IBERDROLA

Sustainability Report / 2016

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External Evaluations of the Iberdrola Group

Indices and studies	Iberdrola's ranking
MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM	2016 world leader in utilities sector, with 91 points. Selected in all prior years.
GLOBAL100	Selected in 2017. Only Spanish electric company among the 100 most sustainable companies in the world.
FTSE4Good	First utility with nuclear assets to meet standards, selected for 6 years in a row.
CDP A LIST 2016 CLIMATE	CDP Climate Change. A-List, the highest category.
CDP A LIST 2016 CLIMATE	CDP Supply-Chain. A-List, the highest category.
GLOBAL ROUNDTABLE ON CLIMATE CHANGE	Iberdrola among the promoters.
MSCI	Iberdrola selected AAA.
NYSE EURONEXT	Iberdrola selected.
ROBECOSAM Sustainability Award Gold Class 2017	Classified as "Gold Class" in the electricity sector.
2016 GREEN Newsweek RANKINGS	Iberdrola first Spanish utility and fifth worldwide.
merco	Leader among Spanish utilities: electricity, gas, and water.
CAL boardroom BEST CORPORATE GOVERNANCE "UTILITIES" EUROPE 2016	Best European utility for its good corporate governance practices.
Environmental Tracking Carbon Rankings	Iberdrola selected.
2016 WORLD'S MOST ETHICAL COMPANIES WWW.ETHISPHERE.COM	Iberdrola selected. Only Spanish utility.
FORTUNE GLOBAL 500	Iberdrola selected.
STOXX	Iberdrola selected.
Asociación Española de Accionistas Minoritarios de Empresas Cotizadas	Best initiative in favour of minority shareholders.
InfluenceMap	Iberdrola among top 25 scoring companies.

General Contents

Presentation

As is the custom each year, Iberdrola hereby presents its *Sustainability Report*, in this case for financial year 2016, which was approved by its Board of Directors at its meeting of 21 February 2017, 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 2016, in compliance with the commitments assumed in its corporate policies: the *General Corporate Social Responsibility Policy* and the *Stakeholder Relations Policy*.

Readers of this *Sustainability Report 2016* may also view the *Annual Corporate Governance Report 2016*, the *Annual Financial Report 2016*, and the *Information Supplementary to the Sustainability Report 2016*, as well as the *Integrated Report. February 2017*, 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 company Iberdrola, S.A., parent company of the Iberdrola Group, is referred to as "Iberdrola" or the "Company" in this report.
- Iberdrola (as parent company) and the group of subsidiaries over which Iberdrola has the power of control or joint control is also referred to as the "Iberdrola Group" or the "Group".
- 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 (.).

Iberdrola's contribution to the Sustainable Development Goals

Iberdrola has incorporated the Sustainable Development Goals (SDGs) defined by the United Nations for the 2015-2030 period into its business strategy and its *Sustainability Policy*.

Due to its activities, Iberdrola focuses its efforts on the supply of accessible and non-polluting energy (goal 7) and on climate action (goal 13). The Company also directly contributes to achieve gender equality (goal 5), ensure availability of clean water and sanitation (goal 6), to creating decent work and economic growth (goal 8), has increased its investment in R&D activities (goal 9), promotes respect for life on land (goal 15), and encourages partnerships (goal 17). Iberdrola also indirectly contributes to achieving other Sustainable Development Goals.

Each chapter of this report identifies the SDGs to which the Company contributes by subject area. This linkage is performed using the tool "SDG Compass. The guide for business action on the SDGs", available at www.sdgcompass.org, developed by the Global Reporting Initiative, the United Nations Global Compact and the World Business Council for Sustainability Development.

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. They symbol * indicates those general standard disclosures and aspects of GRI-G4 where specific sector information is requested.

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Part I. General Standard Disclosures

Iberdrola's contribution to the SDGs with respect to the "General standard disclosures" of this report

Iberdrola has incorporated the Sustainable Development Goals (SDGs) into its business strategy and its Sustainability Policy. Set forth below are the SDGs to which the Company contributes in accordance with the GRI-G4 Guidelines included in this chapter. This linkage has been performed using the tool "SDG Compass. The guide for business action on the SDGs", available at www.sdgcompass.org.

Goal 1
End poverty in all its forms everywhere

Goal 4
Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

Goal 5
Achieve gender equality and empower all women and girls.

Goal 7
Ensure access to affordable, reliable, sustainable and modern energy for all.

Goal 8
Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Goal 13
Take urgent action to combat climate change and its impacts.

Goal 14
Conserve and sustainably use the oceans, seas and marine resources for sustainable development.

Goal 15
Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

Goal 16
Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

1.
Strategy and analysis

G4-1 Statement from the most senior decision-maker

I am pleased to present to you Iberdrola's *Sustainability Report*, which exhaustively and transparently sets out information regarding the Company's economic, social, and environmental performance during 2016, following the guidelines of the Global Reporting Initiative (GRI).

Within the framework of its firm commitment to sustainability, an essential component of the mission, vision, and values of the Company, Iberdrola has incorporated into its business strategy and its *Sustainability Policy* the 2015-2030 United Nations Sustainable Development Goals, unanimously approved by the 193 countries represented.

Within this context, and due to the nature of its activities, Iberdrola focuses its efforts on the supply of accessible, safe, and sustainable energy and on the adoption of measures to combat climate change and the impacts thereof, thus responding to the UN goals 7 and 13.

Thanks to our firm strategic wager on renewable energy, which we pioneered more than fifteen years ago, Iberdrola is now the leading wind power producer in the world and has one of the cleanest generation pools in the industry, which has allowed it to reduce its emissions by 75% over the last fifteen years. The Company's emissions in Europe are approximately 70%[1] less than the average for the sector.

Our management with respect to sustainability is also closely linked to the United Nations' goals regarding the protection of biodiversity, the responsible consumption of water, and international alliances to achieve the various goals.

Furthermore, through the *Electricity for All* programme, we have responded to the call of the international community to extend universal access to modern forms of energy, with environmentally sustainable, financially affordable, and socially inclusive models. Iberdrola's goal is to facilitate access to electric power to four million people in emerging and developing countries by 2020, and has already exceeded two million beneficiaries in 2016.

In addition, as energy is a fundamental vector for growth and development, Iberdrola also indirectly promotes the achievement of the other goals, as described in the chapters of this report.

This wager on sustainability has earned us recognition as a world leader in our sector within the prestigious Dow Jones Sustainability Index (DJSI), Iberdrola being the only European electric utility to be included for seventeen years. Iberdrola is also listed on other international benchmark indices, including FTSE4Good and CDP Climate Change.

Financial results: exceeding forecasts

Iberdrola invested more than 4,200 million euros last year, a 32% increase over the prior year, and hired more than 2,600 people throughout the world, thus maintaining its commitment to the creation of stable and high-quality employment. According to a study by PwC,[2] Iberdrola provides direct, indirect, and induced employment to 288,000 people throughout the world, thanks to the investments and operations in which it engages.

Driven mainly by the United States businesses, Iberdrola's net profit in 2016 grew 11.7% over the prior year, reaching 2,705 million euros.

The excellent performance turned in by the Company during the year allowed for a proposal to the General Shareholders' Meeting of an increase of almost 11% in shareholder remuneration, to 0.31 euro per share.

With the achievement of these results, the Company has also exceeded the forecasts set out in Outlook 2014-2016, by achieving average growth of 7.8% in net profit during the year while maintaining its financial strength.

1 Comparison to 2015 data for continental Europe.
2 PwC study "Iberdrola's economic, social, and environmental impact on the world" (based on 2015 data).

Creation of value for society

Iberdrola's business enterprise and business model are focused on the sustainable creation of value for the societies in which it has a presence and for all of its Stakeholders, with which it maintains fluid channels of communication that allow the Company to draw closer each day to society and to people.

We thus provide growing remuneration to our approximately 600,000 **shareholders**, who have obtained a total return of 55% during the 2014-2016 period, as compared to 14% for the Eurostoxx utilities and 18% for the Eurostoxx 50. Iberdrola also maintains a constructive, ongoing, and efficient dialogue with its shareholders in order to be aware of their opinions and concerns and to foster their engagement in the life of the Company.

The commitment to the professional development of our almost 31,000 **employees** translates into 46 hours of training per employee and more than 2,100 promotions that occurred in 2016, as well as the implementation of measures favouring the reconciliation of working and personal life, in which Iberdrola is a pioneer.

The commitment to the training, preparation, and employability of our human team has been driven forward by the creation of our San Agustín de Guadalix Campus (Madrid), which has already become a leading corporate training centre.

The commitment to our **customers**, the more than 100 million people to whom we supply energy throughout the world, takes form in the safe and high-quality supply that we offer them through increasingly efficient facilities and technologies, together with the best and most innovative energy solutions made available to them, pushed forward by the intense digital transformation of the Company.

We also continue to be a driving force for our almost 18,000 **suppliers**, with procurement contracts reaching more than 9,800 million euros in 2016, thus exceeding the record figure for the prior year. Iberdrola also implements a responsible supply chain management policy, sharing the best sustainability practices with all of its business partners.

The Company's activity is an engine for the creation of wealth and economic development in all of the countries in which it is present: for each euro of profit it obtains, Iberdrola generates 11.1 euros of GDP in these countries.2 The Group's tax contribution, which came to more than 5,700 million euros in 2016, adds to its positive economic impact.

As part of its commitment to **society**, Iberdrola's Foundations continued during 2016 to develop their programmes in the areas of training and research (including the International Scholarship Programme, pursuant to which almost 700 young people will have expanded their training at prestigious international universities in 2017); the conservation of biodiversity; the promotion of art and culture; and cooperation and solidarity with the most vulnerable groups.

Innovation will continue to be an extremely important tool to keep Iberdrola at the forefront of the industry's transformation, reflected by our position as the most innovative Spanish and third most innovative European electric company, according to the European Commission, and the fourth electric company in the world by volume of investment, according to PwC.[3] In 2016, we invested 211 million euros in our R&D activities, the focal point of which are sustainable development, the promotion of renewable energies, the exploitation of the opportunities offered by digitalisation, automation, and a commitment to technology and new business models.

Anticipating future growth

Iberdrola is immersed in a sustainable growth phase in its principal geographic and business areas in order to continue responding to the challenges of the energy transition, contributing

3 PwC study "Iberdrola's economic, social, and environmental impact on the world" (based on 2015 data).

solutions that have turned the Company into the *utility of the future* after having anticipated the industry's trends.

The scenario in which the Company will carry out its activities is characterised by a strong increase in energy demand in the coming decades and by the need to comply with international commitments to reduce emissions. The electrification of the economy is asserted as the only solution to confront both challenges, and in this context we are going to intensify our investments in renewable energies, in energy storage at hydroelectric pumping plants, in the installation of more and smarter grids, and in growing digitalisation to offer the most advanced services and products to our customers.

The evolution of financial year 2016 and the financial strength of the Company to take on new growth opportunities have allowed us to update our Outlook 2016-2020, one year after its presentation.

Investments are expected to reach 25,000 million euros through 2020, increasing mainly from the development of new renewable energy projects in the United States. Following its own model, which combines geographic diversification with a focus on activities linked to the energy transition, the Company will allocate 91% of investment to the expansion and digitalisation of networks, renewable energy, and regulated generation, which areas will contribute 81% of the Group's EBITDA. By currency, the investments will be split amongst dollars (48%), pounds (29%), euros (20%), and other (3%), and will go mainly to countries with an A rating.

During the 2016-2020 period, the Company expects to obtain annual average growth in after-tax profits of approximately 7.5% (which will come mainly from countries with an A rating), up to approximately 3,500 million euros, maintaining financial strength and increasing the profitability of the investments.

Iberdrola will offer its shareholders growing remuneration in line with its results, with a pay-out of between 65% and 75%, such that a range of between 0.37 and 0.40 euro per share could be reached in 2020, with a floor of 0.31 euro per share in any case. The flexible dividend formula used in recent years will also be maintained, and the current number of outstanding shares will remain stable.

Finally, in pursuit of our mission to sustainably create value for our Stakeholders and for society as a whole, we will continue to develop our Corporate Governance System, based on ethical principles, transparency, and leadership in the application of the best international practices on good governance, an area in which Iberdrola has become an international leader.

Ignacio Galán Chairman & CEO of Iberdrola

G4-2 Key impacts, risks, and opportunities

1. Iberdrola's key impacts on sustainability

The Group's commitment to sustainability is articulated in five basic principles of conduct in accordance with its *Sustainability Policy*:

- Competitiveness of energy products supplied.
- Safety in the supply of energy products.
- Reduction in the environmental impact of all activities performed by companies of the Group.
- 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.
- Boosting 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 permits products to be offered at the best price possible, the use of technologies with lower operating and maintenance costs, and a diversified combination of generation technologies with the most competitive energy sources based on climate and market conditions.

Safety of supply

Iberdrola's strategy focuses on ensuring safety 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, for which reason it has both a robust transmission and distribution network to handle extraordinary events and 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.

Reduction of environmental impact

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 society as a whole. In the environmental dimension, global impacts may be produced throughout the electricity lifecycle on biodiversity, climate, or the ozone layer. And at the local level, there are impacts such as 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 corporate website.

The development of clean energies and respect for the environment are the cornerstones of the Group's power production model. Various actions are taken to reduce the environmental impact of its operations, such as the lower-emission power generation, the implementation of biodiversity programmes, operational efficiency, which means the 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 the scarcity thereof.

Value creation

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 financial 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.

The Group also deploys the best corporate governance systems available to it, including conduct and compliance codes, as well as risk management systems, to ensure transparency of information and preserve the creation of shareholder value.

Finally, the Group works to develop excellent management of customer relations, offering them energy products fitted to their needs, making use of the opportunities offered by the market, and closely collaborating with the broad value chain, responsibly carrying out its work as a large driver within the energy industry.

Boosting the social dimension

The Company is progressively strengthening its commitment in the area of social responsibility, so as to promote ethical and responsible behaviour along the entire value chain in all countries in which it operates.

Iberdrola encourages responsible, excellent management of human resources, with teams engaged through the recognition of work performed, training appropriate to the capacities of its employees, and the promotion of equal opportunity in all of its activities.

As shown in the various chapters of this report, the Company also believes its relations with its Stakeholders, and more specifically with the communities in which it does business, to be essential. For this reason, it promotes mechanisms for dialogue and communication allowing it to better understand the expectations of local Stakeholders, and thus contribute to the economic and social development of the various regions.

Finally, the Group contributes to sustainable development through citizen awareness campaigns promoting efficient consumption of its products and services.

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

As provided by the *General Risk Control and Management Policy* of the Company approved by the Board of Directors, the Iberdrola Group has a Comprehensive Risk Control and Management System intended to establish the basic principles and the general framework of conduct for the control and management of the risks faced by the Group, and which must be applied in accordance with the Mission, Vision, and Values of the Iberdrola Group. The following are the main features of such system:

- A structure of risk policies, limits, and indicators 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.
- The identification, valuation, quantification, and prioritisation of the key risks faced by the Group. This process occurs on a quarterly basis and applies equally to key risks already reported in the risk records as well as newly identified risks.
- Quarterly monitoring and control of the impact of and exposure to the risks of the Group.
- Analysis and control of the risks associated with new investments.

As a whole, the Comprehensive Risk Control and Management System of the Group 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 both from the ethical perspective of the Group's corporate activities and in its activities relating to the quality of electric supply and customer service.

A more detailed description of this System is available for review in section "E" of the *Annual Corporate Governance Report 2016* 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 for financial year 2016*, all of which are available at www.iberdrola.com.

The references mentioned in the preceding paragraph describe in detail the review conducted by the Company to identify the risks faced by the Group; 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. The System also identifies the risks and analyses the Company's exposure to risks of various kinds (corporate governance, market, credit, business, regulatory and political, operational, technological, environmental, social, legal, reputational, and tax) which are managed and mitigated through individual monitoring and the corresponding decision-making.

2.
Organisational profile

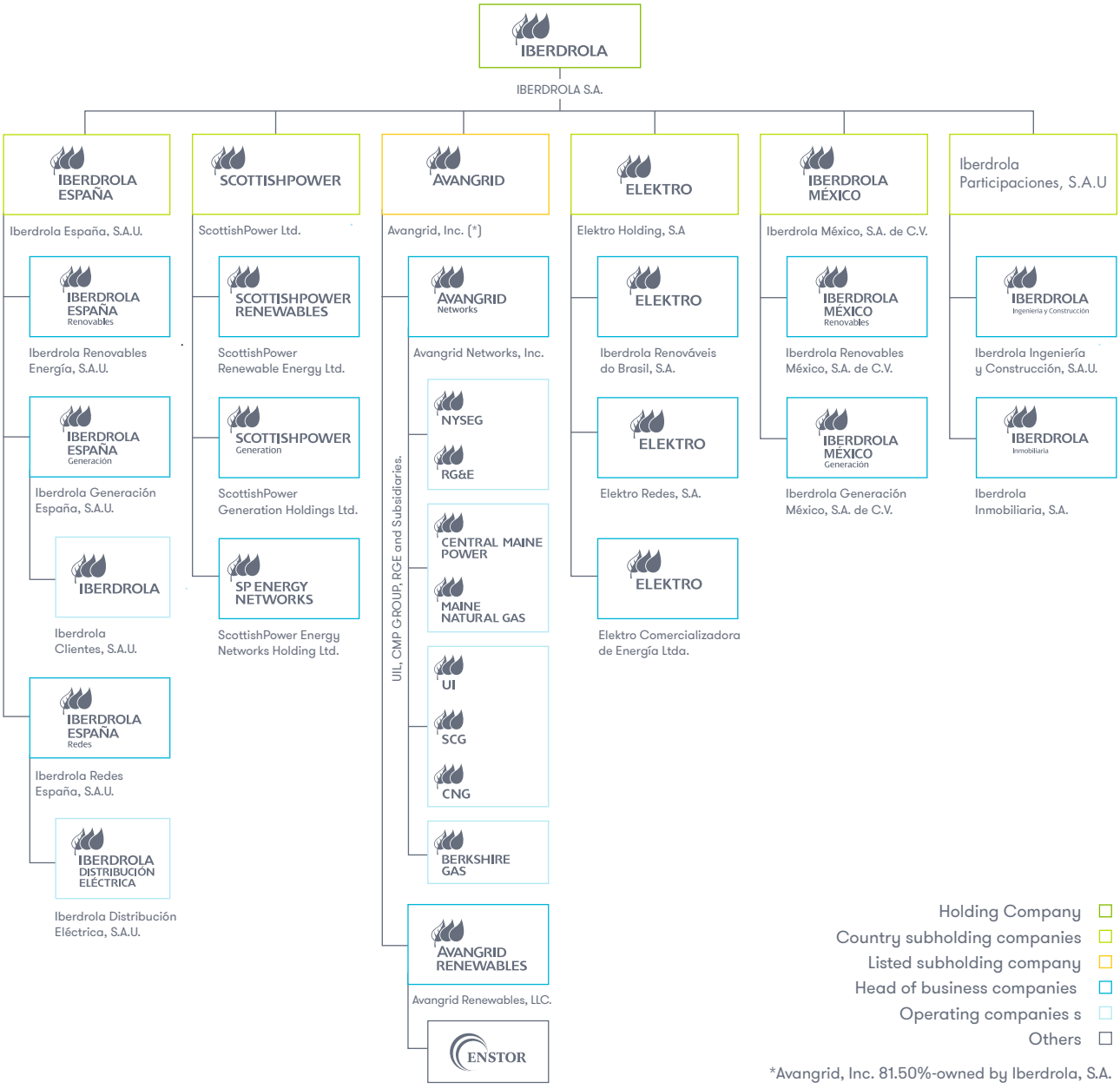
G4-3 Name

Iberdrola, S.A.

G4-4 Primary brands, products, and services

The "Iberdrola" brand reflects the corporate mission, 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. The Company has created a *Brand Policy*, approved by the Board of Directors in 2015, to protect and contribute to the value of the brand, and to establish certain principles governing the use thereof.

Iberdrola, as a global operator, has the brand names listed in the table below at year-end 2016.



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.
- Efficiency, digitalisation, and energy 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 fifteen countries, thirteen 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 2016, its share capital totalled 4,771,559,250 euros, represented by 6,362,079,000 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 62.8%
- Domestic entities 13.9%
- Retail investors 23.3%

As of the date of approval of this Report, share capital totals 4,844,992,500 euros and is made up of 6,459,990,000 shares of the same class and series, each having a nominal value of 0.75 euro.

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 Scale of the organisation

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

Employees

Employees[4]	2016	2015	2014
Spain	10,395	10,569	10,838
United Kingdom	6,373	6,696	6,856
United States	6,849	6,889	5,057
Mexico	874	801	736
Brazil	3,742	3,747	3,745
Other countries	162	158	155
Basic boundary	**28,395**	**28,860**	**27,387**
Expanded boundary	**30,591**	**30,938**	**29,597**

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 2016 is deemed to be 121 for purposes of this report.

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 2016* available at www.iberdrola.com.

Net sales (net revenue)

Net sales (€ millions)	2016	2015	2014
Iberdrola consolidated total	**29,216**	**31,418**	**30,032**

4 The figures in the table reflect the number of employees at year-end 2016, 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): 28,355 in 2016, 28,837 in 2015, and 27,463 in 2014.

Total capitalisation, broken down in terms of debt and equity

Total market capitalisation (€ millions)	2016	2015	2014
Subscribed capital	4,772	4,753	4,971
Equity of controlling company	36,691	37,159	35,040
Bank borrowings	32,025	30,325	28,349
Gross property, plant, and equipment in use	103,312	100,749	89,474
Accumulated amortisation and depreciation	(37,018)	(37,525)	(37,861)

Products or services provided

Products or services provided	2016	2015	2014
Iberdrola Total			
Net electricity production (GWh)	137,350	136,794	138,892
Electric power distributed (GWh)	229,816	190,167	214,613
Gas supplies to users (GWh)	110,095	101,075	85,092

Total assets

Total assets (€ millions)	2016	2015	2014
Iberdrola consolidated total	**106,706**	**104,664**	**93,771**

Beneficial ownership

No shareholder holds a controlling interest in the equity structure of the Company. 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 2014, 2015, and 2016.

Significant shareholders and percentage of direct and indirect voting rights (%)	31/12/2016	31/12/2015	31/12/2014
Qatar Investment Authority	8.51	9.73	9.65
Norges Bank	3.20	3.02	N/A
BlackRock, Inc.	3.01	3.02	3.02
Kutxabank, S.A.	3.00	3.47	3.60

Sales and costs by geographic area

Sales (net amount in € millions)	2016	2015	2014
Spain	13,454	14,470	14,364
United Kingdom	6,628	9,120	8,803
United States	5,213	3,945	3,286
Mexico	1,630	1,734	1,657
Brazil	1,578	1,830	1,641
Other	713	319	281
Iberdrola consolidated total	**29,216**	**31,418**	**30,032**

Costs (€ millions)	2016	2015	2014
Spain	8,472	9,568	9,318
United Kingdom	4,621	6,497	6,522
United States	2,474	2,004	1,413
Mexico	1,120	1,190	1,228
Brazil	1,268	1,502	1,282
Other	669	264	176
Iberdrola consolidated total	**18,624**	**21,025**	**19,939**

G4-10 Workforce

Employees[5]	2016		2015		2014	
	Men	Women	Men	Women	Men	Women
By employment type						
Full-time	21,422	5,878	21,824	5,922	20,846	5,415
Part-time	195	900	188	926	199	927
By type of contract						
Permanent	21,351	6,702	21,650	6,751	20,714	6,244
Temporary	266	76	362	97	331	98
Basic boundary	**21,617**	**6,778**	**22,012**	**6,848**	**21,045**	**6,342**

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 2016*, available at www.iberdrola.com.

G4-11 Employees covered by collective bargaining agreements

Generally speaking, the 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	2016	2015	2014
Basic boundary			
Number of employees	21,324	21,635	21,221
Percentage of employees	75.10	74.97	77.49

A breakdown by geographic area can be found in the *Information Supplementary to the Sustainability Report 2016*, 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.

G4-12 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 Customers 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 17,990 suppliers during 2016. 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, materials, works, and services (€ millions)	2016[6]	2015	2014
Spain	1,354	1,297	1,316
United Kingdom	2,134	1,764	1,610
United States	2,146	1,128	1,057
Mexico	453	479	332
Brazil	149	164	165
Other	179	261	119
Basic boundary	**6,415**	**5,093**	**4,599**

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

Acquisition of fuel

Iberdrola dedicated approximately 3,000 million euros to the acquisition of coal, natural gas, and uranium in 2016. Except for uranium, which is acquired in Spain exclusively through Empresa Nacional de Uranio (Enusa), acquisitions of coal and natural gas are made on the international market, mainly through long-term commercial relationships with some 23 large domestic and international suppliers and market operators (producers and traders).

Management of supply chain

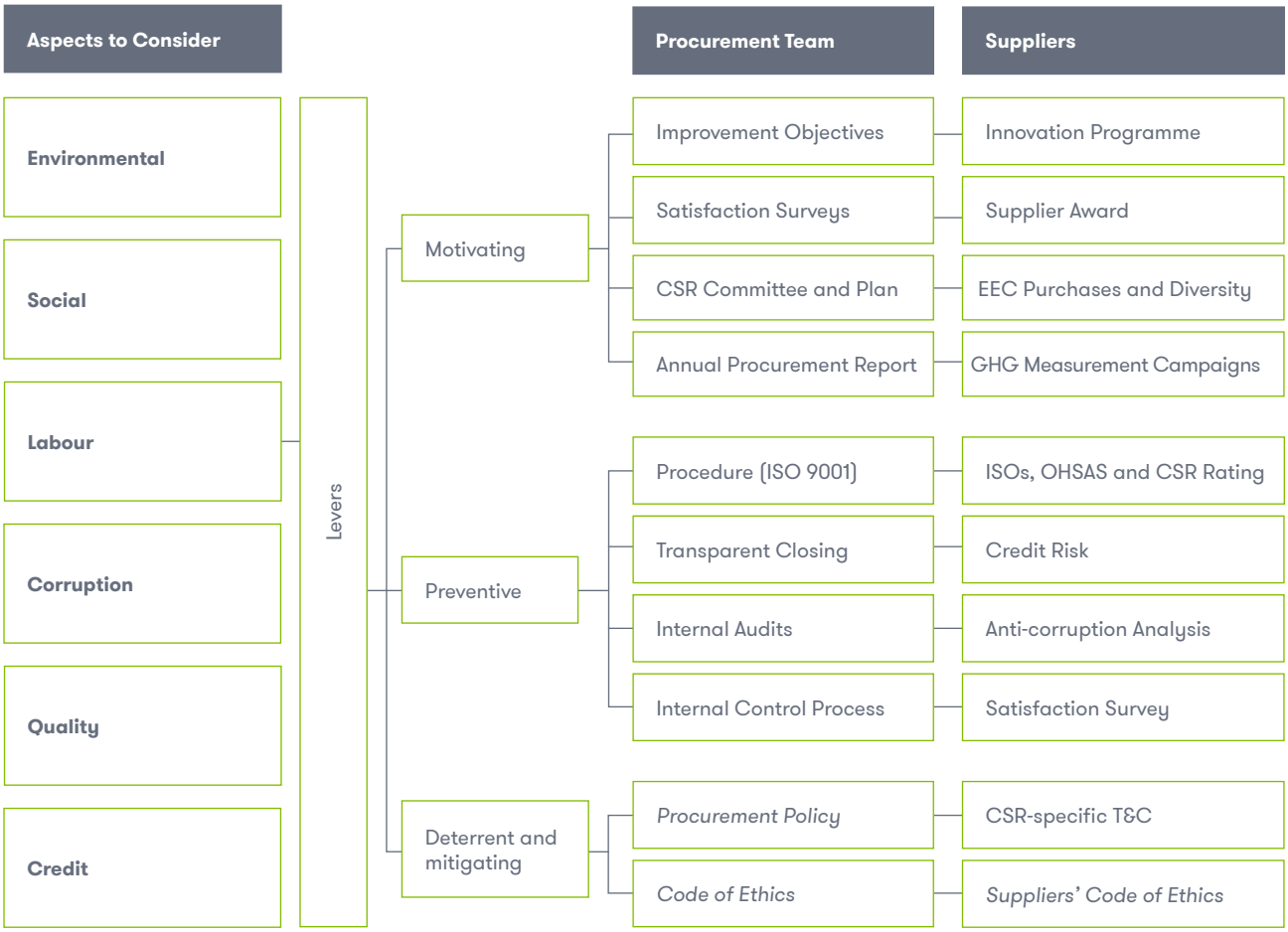
The rapid and comprehensive transformation carried out by Iberdrola in recent years has also multiplied its responsibility as a global company to thousands of suppliers that place orders during the year and that are located in different parts of the world.

