site of Community importance, pursuant to the EC Habitats Directive.
SAC: Special Area of Conservation, pursuant to the EC Habitats Directive.
Ramsar: Wetlands of international importance, pursuant to the treaty signed in Ramsar.
SSSI: Site of Special Scientific Interest (UK).
NSA: National Scenic Areas (UK).
NNR: National Nature Reserve (UK).

Facility	Location with respect to protected area	Affected surface area/ length	Type of protection [24]
United States			
Electric lines	Partially interior	445.1 km (7.63%)	Protected areas designated by each state, which may be Biosphere Reserves, forests, national parks, or national wildlife refuges, and those with high ecological value even though they may not have the same level of protection.
Brazil			
Electric lines	Interior	119.9 km	Environmental protection areas.
Hydro plants	Interior or nearby	6,876.14 ha	Areas protected by Brazilian law.
Greece			
Wind farms	Interior	15.64 ha	Nature 2000 Network (represents 0.0004% in Greece).
Hungary			
Wind farms	Interior or nearby	2 wind farms	Near Nature 2000 Network areas, one included in a national park.
Italy			
Wind farms	Interior or nearby	3 wind farms	SAC and SEPA.

Iberdrola provides additional information by geographic area at www.iberdrola.com. Information is also provided in the *Biodiversity Report 2011-2013*.

G4-EN12 Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value

The document entitled *Environmental Effects of Electric Power Production and Distribution*, which is available at www.iberdrola.com, reflects the most significant potential impacts on biodiversity arising from the Group's activities, products, and services. The interactions are produced during the different phases of the life of the facilities:

24 Names of principal protected areas:
SPA: Special Protection Area for birds, pursuant to the EC Birds Directive.
SCI: Site of Community importance, pursuant to the EC Habitats Directive.
SAC: Special Area of Conservation, pursuant to the EC Habitats Directive.
Ramsar: Wetlands of international importance, pursuant to the treaty signed in Ramsar.
SSSI: Site of Special Scientific Interest (UK).
NSA: National Scenic Areas (UK).
NNR: National Nature Reserve (UK).

Construction phase:

__Insertion of vehicles and machinery.

__Opening of pathways and changes in vegetation.

__Prolonged human presence (which temporarily affects the behaviour of species of fauna, and is generally reversible).

__Changes in landscape.

Operation phase

__Emissions

__Changes in the natural system of rivers and barrier effect of hydroelectric developments (affecting the ecosystems and habitat of certain species).

__Animal mortality due to collisions and electrocution.

__Changes in vegetation to maintain power line corridors, etc.

__Discharges and spills.

Decommissioning Phase

__Use of machinery and vehicles to remove and demolish existing facilities.

__Reforestation and reinsertion of indigenous species.

__Recovery of environment.

Prior to the construction of a facility, the possible environmental impact is analysed, with a forecast and assessment. Once the risks of causing an environmental impact are known, the customary practice within the Group is to avoid locating new infrastructure either within protected areas or within areas having a high biodiversity value even though not protected. If the impact is significant, the project is modified to the greatest extent possible, with the adoption of the best techniques available and measures identified as necessary to correct and minimise the impact. If full mitigation is not possible, remedial measures are implemented.

100% of the projects so requiring them are subject to environmental impact assessment and public consultations. In all cases, work is carried out jointly with stakeholders in order for the environmental impact to be as low as possible. Some examples can be seen at the following links:
www.iberdroladistribucionelectrica.com
www.spenergynetworks.com/pages/community_consultation.asp
www.scottishpowerrenewables.com/pages/developing_renewable_energy_responsibly.asp
www.mainepower.com/community-relations.htm

Control of environmental impacts does not end upon completion of the facility, but rather continues during the operation and decommissioning phases thereof.

EU13 Biodiversity of offset habitats compared to the biodiversity of the affected areas

Prior to the construction of new facilities, environmental studies are conducted to collect environment characteristics and possible impacts thereon, with the subsequent implementation of the required corrective measures identified in the various environmental studies. Offset areas are intended to improve conservation status and the biodiversity of species and habitats with respect to the areas affected by the presence of the Group's facilities. In addition, various activities are performed to improve biodiversity, as described in the *Biodiversity Report* and in indicator G4-EN13.

Below are some of the habitats that are being offset, the majority of the projects already commenced and being continued during 2014:

__Damhead Creek, in the United Kingdom, manages a 32 ha mitigation area for its biodiversity communities, including wetlands, coastal grasslands, and woodland and bush areas. It also has protective measures to improve the conditions of the principal species, such as the water rat.

__In the United Kingdom, the Company is studying the movement of the icthyofauna in rivers where it has installed hydroelectric plants, in order help the passage thereof by avoiding the placement of obstacles in the way of, for example, the migration of Atlantic salmon at the Galloway hydroelectric plant. Measures are also being taken to favour the presence of the native eel to fight the invasive species that is displacing it, the signal crayfish (*Pacifastacus leniusculus*).

__In 2014, ScottishPower also implemented a habitat improvement under a new 132 kV line construction project in Northern Wales, with the creation of wetlands in the *Marches Nature Improvement Area*.

__CMP, an Iberdrola USA subsidiary, is reconditioning power lines to minimize the impact on the nesting and reproduction process of the fishing eagle. It is also collaborating with the US Fish and Wildlife Service in the identification of the New England rabbit (*Sylvilagus transitionalis*), whose population is decreasing, under the power line corridors.

__Habitat Management Plans (HMPs) are being implemented in the areas adjacent to wind farms in the United Kingdom, giving rise to an offset area of 8,000 ha.

__Offset areas at fifteen wind farms in the United States of America, with a total surface area of 348 ha, are maintained and monitored in order to preserve the original habitats in which the wind farms are located, such as pastures, forests, wetlands, deserts, etc.

__Plans for the reforestation of native species are continuing with respect to the construction of the Goias Sul hydroelectric plant in Brazil. 1,300 ha of surface area was treated during 2014. For the Bahia PCH I plant a financial offset was made for the protection of a conservation unit, through the recovery of 26 ha with the planting of 32,000 seedlings. At the Pedra do Garrafão PCH plant, 30 ha were restored in 2014 with the planting of 40,000 indigenous seedlings.

__The subsidiary Elektro and the distribution affiliates of Neoenergia undertake reforestation offsets associated with environmental licenses for the construction of lines and substations. Reforestation with native species having the same ecological characteristics as the affected areas is performed in areas determined by the government. Elektro planted approximately 44,000 plants of 90 different native species in three large reforestations during 2014.

G4-EN13 Habitats protected or restored

Iberdrola's awareness of the importance of biodiversity means activities are not limited only to restoration work in the areas affected by the facilities; great importance is also given to plans for prevention, habitat protection, mitigation of damages. Based on the needs of each project, Iberdrola performs tasks during the lifecycle of the project such as:

__Flora and fauna monitoring (especially of protected or vulnerable species).

__Forest treatments.

__Forestry restoration with indigenous plants.

__Landscape integration and accommodation, etc.

By way of example, included below are some of the actions taken by Iberdrola companies throughout the world in this area:

__In 2014, 63 environmental actions were implemented in Spain before and during the construction of electrical substations and lines. The advance studies consider the effect on the Nature 2000 Network, flora and vegetation, nesting by birds of prey, landscape integration and accommodation, etc. During construction, land was restored and prepared, vegetation, birds and the landscape were protected, invasive species were controlled, there was training regarding fires and discharges, etc.

__ScottishPower continues with Biodiversity Action Plans (BAPs) at each facility to recover and promote the regeneration of the natural habitats, fauna, and flora characteristic of the environment surrounding the facilities. More information is available in downloadable files for each BAP at www.spenergywholesale.com and at www.iberdrola.com.

__Iberdrola USA's subsidiary CMP has continued working with landowners at two watersheds to improve water quality as well as to make improvements in the aquatic habitat and the riverbank. The activities include prior treatment of water runoff from impermeable areas of the basin prior to their entry into the riverbed.

__At the affiliated Brazilian hydroelectric plants, there has been a continuation of programmes for the recovery and offset of Permanent Conservation Areas (APPs) and degraded areas (quarries, dumps), mainly through reforestation. Various environmental programmes for conserving biodiversity are also performed annually based on the impacts caused by their operation: monitoring fauna (icthyofauna, herpetofauna, mastofauna, avifauna, entomofauna, etc.), monitoring flora in reforested areas, monitoring water quality, monitoring erosive processes, etc.

__At the Group's wind farms, land affected by construction activities has been recovered where necessary, performing re-vegetation and forest treatments, among other activities. For example:

_ScottishPower Renewables continues with the work of restoring the habitats included in the Habitat Management Plans implemented at the wind farms. For example, the planting of 283 ha of native woodland habitat included in the UK Priority Biodiversity Action Plan is under way at 9 wind farms.

_Iberdrola Renewables USA continued developing plans for managing and monitoring habitat at the Leaning Juniper IIA/IIB and Klondike III/IIIa wind farms in 2014, with good results. In addition, there is work underway to eliminate an invasive herbaceous species at Klondike II and work is continuing on the restoration of wetlands near the Hoosack wind farm.

_In Mexico, noteworthy activities include the monitoring of the reforestation performed during the construction of the La Ventosa wind farm, as well as the procedures that have been commenced for the reforestation of an area of approximately 19 ha at the La Venta III wind farm. Arrangements are also underway at the La Venta III Line for the reforestation of approximately 25.56 ha.

__Fundación Iberdrola continues to participate in the *Life* (2010-2014) project for the preservation and recovery of the Cantabrian capercaillie and its habitat in the Cantabrian mountain range, in cooperation with Fundación Biodiversidad (Biodiversity Foundation) and the Sociedad Española de Ornitología (Spanish Ornithological Society) (*SEO/BirdLife*): www.fundaciónіberdrola.org. The Foundation has collaborated in 2014 with SEO/BirdLife in the NIGRA project, the goal of the project being the study of the migratory movements of bird species in Spain, financing the start-up of this programme from the 2011 season to the present.

More information is available at www.iberdrola.com and in the *2011-2013 Biodiversity Report*.

G4-EN14 Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations.

The Group is active in certain areas that are or may be inhabited by threatened species included in the IUCN Red List[25], the UK BAP, and by the USFW, and other national lists such the Sao Paolo list of threatened species, without such activities entailing a negative impact or threat.

IUCN Red List Classification	No. of species
Critically endangered (CR)	21
Endangered (EN)	57
Vulnerable (VU)	79
Near threatened (NT)	80
Least concern (LC)	576
No evaluation (NE)	201

Species appearing as not evaluated by the IUCN appear as threatened in the specific lists of each country. The list of classified species is available at www.iberdrola.com.

25 International Union for the Conservation of Nature (IUCN) (www.uicn.es), UK Biodiversity Action Plan (UK BAP) (www.ukbap.org.uk/newprioritylist.aspx), US Fish & Wildlife Service (USFW) (www.fws.gov).

Aspect: Emissions

Management Approach

The main greenhouse gas generated by the Company's activities is CO_2, which is produced by combustion during thermal generation. Iberdrola is publicly committed to maintaining its position as one of the leading European companies with fewer CO_2 emissions per kWh produced. The Company's strategy is focused on gradually reducing its intensity of GHG emissions by continuing along the line of electricity generation based on renewable sources and progressively introducing more efficient and less carbon-intensive technologies at existing facilities. The goal for 2020 is a 30% reduction in the intensity of emissions per kWh generated compared to the year 2007.

Other emissions such as the emissions of sulphur dioxide (SO_2), oxides of nitrogen (NO_x), and particulate matter are also created by the burning of fossil fuels. These emissions are being reduced due to the Company's energy generation mix, with the incorporation of emission free energy and support of modern technologies for control of thermal plants. This management focus on lower emissions per GWh produced is supplemented with a plan to invest in conventional power plants through the installation of desulphurisation units, other improvements in the combustion process, and the dismantling of less environmentally-efficient units.

In September 2014, Iberdrola endorsed goals proposed by the Carbon Disclosed Project through its Road to Paris 2015 project, based on emissions reduction and the promotion of responsible corporate policies relating to the climate.

G4-EN15 Direct greenhouse gas emissions. Scope 1 (per GHG Protocol)

Iberdrola's Greenhouse Gas (GHG) emissions are consolidated from the viewpoint of percentage equity interest: the Company reports GHG emissions in accordance with the proportion it holds in the share structure. Direct emissions occur at sources that are owned or controlled by the Company. They include:

- Direct emissions from energy generation facilities.
- Direct emissions from non-generation facilities.
- Emissions from releases of methane (CH_4) in the transportation of natural gas.
- Emissions from releases of hexafluoride (SF_6) in the distribution networks.
- Emissions from combustion at buildings.
- Emissions of gas oil from nuclear facilities.

It should be noted that the emission factors used in calculating each of these emissions are obtained from official sources as described in the methodologies section available in the GHG report, which is audited annually under the ISO 14064 standard available in (www.iberdrola.com).

Emissions of CO_2 from production facilities for 2014 reflect a significant decrease compared to prior years. The change is presented in the following table:

CO_2 emissions (t)	2014	2013
Expanded boundary		
Generating plants	27,028,231	28,249,133
Cogeneration	3,037,420	3,519,637
Total	**30,065,651**	**31,768,770**

The emission free installed capacity within the Group totals 62%, with of the rest 31% is medium-emission generation (combined cycles and cogeneration), with only 7% corresponding to high emissions (coal).

In addition to these emissions from production facilities, 47.23 kt of CO_2 have been recorded during this financial year at the Daldowie thermal drying plant in Scotland, and 48.55 kt of CO_2 at the Enstor underground storage facilities in the United States.

Other direct emissions recorded for the year include 7.44 kt of CO_2 equivalents in methane releases from Iberdrola USA's network of distribution companies and 0.025 kt of CO_2 equivalents in methane releases from United Kingdom plants.

Releases of SF_6 totalling 23.66 kt of CO_2 equivalents occurred at the distribution networks in Spain, the United Kingdom, Brazil, and the United States of America.

Emissions from gas-oil combustion at nuclear facilities involve 4 kt of CO_2 equivalents.

Emissions from the combustion of fuel (gas-oil, natural gas, and LPG) at buildings involve 6 kt of CO_2 equivalents.

All of these direct emissions, not included in the emissions in the table above, entail less than 0.5% of the direct emissions of the Group and its affiliates.

G4-EN16 Indirect greenhouse gas emissions. Scope 2 (per GHG Protocol)

Indirect emissions are those deriving from its activity but generated by other entities, including emissions from the generation of electricity acquired and consumed by the Company. These emissions are:

__Emissions associated with the consumption of electricity in buildings.

__Emissions associated with the consumption of suspended standby energy at the renewable, thermal, and nuclear plants and pumping at the hydroelectric plants.

To calculate CO_2, the emission factor of the generation mix for the respective country is applied. Source: *CO_2 Emissions per kWh from Electricity and Heat Generation* from the report *CO_2 Emissions from fuel combustion 2014 Edition* of the International Energy Agency. More information on methodologies is available in the GHG report, which is audited annually under the ISO 14064 standard (www.iberdrola.com).

Emissions associated with the consumption of electricity in buildings

Emissions associated with the consumption of energy at offices CO_2 (t)	2014	2013
Expanded boundary	56,374	64,122

Emissions from consumption during shutdowns and pumping

Emissions associated with consumption by the power plants during shutdowns (energy imported from the grid) and during pumping at the hydroelectric plants and those associated with internal consumption by wind farms this year involved 1,492 kt of CO_2 equivalents, of which 1,043 kt corresponded to the plants in Spain, 440 kt to those in the United Kingdom, 4 kt to those in Mexico, 2 kt to those in the United States of America, 2 kt to those in Brazil, and 2.5 kt to the wind farms in other countries.

G4-EN17 Other indirect greenhouse gas emissions. Scope 3 (per GHG Protocol)

The rest of the indirect emissions include those that are a result of the Company's activities, but occur at sources that are not owned or controlled by it. The other emissions are:

- Emissions associated with the importation of electricity.
- Emissions associated with the transportation of employees for work purposes.
- Emissions associated with the transportation of fuel.
- Emissions associated with the distribution of energy from other generators.
- Emissions from suppliers that receive and respond to GHG questionnaires.
- Emissions associated with the transportation of employees from their home to their place of work.

More information on methodologies is available in the GHG report, which is audited annually under the ISO 14064 standard (www.iberdrola.com).

Emissions associated with the importation of electricity

During 2014, only 349 GWh of electricity was imported, entailing indirect emissions of 29 kt[26] of CO_2 equivalents.

Emissions associated with the transportation of employees for work purposes

This category includes emissions associated with the movement of vehicles and other means of transportation in work-related travel by employees. The method for calculating these emissions is based on the application of emission factors extracted from Defra[27], which assigns a numeric value to the emissions based on various entry parameters. The results are set forth in the following table.

26 Source: *CO_2 emissions from fuel combustion 2014 Edition* of the International Energy Agency.
27 Defra: Department for Environment, Food and Rural Affairs, UK.

CO_2 (kt) emissions associated with employee travel	2014	2013
Expanded boundary		
Air	8,798	2,200
Vehicle	57,227	91,737
Train	204	305

There were more than 35,737 videoconferences in Spain in 2014 that avoided employee travel in 2014, entailing a reduction of approximately 22,142 t of CO_2, reaching the goal of reducing CO_2 emissions compared to the previous year, thanks to the installation of new videoconferencing facilities and improvements in equipment.

Emissions associated with the transportation of fuel (Spain and United Kingdom)

The fuel supply chain was analysed in accordance with the various means of transportation employed, their emission factor was determined, and the emissions from this activity were calculated. In 2014, there were 89 kt of CO_2 emissions in Spain and 295 kt of CO_2 emissions in the United Kingdom.

The emissions by type of transportation are shown below:

CO_2 emissions (t) associated with the transportation of fuel in Spain and the United Kingdom	2014	2013
Expanded boundary		
Roadway	14,307	9,757
Train	34,723	37,033
Ship	334,206	369,532

Emissions associated with energy distribution purchased from other generators

In countries in which the energy supplied is greater than the energy generated, an estimate has been made of the emissions associated with this difference, which involves estimated emissions of 30,471 kt of CO_2 during the year.

Emissions associated with the supply chain

The *Supplier Awareness and Greenhouse Gas Measurement Campaign V* was carried out during financial year 2014, for which purpose surveys were sent to the Group's suppliers in Spain, the United Kingdom, the United States of America, Mexico, and Brazil. A specific survey and helpful information

and support regarding this matter were sent to approximately 1,000 suppliers. Of the 43% of surveys received, 41% provided a calculation of emissions. Based on the responses obtained from the surveys, emissions proportional to the volume of the supplier's billing to the Company of total billing are deemed to correspond to Iberdrola. In order to expand awareness of the Group's carbon footprint, the inventory includes indirect emissions of 666 kt CO_2 for Spain, 466 kt CO_2 for the United Kingdom, 246 kt CO_2 for the United States of America, 454 kt for Mexico and 0.1 kt CO_2 for Brazil. The emissions collected in this survey correspond to 2013.

Emissions associated with the transportation of employees from their home to their work place

Surveys were sent to the employees of the Iberdrola Group to record their emissions through an emissions calculation tool. Responses were obtained from 5% of the Iberdrola Group's employees. The data collected from the survey are entered directly into a database used to calculate emissions (in kg CO_2eq/year). Emissions increased to 3,916 t CO_2.

Iberdrola's inventory of emissions results from the emissions set forth in indicators G4-EN15, G4-EN16 and G4-EN17. In March 2014, for the fourth consecutive year, Aenor certified Iberdrola's greenhouse gas emissions inventory, covering the direct and indirect emissions from all activities, pursuant to the UNE ISO 14064-1:2006 standard.

Set forth below is the inventory (as of the date of publication of this report) to be submitted for verification in 2015 pursuant to the *Greenhouse Gas Protocol* of the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI). Updated information is available at www.iberdrola.com.

Emissions of CO_2 equivalents to be verified in 2015 (kt)	Spain	United Kingdom	United States	Brazil	Mexico
Scope 1: Direct emissions	4,112	11,380	985	675	13,052
Scope 2: Indirect emissions	1,055	455	28	2	4
Scope 3: Other indirect emissions	9,863	9,536	7,988	4,943	454

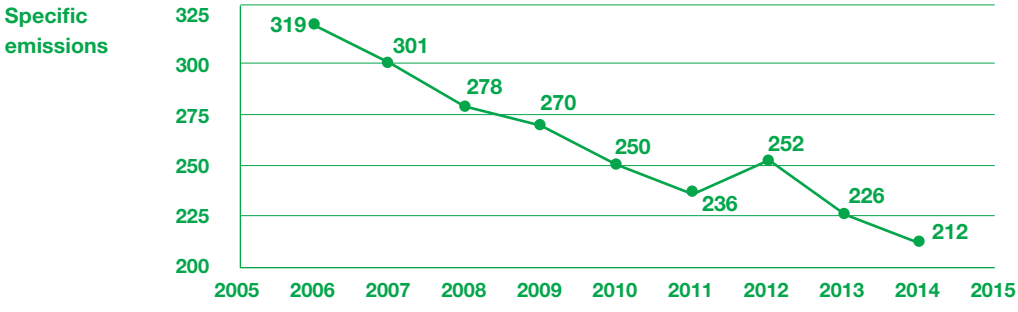
G4-EN18 Greenhouse gas emissions intensity

Intensity of CO_2 [28] emissions	2014	2013
Expanded boundary		
Specific emissions from global mix (kg/MWh)	212	226
Specific emissions from global mix (kg/€)	1.001	1.021

In 2014, CO_2 emissions per MWh generated remained among the lowest among domestic and international energy companies. As a reference, the specific emissions of European electric companies are approximately 326 Kg/MWh[29]. This low intensity of emissions is justified by Iberdrola's production mix, with the emission-free production percentage increasing from 55% in 2013 to 57% in 2014.

The chart below shows the Company's emission intensity.

Intensity of CO_2 Emissions (kg/MWh)



The average emissions intensity per MWh produced during the last 4 years is 231 kg/MWh.

28 kg/MWh: Direct emissions from energy generation facilities included in section EN/15/net production of the Group including steam generation. kg/€: Direct emissions from energy generation facilities included in indicator EN15/Net sales €. 2013 intensity has been corrected due to a change in steam production.

29 Source: *CO_2 Emissions From Fuel Combustion 2014 International Energy Agency*.

G4-EN19 Reduction of greenhouse gas emissions

Initiatives to reduce emissions are realised through a broad range of products and services promoting energy efficiency and savings, such as:

Areas		Actions and initiatives	CO_2 avoided (t)
Expanded boundary			
Renewables		Primary energy savings through the production of renewable energy	14,070,178
Hydroelectric		Primary energy savings through hydroelectric generation	6,150,953
Cogeneration		Savings through the supply of heat energy (steam) within the Group	917,934
Network efficiency		Savings from distribution network efficiency in Spain, United States, and Brazil	153,951
Retail	Spain	Energy savings and efficiency from green products and services	120,386
	United States	Energy savings and efficiency from green products and services	23,387
Group		Use of videoconferencing	22,142

The operating regimen of the Group's production facilities led to the level of CO_2 emissions described in indicator G4-EN15. Indicators G4-EN6[30] and G4-EN16 provide additional information in this regard.

Despite its excellent position in this regard, Iberdrola has committed to reducing the intensity of its emissions to 30% below its 2007 level by 2020 (more information is available at www.contraelcambioclimatico.com). Iberdrola has signed a commitment to join the CDP Roadmap to Paris publicising the goal of reducing emissions. The strategy to achieve this is focused on gradually reducing its intensity of GHG emissions by continuing along the line of electricity generation based on renewable sources and progressively introducing more efficient and less carbon-intensive technologies at existing facilities.

G4-EN20 Emissions of ozone-depleting substances

The chlorofluorocarbon (CFC) and halon substances long used as coolants and propellants affect the ozone layer if they are released into the atmosphere. Ozone layer reducing substances have a very limited presence at the Group's facilities, and are located primarily in fire-extinguishing equipment and

30 In addition to the reductions described in G4-EN5, the Group's nuclear production prevented emissions of 7,475,785 tonnes of CO_2, taking into account the emission mix. Source: *CO_2 emissions from fuel combustion 2014 Edition* of the International Energy Agency. 2012 Factors.

cooling systems. These systems and equipment are maintained in accordance with the provisions of applicable laws and regulations. The only atmospheric emissions originating from these products would be those arising from potential losses, which are practically negligible. As specified by international treaties on the management of chemical products that are damaging to the ozone layer, the use thereof has been restricted in most countries since 2010, for which reason Iberdrola's policy has been to eliminate their presence at its facilities. Nevertheless, these substances continue to be used at those facilities where a better market substitute has not been found, with the use thereof still being authorised. Thus, 137 kg of CFC-11 equivalent was replaced in 2014, of which: 55 kg of CFC-11 equivalents was in Spain, 10 kg in United States, and 72 kg in Mexico.

G4-EN21 NO_x, SO_x and other significant air emissions

The emissions of sulphur dioxide (SO_2), oxides of nitrogen (NO_x), and particulate matter are also created by the burning of fossil fuels. These emissions are being reduced due to the Company's energy generation mix, discussed in the emissions section, with the incorporation of renewable energy and support of modern technologies for monitoring combined cycles. This management focus is supplemented with a plan to invest in conventional power plants through the installation of desulphurisation units, other improvements in the combustion process, and the dismantling of less environmentally-efficient units.

Emissions of oxides of nitrogen (NO_x)

Emissions of oxides of nitrogen NO_x (t)	2014	2013
Expanded boundary		
Generating plants	28,031	29,350
Cogeneration	5,533	7,362
Total	**33,564**	**36,712**

Emissions of NO_x (kg/MWh)	2014	2013
Expanded boundary		
Specific emissions from global mix	0.236	0.262

NO_x emissions, both in absolute values as well as in intensity by MWh produced, decreased during the year due to the change in production technologies explained in indicator G4EN15. To comply with Directive 2001/80/CE, which limits the atmospheric emissions of SO_2, NO_x, and particulates from large combustion facilities, investments have been made in combustion control systems at the thermal plants, both in Spain and the United Kingdom.

SO_2 emissions

Emissions of sulphur dioxide (SO_2) (t)	2014	2013
Expanded boundary		
Generating plants	21,782	30,462
Cogeneration	140	265
Total	21,922	30,727

SO_2 emissions (kg/MWh)	2014	2013
Expanded boundary		
Specific emissions from global mix	0.154	0.219

The intensity of SO_2 emissions in 2014 was 0.154 kg/MWh, 29% less than in the prior year due to increased production from emissions-free sources and the operation of desulphurisation plants in the thermal plants of the Group.

Particulate emissions

Particulate emissions (t)	2014	2013
Expanded boundary		
Generating plants	1,528	1,708
Cogeneration	92	97
Total	1,620	1,805

Particulate emissions (kg/MWh)	2014	2013
Expanded boundary		
Specific emissions from global mix	0.011	0.013

Particulate emissions in 2014 were significantly reduced due to increased production from emissions-free sources, and measures to control the electrostatic precipitator.

Emissions of mercury (Hg) and other compounds

The emission of mercury (Hg) during 2014 was 95 kg, of which 70 kg corresponded to the thermal power plants in the United Kingdom and 25 kg to those in Spain, a 14% reduction compared to the prior year.