6 Volume of supplies billed during the year. Supplies in the amount of 9,884 million euros were awarded during the same year.

The Procurement Division adopts a proactive attitude in responding to internal and external requirements, and makes a firm commitment at all levels, developing new capacities and turning suppliers into participants from the initial contact with the Group.

For that reason, the Iberdrola Group's Procurement Division has a *Global Supplier Management Model* 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. This model has meant bringing the supplier and supply framework closer to the CSR parameters required by the Group, generating a multiplier effect on the value chain in the search for excellence.

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:

Policies and procedures

- *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 a strategic Stakeholder, the Company has established specific principles of conduct for them in their area of activity, always aligned with the principles and values of the Group. This Code is communicated to all suppliers during the bidding phase and is part of the documentation both of the request for bids and of the final contract documentation with the successful bidder.

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 discriminatory practices, fight corruption, etc.

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, both according to their specialisation, the criticality of supply, and the total amount of the purchase, as well as 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:

- Environmental management system.
- Quality management system.
- Occupational risk prevention system.
- Action plan for corporate social responsibility and respect for human rights.

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 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. More than 87.5% of total purchases were analysed in 2016.

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. More than 88% of total purchases were analysed in 2016.

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 (%)[7]	2016	2015	2014
Basic boundary			
Amount awarded to qualified suppliers	89.0	93.5	92.3
Certified quality management system (ISO 9001 or equivalent)	86.6	84.5	83.7
Certified environmental management system (ISO 14001 or equivalent)	82.3	75.2	76.9
Certified risk prevention management system (OHSAS 18001 or equivalent)	79.4	69.2	71.5

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 CO_2 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. The inclusion of these clauses will be negotiated for the new natural gas contracts.

Iberdrola belongs to the international BetterCoal platform, which includes some of 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.

During 2016, Iberdrola received no external complaints from authorised channels 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.

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, including the following:

- On 14 June 2016, the National Securities Market Commission (CNMV) was notified of the sale by Iberdrola Renovables Italia S.p.A. to CEF 3 Wind Energy S.p.A. of the Italian subsidiaries SER S.p.A. ("SER") and SER 1 S.p.A. ("SER 1").

7 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 93% of the total amount contracted (information as at the end of December 2016).

- On 17 June, it was disclosed that Iberdrola, S.A. and Iberdrola Participaciones, S.A., as shareholders (indirect and direct, respectively) of Gamesa Corporación Tecnológica, S.A., on the one hand, and of Siemens AG, on the other, had entered into an agreement relating to (i) Gamesa in the context of a merger of the wind energy businesses of Gamesa and of Siemens AG; and (ii) their relationships as future shareholders of Gamesa following the merger.

Changes in capital structure

The shareholders acting at the General Shareholders' Meeting of Iberdrola held on 8 April 2016 approved two increases in capital by means of a scrip issue in order to once again implement the *Iberdrola Flexible Dividend* system, implementing the first increase in capital in July 2016 and the second in January 2017.

Changes in supply chain

There were no significant changes in the Company's supply chain during the financial year, except for the cessation of coal purchases in the United Kingdom due to the closure of thermal plants that used this fossil fuel.

Participation in external initiatives

G4-14 Precautionary principle

The precautionary principle is included in Iberdrola's *Environmental Policy* approved by its Board of Directors, among the Group's basic principles of conduct on environmental matters. The practical application thereof is reflected in the wager on technologies and processes that contribute to confronting climate change and other environmental challenges with a precautionary approach, and that allow for a more efficient use of natural resources and greater respect towards biodiversity.

The precautionary approach 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 precautionary approach also takes the form of continuous awareness and evaluation of the environmental risks of production facilities, preventing such risks from occurring and, where applicable, minimising the consequences if they occur.

In 2016, Iberdrola's Environmental Management System continued to develop the Life Cycle Analysis (LCA), an innovative element for understanding the environmental impact of the Company's facilities included under the precautionary principle. Under 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 2016 Iberdrola continued to develop a lifecycle-based model for calculation of the Corporate Environmental Footprint (CEF), which will serve, among other things, as an element of risk management and mitigation. It has also continued to develop product environmental impact statements for new wind farms, providing *a priori* knowledge of the impacts of these farms throughout their life cycle.

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. Iberdrola also participates in other initiatives of the Global Compact, such as the global LEAD Programme, projects regarding human rights, the fight against climate change, and other activities of the Red Española del Pacto Mundial (Spanish Global Compact Network). Iberdrola's Progress Report reaches the maximum level, defined as "Advanced". This report is prepared by the Company annually to report the progress made in complying with and disseminating the Principles of the Global Compact.
- The Good Tax Practices Code of the Large Business Forum of the Spanish Tax Agency, part of the Ministry of Economy and Public Finance since 2010, which involves following a course of conduct that goes beyond respect for and strict compliance with statutes and regulations, to contribute actively and voluntarily to economic, social, and environmental improvement.
- Iberdrola is fully aligned with the Sustainable Development Goals, including them into its business strategy and its Sustainability Policy, actively contributing to the success of the XXII Climate Conference (COP22) held in Marrakesh in November 2016 through its participation and citizen awareness-raising, with various activities, including the Moving for Climate NOW bicycle route. Its objective is to achieve a 30% reduction in the intensity of CO_2 emissions by 2020, a 50% reduction by 2030, and to be carbon neutral by 2050. Iberdrola is actively working to strengthen its leadership role in achieving the SDGs so that other citizens and companies can get to know them and contribute to the achievement thereof, and as a participant in the process to implement the Paris Agreement over the coming years. A partial summary of the organisations and initiatives with which it has collaborated more actively is provided below:
  - World Economic Forum (WEF) –CEO Climate Leaders–.
  - World Business Council of Sustainable Development (WBCSD) –Low Carbon Technology Partnership Initiative–.
  - Global Compact LEAD.
  - The Prince of Wales's Corporate Leaders Group. Green Growth Platform.
  - Carbon Pricing Leadership Coalition.
  - SE4ALL.
  - We Mean Business.
  - United Nations Global Compact.
  - Spanish Green Growth Group (*Grupo Español de Crecimiento Verde*).
  - The Climate Group.
  - Bruegel.
  - Caring for Climate.

Items of note in the Spanish context are a very active collaboration with the Spanish Office of Climate Change, the presentation of Iberdrola's commitment to the *Un millón de compromisos por el clima* (A Million Commitments for Climate) project of the Ministry of Agriculture and Fisheries, Food, and Environment, and its participation in the Spanish Green Growth Group, of which Iberdrola is vice-president.

In Spain, Iberdrola also adhered to an SF6 emissions reduction initiative, within the framework of an agreement between the *Asociación Española de la Industria Eléctrica* (Spanish Electrical Industry Association) (Unesa) and the Ministry of Agriculture and Fisheries, Food, and Environment. It has also continued its collaboration with universities and government administrations at a variety of seminars and workshops on energy, as well as in initiatives for the protection of biodiversity and promotion of the SDGs, in addition to organising informational seminars at the Iberdrola Campus, writing publications and participating in fora such as the AIESEC "Youth 4 Global Goals", among others.

Elektro has continued since 2007 to adhere to the Global Compact, which aims to mobilise the business community to adopt the social responsibility principles expressed through ten universal principles in different areas, like the environment.

Iberdrola has provided another year of support to the Mexican Red Cross for its 2016 national collection *Juntos salvemos vidas* (Let's Save Lives Together).

Finally, in the United States, Avangrid is a member of the Climate Change Adaptation Association of the Department of Energy (DOE) to combat the effects thereof and to modernise energy infrastructures for the future. Avangrid also maintains close collaboration with experts from the Northeast Regional Climate Center of Cornell University in Ithaca to prepare the network for the challenges of climate change.

G4-16 Principal associations to which the organisation belongs

Iberdrola is a member of numerous organisations related to its activities, the most significant of which are listed in the following table:

International	
World Association Nuclear Operator (WANO)	WindEurope
World Nuclear Association (WNA)	EURELECTRIC electric industry union
Institute for Nuclear Power Operations (INPO)	Global Wind Energy Council (GWEC)
Scotland Europa	Nuclear Industry Association (NIA)
International Electrotechnical Commission/European Committee for Electrotechnical Standardisation (IEC/ Cenelec)	International Council on Large Electric Systems (CIGRE)
Energy Institute for G9 (Offshore Wind Health and Safety Association)	World Energy Council / Consejo Mundial de Energia
BetterCoal	European Utilities Telecom Council-EUTC
World Business Council for Sustainable Development (WBCSD)	International Conference on Large Power Networks (Cired)
European BWR Forum	Smart Life
Institute of Asset Management	European Electric Grid Initiative (EEGI)
The Prince of Wales's Corporate Leaders Group	Caring for Climate.
Global Compact	World Economic Forum (WEF)
European Round Table (ERT)	Institute of Electrical and Electronics Engineers
Association for Advancement of Cost Engineering	International Council on Large Electric Systems (CIGRE)
Networks Information System Platform	IHS Global
Prime Alliance	European Technology Platform Smart Grids
Electric Power Research Institute – EPRI	European Distribution System Operators (EDS)
Center for Energy Efficiency and Renewable Technologies	International Emissions Trading Association (IETA)

Spain	
Sociedad Nuclear Española	Asociación empresarial Eólica (AEE)
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)	Confederación Española de Organizaciones empresariales (CEOE/ Cepyme)
Asociación Española de la Industria Eléctrica (UNESA)	Círculo de empresarios
Asociación Española para la Calidad (AEC)	Cámara de Comercio de España
Asociación Española de Normalización (AENOR)	Club de Excelencia en Sostenibilidad
Sociedad Española de Protección Radiológica	Club Español de la Energía
Instituto Tecnológico de la Energía	Grupo Español de Crecimiento Verde
Comisión Electrotécnica Internacional	Plataforma española de redes eléctricas (FUTURED)
Club de Excelencia en Gestión	

United Kingdom	
The Confederation of British Industry	Energy Action Scotland
The Scottish Council for Development and Industry	Scottish Government - Scottish Fuel Poverty Forum
Energy UK	Department for Energy and Climate Change and Ofgem-Joint ECO Quarterly Supplier Forum
Energy Networks Association	Industrial & Power Association
Scottish Renewables	Green Alliance
Energy & Utility Skills	CIGRÉ United Kingdom National Committee
National Skills Academy for Power	ENTSOE (European Network of Transmission System Operators for Electricity)
Industrial Partnership for Energy and Utilities	Joint Environment Programme
Institute of Engineering & Technology	Gas Storage Operators Group
National Energy Action	Renewable UK
Scottish Windfarm Bird Steering Group	EU Ocean Energy Association
Scottish Energy Association	EEEGR (East of England Energy Group)
Offshore Wind Accelerator	Radar Working Group (Aviation Investment Fund Company Limited)
Tecnology Innovation Center	Ofgem's ECO Industry Fraud Prevention and Compliance Committee

United States	
Business Council of New York State	American Wind Energy Association (AWEA)
Mid-Atlantic Renewable Energy Coalition (PJM States)	Renewable Energy New England (New England States)
Maine Better Transportation Assn	The Nature Conservancy-Maine
NY State Economic Development Council	Maine Audubon Society
Greater Binghamton Chamber of Commerce	E2Tech
Maine & Company	Maine State Chamber of Commerce (MSCC)
Northeast Gas Association (NGA)	Renewable Northwest Project
Renewable Energy Northeast	The Wind Coalition
Gas Technology Institute	Independent Energy Producers Association of California
Edison Electric Institute (EEI)	Wind on the Wires
Interwest Energy Alliance	Alliance for Clean Energy - New York
Center for Energy Efficiency and Renewable Technologies	American Gas Association
Northeast Underground Committee	New England Power Pool
National Electrical Safe Code	New England-Canada Business Council
North American Electric Reliability Corporation	Northeast Transmission Group (NETG)
Electric Power Research Institute	Energy Council of the Northeast
Connecticut Energy Workforce Development Consortium	Electric Power Research Institute (EPRI)
Call Before You Dig, Connecticut	Center for Energy Workforce Development
American National Standards Institute	Association of Edison Illuminating Companies

Mexico	
Asociación Mexicana de Energía Eólica	Cámara Española de Comercio, A.C
Asociación Mexicana de Energía, A.C	Consejo Coordinador empresarial A.C
Confederación Patronal de la República Mexicana (Coparmex)	Cámara Nacional de la Industria de Transformación Ensenada
Cámara de la Industria de Transformación de Nuevo León	Consejo Ejecutivo de empresas Globales, AC
Empre-Bask México, A.C	

Brazil	
Associação Brasileira de Distribuidores de Energia Elétrica	Instituto Brasileiro de Executivos de Finanças
Associação Brasileira das Relações empresa Cliente	Comitê Brasileiro da Comissão de Integração Energética Regional
Instituto Abradee da Energia	Associação Cultural Ecológica do Vale do Ribeira
Associação Brasileira de Energia Solar	Câmara Americana de Comèrcio
Serviço Brasileiro de Apoio as Micro e Pequenas empresas	Associação Brasileira de Energia Eólica
Instituto Ethos de Responsabilidade Social	Associação Brasileira de Recursos Humanos
Conselho Municipal de Defesa do Meio Ambiente	Federação das Indústrias do Estado de São Paulo
Associação da Indústria de Cogeração de Energia	Associação Paulista das Cerâmicas de Revestimento
Consórcio Intermunicipal das Bacias dos Rios Piracicaba, Capivari e Jundiaí	Associação de Educação do Homem de Amanhã de Araras
Agência de Desenvolvimento Tietê Paraná	Fundação Comitê de Gestão empresarial
Associação Brasileira dos Contadores do Setor de Energia Elétrica	Fundação Nacionbal de Qualidade (FNQ)

For more details on the Company's commitment to the above, its participation within various committees, the contributions it makes, or its strategic involvement, please consult public information or visit the websites of these organisations.

Organisational profile

GRI Sector Supplement Indicators

EU1 Installed capacity

Installed capacity by energy source (MW)	2016	2015	2014
Hydroelectric	11,161	11,076	9,869
Renewable[8]	15,256	14,787	14,652
Thermal coal-fuel	874	3,178	3,178
Combined cycle	13,279	12,671	12,742
Cogeneration	1,267	1,239	1,238
Nuclear	3,410	3,410	3,410
Iberdrola Total	**45,246**	**46,361**	**45,089**

A breakdown by geographic area can be found in the *Information Supplementary to the Sustainability Report 2016*, available at www.iberdrola.com.

EU2 Energy output

Net energy output by source of energy (GWh)	2016	2015	2014
Hydroelectric	20,545	14,102	20,636
Renewable[8]	33,498	32,707	33,862
Thermal coal-fuel	3,803	11,520	12,102
Combined cycle	48,447	46,240	42,126
Cogeneration	6,675	6,662	5,734
Nuclear	24,381	23,142	24,431
Iberdrola Total	**137,350**	**134,374**	**138,892**

A breakdown by geographic area can be found in the *Information Supplementary to the Sustainability Report 2016*, available at www.iberdrola.com.

8 Renewable: wind, solar, mini-hydro.

EU3 Electricity users and producers

Electricity users (%)	2016	2015	2014
Iberdrola Total			
Residential	90.2	90.2	90.3
Industrial	1.0	0.9	1.0
Institutional	0.9	0.9	0.9
Retail	5.8	5.8	5.6
Other	2.1	2.2	2.2

Users who are producers (no.)	2016	2015	2014
Iberdrola Total			
Users that are also producers of electricity	83,626	71,911	69,587

At year-end 2016, the companies and affiliates of the Group covered by this report (expanded boundary) handle a total of 30.4 million electricity supply points.

A breakdown by geographic area can be found in the *Information Supplementary to the Sustainability Report 2016*, available at www.iberdrola.com.

EU4 Transmission and distribution lines

Power lines[9] (Km)	2016	2015	2014
Transmission			
Overhead	30,491	29,857	29,446
Underground	986	938	960
Iberdrola Total	**31,477**	**30,795**	**30,406**
Distribution			
Overhead	875,140	856,461	846,281
Underground	193,285	188,828	187,868
Iberdrola Total	**1,068,425**	**1,045,289**	**1,034,149**

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

9 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.

deemed to be those with a nominal voltage equal to or greater than 69 kV; in the United States 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.

A breakdown by geographic area can be found in the *Information Supplementary to the Sustainability Report 2016*, 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, for which reason this indicator does not affect the thermal generation facilities in Mexico, Brazil, or the United States.

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. It should be noted that Iberdrola's last coal plant in the United Kingdom, which involved the emission of more than 6 million tons of CO_2 annually, was closed in March 2016. Only the Tarragona Power combined cycle plant, with emissions of 358 kt CO_2, received an allotment of 25,323 rights

Total emissions of the European facilities in 2016 increased to 9.88 million tonnes and were covered by purchases on the market and surpluses from prior years.

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 *Consolidated Financial Statements, Consolidated Management Report and Audit Report for Financial Year 2016*.

B. Information boundaries of this report

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

- The scope and basis of presentation of financial information must comply with established statutory requirements.
- The environmental and social information is presented in accordance with the new legal requirements as to content, leaving open the reporting framework to be used. This is the reason why Iberdrola has voluntarily elected to use the GRI-G4 guidelines in the preparation of this report.

To reconcile these factors, 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.

B1.1 Significant countries and activities for the Iberdrola Group in terms of sustainability and included in the 2016 reporting boundary.

	Group Office	Electricity production		Transmission and/or Distribution of electricity or gas	Electricity and/or gas supply[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	LIB	LIB		X	X	X
United Kingdom	X	X	X[5]	X	LIB	LIB	X	X	X	
United States	X		X	X	LIB	REG	X	X	X	
Brazil	X		X	X		REG			X	
Mexico	X	X	X		LIB			X	X	
Portugal	X		X		LIB	LIB[6]		X		
Germany	X		X[7]					X		
Canada	X						X[8]	X[8]		
Greece	X		X[5]							
Hungary	X		X							
Poland	X							X[8]		
Romania	X		X							
Costa Rica								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 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 Spain, the United Kingdom, or the United States, in which the company has an interest of less than 50%.
4) Any reference to the 6th Collective Bargaining Agreement includes the following companies at 31 December 2016: 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) The activities of electricity and/or gas supply in Portugal are included in Spain.
7) Activities relating to the 350 MW Wikinger offshore wind farm. Start-up is projected for 2017. In 2016, work began on installing piles and foundations, the opening of trenches was finalised, progress was made on the wind farm's cable lines, and the substation was installed. In parallel, work continued on the manufacture of the turbines with a view to the installation and start-up thereof in the coming year.
8) These activities are not significant from the environmental standpoint. In the case of Canada, labour information is included in the information for the United States.

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 51.44% in the case of Trillo-Almaraz and 14.59% in the case of Ascó-Vandellós.

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.

B1.2. Non-significant countries and activities in countries of the Iberdrola Group in terms of sustainability, excluded from the 2016 basic reporting boundary.

	Group Office	Electricity production	Electricity or gas supply and/or gas storage	Engineering and construction	Real estate
Belgium and France	X				
Italy		X			
Germany, Belgium, Canada, France, Italy, Netherlands, and Switzerland			X		
Algeria, Bulgaria, Qatar, Egypt, Russian Federation, France, Honduras, Italy, Kenya, Montenegro, Slovak Republic, Ukraine, South Africa, 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.

As a supplement and to the extent deemed relevant, the information on this expanded boundary may include significant events concerning specific activities included in the foregoing table B.1.2.

B.2. Expanded boundary

For the purposes of this report, Iberdrola considers the activities carried out by its affiliated companies as described below to be significant:

- The 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, Rio, Bahia, Goias Sul, Corumba, Teles Pires, and the cogeneration companies Energyworks Brasil, Ltda., Capuava Energy, Ltda. and the supplier NC Energia). 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 social information includes the Belo Monte and Baixo Iguaçu plants under construction in those indicators that are deemed significant based on their activities.

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.

	Financial consolidation		Share of consolidation in information (%)		
	Method(1)	Equity share (%)	Financial	Environmental and Social	Electricity users
Coelba	E	37.57	37.57	37.57	100
Cosern	E	35.67	35.67	35.67	100
Celpe	E	34.96	34.96	34.96	100
Neoenergia	E	39.00	39.00	39.00	N/A
Nuclenor	E	50.00	50.00	50.00	N/A

(1) E: Consolidation by the 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 2016* is taken from the document entitled *Consolidated Financial Statements, Consolidated Management Report and Audit Report for Financial Year 2016*.

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] **Expanded 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

On the closing date of the financial statements, the Iberdrola Group does not include within its controlled affiliates any that are resident in tax havens, pursuant to the laws in this regard (Royal Decree 1080/1991 of 5 July and respective updates thereof). It should be mentioned that the interest in the company Garter, which is resident in the British Virgin Islands and which is an inactive company, is indirectly held through Neoenergia, which is consolidated by the equity method.

The Iberdrola Group has various companies organised in the State of Delaware in the United States, which is not considered a tax haven according to the list of tax havens determined by the Spanish Tax Agency. The companies form part of the tax group for federal tax purposes led by Avangrid, with no specification regarding the other companies of said group due to being incorporated in the State of Delaware. Furthermore, the Spain-United States Tax Convention, for the avoidance of double taxation, does not expressly mention the State of Delaware or make any specification or limitation regarding said State.

The vast majority of the companies in Delaware are companies whose assets are wind farms built in the United States that are producing emission-free electricity. Delaware corporations and limited liability companies are the most commonly used types of companies in the United States, and this use is not for tax reasons but is rather due to the level of development of commercial law and jurisprudence in Delaware.

In the United States, companies pay federal taxes based on the business activity carried out by the company in each state, with the domicile of the company being irrelevant. All companies of the Iberdrola Group (and those domiciled in Delaware are no exception) are formed based on objective business standards and not as elements of tax engineering structures.

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

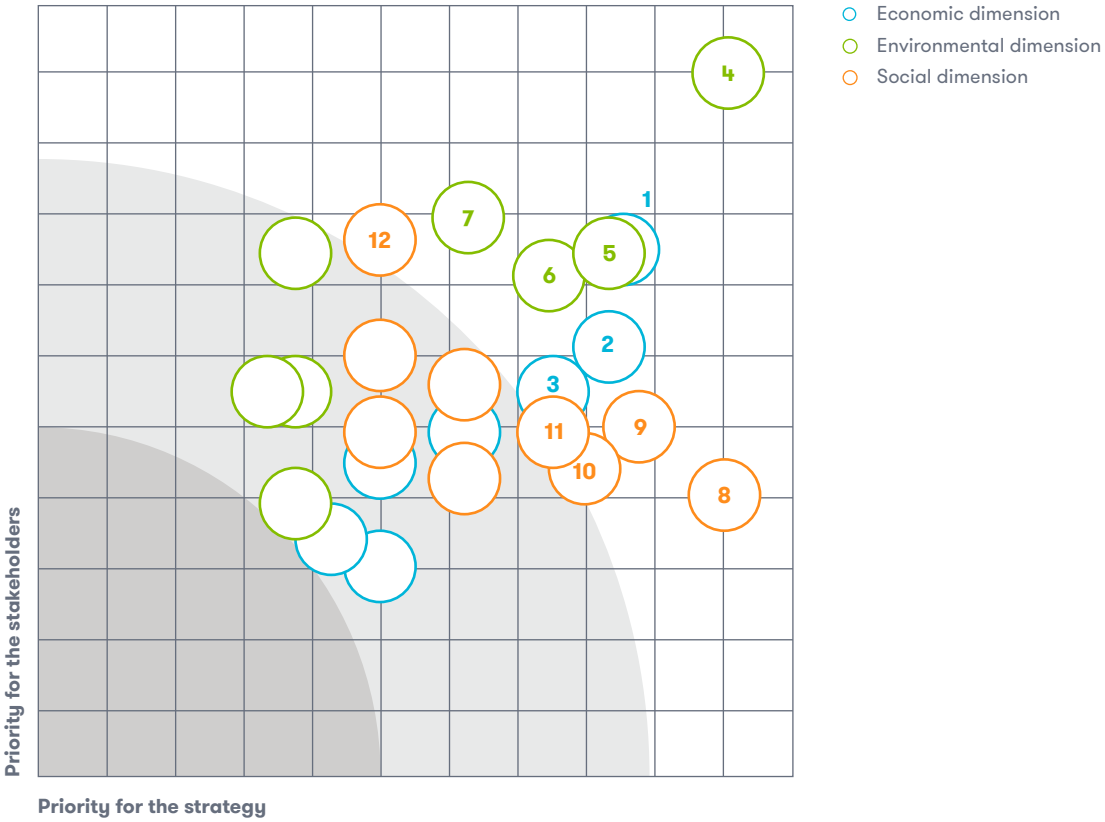
Since 2003, Iberdrola has indirectly identified its material aspects using GRI's *Sustainability Reporting Guidelines* as a model for preparing its annual sustainability report. These guidelines are the result of a process in which various Stakeholders throughout the world have participated, with representatives 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.

The Company, with a presence in countries on various continents, conforms to the various regional socioeconomic development models and has developed systems and processes to obtain the information needed to meet requests on matters of sustainability made both by GRI, with its recommendations, and by other areas of heightened awareness such as the Dow Jones Sustainability Index or the Carbon Disclosure Project. Iberdrola uses its Sustainability Report to provide an annual report on these issues, adhering to the materiality requirements, following macro-trends in corporate social responsibility, and generally meeting Stakeholder

For greater precision, Iberdrola also directly identifies its own material aspects by preparing its own *Materiality Analysis* with the advice of an independent outside firm, with the aim of identifying the specific aspects of interest related to the Company's activity by consulting in-house and outside sources. Iberdrola uses this process to identify social, environmental, and ethics issues that are significant to its focus on social responsibility.

This analysis, performed in 2015 and considered valid for all purposes for 2016, prioritises those matters of interest identified through the analysis in accordance with their significance both to Stakeholders as well as to the Company's strategy. In this way, twelve issues, shown in the following chart, have been identified as "material":

Materiality analysis of the Iberdrola Group



Material issues	Other issues identified
1. Business innovation and opportunities 2. Economic performance and fiscal transparency 3. Customer satisfaction	Anti-corruption Anti-competitive behaviour and monopolistic practices Public policy Management of supply chain
4. Renewable energy development 5. Electricity generation: electricity mix and energy efficiency 6. Strategy in the fight against climate change 7. Electricity and gas supply	Environmental performance: operational efficiency Management of environmental impact Management of biodiversity impact Management of water usage
8. Human rights 9. Attraction and retention of talent 10. Socioeconomic impact on the community 11. Health and safety of employees and contractors 12. Access to energy for vulnerable customers	Labour practices Development of human capital Social-welfare action Physical security of the facilities (community)

The coverage of the material aspects; that is, whether the aspects are significant within the organisation (internal impact on the Company or its employees) or outside it (impact outside the Company, outside its scope of control, or on outside Stakeholders) is reflected in detail in the management approaches throughout this report. In general terms, Iberdrola considers that its material aspects have both internal and external coverage, since they directly affect the Company as well as the different Stakeholders with which it has relationships.

The various sections of this report offer a concrete response to the aspects identified, as shown in the following table:

Most significant issues	Special interest topics	Iberdrola's response
Business innovation and opportunities	Products and services favouring efficiency and energy savings, certified energy from renewable sources, distributed generation, offshore wind energy projects, development of electric vehicles, etc.	Management approaches: "Availability and reliability", "Research and development", "System efficiency", "Demand management" and "Energy". EU10, G4-EN6, and G4-EN7.
Economic performance and fiscal transparency	Economic value generated and distributed. Tax policy and strategy, cooperation with tax authority, tax contributions, etc.	Management approaches: "Economic performance". G4-2, G4-9, and G4-EC1.
Customer satisfaction	Evaluation of customer satisfaction and establishment of targets for improvement, management of information security and privacy, grievances and claims, and other matters related to meter reading, billing, rates, and contracts.	Management approaches: "Customer privacy", "Access" and "Provision of information". G4-PR2, G4-PR4, G4-PR5, G4-PR7, G4-PR8, G4-PR9.
Development of renewable energy	Investment in and wager on renewable energy. Integration into the energy mix. Projected MWs of renewable energy.	Management approaches: "Research and development", "Availability and reliability" and "System efficiency". G4-14 and EU1.
Electricity generation	Mix of generation and projected targets, energy efficiency in renewable generation, and thermal efficiency in coal and combined cycle plants.	Management approaches: "Availability and reliability" and "System efficiency", "Demand management", "Energy", and "Access to electricity". G4-2, EU1, EU2, EU10, EU11, EU30, G4-EN5 to G4-EN7.
Climate change strategy	Carbon footprint reduction targets, emissions trading, carbon capture and storage projects, available adaptation and mitigation mechanisms, evaluation of risks and opportunities, etc.	Management approaches: "Economic performance", "Research and development", "Emissions" and "Transport of persons and products". Specific management approach to the environmental dimension. EU5, G4-EC2, G4-EN15 to G4-EN21, and G4-EN30.
Electricity and gas supply	Quality of supply, energy efficiency, and development of smart grids and meters.	Management approaches: "Availability and reliability" and "System efficiency", "Research and development" and "Access". EU4, EU12, EU26, EU28, and EU29.
Human rights	Definition of a formal policy, employee training, management of related complaints, and rights of indigenous or minority communities.	Specific management approach to human rights and all management approaches to Aspects contained in the "Human Rights" chapter. G4-HR1 to G4-HR12.
Attraction and retention of talent	Employee satisfaction, push for reconciliation, systems for performance evaluation, and variable remuneration tied thereto.	Management approaches: "Market presence", "Employment", "Labour/management relations", "Training and education", "Diversity and equal opportunity", "Equal remuneration for men and women", and "Labour practices grievance mechanisms". G4-EC3, G4-EC5, G4-LA2, G4-LA3, G4-LA9 to G4-LA11, G4-LA13, and G4-LA16.
Socioeconomic impact on the local community	Evaluation of the socioeconomic impact on local communities in the development of new infrastructures or on operating activities. Communication and reporting mechanisms.	Management approaches: "Indirect economic impacts", "Local communities", "Public policies", "Supplier assessments for impacts on society", "Grievance mechanisms for impact on society", "Iberdrola's contribution to the community", and "Access to electricity". G4-12, G4-EC1, G4-EC6 to G4-EC9, G4-SO1, G4-SO_2, EU22, G4-SO9 to G4-SO11.
Health and safety of employees and contractors	Employee and contractor health and safety management. Accident rate, casualty rate, and absenteeism.	Management approaches: "Employment", "Labour/management relations", and "Occupational health and safety" G4-LA5 a G4-LA8, EU17, and EU18.
Access to energy for vulnerable customers	Programmes to facilitate access to energy for customers with limited economic resources or vulnerable groups.	Management approach: "Access to electricity". EU26, EU27.

In its commitment to transparency with its Stakeholders, Iberdrola also reports on other Aspects included in the Guidelines in addition to the Aspects of the GRI-G4 Guidelines identified as material in the table above, providing continuity with information for previous financial years. All Aspects reported are specifically identified in the GRI Content Index presented at the beginning of this report.

Together with these 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 indicators G4-26 and G4-27.

G4-22 Restatements of information provided in previous reports

During financial year 2016, it was not deemed necessary to restate information pertaining to earlier reports.

However, the 2015 and 2014 information included in this report may be slightly different from the information presented in the reports for those years, as a result of being updated.

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

During financial year 2016, 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 *Stakeholder Relations Policy* (initially approved by the Board of Directors in February 2015 and last amended in February 2016) explicitly states that the Company believes "that its relations with those groups that may influence or that are affected by the decisions or the value of the Company and the Group are significant". The value chain comprised of Iberdrola's businesses means that there is a large number of these groups, for which reason the Company has decided to group them into eight different categories that constitute its Stakeholders:

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

However, for the proper management of each of these Stakeholders, both the corporate areas as well as the various businesses of Iberdrola also identify different subgroups that they deem relevant for more specific treatment.

G4-25 Basis for selection of Stakeholders

The initial identification and selection of the Stakeholders of Iberdrola was carried out through processes of internal reflection conducted by the management team. Subsequently, in 2015, the *Stakeholder Relations Policy* ratified the Stakeholder categories described in the preceding indicator.

The various CSR and Reputation Committees within the Group analysed the significance of specific Stakeholders, based on their own activities and on the impact that meeting or not meeting Stakeholder expectations may have on the Company's results.

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

Iberdrola develops a responsible and sustainable business model, which puts Stakeholders at the centre of its strategy. Therefore, a fundamental goal is to build relationships of trust with the Stakeholders and to deepen their sense of belonging so that they feel they are an integral part of Iberdrola.

Relations with the Company's Stakeholders are based on:

- The principles of transparency, active listening, and equal treatment.
- A permanent and constructive dialogue.
- The engagement and inclusion of the Stakeholders in the businesses and activities of the Group.

In 2016, Iberdrola's Corporate Governance System highlighted the significance of the Stakeholders to the Company: the By-Laws have incorporate an entire title dedicated to relations with the Stakeholders, and the Mission, Vision and Values have focused on the sustainable creation of value for the Stakeholders.

In addition, both the 2015-2017 Corporate Social Responsibility Plan and the 2015-2017 Reputation Plan focus (from different viewpoints) on the Company's dialogue with its Stakeholders.

For all of the foregoing reasons, in September 2016 the Company approved a new *Stakeholder Relations Model*, the general purpose of which is to contribute to meeting the Group's Mission: "to create value sustainably in carrying out our activities for society, citizens, customers, employees, shareholders, and other Stakeholders [...]".

The Model, which will be implemented beginning in 2017, has three specific goals:

- To develop the *Stakeholder Relations Policy*.

- To systematise Stakeholder relations throughout the Iberdrola Group, in all countries and businesses.
- To create a business culture with respect to the significance of dialogue with the Stakeholders for more sustainable performance (economic, social, and environmental) by Iberdrola.

Precisely to emphasise to the Company's entire workforce the importance of the relationship with Stakeholders, a new section has been created on the Employee Portal (Intranet) that explains the significance of Stakeholders, how to establish relationships with them, and what the goals are.

In 2016, Iberdrola continued to apply the AA1000 Assurance Standard for the tenth consecutive year in accordance with the principles of inclusiveness, materiality, and responsiveness established in the standard, through a process that is subject to independent external assurance. The Company has adapted the application of the standard to both the successive versions thereof and the expansion and organisational changes at Iberdrola. Currently, the application of the AA1000 standard has a twofold approach:

- Global approach: applied at the corporate divisions.
- Local approach: applied at the businesses (Networks, Wholesale and Customers, Renewables, Engineering and Construction).

The Stakeholder relations process is structured 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 established communication channels 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.

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

Stakeholder	Significant pathways for dialogue and communication	Other pathways for dialogue
Workforce	– Mixed subcommittees and committees – Opinion surveys – Global employee office – Ethics Mailbox – Suggestion boxes	– Meetings with the chairman – Management School – Employee Portal (Intranet) – Specific meetings
Shareholders and financial community	– Personal contact with investors in and analysts of fixed-income and equity securities – Personal contact with rating agencies – Personal contact with shareholders – Office of the Shareholder.	– Corporate website – Specific telephone and mailbox – Informational brochures and bulletins – Channel for shareholders on the web (OLS) – Shareholders' Club – Investors' app – Specific site for the General Shareholders' Meeting
Regulatory entities	– Consultation and official formalities with various EC, national, regional, and local regulatory bodies.	– Relationship through industry organisations – Meetings and direct contacts
Customers	– On-site and off-site channels for direct customer service – Online channels (websites, social media, apps) – Systems for claims and complaints – Customer satisfaction surveys	– Relationships with consumer associations, consumer institutions, and municipal consumer information offices (OMICs) – At the engineering and construction subsidiary, various types of customer sales contacts
Suppliers	– Supplier portal on the corporate website – Supplier service centre – Satisfaction surveys – Supplier of the year award – Suppliers' ethics mailboxes	– Supplier registration and classification processes – Email inbox on the website – Supplier involvement campaigns – Participation in responsible procurement fora and seminars
Media	– Press releases and informational notes – Direct conversations and informational meetings – Publication of opinion articles by the chairman and officers – Visits to company facilities	– Press room on the corporate website – Email inbox on the website – Social media (Twitter, Facebook, Instagram, and YouTube)
Society	– Corporate website, social media, and conventional channels of communication – Email inboxes on the corporate website – Direct relations with State institutions and heads of the various government administrations – Active presence within business and industry organisations; academic and educational institutions; organisations related to innovation, etc.	– Collaboration projects with educational, social, cultural, and sporting institutions or organisations – Direct relations with environmental and social groups in the areas of the facilities – Participation in forums, seminars, and conferences
Environment	– Specific email inbox on the corporate website – Social media with environmental information – Supplier survey – Specific initiatives like #Just2Challenge and electric vehicle for employees	– Processes for evaluating environmental impact of new facilities – Public consultations in processes of infrastructure implementation – Surveys and other contacts with various environmental groups – Participation in working groups on energy efficiency and universal access – Projects to collaborate with academic institutions and environmental entities

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.

These issues are analysed internally by the various organisations, giving rise to the corresponding responses by Iberdrola, the ultimate goal of which is to improve the satisfaction level of Stakeholders with respect to the various issues.

The table below presents the most significant issues raised during financial year 2016 and a summary of the Company's responses:

Stakeholder	Main issues raised by each group	Iberdrola's response
Workforce	– Labour conditions generally – Labour health and safety conditions – Training – Management of HR processes – Information published	Management approaches set forth in the "Labour practices and work ethics" chapter. G4-1, G4-LA5 to G4-LA11, G4-LA13, and G4-LA16.
Shareholders and financial community	– Financial and economic situation of the Company – Dividends of the Company – Shareholder service – Participation at the General Shareholders' Meeting – Long-term strategy – CSR and sustainability aspects – Information on the markets in which the Company operates and the regulation thereof	Management approach: "Economic performance". G4-1, G4-2, G4-9, G4-EC1. G4-37, G4-42 and "Corporate governance model" chapter of the Integrated Report.
Regulatory entities	– Safety of supply – Economic aspects of supply – Environmental sustainability – Specific issues in each country	Management approaches: "Public policies" and "Supply costs", G4-1 and G4-2. "Regulatory environment" chapter of the Integrated Report.
Customers	– Collection and billing process, and methodologies used – Process for handling customer suggestions and complaints – Issues relating to sales channels – Issues relating to rates – Access to energy for vulnerable customers	Management approaches: "Access to electricity", "Grievance mechanisms for impact on society", "Marketing communications", and "Supply costs". G4-1, G4-PR5, G4-PR6 and EU27. "Customers" specific web page on the corporate website.
Suppliers	– Relationship of Procurement Area with suppliers – Supplier registration and classification process – Respect for Human Rights, ethics in business, and other CSR issues – Environmental responsibility – Occupational health and safety – Local procurement	G4-1, G4-2, G4-12, G4-37, G4-EC9, G4-EN17, G4-EN32 and 33, G4-LA14 and 15, G4-HR9 through G4-HR11, G4-SO9 and 10. Procurement Portal on the corporate website.
Media	– Significant events (*hechos relevantes*) sent to the CNMV – Regulation – Company strategy and positioning – Consumption, R&D&i, and digital transformation of Iberdrola – Corporate governance – CSR and the Company's "social dividend"	Management approaches: "Public policies", "Iberdrola's contribution to the community", "Research and development" and "Iberdrola's contribution to the SDGs" G4-1, G4-2, G4-13, G4-26, G4-34 to G4-55.
Society	– Industry regulation – Innovation and respect for the environment – Sustainable Development Goals (SDGs) and universalization of energy – Iberdrola's contribution to the community (startups, education, art and culture, social-welfare action, etc.)	G4-1, Management approaches: "Research and development", "Public policies", "Iberdrola's contribution to the community", "Iberdrola's contribution to the SDGs" and those relating to the Environmental Dimension in the Sustainability Report.
Environment	– Climate change – Biodiversity – Energy efficiency – Water management – Sustainable mobility – Environmental management model of the Group – Carbon footprint and environmental footprint	G4-1, Management approaches: "Specific management approach to the environmental dimension", "System efficiency," "Biodiversity," "Water", and "Research and development". G4-14, G4-EC2, EU11 to EU13, G4-EN6, G4-EN8 to EN10 and G4-EN11 to EN14.

Iberdrola prepares an annual *AA1000 Compliance Report*, which summarises issues of interest detected within the various communication channels, as well as the response provided by the Company.

The methodology described in the preceding sections (G4-24 to 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 of the foregoing, Iberdrola has a complete Stakeholder management system, which allows it to respond both directly through the channels of dialogue and indirectly through public information (*Sustainability Report*, *Integrated Report*, and the corporate website www.iberdrola.com).

5.
Report profile

G4-28 Reporting period

2016

G4-29 Date of previous report

2015

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 Corporate Communication Division at C/ Tomás Redondo, 1 – 28033 Madrid – Spain, or via comunicacioncorporativa@iberdrola.com.

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, available channels of contact, customer service, and the query mailboxes 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. The GRI content index is located at the beginning of this Report.

G4-33 External assurance for the report

Iberdrola obtains independent external assurance of its annual information, the annual accounts and management reports (individual and consolidated with those of its subsidiaries) by Ernst & Young, and the sustainability report by PwC. Annex 3 hereto includes the external independent assurance report on this document.

6. Governance

Governance structure and composition

G4-34 Governance structure

Board of Directors

Position	Director	Status	Date of Last Appointment	Ending Date
Chairman & CEO	José Ignacio Sánchez Galán	Executive	27-03-2015	27-03-2019
Director	Íñigo Víctor de Oriol Ibarra	Other external	08-04-2016	08-04-2020
Director	Inés Macho Stadler	Independent[1]	08-04-2016	08-04-2020
Director	Braulio Medel Cámara	Independent	08-04-2016	08-04-2020
Director	Samantha Barber	Independent	08-04-2016	08-04-2020
Director	María Helena Antolín Raybaud	Independent	27-03-2015	27-03-2019
Director	Santiago Martínez Lage	Independent	27-03-2015	27-03-2019
Director	José Luis San Pedro Guerenabarrena	Other external	27-03-2015	27-03-2019
Director	Ángel Acebes Paniagua	Independent	27-03-2015	27-03-2019
Director	Ms Georgina Kessel Martínez	Independent	28-03-2014	28-03-2018
Director	Denise Mary Holt	Independent	27-03-2015	27-03-2019
Director	José W. Fernández	Independent	27-03-2015	27-03-2019
Director	Manuel Moreu Munaiz	Independent	27-03-2015	27-03-2019
Director	Xabier Sagredo Ormaza	Other external	08-04-2016	08-04-2020

Secretary (non-member): Julián Martínez-Simancas Sánchez.
Counsel (non-member): Rafael Mateu de Ros Cerezo.
(1) Inés Macho Stadler is the 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 strategy of the Company, and analysing and monitoring business risks, taking into consideration the environmental and social aspects thereof.

Executive Committee

Position	Director	Status
Chair	José Ignacio Sánchez Galán	Executive
Member	Inés Macho Stadler	Independent
Member	José Luis San Pedro Guerenabarrena	Other external
Member	Ángel Acebes Paniagua	Independent
Member	Manuel Moreu Munaiz	Independent

Secretary (non-member): 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, the review of the internal control and risk monitoring systems, the process of preparing the economic and financial information, the 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	Georgina Kessel Martínez	Independent
Member	Denise Mary Holt	Independent
Member	José W. Fernández	Independent
Member	Xabier Sagredo Ormaza	Other external

Secretary (non-member): Rafael Sebastián Quetglas.

Appointments 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, and removal of the Company's directors and senior officers upon the terms established in its regulations, available at www.iberdrola.com.

Appointments Committee		
Position	**Director**	**Status**
Chair	María Helena Antolín Raybaud	Independent
Member	Iñigo Víctor de Oriol Ibarra	Other external
Member	Ángel Acebes Paniagua	Independent

Secretary (non-member): Iñigo Gómez-Jordana Moya.

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 remuneration of the Company's directors and senior officers upon the terms established in its regulations, available at www.iberdrola.com.

Remuneration Committee		
Position	**Director**	**Status**
Chair	Inés Macho Stadler	Independent
Member	Iñigo Víctor de Oriol Ibarra	Other external
Member	Santiago Martínez Lage	Independent

Secretary (non-member): 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	Samantha Barber	Independent
Member	Braulio Medel Cámara	Independent
Member	Manuel Moreu Munaiz	Independent

Secretary (non-member): 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: (i) the principle of joint action, which governs all powers that are of a decision-making or organisational nature, and (ii) the principle of severability, which governs the exercise of powers of mere representation.

Furthermore, the Group's system for representational powers is generally governed by the principle of separation of representatives, pursuant to which each company selects its representatives from among its own employees rather than from the employees of another company.

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 division is responsible for financial matters; the Chairman's Office is responsible for environmental matters; and both the aforementioned areas and the Office of the Secretary of the Board of Directors are responsible for social 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 heads of these divisions usually appear before the Board of Directors.

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

In 2015, Iberdrola approved its *Shareholder Engagement Policy* in order to establish a permanent dialogue with its shareholders, and its *Stakeholder Relations Policy* in order to promote a framework of relationships that favours the inclusion of Stakeholders in the businesses and activities of the Group. Both policies are available at www.iberdrola.com.

The Board of Directors has a Corporate Social Responsibility Committee, the composition and duties of which are described in section G4-34. Among other things, it has the power to "*Analyse the expectations of Stakeholders and endeavour to ensure that they are taken into account when formulating Social Responsibility Policies, and supervise and evaluate the application of the Stakeholder Relations Policy*". The *Activities Report of the Board of Directors and of the Committees thereof* for financial year 2016, available at www.iberdrola.com, identifies the reports prepared by this Committee and the appearances that took place during the year.

As regards the shareholders, the General Shareholders' Meeting is the main channel for their participation in corporate life. It is held within the framework of Shareholder Day, during which various presentations are made and activities are held that seek to bring the Company closer to its shareholders and foster a constructive dialogue with them.

The idea is to allow the Board of Directors to become acquainted with the opinions and concerns of the shareholders and to allow the Board to keep them in mind when establishing the agenda, drawing up proposed resolutions, and deciding on other matters and circumstances relating to the holding of the General Shareholders' Meeting.

In addition, the Board of Directors actively promotes shareholder attendance at the General Shareholders' Meeting and the possibility of their participating in it, as provided in the law and in the Corporate Governance System.

To such end, it facilitates access to the documentation for the General Shareholders' Meeting at www.iberdrola.com.

Furthermore, in order to encourage participation at the General Shareholders' Meeting, the shareholders are provided access to a *Shareholder's Guide*, and to *Rules of Implementation for the Management of the General Shareholders' Meeting* that describe in detail the operation of the proxy-granting and voting system by postal and electronic correspondence.

In addition, Iberdrola promotes electronic participation through the use of personal passwords that it offers its shareholders to exercise such rights from any electronic device with Internet access.

Other proactive actions are also carried out to foster the maximum possible participation of the shareholders, such as telephone information campaigns.

To promote accessibility, the understanding of information, and ultimately the engagement of the shareholders, the Company has implemented 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 permanent 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 participation channel between the Company and 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.

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

e) Meetings with representatives. The interactive OLS - On Line Shareholders system allows accredited shareholders to actively participate in meetings with representatives of the Company appointed by the Board of Directors or the chairman & CEO, to be held electronically, on corporate governance matters and other issues that are significant for the life of the Company that affect Stakeholders and the communities and territories in which the Company operates.

f) Relations with shareholder associations and institutional shareholders. Both shareholder associations and institutional shareholders may request meetings with representatives of the Company through the Investor Relations Division. Long-term engagement plans may also be developed with those shareholders who express their intention to have a stable and continuous presence in the Company's shareholder base, and appropriate mechanisms for dialogue may be established regarding the performance of the Company.

g) Last, the Corporate Governance System makes provision for the ability of the Board of Directors to entrust the lead independent director or other directors with dialogue with specific shareholders on certain issues relating to the corporate governance of the Company.

Notably, in 2016 Iberdrola was the first Ibex-35 company to have its General Shareholders' Meeting certified as a sustainable event, in accordance with international ISO 20121 standard. This means that all the processes of the General Shareholders' Meeting (from its planning to its subsequent holding) follow criteria of sustainability, with the ultimate goal of optimising Iberdrola's contribution to the local economy, to improving the environment, and to its social commitments.

The Company has implemented more than 70 initiatives for this purpose, including the following:

- Hiring of local suppliers.
- Hiring of persons in vulnerable situations.
- Measures aimed at improving energy efficiency.
- Advancement of sustainable transport.
- Actions to guarantee accessibility for groups with different abilities.
- Use of recyclable and reusable materials.
- Collaboration with certain local NGOs.
- Childcare service as a measure to promote work-life balance.

As regards the consultation processes available to the workforce, the workers' representatives have a direct channel to bring their petitions, suggestions, and needs to the attention of the management bodies in connection with various issues relating to the Group's labour relations, via the committees defined in the collective bargaining agreements..

In line with the recommendations set out in the *Good Governance Code of Listed Companies* 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 be significant, as well as an *Employee Ethics Mailbox* (*Buzón ético del empleado*) *and a Suppliers' Ethics Mailbox* (*Buzón ético de los proveedores*) to communicate conduct that may be irregular or entail a violation of the Company's *Code of Ethics*.

A detailed description of the set of the Iberdrola Group's relations with its Stakeholders can be found in section "4. Stakeholder engagement" (indicators G4-24 to G4-27) of this report.

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, three are assigned to the category of other external, and the other ten are independent. Within this last category, five are women, one of whom, Inés Macho Stadler, is the lead independent director (*consejera coordinadora*) and chair of the Remuneration Committee, as well as a member of the Executive Committee. In addition, María Helena Antolín Raybaud, Samantha Barber, and Georgina Kessel Martínez are the chairs of the Appointments Committee, 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 Committee, the 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.

At the General Shareholders' Meeting held on 27 March 2015, the shareholders approved the re-election of the chairman & CEO as executive director by a large majority. Such proposal was supported by two reports: one prepared by an independent expert of recognised standing (PricewaterhouseCoopers Asesores de Negocios, S.L.) and the other by the Board of Directors itself. It was also passed upon favourably by the now-defunct Appointments and Remuneration Committee.

The initiative for such proposal was led by the lead independent director, who called the independent directors to a meeting on 15 December 2014. At such meeting, it was unanimously resolved to submit the proposal to the Board of Directors and to ask PricewaterhouseCoopers Asesores de Negocios, S.L. to prepare a report thereon. In light of the unanimous opinion of the independent directors, of the report of the Appointments and Remuneration Committee, and of the content of the independent expert's report, the Board submitted the corresponding proposed resolution to the shareholders at the General Shareholders' Meeting on the basis of:

- The demonstrated capability and competence of the candidate to hold such position and the specific provisions of the Corporate Governance System of the Company, whose decentralised governance model requires a leadership that necessarily entails a high level of professional commitment and a level of depth, presence, and involvement in such person's work that means that whoever takes on such duties will be considered an "executive" of the Company.
- The practical application of such governance model, which confirms the validity thereof, reflects a better economic and financial performance than that of comparable companies and has historically been supported by the shareholders at General Shareholders' Meetings and by the capital markets.
- The sound checks and balances system implemented by the Company, which: (i) separates oversight and management duties; (ii) ensures that there is a majority of independent directors; (iii) ensures a high level of professional diversity and diversity of gender and origin on the Board of Directors; (iv) grants very significant powers to the lead independent director; (v) establishes a succession plan for the chairman; (vi) decentralises the executive duties of the Group among the various country subholding and head of business companies; and (vii) makes Iberdrola, S.A. a holding company with duties that relate solely to the strategic supervision and coordination of the businesses conducted by the Group.

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

The appointment, re-election, and separation of directors is within 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.

To such end, the Board of Directors has approved a *Director Candidate Selection Policy*, which ensures that proposals for the appointment of directors are based on a prior analysis of the needs of the Board of Directors.

The Appointments Committee advises the Board of Directors regarding the most appropriate configuration of such body 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

each body on a regular basis, particularly when vacancies occur within such bodies. Furthermore, independent directors are appointed on the basis of a proposal of the Appointments Committee, while the other appointments require a report of such Committee.

In any event, the Board of Directors, and the Appointments Committee within the scope of its powers, will 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.

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

The *Director Candidate Selection Policy* ensures that the proposed appointments of directors are based on a prior analysis of the needs of the Board of Directors. They must be irreproachable professionals, whose professional conduct and background is aligned with the principles set forth in the *Directors' Code of Ethics* and the corporate values contained in the *Mission, Vision, and Values of the Iberdrola Group*.

In addition, the selection of candidates shall endeavour to ensure that a diverse and balanced composition of the Board of Directors as a whole is achieved, such that decision-making is enriched and multiple viewpoints are contributed to the discussion of the matters within its power. To this end, the selection process shall promote a search for candidates with knowledge and experience in the main countries and sectors in which the Group does or will do business. The directors must also have sufficient knowledge of the Spanish and English languages to be able to perform their duties.

In turn, the Board has entrusted to the Appointments Committee the responsibility of ensuring that when new vacancies are filled or new directors are appointed, the selection procedures are free from any implied bias entailing any kind of discrimination and, in particular, from any bias that may hinder the selection of female directors. This is expressly provided by articles 27.6.c) of the *Regulations of the Board of Directors* and 3.e) of the *Regulations of the Appointments Committee*.

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 disqualification 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.

The *Regulations of the Board of Directors* also expressly prescribe that directors must resign due to their loss of suitability (particularly when their continuance in office may jeopardise, directly, indirectly, or through persons related thereto, 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), or when owing to supervening circumstances, they fall within any of the instances of disqualification from or prohibition against holding such office established in the law or in the Corporate Governance System. The Board of Directors may request a director subject to any circumstance of disqualification 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 that involve a direct or indirect conflict of their personal interest or that of persons related thereto 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 2016* 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, section 1 of article 43 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 directly or indirectly 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 ("Related-Party Transactions"), 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 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".

Furthermore, section 6 of said article provides that "*the Board of Directors, through the Appointments Committee, shall ensure that transactions are carried out under arm's length conditions and with due observance of the principle of equal treatment of shareholders in the same situation. In the case of transactions to be carried out by companies of the Group, the scope of authorisation of the Board of Directors, or that of the Executive Committee, if applicable, referred to in the preceding sections, shall be circumscribed to the verification of compliance with such particulars.*"

Highest governance body's role in setting 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

Iberdrola and its group of companies are committed to a mission, vision, and values.

This mission of the Group is to create value sustainably in carrying out its activities for society, citizens, customers, employees, shareholders, and other Stakeholders, as the leading multinational group in the energy sector providing a quality service through the use of environmentally-friendly energy sources, which engages in innovation, leads the process of digital transformation in its area of activity, and is committed to the fight against climate change through all of its business activities, with a social dividend and the generation of employment and wealth, considering its employees to be a strategic asset. Along these lines, it fosters their development, training, and measures of reconciliation, favouring a good working environment and equal opportunity. All of the foregoing is within the framework of its strategy of social responsibility and compliance with tax rules.

This mission is supplemented by a vision, based on the ambition of being at the forefront of a better future, creating value sustainably with a quality service for the people and communities in which the Group carries out its activities, as well as by twelve values: creation of sustainable value, ethical principles, good governance and transparency, development of the Group's workforce, social commitment, sense of belonging, safety and reliability, quality, innovation, respect for the environment, customer focus, and institutional loyalty.

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) Vesting in the Company's Board of Directors of powers regarding approval of the strategic goals of the Group and the definition of its organisational model, as well as supervision of compliance therewith and development thereof.

b) Assumption by the chairman of the Board of Directors & chief executive officer, with the technical support of the Operating Committee, by the Business CEO appointed by the Board of Directors, with overall responsibility for all the businesses of the Group, and by the rest of the management team of the duty of organisation and strategic coordination within the Group.

c) The function of organisation and strategic coordination is strengthened through country subholding companies in those countries where the Board of Directors of the Company has so decided. Such entities group together equity stakes in the energy head of business companies carrying out their activities within the various countries in which the Group operates. This structure is completed with a country subholding company that groups together certain stakes in other entities, including non-energy head of business companies, with a presence in several countries. One of the main duties of country subholding companies is to centralise the provision of services common to head of business 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 supervising the general strategy and the basic management guidelines at the country level with respect to the head of business companies grouped within each of them, taking into account the characteristics and unique aspects thereof.

d) The Group's listed country subholding companies (currently Avangrid, Inc.) have a special framework with greater autonomy that extends to the regulatory, related-party transactions, and management areas.

   In particular, all transactions between a listed country subholding company and its subsidiaries and the other companies of the Group require the approval of a committee of the Board of Directors of such country subholding company made up exclusively of directors not related to the Company.