Furthermore, 498 t of volatile organic compounds (VOCs) were emitted in Spain, the United Kingdom, Mexico, and the United States of America; and 10.5 kg of hazardous air pollutants (HAPs) were emitted in the United Kingdom.

Aspect: Effluents and waste

Management Approach

Effluents

Various processes require the collection and use of water in their activities (see Aspect: Water in this report) and its later return to the environment as effluent.

Thermal generation plants, and particularly those plants with open cooling circuits, return to the environment the collected water without significant physical chemical changes, the most noticeable being an increase in temperature. For each facility, this aspect is rigorously controlled by each plant (to comply with established limits and to take appropriate measurements in case said limits are exceeded) and by the government, which establishes certain maximum allowable values based on the nature of the collection point and the discharge point (sea, dam or river) and performs monitoring.

The generation plants have treatment plants and systems that allow for monitoring and the improvement of quality of the effluent before its discharge into the receptor medium (sea, dam, river, or purification plants) thus reducing the risk of polluting discharges.

However, there is a risk of accidental discharges of fuel and chemical products, or spills of polluted water, which is contemplated for or controlled by:

__Obtaining the environmental permit under applicable law and imposing strict environmental requirements on the design of the facility.

__Monitoring of the quality and quantity parameters for the water collected and discharged, always in compliance with applicable local environmental law.

__Use of systems for reporting anomalies and incidents and the establishment of plans to minimise spillage risks, by implementing predictive, preventive, and corrective actions that ensure the proper condition of the water.

__The application of ISO 14001 and EMAS certifications; as well as other in-house and external audits by insurance and certifying entities, whose observations or recommendations will each lead to a preventive or corrective initiative within the Environmental Management System.

These initiatives also apply to distribution substations and wind farms to manage the risk of oil spills.

In the event that a discharge or spill occurs at the Company's facilities having negative effects on the surrounding environment, the Company provides the information required and cooperates with the competent bodies until resolution of the incident. The reason for the discharge is subsequently analysed, and the appropriate measures are taken in order to minimise the probability of reoccurrence.

Waste

At Iberdrola, waste is managed in an environmentally responsible and cost-effective manner, giving priority to reutilisation and maximising recycling whenever possible, maintaining the basic concept of generating the minimum possible amount of waste.

All waste is managed through environmental management systems that set objectives and goals with respect to reduction, good practices, use of recycled materials, etc.

As a quantitative example of how waste material is treated as a resource to be exploited, ash and slag from coal-fired plants in Spain and the United Kingdom are noteworthy, as they are reused based on demand from cement and construction companies. The part not reused is deposited in landfills in Spain and in ash lakes in the United Kingdom.

The prevention, treatment and final disposal of hazardous waste is performed pursuant to the applicable legislation of each country, with preparation of the corresponding annual declarations.

Radioactive waste from nuclear power plants in Spain are the most typical of the generation process, which is managed in accordance with the General Radioactive Waste Plan approved by the government and implemented by the Spanish state-owned company Enresa.[31] Most of this waste is of medium and low radioactivity and is temporarily stored at the nuclear plant to be later brought to a plant used only for this purpose managed by Enresa. Spent fuel, which is no longer useful for electric energy production, is regarded as highly radioactive waste and is temporarily deposited within the pool of the plant itself, to ultimately be brought to the Centralised Temporary Storage Facility (*Almacén Temporal Centralizado*) (ATC), which is located in Villar de Cañas in Cuenca.

Iberdrola's nuclear power plants are included within the Environmental Radiological Monitoring Programme of the Nuclear Safety Council, the purpose of which consists of monitoring the dispersion in the environment of discharges from the facilities in a controlled manner and of knowing and monitoring radiological quality throughout the territory of the country.[32]

G4-EN22 Total water discharge by quality and destination

The thermal power-generation plants in Spain have treatment systems that treat residual water before discharging it into the natural receptor environment. Water from the process undergoes physicochemical treatment, which includes the separation of hydrocarbons. Wastewater is treated in compact treatment systems with biological aerobic processes. Coal plants have a treatment system for slag from the plant, and a decantation/coagulation process that prevents the entry of particulate coal or coal in suspension

31 Enresa: Empresa nacional de residuos radioactivos, S.A.

32 For more information, see the technical report issued by the Nuclear Safety Council "*Programas de vigilancia radiológica ambiental. Resultados 2009*" ("*Environmental radiological monitoring programmes. 2009 results*") available at www.csn.es.

into the receptor water. After being treated, the process water and the sanitation wastewater are diluted with the return water from the cooling system and are discharged with continuous monitoring of various parameters (temperature, turbidity, conductivity, etc.). Once a month or once a quarter, an accredited organisation performs an analysis and reports to the government.

An exhaustive inspection was performed of the water used in the direct production process at the Cofrentes nuclear power plant. All of the effluents from the water-steam cycle, from the reactor coolants, and from the standby systems are processed in the liquid waste treatment system and are returned to the cycle for reuse. On an exceptional basis, during maintenance shutdowns, liquid discharges are produced that are mixed with purified wastewater effluents and with the effluents from the collected-water treatment plant. It is stored in pools and discharged periodically under the supervision of a representative of the Water Board.

In Mexico, the combined cycles have separate and independent networks for industrial and sanitary water. The latter receive final treatment in biodigestors whereas industrial water is discharged into the environment or sent to municipal treatment plants. In Mexico, the La Laguna power plant captures sanitation wastewater for all processes, for which reason the water discharged by this facility is of better quality in some parameters than the water that is collected.

Data regarding this indicator is shown below, and more information is available at www.iberdrola.com.

Total water discharged (m^3)	2014	2013
Spain	1,149,439,558	1,194,937,158
United Kingdom	1,608,849,086	1,698,537,453
United States	1,589,287	1,559,353
Mexico	29,975,826	28,160,228
Brazil[33]	41,378	42,493
Other countries	4,304	3,372
Basic boundary	2,789,899,439	2,923,240,057
Expanded boundary	2,797,114,146	2,932,752,529

Most of the water discharged is water returning from the cooling systems, the temperature of which is controlled so as not to exceed the established discharge limits. The other main component of the discharge is water from processes and sanitary water that is filtered prior to discharge. In 2014, 248,256,124 m^3 of water was filtered at the thermal generating plants.

33 Only the offices of Elektro are considered in 2014.

G4-EN23 Total weight of waste by type and disposal method

The waste generated can be included in the group of waste generated by the process itself or in the group of waste originating from facilities and offices indirectly linked to the power generation process (maintenance, operation, management, or other activities). At the Iberdrola Group, waste follows an identification, classification and management process within the framework of applicable law in each country. In addition, waste collection is performed in order to separate reusable materials contained therein. There are also training activities to raise the awareness among the Group and subcontracted personnel. Almost all facilities have a waste minimisation plan.

Waste from the production process

1. Fly ash and slag

In the thermal power plant generation process, fly ash and slag are the most typical types of waste. 650,101 t of fly ash were produced in 2014, 207,130 t in Spain, and 442,971 t in the United Kingdom; of the total, 78% was reused to produce cement as filling in infrastructure work and to produce compost. Also produced were 54,316 t of boiler slag and non-fly ash, of which 68% was reused and the rest was sent to landfills.

Production and reuse of fly ash at thermal plants

Production and reuse of ash at Iberdrola's thermal power plants in Spain and the United Kingdom	2014	2013
Ash produced (t)	650,101	653,341
Ash reused (t)	510,231	534,458
Percentage of product reused (%)	78	82

The production of ash and slag decreased in Spain and the United Kingdom compared to the prior year, due mainly to a decrease in thermal generation with coal.

As an example of waste exploitation and reutilisation, ash is mainly used to produce cement and as filling in infrastructure works, and to produce compost naturally in the lagoons created near the Longannet coal plant in the United Kingdom. Over the years, the lagoons have created habitats useful for the local fauna.

2. Nuclear waste

During 2014, 79 m^3 of radioactive waste were produced in the low-level / low-activity category at the Cofrentes plant in Spain, and 75 m^3 were sent to be deposited at the El Cabril temporary storage facility. The rest of the nuclear power plants in which Iberdrola holds an interest produced 68.8 m^3 of low-level / low-activity nuclear waste (a figure corresponding to the attributable percentage), and 2.3 m^3 were sent to El Cabril.

The same year, 185 m^3 of intermediate- and low-level radioactive waste were produced at the Cofrentes plant, and 233 m^3 were sent to be deposited at the El Cabril temporary storage facility. The rest of the nuclear power plants in which Iberdrola holds an interest produced 81.7 m^3 of low-level / low-activity nuclear waste (a figure corresponding to the attributable percentage), and 57.2 m^3 were sent to El Cabril.

The fuel assemblies no longer useful for electric energy production are considered high-activity waste and are stored as spent assemblies within the pools of the nuclear reactors. At the Cofrentes plant, no assemblies were replaced, with a resulting total of 3,980 fuel assemblies stored in the pool. At the other plants in which an interest is held, 164 assemblies were replaced, 61 of which are attributable to Iberdrola. There is a total amount of 3,595 assemblies attributable to the Company.

Other waste

Hazardous waste

Within the framework of the environmental management systems, the various businesses of the Group carry out activities designed to minimise and improve the management of the hazardous waste that is produced (PCB-contaminated equipment and oil, lubricants, resins, emulsions, etc.). The waste is periodically delivered to authorised handlers for proper processing. Not all of the waste generated is deposited or recycled immediately given that there are temporary warehouses for hazardous waste at the facilities.

Hazardous waste generation (t)

Hazardous waste generation[34]	2014	2013
Expanded boundary		
Produced	29,607	19,765
Deposited and/or incinerated	15,229	8,318
Recovered, recycled, reused	14,433	7,768

Noteworthy is the decommissioning of the Santurce and Escombreras thermal plants as waste generating sources. In Spain Networks Business, waste has increased due to the management of power transformers that have been eliminated to avoid the risk of theft. At ScottishPower Networks, cabling has been removed, and at Rokas Group (Greece) there has been some waste from renovations and scheduled maintenance activities.

34 Liquid waste has been converted into kg using a density of 1.3 kg/m^3.

Non-hazardous waste (t)

Hazardous waste generation	2014	2013
Expanded boundary		
Produced	637,365	541,607
Deposited and/or incinerated	425,872	407,696
Recovered, recycled, reused	153,487	128,281

The non-hazardous waste produced is quite diverse: electronic equipment, metals, tubing, wood, plastics, paper, etc., and the Company has minimisation, reutilisation, and recycling plans and awareness-raising campaigns to promote the adoption of good environmental practices by its employees.

During 2014, there was an income of 6,980,440 euros derived from the sale of non-hazardous waste.

G4-EN24 Total number and volume of significant spills

Accidental spills are prevented and controlled by incident reporting systems and plans to minimise the risk of spills, which have been implemented at the generation and distribution facilities in various regions. These plans include emergency guidelines and procedures, periodic simulations, etc. Safety and containment measures are also adopted to minimise the damage. In Spain, for example, 428 preventive measures were taken in 2014 to prevent and mitigate the impact of potential spills, including the construction of 5 oil collection reservoirs in case of a major discharge at the substations or transformer stations. There is a system available in the United Kingdom for the reporting and management of environmental incidents called “Cintellate”, which allows for a more efficient response to possible spills and other environmental incidents.

The Iberdrola Group recorded 31 incidents of significant spills during the year[35] with a spill volume of 22.55 m^3.

There have also been minor accidents or incidents at other companies belonging to the Iberdrola Group that have not had permanent environmental impacts on the surroundings, for which reason it was not necessary to adopt corrective or compensatory measures. All cases were resolved in a satisfactory manner thanks to the emergency response team, and the contaminated area was cleaned with the

35 The term “significant spill” means a spill that causes damage to the external surroundings of the facility or a significant risk thereof and that must be reported to the governmental authorities. Small spills may occur within the facilities during the operation and maintenance thereof, which are properly handled and reported as required.

management of any waste. For example, at the UK networks facilities, there were a total of 56 leaks or spills of transformer oil, insulating liquid from cables, hydraulic oils, etc. Of these spills, only one of them had to be reported to either to the Environment Agency (EA) or to the Scottish Environmental Protection Agency (SEPA).

G4-EN25 Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally

Iberdrola does not directly transport, import, or export hazardous waste covered by the Basel Convention in any of the countries in which it engages in its activities.

G4-EN26 Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organisation's discharges of water and runoff

Collection and discharges by the facilities during 2014 were within the limits indicated by the relevant comprehensive environmental permit, and no anomalies were detected outside of the limits that could materially affect water resources or related habitats.

The Company's activities can even be beneficial for the ecosystem. This is the case of the Altamira III and IV plant in Mexico, which discharges into the Garrapatas estuary, allowing it to recover its salinity and thus the specific characteristics of this habitat and the species of fauna and flora adapted thereto. This estuary was losing its brackish nature due to salt-water entry being blocked, with the resulting desalination of the ecosystem.

Aspect: Products and services

Management Approach

The consumption of products and services other than fuel (natural gas, coal, etc.) and of the chemical products, oils, lubricants, and refrigerants included in indicator G4-EN6 in the production of electricity is not deemed to be significant.

G4-EN27 Extent of impact mitigation of environmental impacts of products and services

These initiatives are described in indicator G4-EN6 of this report.

G4-EN28 Percentage of products sold and their packaging materials that are reclaimed by category

This indicator is not applicable to the Iberdrola Group, because electricity does not directly generate any waste upon being used.

Aspect: Compliance

Management Approach

The legal requirements applicable to the activities carried out by the Group, together with the evaluation of its compliance therewith, are identified by certified environmental management systems. Compliance reports are prepared for those cases in which the environmental management system has not yet been fully implemented. In indicator G4-EN29 of this report, supplemental information is provided regarding environmental legal proceedings that have been commenced against companies managed directly by Iberdrola.

G4-EN29 Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations

Incidents relating to the environment during 2014 involved the following fines and monetary sanctions:

Fines relating to the environment (€)	2014	2013
Expanded boundary	2,212,768	119,385

Of the fines imposed during the year, 1,969,429 euros were in Spain, and 243,340 euros in Brazil. In Spain, significant fines are the 1,694,700 euros that correspond to two sanctions cases in the pleadings stage due to the death of three Iberian imperial eagles (two in Ossa de Montiel and one in La Roda) and 100,000 euros also in the pleadings stage corresponding to a sanctions case in a case involving the opening of an unauthorised road. In Brazil, significant fines include 156,195 euros corresponding to Neoenergia for two cases, in which pleadings have been filed, one for impacting the icthyofauna in Pedra do Garrafao plant and the other for a fire in the area of a dam.

Non-monetary sanctions, sanction proceedings, and arbitrations (nº)	2014	2013
Expanded boundary		
Non-monetary sanctions	7	1
Sanction proceedings	31	21
Cases being resolved through arbitration or similar mechanisms	0	0

Aspect: Transmission

Management Approach

Information is provided about emissions associated with the import of electricity, when such imports occur, and the transportation of employees and fuel. It should be pointed out that these emissions are not significant compared to the emission arising from the energy production process, but work is nevertheless continuing to reduce the impact through the application of various mobility plans.

G4-EN30 Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce

Iberdrola provides information on the emission of greenhouse gases generated by the transport of fuels and of employee travel. In indicator G4-EN17, CO_2 emission data is collected together with the measures and plans adopted for the reduction thereof.

Aspect: Overall. Expenses and investments

Management Approach

Iberdrola has a procedure for the management of environmental investments and expenses according to the environmental standards defined by the Company.

As a general standard, expenses or investments of an environmental nature are considered to be all those made in activities or projects that have a manifest environmental impact, whether direct or indirect, which are concentrated in the following categories:

__Treatment of emissions, which includes expenses or investments relating to emissions treatment equipment or systems.

__Treatment of waste, which includes investments and expenses relating to the management and treatment of waste, both hazardous and non-hazardous.

__Remediation of environmental impacts, which encompasses the remediation of damage from existing or probable environmental impact, and mainly applies to land, underground water, sediment, or surface water.

__Environmental prevention, which considers investments in new renewable and hydroelectric facilities.

__Environmental management, which encompasses investments and expenses relating to the management of the environment and which are not included in the above categories.

All this in order to showcase environmental activities and initiatives, which are undertaken in order to move towards a more sustainable energy model.

G4-EN31 Environmental expenditures and investments

The expenses and investments of an environmental nature made by Iberdrola during 2014 to preserve the environment of the area in which it operates are set forth in the following tables:

Environmental expenses (€ thousands)	2014	2013
Expanded boundary		
Emissions treatment	114,913	177,332
Waste treatment	180,598	171,175
Environmental impact remediation	21,143	30,652
Environmental prevention	197,757	235,208
Environmental management	121,308	72,050
Total	**635,720**	**686,416**

Environmental investments (€ thousands)	2014	2013
Expanded boundary		
Emissions treatment	27,478	21,859
Waste treatment	2,731	3,488
Environmental impact remediation	3,166	23,938
Environmental prevention	1,059,840	955,777
Environmental management	7,768	10,684
Total	**1,100,984**	**1,015,746**

The "green cent" and the net balance of CO_2 have been included as environmental expenses.

Aspect: Environmental assessment of suppliers

Management Approach
G4-EN32 Percentage of new suppliers that were screened using environmental criteria
G4-EN33 Significant (actual and potential) negative environmental impacts in the supply chain and actions taken

The management approach regarding the Iberdrola Group's supply practices is described in the "G4-12 Description of supply chain" indicator of this report and the environmental risks of such chain are managed through quality processes and periodic audits.

The *Supplier Awareness and Greenhouse Gas Measurement Campaign V* was carried out during financial year 2014, using specific surveys sent to more than 1,000 of the Group's suppliers of material, equipment, works, and services in Spain, the United Kingdom, Brazil, Mexico, and the United States of America.

Of the 43% of surveys received, 41% provided a calculation of emissions, and of these approximately 40% have verified the inventory by a third party, a higher percentage than in prior campaigns, which thus shows its level of effectiveness in raising the awareness of suppliers.

Greenhouse Gas Measurement Campaign V		Spain	United Kingdom	United States	Brazil	Mexico	Total
Surveys sent	no.	492	244	117	112	44	1,009
Surveys received	no.	273	71	53	25	11	433
	%	55	29	45	22	25	43
Emissions calculations provided	no.	117	39	11	5	4	176
	%	43	55	21	20	36	41
Established goal(s) to reduce emissions	no.	96	38	7	5	4	150
	%	35	54	13	20	36	35
Emissions inventory prepared	no.	105	40	11	5	3	164
	%	38	56	21	20	27	38
Emissions inventory has been verified by third parties	no.	41	26	3	0	1	71
	%	39	65	27	0	33	43

The procurement terms of the Group establish certain environmental requirements to meet this commitment, and the Company performs various tracking and reporting activities on an ongoing basis. In 2014, procurement from suppliers with a certified Environmental Management System entailed 77% of the amount in the case of suppliers of general supplies. For fuel suppliers, those with an Environmental Management System represent 75% of the suppliers evaluated. New suppliers are evaluated in accordance with environmental and sustainability standards.

Those providers with orders during the year that do not have the certification are sent environmental engagement and awareness-raising communications to move forward in this area and commence implementation/certification of the system.

The Procurement Division ensures equal opportunity, applying standards of objectivity and impartiality in relations with suppliers, promoting publicity of and competition for selection processes, using management efficiency standards.

Fuel purchasing is subject to the general principles of Iberdrola's Social Responsibility Policies principles that require the encouragement of suppliers to engage in activities that are socially responsible, respectful of the environment, and prevent occupational risks.

The principal environmental risks are considered to be managed through the current management systems and the periodic audits that are performed.

In the management of suppliers and during the procurement process, the measures adopted to promote proper environmental behaviour of the suppliers are based on the ***Procurement Policy***, the ***Suppliers' Code of Ethics***, and the specific environmental clauses in the contracting terms of the Group. Subsequently, during the supply stage, the business units monitor the environmental performance of the supplier during the term of the contract.

No supplier with a negative environmental impact has been detected. Furthermore, Iberdrola does not have major suppliers located in countries with water stress.

Aspect: Environmental grievance mechanisms

Management Approach

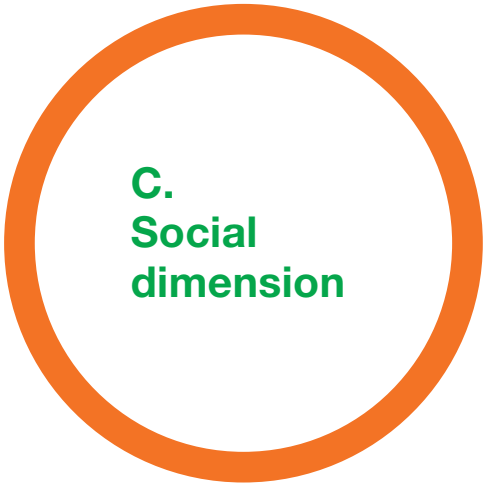
The grievance procedures and tools that Iberdrola makes available to its stakeholders, as well as the management processes with respect thereto, are described in the management approach to the "Grievance mechanisms for social impact" aspect of the "Society" section of this report.

Focused specifically on the environmental aspects of its activities, Iberdrola has an email mailbox, medioambiente@iberdrola.es, which is a channel of communication with stakeholders accessible at www.iberdrola.com, on the "Contact" page, under the "Environment" section, offering the ability to ask questions, provide questions, place concerns, make complaints, etc. This mailbox, included in the Environmental Management System of the Company, is certified under the ISO 14001 standard, and the management processes and handling of complaints received are audited annually.

By way of supplement, Iberdrola may receive messages relating to the environment through various channels that it maintains in social media, described on the corporate website in the Press Room / Social Media section, for which there is monthly monitoring in coordination with the Communication Division, resolving the environmental issues that are raised.

G4-EN34 Environmental grievances

The channel established to receive environmental grievances is the corporate mailbox indicated above. During the last financial year, 1,496 messages. In July 2014 an environmental complaint regarding the death of birds colliding with a building of the Company was resolved with the interested party.



C. Social dimension

C1.
Labour practices and decent work

The aspects analysed and reported on in this chapter are the following:

Aspects of the GRI-G4 Guidelines

(Those indicators that require additional information per the electric utilities sector supplement are identified with (*))

Employment (*)
Labour/management relations
Occupational health and safety (*)
Training and education
Diversity and equal opportunity
Equal remuneration for women and men
Supplier assessment for labour practices
Labour practices grievance mechanisms

The information boundaries used in this chapter are defined in section G4-17 of this report.

Specific Management Focus on Labour Practices and Decent Work

Iberdrola's primary objective with respect to labour is to have in place an appropriate framework for labour relations, with agreed mechanisms for the alignment of the organisation with corporate and social requirements, furthering the achievement of the goals of competitiveness and corporate efficiency within a climate of social peace.

To properly manage its human resources and the multiple facets thereof, Iberdrola applies the policies, elements, and tools described in the "General Management Approach" section of this report, fostering behaviour and attitudes among its workforce in accordance with the principles described in the "Ethics and Integrity" section of this report.

The policies defined in this regard contain the guidelines governing labour relations among the various companies of the Group and serve as a reference to define the Company's goals in the management of its human resources: guarantees in employment, stable relationship with employees, quality in the aspects of occupational health and safety, training, and principles to guarantee diversity and equal opportunity in access to employment and in professional development.

Aspect: Employment
Aspect: Labour/management relations

Management Approach

Policies and commitments

Iberdrola has a *Human Resources Framework Policy* and four specific policies in the area of labour relations to supplement the general approaches described above:

__*Recruitment and Selection Policy,*
__*Equal Opportunity and Reconciliation Policy,*
__*Occupational Risk Prevention Policy,*
__*Knowledge Management Policy,*

supplemented by a *Senior Officer Remuneration Policy* and a *Code of Ethics* that together establish the principles for managing these disciplines. Both the policies and the code are available at www.iberdrola.com.

To properly frame labour relations, the companies within the basic and expanded boundaries of the Iberdrola Group have collective bargaining agreements or specific equivalent agreements to govern aspects relating to the management of people.

In Spain, the companies of the Group are governed by three different collective bargaining agreements, with five agreements in force in the United Kingdom and four in the United States of America. In addition, the various facilities of Iberdrola Mexico and the Brazilian companies Elektro, Coelba, Cosern, and Celpe have a collective bargaining agreement and the subsidiaries controlled by Iberdrola Cogeneración and the plants of EnergyWorks are governed by other industry agreements or other types of labour agreements.

These agreements may have specific monitoring mechanisms, such as the committees and sub-committees of the Collective Bargaining Agreement in Spain, the ScottishPower Company Consultative and Negotiating Machinery Constitution in the United Kingdom, and Elektro's Safety Committee in Brazil, which serve to regulate labour issues, consult with employees on Company matters, and ensure compliance with commitments made.

Goals

Iberdrola has identified especially significant issues with respect to its employees, including:

__Define terms and conditions of employment.
__Regulate work rules, shift categories, working hours, etc.
__Define salary structure, supplementary pay, other expenses, and form of payment.
__Specify benefits offered and conditions for obtaining them.
__Establish general principles in connection with the Equality Plan.
__Recognise the right to reconciliation of personal, family, and working life.

Specific actions during the financial year

International assignments were made under the *International Mobility* (Global) programmes affecting 221 persons through the exchange of experiences in various channels.

In its support for reconciliation and equality, Iberdrola has the *Family-Responsible Company Certificate* in Spain and Mexico, and Elektro has a *Well-being* programme, the goal of which is to improve the quality of life and well-being of employees.

Under the new homogeneity objectives in the Human Resources model, at the close of 2014 the management team of Iberdrola and its subsidiary companies comprised 830 people, with a voluntary turnover rate of 0.02; there are 871 executives within the Group's basic boundary, as shown in indicator G4-LA12.

Programmes and processes to ensure the availability of a skilled workforce

Iberdrola, as a company operating in the electricity industry, needs to have a qualified workforce in keeping with the specific needs of such industry, with the technical competencies necessary to carry out the specialised work required by these types of activities in terms of both technical aspects and safety. Indicator G4-LA10 of this chapter provides information in connection with the skills and training management programmes that foster the employability of workers at the Company.

G4-LA1 New employee hires and employee turnover

New hires	2014		2013	
	Men	Women	Men	Women
Basic boundary				
By age, in numbers				
Up to 30 years old	629	192	704	194
Between 31 and 50 years old	456	179	560	179
Over 50 years old	38	16	84	16
By age, in %				
Up to 30 years old	23.01	24.19	23.69	21.86
Between 31 and 50 years old	4.13	4.49	4.93	4.31
Over 50 years old	0.52	1.03	1.15	0.97
Total number	1,123	387	1,348	389
Total %	5.34	6.10	6.25	5.82
Expanded boundary				
Total number	1,309	442	1,464	443
Total %	5.75	6.44	6.27	6.16

Personnel leaving the Company	2014		2013	
	Men	Women	Men	Women
Basic boundary				
By age, in numbers				
Up to 30 years old	329	121	352	116
Between 31 and 50 years old	606	321	592	207
Over 50 years old	682	284	454	103
By age, in %[36]				
Up to 30 years old	12.01	15.22	11.84	13.06
Between 31 and 50 years old	5.50	8.04	5.22	4.98
Over 50 years old	9.36	18.21	6.26	6.25
By seniority, in numbers				
Up to 10 years	849	360	901	306
Between 11 and 20 years	172	181	116	56
Over 20 years	596	185	381	64
By seniority, in %[36]				
Up to 10 years	8.80	11.38	8.83	8.85
Between 11 and 20 years	5.05	12.13	3.63	3.64
Over 20 years	7.46	10.93	4.67	3.78
Total number	1,617	726	1,398	426
Total %	7.68	11.44	6.48	6.37
Expanded boundary				
Total number	1,780	762	1,552	468
Total %	7.82	11.13	6.65	6.49

A breakdown by geographic area can be found in the *Information Supplementary to the Sustainability Report 2014*, available at www.iberdrola.com.