   The special strengthened autonomy framework is further developed in the respective agreements executed by the Company with each listed country subholding company.

e) The head of business companies of the Group assume decentralised executive responsibilities, enjoy the autonomy required for the day-to-day and effective management of each business, and are responsible for the day-to-day control thereof.

   Such 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.

The corporate configuration and governance principles described above make up the corporate and governance structure of the Group. This structure operates jointly with the Group's Business Model, which entails the global integration of the businesses and aims to maximise the operational efficiency of the various business units. It also assures the dissemination, implementation, and monitoring of the general strategy and of the basic management guidelines for each of the businesses, mainly through the exchange of best practices among the various companies of the Group, without reducing the decision-making autonomy of each of them.

Within the Group's corporate and governance structure, the Operating Committee is an internal committee of the Company, the essential function of which is to provide technical, information, and management support to the chairman of the Board of Directors and chief executive officer, in order to facilitate the development of 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 16 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".

In line with the foregoing, in order to improve knowledge by the directors of the businesses of the Group and of the political, regulatory, or economic environment in which it operates, the Board of Directors approves a Training and Information Plan every year that includes training sessions (conducted by prestigious outside professionals) and information sessions (conducted by members of the respective Division). 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.

During 2016, the Corporate Social Responsibility Committee, in its capacity as informational and consultative body created by the Board of Directors, supervised the activities of the Company in the following areas:

a) Corporate social responsibility
   - On-going review of implementation of the CSR Plan 2015-2017.
   - Monitoring of the Stakeholder Relations Model.
   - Analysis of activities in various areas of human resources: employment, safety, satisfaction, diversity, reconciliation, accessibility, etc.
   - Monitoring the Company's activities regarding the environment and climate change.
   - Monitoring of the activities of the Iberdrola Foundations.

b) Corporate reputation
   - On-going review of implementation of the Corporate Reputation Plan 2015-2017.
   - Monitoring of the Company's activities in terms of reputation and brand, like the Reptrak index.
   - Analysis of the Company's cyber-security strategy.

c) Corporate governance and compliance
   - Modifications to the Corporate Governance System, especially in areas of responsible communication and reputation, as well as monitoring of the latest corporate governance trends.
   - Report on the Group's crime prevention plan.
   - Reporting on proposed amendments of the Code of Ethics, and report on level of compliance therewith.
   - Analysis of the results of the ethical culture survey carried out by the Company.

It should also be noted that during the meetings of the CSR Committee in 2016 there were three training sessions on the following aspects:

- Sustainability, Leadership, Trends and Practice.
- Corporate cyber-security.
- Best Practices in CSR and Corporate Governance in USA.

G4-44 Highest governance body's performance

Article 8.11 of the *Regulations of the Board of Directors* provides 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 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 organises and coordinates the aforementioned evaluation process with the chair of each committee.

Section 16 of the *General Corporate Governance Policy* provides that the annual evaluation shall be conducted with "*the cooperation of an independent firm of recognised standing*".

Within the framework of the evaluation process of financial year 2016, Iberdrola has decided to draw on the cooperation of PricewaterhouseCoopers Asesores de Negocio, S.L. Such process is based on the review of a large number of objectively quantifiable and measurable indicators that are updated every year in accordance with the latest trends, and is supplemented by a comparison with the companies identified as having the best market practices. As a result of this process, the Company develops and adopts the respective action plans designed to implement the specific measures that may help to further improve corporate governance practices. The Board of Directors completed this evaluation process for financial year 2016 through the adoption of the corresponding resolution at its meeting of 21 February 2017.

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 officers at committee meetings.

These appearances are described in the *Activities Report of the Board of Directors and of the Committees thereof* for financial year 2016, available at www.iberdrola.com.

In the case of the Corporate Social Responsibility Committee, apart from a group of external advisers, various officers of the Company appeared during 2016:

a) Recurring appearances:
- Secretary of the Board of Directors.
- Reputation and Brand (and the Stakeholder Relations Unit).
- Compliance Unit.

b) Particular appearances:
- Legal Services.
- Energy policies and climate change.
- Innovation.
- Human Resources.
- Iberdrola Foundations.
- Cyber-security and data protection.

The issues dealt with during these appearances are described in indicator G4-43 of this chapter.

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 2016* 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 2016*, which was approved on 21 February 2017, 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.

For their part, the critical concerns considered by the Board of Directors are principally:

- Preparation of the annual accounts and proposed allocation of profits/losses.
- Approval of periodic financial information.
- Approval of budgets and definition of goals of the Iberdrola Group.
- Authorisation or acknowledgement, as appropriate, of significant awards, investments, and divestments of the Iberdrola Group.
- Grant of powers of attorney.
- Setting of the remuneration of the Board of Directors and of the senior management of Iberdrola, S.A.
- Approval of various annual reports.
- Call to the General Shareholders' Meeting, formulation of proposed resolutions, and the corresponding reports of the directors.
- On-going update of the Corporate Governance System.
- Evaluation of the Board of Directors.
- Approval of risk limits and indicators.
- Implementation of resolutions adopted by the shareholders at the General Shareholders' Meeting, and particularly increases and reductions in capital.
- Authorisation or acknowledgement, as appropriate, of financial transactions of the Iberdrola Group (debt and equity).
- Authorisation or acknowledgement, as appropriate, of proposals for the appointment of directors in companies in which the Iberdrola Group has an interest.

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 2016*, which is submitted for a consultative vote of the shareholders at the General Shareholders' Meeting, and which includes the *Director Remuneration Policy*, individually describes the remuneration received by each director. It also sets forth the corporate social responsibility parameters to which the variable remuneration of the chairman & chief executive officer is linked.

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 of 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 standard remuneration at companies in the industry. This report was submitted to a consultative vote of the shareholders at the General Shareholders' Meeting held on 8 April 2016, and was approved with only 2.16% 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 Remuneration Committee, is the body with power to set the remuneration of directors within the overall limit set by the By-Laws and in accordance with law, 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 to the shareholders for approval at the General Shareholders' Meeting. The Remuneration Committee is a consultative committee chaired by and made up mostly of independent directors.

The Remuneration Committee is responsible for evaluating the level of attainment of the targets to which variable annual and multi-annual remuneration is linked. To such end, in financial year 2016 it drew on the advisory services of PricewaterhouseCoopers Asesores de Negocios, S.L.

Pursuant to article 48.1 of the *By-Laws*, the overall limit to the amounts that Iberdrola may annually allocate to the directors each year as an expense, 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.

The *Director Remuneration Policy* and the *Senior Officer Remuneration Policy* are available at www.iberdrola.com.

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

The *Director Remuneration Report* for financial year 2015 was submitted to a consultative vote of the shareholders at the General Shareholders' Meeting held on 8 April 2016, which had a quorum of more than 77.91%, and was approved with only 2.16% of the shares represented in person and by proxy voting 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, Mexico, and Brazil, and the remuneration ratios are set forth in the table below.

Country[10]	Highest level of remuneration	Indicator G4-54[11]			Indicator G4-55[12]		
		2016	2015	2014	2016	2015	2014
Spain	Director	30.30	27.01	17.67	6.78	8.7	N/A
United States	Director (CEO)[13]	16.66	15.33	14.49	N/A	1.79	2.23
United Kingdom	Director (CCO)[14]	11.83	10.84	9.53	3.31	14.64	1.27
Mexico	Director[15]	7.21	10.78	8.48	-0.73	1.33	0.17
Brazil	Director/Chair	41.00	43.6	33.61	0.16	3.7	2.74

The *Annual Director Remuneration Report* for financial year 2016, available at www.iberdrola.com, describes the remuneration of the Board of Directors of the holding company Iberdrola S.A.

10 Scope:
- Spain: Generation, Distribution, Retail, Renewables, and Engineering
- United States: Avangrid, Inc.
- United Kingdom: ScottishPower (including Renewables) and Engineering.
- Mexico: Generation, Renewables, and Engineering.
- Brazil: Elektro.

11 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 being calculated as full-time salary equivalents.

12 Indicator G4-55: United States: The position with the highest remuneration considered in 2016 (CEO of Avangrid) did not exist in 2015. Mexico: The result of the ratio is negative because total annual 2016 remuneration of the person with the highest remuneration is less than that of 2015.

13 CEO: Chief Executive Officer.

14 CCO: Chief Corporate Officer.

15 The position with the highest remuneration considered in 2014 and 2015 was that of Corporate Director.

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 therefore 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 mission, vision, and values applicable to the entire Group, a detailed description of which can be found at www.iberdrola.com.

The basic objectives on which the Group's vision is based include its firm commitment to ethics, good corporate governance, and transparency. Iberdrola thus aspires for its conduct and that of the persons related to the Group, including all participants of the value chain, to conform and adhere not only to applicable law and the Corporate Governance System, but also to ethical principles and generally accepted principles of social responsibility. The mission, vision, and values of the Group, far from constituting a mere declaration of principles, are integrated into its day-to-day management, and in all its areas of activity.

The mission, vision, and values of the Group are inspired by and take shape in the Company's *Corporate Policies*, the *Code of Ethics*, and the other regulations of the Corporate Governance System. The *Code of Ethics* of the Company, in existence since 2002, further develops the mission, vision, and values of the Group and 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* is 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 operation and main powers thereof are set forth in the *Regulations of the Compliance Unit*, which are available at www.iberdrola.com.

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 Policy*, *Anti-Corruption and Anti-Fraud Policy*, *Directors' Code of Ethics*, *Procedure for Conflicts of Interest and Related-Party Transactions with Senior Officers*, *Internal Regulations for Conduct in the Securities Market*, and *Internal Rules for the Processing of Inside Information*.

This ethical and good governance commitment is transmitted in turn to the 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 Customers Business has a *Sales Code of Ethics*, 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

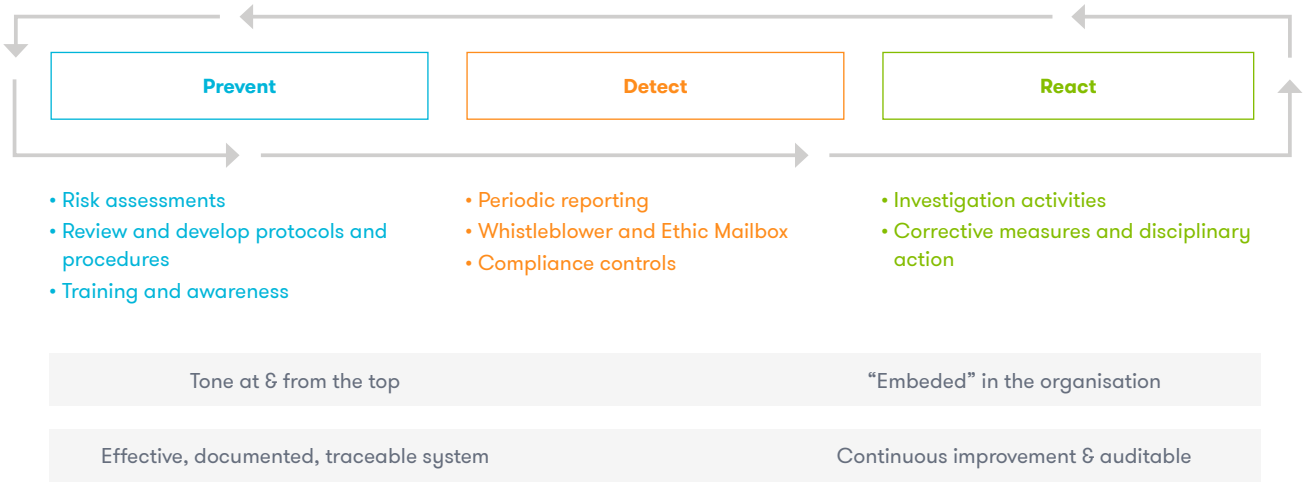
compliance and in the prevention and correction of unlawful or fraudulent conduct. These Compliance Divisions relate to the Unit in accordance with a coordination, collaboration, and information protocol established to such end and in accordance with the Group's Corporate Governance System.

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).

Iberdrola ethics & compliance system



The primary aim of the Compliance System is to encourage the organisation to act in accordance with applicable ethical principles and legal provisions, through a set of procedures and actions designed to prevent, detect, and react to irregular actions, fraud, or actions contrary to the Group's *Code of Ethics* or applicable laws and regulations.

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. Such mechanisms include the ethics channels, which constitute transparent tools to report conduct that could entail an irregularity or an act contrary to the law or to the rules of conduct set forth in the *Code of Ethics*. Queries are also made through these channels on matters relating to the interpretation of and compliance with the *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 Elektro, Avangrid, or ScottishPower, where such mechanisms allow for anonymous use 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 the aforementioned 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.

The Group also has suppliers' ethics mailboxes. Such mailboxes are communication channels to enable the suppliers of the companies or head of business companies of the Group, as well as the companies that they hire to provide services or supplies, their respective employees, and the companies that have participated in a tender for services or supplies to become suppliers, to report conduct that could entail infringement by any Group professional of the Group's Corporate Governance System or any act in violation of legal provisions, or the commission by a supplier, any of its subcontractors, or their respective employees of any act contrary to the law or to the provisions of the *Suppliers' Code of Ethics* within the framework of their business relations with the Company or the companies of its Group. Such mailboxes are available at www.iberdrola.com, specifically in the Procurement portal of the supplier section.

Furthermore, the Group has a Shareholders' Ethics Mailbox. Such mailbox represents 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".

The management of the ethics mailbox for Group professionals, established in the *Code of Ethics*, of the suppliers' ethics mailbox established in the *Suppliers' Code of Ethics* and included in the *Procurement Policy*, and of the shareholders' ethics mailbox established in the *Policy regarding Communication and Contacts with Shareholders, Institutional Investors, and Proxy Advisors* is the responsibility of the Compliance Unit and of the Compliance Divisions of the Group.

Processing and investigation

As laid down in the *Regulations of the Compliance Unit*, it falls upon the Compliance Unit to handle communications made through the ethics 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 and Compliance Divisions 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 2016

As regards the communications received through the channels established in the Group, a total of 743 communications were received in financial year 2016, of which 299 were queries and 444 reports. 11% of the complaints received arose from some type of disciplinary action during the financial year, with a showing that there had been irregular conduct or conduct contrary to the *Code of Ethics*.

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 *Mission, Vision, and Values of the Iberdrola Group*, the *Corporate Policies*, the governance rules of the corporate decision-making bodies and internal committees, and regulatory compliance.

The Iberdrola 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 those of 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 their relations with the company's various Stakeholders.

These policies, which can be viewed in full or in summary in the "Shareholders and Investors" tab at www.iberdrola.com, are grouped into three categories:

- Corporate governance and regulatory compliance policies.
- Risk policies.
- Social responsibility policies.

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 dimension of its activities, included 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 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, Sustainability, and Quality 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 Customers Business, within the Group's General Business Division, 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 Customers 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 or Brazil.

- Aspects relating to production facilities are the responsibility of the Wholesale and Customers 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.
- The Compliance Unit, as an internal permanent collective decision-making body, linked to the Company's Corporate Social Responsibility Committee, performs duties in the area of regulatory compliance and the Company's Corporate Governance System, particularly in the crime prevention and anti-fraud area.

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 thereof, 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 2015-2017 CSR Plan.

This plan is based on goals linked to the business model and to the management of tangible and intangible assets of the Company, focusing on each of them: financial, industrial, intellectual, human, natural, social, and relational capital. Based on these goals, activities are established with which each organisation of the company will contribute to the achievement of the plan, in order to consistently promote the progress of CSR in all countries, businesses, and corporate areas.

These goals are monitored on a half-yearly basis by the Group's Corporate Social Responsibility and Reputation Committee, and by the Corporate Social Responsibility Committee of the Board of Directors when the latter so requests.

A. Economic dimension

Iberdrola's contribution to the SDGs with respect to the Economic Dimension

Iberdrola has incorporated the Sustainable Development Goals (SDGs) into its business strategy and its *Sustainability Policy*. Set forth below are the SDGs to which the Company contributes in accordance with the GRI-G4 Guidelines included in this chapter. This linkage has been performed using the tool "SDG Compass. The guide for business action on the SDGs", available at www.sdgcompass.org.

Goal 1
End poverty in all its forms everywhere

Goal 2
End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

Goal 3
Ensure healthy lives and promote well-being for all at all ages.

Goal 5
Achieve gender equality and empower all women and girls.

Goal 7
Ensure access to affordable, reliable, sustainable and modern energy for all.

Goal 8
Promote sustained, inclusive and sustainable economic growth, full employment and decent work for all.

Goal 9
Build resilient infrastructure, promote sustainable industrialization and foster innovation.

Goal 10
Reduce inequality within and among countries.

Goal 11
Make cities and human settlements inclusive, safe, resilient and sustainable.

Goal 12
Ensure sustainable consumption and production patterns.

Goal 13
Take urgent action to combat climate change and its impacts.

Goal 14
Conserve and sustainably use the oceans, seas and marine resources for sustainable development.

Goal 17
Strengthen the means for implementing and revitalising the global partnership for sustainable development

Contents of Chapter

The aspects dealt with in this chapter are the following:

Aspects of the GRI-G4 Guidelines

Economic performance
Management approach and indicators G4-EC1, G4-EC2, G4-EC3, and G4-EC4
Market presence
Management approach and indicators G4-EC5 and G4-EC6
Indirect economic impacts
Management approach and indicators G4-EC7 and G4-EC8
Procurement practices
Management approach and indicator G4-EC9

Specific Aspects of the GRI-G4 Electric Utilities Sector Supplement

Availability and reliability
Management approach and indicator EU10
System efficiency
Management approach and indicators EU11 and EU12
Demand-side management
Management approach (no related indicators)
Research and development
Management approach (no related indicators)
Decommissioning of nuclear plants
Management approach (no related indicators)

Specific aspects of the Iberdrola Group

Costs of Supply
Management approach (no related indicators)
"Green Bonds"
Management approach (no related indicators)
Cyber-security
Management approach (no related indicators)

Scope of information
The information boundaries used in this chapter are defined in indicator 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; these technologies will have an increasing presence in the sustainable generation of electricity.

Iberdrola continues to engage in a process of 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, supported by a business strategy of sustainable growth and geographic diversification.

Energy is globally trending towards moderate growth in the medium and long term. Iberdrola's strategy is based on consolidating its financial strength, investing in regulated businesses, and continuing to implement efficiency improvements, relying on geographic diversification, and thus maintaining the same strategic pillars that enabled the successful navigation of the global economic and financial crisis. These pillars are:

- Growth in regulated businesses and renewables
- Financial strength
- Sustainable dividend

A summary of the Iberdrola strategy can be found in the document *Outlook 2016-2020* (or in the document superseding it in a subsequent period), which can be accessed through its corporate website in the *About Us* section.

Iberdrola's financial results for the year are summarised in the annual financial information for 2016, 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 this *Sustainability Report 2016* along with the aforementioned financial information. In addition, the *Integrated Report. February 2017*, 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)	2016	2015	2014
Iberdrola consolidated			
Revenue (sales and other income)	30,706	32,421	31,434
Operating costs	18,588	20,995	19,912
Employee remuneration (excluding company social security costs)	2,260	2,187	2,086
Payments to providers of capital	2,692	1,646	2,753
Payments to government administrations	2,740	2,746	2,445
Community investments	36	30	27
Economic value retained	4,390	4,817	4,211

Tax contribution (€ millions)	2016	2015	2014
Iberdrola consolidated			
Company contributions	2,709	2,746	2,445
Contributions due to third-party payments	3,041	2,774	2,566
Total	**5,750**	**5,520**	**5,011**

A breakdown by geographic area can be found in the *Information Supplementary to the Sustainability Report 2016*, available at www.iberdrola.com.

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

2016 was a very important year in terms of the decisions made on the international stage to combat climate change. Iberdrola very positively values the approval of a working agenda at the COP22 in Marrakesh in order to implement the agreed targets, which have entered into force within the Paris Agreement.

Furthermore, consistent with its activities, Iberdrola focuses its effort on the Sustainable Development Goals (SDGs) of supply of accessible and non-polluting energy (goal 7) and climate action (goal 13).

Given the nature of its activities, the Iberdrola Group is exposed to various risks inherent in the different countries, industries, and markets in which it operates. The following should be taken into account due to the significance thereof:

- Effects of climactic variables on production (hydroelectric and wind) and demand (temperatures).
- Volatility of prices for electricity and fuel (gas, coal, CO_2, etc.).
- Regulatory risks in the countries in which the Company does business.
- Volatility in exchange rates and interest rates.

– Operational risks due to a lack of availability of facilities and major incidents in the network.

Senior management at Iberdrola is heavily committed to and participates in the management of the Group's risks.

The Company has a comprehensive risk control system in place, the purpose of which is to provide assurances in terms of economic profitability and environmental and social impact, by properly managing the risk/opportunity relationship. The main characteristics of this system are: structure of risk policies and limits approved by the management bodies; identification, evaluation, and establishment of priorities for the new key risks relating to the businesses and the Group; supervision and control of the impact of risks on the income statement; and evaluation and control of the risks associated with new investments.

Iberdrola's commitment to combating climate change stems from its Board of Directors, which in 2016 approved a revision of the *Policy against Climate Change*, in which the Company 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.

Iberdrola had a significant role in the preparation of the Paris summit and in supporting the progress of the new Climate Summit (COP22), which took place in Marrakesh, not only did so through its participation in the formal process of meetings and events at all levels, but also with a key role in citizen awareness-raising with various activities, including the *Moving for climate NOW*, a 1,100 km cycling route between Seville and Marrakesh organised by the Spanish Global Compact Network and Iberdrola, where the *Moving for climate NOW* manifesto was delivered. Iberdrola also hopes to achieve a 30% reduction in its greenhouse gas emissions intensity by 2020 compared to 2007 levels and a 50% reduction by 2030, and to be carbon neutral by 2050.

Similarly, Iberdrola signed up to a number of initiatives, the most high profile of which are: UN Climate Action (climateaction.unfccc.int), United Nations Sustainable Development Goals, Paris Pledge for Action, Commitment to Action (ex-CDP Roadmap to Paris), We mean business, NAZCA, CEO Climate Leaders (World Economic Forum), Powering Innovation for a Sustainable Future (Global Sustainable Electricity Partnership), One Million Climate Commitments (MAGRAMA), and Community for the Climate (Spanish Global Compact Network), with the goal of reducing emissions and promoting responsible corporate policies on climate change.

The risks arising from climate change are identified and managed to achieve lower short- and medium-term impact. A whole new array of possibilities opens up due to the potential deriving from the entry into force of the Paris Agreement, recognising the need to deal with an ambitious scenario of decarbonisation, which means moving towards a more efficient and less carbon-intensive energy model in which electricity plays a key role.

Iberdrola has increased the transparency and communication of its climate change policies and is taking the steps needed to reduce emissions (A-List, highest category within CDP Climate Change).

In order to show the Company's efforts to mitigate and adapt to the consequences of climate change, Iberdrola has a specific section on its website called "Against Climate Change".

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

In Spain, the companies signing the 6th Collective Bargaining Agreement jointly sponsor a voluntary employee pension plan in which 98% of the workforce participates. The periodic contributions made under said Collective Bargaining Agreement are determined as a percentage of each employee's annual pensionable salary. Iberdrola does not have any unmet financial commitments pending with respect to this plan.

In the United Kingdom, 91% of the workforce participate in the pension plans in one form or another:

- The defined-benefit plan has two pension plan structures, 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.

In the United States:

- The Networks Business has twelve 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, except for the plans of The Berkshire Gas Company Pension Plan, Connecticut Natural Gas Corporation Pension Plan and Southern Connecticut Gas Company Pension Plan for Salaried and Certain Other Employees.. The Networks Business also has defined-contribution plans with distinct and separate operations covering employees who are both subject and not subject to the collective bargaining 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 93% having signed up.
- The Renewables 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 are members of these defined-contribution plans.

In Brazil, Elektro has a defined-benefit 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, which is closed to new entrants as from 31 December 2016. 85% of the workforce are members of these defined-contribution plans. A defined-contribution plan was implemented for the businesses of Elektra effective 31 October 2016, by means of which employees may make contributions as a percentage of their salary, with the business contributing the same amount.

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.

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 from internal funds. In 2015, a defined-contribution pension plan was implemented, with close to 100% of the workforce signing up.

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)	2016	2015	2014
Capital subsidies	13	16	0
Investment tax credits	0	0	0
Emissions rights	0	0	0
Assistance for other items included in the GRI Protocol	0	0	0
Iberdrola consolidated total	**13**	**16**	**0**

A breakdown by geographic area can be found in the *Information Supplementary to the Sustainability Report 2016*, available at www.iberdrola.com.

Government participation in shareholding structure

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

Aspect: Market presence

Management Approach

Consistent with the Iberdrola Group's presence in the international market, the implementation of a corporate Recruiting and Selection tool has allowed for the standardisation of procedures throughout the Group, making possible the internal publication of vacancies at the international level, favouring the movement of employees through various organisations and companies of the Group. 1,796 internal vacancies were published in 2016, with the participation of more than 4,000 employees.

The global publication of external vacancies ensures the inclusion of all candidates within the Company's processes on equal terms, with more than 163,000 external candidates by year-end 2016. 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, but should not be interpreted to show a difference in hiring terms between both groups.

Basic entry-level wage compared to local minimum wage (%)	2016	2015	2014
Men	157.24	156.27	163.43
Women	143.11	141.49	149.41
Basic boundary	**153.44**	**152.36**	**160.87**

A breakdown by geographic area can be found in the *Information Supplementary to the Sustainability Report 2016*, available at www.iberdrola.com.

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 the global policies and procedures that have been approved and implemented (*Recruitment and Selection Policy*, *Equal Opportunity and Reconciliation Policy*, etc.) and in local collective bargaining agreements and policies such as:

- Equality and Reconciliation Plan and Anti-Harassment Action Plan for companies of the 6th Collective Bargaining Agreement in Spain.
- Policies on equal opportunity, anti-age discrimination, people with disabilities, equal pay, harassment, and flexible working policies, as applied in the United Kingdom.
- Policies on sexual harassment, equal employment opportunity, harassment and discrimination, as applied in the United States.
- Equal remuneration policy at Elektro.

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 within which it does business, also encouraging these individuals to reach executive positions in the corresponding companies. In 2016, for companies within the basic boundary, 97.79% of executive officers were local managers, defined as anyone with management responsibilities in a particular geographic area coming from the local community, therefore excluding professionals of other nationalities who are assigned there temporarily under an international mobility programme.

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 2016 is provided below:

Infrastructure

In Spain, it has cooperated on the refurbishment of various municipal infrastructures.

In Mexico, it has participated in the construction and/or improvement of various recreational, educational, and health centres, as well as infrastructure improvement and expansions of potable water and sewage networks.

In Brazil, it has continued with the programme for energy efficiency at public buildings and non-profit organisations, across 23 different municipalities, yielding estimated savings of 1,992 MWh/year.

Services

Significant service activities include support for professional formation and training in areas near Iberdrola's facilities. In 2016, more than 15,000 people visited the *Energy Classrooms*. There are also two visitor centres in the United Kingdom, located at the Cruachan hydroelectric plant and at the Whitelee windfarm, where visits are received from the general public and from school groups.

Of note is the collaboration with Hydrographic Confederations and other bodies in Spain to enable various activities near the hydroelectric reservoirs (sports events, support for 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 enhancement.

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 various lodging, security, health, mechanical, transport, supplier services, etc.
- In local communities, professional training is promoted and skilled labour, such as services for building and maintaining wind farms, is boosted. For example, 200 local workers were used for at least 18 months during the construction of the East Anglia windfarm.
- 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 2016:

- In 2016 Iberdrola procured a volume equivalent to 46 million euros from companies in Spain that have been operating for less than 5 years, which is clear support for entrepreneurship.
- Iberdrola's venture capital program, Iberdrola Ventures - Perseo, funded with 70 million euros, is an opportunity for companies dedicated to innovative technologies and business models, ensuring the sustainability of the energy model.
- In Spain as well as in the United Kingdom, United States, 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

A description of the Iberdrola Group's supply chain can be found in indicator G4-12 of this report.

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.

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

Acquisition or contracting of materials, equipment, works, and services from local suppliers[16] (%)	2016	2015	2014
Spain	93	93	84
United Kingdom	69	80	91
United States	98	98	99
Mexico	66	61	60
Brazil	100	100	100
Other	N/A	41	40
Basic boundary	**84**	**85**	**87**

16 Based on the Tax ID or CIF assigned to the supplier, those registered in the main countries in which Iberdrola does business are considered to be local.

But aside from purely economic value, Iberdrola drives the market 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.

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, amongst others.

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 an energy policy and regulations to enable renewal without endangering the safety of supply. There are auctions of capacity in which the government calculates the amount of capacity required, depending upon its system reliability target, and industry players offer their facilities until such need is met. December 2016 saw the third 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.

The reliability of electricity distribution networks is ensured through studies that make it possible to identify the short- and long-term investments needed to meet new demand and to renew older facilities, all of which is managed in accordance with the RIIO-ED1 framework for the 2015-2023 period.

United States

Iberdrola is among the leading producers of wind energy in this country. The construction of a new electricity transmission corridor from Canada to the United States through the State of Maine is an element that allows 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. In any case, electricity distribution companies guarantee reliability, carrying out studies that make it possible 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 ensuring a more operational and reliable network.

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 these countries participate in developing generating facilities (thermal, hydroelectric, 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 aganst 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 generation efficiency of thermal plants

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

Average thermal efficiency[17] at generating facilities (%)	2016	2015[18]	2014
Combined cycle	51.97	52.36	53.09
Conventional thermal	33.00	32.53	34.29
Cogeneration	55.63	55.56	55.46
Expanded boundary	**51.08**	**49.00**	**49.05**

Detailed information on thermal efficiency in the various countries can be found in the *Information Supplementary to the Sustainability Report 2016*, available at www.iberdrola.com.

EU12 Transmission and distribution losses

Transmission and distribution network losses (%)	2016	2015	2014
Expanded boundary			
Transmission			
United Kingdom	1.13	1.17	1.29
United States	2.66	4.01	3.94
Distribution			
Spain	6.89	7.39	7.63
United Kingdom	6.22	N/Av.	N/Av.
United States	4.79	4.73	4.65
Brazil[19]	12.46	9.20	11.02

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:

- In Spain, updates and modifications to reduce the length of lines through construction of new substations and increases in the power of existing substations, increases in voltage and improvement of power factor, implementation of remote management, and maintenance work. Also, improvements in contract management and supply point inspections: replacement

17 Average of efficiencies weighted by the annual production of each thermal power plant.
18 The data for 2015 have changed compared to previous reporting due to revision and update.
19 All Iberdrola Group networks in Brazil are classified as distribution.

of electromechanical meters with electronic meters, inspection of facilities and regulation of customers and clandestine connections. Furthermore, increase in first-level reviews and strengthening of field activities with supply point inspections to reduce administrative and non-technical losses. 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, etc.

- In the United Kingdom, using thicker conductors than usual in the main high tension lines, a review of the substation specifications to improve efficiency, and the use of smart grids (network metering and smart metering) to identify areas with non-technical losses.
- In the United States, the purchase of padmount and poletop distribution transformers to reduce line losses.
- In Brazil, installation of protective equipment for automatic restart of the system, and construction of new substations and more efficient circuits. Activities include a 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).

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 thus contribute to the more efficient use of energy by consumers, and thereby reduce CO_2 emissions and contribute to the fight against climate change. 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 of its geographic areas and 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 systems, microgeneration, home automation systems, and other solutions.
- Renewable energy facilities: solar thermal and photovoltaic energy.
- Comprehensive management of energy supplies.
- Electromobility.

In 2016 close to 800,000 customers benefited from products and services that improve energy efficiency.

It should be noted that two products were launched in 2016, the *Consumption Monitor* and *Smart Lights*, to improve management of energy consumption. The first allows one to better understand how energy is used in the home and thus be able to manage this consumption, and the second is used for the efficient management of lighting using lights that are programmable and that can be controlled with mobile devices.

In the industrial and commercial sector, there are initiatives to assist with these companies' obligation to perform Energy Audits, and also to advise on optimisation of their energy consumption.

Iberdrola also obtained approval of 3 demand management programmes in 2016 for the new *Plan to promote efficiency in energy consumption* (PPEC 2017-2018) in Portugal, which will be implemented in the coming years.

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 *Energy Company Obligation (ECO) Programme*, promoted by the British government, the purpose of which is to reduce CO_2 emissions and heating costs. It also provides energy consultancy and support services through a range of channels.

The Company's projects in the area of commercial and industrial customers are focused primarily optimising input voltage, monitoring of energy consumption by users, air conditioning and heating system adjustment and improvement, and evaluation and improvement of building management systems for local authorities.

In addition, a number of Demand-Side Response (DSR) products have been launched to generate business opportunities through the management of one's own energy consumption based on network requirements.

United States

In Maine, residential demand-side management programmes are developed by the *Efficiency Maine Trust*, rather than by electricity companies directly. In addition, the New York Public Service Commission defines goals for the State of New York. In both cases, both the goals and the scope for the 2016-2018 period have been defined. It should also be noted that the Massachusetts energy efficiency programmes have reached 1st place in the *American Council for an Energy-Efficient Economy* ranking, with *Home Energy Solutions* being most noteworthy for reducing total energy consumption of the homes that are part of the programme.

Brazil

Elektro, alongside the National Electrical Energy Agency (*Agencia Nacional de Energía Eléctrica*) (Anneal), runs two energy efficiency programmes for residential customers. The first, which is aimed at low-income customers, focuses on light replacement, refrigerators, installation of solar heaters, and refurbishment of electrical installations. The second is aimed at education for efficient use of energy, by educating teachers in this area.

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 institutional segment, Celpe, Coelba, and Cosern have carried out a range of projects relating to the improvement of energy efficiency, the replacement of electric motors with more efficient ones, and the generation of solar energy.

Aspect: Research and development

Management Approach

As part of a clear strategy. which is set out in the *Innovation Plan 2015-2017,* 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, which are designed to adapt to an increasingly global and competitive market, responding to the needs of customers. 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 make it possible to face the energy challenges of the future. Through Perseo, Iberdrola's corporate venture capital programme, there is investment in technologies and new businesses that ensure the sustainability of the energy model.

Thanks to human and financial efforts (211 million euros in 2016) allocated to research, development, and innovation (R&D), 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

2016 saw continued work on R&D projects specifically designed to develop solutions to reduce costs and improve energy efficiency, to integrate renewable energy, and to develop new construction designs or processes: projects such as *Arbórea* for early detection in wind turbine blades through the use of drones, the *ESS2Wind* project for the analysis of wind farm storage systems, as well as the *HPC4E* project to build models and simulations for the design of windfarms, based on fluid dynamics models.

Similarly, Iberdrola is participating in the European *Best Path* project, with a view to demonstrating new technologies that enable the incorporation of renewable energy sources into European networks.

Clean generation technologies

In 2016, 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

There has been a launch of the Prexes project to develop a model for predicting expansion in concrete hydraulic structures. As for safety of the facilities, the Vidagen project has launched to design and develop a tool for the lifetime management of pressurised equipment.

In the nuclear segment, the *Filtronuc* and *Resonuc* projects are of note. The first focuses on the design and development of a new filtered venting system to maximise performance without diminishing the safety of the system. In the *Resonuc* project, work is ongoing to monitor and characterise resonance in critical systems in order to develop a solution that ensures their optimal operation as a key factor in the safety and reliability of such plants.

Environment

Iberdrola continues to be firmly committed to reducing the environmental impact of its generating plants, with the implementation of an ambitious project called CO_2Formare, focused on cooling systems at plants to reduce their environmental impact through the efficient use of CO_2. 2016 also saw the launch of the QuemaNOx and RemiNOx projects, based on knowledge gleaned from the Coeben-II project, to conform the Lada and Velilla facilities to increasingly ambitious environmental requirements.

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 2016 of new services like the *Optimal rate* (based on the management of off-peak tariff rates) and new products like *Consumption Monitor* focused on improving energy efficiency through the management of home consumption and *Smart Lights*, focused on the efficient management of lighting using LED smart bulbs controlled by a mobile device.

Smart grids

The Group's R&D 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. There has been a successful conclusion of the *iGreenGrid* project in developing specific methods for integrating renewable energy into the electricity distribution networks, and the *Discern* project for comparing various smart grid solutions to find the most optimal set of architectures.

In the field of the standardisation and maintenance of overhead lines, Iberdrola is participating in *Silectric*, regarding new insulators for overhead lines and high voltage switch gear. It is also leading the *Matusalen* project to develop a system for determining the ageing of medium voltage cables in underground lines. 2016 saw the completion of the *Tabon* project to develop technology to verify and inspect lines.

Along this same line, the United Kingdom has seen the development of the *Phoenix* project to develop elements permitting greater use of renewable energy in situations where conventional generation is restricted, the *Power2Tower* project to investigate the feasibility of a system to monitor transmission grids through wireless communication platforms mounted on supports, and the *Vwam* project to analyse virtual overhead line models developed using LiDAR technology. In Brazil, there are innovation projects to develop smart grids, like *Bid Monitor*, a machine that supports decision-making in electricity sales, and *Smart City* for the implementation of an urban reference model based on smart grids. In the United States, there are initiatives included in the *Energy Smart Community* programme to efficiently connect consumers, community and the distributed energy resources market.

Iberdrola has an R&D smart grid technology centre in Qatar, at which it continues to develop projects in this field.

Iberdrola Ventures - Perseo

Iberdrola Ventures - Perseo is Iberdrola's 70 million-euro 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 50 million euros has been invested through the programme in start-ups developing technology and new businesses in the energy sector worldwide. The main activities in 2016 included:

- Development and growth of the company Arbórea Intellbird, jointly owned with CDTI, to use drones for inspecting all kinds of energy infrastructure.
- Consolidation of the company Stem as a leader in the distributed storage market to offer savings to customers by means of a solution behind a meter that includes batteries and software (big data and cloud).

Further information on the R&D projects in which Iberdrola participates can be found in the Innovation section of www.iberdrola.com.

Aspect: Decommissioning of nuclear plants

Management Approach

The company 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, which also includes a financial/economic study of such activities, is

submitted for approval to the Ministry of Industry, Energy and Tourism (MINETUR) every four years or upon request therefrom.

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.

As a company that owns part or all of 7 nuclear reactors, Iberdrola makes contributions to the fund for the decommissioning of nuclear plants through a fee that is calculated to cover all management expenses for radioactive waste, spent fuel, and the decommissioning of such plants.

In addition, Iberdrola allocates funds to cover the pre-decommissioning stage of its nuclear power plants. Pre-decommissioning means the period between the final 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.

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

- The Agency for the Cooperation of Energy Regulators and the European Commission, in studies on electricity prices published in 2016, confirmed that taxes and components associated with energy and environmental policies have grown the most, reaching half of the bill in countries like Spain, due to the significant renewables effort made by the electric sector. A competitive electricity supply requires the elimination of cost components outside of the service itself, and paying for these costs through general taxes or taxes on all polluting energies.
- The strategy of the Energy Union that commenced in 2015 and that was specified in legislative proposals like the Clean Energy for All Europeans (2016) "package" responds to the need to comply with the 2030 environmental agenda (40% reduction in GHG emissions, 27% increase in renewables, and 30% improvement in energy efficiency), monitoring the safety of supply and the competitiveness of the European industry, and allowing prices that are accessible for European citizens.

Spain

- The price of electricity supply in Spain is less than the European average. Less than half the costs of supply are directly related to providing the service. The rest derive from the pursuit of energy policy goals (aid for renewable energy and cogeneration) and social goals (subsidies for electricity in non-mainland territories, recovery of tariff deficits from previous years).

- Iberdrola has established a Protocol to ensure energy supply for customers in vulnerable situations, who have subsidised rates (Bono social) due to being pensioners or having all of the members of their family unit unemployed, as well as disadvantaged persons identified by the social services. For this purpose, since 2015 Iberdrola has been collaborating with public authorities, various institutions and NGOs, signing agreements in order to identify these economically disadvantaged persons. 98.8% of the domestic customers of Iberdrola reside in an area protected by an agreement.

United Kingdom

- After the CMA investigation, the debate on prices has focused on higher standard variable tariffs (SVTs): reducing the number of people with SVTs and the disadvantages thereof. Iberdrola has the lowest proportion of SVTs amongst the large suppliers.
- Although the government continues to focus on minimising the costs that it controls, it has maintained capacity auctions, the minimum price of CO_2, and has announced the next auction of Contracts for Differences.

United States

- Tariff revisions reflect pressure by regulators to limit returns on capital, while maintaining the investments required to improve the network infrastructure.
- The closure of coal plants and the new regulation developed by the Environmental Protection Agency (EPA) may increase pressure on gas and electricity prices. Shale production might limit this impact.
- Restrictions on transporting natural gas by pipeline in the Northeast could 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, new EPA regulations, and the integration of new energy sources require major investments, which sometimes conflicts with the goal of reducing final tariffs.
- In 2017, President Trump and the Congress want to focus on comprehensive tax reform, including support for infrastructure and repealing environmental regulations. Trump promised to support oil, gas, and coal, questioned climate science, argued for withdrawing from the Paris Agreement, and opposed a carbon tax. This could affect electricity markets and prices.

Mexico

- Energy reforms were launched in 2014, with one of the key goals being to improve competition and lower electricity prices for end users.
- With the opening of electrical energy generation to private investment, renewable generation objectives and other measures, such as auctions for the purchase of clean energy certificates, the reform is incentivising competition in order to diversify the energy matrix and reduce the costs of generation

Brazil

- 2016 was marked by a position of energy overcontracting by the distributors, caused by the reduction in consumption deriving from the economic crisis, consumer migration to the free market without distributors being able to reduce the contracts, and assignment of contracts for a higher-than-necessary amount. The regulatory bodies and government have approved a set of measures to resolve this distributor risk.
- The hydrological situation improved in 2016 in comparison with the previous year, a green tariff structure from April to October, which entails the end customer not paying additional costs for the production of energy.

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 will operate within the established regulations, supporting frameworks that expand free-market activities and market

transparency and incentivise required investments and efficient operations, through tariff schemes that send efficient signals to consumers and do not penalise them 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 align itself with its vision and values and to expand and diversify its sources of financing.

The differentiating feature of such bonds is that the issuer undertakes to use the proceeds to finance or refinance socially responsible projects like renewable energy, research into more efficient energy sources, cleaner vehicles, etc. There is also a commitment to regularly report on the return on investment in terms of the sustainability of such projects.

To date, the Company has engaged in 4 issues of "green bonds", aimed at Socially Responsible Investors (SRIs). The bonds were issued in 2014 (April) and 2016 (April, September, and December). The definition of the types of projects eligible for the proceeds can be found in the corresponding "*Second Party Opinions* " prepared by VigeoEiris and available on the corporate website. It is important to note that before companies can issue such financial assets, they must have a strong record on sustainability.

The *Green Bond Returns Report* is available in Annex 2 of this report.

Aspect: "Cyber-security"

Management Approach

In order to ensure appropriate protection of the Group's physical and IT assets, in April 2015 Iberdrola's Board of Directors approved the *Cybersecurity Risk Policy*, which establishes a global framework for the control and management of the cybersecurity risks applicable to all the companies of the Group. In particular, it refers to the risks arising from threats to and vulnerabilities in information, information and communications systems, facilities, and any other asset that forms part of the Group's cyber-infrastructure. It also establishes the guidelines for a cybersecurity management model common to the entire Group, based on the establishment of a Cybersecurity Committee and on the development of global rules and standards to be applied within all the businesses and corporate functions.

The Group's Cyber-Security Committee, on which all businesses and corporate functions are represented, promotes and supervises the deployment of this policy and the cyber-security strategic plan throughout the organisation, based on risk analysis and management, the application of technical and organisational measures for appropriate protection and resilience of assets based on the critical nature thereof, training and awareness-raising of the entire workforce, cyber-security in the supply chain, and the management of threats and incidents, including external monitoring work to defend the brand and the Company's customers against potential cybernetic risks and frauds through social engineering.

B. Environmental dimension

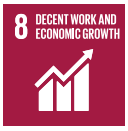
Iberdrola's contribution to the SDGs with respect to the Environmental Dimension

Iberdrola has incorporated the Sustainable Development Goals (SDGs) into its business strategy and its *Sustainability Policy*. Set forth below are the SDGs to which the Company contributes in accordance with the GRI-G4 Guidelines included in this chapter. This linkage has been performed using the tool "SDG Compass. The guide for business action on the SDGs", available at www.sdgcompass.org.

Goal 3
Ensure healthy lives and promote well-being for all at all ages.

Goal 6
Ensure availability and sustainable management of water and sanitation for all.

Goal 7
Ensure access to affordable, reliable, sustainable and modern energy for all.



Goal 8
Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Goal 9
Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

Goal 11
Make cities and human settlements inclusive, safe, resilient and sustainable.

Goal 12
Ensure sustainable consumption and production patterns.

Goal 13
Take urgent action to combat climate change and its impacts.

Goal 14
Conserve and sustainably use the oceans, seas and marine resources for sustainable development.

Goal 15
Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

Goal 16
Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

Goal 17
Strengthen the means of implementation and revitalize the global partnership for sustainable development.

Contents of Chapter

The aspects dealt with in this chapter are the following:

Aspects of the GRI-G4 Guidelines

Materials
Management approach and indicators G4-EN1 and G4-EN2
Additional information required by the GRI *Sector Supplement*
Energy
Management approach and indicators G4-EN1, G4-EN2, G4-EN3, G4-EN5, G4-EN6, and G4-EN7
Additional information required by the GRI *Sector Supplement*
Water
Management approach and indicators G4-EN8, G4-EN9, and G4-EN10
Additional information required by the GRI *Sector Supplement*
Biodiversity
Management approach and indicators G4-EN11, G4-EN12, G4-EN13, and G4-EN14
Additional information required by the GRI *Sector Supplement* and indicator EU13
Emissions
Management approach and indicators G4-EN15, G4-EN16, G4-EN17, G4-EN18, G4-EN19, G4-EN20, and G4-EN21
Additional information required by the GRI *Sector Supplement*
Effluents and waste
Management approach and indicators G4-EN22, G4-EN23, G4-EN24, G4-EN25, and G4-EN26
Additional information required by the GRI *Sector Supplement*
Products and services
Management approach and indicators G4-EN27 and G4-EN28
Compliance
Management approach and indicator G4-EN29
Transport of persons and products
Management approach and indicator G4-EN30
Expenditures and investments
Management approach and indicator G4-EN31
Supplier environmental assessment
Management approach and indicators G4-EN32 and G4-EN33
Environmental grievance mechanisms
Management approach and indicator G4-EN34

Scope of information
The information reported in this chapter corresponds to the "expanded boundary", as defined in section G4-17 of this report.

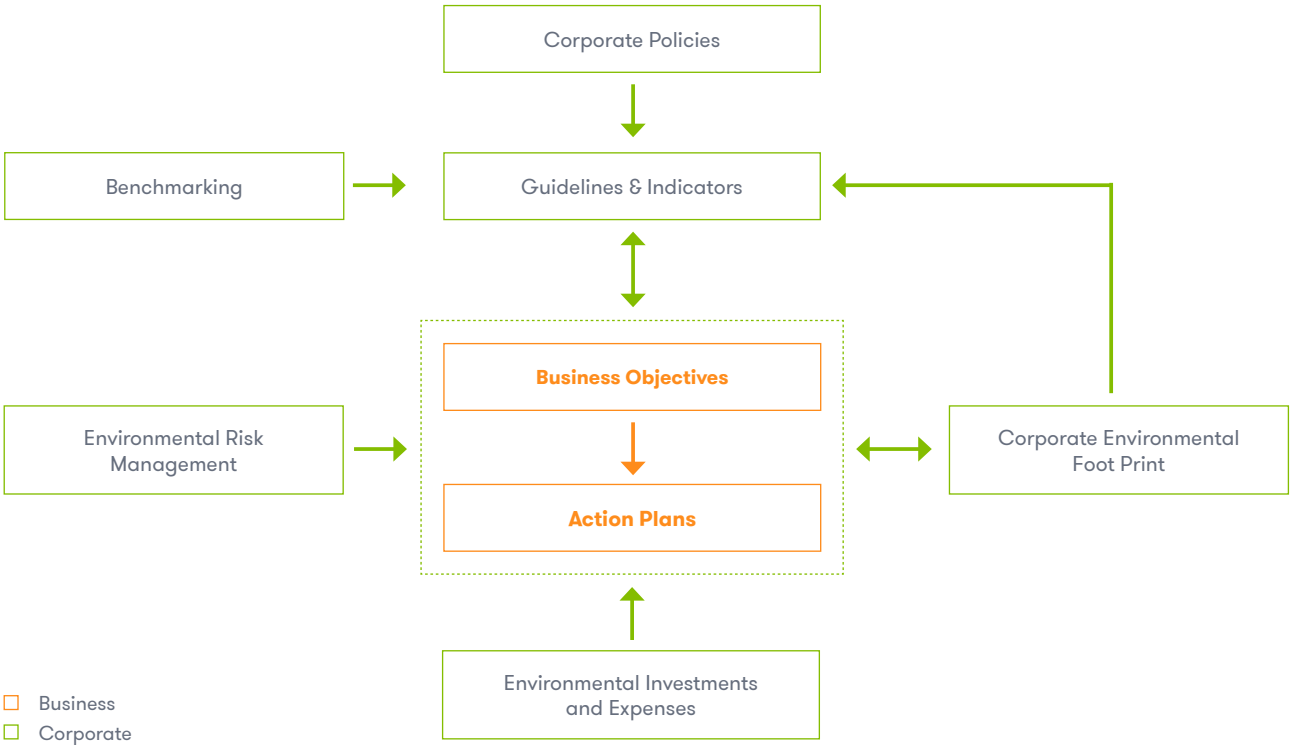
Specific management approach to the environmental dimension

Introduction

The environmental management model of the Iberdrola Group is intended to align the environmental dimension within the company's sustainability model, integrating universal service, safety, competitiveness, energy efficiency, and a reduction in the Company's Environmental Footprint.

Environmental management model

The environmental management model is an integrated system made up of the following elements:



The main elements making up this model are:

- Corporate environmental policies.
- Environmental guidelines based on 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.
- Quantification of environmental investments and expenses pursuant to GRI criteria, identified in indicator G4-EN31.
- Environmental goals and action plans of the Group, which are executed by the businesses.

- Management of environmental risks through identification and preventive management thereof via mitigation and control measures.
- Management of the Company's public information (business benchmarking and management index).
- Corporate Environmental Footprint (CEF), as a measure of the organisation's environmental performance (ISO-TS 14072).
- Iberdrola's Certified Integrated Environmental Management Systems.

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 24,251 hours to such training in 2016; a supplier tracking and information model; and a close relationship with the various Stakeholders involved, through various means of communication.

Furthermore, it should be pointed out that the data used to calculate the indicators of this report 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% of the Group's energy production is subject to management systems under the UNE-EN ISO 14001 and UNE-EN ISO 9001 standards.

Organisation of environmental duties

The Company has an organisation that approaches environmental management in a decentralised manner. Thus, applying the principle of "subsidiarity", all matters relating to the environment must be dealt with and resolved in each region by the affected business. The Company's environmental organisation is structured in the following manner:

Senior management

Sets and defines the policies, strategy, and the environmental organisation for the entire Group.

Innovation, Sustainability, and Quality Division

Proposes the management policies, models, and systems, sets environmental guidelines, and makes the environmental performance report. All supported by the calculation of the Corporate Environmental Footprint and the emissions of the Company at the global level. Also manages the relationship with Stakeholders (governments, environmental organisations, etc.) in this area.

Environmental divisions within the businesses

Are responsible for maintaining the environmental management systems (mainly based on the ISO 14001 standard), including compliance with legal obligations, setting the environmental goals of the business, making plans for improvement, and generally performing all operational duties relating to the environment within the scope of their business in each region.

This entire organisation of the Environment Area revolves around Iberdrola's Environmental Management Model, 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.

Corporate policies

Iberdrola has four specific corporate policies for environmental management:

- Sustainability Policy
- Environmental Policy
- Policy against Climate Change
- Biodiversity Policy

All of them have been approved by the Board of Directors and are available at www.iberdrola.com.

Corporate Environmental Footprint (CEF)

Iberdrola's environmental management includes the CEF methodology, which evaluates the effects of the Company's activities on the environment from the life cycle viewpoint (ISO/TS 14072:2014 standard). The objectives of the CEF are:

- To quantify, homogenise, and unify the Group's environmental performance.
- To determine the effect of Iberdrola's activities in the different environmental impact categories.
- To help monitor the organisation's environmental performance and allow for traceability of the objectives of the businesses and of the environmental improvements.
- To identify and assess the environmental aspects having the greatest significance for Iberdrola's activities.

For more information, see the *Corporate Environmental Footprint Results Report 2015*, available at www.iberdrola.com.

Certifications

In 2016, 84% of the Group's energy production took place under certified environmental management systems, distributed as shown in the following table:

Energy production of the Group under certified systems (%)	2016	2015	2014
Spain	98.8	98.6	98.4
United Kingdom	94.7	96.0	99.5
United States	15.2	16.8	16.8
Mexico	96.7	98.1	98.4
Brazil	39.2	29.3	56.2
Other countries	0	0	0
Expanded boundary	**84.0**	**84.2**	**87.0**

Follow-up audits to maintain the environmental certification of the Iberdrola Environmental Management System (IEMS) in Spain and Portugal, as well as that of ScottishPower under the UNE-EN ISO 14001:2004 standard, were performed during the financial year.

For yet another year, the greenhouse gas emissions inventory for the entire Iberdrola Group was verified pursuant to the UNE ISO 14064-1:2006 standard.

Verification of the Corporate Environmental Footprint of the Iberdrola Group under the ISO TS 14072 standard was obtained for the first time.

More information is available at www.iberdrola.com.

Aspect: Materials

Management Approach

Electricity generation is one of the main activities carried out within the Group. In generating electricity, the Group constantly seeks to use the most efficient technologies per unit of production, with the lowest environmental impact (eco-efficiency), via:

- Gradual reduction in the consumption of fossil fuels such as coal, natural gas, etc., pursuing the business strategy of replacing conventional technologies with others offering production with lower emissions.
- Selection of products having a reduced environmental impact.
- Sustainable management and use of chemical products, oils, lubricants, and coolants, always respecting the natural environmental and taking the necessary measures to reduce the risks of affecting it.

There is a residual presence of polychlorinated biphenyls (PCBs[20]) at Iberdrola, which continues with its policy of eliminating equipment containing PCBs from its facilities.

G4-EN1 Materials used by weight or volume

Use of materials

The consumption of fuel from non-renewable sources over the last three years and the distribution thereof by country is shown below:

Use of raw materials	2016	2015	2014[21]
Expanded boundary			
Coal[22] (t)	1,746,457	4,909,742	5,292,521
Fuel (t)	45,117	43,130	34,705
Natural gas (Nm^3)	11,268,297,472	10,637,220,513	9,819,978,549
Gas-oil (m^3)	29,520	7,467	54,480
Uranium (Tep)	6,564,668	6,310,643	6,653,787
Waste derived fuel (WDF) (t)	1,800	1,526	3,357

Distribution of fuels consumed (%)	Coal	Fuel-oil	Natural Gas	Gas-oil	Uranium	WDF
Expanded boundary						
Spain	54.5	100	12.9	17.8	100	100
United Kingdom	45.5	0.0	14.2	0.0	0.0	0.0
United States	0.0	0.0	5.9	0.0	0.0	0.0
Mexico	0.0	0.0	63.8	82.2	0.0	0.0
Brazil	0.0	0.0	3.2	0.0	0.0	0.0
Other countries	0.0	0.0	0.0	0.0	0.0	0.0

20 PCBs: Dielectric used in transformers and capacitor banks prior to 1999.
21 2014 - last year for generation of energy from biomass.
22 The difference in tonnes of carbon consumed is due to the closure of Longannet.

The following table shows the net generation (renewable and non-renewable) for 2016 by country and by technology, with 34.2% of generation from renewable material.

Net generation by technology and country (GWh)	Spain	United Kingdom	United States	México	Brazil	Other countries
Expanded boundary						
Combined cycle	3,709	8,341	26	34,795	1,575	0
Renewables	11,994	3,098	15,002	1,119	848	1,437
Nuclear	24,381	0	0	0	0	0
Coal	2,084	1,719	0	0	0	0
Hydroelectric	18,325	590	327	0	1,303	0
Cogeneration	2,290	0	2,557	1,654	174	0

As shown in the following table, 90% of the expanded boundary is achieved using local sources of energy[23].

Production with local sources of energy	(%)
Expanded boundary	
Spain	88
United Kingdom	87
United States	86
Mexico	100
Brazil	72
Other countries	100

Chemical products are also consumed (to a much lesser extent) for water purification, filtering of gases, etc.; oil for lubrication, maintenance of equipment, and office paper. As to this last consumable, it should be noted that electronic employee payroll reporting was implemented in Spain during financial year 2016, avoiding the use of 0.7 t of paper compared to prior years. More information is available at www.iberdrola.com.