G4-LA2 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation

For employees of companies party to the 5th Collective Bargaining Agreement (Iberdrola Engineering and Construction, ScottishPower, Iberdrola Mexico, and Elektro), which represent 74.62% of the workforce within the basic boundary, there is no difference between benefits provided to part-time employees and benefits provided to full-time employees.

36 Of the headcount of this group at year-end.

G4-LA3 Return to work and retention rates after parental leave, by gender

Leave and return to work due to paternity/maternity	2014		2013	
	Men	Women	Men	Women
Basic boundary				
Number of employees entitled to parental leave	21,045	6,342	21,566	6,691
Number of employees taking parental leave	422	458	147	406
Expanded boundary				
Number of employees entitled to parental leave	22,752	6,845	23,329	7,203
Number of employees taking parental leave	452	484	158	427

G4-LA4 Minimum notice period(s) regarding operational changes, including whether these are specified in collective agreements

The minimum period for giving formal notice of organisational changes within the companies of the Group is not currently regulated. However, when any significant event occurs, it is customary to notify the affected groups sufficiently in advance to allow them to act with the due process and thus comply with any applicable statutory deadlines.

EU15 Employees eligible to retire in the next 5 and 10 years

Employees eligible to retire	In the next 5 years (%)		In the next 10 years (%)	
	2014	2013	2014	2013
Basic boundary	15.39	14.62	29.05	28.57
Expanded boundary	15.14	14.83	29.40	28.93

A breakdown by job category and region can be found in the *Information Supplementary to the Sustainability Report 2014*, available at www.iberdrola.com.

EU17 Days worked by contractor and subcontractor employees involved in construction, operation and maintenance activities

To perform those activities that the Company deems necessary to carry out at its facilities using subcontracted personnel, Iberdrola follows a procedure of executing services agreements defining the type of activities to be performed, and contractors are responsible for allocating and managing the resources required for the proper performance thereof.

To ensure that the subcontracted activities are performed in alignment with the values of the Group, the subcontracted companies:

__Must be approved in accordance with the process described in the "Supplier Contracting and Relationship" section of the "Human Rights" chapter of this report, which takes into account both their technical performance and their labour, environmental, and social practices.

__Must meet the requirements set forth in the Group's contracting conditions, available at www.iberdrola.com which take into account financial and quality aspects as well as environmental, labour, health and safety, and social responsibility performance.

Under these terms and conditions, subcontractors manage their technical and human resources and Iberdrola supervises the subcontracted activities performed, and does not deem it necessary to keep statistics regarding subcontracted personnel, except as regards health and safety given the importance of these issues in the social area as a material aspect. Accordingly, this document does not include the information on subcontracted personnel required by the GRI protocols in indicators G4-11, G4-LA1, EU17 and G4-LA4.

EU18 Contractor and subcontractor employees that have undergone relevant health and safety training

Subcontractors of the Group companies must meet all requirements established in the Iberdrola Group's contracting conditions, which are available at www.iberdrola.com. For that reason, Iberdrola believes that 100% of the employees of such companies, regardless of their category, have received appropriate health and safety training.

Aspect: Occupational health and safety

Management Approach

Policies and commitments

The *Occupational Risk Prevention Policy* approved by the Company's Board of Directors describes the principles that should guide the behaviour of the Group's companies in this area.

By way of supplement, the Group's companies have occupational risk prevention plans and specific procedures that make up a management system for the prevention of occupational risks, which is implemented at such companies and externally audited. This system develops the principles that the

Company has adopted to ensure compliance with legal requirements and to comply with expectations for the ongoing improvement of activities in this area.

The commitments assumed as regards prevention are the following:
__Implement the *Occupational Risk Prevention Policy*.
__Integrate risk prevention within the Company's overall management system through the implementation and application of the *Risk Prevention Plan*.
__Measure and monitor health and safety results through key indicators, which are periodically reported to the businesses.
__Investigate all accidents, especially significant accidents and incidents, formulating appropriate conclusions and recommendations for improvement.

Goals

For financial year 2014, health and safety goals have been established at the Group level based on the monitoring of indicators, a continuation of annual planning, and the implementation of systems for ongoing improvement.

Particular goals have also been established for the businesses, such as obtaining or maintaining OHSAS 18001 certification, the creation of safe behaviour improvement plans, as well as the quantification of risk detection and of monitoring measures implemented.

Responsibilities

The main responsibility of the preventive action lies with the company, and therefore its organisational hierarchy, which is required to introduce prevention standards, guidelines, and policies into all of its activities and decisions, and across all levels of the organisation with executive or decision-making abilities.

In order to assist the Company in achieving this end, there is a health and safety organisational structure made up of an Iberdrola Prevention Area within the Human Resources Division.

Due to the importance given to the prevention of occupational risks, preventive principles must be applied by each of the companies adhering to the *5th Collective Bargaining Agreement*, as set forth in their *Occupational Risk Prevention Plan*.

In accordance with the principle of integration of occupational risk prevention, the hierarchical/functional organisation of each company is entrusted with giving effect thereto and is responsible for complying with and enforcing health and safety rules within its area of activity.

All of the companies of the Iberdrola Group have occupational health and safety committees, under different names, to establish channels for consultation and participation with the employee representatives in this area, to monitor indicators, and to plan and take measures to correct deficiencies and to improve the Health and Safety System.

Policies and Requirements regarding Health and Safety of Employees and Employees of Contractors and Subcontractors

The health and safety requirements established for the workforce are set forth in the collective bargaining agreement of each company, in the procedures making up the Occupational Risk Prevention Management System, and in the internal regulations of each of the Group's companies in Spain.

As regards contractors and subcontractors, the Group's contracting conditions, which are available at www.iberdrola.com, specify the requirements to be met by firms wishing to participate in a procurement process. In addition, the particular conditions regarding occupational risk prevention are set forth in the Business Activities Coordination Plan, which is also a contractual document.

By way of example, the following are some of the specified health and safety requirements:
__Subcontracted employees who have specific duties to monitor and control occupational risk prevention must provide evidence of having received the training established for such purpose under the law applicable thereto.
__Subcontracted employees shall have the necessary training to deal with the risks of the facilities and of the work to be performed. In the case of Spain, when performing work involving electrical risk at electrical installations or in the vicinity thereof, they must have the training mandated under Royal Decree 614/2001.
__In submitting an offer, contractors must provide a report on their accident rate for the last three years, specifying the accident rate of the contractor's group or section engaged in the work bid for or in similar work.
__During the performance of the work or service, the contractor must adopt such measures as are necessary to comply with its obligations and those of the companies to which the contractor has subcontracted such work or services.
__The contractor shall be responsible for safety conditions during the period of execution of the works or performance of the service, as well as for any supplementary measures that are required for the proper performance of the subject matter of the contract.

G4-LA5 Employees represented on formal health and safety committees (management/employees)

In Spain, the companies that are signatories of the 5th Collective Bargaining Agreement have a central committee that coordinates the activities of the thirty-eight local health and safety committees to which all work centres and administrative units are assigned. At Iberdrola Ingeniería y Construcción, there is a Central Health and Safety Committee and three local committees that meet on a quarterly basis and where all matters relating to the health and safety of the employees of the company are examined with workers' representatives.

At ScottishPower, a Health and Safety Governance Committee is responsible for the overall strategy and guidelines in this area. It is made up of members of the management team and by occupational health and safety specialists. It receives support from the Health and Safety Board and from the Health and Safety Council. In addition, each business has its own Health and Safety Committee.

At Iberdrola USA, there are committees at all businesses to review work involving greater risk. Unions and executives are involved in occupational health and safety through their participation in such committees and regular safety meetings.

In the Renewables Business in the United States of America, there are regular meetings of the local health and safety committee and of the Central Committee to review the activities of all regions, health status, and the achievement of safety objectives.

Iberdrola Mexico has a mixed health and safety committee at each facility, governed by the Mexican NOM-029-STPS standard and by the collective bargaining agreement. There is also a Safety Committee (COSE) made up of the heads of safety and environment at each facility and coordinated by the Generation Division.

At Elektro, there is a Safety Committee made up of members of the management team and by the businesses' occupational health and safety specialists.

In the area of occupational risk prevention, the Group has the following evaluation and monitoring mechanisms, which go beyond the legal requirements in each of the countries in which the Group has a presence.

__The occupational health and safety management systems of the Group in Spain, the United Kingdom, Mexico, and Brazil[37], in addition to those of the Renewables Business in Portugal, Hungary, Romania, and Italy, have OHSAS 18001:2007 certification.

__In the United States of America, Iberdrola USA has specific procedures and programmes, while work is also under way to develop an occupational risk prevention management system based on the OHSAS 18001 standard. Also, within the Renewables Business, the Klamath thermal plant has achieved the highest certification available in that country, the OSHA VPP Star by the OSHA of the State of Oregon.

Employees represented on health and safety committees (%)	2014	2013
Basic boundary	95.52	96.81
Expanded boundary	94.58	96.83

A breakdown by geographical area and a description of the various committees of the Iberdrola Group can be found in the *Information Supplementary to the Sustainability Report 2014*, available at www.iberdrola.com.

37 The Brazilian subsidiary Elektro has obtained such certification for 50% of its employees.

G4-LA6 Type of injury and rates of injury, occupational diseases, lost days, absenteeism, and total number of work-related fatalities, by region and by gender

Accident rate among Group personnel[38]	2014	2013
Basic boundary		
Number of accidents	483	435
With fatality	1	0
With leave	74	88
Without leave	408	347
Number of fatalities	1	0
Number of lost days	4,700	3,587
Injury with leave rate (IR)	0.31	0.36
Occupational disease rate (ODR)	0.00	0.00
Lost day rate (LDR)	19.28	14.76
Expanded boundary		
Number of accidents	521	486
Number of fatalities	1	0
Number of lost days	7,375	4,223
Injury with leave rate (IR)	0.39	0.46
Occupational disease rate (ODR)	0.01	0.02
Lost day rate (LDR)	27.98	15.85

38 Methodology for calculating the indicators (per GRI standard):
- Injury rate (IR) = (number of injuries with missed (absentee) days*200,000)/hours worked
- Occupational disease rate (ODR) = (number of occupational diseases cases/hours worked)*200,000
- Lost day rate (LDR) = (days lost per accident/hours worked)*200,000
- Absenteeism rate (AR) = (missed (absentee) days/days worked)*200,000

Absenteeism among Group personnel[38]	2014	2013
Basic boundary		
Number of missed days per year	18,777	27,640
Men	10,956	18,471
Women	7,821	9,169
Number of lost days	192,520	180,726
Men	131,310	125,104
Women	61,210	56,622
Number of person equivalents	527.45	495.14
Men	359.75	342.75
Women	167.70	152.39
Absenteeism rate (AR)	6,319.76	5,807.57
Expanded boundary		
Number of missed days per year	21,189	31,280
Number of lost days	204,786	192,830
Number of person equivalents	561.06	528.30
Absenteeism rate (AR)	6,211.45	5,930.94

In addition to the indicators mentioned above, the following indicators are considered to be relevant in Spain: frequency rate, severity rate, and incidence rate. The information corresponding to these indicators, as well as the information by geographic area, is provided in the *Information Supplementary to the Sustainability Report 2014*, available at www.iberdrola.com.

38 Methodology for calculating the indicators (per GRI standard):
- Injury rate (IR) = (number of injuries with missed (absentee) days*200,000)/hours worked
- Occupational disease rate (ODR) = (number of occupational diseases cases/hours worked)*200,000
- Lost day rate (LDR) = (days lost per accident/hours worked)*200,000
- Absenteeism rate (AR) = (missed (absentee) days/days worked)*200,000

The table below shows the accident and absenteeism rates of subcontracted employees:

Injuries and absenteeism among subcontracted personnel	2014	2013
Basic boundary		
Number of accidents	515	458
With fatality	1	1
With leave	144	186
Without leave	370	271
Number of fatalities	1	1
Number of lost days	4,304	5,109
Expanded boundary		
Number of accidents	595	558
Number of fatalities	4	2
Number of lost days	7,773	11,374

G4-LA7 Workers with high incidence or high risk of diseases related to their occupation

The majority of the Iberdrola Group's companies monitor the health of their employees for prevention purposes, using in-house or outsourced medical services that are responsible for monitoring the health of employees through regular medical check-ups.

In general terms, the Company considers that employees are not exposed to specific occupational or work-related diseases in the course of their work that may be considered to have a high level of incidence or to carry a high risk.

At the companies of the Group in Spain, in addition to periodic monitoring, work has continued during 2014 with the study of psychosocial risks and other pathologies among its workers, such as cardiovascular diseases and cancer.

The incidence of HIV/AIDS is very low and it is treated on a case-by-case basis in total confidence.

In 2014, a campaign was completed to prevent cardiovascular disease among the employees of Iberdrola and their families, which included on-site courses regarding this particular risk. In addition, the company's medical services in Spain carried out a prevention campaign for the most common types of cancer. There was a continuation of the road safety campaign commenced in 2011, with more than 2,100 assessments performed through year-end 2014.

To supplement Social Security protection, Iberdrola has procured health care for its employees through one or more private insurance companies.

Currently, some companies of the Group provide training programmes for social interest organisations outside of the Company. For example, in Spain courses were held for civil defence teams and firefighters from various communities and for associations with students at risk of social exclusion. Courses in occupational health and safety have been provided in collaboration with official bodies.

ScottishPower has developed policies and procedures as part of its occupational health and safety activities geared towards ensuring not only compliance with the law, but also the promotion of best prevention practices at all operational levels.

In order to strengthen a culture of prevention, ScottishPower publishes the Wellbeing News magazine, with content aimed at the prevention of risks to the health of employees and their families; in 2014, it focused mainly on the risks related with cardiovascular diseases, muscle injuries and mental health. In the same year, there has been work in cooperation with Cancer Research UK to provide information to employees on the possible causes of cancer and the importance of early detection.

Iberdrola USA offers its employees personal medical insurance as part of their benefits. In the operational sphere, an action plan in case of generalised epidemics has been expanded to include all infectious diseases, with the formation of a Pandemics Supervisory Team and the updating of procedures, while seasonal flu prevention plans and health information plans for all employees continue in effect. The Networks Business in the United States of America has identified significant opportunities for improvement with the implementation of safe driving programmes.

The Renewables Business in the United States of America offers medical insurance to all personnel as part of their benefits, as well as flu vaccinations, and health fairs at offices and major facilities.

In Mexico, the Safety, Health, and Environment Week campaign continued in 2014 in order to strengthen care for the safety of people and the environment. This event took place at each facility, fostering the adoption of healthy eating habits and sports and leisure activities, among other things.

At Elektro, there were advertising campaigns and training materials on the safe use of electricity. Elektro's health service carries out training activities with regular lectures on first aid, a balanced diet, ergonomics, etc. It also conducts preventive health monitoring through regular medical check-ups of 100% of employees.

G4-LA8 Health and safety topics covered in formal agreements with trade unions

The bodies responsible for coordinating and monitoring the implementation of preventive standards and procedures are the Prevention Coordinating Committees, working closely with the Joint Prevention Service of the companies of the 5th Collective Bargaining Agreement.

All work centres and administrative units of the companies that are signatories of the 5th Collective Bargaining Agreement are assigned to local health and safety committees. Overall, there are thirty-

eight committees that coordinate their activities through a central committee, all of which were created in accordance with the Occupational Risk Prevention Act. Such committees are formed with equal representation between the company and the workers. In 2014, the committees met on a quarterly basis and were the most important consultation, participation, and control bodies of the Occupational Risk Prevention Management System, as well as the forum where formal agreements on the matter were reached with the trade unions.

At ScottishPower, an *Occupational Health and Safety Policy* sets forth the Company's principles to ensure compliance with statutory requirements and to comply with the expected ongoing improvement in this matter. The company also has a Health and Safety Governance Committee made up of members of the management team and key occupational health and safety specialists of the business, and is responsible for designing the overall strategy and the lines of action in this area. In addition, there is a Health and Safety Board that provides technical support and advice, and a Health and Safety Council that acts as a forum for consultation with workers' representatives on these matters.

The health and safety results are measured and monitored through key indicators, which are analysed and periodically reported to the Executive Committee of the Business.

In the United States of America, the Networks Business has improved the safety management structure, communication methods, and commitment to supervision during 2014. The strategic safety plans for all of the businesses in New York and Maine use a safety improvement platform, which includes procedures, rules, and systems for the management thereof.

Within the Renewables Business, the process to develop both occupational health and safety regulations and training is carried out by a committee made up of executives and field personnel.

Iberdrola Mexico has a mixed health and safety committee at each facility, governed by the Mexican NOM-029-STPS standard and by the collective bargaining agreement. There is also a Safety Committee (COSE) made up of the heads of safety and environment at each facility and coordinated by the Generation Division.

Elektro has a Health and Safety Management System that defines work procedures and instructions, which is available on its intranet. The company also has a Mixed Health and Safety Committee that ensures the effectiveness of activities and communication on risk prevention actions as a value that informs all of its activities and is part of the company's culture.

As regards other companies in which Iberdrola has an interest in Brazil, 81.84 % of employees have mixed health and safety committees that meet regularly to deal with matters of mutual interest in connection with prevention activities.

Aspect: Training and education

Management Approach

Policies and commitments

The policies applied by Iberdrola in the area of labour relations are identified in the introduction to this chapter. To specifically implement them, the training plans of the Group's companies establish

a conceptual framework integrating all the training areas, designed to facilitate culture change in the Company, contribute to expansion of the corporate culture, create value for the Company, and encourage the sustainable development of the Company. Specific programmes described in the specific indicators of this section are developed to supplement these plans.

In addition to that which is necessary to comply with legal requirements, the training offered includes that which enables all employees to carry out the duties of their job while meeting their personal goals. The plans are validated by the heads of the businesses and by the Human Resources Division.

The commitments assumed with the start-up of these plans and programmes are summarised below:
__Professional improvement for job performance.
__Adjustment of human resources to technological and organisational changes.
__Adaptation of new employees to the Company.
__Better professional development, creating expectations of promotion.

Specific Goals and Activities

Significant activities were carried out in the training area during 2014:
__Continued with providing and promoting the training needed for the *STAR Project* on smart grids and *Project 2020*, both within the Networks Business.
__Continued with implementation of the OneHR project to include the management of professional training and development at the international level, unifying the model and processes applied.
__Strengthened professional development resources aimed at persons with management potential. These include an international MBA programme on the energy industry.
__Continued with the project to develop the *Iberdrola Campus*.

During 2013, Iberdrola joined in the *Youth Entrepreneurship and Employment Strategy 2013-2016* of the Government of Spain, through an agreement signed by the Minister for Employment and Social Security and the chairman of the Iberdrola Group. Within the framework of this agreement, and with a view toward fostering the hiring of youth for their first professional experience and facilitating the integration of disadvantaged groups into the workforce with an emphasis on full-time hiring, in 2014 Iberdrola included two of its courses from the Academic Specialities catalogue so they could be officially offered to persons without specific qualifications.

Iberdrola's *Knowledge Management Policy* recognises the importance that intellectual capital represents for the Company. In implementing this policy, which is intended to disseminate and share the knowledge existing within the company by fostering ongoing learning and cultural exchange, Iberdrola reaffirms that the company's intellectual capital depends on its people, its operational and organisational structures, and its internal and external relationships with all stakeholder groups. At Iberdrola, learning is thus permanent, ongoing, and aligned with the strategy of the Group.

The *Knowledge Management Policy* is founded on a number of basic principles of action, a description of which can be viewed at www.iberdrola.com.

G4-LA9 Hours of training

Employees and hours of training by professional category	2014		2013	
	Men	Women	Men	Women
Basic boundary				
Number of employees				
Management team	732	140	729	140
Middle managers and skilled technicians	8,237	3,441	7,827	2,860
Skilled workers and support personnel	12,076	2,761	13,010	3,691
Hours of training				
Management team	20,172	3,519	28,884	4,788
Middle managers and skilled technicians	277,142	75,291	305,216	79,744
Skilled workers and support personnel	470,098	45,528	603,803	72,817
Average hours of training by employee				
Management team	30.95	30.76	49.15	45.49
Middle managers and skilled technicians	37.00	27.21	44.42	37.54
Skilled workers and support personnel	39.83	25.20	48.11	25.84
Expanded boundary				
Number of employees	22,752	6,845	23,329	7,023
Hours of training	877,106	148,777	1,019,774	174,935
Average hours of training by employee	40.92	29.27	47.83	32.44

A breakdown by geographic area can be found in the *Information Supplementary to the Sustainability Report 2014*, available at www.iberdrola.com.

G4-LA10 Programmes for skills management and lifelong learning

The third cycle of the Savia programme (a professional development model based on general and technical competencies directed towards technicians) commenced in February 2014. On this occasion, a new software tool supported by SAP has been introduced and developed within the framework of the OneHR project, which is intended to unify all of the Human Resources management processes at the international level.

As regards training for professionals with the potential for management development, the second academic year of the Global Energy Industry MBA programme, which is an in-company programme with participants from Spain, the United Kingdom, the United States of America, Mexico, and Brazil, was

provided in 2014. The programme, which lasts for two and a half years, combines the materials of an MBA with specific content for the energy sector, and is accredited by Universidad Pontificia Comillas and the University of Strathclyde. Various business management training modules have also been launched for the group of persons with management potential.

The virtual global welcome module, available in English, Spanish, and Portuguese, continues to be accessible for all employees of the Iberdrola Group.

In the international arena, work has continued with various companies of the Group to share resources and training and development programmes, seeking synergies. The catalogue of skills has been standardised and systematised, and this model has been extended to the United States of America and to ScottishPower using the same shared tool within the OneHR programme.

These channels of international cooperation and exchange have also extended to certain contents relating to technical training, hand-in-hand with the integration processes that are being carried out at the various businesses of Iberdrola.

Several working sessions were held with ScottishPower, Iberdrola USA, Iberdrola Mexico, and Elektro during 2014, primarily in order to exchange knowledge, information, and experience in the training and development areas.

ScottishPower has specific training programmes to improve the skills of all its employees. The company has an employee development review (EDR) process, which assesses talent in order to identify persons with high potential, define succession plans, and establish the development needs of the entire workforce.

Training programmes at ScottishPower include the following: I*nto Leadership, Performance Management, Leading Change: making change work, High Performance Coaching, Positive Influencing* and *Building Resilience: Stress Management*, and technical training programmes.

Iberdrola USA also has training plans to enable its employees to improve their capabilities and to gain access to higher-level positions. Along these lines and following the success of its DRIVE programme, it has launched a corresponding version for supervisors.

Iberdrola México has continued with its programme directed at persons with potential, to foster skills development, outcomes achievement and ongoing improvement, innovation and creativity, initiative, and communication and influence.

Elektro has specific programmes in place to train its employees. The most significant initiatives in 2014 were: training in assertive communication, leadership development, the Future Generation Programme (*Programa Generación Futura*) for professionals with potential, and Focus on Management (*Gestión en Foco*) to develop the necessary skills for team management.

Specific Training for Executives

The Executive Development Unit worked on the coordination and supervision of a global talent review process in the various countries and businesses in 2014.

Continuation of the *Leadership Development Project* (LDR) which, with the help of an outside partner, is intended to evaluate management abilities against the Group's leadership model.

Executive training and development at the global level have been administered through the Management School, whose most significant activities in 2014 were:

__Energising Leadership Program, taught by ESADE Business School and geared towards those executives who are less firmly established in their responsibilities and/or trainee managers with high potential.

__The Global Leadership Program taught by IMD Business School. This programme is directed towards established executives that have a track record with the Group.

__The second year of the MBA in the Global Energy Industry, accredited by Universidad Pontificia de Comillas and the University of Strathclyde, was provided in 2014.

__Iberdrola Ingeniería y Construcción continued throughout 2014 with its internal mentoring programme directed towards key personnel, in which the members of the management team act as mentors. It has also instituted an innovation and leadership workshop.

__Various executives from Elektro and from ScottishPower participated in their local coaching programmes. ScottishPower continued with the *Transition Coaching, Coaching for Leaders and Talent Dinners* programmes.

__In Spain, a Spanish version of the business strategy simulator was developed, with the presence of local executives.

__Iberdrola USA has continued providing the DRIVE programme, and ScottishPower has continued with the Leadership Excellence programme. Both programmes are based on the elements of Iberdrola's leadership model.

Other actions carried out with the management team in 2014 included the holding of seminars, conferences, workshops, etc.

Training programmes	2014	2013
Basic boundary		
Participants at in-house courses	6,712	1,974
Participants at outside courses	1,420	1,523
Sabbaticals	0	0
Expanded boundary		
Participants at in-house courses	6,925	1,974
Participants at outside courses	1,701	1,523
Sabbaticals	0	0

A quantitative breakdown by geographical area can be found in the *Information Supplementary to the Sustainability Report 2014*, available at www.iberdrola.com.

G4-LA11 Employees receiving regular performance and career development reviews

Performance and development reviews	2014	2013
Basic boundary		
Number of employees	27,387	28,257
Men	21,045	21,566
Women	6,342	6,691
Employees with performance reviews (%)	80.56	80.00
Men (%)	81.99	81.19
Women (%)	75.79	76.17
Expanded boundary		
Number of employees	29,597	30,532
Employees with performance reviews (%)	81.61	80.87

A breakdown by geographical area can be found in the *Information Supplementary to the Sustainability Report 2014*, available at www.iberdrola.com.

Aspect: Diversity and equal opportunity
Aspect: Equal remuneration for women and men

Management Approach

Policies and commitments

The policies applied by Iberdrola in the area of labour relations are identified in the introduction to this chapter, and include the *Equal Opportunity and Reconciliation Policy*, which promotes the commitments of equal treatment between men and women and support for workers with disabilities, ensuring their effective employment.

The Iberdrola Group has procedures in place to prevent any discrimination for reasons of race, colour, gender, language, religion, political opinion, national origin, social status, status as a member of an indigenous community, disability, health, marital status, pregnancy, sexual orientation, or other personal condition that is unrelated to job-performance requirements.

The Group's companies, in the various countries in which they operate, promote equal opportunity without discrimination, respect diversity by promoting effective equality between men and women in access to employment, training, promotion, and working conditions, and provide support to disabled workers, promoting the labour integration thereof. ScottishPower has defined eight specific internal policies in this area, and Iberdrola USA has five similar policies.

In order to give effect to the principle of non-discrimination, the 5th Collective Bargaining Agreement in Spain provides that workers with disabilities will work in conditions that ensure the application of equal treatment and assure their professional progress through access to the training scheduled for other workers. To achieve the integration of these workers, appropriate measures will be adopted for the adjustment and accessibility of the job, based on the requirements and characteristics thereof and on the needs in each specific situation.