Elimination of polychlorinated biphenyls (PCBs)

There are residual PCBs at the Group's facilities in Spain, the United States, and Brazil. However, no pyralene transformers with more than 500 ppm of PCBs remain.

In Spain Iberdrola maintains a service for the analysis, removal, and elimination of equipment containing PCBs, including the performance of a free initial diagnosis with no commitment, for third parties.

23 All renewable and non-renewable sources available in the country are deemed local sources of energy. Nuclear fuel acquired from the Spanish company Enusa is considered local.

349.7 t of oil with pyralene in Spain and 5.5 t in the United States were managed during 2016. In Brazil, 49 t of oil with pyralene was managed, with 493.7 t of this substance remaining to be eliminated in the coming years.

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, optimising the current systems, and replacing technologies with other renewable ones.

At some Mexican plants and at the Klamath plant in the United States, treated waste water is reused in their cooling systems, avoiding the use of river or dam water.

Waste derived fuel (WDF) is included as recovered material, and 0.01% of the fuel consumed during the year is of this type.

Aspect: Energy

Management Approach

The Iberdrola Group ensures optimisation in the use of energy throughout its entire energy chain (production, transmission, distribution, supply, and end use). With respect to the last item, Iberdrola wishes to contribute to a more efficient use of energy by consumers, through information, training, and supply of solutions and technologies that help them improve their energy efficiency and reduce the environmental impact of their energy habits and consumption.

The Group addresses energy efficiency from three perspectives:

- As an electricity company, it seeks to improve energy efficiency by introducing the most advanced technologies and equipment in the generation, transportation, and distribution of energy.
- As a company that consumes energy, Iberdrola promotes the on-going improvement of energy efficiency across all its activities (offices and building, vehicles, water, mobility, employee awareness, etc.).
- As a company that supplies electricity, it wishes to contribute toward a more efficient use of energy by consumers.

G4-EN3 Energy consumption within the organization

Internal energy consumption measures the consumption of energy at all of the Iberdrola Group's facilities, buildings, and offices.

Internal energy consumption (GJ)	2016	2015	2014
Fuel consumption	**742,334,351**	**795,373,571**	**793,228,398**
Natural Gas	420,044,400	394,744,432	374,199,812
Uranium	274,800,068	271,060,760	284,581,493
Coal	45,338,800	127,495,720	132,755,563
Fuel-oil	1,919,103	1,761,970	1,369,710
Gas-oil	173,154	261,019	206,583
WDF	58,826	49,670	115,237
Energy purchased	**13,951,277**	**12,911,807**	**16,141,075**
Standby and pumping	13,096,768	12,218,098	15,508,425
Buildings	854,509	693,710	632,650
Energy sold[24]	**289,427,470**	**317,230,323**	**303,813,691**
Steam sold	**16,604,586**	**12,855,808**	**11,568,107**
Expanded boundary	**450,253,572**	**478,199,247**	**493,987,676**

24 Energy sold: considers all non-renewable energy generated and sold by the group.

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

Internal energy consumption (GJ)	2016	2015	2014
Spain	241,428,586	245,040,732	239,492,776
United Kingdom	47,145,185	95,140,720	95,837,549
United States	21,682,391	11,861,046	10,217,935
Mexico	137,297,735	123,243,603	142,132,126
Brazil	2,681,802	2,897,200	6,291,677
Other countries	17,873	15,946	15,612
Expanded boundary	**450,253,572**	**478,199,247**	**493,987,676**

The bulk of Iberdrola's energy consumption is the consumption of fuel used in the Company's processes. The following table shows consumption in recent years:

Fuel consumption (GJ)	2016	2015	2014
Generating plants[25]	675,646,785	732,204,413	735,649,366
Cogeneration	65,632,291	61,848,919	56,051,306
Non-generating plants[26]	1,055,275	1,320,240	1,527,726
Expanded boundary	**742,334,351**	**795,373,571**	**793,228,398**

G4-EN4 Energy consumption outside of the organization

The most significant consumption of energy outside of the organisation is consumption associated with the transport of fuel, the transport of employees from their home to the workplace, and business travel. All of this information forms part of scope 3 of the calculation of greenhouse gas emissions.

A methodology is being developed to obtain appropriate conversion factors to determine the energy consumption corresponding to this indicator in units of energy.

25 Combined cycle, conventional thermal and nuclear plants.
26 "Non-generating" facilities are: Daldowie (thermal drying) and Hatfield (gas storage) in the United Kingdom, and the Enstor plant (gas storage and distribution) in the United States.

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)[27]	2016	2015	2014
Expanded boundary	189	192	202

Internal energy consumption (GJ/MWh)

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

Intensity of internal energy consumption[28] (GJ/MWh)	2016	2015	2014
Expanded boundary	3.28	3.50	3.56

G4-EN6 Reduction of energy consumption

Consumption equivalent to 214,776,598 GJ/year in non-renewable primary energy was avoided in 2016 through the generation of renewable energy, including hydroelectric energy, and the supply of steam to industrial customers.

Areas	Energy type	Energy (GJ/year)		
		2016	2015	2014
Expanded boundary				
Renewables	Primary energy savings through the production of renewable energy	120,594,510	118,121,437	121,902,948
Hydroelectric	Primary energy savings through hydroelectric generation	75,818,438	57,101,281	74,818,080
Cogeneration	Savings through the supply of heat energy (steam) within the Group	18,363,650	12,855,808	11,568,240

27 Conversion factor used: 1GJ= 0.023888889 Tep.
28 2014 and 2015 data has been recalculated due to the change in the calculation of the G4-EN3 indicator.

In addition, 54,101,098 GJ/year were saved due to efficiency in the distribution and transmission network and in the commercial management of energy.

Areas		Item	Energy (GJ/year)		
			2016	2015	2014
Expanded boundary					
Network efficiency		Savings from network efficiency in Spain, United Kingdom, and Brazil	2,337,062	1,748,013	1,888,426
Retail	Spain	Green energy supplied	5,770,800	1,070,482	1,416,306
	United States	Green energy supplied	208,774	221,222	235,055
	Brazil	Green energy supplied	45,784,462	39,643,801	35,889,974

Efficiency in thermal generation

Apart from savings in the supply of energy, as in prior years the Company continues to take action to improve the efficiency of the plants, avoiding leaks, decreasing emissions, reducing internal consumption, optimising start-up time and procedure, and installing recirculation systems, among other things.

This includes the activities of the Tarragona Power CC plant, where a frequency shifter has been installed in the water pumping system feeding of the steam boiler, entailing a saving of 936 GJ.

Efficiency of the energy power grid

The electricity losses of the transmission and distribution networks of the Iberdrola Group are shown in indicator EU12 of this report. The Company takes extensive measures to control or reduce such losses and improve the efficiency of the grid, including:

- Updates and modifications to reduce the length of lines through construction of new substations and increases in the power of existing substations, increases in voltage and improvement of power factor, implementation of remote management, and maintenance work.
- Improvements in contract management and supply point inspections: replacement of electromechanical meters with electronic meters, inspection of facilities, and regulation of customers and clandestine connections.
- Increase in first-level reviews and strengthening of field activities with supply point inspections to reduce administrative and non-technical losses.

Efficiency at buildings

Iberdrola continues to implement energy efficiency measures at the buildings and offices of the Company all over the world. It works to improve acclimatisation (heating and air conditioning) performance, thermal insulation, and the lighting of buildings, as well as automation of the facilities associated therewith.

Different construction techniques, auxiliary facilities, and highly energy-efficient equipment are being used in the construction and refurbishment of new and existing properties, which, taken together, significantly increase the energy sustainability of the buildings. For example, the new Iberdrola Campus complex in Spain has been constructed under these conditions.

Similarly, Iberdrola is implementing various measures aimed at improving energy efficiency over the operating life of properties in the operation and maintenance of buildings carried out by General Services in the different countries in which the Company operates. Some of the more significant measures carried out during 2016 include the following:

In Spain, a system was implemented for telemetry and monitoring of the energy consumption of various buildings, identifying points for improvement in energy use and consumption. Presence sensors have also been installed in lavatories, resulting in an estimated energy saving of up to 50% of operating hours, entailing a saving of 180 GJ/year. Another measure is the installation of contacts and reprogramming of TAC-Vista to eliminate residual consumption in the interior lighting of buildings outside of business hours entailed an estimated saving of 760 GJ/year. Finally, cold/hot buffer tanks have been installed to support the climatisation system, with an estimated saving of 616 GJ/year.

In the United States, there is continued monitoring of the turning on and off of lights at night and replacement with more efficient lighting in the buildings, monitoring of temperatures, etc. Furthermore, there has been a savings of 2,980 GJ thanks to the replacement of ventilation equipment and heat pumps with more efficient models at various buildings of the Group.

In the United Kingdom, there is the performance of energy audits, building improvements replacing elements like lighting, climatisation, electric cables, etc. with other more efficient ones, in addition to carrying out awareness campaigns with a view to reducing consumption, for instance by turning off computer monitors at night.

At the offices in Brazil, there is a continuation of internal energy saving awareness campaigns, replacement of lights with other more efficient ones, placing lights on timers, etc.

G4-EN7 Reductions in energy requirements of products and services

Efficient products and services

Iberdrola fosters eco-efficiency, gradually reducing the environmental impact of activities, facilities, products, and services. It also offers advice to its customers, encouraging and researching eco-efficient solutions.

In addition to electricity and gas, Iberdrola sells new efficient products and services to encourage energy and financial savings by its customers, efficiency, and care for the environment.

Energy savings of green products and services (GJ)	2016	2015	2014
Photovoltaic solar energy	605	289	662,400
Energy audits and plans	199,980	114,084	48,870
Gas maintenance service	809,507	798,102	776,160
Other savings and efficiency activities	87,459	419,365	3,417,332
Expanded boundary	**1,097,551**	**1,331,840**	**4,904,762**

The green products and services highlighted in this table are described below:

- Photovoltaic solar energy: Iberdrola Smart Solar product focused on improving management of energy consumption through the use of solar technology.
- Audits and energy plans: The potential energy saving from audits is due to Iberdrola Retail. In Spain, there have been sales campaigns promoting energy efficiency and collaboration agreements with consumer and business associations as well as with government administrations to promote energy efficiency. In Brazil, the use of solar thermal equipment is encouraged in energy efficiency projects for low-income customers.
- Gas maintenance service: The contract for this service offered by Iberdrola in Spain allows customers to cut energy consumption by annual cleaning and adjustment of gas boilers.
- Other savings, energy efficiency, and environmental protection actions in the retail area are:
  - Sale of products and services that promote energy saving and efficiency: luminous flux regulators, capacitor banks, air conditioning equipment, home automation systems, efficient motors, frequency changers to regulate motors, new lighting systems, comprehensive energy management at buildings and facilities, and other energy saving solutions.
  - Electromobility: *Iberdrola Clientes en España* (Iberdrola Customers in Spain) facilitates the development of electromobility, offering recharging products and services (Green Charge), participating in R&D projects (REMOURBAN and AZKARGA) and the CIRVE project that permits Electromobility, and permits the Spain connection with France and Portugal.

More information about these and other initiatives is available at:

Spain

www.iberdrola.es/clientes/index

Brazil

www.elektro.com.br

United Kingdom

www.scottishpower.com

United States

NYSEG: www.nyseg.com/Energyefficiencyprograms/default.html

RG&E: www.rge.com/Energyefficiencyprograms/default.html

CMP: www.cmpco.com

Portugal

www.iberdrola.pt

Aspect: Water

Management Approach

Water is a basic and irreplaceable natural resource in many of Iberdrola's activities. The Company's awareness of this dependency and of the risks arising from water shortages have led it to set itself the objective of ensuring an increasingly rational and sustainable use of this resource. Iberdrola lays out its commitment to this resource in the Group's *Sustainability Policy*.

Iberdrola seeks the most suitable method to avoid significant impacts on water, working with various government administrations to establish actions for a more sustainable use of this resource, including:

- Limiting the volume of withdrawal and consumption of inland water in all technologies.
- Establishing and controlling surface-level limits and ecological flows at the hydroelectric generation reservoirs.
- Continually improving processes at facilities to reduce consumption and impact.
- Avoiding withdrawal of water in water-stressed areas.
- Reusing and recycling water at facilities.
- Conducting awareness-raising campaigns to achieve a more efficient and responsible use of sanitary water by employees at offices and control buildings.

Iberdrola remains committed to the replacement of less efficient technologies (conventional thermal generation –coal–) with renewables and combined cycles, which entails a reduction in water consumption per GWh produced. The intensity of water consumed (calculated as consumption over sales) within the Group in 2016 was 61% lower than that of other utilities.[29]

G4-EN8 Total water withdrawal by source

This indicator uses tables to show the use of water for various technologies, control facilities, and offices owned by Iberdrola, distinguishing the source of withdrawal for all of them.

Water use in generation

Cooling systems and auxiliary processes and service for the Group's thermal generation plants are those that require the largest withdrawal of water for their operation. This resource is obtained mainly from surface water, seawater, or estuaries; part of it is returned to the environment as evaporated water, and the rest is included in discharges from the facilities.

The following table shows the withdrawal and total discharge of water at the thermal generation facilities (coal, combined cycle, nuclear, and cogeneration) in 2016, and the volume used in each part of the system.

Water use (hm^3)	Total thermal generation[30]
Withdrawal	
Withdrawal auxiliary processes and standby service	461.22
Withdrawal for cooling	1,397.72
Discharge	
Evaporation of water used for cooling	82,04
Discharge into receptor environment	1.777,46

29 https://www.iberdrola.com/wcorp/gc/prod/en_US/sostenibilidad/docs/AguaUtilities.pdf
30 The total discharge figure includes the return from cooling, the return of water used in processes, and rainwater collected at some thermal facilities without an independent storm sewer system.

Water withdrawn for cooling of the thermal plants can be inland or sea water. This cooling can take place in:

- A closed circuit, by a cooling tower where part of the withdrawn water is evaporated and the rest is returned to the receptor environment.
- An open circuit, fully returning the water to the receptor environment.

In both cases, there is no process that could modify the physicochemical nature of the water other than a slight temperature increase due to its use in the cooling process.

The following table shows the different sources of withdrawal:

Source of withdrawal of cooling water	Gross water withdrawal (hm^3)[31]	Net water withdrawal (hm^3)[32]
Sea and salt water	750.28	8.94
Rivers and groundwater	289.43	16.34
Lakes and reservoirs	349.68	48.47
Purification of waste water	8.33	8.29
Expanded boundary	**1,397.72**	**82.04**

Water use at offices and control facilities

Water use at offices and facilities (m^3)	2016	2015[33]	2014
Expanded boundary[34]	**408,930**	**423,770**	**368,092**

31 Gross water withdrawal: total volume of gross water withdrawal for cooling.
32 Net water withdrawal: total volume of water evaporated in cooling.
33 The data for 2015 have changed compared to previous reporting due to revision and update.
34 In Spain, includes offices, substations and control buildings of wind farms.

Total water use

The following table breaks down total water withdrawn in generation, offices, and control facilities by source of withdrawal:

Source of gross water withdrawal (m^3)	2016	2015[35]	2014
Surface water (sea, rivers, lakes, reservoirs, wetlands)[36]	1,839,674,529	2,646,059,227	2,725,254,208
Groundwater	694,784	1,033,231	957,770
Rainwater directly withdrawn and stored	0	0	1,047
Purified waste water	12,798,546	12,237,423	12,294,178
Municipal water supply or supply from other water companies	5,786,899	6,282,155	6,036,976
Expanded boundary	**1,858,954,758**	**2,665,612,036**	**2,744,544,180**

Use of water is defined as water withdrawn minus water discharged into the environment (salt and brackish water are included in water discharged).

Water use[37]	2016	2015[35]	2014
Expanded boundary			
Total water use (hm^3)	65.97	72.92	70.69
Water use/overall production (m^3/GWh)	585.85	533,10	508,98
Water use/overall sales (m^3/ $)	2.17	2.09	1.95
Water use/overall sales (m^3/ €)	2.26	2.32	2.35

35 The data for 2015 have changed compared to previous reporting due to revision and update.
36 The decrease in surface water withdrawn is due to the closure of Longannet.
37 Does not include the use of water in thermal generation in the United Kingdom.

Water cycle in hydroelectric generation[38]

Water used for hydroelectric generation is not considered withdrawn and thus it is analysed separately. The table below shows net water used in hydroelectric generation in Spain, the United Kingdom, and Brazil, defined as turbined water less pumped water.

Water use in hydroelectric generation (hm^3)	2016	2015	2014
Expanded boundary			
Net water use	101,368	71,272	88,223
Volume of pumped water	3,623	2,741	3,520
Annual increase of reservoir water	-1,941	-2,146	1,032

Net hydroelectric production (GWh)	2016	2015	2014
Expanded boundary	**20,454**	**15,861**	**20,636**

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 situations that significantly affect water resources or habitats have been recorded in relation to water withdrawal points. As can be seen in indicator G4-EN8, 64% 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 (Mexico), at the Klamath cogeneration plant (United States), and at some cogeneration plants in Spain, the water withdrawn 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 permissible volumes of collection to ensure that there are no significant impacts.

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:

http://www.fao.org/nr/water/aquastat/maps/TRWR.Cap_eng.pdf

http://www.unwater.org/publications/publications-detail/en/c/396246/

Finally, it is important to note that gross water withdrawal in financial year 2016 decreased 30% compared to 2015.

38 Hydroelectric generation in the United States, which is 1.15% of installed hydro capacity, is not included (information unavailable).

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

After use in cooling and other auxiliary processes, 84% of the water withdrawn at thermal generation and cogeneration facilities returns to the receptor environment in a physico-chemical condition allowing it to be utilised by other users without affecting the natural environment. The other 16% has been consumed and/or retained in the various processes, or returned to the environment in the form of steam generated in the cooling systems of the thermal power plants.

Residual water in cooling systems is used in Mexico and the United States. It is 17% (9,492 hm^3) of total water collected in Mexico and 94% (3,303 hm^3) of total water collected in the United States.

At the thermal plants with closed or semi-open cooling systems, water withdrawn is reused in the cooling towers an average of approximately three cycles per m^3 before being purged. Reuse is therefore estimated to have been 1,294.89 hm^3.

In addition, at some of ScottishPower's wind farms the control buildings have rooftop rainwater collectors and storage tanks to use the water.

Aspect: Biodiversity

Management Approach

Natural capital, understood as natural resources affected in the performance of the Company's activities, is one of the fundamental assets in the Iberdrola Group's creation of value. The management of biodiversity as part of this natural capital takes place through the following lines of action:

- Protection, conservation, and sustainable use of the environment (air, water, soil, fauna, flora, and landscape).
- Information through impact assessment and the development and application of guidelines on biodiversity for new projects.
- Stakeholder engagement.
- In-house and external training, awareness-raising, and communication.

Various instruments are used to carry out these lines of action, including:

- Biodiversity Policy: applicable in all of the geographic areas in which the Iberdrola Group does business, the basic principles of which are reflected in the lines of action.
- Stakeholder Relations Policy approved by the Board of Directors.
- Biodiversity plans based on avoiding and/or mitigating impact, restoring natural capital, assessing impact, Stakeholder relations, and awareness-raising.
- Environmental management systems certified in accordance with ISO 14001 or EMAS standards, in order to prevent and control environmental risks.
- Corporate environmental footprint enabling limitation of the Group's impact on biodiversity.

For more information, see www.iberdrola.com and the biodiversity reports, which outline the management approach, strategies, and progress in the activities conducted by the various businesses and 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

The location of the Group's infrastructure in protected areas or areas of great value for biodiversity, in strategic regions, is shown in the following table:

Facility	Location with respect to protected area	Affected surface area/length	Type of protection[39]
Expanded boundary			
Spain			
Reservoirs	Inside	18,972 ha	Biosphere reserves, Ramsar wetlands, Nature 2000 Network, national parks, and nature parks.
Power lines	Inside	19,334 km (16.93%)	Nature 2000 Network, Ramsar wetlands, National Parks, Natural Parks, and Biosphere Reserves.
Substations	Inside	146 facilities (15.32% of total facilities)	Nature 2000 Network, Ramsar wetlands, National Parks, Natural Parks, and Biosphere Reserves.
Transformer centres	Inside	8,395 centres (8.86% of total facilities)	Nature 2000 Network, Ramsar wetlands, National Parks, Natural Parks, and Biosphere Reserves.
Wind farms	Inside	139 ha	Nature 2000 Network (presence not significant with respect to the total, and farms always pre-date declarations of protected space. There are also some mini-hydro plants).
United Kingdom			
Thermal and hydroelectric generating facilities	Inside or nearby	3,264 ha (12 production centres)	Ramsar Wetlands, SPA, SAC, and SSSI.
Power lines	Inside	3,674 km (10.45%)	NSA, SPA, SAC, Ramsar, NNR, SSSI.
Substations and transformer centres	Inside	8,970 facilities (7.69% of centres)	NSA, SPA, SAC, Ramsar, NNR, SSSI.
Wind farms	Adjacent	3 ha	Nature 2000 Network and SAC, SSSI.
Wind farms	Partially inside	8,734 ha	Nature 2000 Network and SAC, SSSI.

39 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).

United States			
Power lines	Partially inside	402 km (7%)	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			
Power lines	Inside	1,881 km	Environmental protection areas.
Substations	Inside	19 facilities (13.4% of total facilities)	Environmental protection areas.
Transformer centres	Inside	4,388 ha (2% of total facilities)	Environmental protection areas.
Hydroelectric plants	Inside or nearby	6,876 ha	Areas protected by Brazilian law.
Greece			
Wind farms	Inside	16 ha	Nature 2000 Network.
Hungary			
Wind farms	Inside or nearby	2 wind farms	Near Nature 2000 Network areas, one inside a national park.
Portugal			
Wind farms	Inside or nearby	33% total facilities	Near Nature 2000 Network areas, one inside a national park.
Romania			
Wind farms	Inside or nearby	1 wind farm	Near Nature 2000 Network areas, one inside a national park.

Iberdrola provides further information broken down by geographic area at www.iberdrola.com.

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

Before a facility is built, the potential environmental impact is analysed through a forecast and assessment, with a view to avoiding placing new infrastructure in protected areas or areas with a high biodiversity value, even if they are not officially protected. If significant impacts are identified in the initial study, the project is modified to the extent possible, and the best available techniques and any measures identified as necessary are employed to correct and minimise these impacts. Where full mitigation is not possible, remedial measures are implemented. Control of environmental impacts does not end upon completion of the facility, but rather continues during the operation and decommissioning phases thereof.

100% of the projects that so require it are assessed for environmental impact and are submitted to public consultations; the Company works with Stakeholders to ensure that the environmental impact is as low as possible. Some examples can be viewed at the following links:

www.iberdroladistribucionelectrica.com

www.spenergynetworks.com/pages/community_consultation.asp

www.scottishpowerrenewables.com/pages/developing_renewable_energy_responsibly.asp

www.avangrid.com

Impacts arise due to interactions that occur during the different phases of a facility's life-cycle:

Impacts in each phase of a facility's life-cycle	
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.
	Prolonged human presence (which temporarily affects the behaviour of species of fauna, and is generally reversible).

With a view to these impacts, we can single out a number of significant potential effects on biodiversity, arising from the activities, products and services of the Group:

Potential impacts	
General impact	Loss of habitat.
	Greenhouse gas emissions.
	Pollution of environment.
Impact on avifauna	Electrocutions.
	Collisions.
Impact on terrestrial fauna	Electrocution, trapping, etc.
Impact on ichthyofauna	Changes in water quality.
	Discharges/spills into hydrological environment.
Impact on flora	Production and spreading of fires.
	Deterioration in the edaphic environment.

Biodiversity Plans have been drawn up to avoid or mitigate these impacts:

Biodiversity plans		
Base Line Plan	Sub-Plan for understanding the environment.	
	Sub-Plan for communication.	
Principal plans	Reduction of direct impacts on biodiversity	Plan for direct protection of fauna.
		Plan for direct protection of flora.
		Plan for improvement of habitats.
	Reduction of indirect impacts on biodiversity	Plan for edaphic environment management.
		Plan for hydrological environment management.
		Specific plans for biodiversity management.

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

Occasionally, the construction of new facilities causes residual impacts. The solution is to offset the impact by restoring and recovering the affected areas or those adjacent thereto, in order to improve their state of conservation, the biodiversity of their species, and their habitats.

The following table shows the principle measures taken during financial year 2016:

Country	Technology	Actions	Results
United Kingdom	Beauly Denny (substation)	Recovery of 190 ha of peat bogs, in collaboration with various local Stakeholders.	Improvement of the state of wetlands, coastal grasslands and areas with forests and shrubbery.
			Acquisition of a carbon sink, retention of water, and improvement of habitats.
	Damhead Creek (combined cycle)	Performance of surveys and presentation of results, successfully concluding the work of cleaning the canal and restoring areas.	Improvement of the state of wetlands, coastal grasslands and areas with forests and shrubbery.
			Creation of a suitable habitat for the water vole.
	Galloway (hydroelectric)	Installation of antennae at the Loch Doon fishing port to monitor the migration of tagged Atlantic salmon.	Elimination of potential obstacles to promote, among other phenomena, the migration of Atlantic salmon and other species.
		Study of interference with the passage of ichthyofauna using Balck Water of Dee (GIS mapping, electrofishing, monitoring habitats, etc.)	
	Cruachan (hydroelectric)	Continuation of study of habitat and of fauna via installation of photo-trap cameras. Special surveillance of the pine marten (*Martes martes*).	Discovery of the environment and spreading knowledge to the local population, collaboration with NGOs.
	Wind farms	Implementation of Habitat Management Plans in adjacent areas.	Improvement of adjacent habitats
United States	Power lines and substations	Conditioning of power lines.	Minimisation of the impact on the nesting and reproductive processes of the osprey.
		Continuation with the identification of habitats (under the lines) suitable for the New England cottontail (*Sylvilagus transitionalis*). Work carried out in collaboration with the US Fish and Wildlife Service.	Promotion of the recovery of species in decline.
		Study and analysis in collaboration with the Wildlife Division and US Fish & Wildlife to mitigate the impact on protected species like the North American bald eagle (*Haliaeetus leucocephalus*) and the long-eared bat (*Myotis septentrionalis*), through the recovery of habitats.	Improvement of adjacent habitats and protection of associated fauna.
			Promotion of the recovery of species in decline.
		Development of a "Comprehensive vegetation management" programme; use of lighter vehicles in forest areas, etc.	Improvement of adjacent habitats and protection of associated fauna.
	Wind farms	Monitoring and maintenance of habitats (grasslands, meadows, wetlands, deserts, etc.) within and around the area thereof.	Improvement of adjacent habitats and protection of associated fauna.
Brazil	Goiás Sul (hydroelectric)	Reforestation of approximately 100 ha with indigenous species, and maintenance of approximately 180 ha. A space with a high ecological value has been achieved.	Recovery of degraded areas.
	Corumbá (hydroelectric)	Planting of 231,313 seedlings, introducing 45 indigenous species.	
	Dardanelos (hydroelectric)	Development of a plan to recover areas degraded as a result of the installation of temporary structures.	
	Power lines	Planting of native species in the corridor of the lines, totalling 30 ha, which equated to 50,700 seedlings.	

Iberdrola provides further information at www.iberdrola.com.

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 construction of new facilities; great importance is also given to plans for prevention, habitat protection, and mitigation of damage during the operation thereof. 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.

The various activities commenced in 2016 or prior years and that have continued during this financial year are shown below:

Spain

Project/ Technology	Actions	Objectives
Power lines	Performance of 44 environmental actions, before and during the construction of substations and power lines (restoration and accommodation of terrain, protection of vegetation, avifauna and the landscape, control of invasive species, training on fires and spills, etc.).	Reduce impact on biodiversity and ecosystem services.
	Performance of 1,032 preventive actions to protect fauna (modification and improvement of supporting services).	Reduce impact on fauna.
	Performance of 1,611 actions to improve the network to protect vegetation.	Reduce impact on flora.
	Management of 28.32 km^2 of vegetation-covered surface to reduce the risk of fire at facilities.	
Hydroelectric plants	Limnological control of the most eutrophicated reservoirs in the Duero and Tajo basins (pollutant loads caused by agents unrelated to Iberdrola that travel along these rivers before they flow into the reservoirs).	Prevent potential impacts on fauna located downriver of reservoirs.
	Ensure turbined waters contain the minimum amounts of dissolved oxygen essential for aquatic life.	Avoid levels that are harmful to ichthyofauna.
	Performance of activities to prevent pollution, improve the environment, and recover/restore the natural environment around the plants, including: restoring the ecological flow; environmental adjustment of canals; environmental recovery around the town of la Rasa (dismantling of buildings and recovery of land).	Reduce impact on biodiversity and ecosystem services.
	Installation of protection systems in the actuation of valves associated with elements or barriers against potential leaks.	Prevent potential impacts on fauna located downriver of reservoirs.