The *Equal Opportunity and Reconciliation Policy* includes, among other things, a principle of not establishing salary differentials based on gender in the hiring of personnel, and Iberdrola will continue to promote effective equality between men and women in all areas of working life.

More information regarding equal opportunity policies implemented by the Company is provided on the corporate website.

Goals

The main goals in this area during 2014 have focused on:

__Continued work on the project implemented in 2012, called *São Paulo Volunteer Vacations 2.0*, to help young persons between 12 and 14 years old to realise their potential and make social and labour integration a reality, through training.

__Participation in the Companies for a Society free of Gender Violence initiative, in collaboration with the Ministry of Health, Social Services and Equality.

__In Spain, preparation and dissemination among the workforce of a gender violence detection and prevention handbook, and a dependency assistance handbook.

__Collaboration agreement between the Ministry of Health, Social Services, and Equality and Iberdrola on the adoption of measures to increase the presence of women in Executive and Management Committee positions.

__Holding of domestic and international volunteer days, and in particular International Volunteer Day, conducted jointly in Spain, the United Kingdom, the United States of America, Mexico, and Brazil.

__In Spain, the development of cultural exchange programmes for the children of employees; practical workshops on IT security for youth; No-School Days and urban and residential camps.

__International cultural exchange programmes between children of employees, under the Hello/Hola and My Guest (*Mi invitado*) programmes.

__In the United Kingdom, ScottishPower has joined initiatives such as *Women In Renewable Energy Scotland (WiRES)*, the *Think, Act, Report Initiative* to promote the career path of women employees, and the *Business Disability Forum* to support functional diversity.

__In the United States of America, the activities performed include collaboration with the *Troops to Energy* project, or alliances with pro-ethnic minority organisations.

Specific activities

__Principle of non-discrimination: in order to give effect to the principle of non-discrimination, the 5th Collective Bargaining Agreement provides that when there are employees with disabilities, appropriate measures will be adopted for adaptation and accessibility of job positions. 176 persons had been relocated in Spain for these reasons through year-end 2014.

__Family Plan: this plan, initiated in 2008, is intended to facilitate the integration into the labour and social world of family members of employees of the companies party to the 5th Collective Bargaining Agreement with some kind of disability. 90 families have benefited from this initiative through 2014.

__Donation agreements: in Spain, Iberdrola has established agreements that provide for donations to entities or foundations whose purpose is professional training, entry into the job market, or the creation of employment for persons with disabilities. In addition, agreements have been made with special employment centres that exceed the amount required by law to be invested in alternative measures.

__ComunicA service: this video-interpretation service was commenced in 2013 to provide consultation and offer personalised advice to users with hearing disabilities, as a result of the renewal of the agreement with the National Confederation of the Deaf (*Confederación Nacional de Sordos de España*); this collaboration continued throughout 2014.

__Elektro Inclusive School: this project, which was commenced in 2009 in collaboration with social institutions, prepares persons with disabilities or difficulties for their integration into the labour market. Some of the participants in this project are hired by the company upon completion of their training period.

G4-LA12 Composition of governance bodies and employees

Employees in the workforce	2014	2013
Basic boundary		
By gender		
Men	21,045	21,566
Women	6,342	6,691
By age group		
Up to 30 years old	3,526	3,862
Between 31 and 50 years old	15,019	15,500
Over 50 years old	8,842	8,895
By professional category		
Management team	872	868
Middle managers and skilled technicians	11,678	10,687
Skilled workers and support personnel	14,837	16,702
Number of employees[39]	27,387	28,257
Expanded boundary		
Number of employees	29,597	30,532

A breakdown by geographical area can be found in the *Information Supplementary to the Sustainability Report 2014*, available at www.iberdrola.com.

Board of Directors	2014	2013
By gender		
Men	9	10
Women	5	4
By age group		
Up to 30 years old	0	0
Between 31 and 50 years old	2	3
Over 50 years old	12	11
Number of members	14	14

39 The total number of workers and the definition of the corresponding boundaries are located in sections G4-9, G4-10, and G4-17 of this report.

For reasons of confidentiality, in order to comply with the requirement established by the personal data protection laws in effect in each country, the information systems of the companies making up the Iberdrola Group do not record their membership by ethnic group, religious group, or any other diversity indicator.

G4-LA13 Ratio of basic salary and remuneration of women to men

The table below shows the salary ratio of men to women within the basic and expanded boundaries and, although the data set forth therein might suggest inconsistency with the management approach described above, the differences between the salaries of men and women are a consequence of changes in the structure of the workforce rather than the result of a discriminatory policy, given that each professional category includes:

__different professional levels, with different proportions between men and women, and

__groups from different geographical areas, in different currencies and salary bands.

Salary ratio of men to women (%)	2014	2013
Basic boundary		
By professional category		
Middle managers and skilled technicians	108.97	109.07
Skilled workers and support personnel	98.87	94.30
Expanded boundary		
By professional category		
Middle managers and skilled technicians	106.81	107.36
Skilled workers and support personnel	99.11	93.73

A breakdown by geographical area can be found in the *Information Supplementary to the Sustainability Report 2014*, available at www.iberdrola.com.

Aspect: Supplier assessment for labour practices

Management Approach
G4-LA14 Percentage of new suppliers that were screened using labour practices criteria
G4-LA15 Significant negative impacts in the Supply Chain

The management approach regarding the Iberdrola Group's supply practices is described in the G4-12 "Description of supply chain" indicator of this report.

New suppliers are evaluated according to such management approach and their significant risks regarding labour practices are managed through quality procedures and periodic audits.

Aspect: Labour practices grievance mechanisms

Management Approach

The grievance procedures and tools that Iberdrola makes available to its stakeholders, as well as the management processes with respect thereto, are described in the management approach for the aspect "Grievance mechanisms for impacts on Society" in section G4-SO11 of the "Society" section of this report.

G4-LA16 Grievances about labour practices

Using the standard that class actions on the same matter are deemed to be a single grievance, the companies within the basic boundary received 110 grievances about labour practices in 2014; of these, 87 were resolved in that same year. In addition, 14 other grievances pending from previous years have been resolved.

C2.
Human rights

The aspects analysed and reported on in this chapter are the following:

Aspects of the GRI-G4 Guidelines

(Those indicators that require additional information per the electric utilities sector supplement are identified with (*))

Investment
Non-discrimination
Freedom of association and collective bargaining (*)
Child labour
Forced labour
Security practices
Indigenous rights
Assessment of impact on human rights
Supplier human rights assessment
Human rights grievance mechanisms

Specific Aspect of the Iberdrola Group

Iberdrola and the Global Compact

The information boundaries used in this chapter are defined in section G4-17 of this report.

Specific Management Focus on Human Rights

The Company is explicitly committed to the defence of human rights, and it has a set of instruments that ensures and promotes respect for human rights, hindering or preventing the violation thereof. To that end, the Company's practices are in line with the principles of the UN Global Compact, the *OECD Guidelines for Multinational Enterprises*, and the International Labour Organization's *Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy*.

Iberdrola has a *General Corporate Social Responsibility Policy* for this purpose, the principles of which must be observed by all professionals of the Group, regardless of the place in which they carry out their activities. The Board of Directors has also approved other policies complementary thereto in the defence of human rights, such as the *Respect for Human Rights Policy*, which contains the Group's commitment to human rights, and the *Procurement Policy* and the *Suppliers' Code of Ethics*, which promote compliance by suppliers with applicable law and with the United Nations Global Compact.

To put this culture into practice and along with the aforementioned instruments, Iberdrola also has a *Code of Ethics* that governs the conduct generally of all Group professionals and, in particular, conduct relating to the defence of human rights, and also establishes control mechanisms and disciplinary sanctions in the event of non-compliance with the provisions of such code.

In the management of human rights, Iberdrola applies the management elements described in the "General management approach" section of this report.

It is the responsibility of each of the companies in the Group to follow approved policies and to apply the principles for the protection of human rights. These policies, along with others also approved by Iberdrola's Board of Directors, may be viewed at www.iberdrola.com.

Aspect: Investments

Management Approach

The policies, codes, and procedures governing the operation of the Company are applied in all Iberdrola's activities, including investments. For that reason, Iberdrola is confident that investments are made in accordance with strict standards of respect for human rights, and has no evidence through the ethics channels established for such purpose of any kind of activity, whether internal or external, of any actions contrary to such rights. Accordingly, although the investment agreements put into practice do not specifically include this type of provision, they are all protected by the procedures applied at the Company.

G4-HR1 Investment agreements and contracts that include human rights clauses

There were 17 particularly significant projects during financial year 2014: three in Mexico, namely, the combined cycle unit of Monterrey, the Ramos Arizpe Cogeneration Plant, and the Baja California III combined-cycle unit; six wind farms in Brazil that will come on stream in 2016; two wind farms in the United Kingdom; and four agreements relating to offshore wind farms of the *Wikinger* project. In Spain, work continued on the *Madrid Plan* project for reducing the size of substations and dismantling high voltage overhead lines, and on the *STAR* project for installing smart grids.

G4-HR2 Employee training on human rights

Iberdrola's employees have been informed of the existence of the various policies approved by the Board of Directors and of the *Code of Ethics*, and all newly-hired employees receive a copy of such code together with their contract. This code is available at the Employee Portal and at www.iberdrola.com, both to employees and to any person wishing to become acquainted with such matters.

This year, employees participated in specific training on human rights and equality, and more than 13,000 hours of training on aspects relating to human rights were carried out at the Iberdrola Group as a whole (expanded boundary). As part of this training, Iberdrola has made available to employees of the Group a specific online course on human rights training, which more than 9,100 employees successfully passed during 2014.

Aspect: Non-discrimination

Management Approach

Iberdrola believes that non-discrimination is a concept that can be managed in a coordinated fashion with the concepts of diversity and equal opportunity, for which reason the management approach is dealt with in the chapter "Labour practices and decent work" in the "Diversity and equal opportunity" aspect.

G4-HR3 Incidents of discrimination

Reported incidents of discrimination (no.)	2014	2013
Expanded boundary	4	13

In the United States of America four complaints for incidents of discrimination were received and reviewed; two were resolved and the other two are pending resolution. There is no evidence of any complaint or incident on these grounds at the rest of the companies.

Aspects: Freedom of association and collective bargaining, child labour and forced labour

Management Approach

In applying the policies and commitments described at the beginning of this chapter, Iberdrola takes the measures it has believed are necessary to ensure that workers may exercise their rights to freedom of association and collective bargaining in all countries in which it operates. It also has the necessary measures in place to prevent child labour, forced or compulsory labour, or the assignment of hazardous work to young people.

G4-HR4 Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk

G4-HR5 Operations and suppliers identified as having significant risk for incidents of child labour

G4-HR6 Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour

The Company performed a study to identify the significant locations of operation at which there might be some risk of violation of such rights. The 2014 report of the International Labour Organization entitled *Report of the Committee of Experts on the Application of Conventions and Recommendations* was referred to for that purpose.

Those countries that have not ratified the conventions on forced labour (C029, C105), trade union freedom and collective bargaining (C087, C098), and child labour (C138, C182) were deemed to be countries at risk, as were countries where, while they had ratified such conventions, findings were made that show weak points in the application of any of such conventions.

According to this standard, 38 locations of operation in countries where some of these risks may exist have been identified, representing 30% of the total number of locations of operation of the Group. In addition, there are 25 other locations in the United States of America, a country that has not yet ratified several of such conventions, but given the socio-political characteristics of that country, Iberdrola does not believe there are risks of violation of these rights for the Group's workers.

Information regarding suppliers can be viewed in the "Supplier Human Rights Assessment" aspect in this chapter.

Aspect: Security practices

Management Approach

The *Corporate Security Policy* approved by Iberdrola's Board of Directors and the procedures adopted by the Corporate Security Division are compatible with international human rights provisions and with the laws of the countries in which the Company is present. Protocols are clearly defined and implemented in line with the certification issued by Aenor in 1999 based on the ISO 9001:2008 standard, which is still in effect. The hiring of suppliers in the security area is carried out through the Procurement Division pursuant to contracting procedures at the corporate level. The Corporate Security Division is responsible for setting the requirements and standards to be met by suppliers and for the evaluation thereof during the performance of their contract. Evaluations of suppliers are carried out periodically and are intended to identify points for improvement, which are dealt with by the suppliers themselves. Both the Company's and subcontracted personnel are qualified for their duties and enhance their knowledge with a strict training plan, which entails the continuous evaluation and monitoring thereof. Internal and external audits conducted for such purpose provide information on the status of security and personnel involvement at each work centre, detecting strong points and strengthening weaker ones. In addition, in order to have an objective viewpoint, a satisfaction survey is carried out each year to help determine perception of the security status.

Security-related actions at Iberdrola relate to the provision of both preventive and reactive services, which seek to ensure the protection of its assets and the normal conduct of the Company's activities, without interfering with the mission of government authorities. Security personnel working at Iberdrola, whether Iberdrola's own employees or subcontracted personnel, avoid the use of force, employing it only and exclusively where strictly necessary and always in proportion to the threat received, in order to protect life.

By implementing specific security procedures for each situation, Iberdrola's *Corporate Security Policy* facilitates adjustment to the realities and characteristics of the countries in which it operates, exercising direct responsibility in those cases where it is a majority equity holder, as well as in those where management has been entrusted to it. Iberdrola's security management system is continuously reviewed and updated in order to comply with international human rights rules and regulations in each new activity that it plans to undertake.

G4-HR7 Percentage of security personnel trained in human rights policies or procedures that are relevant to operations

Persons carrying out security activities (no.)	2014	2013
Basic boundary		
Company personnel	90	90
Subcontracted personnel	1,091	1,350

At the end of financial year 2014, Iberdrola has 90 persons in its workforce to carry out security activities; 88 of them, i.e. 97.78%, have received human rights training.

Iberdrola also draws on the services of specialised firms, which are responsible for providing the specific training required by its professionals to carry out the work entrusted to them. In financial year 2014, 1,091 subcontracted persons did this type of work, of which 779 (71.40%) received human rights training.

Aspect: Indigenous rights

Management Approach

In applying the *Code of Ethics* and its corporate policies, Iberdrola and its employees undertake to respect the rights of ethnic minorities and indigenous peoples in the places in which they carry out their activities. To this end, the management approaches described at the beginning of this chapter are applied.

G4-HR8 Total number of incidents of violations involving rights of indigenous people.

There is no evidence of actions of Iberdrola entailing a violation of the rights of indigenous communities in 2014. There have been or there may be indirect incidents involving these types of communities at some of the Company's facilities, for which the Company is pursuing appropriate solutions.

In the United States of America, the operation of wind farms might affect various Indian communities, with which cooperation agreements are reached to adopt the most appropriate solutions, as in the case of the Yakama Indian community in the State of Washington, the Kumeyaay Indian tribe of the *Tule Wind Project*, or the Umatilla reserve, which might be affected by the *Montague* construction project.

In Brazil, indigenous and *quilombolas* (a local ethnic group) communities such as the Tapi-i and Takuary-ty, or the indigenous community of Ilha de Boa Vista, which have no access to distribution networks, have been the beneficiaries of photovoltaic facilities, installed based on agreements executed by Elektro with the Brazilian entity Funai and with Eletrobas. A social reforestation project has also been carried out with an indigenous community located in Eldorado. Celpe has a substation and transmission lines installed on indigenous land within the municipality of Aguas Belas in Pernambuco, with no evidence of incidents relating thereto, and Coelba has four productive mini-farms requested by the indigenous populations that they affect.

Also in Brazil, at the UHE Teles Pires plant, a water quality risk has been identified and, as a prevention measure, the Limnological and Water Quality Monitoring Programme (*Programa de Monitoramento Limnológico e da Qualidade da Agua*) was implemented, in order to record any alteration in water quality, together with other control and mitigation measures. Such programme is part of the plant's Basic Environmental Programme (*Programa Básico Ambiental*) (PBA), which also has twelve limnological monitoring stations.

In May, an incident was recorded at the Belo Monte plant in which there was a demonstration by indigenous persons against the tardiness of the consortium in implementing the Basic Environmental Plan monitored by FUNAI and by a committee made up of members of the indigenous communities to perform activities for the benefit of 11 villages in the region.

Aspect: Assessment of impact on human rights

Management Approach

G4-HR9 Total number and percentage of operations that have been subject to human rights reviews or impact assessments

Information regarding locations of operations analysed for human rights issues can be viewed in the G4-HR4 /G4-HR5 /G4-HR6 indicators of this chapter.

Aspect: Supplier human rights assessment

Management Approach

G4-HR10 New suppliers that were screened using human rights criteria

G4-HR11 Human rights impacts in the supply chain

The management approach regarding the Iberdrola Group's supply practices is described in the G4-12 "Description of supply chain" indicator of this report.

New suppliers are evaluated according to such management approach and their significant risks regarding human rights are managed through quality procedures and periodic audits.

The Group's contracting terms for procuring equipment, material, works, and services, available at www.iberdrola.com, and the contracts currently used for procuring fuel, include specific corporate social responsibility clauses based on the UN Universal Declaration of Human Rights, the treaties of the International Labour Organization, and the principles of the Global Compact.

Suppliers thus commit to the principles of social responsibility. During the term of the contract, the supplier must allow Iberdrola to review the level of compliance with the principles established in the contracts, and if non-compliance is detected and corrective plans are not adopted, the Company reserves the right to cancel the contracts. Iberdrola has not recorded through its ethics channels violations of this kind in its supply chain during financial year 2014.

Approximately 10.7% of general procurement and approximately 48% of fuel purchases have been made in countries in which Iberdrola believes there might be a risk of human rights violations. The standards used to identify countries at risk are the same as those described in the G4-HR4/G4-HR5/G4-HR6 indicators of this report.

In the most recent analysis, as at the end of 2014, the breakdown of general procurement by countries considered to be at risk for the reasons described above would be as follows:

Countries considered to be at risk where purchases have been made	% of total purchases
Mexico	4.35
Brazil	3.60
China (*)	0.88
Honduras (*)	0.41
Canada (*)	0.36
Russia (*)	0.28
Kenya (*)	0.24

(*) Primarily projects and supplies of Iberdrola Ingeniería y Construcción for third parties.

In the management of suppliers and during the procurement process, the measures adopted by the Company to protect such rights are based on the *Procurement Policy*, the *Suppliers' Code of Ethics*, and the specific clauses of the contracting conditions attached to the orders made.

In 2014, Iberdrola also adhered to the *BetterCoal* initiative, which seeks to promote corporate social responsibility standards in the international coal supply chain and to publish transparent information in that regard on the operations of the main producers.

Aspect: Human rights grievance mechanisms

Management Approach

The grievance procedures and tools that Iberdrola makes available to its stakeholders, as well as the management processes with respect thereto, are described in the management approach of the "Grievances about impacts on society" aspect of the "Society" section of this report.

G4-HR12 Human rights grievances

Indicator G4-HR3 of this chapter sets forth incidents relating to discrimination in 2014. Iberdrola's Compliance Unit has not received any claim regarding other aspects relating to human rights through the ethics channels established for this purpose.

Specific aspect of the Iberdrola Group

Aspect: Iberdrola and the Global Compact

Management Approach

Iberdrola has been a member of the Global Compact since 2002, undertaking to support, promote, and disseminate its ten principles regarding human rights, labour practices, the environment, and the fight against corruption, both internally and within its area of influence. During these years, the Company has continued to further develop the policies and practices proposed by the Compact, which it has made public through its annual sustainability report and its corporate website.

Since 2004, as a founding member, the Company has belonged to the Spanish Global Compact Association (*Asociación Española del Pacto Mundial*) (Asepam), now re-named the Spanish Global Compact Network (*Red Española del Pacto Mundial*) and has prepared progress reports on compliance with the principles of the Pact, which are publicly available on the website of the *Red Española del Pacto Mundial*.

During 2014, Iberdrola participated in the following actions in connection with the Global Compact:
__Submission of the Progress Report 2013 on compliance with the principles of the Compact.
__Attendance at the 2014 General Assembly of the *Red Española*.
__Member of the Executive Committee of the *Red Española*.
__Participation in Executive Committee working groups.

In 2015, Iberdrola plans to actively participate in the activities of the *Red Española del Pacto Mundial* in a manner similar to the past financial year.

C3.
Society

The indicators analysed and reported on in this chapter are the following:

Aspects of the GRI-G4 Guidelines

(those indicators that require additional information per the electric utilities sector supplement are identified with (*))

Local communities (*)
Anti-corruption
Public policy
Anti-competitive practices
Compliance
Supplier assessment for impacts on society
Grievance mechanisms for impacts on Society

Specific Aspect of the GRI-G4 Electric Utilities Sector Supplement

Disaster/emergency planning and response

Specific Aspect of the Iberdrola Group

Iberdrola's contribution to the community

The information boundaries used in this chapter are defined in indicator G4-17 of this report.

Aspect: Local communities

Management Approach

Local communities

Iberdrola maintains a policy of strong involvement in the communities in which it operates, making a contribution to society that is based on the main features of its own business activities: the supply of an essential product, such as energy, significant investments in basic infrastructure, promotion of local supplier networks, creation of qualified job positions, etc., with the intention of being a long-term investor in the economies in which it has a presence, in order to generate sustainable economic and social value.

Iberdrola's commitment to the countries in which it operates is actualised both through social actions in cooperation with governments, institutions, and civil society organisations, as well as through sponsorships and patronage. The Company is involved in the local communities where it operates, through action programmes aimed at the socioeconomic development of the environment, energy sustainability, art, culture, education, training, development cooperation, and community service.

Social actions to benefit local communities take place in various complementary ways:
__Directly by Iberdrola, through the International Institutional Relations Division, which is part of the Office of the Chairman Area.
__Directly by subsidiaries or affiliates (i.e. investee companies - those in which the Company has an equity interest) in their respective areas of activity.
__Sponsorship and patronage activities, primarily through Fundación Iberdrola in Spain, The ScottishPower Foundation in the United Kingdom, The Iberdrola USA Foundation in the United States of America, and Instituto Elektro in Brazil.
__There are also two other organisations in the United Kingdom with a philanthropic purpose: The ScottishPower Energy People Trust and The ScottishPower Green Energy Trust, which carry out activities in their particular areas of competence.

Stakeholder participation in the decision-making process

Within Iberdrola's field of activity, energy planning (energy sources, technology and long-term needs) is carried out by governmental authorities; this is the institutional area in which the various stakeholders can participate in accordance with the mechanisms established in each country. Iberdrola plays an active role in these processes, expressing its points of view and making its knowledge and experience available to governments.

Once the most appropriate infrastructure is selected, the viewpoints of the affected communities are taken into account through consultation processes, which vary depending on the country and the type of facility. All these processes, which are included in the facilities' impact assessment studies, are regulated and they are determining factors in order to secure the construction and operating permits for the power plants, and they are frequently completed with processes voluntarily performed by the Company.

Thus, during the planning and development of assets, prior consultations are held and an active dialogue is maintained with the affected communities and interested parties in order to identify and to address any concerns or areas of interest. In every project, relations are established with local authorities, communities, and any other groups that may be relevant to the project. Information concerning the planned development is presented through newsletters, exhibitions, presentations, meetings, the Company website, etc. There are also e-mail addresses to allow local communities to communicate with the Company during the process and, in some cases, public information days are held for such purpose.

By way of illustration, set out below are some of the activities conducted by Iberdrola in this field:

__In the Wholesale and Retail Business, from the commencement of the Támega river hydroelectric project in Portugal, the activities making up a project dissemination and communication plan were established and implemented involving both the government and universities and other entities of local and regional interest; public exposure events were held, information was posted on the corporate website and there has even been an express request for interested parties to send in their opinion by mail; in the United Kingdom, communication strategies have been established for the development of the new Damhead Creek and Cockenzie combined cycle gas turbine plants, which include newsletters, exhibitions, meetings and information through the ScottishPower website.

__In the Networks Business, various actions, above and beyond the statutory obligations established in each country, are established for large-scale projects in order to provide information to affected social groups. In Spain, for example, informational meetings are held at the request of various social groups, at which the main features of the planned facility are described; in the United Kingdom, ScottishPower has a consultation forum, "*The Stakeholder Liaison Group*" in the Dumfries and Galloway communities (where a sizeable investment is currently being made to upgrade and expand the transmission network), which ensures an open and constructive approach for the identification and review of issues to be resolved in the determination of the line; in the Mid Galloway project, an extensive community participation programme has been developed, taking into account the possibility that vulnerable customers, such as elderly people, may be affected, ensuring that their services are covered during interruptions of supply; in the United States, where work continues on the large-scale project to upgrade and expand the distribution infrastructure in the state of Maine ("*Maine Power Reliability Program*"), most incidents have been successfully resolved thanks to the establishment of a conflict resolution process.

__In the Renewables Business, from the commencement of the award of a new project, the various stakeholders are informed of the progress thereof and of the benefits of the new infrastructure and its operation. These activities include personal visits in the United Kingdom to local residents affected by a project, the dissemination of a plain language and easily accessible summary describing the project, as well as consultations with federal environmental agencies in the United States of America and the implementation of their recommendations.

__The same kind of consultation procedures are carried out in the construction of affiliated hydroelectric plants in Brazil, including at the Belo Monte plant, where consultations and public hearings were held since the inception of the project, with over 8,000 attendees; there were also 33 social participation workshops for community leaders and opinion-makers, several thousand social mobilisation visits, over 500 meetings, and round-the-clock telephone communication channels.

Management of the impacts of displacement

In the development of electricity infrastructure, there may be certain projects that involve displacing individuals living nearby or affecting their economic activities. In such cases, Iberdrola and the relevant government administrations review the economic, environmental, and social consequences of such projects, and jointly adopt suitable corrective measures. Iberdrola believes that such processes ensure the protection of general interests in the countries where these impacts occur.

G4-SO1 Local community engagement, impact assessments, and development programmes
G4-SO2 Significant negative impacts on local communities

Assessment of impact

Iberdrola believes that the impacts of the start-up of electric power generation plants are relevant with respect to this aspect. In the countries in which the Company develops these types of facilities, applicable laws require the performance of studies assessing the impact on the environment and the community, and such studies must be approved by the competent public authorities. Iberdrola believes that these studies are appropriate to safeguard the rights of communities, as they include the most significant issues for the affected areas.

These studies include an evaluation of the environment, as part of which environmental impacts such as emissions, effluent, waste, changes in land use, changes in landscape aesthetics quality, etc., are reviewed, and an evaluation of the socioeconomic environment is performed, which reviews demographic aspects such as changes in population in neighbouring municipalities, economic sectors that are present in the region, basic infrastructure such as railway and road networks and historic and cultural heritage, along with the growth in job demand in certain sectors, which is seen as a positive impact. The impacts detected at the various types of facilities developed by Iberdrola are similar at the various sites at which they are implemented, and none of them are noteworthy for significant negative impacts. Consultation with and participation of both the affected government administrations and interested parties are undertaken during the preparation of these studies, and part of the documentation of the project is subject to public review for a period of time that varies according to the law applicable in each country. The viewpoints of the stakeholders consulted are thus taken into account in defining the future project.

These studies also contemplate the preventive and corrective measures required to mitigate the impacts identified, and if necessary, the appropriate budgetary allocations to comply with the commitments assumed are included.

To conclude the process, programmes are implemented to monitor the various aspects identified. The effectiveness of the programmes is reviewed by means of internal and external audits, as well as by the management team. For example, in the case of nuclear plants, an Environmental Radiological Monitoring Plan is prepared to control and monitor the impacts of the facility during the operation thereof.

Most facilities have an integrated quality and environmental management system, the principal goal of which is to foster continual improvement in the results of the organisation's activities with respect to the environment, in addition to compliance with environmental laws.

Iberdrola prepares information and plans for the closure and decommissioning of facilities in accordance with law and informs the workers' representatives thereof.

Development programmes for local communities

Iberdrola takes various types of actions to minimise, mitigate, and offset unfavourable socioeconomic and environmental impacts that might be caused by its facilities. Local communities benefit from these measures, which are usually established and agreed on with local authorities. They include: improvements in communication infrastructure, water supply, or roadways; public lighting; creation of direct and indirect employment; professional training courses; activities to support entrepreneurs; opening of communication processes with various stakeholders; protection of biodiversity and the restoration of areas; etc.

Particularly worth noting is the development of offshore wind farms, during which socioeconomic aspects are taken into account so as not to affect other economic activities, particularly fishing activities. To that end, regular meetings are held with fishermen, involving them in decision-making concerning safety conditions for fishing within the wind farm, as well as regarding other technical aspects of the construction thereof. Joint work is also carried out during the preparation of environmental impact assessments on fish stocks and the establishment of measures to offset such impact. In addition, the Company contributes financially to the development of sustainable fishing projects.

Similarly during the construction of affiliated hydroelectric plants in Brazil, actions to support municipalities are planned in accordance with the provisions of the *Basic Environmental Plan* (*Plan Básico Ambiental*) in different areas such as health, education, safety, tourism, etc. For example, at the Teles Pires plant, a *Socioeconomic Monitoring Subprogramme* has been carried out since 2011 in order to monitor those indicators that are sensitive to changes in the demand for public services and infrastructure as a result of the implementation of the plant; this enables the Company to assess the effectiveness of the mitigation actions taken and to resolve any deficiency. Social monitoring campaigns have also been carried out at the Belo Monte plant since 2011, covering more than 6,000 families, which have found significant growth in the family development index, particularly as regards the size of homes, access to knowledge, and work.

A more detailed description of these activities can be found in the "Indirect Economic Impacts" aspect of the "Economic Performance" chapter of this report, as well as in the last section of this "Iberdrola's Contribution to the Community" chapter.

EU22 People physically or economically displaced and compensation

Iberdrola is currently developing various plants in Portugal and Brazil that involve displacements of population:

__In the construction of the Támega hydroelectric complex, in Portugal, it is expected that there will be displacement of some families and the occupation of pathways and farmland, the determination and quantification of which is at the stage of evaluation and approval by the Portuguese government. The compensation required will be provided in accordance with a Socioeconomic and Cultural Action Plan and the methodology implemented relating to the management and definition of displacements and economic damage to the affected population and in accordance with the Portuguese Expropriations Act and the corresponding Declaration of Public Interest.

__In Brazil, some of the new projects, both for hydroelectric development and for wind farms, may cause population displacements or interfere with their economic activities. This social and environmental impact is assessed during the preparation of the environmental impact assessments, and compensation measures are proposed, which are then presented to the interested parties and negotiated with them.

The Teles Pires hydroelectric plant currently under construction is carrying out a Basic Environmental Plan that provides for the relocation of the affected population and indemnification alternatives by means of financial compensation or resettlement. During financial year 2014, one family was compensated for displacement and 125 properties affected by the creation of the reservoir were compensated on an amicable basis. Cases that were not amicable or where there was insufficient documentation went to trial and the respective compensation was deposited with the courts. Impact mitigation activities from prior years continue to be carried out, such as specific programmes to rehabilitate and develop local economic activities, the promotion of tourism around the reservoir, and programmes to monitor fishing and mining activities.

Similarly, in the case of the Belo Monte plant, the socioeconomic compensation contemplated in the respective studies and in the *Assistance Plan for the Affected Population* (*Plan de Ayuda a la Población Afectada*) is being implemented. Approximately 3,600 families were relocated between urban and rural areas in 2014, and plans are in place for the relocation of approximately 2,000 more families. Family and neighbourhood ties are respected in the relocation process, and the option of a related move (*mudanza vinculada*) is made available. Vulnerable families are offered social and psychological assistance and training for employment. The new neighbourhoods are being provided with social health, education, leisure, and social service equipment to serve the population. As regards commercial activities, 327 businesses were compensated in 2014, and over 1,500 persons received training.

In the case of the Baixo Iguaçu plant, 26 persons whose agricultural production land was affected by the construction of the plant received economic compensation or were relocated to new production areas, and approximately 500 more families are expected to be compensated or relocated over the next two years. In order to gradually provide the most appropriate solutions for each case, there is a commission formed by the affected municipalities, rural syndicates, the affected parties, and the company.

In the development of the Calango 6 wind farm, plans are in place for the relocation and compensation of five families whose houses will be affected, and agreements have already been reached with four of them.

Aspect: Anti-corruption

Management Approach

The Group's firm commitment to fight corruption, and to establish mechanisms to ensure the existence of a culture for preventing irregularities is reflected in, among other things, the Group's *Code of Ethics* and in the *Crime Prevention and Anti-Fraud Policy*, both of which were approved by the Board of Directors.

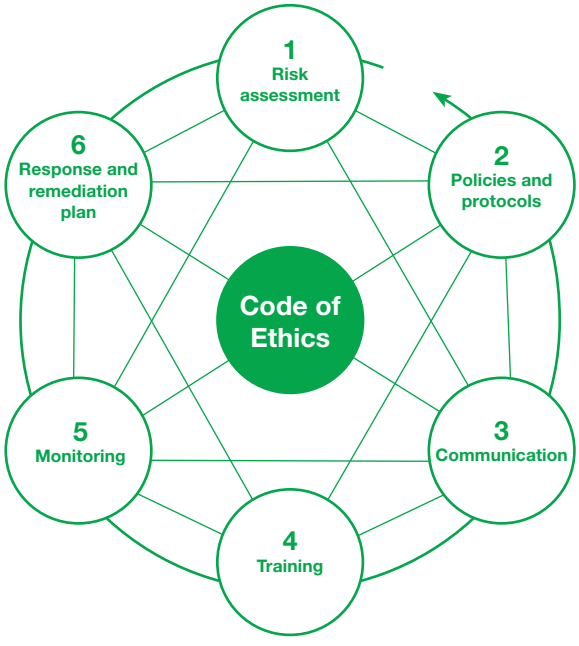
Within the framework of the compliance system, various programmes are implemented to encourage the organisation to act in accordance with the most stringent ethical standards and in accordance with applicable laws and regulations. These programmes, promoted by the Compliance Unit, in the exercise of the powers assigned to it in its Regulations, are included in the *Crime Prevention Programme* and the *Global Action Framework for Compliance with the Code of Ethics in the Group*.

In order to develop the *Crime Prevention and Anti-Fraud Policy*, the Company, through the Compliance Unit and other appropriate bodies, has implemented a specific and effective programme for preventing the commission of crimes (a set of measures focused on the prevention, detection, and reaction against possible crimes), which will also extend to the prevention and control of other frauds, administrative infractions, and serious irregularities, all within the framework of the process of review and adjustment to the new duties imposed by the Spanish Penal Code, following its amendment by Organic Law 5/2010 of 22 June, without prejudice to the laws and regulations applicable in any other jurisdiction in which the Company does business.

In addition to the foregoing, the Compliance Unit promotes the development and maintenance of a global action framework for compliance with the *Code of Ethics*, the main goal of which is to foster a culture of corporate ethics and transparency, disseminating the principle of "zero tolerance" with respect to fraud and promoting mechanisms and actions to prevent corruption and fraud.

This Action Framework is part of the Compliance System, is articulated on the same basis, and contains the same elements as those set forth in Iberdrola's *Protocol against Corruption and for the Prevention and Correction of Illegal or Fraudulent Conduct*, which was approved by the Compliance Unit in financial year 2013.

The Code of Ethics is the "cornerstone" on which the Action Framework is developed and constantly acts as an "inspiring" element for the other elements thereof, which are reflected in the following chart:



These elements include: i) the regular assessment of risks, ii) the development and maintenance of rules and guidelines on activities of the professionals of the Group regarding expected, appropriate, and proper conduct, iii) the preparation of communication, dissemination, and training plans for employees and third parties with which we have relationships, and iv) control and detection mechanisms, as well as mechanisms for responding to situations that deviate from tolerable conduct guidelines.

All activities conducted in the Group within this framework are monitored by the Unit on a quarterly basis through the "*Global Compliance Scorecard*" in which each country subholding company and/or head of business company of the Group reports to the Unit each quarter on a number of monitoring indicators established with respect to the main items that make up the compliance programme of the respective companies.

G4-SO3 Business units assessed for risks related to corruption

One of the main elements of the Iberdrola Group's *Global Action Framework for compliance with the Code of Ethics* is the performance of periodic and continuous risk assessments. Therefore, based on the nature of the businesses, processes and countries in which the Group operates, it identifies and reviews areas that could potentially entail a departure from the rules of conduct established in the *Code of Ethics*, or factors that could be exposed to irregular acts or to situations of corruption or fraud.

Within this context, the Compliance Unit has drawn up global guidelines for the assessment of risks of fraud and corruption within the Group which, translated into the three main languages, have been used as a methodological benchmark in the evaluation process across the Group. The evaluation is performed by the Unit and by the Group's compliance divisions within their respective companies and areas of activity and in accordance with their specific object and business. Professionals representing the corporate and business areas in which the Group operates, who hold key positions within the organisation and who have experience in and knowledge of business processes, were involved in the conduct of the surveys.

This evaluation is used as a starting point to determine the most effective prevention and control measures and to allow for the appropriate allocation of resources and efforts to those areas or factors identified as potentially at risk. Accordingly, the aforementioned risk assessment constitutes a tool upon which various are based and which are included within the other elements of the *Global Action Framework for compliance with the Code of Ethics*.

Review of the provision of general supplies in countries presenting a risk of corruption

Purchases by Iberdrola in countries presenting a risk of corruption were reviewed following the publication of Transparency International's Corruption Perception Index (TI CPI 2014); the results are shown in the table below:

Corruption risk	% of purchases in countries on the CPI Index 2014
Low	88.9
Medium	0.2
High	10.9

The countries with a high risk of corruption in which purchases were made from local suppliers are mainly Mexico and Brazil.

Iberdrola has not made any purchase of general supplies in countries sanctioned by OFAC (Office of Foreign Assets Control).

In supplier management and during the procurement process, the measures adopted by the Company to protect against this risk are based either on the *Procurement Policy* or the *Supplier's Code of Ethics* and on the specific clauses included in the contract terms attached to the orders issued.

G4-SO4 Training and communication on anti-corruption policies and procedures

The development of effective communication and training plans is one of the key elements of Iberdrola's Compliance System to achieve its main goal, which is to promote a culture of corporate ethics and transparency and to prevent irregular or fraudulent conduct.

Within this context, the Company has several tools and procedures to promote staff training and raise awareness on anti-corruption issues. Of particular note are the corporate policies approved by the Board of Directors and communicated to the employees, as well as the *Code of Ethics*, which is delivered to newly-hired employees upon the signing of their contract, all of which are available on both the corporate website and the Group's intranet.

Along these lines, the principal powers of the Compliance Unit include those of promoting the preparation and implementation of appropriate training programmes, both in-person and online or by any other appropriate method, for the professionals of the Group regarding the duties imposed by the *Code of Ethics* and the *Crime Prevention and Anti-Fraud Policy*.

Thus, the annual activity plans of the Compliance Unit and Divisions, through which the *Global Action Framework for compliance with the Code of Ethics* materialises, include specific training and dissemination plans.

In late 2013, in coordination with the country subholding companies and head of business companies, the Unit developed and disseminated an online course regarding the text of the *Code of Ethics* and the *Crime Prevention and Anti-Fraud Policy*. This course, which is permanently available in three languages (English, Portuguese and Spanish) to all employees through the Group's Global e-Learning Platform, is mainly intended to promote ethical values and the principle of "zero tolerance" towards the commission of unlawful acts and situations of corruption and fraud among professionals.

During financial year 2014, the Group continued to carry out various training and communication activities, with both global and local impact, the main purpose of which is to foster a culture of integrity, transparency, and ethics across the organisation. These include: specific training in the *Code of Ethics* as part of the onsite training given at the Group's training centres, specific training of certain groups of professionals such as those of the Procurement Division, and training and dissemination activities for the management group on its key role in the development of a culture of integrity in the organisation.

Finally, the various companies of the Group have also undertaken different training and communication activities related to the specific compliance programmes that they develop and maintain under the law applicable in each country.

G4-SO5 Incidents of corruption

The Compliance Unit has no evidence of any court decisions relating to cases of corruption during the reporting period. There were also no incidents resulting in the cancellation of orders or of contracts with Group suppliers.

During the financial year, proceedings by the World Bank continued with respect to the stake of one of the Company's subsidiaries (Iberdrola Engineering and Construction) in projects in Albania during 2003 and 2004. These proceedings are at the point of conclusion by means of a settlement with this institution.

The criminal proceedings pending in Latvia for actions relating to a former employee of this Company ended by means of an injunction from the prosecutor and thus with no judicial ruling, with a former employee of Iberdrola Engineering and Construction acknowledging his sole liability for the events under investigation; Iberdrola Engineering and Construction, for its part, acknowledged that the criminal conduct of the former employee, categorised as influence peddling, may have provided it with a benefit to the extent that it was awarded a particular project, although the ex-employee acted without its knowledge.

Aspect: Public policy

Management Approach

Iberdrola has two kinds of relationships with regulatory entities:

__Relationships geared to the enactment of efficient regulatory provisions allowing for the development of a competitive market in activities that are not subject to a natural monopoly, and sufficient remuneration for regulated businesses. To that end, there is a continuous and constructive dialogue where information, knowledge, and opinions are exchanged. Iberdrola is thus acquainted with the concerns and proposals of regulatory entities and provides them with its own opinions in the legitimate defence of its interests and those of its shareholders, customers, and users. It also actively participates both in "public hearings" held by regulatory entities in order to ascertain the opinions of the players involved in the processes prior to the revision of regulations or the determination of domestic energy policies, and in the official processes of enactment of the laws and regulations and the monitoring of the application thereof.

As a general rule, Iberdrola works for the approval of and respect for the principles of good regulation: proportionality, effectiveness and efficiency, responsibility and independence, consistency, and credibility, and, finally, transparency and clarity. As regards specific matters of energy regulation, it champions, among other things:

- **_Adequate rates for regulated activities.**
- **_Full liberalisation of activities involving generation and end supply, including the elimination of comprehensive rates.**
- **_Introduction of measures to protect vulnerable customers.**
- **_Internalisation of all costs, including environmental costs.**
- **_Promotion of renewable energy and energy efficiency, in a manner consistent with market principles.**
- **_Ensuring the security of supply.**
- **_Creation of a single European market.**
- **_A CO_2 price that provides a signal incentivising investment in both low-emission generation and in energy efficiency measures, which will allow for progress in the decarbonisation of the European economy.**

__Provision of all information required by regulatory entities, whether in connection with the normal conduct of its business or as a result of any transitory issue.

In addition to its direct relationships with regulatory entities, Iberdrola and the companies in its Group participate in the regulatory process through the domestic and international trade associations of which they are members.

As regards lobbying activities, Iberdrola is registered with the Transparency Register, created by European institutions to give adequate transparency to the relations of such institutions with companies, NGOs, citizens' associations, think tanks, etc. The register was created by the European Parliament and the European Commission, and the Council of the European Union supports the initiative. Iberdrola's record in such register can be found at http://ec.europa.eu/transparencyregister/public/consultation/displaylobbyist.do?id=41816938101-07.

In its activities to influence public policies, Iberdrola USA has made the financial contributions shown in the US register http://soprweb.senate.gov/index.cfm?event=selectfields.

G4-SO6 Contributions to political parties or to related institutions

Iberdrola has a neutral position from a political standpoint. In financial year 2014, none of the Group's companies, except in the United Kingdom and the United States of America, contributed to the financing of political parties or organisations controlled by them.

Contributions to political parties (€)	2014	2013
Expanded boundary		
United Kingdom	26,032	23,554
United States	131,327	28,057
National level	75,566	6,779
State level	55,761	21,278
Other countries	0	0
Total	157,358	51,611

In the United Kingdom, ScottishPower contributed a total of 26,032 euros, distributed among various parties across the political spectrum in the United Kingdom, to sponsor lectures and events, pursuant to the Political Parties, Elections and Referendums Act (2000). These occasions are an important opportunity for the Group to present its viewpoints to the entire political spectrum on a non-partisan basis. The contribution does not involve the support of any particular party.

In the United States of America, Iberdrola USA and its subsidiaries CMP, NYSEG, and RG&E made contributions to candidates and political parties in the total amount of 97,717 euros, and reported such contributions in accordance with applicable laws. Similarly, the Renewables Business made

contributions totalling 33,610 euros. In both cases, the contributions are those of the Company and do not include additional voluntary contributions made by employees.

Aspect: Anti-competitive practices

Management Approach

Pursuant to the *Code of Ethics*, the Group undertakes to compete fairly in the market and not to engage in advertising that is misleading or denigrates its competitors or third parties. Furthermore the Group undertakes to obtain information lawfully, to promote free competition for the benefit of consumers and users, and to promote transparency and free market rules, as provided in the Group's *General Corporate Social Responsibility Policy*.

In the practical application of applicable law, the complexity thereof might give rise to interpretations that are not shared by other market players or by the regulatory authority itself, giving rise to situations such as those described in G4-SO7 requiring the intervention of the competent courts.

G4-SO7 Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices

In March 2007, the National Competition Commission (*Comisión Nacional de la Competencia*) (CNC) issued a resolution imposing a fine of 38,710,349 euros against Iberdrola Generación, S.A.U. for the alleged offence of abuse of dominant position stemming from the operation under the technical restriction system of group 3 of the Castellón Power Plant and of groups 4 and 5 at Escombreras. A contentious-administrative appeal against this resolution was lodged with the National High Court (*Audiencia Nacional*). An appeal in cassation (*recurso de casación*) was filed against the rejection of the appeal by the National High Court, which was also rejected. The appeal in cassation filed against this rejection was declined by the Constitutional Court. Iberdrola Generación, S.A.U. filed an appeal with the European Court of Human Rights on 4 April 2013, but Company was not notified of any decision in connection with such appeal in 2014.

A decision was handed down in 2009 in the disciplinary proceedings commenced in 2007 by the National Competition Commission against Iberdrola Distribución Eléctrica, S.A.U., as a result of a complaint filed by the retail energy supply company Céntrica Energía, S.A. (concurrently with the complaint filed by such company against the other distributors belonging to vertically integrated groups) for an alleged abuse of dominant position in connection with widespread access to its points-of-supply database. The decision, imposing a 15,000,000 euro penalty, was challenged before the National High Court, which dismissed the contentious-administrative appeal that was filed. A constitutional application for relief was filed against such decision with the Supreme Court on 18 June 2012, which has been opposed by the government and Céntrica Energía, S.L.U., with the actions pending instruction for voting and decision.

In 2010, Céntrica Energía, S.L. filed a claim with the Mercantile Court No 1, in Bilbao, claiming 11,900,000 euros in purported damages, precisely on the basis of the aforementioned penalty imposed by the CNC

for alleged abuse of dominant position for having failed to allow widespread access to the points-of-supply database. Iberdrola Distribución Eléctrica, S.A.U. filed a defence opposing this claim, basically on the grounds that the case was time-barred and, in any event, because it had strictly complied with applicable laws and regulations governing the industry and with the standards established by the National Energy Commission (*Comisión Nacional de Energía*) (CNE) on this matter since 2002. Judgment was rendered for Iberdrola Distribución Eléctrica, S.A.U. on 16 July 2010, holding that the action was time-barred. This judgment was appealed by the opposing party to the Provincial Court of Biscay (*Audiencia Provincial de Vizcaya*), and a new judgment confirming the previous judgment was handed down on 27 July 2011, also holding that the action is time-barred. However, Céntrica Energía has filed a constitutional application for relief with the Civil Chamber of the Supreme Court that issued the Judgment of 4 September 2013 approving the appeal, rejecting the finding that the action was time-barred, and providing for a return of the proceedings to the Provincial Court of Biscay for a resolution on the merits. As a result of the foregoing, the Provincial Criminal and Administrative Court rendered Judgment on 28 March 2014 dismissing the complaint filed by Céntrica Energía, S.L. in its entirety and deciding on the merits of the case, holding, among other things, that the causal link between the conduct followed by the distribution company and the damages claimed has not been established. On 21 May 2014, Céntrica filed a post-judgment motion for cassation against the aforementioned Judgment with the Third Division of the Supreme Court.

On 5 and 6 November 2009, the Investigation Directorate of the National Competition Commission carried out an inspection of the headquarters of Unesa because a confidential case had been opened to investigate purported restrictive practices (concerted action) of the companies associated within Unesa. Unesa challenged the order of the CNC authorising the inspection, and on 22 December 2014 Unesa was notified of the decision of the Supreme Court dated 10 December 2014 nullifying the CNC's Order of Inspection and declaring the evidence obtained from such inspection to be invalid.

Furthermore, on 24 June 2009 the National Competition Commission commenced disciplinary proceedings under number S/0159/09, against a number of electricity distribution companies (including Iberdrola Distribución Eléctrica, S.A.U.) for conduct consisting of preventing, restricting, or distorting competition in the domestic electricity supply market. As a result of the inspection mentioned in the preceding paragraph, Unesa was charged in the disciplinary proceedings. In addition, on 30 April 2010, the Investigation Division of the National Competition Commission resolved to extend the scope of the proceedings to Iberdrola, S.A., among others, for the existence of a strategy of coordination in the electricity industry calculated, among other things, to obstruct a change in retail electricity supply company.

On 13 March 2011, the Company was notified of the decision in this case, which imposed a penalty of 21,612,000 euros against Iberdrola, S.A. This decision was appealed to the contentious-administrative courts and the appeal is suspended due to a potential *bis in idem* (re-trial for the same offence) regarding the penalties also imposed on the distributors on such grounds. Upon learning of the 10 December 2014 decision of the Supreme Court referred to above, Iberdrola, S.A. submitted this appeal, requesting approval thereof and a declaration of the invalidity of the sanction order due to a lack of evidence.

In 2013, there was a continuation of the proceeding provided for in article 88(2) of the EC Treaty by the European Commission against Spain (State Aid C3/2007) in connection with the possibility of the regulated electricity tariff system being considered as state aid, which is forbidden under the Treaty, the

beneficiaries of which would be end consumer companies, on the one hand, and electricity distribution companies, on the other hand. In these proceedings, which were commenced following a complaint filed by Céntrica, P.L.C. and Céntrica Energía, S.L., written comments of both Unesa and Iberdrola Distribución Eléctrica, S.A.U. were filed, with the defence focusing on the absolutely regulated nature of electricity distribution in Spain and the absence of any advantage for distributors, compared with liberalised retail electricity supply companies, and considering, in short, that there was no forbidden state aid in favour of the former. In this case, which is limited to financial year 2005, a favourable outcome is expected with a declaration that there is no unlawful assistance as regards electricity distribution companies.

In addition to the complaints filed with the EC, Céntrica has also filed various appeals applying for the annulment of national tariff provisions recognising deficits in regulated activities, to the extent that no similar deficits are recognised for retail supply activities. Both the Supreme Court and the National High Court have resolved to postpone the dates for voting and rendering a decision on such appeals until the issuance of a European Commission resolution putting an end to the proceedings concerning State Aid C 3/2007, commenced as a result of Céntrica's complaint.

On 24 February 2012, the Company was served notice of the disciplinary resolution under file S/0213/10 of the National Competition Commission, which imposes on Iberdrola, S.A., Iberdrola Generación, S.A.U., and Iberdrola Comercialización de Último Recurso, S.A.U., jointly and severally, a penalty of 10,685,000 euros for the serious infringement of distortion of competition through unfair acts consisting of the transfer of contracts from the last-resort retail supplier to the liberalised retail supplier, without securing the express consent of the consumer required under industry regulations. In December 2013, notice was provided of the decision dismissing the contentious-administrative complaint filed by the three companies against the penalty. An appeal against the dismissal was filed on 26 December, and the Company did not receive notice of any judgment deciding on the motion for cassation in 2014.

No cases related to monopoly practices or anti-competitive behaviour have been recorded at the other companies of the Iberdrola Group.

Aspect: Compliance

G4-SO8 Significant fines and non-monetary sanctions

Pursuant to the technical protocol for this indicator, this includes the fines and sanctions received in addition to those set forth in indicators G4-EN29 and G4-PR9, with the amounts indicated in the following table:

Significant fines and non-monetary sanctions[40]	2014	2013
Fines imposed (€)	17,022,140	15,345,304
Non-monetary sanctions (no.)	8	12
Cases being resolved through arbitration or similar mechanisms (no.)	1	1,724

Of the total amount, fines have been imposed in Spain in the amount of 14,992,125 euros, the most significant of which correspond to affiliated (minority-owned) nuclear plants, 13,436,163 euros for an alleged reduction in production capacity, for failure to comply with the Quality Assurance Manual (*Manual de garantía de calidad*) and the Single Transitory Provision of Law 24/1964 of 29 April on Nuclear Energy, and for the loss of traceability in the control of radioactive sources in disuse.

In Brazil, fines were imposed in the amount of 2,005,099 euros, with the most significant being 1,876,538 euros corresponding to Elektro for tax fines.

A fine of 24,916 euros was received in in the United Kingdom, mainly for failing to achieve the established targets in infrastructure works.

There were no fines during financial year 2014 in the other countries in which the Company operates.

Eight non-monetary sanctions were also received relating to labour and administrative matters, and are not considered by the Company to be significant.

Aspect: Supplier assessments for impacts on society

Management Approach
G4-SO9 Suppliers that were screened using criteria for impacts on society
G4-SO10 Impacts on society in the supply chain

The management approach regarding the Iberdrola Group's supply practices is described in the "G4-12 Description of supply chain" indicator of this report.

40 Includes fines, sanctions, and arbitrations corresponding to the expanded boundary of the report, except for those relating to labour matters, which are within the basic boundary, as no corresponding supplementary information is available.

New suppliers are evaluated according to such management approach and their significant risks regarding their impacts on society are managed through quality procedures and periodic audits.

Transparency in the general procurement process

In applying the Company's policies, the Procurement Division, within its area of responsibility, encourages equality of opportunity, applying standards of objectivity and impartiality in supplier relations, promoting publicity of and participation in selection processes, within management efficiency criteria.

The procurement process is periodically audited both internally and by external entities, with no "non-conformities" during the financial year. Recommendations and opportunities for improvement that arise during these reviews are analysed and put into place in order to maintain continuous improvement in the processes.