United Kingdom

Project/ Technology	Actions	Objectives
Thermal generation and gas storage	Implementation of Biodiversity Action Plans (BAPs) at each facility (more information is available at www.spenergywholesale.com / www.iberdrola.com).	Recover and promote regeneration of natural habitats and of the flora and fauna characteristic of facilities' environments.
Wind farms	Action in 20 areas included in the Habitat Management Plan, performing a total of 50 activities, mainly the monitoring of birds and follow-up on reforested areas.	Recover and improve terrain affected by construction activities.
		Reduce impact on fauna.
"Wrexham Industrial Estate Living Landscape" project	Reforestation of 300 metres of indigenous vegetation, improving connectivity between forests.	Improve the habitat, fostering indigenous species, and raise social awareness of the area's rich biodiversity.
	Creation of a suitable space for the survival of the Grizzled Skipper (*Pyrgus malvae*) and Dingy Skipper (*Erynnis tages*) butterflies, detecting their presence in the restored areas.	
	Monitoring of woodpeckers, bats, and owls with the assistance of volunteers.	

United States

Project/ Technology	Actions	Objectives
Power lines	Water treatments in collaboration with land owners in two river basins, treating runoff from impermeable areas in the basins prior to its entry into the river.	Improve water quality and improve the aquatic habitat of the riverbank.
Auburn Transmission Project	Acquiring wetlands in collaboration with the organisation Ducks Unlimited, by means of financial collaboration.	Improve quality of the aquatic habitat and stimulate species.
MPRP Transmission upgrade project	Preparation of a development and monitoring plan to control invasive species.	Reduce impact on flora.
TL 48 Rebuild		Recover and improve terrain affected by construction activities.
Wind farms	Recover natural habitats and foster their regeneration, avoid the displacement of indigenous species, monitor species, raise awareness, and train local communities.	Reduce impact on flora.
		Raise social awareness of the area's rich biodiversity.

Brazil

Project/ Technology	Actions	Objetivos
Hydroelectric plants	Reforestation of affected areas.	Ensure the success of programmes to recover and offset impact on Permanent Conservation Areas (APPs) and degraded areas (quarries, tips).
	Continuation of environmental biodiversity conservation programmes based on the impacts of plant operation: monitoring of fauna (ichthyofauna, herpetofauna, avifauna, mammalian fauna, entomofauna, etc.); monitoring of flora in reforested areas; water quality control; monitoring of erosive processes, etc.	

Mexico

Project/ Technology	Actions	Objetivos
Thermal generation	Development of the Garrapatas Estuary Rescue Project.	Improve the habitat, fostering indigenous species, and raise social awareness of the area's rich biodiversity.
	Development of the Feline Support Project in the Altamira region.	
Wind farms	Follow-up of reforesting carried out during construction of the La Ventosa wind farm.	Ensure the success of reforesting work.
	Paperwork is underway for reforestation of an area covering approximately 19 ha in the area of the La Venta III wind farm.	Improve the habitat.

Finally, in 2016 Fundación Iberdrola España continued with the Life project (2010-2014) 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.fundacioniberdrolaespana.org. It also continues to collaborate with SEO/BirdLife on the MIGRA project, which aims to study the migratory movements of bird species in Spain, funding the start-up of this programme from the 2011 season to the present.

More information is available at www.iberdrola.com.

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

The Group undertakes activities in certain areas that are or may be inhabited by endangered species included in the IUCN Red List[40], the UK BAP, and the USFW list, as well as other national lists such the Sao Paolo list of endangered species, without such activities entailing a negative impact or threat.

IUCN Red List Classification	No. of species
Critically endangered (CR)	24
Endangered (EN)	58
Vulnerable (VU)	122
Near threatened (NT)	26
Least concern (LC)	198

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.

Aspect: Emissions

Management Approach

The main source of direct emissions, which contribute to the Company's Greenhouse Gases (GHGs), is the emission of CO_2 arising from combustion at the thermal plants. Iberdrola is publicly committed to maintaining its position as one of the leading European companies with the lowest CO_2 emissions per kWh produced. The Company focuses its efforts on gradually reducing the intensity of GHG emissions, promoting renewable sources, and wagering on more efficient technologies and on the use of thermal production from fossil fuels with lower carbon content, with emissions per kWh being 34% less than the average for the European electric industry.

Iberdrola has set itself an environmental goal to reduce the intensity of its CO_2 emissions below 150 grams/kWh by 2030 (a figure that would be 50% lower than the emissions specific to the Company in 2007), and to be carbon-neutral by 2050.

Iberdrola has actively contributed to the success of COP22, not only through its participation in the formal process of meetings and events at all levels, but also with a key role in citizen awareness-raising with various activities, including the Moving for Climate NOW cycling route. During the new Summit, the Company announced that it will continue with its wager on clean and efficient renewable energy and with its commitment to a reduction in the intensity of carbon emissions. It will also energetically support the implementation of the goals previously agreed to in Paris. More information is available at www.iberdrola.com.

Other atmospheric emissions deriving from the combustion of fossil fuels are oxides of nitrogen (NOx), oxides of sulphur (SOx), and particulate matter, which are being reduced by the improvements in combustion processes and by the Company's energy mix, which includes 66% of emissions-free installed capacity.

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

The Paris Agreement came into force in November 2016; the process is in a new phase of implementation of the agreed general principles. The 22nd session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP22) took place in Marrakesh from 7 to 18 November 2016. It was a very active Summit, advancing in the implementation of the targets agreed in Paris, and was organised for the first time as a Conference of the Parties serving as the Meeting of the Parties to the Paris Agreement (CMA).

Inventory of Greenhouse Gas Emissions (GHGs)

Iberdrola's inventory of emissions is calculated using the emissions set forth in indicators G4-EN15, G4-EN16, and G4-EN17. In April 2016, for the sixth 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 2017 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.

CO_2 equivalent emissions to be verified in 2017 (t)	Spain	United Kingdom	United States	Brazil	Mexico
Scope 1: Direct emissions	5,284,135	4,567,227	1,119,987	679,244	13,543,678
Scope 2: Indirect emissions	555,539	170,948	87,921	1,417	1,494
Scope 3: Other indirect emissions[41]	5,497,585	9,350,837	9,221,509	4,989,284	19,580

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

Iberdrola's GHG emissions are consolidated from the viewpoint of percentage equity interest, i.e. the Company reports GHG emissions in accordance with the proportion it holds in the shareholding structure.

Direct emissions are those from sources of GHGs that are owned or controlled by the company. They include:

- Emissions from electric power generation facilities (fuel consumption).
- Emissions from biomass combustion electrical power generation facilities.
- Emissions from non-generation facilities (storage of gas and sludge drying).
- Fugitive emissions of methane (CH4) (storage and transport of natural gas).
- Fugitive emissions of hexafluoride (SF6) in distribution networks.
- Emissions from facilities that provide services to buildings (fuel consumption).
- Emissions from mobile combustion sources, associated with road transport of employees with fleet vehicles for work purposes.

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 of the GHG report, which is audited annually under the ISO 14064 standard, available at www.iberdrola.com.

41 Below the numbers reported in indicator G4-EN16, due to the fact that the verification of the carbon footprint of Iberdrola does not take into account those corresponding to "Other countries", as defined in indicator G4-EN17.

2012 is the base year under which the Iberdrola Group's Carbon Footprint (ISO 14064) is measured, with the total Scope 1 emissions for that year being 35,476,623 t CO_{2eq}.

Iberdrola is registered with the Carbon Footprint, Carbon Offset, and Carbon Dioxide Absorption Projects Register of the Spanish Ministry of Agriculture and Fisheries, Food, and Environment (MAPAMA).

The evolution of CO_2 emissions from production facilities is shown in the following table:

CO_2 emissions (t)	**2016**	**2015[42]**	**2014**
Thermal generating plants	21,542,079	28,130,055	27,043,412
Cogeneration	3,502,070	3,457,204	3,056,258
Non-generating plants[43]	66,080	64,911	73,028
Expanded boundary	**25,110,229**	**31,652,169**	**30,172,698**

66% of the Group's installed capacity is emission-free. Of the remaining capacity, 32% is medium-emission (combined cycles and cogeneration), and just 2% is high-emission (coal).

In addition to these emissions from production facilities, the following emissions were recorded this year:

Other Scope 1 emissions (t CO_{2eq}.) in 2016		**Source of emission factors**
Emissions associated with the consumption of diesel at nuclear plants	4,143	IPCC[44]
Fugitive emissions (CH4) (Gas warehousing and transport)	11,716	IPCC
Fugitive emissions (SF6) (Electric power distribution)	24,029	IPCC
Emissions at buildings (fuel consumption)	19,638	Mapama: Spain. Defra[45]: United Kingdom, Mexico, and Brazil. EPA[46]: United States.
Emissions from mobile combustion (fleet vehicles)	24,517	Defra: Spain and United Kingdom. EPA: United States, Mexico, and Brazil.

These direct emissions entail less than 1% of all direct emissions of the Group and its affiliates.

42 Data have changed compared to previous reporting due to revision and update.
43 Enstor gas storage (United States) and sludge drying at Daldowie (United Kingdom).
44 IPCC: Intergovernmental Panel on Climate Change.
45 Defra: Department for Environment, Food and Rural Affairs (United Kingdom).
46 EPA: Environmental Protection Agency (United States).

G4-EN16 Indirect greenhouse gas emissions. Scope 2 (per GHG Protocol)

Indirect emissions are those emissions deriving from the company's activity but generated by other entities, including emissions from the generation of electricity acquired for the company's consumption. These emissions are:

- Emissions associated with the consumption electric energy by standby systems during shutdowns at the thermal, renewable and nuclear plants and during pumping at the hydroelectric plants.
- Emissions associated with the consumption of electricity in buildings.

The emission factor of the generation mix of the respective country is used to calculate CO_2. Source: Uses the latest information from the Electricity Observatory for Spain, DEFRA for the United Kingdom, U.S. Energy Information Administration for the United States, SEMARNAT[47] for Mexico, and Ministry of Science, Technology and Innovation for Brazil. More information is available in the GHG report, which is audited annually under the ISO 14064 standard (www.iberdrola.com).

2012 is the base year under which the Iberdrola Group's Carbon Footprint (ISO 14064) is measured, with the total Scope 2 emissions for that year being 2,122,072 t CO_{2eq}.

Scope 2 (t CO_{2eq}.)	2016	2015[48]	2014
Expanded boundary			
Emissions associated with the consumption of power at offices	85,539	56,634	51,712
Emissions from consumption at standby and pumping	731,778	914,311	1,009,138

G4-EN17 Other indirect greenhouse gas emissions. Scope 3 (per GHG Protocol)

The rest of the indirect emissions are a result of the company's activities, but occur at sources that are not owned or controlled thereby. These emissions are:

- Emissions associated with the transport of employees for work purposes (hire vehicles and personal vehicles, planes, trains, and ferries).
- Emissions associated with the transport 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 transport of employees from their home to their work place.

More information is available in the GHG report, which is audited annually under the ISO 14064 standard (www.iberdrola.com).

2012 is the base year under which the Iberdrola Group's Carbon Footprint (ISO 14064) is measured, with the total Scope 3 emissions for that year being 31,163,447 t CO_{2eq}.

47 SEMARNAT: Secretary of the Environment and Natural Resources (*Secretaría de Medio Ambiente y Recursos Naturales*).
48 Data have changed compared to previous reporting due to revision and update.

Emissions associated with the transport of employees for work purposes

This category includes emissions associated with the transportation of employees on business trips using various means of transportation. The more specific emission factors from the United Kingdom Department for Environment, Food and Rural Affairs (Defra) User Guide, data for 2016, are used to calculate the emissions. The results are set forth in the following table:

CO_{2eq} emissions associated with employee travel (t)	2016	2015[49]	2014
Expanded boundary			
Air	9,915	8,749	8,768
Car	4,596	10,246	8,495
Train	296	298	295

There were more than 12,724 videoconferences in Spain in 2016 that avoided employee travel, entailing a reduction of approximately 13,910 t of CO_{2eq}.

Emissions associated with the transport of fuel (Spain and United Kingdom)

These are from the analysis of the fuel supply chain, based on the various means of transport employed, using the Defra emission factors and calculating the emissions resulting from this activity. In 2016, emissions in Spain were 197,360 t CO_{2eq}. and in the United Kingdom were 206,461 t CO_{2eq}.

Emissions by mode of transport are shown below:

CO_{2eq} emissions (t) associated with the transport of fuel in Spain and the United Kingdom	2016	2015[49]	2014
Expanded boundary			
Road	26,310	19,971	14,307
Train	88,390	77,933	34,723
Ship	289,121	289,170	334,206

Emissions associated with distribution of energy purchased from other generators

The emissions associated with the energy purchased from other generators and distributed by the networks of Iberdrola group amounted to a total of 28,285,444 t CO_{2eq} during 2016.

The emission factor of the generation mix of the respective country is used for this calculation. Source: Uses the latest information from the Electricity Observatory for Spain, DEFRA for the United Kingdom, U.S. Energy Information Administration for the United States, SEMARNAT for Mexico, and Ministry of Science, Technology and Innovation for Brazil.

49 Data have changed compared to previous reporting due to revision and update.

Emissions associated with the supply chain

Iberdrola conducted the *7th Supplier Awareness and Greenhouse Gas Measurement Campaign* during 2016, to which end surveys were sent to the Group's suppliers in Spain, the United Kingdom, the United States, Mexico, and Brazil.

Based on responses to the surveys sent to the suppliers, as indicated in G4-EN32, we calculate emissions proportionally to the volume of billing, which information is included in the emissions report as indirect emissions.

CO_{2eq} emissions associated with the supply chain (t)	2016
Spain	144,541
United Kingdom	73,451
United States	18,381
Mexico	18,180
Brazil	N/Av.

Emissions associated with the transport of employees from their home to their work place.

A survey is sent each year to the employees of the Iberdrola Group in order to record their emissions through an emissions calculation tool.

The information obtained in the survey performed in 2016 is extrapolated to the entire Iberdrola Group in order to obtain the equivalent value of total emissions for this item, the amount of which is 120,324 t CO_{2eq}.

G4-EN18 Greenhouse gas emissions intensity

The intensity of CO_2 emissions is calculated based on emissions from the production facilities divided by the Group's net production, including steam. The following table shows the evolution of this intensity.

Intensity of CO_2 emissions	2016	2015	2014
Expanded boundary			
Specific emissions from global mix (kg/MWh)	176	225	212
Specific emissions from global mix (kg/€)[50]	0.857	1.006	1.001

50 Direct emissions from energy generation facilities (G4-EN15) as regards net sales in €.

In 2016, 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 311 kg/MWh[51]. Iberdrola's low emissions intensity is accounted for by the production mix: 57.1% of production was emission-free in 2016, and intensity was 42% lower than in 2007.

It should be noted that the intensity of emissions at the Group's thermal plants has dropped over the past three years, from 476 kg CO_2/MWh in 2014 to 460 kg CO_2/MWh in 2015, and to 391 kg CO_2/MWh in 2016.

G4-EN19 Reduction of greenhouse gas emissions

Initiatives to reduce emissions are undertaken through a broad range of products and services promoting energy efficiency and savings. Some examples of actions carried out in 2016 are given below:

Areas		Actions and initiatives	CO_2 avoided (t)
Expanded boundary			
Renewables		Primary energy savings through the production of renewable energy.	11,242,978
Hydroelectric		Primary energy savings through hydroelectric generation.	3,737,231
Cogeneration		Savings through the supply of heat energy (steam) within the Group.	959,050
Network efficiency		Savings from distribution network efficiency in Spain, United Kingdom, and Brazil.	506,044
Retail	Spain	Energy savings and efficiency from green products and services.	328
	United States	Energy savings and efficiency from green products and services.	26
	Brazil	Energy savings and efficiency from green products and services.	1,077
Group		Use of videoconferencing.	13,910

In total, the emission of 16,460,644 t CO_2 was avoided, equal to the amount of CO_2 absorbed by one billion trees over the course of a year[52]

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[53] and G4-EN16 provide additional information on this subject.

Despite its excellent position in this regard, Iberdrola has committed to reducing the intensity of its emissions to 50% below its 2007 level by 2030. The strategy to achieve this target is based on gradually reducing the intensity of GHG emissions, continuing to pursue electricity generation based on renewable sources and progressively introducing more efficient and less carbon-intensive technologies at existing facilities. More information is available at: www.iberdrola.com.

51 Source: European carbon factor Benchmarking of CO_2 emissions by Europe's largest electricity utilities (December 2016, PwC).
52 The estimated amount of CO_2 absorbed by one tree in a year is 20 kg.
53 In addition to the reductions described in G4-EN6, the Group's nuclear production prevented emissions of 8,537,605 t CO_2, taking into account the emission mix. Source: CO_2 Emissions from Fuel Combustion 2015 Edition by the International Energy Agency. 2013 Factors and Energy Observatory for Spain.

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-depleting substances have a very limited presence at the Group's facilities, and are located primarily in fire-extinguishing equipment and 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 their use is still authorised and a better market substitute has not been found. Thus, 360 kg of CFC-11 equivalent was replaced in 2016, consisting of: 6 kg of CFC-11 equivalent in Spain and 354 kg in Mexico.

G4-EN21 NOx, SOx and other significant air emissions

Emissions of sulphur dioxide (SO_2), nitrogen oxides (NOx), 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 the support of modern technologies for monitoring combined cycles. This management focus is supplemented with a plan to invest in improvements in the combustion process and in the dismantling of less environmentally-efficient units.

To comply with Directive 2001/80/CE, which limits the atmospheric emissions of SO_2, NOx, 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.

Emissions of oxides of nitrogen (NOx)

NOx emissions (t)	2016	2015	2014
Generating plants	12,794	26,230	28,031
Cogeneration	7,752	6,076	5,533
Expanded boundary	**20,546**	**32,306**	**33,564**

Intensity of NOx emissions (kg/MWh)	2016	2015	2014
Expanded boundary			
Specific emissions from global mix	0.144	0.230	0.236

Emissions of sulphur dioxide (SO_2)

SO_2 emissions (t)	2016	2015	2014
Generating plants	6,503	17,415	21,782
Cogeneration	571	177	140
Expanded boundary	**7,074**	**17,592**	**21,922**

Intensity of SO_2 emissions (kg/MWh)	2016	2015	2014
Expanded boundary			
Specific emissions from global mix	**0.051**	**0.125**	**0.154**

Emissions of particulates

Particulate emissions (t)	2016	2015	2014
Generating plants	1,067	1,416	1,528
Cogeneration	128	99	92
Expanded boundary	**1,195**	**1,515**	**1,620**

Intensity of particulate emissions (kg/MWh)	2016	2015	2014
Expanded boundary			
Specific emissions from global mix	**0.008**	**0.011**	**0.011**

Emissions of mercury (Hg) and other compounds

The emission of mercury (Hg) during 2016 was 365.3 kg, of which 36.9 kg corresponded to the thermal power plants in the United Kingdom and 328.4 kg to those in Spain.

Furthermore, 486.66 t of volatile organic compounds (VOCs) were emitted in Spain, the United Kingdom, Mexico, and the United States; and 43.17 kg of hazardous air pollutants (HAPs) were emitted in the United Kingdom and the United States.

Aspect: Effluents and waste

Management Approach

Effluents

Withdrawal, use, and return to the environment is the water cycle needed for the generation of power at the thermal generation plants. The quality of this returned effluent is strictly controlled and is kept below the maximum acceptable values for the specific characteristics of the point of withdrawal and discharge (sea, reservoir, or river) established by the authorities.

Iberdrola has treatment plants and water quality measurement systems at its facilities that allow it to ensure a return to the environment (sea, reservoir, or river) in the desired condition, always in compliance with applicable environmental law (discharge authorisations), and reducing the risk of polluting discharges through the use of preventive control tools:

- Consolidated systems for reporting anomalies and incidents in order to establish plans to minimise spillage risks, by implementing predictive, preventive, and corrective actions that ensure the proper condition of the water.
- Certificates in ISO 14001 and EMAS, as tools for continuous improvement.

All of Iberdrola's facilities, including distribution substations and wind farms, must ensure compliance with law and seek methods to minimise the risk of spills.

Iberdrola has emergency plans and protocols to ensure proper and rapid response in the event of discharges or spills with negative effects on the surrounding environment:

- Transparency in information and close collaboration with the relevant bodies until the incident has been resolved.
- Subsequent analysis of the reason for the discharge or spill.
- Adoption of appropriate preventive safety measures to reduce the probability of recurrence.

Waste

Iberdrola's goal is to reduce the generation of waste for any process or activity (construction, operation, maintenance of facilities, and work centres), and to prioritise recycling and the reuse thereof.

The management of waste conforms to the following principles:

- Responsible environmental management (ISO 14001).
- Cost effectiveness.
- Prioritisation on reuse and recycling (ash and slag from coal-fired thermal power stations).
- Activities designed to minimise and improve the management of hazardous and non-hazardous waste that is produced, through the establishment of targets.
- Prevention, treatment, and final disposal of hazardous waste pursuant to the applicable laws of each country, with preparation of the corresponding annual declarations.

Further to its commitment to transparency of information for Stakeholders, Iberdrola provides additional information on its nuclear plants (*General Radioactive Waste Plan*, Enresa[54]). The processes of reduction, reuse, segregation, recycling, and recovery is applied to radioactive waste in the safe management thereof.

Iberdrola's nuclear power plants are included within the *Environmental Radiological Monitoring Programme* of the Nuclear Safety Council, the purpose of which is to monitor the dispersion in the environment of controlled discharges from facilities and to determine and monitor radiological quality throughout the country.[55]

54 Enresa: Empresa nacional de residuos radioactivos, S.A.

55 For more information, see the technical report issued by the Nuclear Safety Council "Environmental radiological monitoring programmes. 2014 Results" ("*Programas de vigilancia radiológica ambiental. Resultados 2014*"), available at www.csn.es.

G4-EN22 Total water discharge by quality and destination

The thermal power-generation plants treat residual water before discharging it into the natural receptor environment.

- Water from the process undergoes physicochemical treatment, which includes the separation of hydrocarbons and temperature monitoring.
- 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 into the receptor water.

After being treated, the process water and the sanitation wastewater are diluted with the water returned 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 the analyses and reports to the government.

Data regarding this indicator is shown below:

Total water discharged (m^3)	2016	2015	2014
Spain	1,317,475,159	1,216,350,343	1,163,776,367
United Kingdom[56]	432,130,196	1,351,916,916	1,608,849,086
United States	1,656,262	1,579,854	1,589,287
Mexico	26,520,342	26,180,025	29,975,826
Brazil	89,576	120,755	143,827
Other countries	901	1,826	4,304
Expanded boundary	**1,777,872,836**	**2,596,149,719**	**2,804,338,697**

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. They are 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 natural environment or sent to municipal treatment plants or to the customer for treatment. 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.

For more information, see www.iberdrola.com.

56 The decrease in surface water withdrawn is due to the closure of Longannet.

G4-EN23 Total weight of waste by type and disposal method

Two types of waste are differentiated within the Iberdrola Group's activities:

- Waste arising during the energy production process.
- Waste generated at facilities and offices.

Waste undergoes a process of identification, classification, and management within the framework of applicable law in each country or region. The various areas and businesses of the Company perform activities to minimise waste and improve waste management, within the framework of the certified environmental management systems.

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. The following table shows the production and reuse thereof:

Production and reuse of ash at Iberdrola's thermal power plants in Spain and the United Kingdom	2016[57]	2015	2014
Ash produced (t)	256,399	693,875	650,101
Ash reused (t)	87,260	493,895	510,231
Percentage of product reused (%)	34	71	78

Reused ash was used for the production of cement as filling in infrastructure work and to produce compost.

2. Nuclear waste

Low-low level and low-medium level radioactive waste generated during 2016 is shown in the following table:

Hazardous waste generated at nuclear facilities	Net production (MWh)	Low-low level waste		Low-medium level waste	
		Produced (m^3)	Produced (m^3 / MWh)	Produced (m^3)	Produced (m^3 / MWh)
Cofrentes nuclear plant	9,178,263	76	8.3E-06	154	1.7E-05
Investee nuclear plants	15,203,117	98	6.4E-06	69	4.5E-06

As to high level waste, 170 spent fuel assemblies were generated during 2016.

57 The decrease in the production of ash is due to the closure of Longannet.

Other waste

1. Hazardous waste

Hazardous waste that is generated is regularly delivered to authorised handlers for proper processing. Not all of the waste generated is deposited or recycled immediately, as there are temporary warehouses for hazardous waste at the facilities.

Hazardous waste generation[58] (t)	2016	2015	2014
Expanded boundary			
Produced	10,529	24,635	29,607
Deposited and/or incinerated	2,111	17,041	15,229
Recovered, recycled, reused	7,352	7,512	14,433

The third phase in the replacement of cooling tower fill at the Cofrentes nuclear plant has been completed, once again stabilising the generation of hazardous waste during financial year 2016.

2. Non-hazardous waste

Non-hazardous waste generation[58] (t)	2016	2015	2014
Expanded boundary			
Produced	969,126	738,795	637,365
Deposited and/or incinerated	443,442	424,182	425,872
Recovered, recycled, reused	470,794	311,836	153,487

Non-hazardous waste produced includes electronic equipment, wood, metals, plastics, paper, etc. The Company has minimisation, reutilisation, and recycling plans as well as awareness-raising campaigns to promote good environmental practices by its employees.

To promote the reuse of waste, Iberdrola has been working for several years on the optimisation of the management and revaluation thereof, selling it to companies that put it back on the market after transforming it. During 2016, this exercise produced income of €6,047,888 from the sale of non-hazardous waste.

58 Liquid waste has been converted into kg using a density of 1.3 kg/m^3.

G4-EN24 Total number and volume of significant spills

Iberdrola has an Environmental Management System, and prevention is one of its key objectives. To this end, multiple preventive measures have been implemented in all of the Group's businesses. These measures are set out in organisational and technical manuals. Plans to minimise risk have been established in the Group's various businesses (emergency guides and procedures, regular drills, etc.), as have reporting and environmental incident management systems –"*Cintellate*" in the United Kingdom, "*Gamad*" in Spain, and "*Sigop*" in Mexico–; these are used to prevent and to control accidental spills and to inform the relevant authorities whenever necessary.

One example of safety and containment measures taken to mitigate damage are those implemented in Spain, where 341 preventive actions were performed in 2016 to prevent and mitigate the impact of potential spills. These included the construction of 26 oil collection reservoirs in case of a major discharge at the substations or transformer stations, as well as waterproofing of containers.

Of all the leaks and spills recorded within the Iberdrola Group in 2016, 97 incidents were significant spills[59], with a total spill volume of 6.62 m^3 of dielectric liquid. In the case of minor accidents or incidents that did not have permanent environmental impacts on the surroundings, it was not necessary to adopt corrective or compensatory measures. All cases were resolved in a satisfactory manner thanks to the emergency response team; the contaminated area was cleaned with appropriate management of any waste.

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.

59 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.

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

Water collection and discharges by the facilities during 2016 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, as seen in the following examples:

- In Spain, above and beyond the Integrated Environmental Authorisation requirements, at times additional quality control analyses are conducted on water upstream from hydroelectric generation facilities, with a view to improving, where necessary, the quality of this water once it has passed through the plant and is returned to the environment (see G4-EN13).
- In the case of the Altamira III and IV plant in Mexico, which discharges into the Garrapatas estuary, this is 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 coolants 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 and their specific characteristics are found 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

Iberdrola has a Global Environmental Management System that encompasses all of the partial certifications of each of the businesses that make up the Group, reaching 84% of the Group's production. Certified environmental management systems identify the legal requirements applicable to the activities carried out by the Group and establish an assessment of compliance therewith for purposes of assurance. In indicator G4-EN29 of this report, supplemental information is provided regarding ongoing environmental legal proceedings directed at 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 2016 involved the following fines and monetary sanctions:

Fines relating to the environment (€)	2016	2015	2014
Expanded boundary			
Total amount of fines imposed	1,989,703	1,521,187	2,212,768

Of the total amount of fines imposed during the financial year, 1,747,061 euros were in Spain, 218,435 euros in Brazil, and 24,205 in the United States. In Spain, there were significant fines corresponding to sanction proceedings for the electrocution, injury, and death of birds; and in Brazil they were due to non-compliance with environmental conditions, impacts on ichthyofauna, and improper pruning.