Dialogue with suppliers

The Procurement Division periodically surveys the suppliers of the Iberdrola Group in all countries in which these processes are carried out. In the 2014 edition, the survey was sent to a representative group of suppliers of the Group: 2,516 suppliers; the participation percentage was 49.6%. An overall rating from such survey is set forth in the following table:

Supplier satisfaction survey	4th Edition	3rd Edition	2nd Edition	1st Edition
Rating (out of 10)	8.00	7.74	7.57	7.56

Main initiatives with suppliers of materials, equipment, works, and services during 2014

Iberdrola has a *CSR Scoring model* to evaluate its suppliers with respect to social responsibility, quantifying their relative position based on the suppliers' management in terms of social responsibility, so that there is a standard to differentiate them in tenders or contracting. In 2014, the Procurement Division extended the *CSR Scoring* to all geographic areas (previously, the model was only available for suppliers in Spain), with the following result:

Supplier CSR Scoring Model[41]

Classification levels	2014	%	2013	%
A+	360	27	324	27
A	757	57	710	59
B	209	16	168	14
Basic boundary	1,326	100	1,202	100

Of the suppliers studied, 323 (as opposed to 312 in 2013) adhere to various international corporate social responsibility initiatives or follow codes of good practices for their industry.

During the financial year, there were 77 social audits of suppliers with an order during the year. Suppliers with "non-conformities" in the process had a certain period to rectify the deficiencies found.

During 2014, the contracting volume at Special Employment Centres (in order to assist and work with persons with disabilities) totalled 3.1 million euros.

More than 220 letters were sent to suppliers in 2014 urging them to obtain certification in the quality, environmental, and occupational risk prevention areas.

Iberdrola USA has a *Supplier Diversity Program* that gives priority to supplies managed by minorities (companies owned by women or veterans, businesses located in run-down areas, businesses owned by marginalised persons, etc.). In 2014, additional emphasis was placed on this line of work with the main suppliers to apply the program in the subcontracting chain.

In May 2014, Elektro held the tenth annual *Supplier Awards*, an event that has already become a tradition and a benchmark in the Brazilian electricity industry, and the purpose of which is to improve cooperation among the parties, disseminate best practices, and enhance competitiveness. More than 200 of the subsidiary's suppliers participated in this edition. Elektro also developed the *Small Supplier Development Programme*, designed to develop new qualifications and skills at small supplier companies to boost their potential and capabilities.

Further information on Iberdrola's relations with and management of its suppliers can be found on the corporate website, in the *Periodic Report on Procurement and Supplier Management*, a new initiative that was part of the Group's Corporate Social Responsibility Plan 2013-2014 in the supply chain management area.

41 Suppliers with an order during the year. A+: above average suppliers, A: average suppliers, and B: below average suppliers.

Aspect: Grievance mechanisms for impacts on society

Management Approach

The development of plans for the Company's relationships with its stakeholders and the maintenance of fluid channels of communication are significant goals, to which Iberdrola dedicates numerous resources, as described in more detail in sections G4-18 through G4-27 of this report.

Attention to claims that might arise from various social players that might be affected by the Company's activities is a part of the relationship plans developed with stakeholders, which is managed as described below:

__The "Companies of the Group" and "Content" sections of the home page of www.iberdrola.com provide an orderly system of navigation to arrive at the different methods of contact that the various companies of the Group maintain in the countries in which they operate, the companies in question being directly responsible for the service and management thereof. In the case of the parent company Iberdrola, various channels are identified, both postal as well as telephonic and electronic, that provide multiple ways of contacting the Company, managed directly by the organisations responsible for maintaining such contact methods.

__The Company's stakeholders have channels described in the preceding paragraph to send their complaints regarding business activities with a specific impact on the environment, labour relations, human rights, local communities, competition, or market power, and such complaints will be attended to following established internal procedures.

__There are various specific mechanisms for dealing with unethical behaviour or behaviour that might lead to situations of fraud or corruption in any form: the *Ethics Mailbox*, the *Shareholders' Ethics Mailbox*, and the *Channel of Communication with the Audit and Risk Supervision Committee*, through which employees and shareholders can make accusations or complaints with the assurances of resolution and confidentiality that such channels require to be effective.

G4-SO11 Grievances about impacts on society

The Compliance Unit is not aware of any court decisions regarding social impacts in the anti-corruption area.

Electric Utilities Sector Specific Aspect

Aspect: Disaster/emergency planning and response

Management Approach

As in any industrial activity, situations of risk to the facilities or the public at large may occur at power generation plants and in electricity grids, either because of an accident or due to loss of electricity supply.

Where this occurs, the subsidiaries of the Iberdrola Group and the companies in which the Company has an interest have put mechanisms, procedures, and plans in place in order to try to minimise the consequences. Such measures include preventive measures that have been jointly established with local authorities, as well as training both for its own and subcontracted staff and ongoing education, and regular safety drills with *in situ* audits.

The Wholesale and Retail Business has various documented emergency management procedures in place at its facilities, which include an *Emergency Response Organisation* (*Organización de respuesta ante emergencias*) (ORE) procedure, which involves personnel of all levels and is put into operation in the event of emergencies that jeopardise the assets of the Company or its employees. In the United Kingdom, there is also a Business Continuity Management System for the management and minimisation of emergency situations, which is certified to the ISO 22301 standard and externally audited.

For its part, nuclear power plants have specific emergency plans in order to ensure that emergency systems are operational and to guarantee the safety of employees and the public, which include both an External Emergency Plan (*Plan de emergencia exterior*) (PEN), for which the governmental authorities are responsible, and an Internal Emergency Plan (*Plan de emergencia interior*) (PEI), compliance with which is the responsibility of the companies that own the power plant. The PEI is known by the public authorities and municipalities of the region, which participate in its adoption, and verify its effectiveness through annual emergency drills supervised by the Nuclear Safety Council (*Consejo de Seguridad Nuclear*) (CSN). It also has a Basic Nuclear Emergency Plan (*Plan básico de emergencia nuclear*) (PLABEN), which provides an interface as an instrument for coordination between both plans.

Another example of emergency management is the cooperation of the Company with the authorities responsible for the operation of the national electricity grids and of connections with other countries in order to deal with the possibility of a global supply failure. System operators are responsible for guaranteeing the reliable and safe operation thereof and for restoring service following severe incidents in a controlled manner and within the shortest possible time. To that end, they draw up detailed plans and procedures that determine the responsibilities and guidelines for action by geographic areas. Concurrently therewith, the Company conducts tests at its facilities to ensure that the main generation centres can resume production in the event of a power grid failure.

The Networks Business also has various management plans and procedures to deal with these situations, such as the *Electric Emergency Plan* of Iberdrola USA's subsidiary NYSEG or the *Operations Centre Emergency Plan* of Elektro in Brazil. Worth noting is ScottishPower's active communication with vulnerable groups during power outages to ensure that they are properly cared for and to provide any assistance that may be required. The company has its own generator fleet, as well as a portfolio of suppliers to support consumers during long-lasting emergencies if necessary.

The following activities to restore electric service during 2014 were especially significant as regards meteorological phenomena and their effect on Iberdrola's networks:

__In the United Kingdom, in February, ScottishPower experienced one of the worst storms to have ever affected the company's operational area. As a result, over a period of 24 hours there were 469 incidents in high-voltage lines and 189,226 customers were affected by interruptions in supply. Despite the difficulties posed by strong winds, ScottishPower was able to restore service to 94% of those affected within the first 36 hours.

__In the United States, 219,000 customers of the CMP, NYSEG and RGE subsidiaries lost power on Thanksgiving. With the support of 1,000 professionals, service to most customers was restored within less than 72 hours.

Specific Aspect of the Iberdrola Group

Aspect: Iberdrola's contribution to the community

Social actions, in cooperation with governmental and civil society organisations, constitute a significant part of Iberdrola's commitment to the community. Detailed information on such actions can be obtained both from the published reports and from the corporate websites of Iberdrola's subsidiaries and affiliates in Spain, United Kingdom, the United States of America, and Latin America.

Rural electrification programmes in Brazil are also particularly worthy of note. The Brazilian companies of the Group and their affiliates have continued to develop such programmes, undertaken jointly with government entities, with the goal of extending the electricity infrastructures to the entire population of the country in order to facilitate economic and social development, minimising inequalities among the various regions and between rural and urban areas. These programmes represent a fundamental component for development of the most disadvantaged sectors of Brazil's population.

1. - Dedicated resources

LBG España

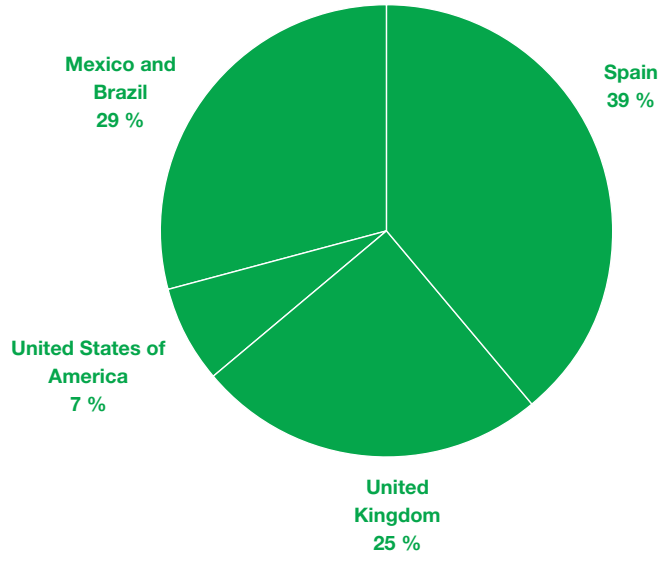
Iberdrola has selected the *London Benchmarking Group* (LBG) model to measure and assess business contributions to the community due to its wide international recognition. It is regarded as the most highly-valued standard for measuring the results and impacts of social programmes, both for the company and for the community.

A detailed description of the LBG model can be found at the www.lbg.es.

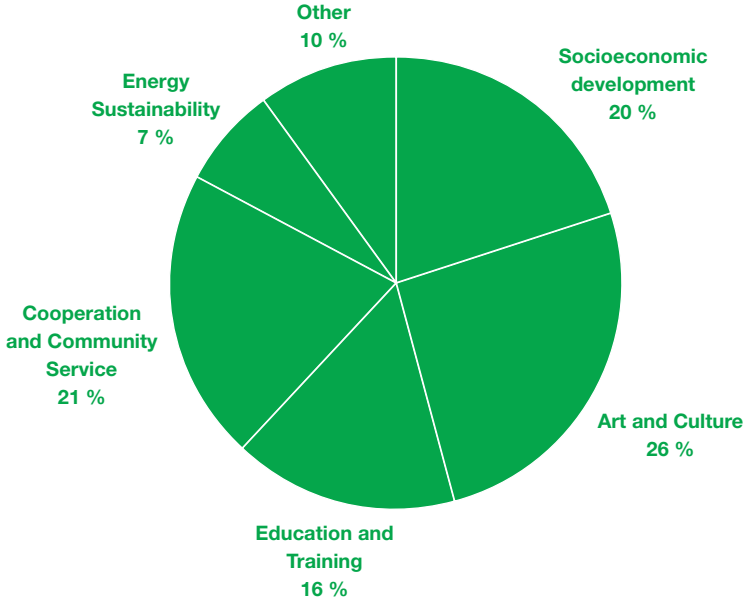
Iberdrola has used the LBG model to report its contributions to society in this *Sustainability Report 2014*.

Contribution to the community 2014	(€ thousands)
By category	
Charitable gifts	1,551
Community investment	26,076
Socioeconomic development of the community	
Energy sustainability	
Art and culture	
Education and training	
Cooperation and community service	
Commercial initiatives in the community	3,732
Management costs	2,624
By type of contribution	
Cash contributions	30,767
Staff time	388
In-kind contributions	203
Management costs	2,625
Expanded boundary	33,983

Iberdrola's contribution by region (Expanded boundary)



Iberdrola's contribution by programme (Expanded boundary)



In addition, the aggregate funds allocated to rural electrification programmes in Brazil represented a total of 31 million euros on a consolidated basis for the Group.

Electrification programmes 2014	(€ thousands)
Elektro, Coelba, Celpe, and Cosern	31,116

2.- Outputs and impacts

Benefits for society

Iberdrola has been measuring the results achieved by its community support programmes using various parameters. Fundación Iberdrola is applying the specific LBG methodology to measure outputs and impacts for the various programmes for which it is responsible, and expects to continue extending the application of this methodology to all of its higher community impact programmes.

The first to use it was the *Atlantic Romanesque Restoration Project*; the application of this methodology to a significant art and heritage project is new in Spain. The results have been measured from its start date, in September 2010, through financial year 2014.

The total investment of the Foundation in the programme has reached 987,500 euros, with an additional multiplier effect of 1,828,417 euros. The programme brings the obvious benefits of improving the condition of the historic and artistic buildings and increased promotion and awareness of these buildings among the general population. Concerning output measurements, the following figures can be put forward: 8,406 direct beneficiaries and 48,801 indirect ones, considering as beneficiaries the citizens of the rural municipalities where the restoration work has been carried out. One should also take into account 38 beneficiary organisations that have been supported in various manners: training for their staff, energy savings due to energy efficiency and maintenance, etc. Of particular note in this regard is the significant benefit obtained by the application of advanced technologies to the temple monitoring systems, as well as the use of LED technologies for lighting. This technological innovation has so far achieved a 70%-reduction in total installed capacity at the restored temples, and thus a reduction of more than 4,000 kg of CO_2 emissions into the atmosphere. The socioeconomic impact in the region through job creation in the area and strengthening commercial activity is also worth mentioning. Detailed information on the project is available at www.romanicoatlantico.org and www.fundacioniberdrola.org.

Another initiative using the LBG methodology to measure outputs and impacts is the *Social Assistance Programme* announced for the 2014-2015 period. There are many types of beneficiaries: disabled persons, unemployed adults, immigrants, youth at risk of social exclusion, long-term unemployed, etc. A total of 45 social projects have been approved for this financial year, managed by non-profit organisations, with a total investment of 845,348 euros. There are a total of 15,664 direct beneficiaries, and 62,656 indirect beneficiaries, such as relatives.

Benefits for the company

Iberdrola believes that the main benefits that it obtains from its commitment to society are:
__Building and reinforcing relationships of trust with communities, through the support of social organisations and national, regional, and local governments.
__Achieving higher brand recognition and improving its corporate reputation.
__Improving employee satisfaction, by belonging to a socially valued and recognised Company.

3.- Corporate volunteering programme

In 2014, the Iberdrola Group offered its workforce a total of 6,100 volunteering opportunities within the framework of its *Corporate Volunteering Programme*, either through activities proposed and organised by Iberdrola itself or in cooperation with leading organisations. The activities promoted by the Group alone benefited more than 493,000 persons directly or indirectly. Among the initiatives offered, approximately 42% were designed to help communities, some of which consisted of fundraising; 25% were designed to support underprivileged groups through recreational activities, teaching, or support; community services accounted for 22% of the activities, while the remaining 11% were addressed to the protection and improvement of the environment.

Some of the more noteworthy developments were the following:
__The third edition of the volunteer vacations: *Iberdrola - São Paulo 2.0*, continued to provide IT training to Brazilian youths at risk of social exclusion, with a three-week stay in Brazil of a team of volunteer employees from Spain, the United Kingdom, and the United States of America.
__The fifth edition of the Group's International Volunteerism Day was held simultaneously in Spain, the United Kingdom, the United States of America, Mexico, and Brazil. This edition allowed 850 volunteers to channel their social service spirit by participating in one of the 50 activities organised.
__*Volunteering days* were organised in the Autonomous Communities in Spain, with games and sports days to encourage the normalisation and integration of persons with disabilities. 350 volunteers participated and 2,600 people with different abilities benefited from these days.
__The *Iberdrola Operation Kilo* campaign allowed for the collection of 5.5 tons of basic foodstuffs and children's products at approximately thirty work centres in Spain, which were given to families in need, with the cooperation of social organisations such as Cáritas, Casa Salud, and Red Acoge, among others. At the same time, Iberdrola cooperated with several entities such as UNICEF, Aldeas Infantiles, Federación Española de Bancos de Alimentos, and Asociación Valdeperales to provide support to groups at risk of exclusion or living in poverty.
__Professional volunteerism continued to wager on cooperation for development initiatives in African countries, within the framework of the *Electricity for Everyone Programme* (*Programa electricidad para todos*), with a new public-private cooperation project to improve electric power supply at several refugee camps in Ethiopia, where two volunteer experts in electricity infrastructure travelled.
__Environmental volunteering activities included the holding of *Tree Day* in the Biscay town of Bermeo, and a reforestation day in Madrid.

The *Volunteer Portal* has been the meeting point for all professionals of the Iberdrola Group interested in social and community service actions, which inaugurated a more modern and accessible design in 2014.

4.- Fundación Iberdrola

The country subholding companies are linked to various institutions in the nature of foundations, separated from the corporate structure of the Group, the mission of which is to engage in initiatives that efficiently contribute to the improvement in the quality of life of the people in the territories and countries in which the Group operates, especially in the areas of energy sustainability, art, and culture, as well as community service and social action, and which have the independence to achieve their goals and full functions and autonomy.

Within their respective countries, these institutions implement a corporate social responsibility strategy designed by the Company's Board of Directors, to the extent that they are appropriate to the foundational purposes thereof and entrusted thereto by the board of directors of the country subholding company to which they are connected. They receive financial assistance from the Group on an annual basis to engage in their functions.

In particular, a suitable framework for collaboration among the various foundational institutions connected to the Group is established through the Foundations Committee of the Iberdrola Group in order to coordinate the activities of general interest and corporate social responsibility that are entrusted thereto.

The Board of Trustees of Fundación Iberdrola, which is linked to Iberdrola España, S.A.U., the country subholding company grouping the energy businesses in Spain, approved its new Master Plan for the 2015-2019 period, the purpose of which is to promote various initiatives aimed at contributing to the improvement of the quality of life of individuals in the countries in which the Iberdrola Group is active. This Plan includes major continuing programmes and initiatives that were carried out in 2014 in the four areas of the Foundation:

a) Training and research area:

Fundación Iberdrola's *Scholarship and Research Aid Programme in Energy and Environmental Research* each year grants Master's scholarships in energy and environmental research in Spain, the United Kingdom, and the United States of America, as well as research grants in Spain. This programme seeks to achieve excellence in applied higher training, in order to train high-level professionals capable of contributing to the search for solutions consistent with meeting the energy demands of the population and the protection of the environment, through close cooperation with prestigious professionals from the academic and research world.

In 2014, the Programme granted 64 Master's scholarships at universities in Spain, the United Kingdom, and the United States of America and research grants in Spain. In addition, 4 scholarships were granted for training and research at the Restoration Workshop of the Prado Museum and the Fine Arts Museum in Bilbao. The Prince of Asturias Chair in Information Science and Related Technologies at the University of New Mexico, focusing primarily on research in the area of smart grids, has become firmly established this school year. This Chair grants scholarships to Spanish students for doctoral studies in this area.

The total of 80 scholarships and grants in 2014 entailed an investment of 1.6 million euros.

Fundación Iberdrola also collaborates with other entities in granting scholarships, including the following:

__Fundación Carolina, through its Training Programme, the aim of which is to promote improvement in higher education within the American continent and to foster the internationalisation of Spanish universities.

__The Fulbright Foundation, which promotes the further education of university graduates through master's or doctorate programmes in the United States of America.

__The Spanish Paralympics Committee to facilitate the university education of 7 Paralympic athletes.

b) Sustainability and biodiversity area

Collaboration on the *Bird Migration Scheme in 2014* resulted in the banding of 20 new specimens of birds with GPS transmitters. Detailed information regarding the migration of these birds in real time is available at www.migraciondeaves.org. 167 birds have been banded since 2011.

The Foundation has continued to collaborate in the LIFE+ Cantabrian Capercaillie Protection Scheme, funded by the European Union and coordinated by Fundación Biodiversidad. In 2014, five specimens survived at its Breeding Centre in 2014 (3 females were radiolabelled and set free in Picos de Europa, in Castile-León).

In cooperation with Fundación Patrimonio Natural de Castilla La Mancha, the "Bonelli's eagle Conservation Plan in Arribes del Duero" was developed to improve habitats in the hunting preserves in "Bonelli's eagle territories" to provide for the maintenance and recovery of the species. The plan allows for the provision of food resources to guarantee reproductive success and the monitoring of the nesting population. 6 chickens were marked in 2014 to monitor reproductive success.

Through the ScottishPower Foundation, there has been collaboration on various projects in the United Kingdom, including 'A Walk in the Park' run by Loch Lomond and the Trossachs Countryside Trust to encourage those suffering from long term ill health to get active and to make walking accessible for all. Through the Iberdrola USA Foundation, there is collaboration in the United States of America with the Royal River Conservation Trust, which has engaged in conservation of the land around the Royal River, in the State of Maine.

c) Art and culture area

Of note is the Atlantic Romanesque Project (www.romanicoatlantico.org), which completed 10 of the 11 restoration projects in Castile-León. Worthy of mention in 2014 is the completion of the work on the San Pedro de la Nave church in El Campillo. An interpretation centre was also built near the church, with an information point, an exhibition area, and a cafeteria.

In the *Illumination Programme*, new projects for the lighting of historical/artistic heritage have begun, such as the Cristo de la Luz Mosque in Toledo, and the Royal Collegiate Church of Santa María la Mayor in Toro, Zamor, among others. The "Lighting the Prado" project replaces existing halogen lamps with LED technology in all the halls of the Prado Museum. The main facade of the Congress of Deputies has also been illuminated.

Restoration work continues on "Titian's Poesie" at the Prado Museum Restoration Workshop and on several works by Basque artists at the Bilbao Fine Arts Museum. Also worthy of note is the collection of six Flemish tapestries of the Royal Seminary College of Corpus Christi, in Valencia.

Exhibitions includes a showing of "Antoni Tàpies. From object to sculpture (1964-2009)" at the Guggenheim Museum in Bilbao, "The return of the snake. Mathias Goeritz and the invention of emotional architecture" at the Reina Sofía Museum, and the "Fuendetodos Follies" showing the etching "Priest flying with luggage" by the artist Cristóbal Toral.

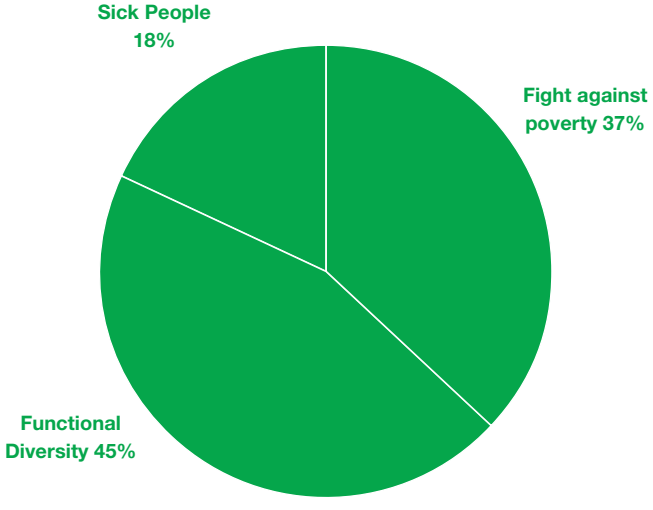
d) Cooperation and solidarity area

The purpose of Fundación Iberdrola's *Call for Social Assistance* is to contribute to the improvement of the quality of life of the most vulnerable groups, through initiatives that will make it possible to cover basic needs and access to basic services.

In 2014, priority was given to initiatives that promote education and training to favour social and workplace integration. Not-for-profit organisations that develop projects to fight against poverty and social exclusion and to improve the quality of life of sick people and their dependents may elect to participate in this social assistance programme.

In 2014, social initiatives in collaboration with civil society organisations represented an investment of more than one million euros, carried out through 32 projects throughout Spain. Collaborating organisations include: Proyecto Hombre, Asociación Española Contra el Cáncer, Cáritas, Mensajeros de la Paz, Fundación Síndrome de Down, Menudos Corazones, etc.

Distribution of funds by sector: €1 million



Cooperation for Development Project "Accessible and efficient power for access to water and sanitation."

Fundación Iberdrola collaborates with the NGO Alianza por la Solidaridad Development in a project included in the Water and Sanitation Fund of the Spanish Agency for International Development Cooperation (*Agencia Española de Cooperación Internacional para el Desarrollo*) (AECID). The aim of this initiative is to improve drinking water and sanitation conditions through the development of accessible power systems. The project is carried out in 6 municipalities of the Chinandega Norte region in Nicaragua, inhabited by isolated rural communities, with a highly vulnerable population living in a state of structural poverty. Nicaragua is the Central American country with the lowest percentage of population having access to electricity. It also has a high level of isolation of rural communities, for which access to the national electricity grid is difficult and very expensive. This project is aimed at the women and girls of these communities, since they are responsible for getting water from hand-dug wells, small springs, and streams that are generally contaminated, far from inhabited areas, and difficult to access. The project lasts for three years and an annual investment of 45,000 euros is required to help develop more than 740 sanitation activities with energy components that will improve the quality of life of these women and girls, as well as of their 3,228 families.

In the United Kingdom, the ScottishPower Foundation has celebrated the "Duke of Edinburgh's Award" programme, which promotes personal and professional development among young people. In the United States of America, the Iberdrola USA Foundation has supported *Camp Sunshine*, which organises summer camps for children with chronic illnesses. In Brazil, the *Electricians School* has allowed for the training of young people on issues of electricity. In Mexico, various primary schools have been rehabilitated.

Details on the projects supported by Fundación Iberdrola can be found on its website www.fundacioniberdrola.es. Additional information about the foundations linked to other country subholding companies can be found on the following websites:

__United Kingdom: ScottishPower Foundation www.scottishpower.com.
__United States: Iberdrola USA Foundation www.iberdrolausa.com.
__Brazil: Instituto Elektro www.elektro.com.br.

5.- *Electricity for everyone programme*

The *Electricity for Everyone Programme* (*Programa electricidad para todos*) was launched in January 2014, considered to be an appropriate time to strengthen and expand the Company's activities in promoting access to electricity in emerging and developing countries.

This programme has three main lines of action:

__Line 1. Financing of projects through capital investment: search for projects are already in progress that Iberdrola can join in with a percentage stake using the PERSEO investment fund. It is actively seeking and reviewing several projects to invest in.

__Line 2. Activities conducted by the businesses: Investments promoted in countries in which Iberdrola has a presence, such as the Light for Everyone (*Luz para todos*) programme of the distributors of north-eastern Brazil, and the activities carried out by Iberdrola Ingeniería y Construcción.

__Line 3. Development of projects with a high social component, such as the development of its own projects in the areas it serves, with the support of NGOs and corporate volunteers. A cooperation agreement with the NGO Energía sin Fronteras for the study of a rural electrification model in remote areas through micronetworks in Brazil was signed in February. There is also a pilot project for the electrification of a village in Rwanda, using the school as a benchmark, carried out by Iberdrola and the Massachusetts Institute of Technology (MIT) in collaboration with Energía sin Fronteras and Instituto de Investigación Tecnológica (IIT) of Universidad de Comillas in Madrid.

As this activity cuts across three lines of action, a Chair for the Universalisation of Basic Energy Services was created with the Centre for Innovation in Technology for Human Development (*Centro de Innovación en Tecnología para el Desarrollo Humano*) of Universidad Politécnica de Madrid (ITD-UPM). Training and dissemination activities are underway within this framework, as are actions to identify possible R&D+i activities in the area of universal power services.

C4.-
Product responsibility

The aspects analysed and reported on in this chapter are the following:

Aspects of the GRI-G4 Guidelines

(those indicators that require additional information per the electric utilities sector supplement are identified with (*))

Customer health and safety (*)

Products and service labelling

Marketing communications

Customer privacy

Compliance

Specific Aspects of the GRI-G4 Electric Utilities Sector Supplement

Access to electricity

Access to adequate information

The information boundaries used in this chapter are defined in indicator G4-17 of this report.

Specific Management Approach to Product Responsibility

The most significant products that Iberdrola makes available to consumers are electricity and natural gas, which it sells on the retail markets. Although it engages in various activities through its Group, due to the nature and scope thereof, they are not significant in connection with customers for the purposes of this report.

Accordingly, the information set forth in this chapter refers to the activities of distribution and supply of electric power and gas in the retail markets in Spain, the United Kingdom, the United States of America, and Brazil, except for the specific EU30 indicator which refers to the availability factors of the production plants.

Indicator G4-17 of this report also specifies the countries in which such products are sold. The impact on the Company's customers of the activities conducted in Portugal, Germany, and France is not considered to be significant.

As a whole, the companies and affiliates of the Group covered by this report (expanded boundary) handle a total of 32.6 million energy supply points, of which 29 million correspond to electric power and 3.6 million to gas supply. This information is described by type of user in indicator EU3 of this report.

The Iberdrola Group operates with an organisational structure in which the Networks Business manages the activities of energy transmission and distribution and any other regulated activity that the Group carries out in Spain, the United Kingdom, the United States of America, and Brazil, and the Wholesale and Retail Business manages non-regulated activities in Spain, Portugal, the United Kingdom, Mexico, and continental Europe. Due to their significance, this chapter of the report includes information corresponding to the distributor companies of the Neoenergia Group in Brazil, in which Iberdrola holds a significant percentage but over which it does not have the capacity for control.

In managing these issues, Iberdrola acts in accordance with the principles described in the "General Management Approach" section of this report.

Aspect: Customer health and safety

Management Approach

Health and safety during the life cycle

All stages of the life cycles of electricity and gas are subject to a high degree of regulation because they are basic products for the development of a country's economy and because of the improvement they entail in the well-being of its citizens.

In the planning stage, the community participates through its social and political representatives in broad discussions concerning the energy model to be adopted in the country, taking into consideration economic, environmental, and health and safety aspects, as well as the reliability of supply. This generates public policies that lay the groundwork for the companies within the Iberdrola Group to adopt investment strategies that are consistent with such policies.

In the area of electricity production, the countries in which Iberdrola engages in activities have extensive environmental and labour regulations aimed at ensuring that existing risks to human health and safety remain within the regulated limits. The companies provide the information required to verify that the operating conditions established in the regulations and in the technical specifications for generation plants are observed in their construction, operation, and maintenance.

Likewise, the electricity and gas transmission and distribution stages are subject to extensive regulations governing the construction, operation, and maintenance of facilities, and therefore the companies provide the human, physical, and financial resources needed to minimise electricity risks and those associated with the handling of natural gas.

It is believed that the most effective measures to protect public health and safety in the use of electricity and gas are education and the provision of information to consumers. For that reason, Iberdrola's subsidiaries and affiliates have implemented mechanisms to inform and educate the public. These programmes and activities are described in detail in the "Provision of information" aspect in this chapter.

During all stages of the life cycles of the products it sells, Iberdrola abides by applicable law in all matters relating to the health and safety of its customers, and also voluntarily adopts various measures to improve aspects relating to product safety. In Spain, specific internal regulations are developed, such as those applicable to low voltage condenser batteries, and there are also gas maintenance operating procedures that ensure safety. In Brazil, Celpe has adopted a procedure to investigate and review electrical accidents suffered both by employees and by third parties.

Electric and magnetic fields

The influence of electric and magnetic fields on human beings has historically been a matter of public debate and the studies carried out show that, with the safety distances currently adopted in the construction of these facilities, there has been no identification of detrimental effects on human health. In this case, Iberdrola applies the precautionary principle and is willing to collaborate with the public authorities in adopting such preventive or mitigating measures as may be deemed appropriate to avoid risks or harm to health.

There are different practices relating to this issue in the various countries in which Iberdrola operates: in the United Kingdom and the United States of America, the facilities comply with applicable regulations and measurements are not taken at the facilities unless requested by the customer; during 2014, the company responded to 86 such requests in the United Kingdom.

In Spain, two reports are prepared regarding electric and magnetic fields at facilities, which are audited by Aenor. In 2014, all facilities emitted electric and magnetic fields below the maximum limits established by law.

In Brazil, there is a legal resolution that requires electromagnetic field measurements and simulations to check compliance with the established reference values. Elektro complies with this regulation and takes measurements at all its 138 kV facilities to ensure compliance with such limits. The affiliated companies Coelba, Cosern, and Celpe also take the respective measurements and no nonconformity was detected in 2014.

G4-PR1 Products and services for which health and safety impacts are assessed

The processes required for the supply of electricity and gas described in the management approach above ensure that such products arrive at the consumer with an appropriate level of assurance for their health and safety.

G4-PR2 Incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services

The table below sets forth the incidents that occurred during financial year 2014, both of them in Brazil:

Incidents stemming from non-compliance with regulations or voluntary codes (no.)	2014	2013
Expanded boundary		
Resulting in a fine	2	2
Resulting in a warning	0	2
Relating to voluntary codes	0	0
Total incidents	2	4

EU25 Injuries and fatalities to the public involving company assets

Electricity is an essential service, and to facilitate citizens' access thereto, the construction, operation, and maintenance of various infrastructure is required, which creates certain risks. These risks may at times give rise to incidents affecting citizens such as, for example, coming into unintentional contact with electricity lines or their supports, injuries due to contact with electrical wiring, etc.

The following table shows the accidents of this kind that occurred during financial year 2014: 5 of the persons who suffered accidents were in Spain, 16 in the United Kingdom, 23 in the United States of America, and 129 in Brazil. Of the fatalities recorded, 5 occurred in Spain, 2 in the United States of America, and 62 in Brazil.

Accidents of persons not belonging to the Company (no.)	2014	2013
Expanded boundary		
Accident victims	173	217
Fatalities	69	79

The claims listed in the table below have been filed against companies of the Group on these and other similar grounds not resulting in injuries and are following the relevant legal procedures applicable in each jurisdiction. At year-end 2014, there were 130 claims pending in Spain, 2 in the United Kingdom, 27 in the United States of America, and 69 in Brazil:

Legal proceedings (no.)	2014	2013
Expanded boundary		
Settled and pending, stemming from those accidents	228	254

Aspect: Product and service labelling

Management Approach
G4-PR3 Product and service information and labelling required by procedures in force and by regulations

Electricity and gas are not products that can be labelled, for which reason this aspect is not relevant for Iberdrola. The additional information that it is believed may help consumers make a more rational, efficient and safe use of these products is set forth at the end of this chapter in the "Provision of information" aspect.

G4-PR4 Incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling

The following table sets forth only one incident of this kind, which occurred in Spain during financial year 2014.

Incidents relating to information and labelling (no.)	2014	2013
Expanded boundary		
Resulting in a fine	1	2
Resulting in a warning	0	0
Relating to voluntary codes	0	0
Total incidents	1	2

G4-PR5 Surveys measuring customer satisfaction

Customer satisfaction may be considered a goal for any company, on which its very survival depends. Iberdrola is aware of this, and has various mechanisms to measure customer satisfaction levels and collect the opinions of its customers, as well as to verify compliance with quality standards within the customer service and sales channels. Thus, an annual satisfaction survey known as Voice of the Customer (*La Voz del Cliente*) was conducted in Spain and Portugal, in which the company received scores of 6.6 out of 10 in Spain and 6.88 out of 10 in Portugal with respect to the service the customer receives. The methodology used is the same as the one used for telephone interviews by a research institute on a representative sample of our customers, such that reliability levels and margins of error make the study statistically valid.

Specifically, there are satisfaction surveys in Spain for the customer service and sales channels, and for products, conducted both by third parties and internally. Generally speaking, these surveys make it possible to identify how customers assess the different stages of the service and management processes, in order to identify the areas of service that require priority action to improve customer satisfaction.

Other mechanisms are used to assess compliance with procedures and the quality of service and sale in our channels, such as the "mystery shopper" and random reviews of customer service recordings.

In the United Kingdom, ScottishPower engages in the following activities to learn the opinion of its customers: *VoC-Voice of the Customer* and *Tell the Energy People (TTEP)*. In addition, five external reviews are carried out in that regard: Which?, CSI-UK, USwitch, Nunwood Customer Experience, and UKCSI, all of them on an annual basis except the last, which is semi-annual, to measure various aspects relating to customer satisfaction.

In the United States of America, CMP, NYSEG and RGE perform two types of measurements, the first of customer satisfaction in recent transactions and the second of the consumers' perception of the companies' performance. The results of the first are compared with the regulator's objectives and with the results of other companies in the industry. The second is conducted on an annual basis, through 600 telephone interviews. Its result shows that the companies are among the 5 leading companies of the Northeast in the 3 indices derived from the 20 questions asked: customer satisfaction index, distributed energy index, and customer interaction index.

In Brazil, Elektro carries out an annual satisfaction survey for medium and high voltage customers, using the methodology established by Abradee, which assesses the quality and continuity of energy supply and customer communication. In addition, at affiliates in this country, two other surveys are conducted by Abradee and Aneel, which review various customer satisfaction attributes, in which Coelba received 76.4 and 67.63 out of 100; Celpe received 74.7 and 57.36; and Cosern received 79.2 and 66.27, respectively.

Aspect: Marketing communications

Management Approach

Iberdrola observes and abides by the laws that govern its advertising or marketing communications, and adopts mechanisms and voluntary codes that make such communications transparent and truthful. Thus, for example, in Spain Iberdrola is a member of the Association for Commercial Self-Regulation (*Asociación para la Autorregulación Comercial*) (Autocontrol), the Spanish Electronic Commerce and Relational Marketing Association (*Asociación Española de Comercio Electrónico y Marketing Relational*) (Aecem), the Spanish Advertisers' Association (*Asociación Española de Anunciantes*) (AEA) and the Marketing Association of Spain (*Asociación de Marketing de España*) (mkt), and has subscribed to their respective codes of ethical conduct, which entails a commitment to offer responsible advertising to society that complies with the codes of conduct, and accepts the decisions of an Advertising Jury (*Jurado de la Publicidad*) regarding complaints that may be filed by consumers or competitors with such body.

It has also subscribed to the *Ethical Code for Electronic Commerce and Internet Advertising* (*Código ético de comercio electrónico y publicidad en internet*), which is communicated through the inclusion of the Online Trust Mark on the Company's website, and the *Code on Self-Regulation of Environmental Claims in Marketing Communications* (*Código de autorregulación sobre argumentos ambientales en comunicaciones comerciales*) has also been signed with the Ministry of Environment and Rural and Marine Affairs. Iberdrola reviews its commitment to these codes on an annual basis.

ScottishPower complies with all the laws applicable to it on these terms, and also complies with condition SLC 25 of the supply licence which requires clarity, simplicity, and justice for customers, and has voluntarily subscribed to the *Green Supply Guidelines*, which establish the transparent and specific promotion of products affecting the environment, and also complies with the codes of advertising practice of the *Advertising Standards Authority*, ensuring that each advertisement published is approved by teams that verify compliance with good practices.

Elektro has a formal communication policy called COE-P-003, which means that marketing materials are consistent with the ethical values and principles governing Iberdrola. There are also internal rules for the preparation of marketing communications and advertising activities at the affiliates in Brazil, and the responsible advertising rules of the National Council on Advertising Self-Regulation (*Consejo Nacional de Autorregulación Publicitaria*) (Conar Statute) are followed.

G4-PR6 Sale of banned or disputed products

The products and services sold by Iberdrola are not banned in any of the markets in which it operates. As regards electricity, two aspects can be identified that have traditionally generated certain social debate: electromagnetic fields and nuclear generation. Iberdrola's management of the first is set forth in the indicator G4-PR1 of this chapter, and the second is fully covered in the "Environment" section of www.iberdrola.com.

G4-PR7 Incidents of non-compliance with regulations and voluntary codes concerning marketing communications

The incidents that occurred during financial year 2014 are set forth in the table below. Of the incidents resulting in a fine, 18 occurred in Spain and 1 in the United Kingdom.

Incidents of non-compliances concerning marketing, advertising, promotion and sponsorship (no.)	2014	2013
Expanded boundary		
Resulting in a fine	19	1
Resulting in a warning	0	0
Relating to voluntary codes	0	0
Total incidents	19	1

Aspect: Customer Privacy

Management Approach

In the countries in which the Group has a presence, the privacy of customers' personal information is protected by the mandatory application of the *Code of Ethics*, which provides that the Group shall ensure the confidentiality of its customers' data and that the acquisition, use, and processing of customers' personal data must be conducted in a manner that guarantees their right to privacy.

The Corporate Security Division is the body of the Company responsible for applying these principles, for which purpose it has engaged in a process of regularising the processing of the personal data held

by the Group: customers, employees, suppliers, and other groups, identifying the types of data and types of processing for such purpose, as well as the areas using them.

With a view to ensuring compliance with applicable requirements, the Iberdrola Group has established an internal strategy for its companies that rests on the following principles: publication of internal compliance regulations and assignment of roles and responsibilities at each organisation, in order to identify new forms of processing or changes in existing forms and to ensure compliance with established requirements.

The Corporate Security Division has also developed an awareness-raising and training plan over the years, supported by a number of specific actions integrated within the Company's training programmes, and performs monitoring activities.

In Spain, the United Kingdom, the United States of America, and Brazil, there are certain laws on this subject that the professionals of the Group must comply with, and there are appropriate processes in place for such purpose.

G4-PR8 Substantiated complaints regarding breaches of customer privacy and losses of customer data

Incidents relating to privacy (no.)	2014	2013
Expanded boundary		
From regulatory bodies	396	418
From other sources, substantiated	54	50
Total substantiated complaints	450	468

Of the claims from regulatory bodies, 18 were received in Spain, 352 in the United Kingdom, and 26 in Brazil, and of those from other sources, 12 were received in Spain, 35 in the United Kingdom, and 7 in Brazil.

During 2014, there were also 23 cases of loss of, or damage to customer data, of which 2 were in Spain and 21 in the United Kingdom.

Aspect: Compliance

G4-PR9 Significant fines for non-compliance with laws and regulations concerning the provision and use of products and services

During financial year 2014, incidents relating to indicators G4-PR2, G4-PR4, and G4-PR7, as well as other incidents relating to the distribution and retail sale of electricity, involved the following fines:

Fines imposed for distribution and retail sale of electricity and gas (€)	2014	2013
Expanded boundary		
Total fines imposed	5,680,930	7,910,693

A breakdown by geographic area of the total amount of fines imposed is as follows: Spain: 340,800 euros; United Kingdom: 3.72 euros[42]; and Brazil: 5,340,126 euros.

Electric Utilities Sector Specific Aspects

Aspect: Access

Management Approach

To facilitate access to electricity by certain groups which do not have access to power either because of their vulnerable status or because of various specific difficulties, the Company establishes programmes through its subsidiaries and affiliates that sell electric power, and determines in each case which persons are at risk or may be in a situation of vulnerability.

Programmes, including those in partnership with government, to improve or maintain access to electricity and customer support services

The Company establishes two types of programmes, depending on whether the situation in question is a situation of risk of exclusion or vulnerability or because there is no access to distribution networks. In the first case, the Company and its subsidiaries and affiliates establish special rates to facilitate access by persons with low income.

In the United Kingdom customers are identified who may be vulnerable due to age, health, disability, or other serious reasons, with procedures adopted by the company to avoid disconnections due to payment failures such as: the *No Winter disconnections*, which provides that no customer will be disconnected between November 2014 and February 2015, i.e. the months with the lowest temperatures;

42 ScottishPower reached an agreement with the regulator Ofgem for the payment of € 3.72 (£ 3) as a nominal fine, plus a payment of € 929,714 to Energy Best Deal (a citizen awareness-raising advertising campaign by Citizen's Advice) and € 2,975,084 to ScottishPower Energy Trust (which will be distributed to various foundations helping those people who cannot afford to pay gas and electricity bills).

the *Debt repayment* programme which provides that no bills will be issued to the most vulnerable customers from December until the end of February, and the *Electric Heating* programme that establishes an information protocol concerning electric power and control of expenses.

In the United States of America, there are agreements with the government to help customers at risk of exclusion and vulnerable customers, and there are specific programmes for these groups, such as the *Home Energy Assistance Program (HEAP)*, the CMP's *Electricity Lifeline Program (ELP)*, and the *Energy Assistance Program (EAP)*.

In Brazil, Elektro provides access to hospitals and health centres with discounted prices from thirty to seventy percent on energy billing. They also have programmes to procure universal access to electricity distribution. Coelba, Cosern, and Celpe have special prices and terms for persons in difficulty, and have developed projects such as *Green Energy (Energía verde)* and *Light for everyone (Luz para todos)* aimed at groups at risk of exclusion.

In Spain, there are subsidised rates (known as *Bono Social*) that are financed through the regulated costs of the electricity industry and managed by the electricity companies, which allows lower electricity prices to be applied to electricity consumers considered as vulnerable on the basis of certain determined social, consumption, and purchasing power characteristics. At the end of 2014, there were approximately 900,000 supplies with these characteristics.

In addition, Iberdrola has established various bill payment facilities for its customers, such as smoothing costs with fixed annual payments, instalment payments, advice on the best contracts depending on customers' needs, payment protection insurance, and notices in the event that non-payment is detected.

EU26 Population unserved in distribution areas

For the companies of the Iberdrola Group in Spain, the United Kingdom, and the United States of America, the electrification level covers practically the entire population. In Brazil, in the Elektro and Neoenergia distribution area (slightly over 835,000 km^2, with a resident population of slightly more than 32.2 million persons), approximately 176,000 persons do not have electricity, representing less than 1% of the population.

EU27 Residential disconnections for non-payment

The information regarding disconnections for non-payment and subsequent reconnections in accordance with the GRI structure is shown in the following table:

Residential disconnections for non-payment (no.)	2014	2013
Paid up to 48 h after disconnection	1,254,197	1,312,255
Paid between 48 h and one week after disconnection	232,862	256,729
Paid between one week and one month after disconnection	205,104	255,564
Paid between one month and one year	157,751	254,128
Paid after more than one year	24	5
Outstanding and unclassified	19,529	852,458
Total	1,869,467	2,931,139

Residential reconnections following payment of unpaid bills (no.)	2014	2013
Less than 24 h after payment	1,547,230	1,892,374
Between 24 h and one week after payment	173,820	167,803
More than one week after payment	112,929	84,770
Unclassified	70,512	767,143
Iberdrola total	1,904,491	2,912,090

Detailed information on cut-offs and reconnections in the various countries can be found in the *Information Supplementary to the Sustainability Report 2014*, available at www.iberdrola.com.

EU28 Power outage frequency

Iberdrola supplies electricity and monitors service quality in various countries. However, the measures in each company are taken according to different rules, following the respective legal requirements or customs, for which reason the Company does not currently have a homogeneous measure of service quality in the various countries in which it operates.

__Installed Capacity Equivalent Interrupt Number (Spanish acronym “NIEPI”) is used in Spain.

__Customer interruptions per 100 connected customers (“CI”) is used in the United Kingdom.

__System average interruptions frequency index (“SAIFI”) is used in the United States.

__Equivalent frequency of interruption by consumer unit (Portuguese acronym “FEC”) is used in Brazil.

The figures are as follows:

Year	Spain	United Kingdom	United States	Brazil[43]
	NIEPI	CI[44]	SAIFI	FEC
2014	1.07	48.0	1.23	7.62
2013	1.20	44.0	1.24	7.64

EU29 Average power outage duration

Similarly to the preceding section:

__Installed Capacity Equivalent Interrupt Time (Spanish acronym “TIEPI”) is used in Spain.

__Customer minutes lost per connected customers (“CML”) is used in the United Kingdom.

__Customer average interruption duration index (“CAIDI”) is used in the United States.

__Equivalent duration of interruption by consumer unit (Portuguese acronym “DEC”) is used in Brazil.

The figures are as follows:

Year	Spain	United Kingdom	United States	Brazil[43]
	TIEPI	CML[44]	CAIDI	DEC
2014	55.7 min	44.0 min	1.89 h	19.93 h
2013	62.4 min	44.0 min	2.47 h	18.61 h

43 Elektro and Neoenergia.

44 Measurement period from April to March.

EU30 Average plant availability

The following table shows the average availability of the Company's various production technologies during financial year 2014.

Average availability factor	2014	2013
Expanded boundary		
Conventional thermal	80.91	85.53
Combined cycles	91.89	90.67
Cogeneration	95.51	91.24
Nuclear	92.69	88.96
Hydroelectric	84.91	86.78
Mini-hydro	94.36	96.69
Wind	96.70	97.29
Biomass	0.00	0.00
Total	**88.70**	**91.49**

Information on the availability factors in the various countries is described in the *Information Supplementary to the Sustainability Report 2014*, available at www.iberdrola.com.

Aspect: Provision of information

Management Approach

The Iberdrola Group's distribution and supply companies develop various initiatives to make communication with customers having specific difficulties, whether idiomatic or sensory, simpler and more agile.

Apart from commercial information, the safety of users of the electricity grid, or the promotion of the efficient use of energy, whether by customers, employees, contractors, schools, etc., is an ongoing concern at the subsidiaries and affiliates of the Group. To progress in these areas, information and training plans, programmes, and activities are developed in each geographic area.

Accessibility of information

In Spain, to facilitate customer access to the information they need, they are allowed to choose the language in which they would like to be addressed by customer service and in which they would like to receive their bill, and the customer area of the website is accessible in Spanish, Basque, and English, with other languages expected to be added in the future. Documents are currently issued in nine languages in addition to Spanish; four Autonomous Community languages: Basque, Galician, Valencian, and Catalan, as well as the five main European languages: German, French, English, Portuguese, and Italian.

Iberdrola is the only company in the energy industry that offers sign language video-interpreting in the customer service area. This initiative arises from the collaboration agreement signed between Iberdrola and Fundación CNSE in 2012, and renewed in 2014. In this way, persons who are deaf or hard of hearing can contact the Company through sign language interpreters. The corporate website has a *Double-A Technosite* + *Euracert WCAG 1.0* certificate for compliance with the W3C-WAI's web content accessibility guidelines 1.0, and complies with the guidelines required to satisfy the UNE 139803:2004 Standard established by Royal Decree 1494/2007 governing the degree of accessibility applicable to the websites of public utilities. To ensure that the website meets the relevant accessibility requirements, audits are performed on a half-yearly basis.

During this year, the Iberdrola Clientes application for *iPhone* and *Android* was developed which includes product information and functions of the virtual Office developed for residential customers and SMEs, in addition to contact channels.

In the United Kingdom, ScottishPower provides the necessary mechanisms to communicate effectively with customers who choose Welsh as the language in which they wish to receive service. There is a translation service to facilitate communications in cases where customers find it difficult to make themselves understood in English. In addition, the *Carefree Scheme* continued in effect during 2014, offering a variety of services to customers who are visually or hearing impaired, suffer from chronic illness, or are over sixty years old. This service includes the provision of bills in Braille, large print, compact disc, and audio cassette format.

The North American company NYSEG has a special "Customer Advocates" service to help people with special needs, which helps them to choose services that might be useful, and this company and RG&E make interpreters available for persons who request information in a language other than English.

In Brazil, Elektro, Celpe, Coelba, and Cosern develop improvements in physical accessibility at customer service locations and preferential treatment for persons with different abilities. They also implement programmes to provide service, information, and access to billing to persons with visual and hearing impairments, which include: accessible websites, bills in Braille, a dedicated phone line for service to the hard of hearing, special documentation and signage, and employees trained in sign language are also available.

Education in the safe use of electricity

The corporate website, as well as the websites of the companies of the Iberdrola Group, make available to consumers recommendations and information regarding the most significant aspects relating to safety and offer advice for the safe use of electricity, as well as guidelines to follow in case of an electrical accident. They also publish informational booklets regarding the potential risks of electricity impacting the proper use thereof.

In Spain, Iberdrola promotes informational and educational campaigns on safety measures and energy saving directed towards the general public, such as the Iberdrola Bus, which received 113,206 visits in 2014. It also collaborates with consumer associations and special groups such as those for disabled or disadvantaged persons or persons at risk of social exclusion, in order to contribute to equality, removing communication barriers on matters relating to safety, training, and education. Through its customer profile on Twitter (@Tulberdrola), Iberdrola also spreads information messages regarding safety and energy savings, prepared in an accessible manner to ensure that they may also be read by persons who are visually impaired.

In the United States of America, a great deal of information and recommendations are provided both through the website as well as on the back of bills regarding how to act in an emergency, such as severely adverse weather, poisoning, and health risks, as well as safety advice in case of storms or outages causing lines or equipment to fall, both through the Internet and through other publications.

In 2014 ScottishPower carried out extensive campaigns to promote electrical safety in the United Kingdom, developing programmes such as the *PowerWise Classroom Education Programme* and explanatory visits on the safe use of facilities: *DangerPoint* and *The Risk Factor* in Wales and Scotland, respectively, which reached more than 39,000 children; in addition, 204 safety “packs” were delivered to schools. Participation was also considerable and higher than last year at the Royal Highland Show, attended by 178,000 people, where presentations were made that focused on improving safety in the use of electricity.

User safety is also an ongoing concern in Brazil. At Elektro, this information is provided on the bill, on the company’s website, to new customers, and messages on safe use are even used while on hold with the call centre, so as to reach all customers. At the affiliated companies Coelba, Cosern and Celpe, numerous programmes were implemented throughout the year to achieve improved use of electricity, such as the National Electric Power Safety Week (*Semana Nacional de Segurança com Energia Elétrica*), the Celpe Safety Week (*Semana de Segurança Celpe*), with 2,400 participants, and numerous training actions and dissemination and education campaigns on the safe use of electricity.

In addition to relations with customers and information on the safe use of electricity, the Company also carries out initiatives to promote energy efficiency.

During 2014 Iberdrola and the Basque government developed a new website within the framework of Bidelek Sareak, to raise awareness on the importance of optimising energy consumption; this project entails a joint investment of 60 million euros, as well as the adjustment of 1,300 transformer centres, where cutting-edge technology equipment will be introduced and more than 250,000 meters will be installed.

Iberdrola in Spain and CMP, NYSEG, and RG&E in the United States of America have developed various tools that they have made available to their customers through the websites so that they can compare prices and consumption and efficiently use energy management.

Elektro, through various efficiency programmes with the Brazilian regulator Aneel, has directed its efficiency initiatives to educational projects for training teachers and energy managers and to replacement with more efficient household appliances and light bulbs. Also in Brazil, Coelba, Cosern, and Celp engage in initiatives directed towards more than two million potential customers that involve assistance in acquiring equipment for homes, including actions to provide ten thousand educational primers in the *Cosem Circuit for the safe and efficient use of energy* (*Circuito Cosern de uso seguro e eficiente de energía*) and the development of the two *Celpe Spaces* (*Espaços Celpe*) for guidance and education on energy efficiency.

Annex

Annex 1
GRI Content Index

External assurance: The contents of this index have been externally assured by an independent entity. The corresponding assurance report can be found in Annex 3 of this document.

Electric Utilities Sector Supplement *This index incorporates the aspects and indicators of such supplement, published by GRI in 2014 and adapted to G4. The symbol * indicates those general basic contents and aspects of GRI-G4 where specific sector information is requested.*

Part I. General Standard Disclosures

Description		Page	External assurance
1.- Strategy and Analysis			
G4-1	Statement from the most senior decision-maker	13	✓
G4-2	Key impacts, risks, and opportunities	17	✓
2.- Organisational Profile*			
G4-3	Name	21	✓
G4-4	Primary brands, products, and services	21	✓
G4-5	Headquarters	22	✓
G4-6	Countries where there are relevant operations	22	✓
G4-7	Nature of ownership and legal form	22	✓
G4-8	Markets served	23	✓
G4-9	Main Indicators	23	✓
G4-10*	Workforce	26	✓
G4-11*	Employees covered by collective bargaining agreements	27	✓
G4-12	Description of supply chain	27	✓
G4-13	Significant changes during the financial year	32	✓
G4-14	Precautionary principle	33	✓
G4-15	Externally developed principles or initiatives to which the organisation subscribes or which it endorses	34	✓
G4-16	Principal associations to which the organisation belongs	35	✓
EU1*	Installed capacity	38	✓
EU2*	Energy output	38	✓

Part I. General Standard Disclosures

Description		Page	External assurance
EU3*	Electricity users and producers	39	✓
EU4*	Transmission and distribution lines	40	✓
EU5*	Allocation of CO_2 emissions allowances or equivalent	40	✓
3.- Material Aspects and Boundaries			
G4-17	Entities included in the organisation's consolidated financial statements and in the boundary of this report	42	✓
G4-18	Process for defining the report content and the Aspect Boundaries and implementation of the GRI principles	49	✓
G4-19	Material Aspects Identified	49	✓
G4-20	Aspect Boundary within the organisation	49	✓
G4-21	Aspect Boundary outside the organisation	49	✓
G4-22	Restatements of information provided in previous reports	52	✓
G4-23	Significant changes in the Scope and Aspect boundaries	52	✓
4.- Stakeholder Engagement			
G4-24	Stakeholder groups engaged by the organisation	54	✓
G4-25	Basis for selection of stakeholders	54	✓
G4-26	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	55	✓
G4-27	Key topics and concerns that have been raised through stakeholder engagement	57	✓
5.- Report Profile			
G4-28	Reporting period	61	✓
G4-29	Date of previous report	61	✓
G4-30	Reporting cycle	61	✓
G4-31	Contact point for questions regarding the report	61	✓
G4-32	GRI Index with respect to the 'in accordance' option chosen	61	✓
G4-33	External assurance for the report	61	✓
6.- Governance			
G4-34	Governance structure	63	✓
G4-35	Delegation of authority from highest governance body to senior executives and other employees	66	✓

Part I. General Standard Disclosures

Description		Page	External assurance
G4-36	Executive-level positions with responsibility for economic, social, and environmental topics	66	✓
G4-37	Processes for consultation between stakeholders and the Board of Directors	66	✓
G4-38	Composition of the highest governance body	68	✓
G4-39	State whether the chair of the highest governance body is also an executive officer and the reasons for this arrangement	69	✓
G4-40	Selection and nomination of the members of the highest governance body	69	✓
G4-41	Processes for the highest governance body to ensure conflicts are avoided	70	✓
G4-42	Highest governance body's and senior executives' roles in the development, approval, and updating of the organisation's vision, mission, values, strategies, policies, and goals	71	✓
G4-43	Highest governance body's knowledge of economic, environmental, and social topics	73	✓
G4-44	Highest governance body's performance	74	✓
G4-45	Processes of the highest governance body to supervise the identification and management of economic, environmental, and social performance, as well as its role in the implementation of due diligence processes and in stakeholder consultations	74	✓
G4-46	Highest governance body's role in reviewing the effectiveness of the management of economic, environmental, and social risks and opportunities	75	✓
G4-47	Frequency of the highest governance body's review of economic, environmental, and social impacts, risks, and opportunities	75	✓
G4-48	Highest body that reviews and approves the report	75	✓
G4-49	Process for communicating critical concerns to the highest governance body	75	✓
G4-50	Critical concerns communicated to the highest governance body	75	✓
G4-51	Remuneration policies for the highest governance body and senior executives, as well as the relationship to economic, environmental, and social performance	76	✓
G4-52	Process for determining remuneration of the highest governance body and senior executives, stating whether independent consultants are involved	77	✓
G4-53	Report how stakeholders' views are sought and taken into account regarding remuneration	77	✓
G4-54	Ratio of compensation at the organisation	78	✓
G4-55	Increase in compensation at the organisation	78	✓

Part I. General Standard Disclosures

Description		Page	External assurance
7.-Ethics and Integrity			
G4-56	Description of values, principles, standards, and norms of behaviour such as codes of conduct and codes of ethics	80	✓
G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behaviour	81	✓
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organisational integrity	81	✓

Part II. Specific Standard Disclosures

General management approach, applicable to all aspects of this report		86		✓
Economic dimension				
Material aspects identified	**Disclosures on management approach and corresponding indicators**	**Page**	**Omissions**	**External assurance**
Aspects of the GRI-G4 Guidelines				
Economic Performance	From G4-EC1 through G4-EC4	91		✓
Market Presence	From G4-EC5 through G4-EC6	96		✓
Indirect Economic Impacts	G4-EC7 and G4-EC8	97		✓
Procurement Practices	G4-EC9	100		✓
Specific Aspects of the GRI-G4 Electric Utilities Sector Supplement				
Availability and Reliability	EU10	101		✓
Efficiency	EU11 and EU12	101		✓
Demand-Side Management	No specific indicators	104		✓
Research and Development	No specific indicators	106		✓
Decommissioning of Nuclear Plants	No specific indicators	109		✓
Specific Aspect of the Iberdrola Group				
Supply Costs		110		✓
Green Bonds		112		✓

Environmental dimension				
Material aspects identified	**Disclosures on management approach and corresponding indicators**	**Page**	**Omissions**	**External assurance**
Specific Management Approach to the Environmental Dimension		115		✓
Aspects of the GRI-G4 Guidelines				
Materials *	G4-EN1 and G4-EN2	116		✓
Energy	From G4-EN3 through G4-EN7	120		✓
Water *	From G4-EN8 through G4-EN10	127		✓
Biodiversity *	From G4-EN11 through G4-EN14 EU13	132		✓
Emissions *	From G4-EN15 through G4-EN21	141		✓
Effluents and Waste *	From G4-EN22 through G4-EN26	150		✓
Products and Services	G4-EN27 and G4-EN28	156		✓
Compliance	G4-EN29	157		✓
Transport of Persons and Products	G4-EN30	158		✓
Expenditures and Investments	G4-EN31	158		✓
Supplier Environmental Assessment	G4-EN32 and G4-EN33	160		✓
Environmental Grievance Mechanisms	G4-EN34	161		✓

Social dimension				
Labour practices and decent work				
Material aspects identified	**Disclosures on management approach and corresponding indicators**	**Page**	**Omissions**	**External assurance**
Specific Management Approach to Labour Practices and Decent Work		165		✓
Aspects of the GRI-G4 Guidelines				
Employment *	From G4-LA 1 through G4-LA3 EU15, EU17 and EU18	165		✓
Labour/management relations	G4-LA4	165		✓
Occupational Health and Safety *	From G4-LA5 through G4-LA8	170		✓
Training and education	From G4-LA9 through G4-LA11	179		✓
Diversity and equal opportunity	G4-LA12	184		✓
Equal remuneration for women and men	G4-LA13	184		✓
Supplier assessment for labour practices	G4-LA14 and G4-LA15	188		✓
Labour Practices Grievance Mechanisms	G4-LA16	188		✓
Human rights				
Material aspects identified	**Disclosures on management approach and corresponding indicators**	**Page**	**Omissions**	**External assurance**
Specific Management Approach to Human Rights		190		✓
Aspects of the GRI-G4 Guidelines				
Investment	G4-HR1 and G4-HR2	190		✓
Non-discrimination	G4-HR3	191		✓
Freedom of Association and Collective Bargaining *	G4-HR4	192		✓

Child labour	G4-HR5	192		✓
Forced labour	G4-HR6	192		✓
Security practices	G4-HR7	193		✓
Indigenous rights	G4-HR8	194		✓
Assessment of impact on human rights	G4-HR9	195		✓
Supplier human rights assessment	G4-HR10 and G4-HR11	195		✓
Human Rights Grievance Mechanisms	G4-HR12	197		✓
Specific Aspects of the Iberdrola Group				
Iberdrola and the Global Compact		197		✓

Society

Material aspects identified	Disclosures on management approach and corresponding indicators	Page	Omissions	External assurance
Aspects of the GRI-G4 Guidelines				
Local Communities *	G4-SO1 and G4-SO2 EU22	199		✓
Anti-corruption	From G4-SO3 through G4-SO5	204		✓
Public policy	G4-SO6	208		✓
Anti-competitive practices	G4-SO7	210		✓
Compliance	G4-SO8	213		✓
Supplier assessment for impacts on society	G4-SO9 and G4-SO10	213		✓
Grievance Mechanisms for impacts on Society	G4-SO11	216		✓

Specific Aspects of the GRI-G4 Electric Utilities Sector Supplement				
Disaster/emergency planning and response	No specific indicators	217		✓
Specific Aspect of the Iberdrola Group				
Iberdrola's contribution to the community		218		✓

Product responsibility				
Material aspects identified	**Disclosures on management approach and corresponding indicators**	**Page**	**Omissions**	**External assurance**
Specific Management Approach to Product Responsibility		229		✓
Aspects of the GRI-G4 Guidelines				
Customer Health and Safety *	G4-PR1 and G4-PR2 EU25	229		✓
Products and service labelling	From G4-PR3 through G4-PR5	232		✓
Marketing communications	G4-PR6 and G4-PR7	234		✓
Customer privacy	G4-PR8	235		✓
Compliance	G4-PR9	237		✓
Specific Aspects of the GRI-G4 Electric Utilities Sector Supplement				
Access to electricity	From EU26 through EU30	237		✓
Access to adequate information	No specific indicators	241		✓

Annex 2

Content Index in relation to the Principles of the Global Compact

The table below shows the GRI indicators of this report that offer more relevant information on compliance with the 10 Principles of the Global Compact, as well as the content of the management approaches to each GRI aspect. Using the table's index, each stakeholder can assess the level of Iberdrola's advancement with respect to each of such principles:

Issue	Global Compact Principles	Most relevant GRI-G4 Indicators
Human Rights	Principle 1. Businesses should support and respect the protection of internationally proclaimed human rights.	G4-HR2, G4-HR7 through G4-HR9, G4-HR12 G4-SO1, G4-SO2
	Principle 2. Businesses should make sure they are not complicit in human rights abuses.	G4-HR1, G4-HR10, G4-HR11
Labour Rules	Principle 3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	G4-11 G4-HR4 G4-LA4
	Principle 4. Businesses should uphold the elimination of all forms of forced and compulsory labour.	G4-HR6
	Principle 5. Businesses should uphold the effective abolition of child labour.	G4-HR5
	Principle 6. Businesses should uphold the elimination of discrimination in respect of employment and occupation.	G4-10 G4-EC5, G4-EC6 G4-LA1, G4-LA3, G4-LA9, G4-LA11 through G4-LA13 G4-HR3
Environment	Principle 7. Businesses should support a precautionary approach to environmental challenges.	G4-EC2 G4-EN1, G4-EN3, G4-EN8, G4-EN15 through G4-EN17, G4-EN20, G4-EN21, G4-EN27 G4-EN31
	Principle 8. Businesses should undertake initiatives to promote greater environmental responsibility.	G4-EN1 through G4-EN34
	Principle 9. Businesses should encourage the development and diffusion of environmentally friendly technologies.	G4-EN6, G4-EN7, G4-EN19, G4-EN27, G4-EN31
Anti-corruption	Principle 10. Businesses should work against corruption in all its forms, including extortion and bribery.	G4-56 through G4-58 G4-SO3 through G4-SO6

Annex 3

Green Bond Returns Report

Iberdrola issued its first Green Bond on 24 April 2014.

The Green Bond proceeds were used to refinance previous investments in projects which meet a set of environmental and social criteria approved both by Iberdrola and Vigeo (an independent party) in Renewable energy, Transmission, Distribution and Smartgrids.

The characteristics of the Green Bond were as follows:

Green Bond	
ISIN	XS1057055060
Nominal	EUR 750 million
Maturity	October 2022
Coupon	2.50 %

The refinancing was executed through a liability management exercise whereby the Green Bond was exchanged by bonds issued in 2005, 2010 and 2011 (the "Old Bonds"), for amounts of €320.2mn, €277.4mn and €152.2mn, respectively. Those funds had been invested in projects in 2006, 2011 and 2012.

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

Vigeo's conclusions, including the eligibility criteria, are described at the "*Second Party Opinion*", which is available at www.ilberdrola.es/webibd/gc/prod/es/doc/bono_verde.pdf.

The following charts show the funds allocation:

Funds allocation (€ mn)

Year	2006	2011	2012	Total
Renewables	320.9	170.80	86.2	577.9
Distribution	0	94.8	0	94.8
Smartgrids	0	23	54.3	77.3
Total	320.9	288.6	140.5	750.0

Investments in distribution and smartgrids

Year	Type of project	Name of the project	Location
2011	Distribution	Conexión de generación Renovable en Escocia	United Kingdom
2011	Distribution	Refuerzo conexión internacional en Escocia	United Kingdom
2011	Distribution	Conexión Plan Fotovoltaico Castilla - La Mancha	Spain
2011	Distribution-smartgrids	Proyecto STAR	Spain
2012	Distribution-smartgrids	Proyecto STAR	Spain

Investments in renewables

Year	Technology	Name of the project	Location	Installed capacity (MW)
2006	Wind *onshore*	Pico Collalbas	Spain	30
2006	Wind *onshore*	Carrascosa	Spain	38
2006	Wind *onshore*	Sierra Menera	Spain	40
2006	Wind *onshore*	Clares	Spain	32
2006	Wind *onshore*	Escalón	Spain	30
2006	Wind *onshore*	Tarayuela	Spain	30
2006	Wind *onshore*	Morón de Almazán	Spain	50

Investments in renewables

Year	Technology	Name of the project	Location	Installed capacity (MW)
2006	Wind *onshore*	Los Campillos	Spain	34
2006	Wind *onshore*	Dólar I	Spain	49.5
2006	Wind *onshore*	Dólar III	Spain	49.5
2006	Wind *onshore*	Doña Benita	Spain	32
2006	Wind *onshore*	Ferreira II	Spain	49.5
2006	Wind *onshore*	Hueneja	Spain	49.5
2006	Wind *onshore*	Sil Ampliación	Spain	40
2006	Wind *onshore*	O Vieiro	Spain	19.6
2006	Wind *onshore*	Luzón-Norte	Spain	38
2006	Wind *onshore*	Bordecorex Norte	Spain	44
2006	Wind *onshore*	Cerro Blanco	Spain	42
2006	Wind *onshore*	Grijota	Spain	5
2006	Wind *onshore*	Cabezuelo	Spain	30
2011	Wind *onshore*	Mark Hill	United Kingdom	56
2011	Wind *onshore*	Collados	Spain	11
2011	Wind onshore	Fuentesalada	Spain	46.4
2011	Wind *onshore*	Cruz de Carrutero	Spain	40
2012	Wind *onshore*	Cabras	Spain	22
2012	Wind *onshore*	Ventosa del Ducado	Spain	44
2012	Wind *onshore*	Layna	Spain	50

Previous elegible projects were reviewed by Vigeo through the analysis of a sample, representing around 50% of the nominal value of the Old Bonds so exchanged and amortized together with Vigeo Rating's analysis of Iberdrola's sustainability policies and practices since 2005. Vigeo considered Iberdrola to have achieved a satisfactory level of assurance.

Additionally to the disclosure of the funds allocation, Iberdrola committed to:

i. inform about the fulfilment of the eligibility criteria in case of new investments; and
ii. report annually about the ESG impact of the invested portfolio of eligible assets. This report would be included as an annex in the Sustainability Report, which is subject to third party verification.

The following charts describe some of the ESG benefits obtained by the mentioned investments.

Investments in renewables

Name of the project	Capacity additions for the investment plan period (MW)
Conexión Plan Fotovoltaico Castilla - La Mancha	604
Conexión de generación Renovable en Escocia	2,167
Refuerzo conexión internacional en Escocia	6,640

Sustainability indicators for smartgrids

Proyecto Star	2011 situation	2012 situation
Installed smartmeters (no.)	154,428	449,441
Installed smartmeters (%)	1.44	4.16
Secondary Substations adapted to smartmetering (no.)	583	2,692
Secondary Substations adapted to smartmetering (%)	0.88	4.01

Sustainability indicators as per the investments in renewables financed by the Green Bond

Technology	Installed capacity (MW)	2014 output (GWH)	CO_2 avoided[45] (t)
Wind *onshore*	1,002	2,169	681,953

45 The CO_2 avoided has been calculated with the Emission Factor of the country where the windfarms are located. Source: *CO_2 Report, emissions from fuel combustion 2014 edition* by the Energy International Agency. 2012 Factors.

Green Bond Independent External Verification Report

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Independent Review Report for IBERDROLA, S.A. management

(Translation from the original in Spanish.
In the event of discrepancy, the Spanish-language version prevails.)

Background

In April 2014, IBERDROLA, S.A. (hereinafter IBERDROLA) issued the corporate bond ISIN XS1057055060. In the information provided to the market, IBERDROLA committed to publish annual information regarding the social and environmental benefits of the investment, which IBERDROLA considers to be those described in "Annex 3: Green Bond Returns Report" to IBERDROLA's Sustainability Report for the year ended 31 December 2014, a copy of which accompanies this report.

IBERDROLA management has requested that we review the indicators for the tonnes of CO_2 avoided the number of smartmeters installed, the number of Secondary Substations adapted to smartmetering and Capacity additions for the investment plan period (MW) contained in "Annex 3: Green Bond Returns Report".

Responsibilities of IBERDROLA management

IBERDROLA management is responsible for preparing and publishing "Annex 3: Green Bond Returns Report" in accordance with the principles of the Global Reporting Initiative's G4 Sustainability Reporting Guidelines relating to the completeness, accuracy and clarity of the information for stakeholders, as indicated in the "Second party opinion on Iberdrola's Green Bond" document, which can be downloaded from www.iIberdrola.es/webibd/gc/prod/es/doc/bono_verde.pdf. The opinion describes the criteria for eligibility of projects and the environmental and social performance indicators used in relation to the impact of the investment. Management is also responsible for the information and statements contained in "Annex 3: Green Bond Returns Report" and for establishing and maintaining the systems for monitoring and managing performance from which the information is obtained.

Our responsibility

Our responsibility is to perform a limited review and to issue an independent report based on the work performed and evidence obtained. We conducted our work in accordance with the ISAE 3000 standard Assurance Engagements Other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). This standard requires that we plan and perform our work to obtain limited assurance about whether the information included in "Annex 3: Green Bond Returns Report" is free from material misstatement. The standard also requires that we comply with ethical requirements, including those related to independence, as stipulated in the International Ethics Standards Board for Accountants Code of Ethics.

The level of assurance provided by ISAE 3000 is limited. The scope of the review for a limited assurance engagement is less than for a reasonable assurance engagement, and as a result the level of assurance is also lower. However, we believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion. This report must not be considered an auditor's report.

Work performed

Our review work entailed making inquiries of management, primarily the persons responsible for preparing the information included in "Annex 3: Green Bond Returns Report", and applying analytical and other procedures aimed at compiling evidence. During the engagement we performed the following procedures:

- Risk analysis relating to the information contained in "Annex 3: Green Bonds Return Report" and verification of compliance with the principles established by GRI with regard to the information required for the indicators reviewed, referring to tonnes of CO_2 avoided, the number of smartmeters installed, the number of Secondary Substations adapted to smartmetering and Capacity additions for the investment .
- Interviews with the IBERDROLA personnel responsible for providing the information contained in "Annex 3: Green Bond Returns Report".
- Analysis of the processes for gathering the quantitative data reflected in "Annex 3: Green Bond Returns Report" and the associated internal control processes, in relation to the indicators for tonnes of CO_2 avoided the number of smartmeters installed, the number Secondary Substations adapted to smartmetering and Capacity additions for the investment plan period (MW). This procedure included an assessment of the reliability of the information using analytical procedures and sample-based reviews.

Conclusion

Based on the procedures performed, as described above, no matters have come to light that lead us to believe that the information referred to in the environmental and social performance indicators, namely:

- Tonnes of CO_2 avoided
- The number of smart meters installed
- The number of Secondary Substations adapted to smartmetering
- The Capacity additions for the investment plan period (MW) as contained in "Annex 3: Green Bond Returns Report" to IBERDROLA's Sustainability Report for the year ended 31 December 2014, was not obtained in a reliable manner, is not presented appropriately, or that any significant deviations or omissions exist therein.

KPMG Asesores, S.L.

(Signed)

José Luis Blasco Vázquez

18 February 2015

Annex 4

Independent External Verification of the Sustainability Report

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Independent Assurance Report to the Management of IBERDROLA, S.A.

(Free translation from the original in Spanish.
In case of discrepancy, the Spanish language version prevails.)

We performed a limited assurance review on the non-financial information contained in IBERDROLA S.A., (hereinafter IBERDROLA) Sustainability Report for the year ended 31 December 2014 ('the Report'). The revised information corresponds to the contents of Annex 1: Table of contents GRI, of this Report.

Management is responsible for the preparation and presentation of the Report in accordance with the Sustainability Reporting Guidelines version 4.0 (G4) as detailed in item G4-32 of the Report. Management is also responsible for the information and assertions contained within the Report; for the implementation of processes and procedures which adhere to the principles set out in the AA1000 AccountAbility Principles Standard 2008 (AA1000APS); for determining IBERDROLA's objectives in respect of sustainable development performance and reporting, including the identification of stakeholders, their material issues and the organisation's responses to these; and for establishing and maintaining appropriate performance management and internal control systems from which the reported performance information is derived.

Our responsibility is to carry out a limited assurance engagement and to issue, based on the work performed an independent report. We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements other than Audits or Reviews of Historical Financial Information", issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants and also in accordance with the guidance set out by the Accountants Institute of Spain (*Instituto de Censores Jurados de Cuentas de España*). These standards require that we plan and perform the engagement to obtain limited assurance about whether the Report is free from material misstatement and that we comply with the independence requirements included in the International Ethics Standards Board for Accountants Code of Ethics which outlines detailed requirements regarding integrity, objectivity, confidentiality and professional qualifications and conduct. This report should not be considered an audit report. We have also conducted our engagement in accordance with AA1000 Accountability Assurance Standard 2008 (AA1000AS) (Type 2), which covers not only the nature and extent of the organisation's adherence to the AA1000APS, but also evaluates the reliability of performance information as indicated in the scope.

A limited assurance engagement on a sustainability report consists of making inquiries to Management, primarily to people responsible for the preparation of the information presented in the sustainability report, and applying analytical and other evidence gathering procedures, as appropriate and which as, in this case, are less than those applied in a reasonable assurance engagement. In carrying out our review, we have included the following procedures:

- Risk analysis, including media search to identify material issues during the period covered by the Report.
- Verifying the consistency of the information that responds to the General Basic Contents with internal systems or documentation.
- Inquiries of Management to gain an understanding of IBERDROLA's processes for determining the material issues for their key stakeholder groups.

- Interviews with relevant staff concerning IBERDROLA's policy and strategy application on sustainability, governance, ethics and integrity.
- Interviews with relevant staff responsible for providing the information in the Report.
- Analysing the processes of compiling and internal control over quantitative data reflected in the Report and verifying the reliability of the information using analytical procedures and review testing based on sampling.
- Reviewing the application of the requirements established in the Sustainability Reporting Guidelines G4 of the Global Reporting Initiative for the preparation of reports in accordance with comprehensive option.
- Reading the information presented in the Report to determine whether it is in line with our overall knowledge of, and experience with, the sustainability performance of IBERDROLA.
- Checking that the financial information reflected in the Report has been audited by independent third parties.

Our multidisciplinary team included specialists in AA1000APS, stakeholder dialogue, social, environmental and economic business aspects.

Based on the procedures performed, as described above, nothing has come to our attention that causes us to believe that the data included in the Sustainability Report of IBERDROLA S.A. for the year ended 31 December 2014 has not been reliably obtained, that the information has not been fairly presented, or that significant discrepancies or omissions exist, nor that the Report is not prepared, in all material respects, in accordance with the Sustainability Reporting Guidelines of the Global Reporting Initiative version 4.0 as detailed in item G4-32 of the Report. Additionally and also based on the procedures performed, as described above, nothing has come to our attention that causes us to believe that IBERDROLA S.A. has not applied the principles of inclusivity, relevance and responsiveness as included in the AA1000 AccountAbility Principles Standard 2008 as detailed in items G4-26 and G4-27 of the Sustainability Report.

Under separate cover, we will provide IBERDROLA management with an internal report outlining our complete findings and areas for improvement. Without prejudice to our conclusions presented above, we present some of the key observations and areas for improvement below:

In relation to the INCLUSIVITY principle

Following AA 1000 APS standard implementation programme, during 2014 and in accordance with the structure of Global Businesses and a single Corporation, IBERDROLA has consolidated their processes of stakeholder engagement at both corporate and local level in the Generation and Commercialisation businesses, as well as in the Networks business in Spain, United Kingdom, United States of America and Brazil. At the same time, during this year, the client's involvement in Engineering and Construction businesses that were implemented in 2013 have been consolidated. The stakeholder's participation process has been totally implemented in all the countries where the Renewables business operates. In relation to this principle, it is recommended that IBERDROLA should review at least annually the stakeholder subgroup identification, periodically review the participation and communication channels opened to stakeholders and continue with the issuance, of the "AA 1000 APS compliance report" summarising the results raised by the different stakeholders groups via the different participation channels.

In relation to the RELEVANCE principle

As a result of the effective implementation of the participation and dialog processes, both at corporate and business level, during 2014 relevant issues for IBERDROLA's stakeholders have been identified at local level. This analysis is completed with the one conducted through indirect sources such as the Dow Jones Sustainability Index, the Carbon Disclosure Project, the Materiality analysis, etc. A process has been setup to inform all organizational levels, about the results regarding the identification and prioritization of relevant issues. It is recommended that IBERDROLA continue working on the established path, to ensure the continued review of the issues identified and prioritized at all organisational levels.

In relation to the RESPONSIVENESS principle

During 2014, considering the company's overall strategy, information at all levels has been provided about the actions taken through plans and programs established by the various businesses and corporate offices, to address the relevant matters identified. The designed responses are also communicated to stakeholders directly, through the dialogue channels established with them according to the circumstances of each business environment and each corporate area, and indirectly, through the various public information reports, such as the Sustainability Report, the Integrated Report or the Corporate website. It is recommended that IBERDROLA continue improving the effective establishment of goals and targets at all levels, to enable tracking and assessing progress and effectiveness of the designed responses.

KPMG Asesores, S.L.

(Signed)

José Luis Blasco Vázquez

AA1000 Licensed Assurance Provider 000-38

18 February 2015


IBERDROLA