Non-monetary sanctions, sanction proceedings, and arbitrations (no.)	2016	2015	2014
Expanded boundary			
Non-monetary sanctions	2	1	7
Sanction proceedings	86	69	31
Cases being resolved through arbitration or similar mechanisms	9	0	0

Aspect: Transport of persons and products

Management Approach

The Iberdrola Group implements projects and initiatives that intensify the fight against environmental impact, commencing with a Sustainable Mobility Plan in order to contribute to the rational use of the means of transportation, and other actions to protect the environment and promote sustainable development and clean energy. However, the emissions caused by the transport of employees and fuel are insignificant in comparison to the emissions associated with the energy production process.

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

The most significant impact, arising from transport-based CO_2 emissions, is climate change. Indicator G4-EN17 provides information on the emission of CO_2 arising from both the transport of fuels and due to employee travel.

Sustainable mobility

Iberdrola has developed a Sustainability Mobility Plan with the ultimate goal of contributing to a rational use of the means of transportation and which is framed within the commitment made by the Company in its *Sustainability Policy*, approved by its Board of Directors in 2013 and updated in April 2016, which requires the assumption of policies that favour the sustainable exploitation of the Group's corporate object.

The programme is comprehensive and involves employees, the business activity, customers, and suppliers, covering approximately 23 specific actions in which the company seeks to strengthen its wager on sustainability.

These initiatives include Iberdrola's launch of the Electric Vehicle programme for employees in Spain and the United Kingdom, which consists of special advances and financial assistance for the purchase of electric vehicles, compatible with the assistance offered by the various governments. The assistance will continue in 2017, and the launch of the initiative in the other countries in which Iberdrola does business is being studied. Thanks to this initiative, the local emission of 39,275 kg of CO_2 in employee travel from their homes to the work place in Spain was avoided in 2016.

In Spain, the electric Carsharing service makes available environmentally-friendly vehicles for sales activities in various cities. Within these initiatives for customers, Iberdrola offers a comprehensive zero-emission mobility solution combining Electric Vehicle with Iberdrola Green Charge and Iberdrola Green Energy. It also encourages electromobility among its suppliers: the Company includes the existence of a sustainable urban mobility plan as a new parameter in its supplier databases.

Iberdrola's commitment to sustainable mobility was recognised with the gold prize at the European Mobility Week Awards 2016, which is given by the Spanish Ministry of Agriculture, Food and Environment, and also led it to be awarded first place in the Smart Mobility category in the enerTIC Awards 2016.

Aspect: Overall. Expenses and investments

Management Approach

Iberdrola generally considers all expenses or investments regarding projects that have a clear environmental impact, whether direct or indirect, to be environmental expenses or investments, as classified below:

- 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.
- Reduction of environmental impact through the removal of pollution or pollutants from the environment, soil, groundwater, 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 that are not included in the above categories.

All of this is aimed at emphasising 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 2016 to preserve the environment of the area in which it operates are set forth in the following tables:

Environmental expenses (€ thousands)	2016	2015	2014
Emissions treatment	102,757	145,109	114,913
Waste treatment	176,160	172,632	180,598
Environmental impact remediation	6,978	34,260	21,143
Environmental prevention	121,697	186,870	197,757
Environmental management	119,548	130,354	121,308
Expanded boundary	**527,140**	**669,225**	**635,720**

Environmental expenses (€ thousands)	2016	2015	2014
Emissions treatment	28,387	17,345	27,478
Waste treatment	1,618	0	2,731
Environmental impact remediation	7,235	3,832	3,166
Environmental prevention	2,213,979	984,440	1,059,840
Environmental management	11,018	8,556	7,768
Expanded boundary	**2,262,237**	**1,014,173**	**1,100,984**

The "green cent" and the net balance from the purchase and sale of CO_2 emission rights 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 this chain are managed through quality processes and periodic audits.

The 7th *Supplier Awareness and Greenhouse Gas Measurement Campaign* was conducted during financial year 2016, with specific surveys sent to more than 1,280 of the Group's suppliers of material, equipment, works, and services in Spain, the United Kingdom, Brazil, Mexico, and the United States.

Of the 51% of surveys that were received back, 36% provided a calculation of emissions and, of these, approximately 44% have had the inventory checked by a third parties.

7th Supplier Greenhouse Gas Measurement Campaign		Spain	United Kingdom	United States	Brazil	Mexico	Total
Surveys sent	no.	611	311	175	106	82	**1,285**
Surveys received (% of surveys sent)	no.	354	140	88	38	32	**652**
	%	58	45	50	36	39	**51**
Emissions calculations provided (% of surveys received)	no.	133	66	22	5	7	**233**
	%	38	47	25	13	22	**36**
Established goal(s) to reduce emissions (% of surveys received)	no.	104	57	17	6	7	**191**
	%	29	41	19	16	22	**29**
Emissions inventory prepared (% of surveys received)	no.	128	64	21	5	6	**224**
	%	36	46	24	13	19	**34**
Emissions inventory has been verified by third parties (% of suppliers with emissions inventory)	no.	39	43	13	1	3	**99**
	%	30	67	62	20	50	**44**

The procurement terms of the Group establish certain environmental requirements to meet this commitment, and the Company also performs various tracking and reporting activities on an on-going basis. At the end of 2016, procurement from suppliers with a certified environmental management system represented 82% of all procurement from suppliers of general supplies. With respect to fuel suppliers, those with an environmental management system represented 82% of the suppliers evaluated. 100% of suppliers (both new and existing) are evaluated according to environmental and sustainability criteria.

Those suppliers 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.

Fuel procurement is subject to the general principles of Iberdrola's social responsibility policies, which 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 by suppliers are based on the *Procurement Policy*, the *Suppliers' Code of Ethics* and the specific environmental clauses in the procurement 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 significant negative environmental impact has been detected. Furthermore, Iberdrola does not have major suppliers located in areas with water stress.

Aspect: Environmental Grievance Mechanisms

Management Approach

Iberdrola makes grievance mechanisms and tools and the management processes associated therewith available to its Stakeholders. This is fully described in the management approach found in the "Grievance mechanisms for impact on society" Aspect of the "Society" section of this report.

Iberdrola has an email inbox medioambiente@iberdrola.es, which serves as a channel of communication with its Stakeholders, and which can be accessed at www.iberdrola.com by selecting the "Corporate Information/Environment" option, offering the ability to ask questions, provide suggestions, place concerns, or make complaints. This tool allows users to enter queries, suggestions, claims, or complaints. The mailbox is included in the Environmental Management System of the Company, and is certified under the ISO 14001 standard.

In addition to the environment mailbox, and by way of supplement, Iberdrola can also receive messages relating to the environment through various channels that it maintains in social media, described on the corporate website www.iberdrola.com, which channels are monitored in coordination with the Communication Division, and any environmental issues that are raised are resolved.

G4-EN34 Environmental grievances

The channel established to receive environmental grievances is the corporate mailbox indicated above. During the last financial year, 1,700 messages were received through this inbox, of which only 1 was an environmental claim.

C.
Social dimension

C.1. Labour practices and decent work

Iberdrola's contribution to the SDGs with respect to labour practices and decent work

Iberdrola has incorporated the Sustainable Development Goals (SDGs) into its business strategy and its *Sustainability Policy*. Set forth below are the SDGs to which the Company contributes in accordance with the GRI-G4 Guidelines included in this chapter. This linkage has been performed using the tool "SDG Compass. The guide for business action on the SDGs", available at www.sdgcompass.org.

Goal 3
Ensure healthy lives and promote well-being for all at all ages.

Goal 4
Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

Goal 5
Achieve gender equality and empower all women and girls.

Goal 8
Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Goal 10
Reduce inequality within and among countries.

Goal 16
Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

Contents of Chapter

The aspects analysed and reported on in this chapter are the following:

Aspects of the GRI-G4 Guidelines

Employment
Management approach and indicators G4-LA1, G4-LA2, and G4-LA3
Additional information required by the GRI *Sector Supplement*:
– Programmes and processes to ensure the availability of a skilled workforce
– Policies and requirements regarding health and safety
– Indicators EU15, EU17, and EU18
Labour/management relations
Management approach and indicator G4-LA4
Occupational health and safety
Management approach and indicators G4-LA5, G4-LA6, G4-LA7, and G4-LA8
Additional information required by the GRI *Sector Supplement*
Training and education
Management approach and indicators G4-LA9, G4-LA10, and G4-LA11
Diversity and equal opportunity
Management approach and indicator G4-LA12
Equal remuneration for women and men
Management approach and indicator G4-LA13
Supplier assessment for labour practices
Management approach and indicators G4-LA14 and G4-LA15
Labour practices grievance mechanisms
Management approach and indicator G4-LA16

Scope of information
The information boundaries used in this chapter are defined in indicator 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, thus 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, and training, 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

To supplement the general approaches described above, Iberdrola has a *Human Resources Framework Policy* to define, design, and disseminate a Group human resources management model, which is set forth in the following specific policies:

- Recruitment and Selection Policy,
- Knowledge Management Policy,
- Equal Opportunity and Reconciliation Policy,
- Occupational Safety and Health 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 the companies of the Group there are three collective bargaining agreements in Spain, three in the United Kingdom, eleven in the United States, four in Brazil, and three in Mexico. In addition, the Brazilian investee companies Celpe, Coelba, and Cosern also have collective bargaining agreements, 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, The Open Items Forum, Update Meetings, Business Committees, Strategic Safety Panels, and the Joint Union Management Partnership Committee in the United States, and Elektro's Safety Committee in Brazil, which serve to regulate labour, safety, health, and pension issues and consult with employees and with representatives on social matters within the Company, as well as to ensure compliance with commitments made.

Objectives

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

A key factor to the success of the Iberdrola Group's strategic pillars lies in its global mobility programmes, which seek to identify and place human capital where it adds the most value, thereby ensuring a professional, personal, and family experience that is both positive and enriching. New tools were launched in 2016 in order to attain these objectives, like the Early Career Global programme, for employees who are beginning their professional career and have concerns about developing skills and competencies in an international environment.

During the year, 341 employees participated in the Group's international mobility programmes in their various forms.

In addition, with a view to favouring opportunities for internal promotion and international mobility, the group has commenced operating a single employment channel, where some 28,000 workers can access and apply for internal job vacancies that match their profile.

Under the new homogeneity objectives in the Human Resources model, the management team of Iberdrola and its subsidiaries totals 813 people at year-end 2016, with a voluntary turnover rate of 3.1%. There are 855 executive officers within the expanded 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. Indicators G4-LA10 and G4-LA11 of this chapter provide information in connection with the skills and training management programmes that foster the employability of workers at the Company, as well as its performance evaluation processes.

G4-LA1 New employee hires and employee turnover

New hires	2016		2015		2014	
	Men	Women	Men	Women	Men	Women
Basic boundary						
By age, in numbers						
Up to 30 years old	611	168	610	172	629	192
Between 31 and 50 years old	561	214	415	196	456	179
Over 50 years old	105	21	51	21	38	16
By age,[60] in %						
Up to 30 years old	22.92	24.03	22.83	22.43	23.01	24.19
Between 31 and 50 years old	4.93	5.17	3.61	4.68	4.13	4.49
Over 50 years old	1.39	1.08	0.65	1.11	0.52	1.03
Total number	**1,277**	**403**	**1,076**	**389**	**1,123**	**387**
Total %	**5.90**	**5.95**	**4.89**	**5.68**	**5.34**	**6.10**
Expanded boundary						
Total number	**1,481**	**472**	**1,275**	**473**	**1,309**	**442**
Total %	**6.36**	**6.47**	**5.40**	**6.45**	**5.75**	**6.44**

60 Of the headcount of this group at year end.

Personnel leaving the company	2016		2015		2014	
	Men	Women	Men	Women	Men	Women
Basic boundary						
By age, in numbers						
Up to 30 years old	207	84	228	90	329	121
Between 31 and 50 years old	541	193	516	224	606	321
Over 50 years old	902	168	697	159	682	284
By age[61], in %						
Up to 30 years old	7.79	12.02	8.53	11.73	12.01	15.22
Between 31 and 50 years old	4.75	4.66	4.49	5.35	5.50	8.04
Over 50 years old	11.91	8.67	8.88	8.39	9.36	18.21
By seniority, in numbers						
Up to 10 years	668	233	682	271	849	360
Between 11 and 20 years	229	87	170	90	172	181
Over 20 years	753	125	589	112	596	185
By seniority[61], in %						
Up to 10 years	7.06	7.75	7.18	8.49	8.80	11.38
Between 11 and 20 years	4.59	4.08	3.99	4.92	5.05	12.13
Over 20 years	10.52	7.70	7.14	6.13	7.46	10.93
Total number	**1,650**	**445**	**1,441**	**473**	**1,617**	**726**
Total %	**7.61**	**6.57**	**6.54**	**6.88**	**7.68**	**11.44**
Expanded boundary						
Total number	**1,756**	**489**	**1,637**	**531**	**1,780**	**762**
Total %	**7.54**	**6.71**	**6.92**	**7.17**	**7.82**	**11.13**

A breakdown by geographic area can be found in the *Information Supplementary to the Sustainability Report 2016*, 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 *6th Collective Bargaining Agreement* in Spain (Iberdrola Engineering and Construction, ScottishPower, Avangrid, Elektro, and Iberdrola Mexico), which represent 94% of the workforce within the basic boundary, there are no significant differences between benefits provided to part-time employees and benefits provided to full-time employees.

A breakdown by geographic area can be found in the *Information Supplementary to the Sustainability Report 2016*, available at www.iberdrola.com.

61 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	2016		2015		2014	
	Men	Women	Men	Women	Men	Women
Basic boundary						
Number of employees entitled to parental leave	21,617	6,778	20,700	6,278	21,045	6,342
Number of employees taking parental leave	434	463	474	423	422	458
Expanded boundary						
Number of employees entitled to parental leave	23,299	7,292	22,287	6,769	22,752	6,845
Number of employees taking parental leave	434	464	474	424	452	484

G4-LA4 Minimum notice period(s) regarding operational changes, including whether these are specified in collective agreements

The different organisational changes and significant events that occur are officially reported in compliance with the various legal provisions that apply at both the global and the local level within the labour relations of our companies. These notifications are made via the various channels and forums enabled for the purpose, such as monitoring committees formed by management and employee representatives, intranet, notices to interested parties, unions, etc.

- In Spain, organisational changes are governed by both the Workers Statute and by the collective bargaining agreements, and generally provide for a period of at least 15 days.
- In the United Kingdom, when a significant event occurs, interested parties are notified within a period of 4 to 12 weeks, as provided by law as well as the collective bargaining agreements.
- In the United States, organisational changes tend to have specific notice periods, such as the case of NYSEG, where a minimum of 14 days is required before a workforce reduction or new subcontracting. If there is no official minimum period, for example in the RG&E Agreement, a detailed notice is provided to the unions.
- In Brazil, organisational changes at Elektro are governed by the Collective Bargaining Agreement, which provides guidelines on how these changes should occur, always with prior notice to the union institutions.
- In Mexico, significant operations are reflected in the collective bargaining agreements and notice is provided an average of two to three months in advance.

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 (%)		
	2016	2015	2014	2016	2015	2014
Basic boundary	11.30	14.53	15.39	26.12	29.13	29.05
Expanded boundary	11.61	14.71	15.14	25.83	28.96	29.40

A breakdown by job category and region can be found in the *Information Supplementary to the Sustainability Report 2016*, 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 indicator G4-12 "Description of Supply Chain" 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 all the information on subcontracted personnel required by the GRI protocols in indicators G4-10, G4-11, G4-LA1, EU17, G4-LA4, and G4-LA6.

EU18 Contractor and subcontractor employees that have undergone relevant health and safety training

Subcontractors of the Group must meet all requirements established in the Iberdrola Group's contracting conditions, which are available at www.iberdrola.com. For that reason, the Company believes that 100% of the employees of such companies, regardless of their category, have received appropriate safety and health training.

Aspect: Occupational health and safety

Management Approach

Policies and commitments

The *Occupational Safety and Health 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.

With a view to achieving zero accidents and the best workplace safety conditions, Iberdrola has an *Occupational Safety and Health Strategic Plan* that implements this policy, which in turn is supplemented by a Global Occupational Safety and Health System, which is aligned with corporate policy and the strictest of international standards and incorporates the Group's best practices from all of the countries where it has a presence.

This Global System is the Group's tool for continual improvement, whereby the lessons learned from all events that occur are used to create a global knowledge base to prevent them from being repeated in any part of the Iberdrola Group. Furthermore, it is a principle of the System that the Group's contractors are its collaborators, and Iberdrola involves them in its occupational safety culture.

In alignment with such Global System, Group companies are equipped with specific procedures making up the respective local Safety and Health Systems, which are implemented within each company and externally audited. These Systems develop 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.

Objectives

For financial year 2016, safety and health goals have been established at the Group level based on the improvement of accident rates, for both its own and contracted personnel, a continuation of annual planning, and the evaluation and implementation of improvements in management systems.

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 for taking preventive action lies with the company, and therefore, with 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 in most countries.

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.

The companies of the Group have occupational safety and health 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 Safety and Health 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.

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 documents of specific requirements in each country, which are also contractual documents.

By way of example, the following are some of the specified safety and health 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 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 *6th Collective Bargaining Agreement* have a central committee that coordinates the activities of the thirty-six local safety and health committees to which all work centres and administrative units are assigned. At Iberdrola Engineering & Construction, there is a Central Safety and Health Committee and three local committees where all matters relating to the safety and health of employees 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 safety and health 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 Avangrid, in the Networks Business, the Executive Safety Committee and the Strategic Safety Board, along with expert panels and employee safety teams, review work that involves risk-related activities and safety activities that have been undertaken. Unions and executives are also involved through their participation in the committees and regular safety meetings. In the Renewables Business, there are regular meetings of the local executive health and safety committees and of the Central Committee to review health status and the achievement of safety objectives in all regions.

At Elektro, there is a Safety Committee made up of members of the management team and by the businesses' occupational safety and health specialists.

Iberdrola Mexico has a mixed safety and health 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.

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's companies in Spain, the United Kingdom, Mexico, and Brazil,[62] in addition to those of the Renewables Business in Portugal, Hungary, and Romania have OHSAS 18001 certification.
- In the United States, the networks businesses in the states of Maine and New York have achieved OHSAS 18001 certification. Other parts of the Networks Business and the Renewables Business are also working to develop an occupational risk prevention management system based on this 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 (%)	2016	2015	2014
Basic boundary	95.28	95.74	95.52
Expanded boundary	94.24	95.20	94.58

A breakdown by geographic area can be found in the *Information Supplementary to the Sustainability Report 2016*, available at www.iberdrola.com.

62 The Brazilian subsidiary Elektro obtained such certification for more than 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[63]	2016	2015	2014
Basic boundary			
Number of accidents	422	366	483
With fatality	0	0	1
With leave	83	61	74
Without leave	339	306	408
Number of fatalities	0	0	1
Number of lost days	2,686	4,629	4,700
Injury with leave rate (IR)	0.34	0.25	0.31
Occupational disease rate (ODR)	0.01	0.02	0.00
Lost day rate (LDR)	11.08	18.68	19.28
Expanded boundary			
Number of accidents	440	386	521
Number of fatalities	0	0	1
Number of lost days	2,754	4,877	7,375
Injury with leave rate (IR)	0.35	0.28	0.39
Occupational disease rate (ODR)	0.05	0.02	0.01
Lost day rate (LDR)	10.44	18.14	27.98

63 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 disease cases/hours worked)*200,000
- Lost day rate (LDR) = (working days lost per accident/hours worked)*200,000
- Absenteeism rate (AR) = (missed (absentee) days/days worked)*200,000

Absenteeism among group personnel[64]	2016	2015	2014
Basic boundary			
Number of missed days per year	11,159	12,035	18,777
Men	7,247	7,913	10,956
Women	3,912	4,122	7,821
Number of lost days	185,288	176,775	192,520
Men	121,247	119,053	131,310
Women	64,041	57,722	61,210
Number of person equivalents	507.64	484.32	527.45
Men	332.18	326.17	359.75
Women	175.45	158.14	167.70
Absenteeism rate (AR)	6,319.19	6,122.87	6,319.76
Expanded boundary			
Number of missed days per year	12,864	13,992	21,189
Number of lost days	193,492	184,648	204,786
Number of person equivalents	530.12	505.88	561.06
Absenteeism rate (AR)	6,071.12	5,880.08	6,211.45

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 breakdown by geographic area and also for these rates in Spain is provided in the *Information Supplementary to the Sustainability Report 2016*, available at www.iberdrola.com.

64 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 disease cases/hours worked)*200,000
– Lost day rate (LDR) = (working 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	2016	2015	2014
Basic boundary			
Number of accidents	343	369	515
With fatality	1	1	1
With leave	149	140	144
Without leave	193	228	370
Number of fatalities	1	1	1
Number of lost days	5,786	5,197	4,304
Expanded boundary			
Number of accidents	346	372	595
Number of fatalities	1	1	4
Number of lost days	5,813	5,314	7,773

Management of health and safety is organised in accordance with the guidelines set out in the OHSAS 18001 standard, as described in indicator G4-LA5, ensuring that the Group has monitoring and evaluation mechanisms in all operations that go beyond legal requirements.

G4-LA7 Workers with high incidence or high risk of diseases related to their occupation

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 Group 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.

G4-LA8 Health and safety topics covered in formal agreements with trade unions

All work centres and administrative units of the companies that are signatories of the *6th Collective Bargaining Agreement* in Spain are assigned to local safety and health committees. Overall, there are thirty-six committees, which coordinate their activities through a Central Committee. All were created in accordance with the Occupational Risk Prevention Act and are formed with equal representation between the company and the workers. In 2016, 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. 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 *6th Collective Bargaining Agreement*.

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 on-going 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 and monitoring of the results. In addition, there is a Health and Safety Department 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. One of the principal outcomes of these consultations is the drafting of the ScottishPower Health and Safety Representatives Charter, which was agreed to by management and union leaders.

At Avangrid, the Networks Business and trade unions have signed various Collective Agreements that cover personal protective equipment, and worker participation in inspections, audits, incident investigations, training, and grievance mechanisms. Within the Renewables Business, the process to develop both occupational safety and health regulations and training is carried out by a committee made up of executive officers and field personnel.

Elektro has a Safety and Health 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. The company also has a Safety Committee and 42 internal accident prevention committees.

Iberdrola Mexico has a mixed safety and health 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.

In other countries where there are organisations with an international component such as Iberdrola Engineering & Construction and the Renewables Business, which have Safety Management Systems duly certified under OHSAS 18.001:2007, there are committees with the participation of the companies and employees that deal with occurrences in the area of health and safety at the end of each month and reporting on noteworthy activities and plans for future actions.

Aspect: Training and education

Management Approach

Policies and commitments

At Iberdrola, training and development are considered to be a key factor to the success of the organisation. This understanding is embodied in the design of specific policies and programmes to equip Iberdrola's professionals with the qualifications needed to perform their roles, and to foster a culture of development, value creation, and ongoing improvement that allows them to assume new responsibilities in the future. These 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:

- Alignment with the strategic goals of the company.
- Professional improvement for job performance.
- Better professional development, fostering personal advancement and employability.
- Adjustment of human resources to technological and organisational changes.
- Adaptation of new employees to the Company.
- Ease of access to an international job framework.

Specific Goals and Activities

The following significant training and development activities were carried out during 2016:

- Opening of the first phase of the Iberdrola Campus (Universidad Corporativa Iberdrola), which hosted numerous courses, development programmes, and corporate events during the last quarter of 2016. These facilities house training and development activities across all knowledge areas and for all Iberdrola groups. Construction work continues in order to implement the second phase of the Iberdrola Campus project.
- Third Edition of the SAVIA Programme (professional development model based on Iberdrola's ten guidelines for general skills and techniques), which has been extended for one year. This programme is aimed at technicians and middle managers.
- Strengthening of professional development resources aimed at persons with management potential. This includes the MBA programme, which has an international scope and focuses on the energy sector, and the IMPULSA Programme, the third edition of which was completed in December 2016.
- Implementation of a new language programme (Pangea), which combines the various features of the three languages of the Company (Spanish, English, and Portuguese) based on a new website that can be accessed by all Iberdrola's employees in Spain.
- Workshops continue to be held on cybersecurity and the risks pertaining to the use of new technologies.
- In the area of talent management, there have been development meetings with professionals in the various countries in which Iberdrola has a presence in order to improve knowledge about their skills, interests, professional aspirations, and development needs.

Iberdrola's *Knowledge Management Policy* (available at www.iberdrola.com) 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 conduct, a description of which can be viewed at www.iberdrola.com.

G4-LA9 Hours of training

Employees and hours of training by professional category and gender	2016		2015		2014	
	Men	Women	Men	Women	Men	Women
Basic boundary						
Hours of training						
Management team	19,482	4,739	21,286	4,301	20,172	3,519
Middle managers and skilled technicians	329,180	105,079	265,015	67,351	277,142	75,291
Skilled workers and support personnel	617,557	117,935	464,988	37,866	470,098	45,528
Average hours of training per employee						
Management team	33.41	36.16	34.03	35.80	30.95	30.76
Middle managers and skilled technicians	39.71	34.19	37.05	25.02	37.00	27.21
Skilled workers and support personnel	53.19	59.50	44.92	22.05	39.83	25.20
Expanded boundary						
Hours of training	1,024,574	238,239	859,332	124,634	877,106	148,777
Average hours of training per employee	46.86	42.75	42.18	24.41	40.92	29.27

The differences between men and women are a result of the different specific training for the various professional categories of the workforce, and are not due to a policy of discrimination.

A breakdown by geographic area can be found in the *Information Supplementary to the Sustainability Report 2016*, available at www.iberdrola.com.

G4-LA10 Programmes for skills management and lifelong learning

The Iberdrola Group believes that professional development contributes to achievement of the Company's results and improving the efficiency of the organisation, by equipping employees with the skills and competencies they need to perform their work efficiently today and preparing them to undertake greater responsibilities and challenges in the future.

In 2016, an evaluation of the leadership skills and analysis of the potential of the employees was carried out through a homogeneous global process. After this first analysis, development meetings were held with employees identified as having potential in Spain, the United States, the United Kingdom, Brazil, and Mexico. This has provided significant information at the individual and global level and has served to design a Global Development Programme for professionals identified as having executive potential.

Along these lines, Iberdrola has various programmes aimed towards those who have been identified as professionals with the potential for management development, including the two-and-a-half year *MBA in the Global Energy Industry* offered by Universidad Pontificia de Comillas in Madrid and the Strathclyde University Business School in Glasgow. This is a global programme with participating professionals from Spain, the United States, the United Kingdom, Brazil, and Mexico. The second edition of this programme concluded successfully in 2016 and the participants have been selected for the third edition, which will begin in 2017.

For technicians and middle managers, Iberdrola has a skills-based development model implemented through a process known as PDP that permits the formation of Personal Development Plans for these professionals. The third cycle of SAVIA (the term for the PDP process as applied in Spain), which was launched in 2014, was completed in 2016, after a one-year extension.

In addition to the resources available in the skills-based development model, Iberdrola continued offering specific skills development programmes in 2016 to ensure that employees not only have the necessary training to perform their tasks efficiently but are prepared to assume new responsibilities in the future. These activities are provided locally and are adapted to the particular culture and characteristics of each country.

Iberdrola has also continued offering its Welcome Plans (*Planes de Acogida*) for new employees this year. These plans afford an overall vision of the Company and familiarisation with its culture and values. In addition to these onsite plans, all Iberdrola employees can access the virtual global welcome module, available in English, Spanish, and Portuguese.

2016 saw the continuation of various working sessions, mainly with ScottishPower, Avangrid, Elektro, and Iberdrola Mexico, primarily in order to exchange knowledge, information, and experience in the training and development areas. Along these lines, the Development Committees, which meet quarterly, were maintained during 2016.

Specific Training for Executives

The Executive Development Unit worked during 2016 on coordinating and supervising the global talent management process in the various countries; it also attends to all management training and development needs through the Management School, with the following noteworthy programmes conducted in 2016:

- Energising Leadership Programme, taught by ESADE Business School. Geared towards management trainees with high potential and/or executives who are beginning their careers.
- Leading in a Volatile, Uncertain, Complex and Ambiguous world (VUCA world). This programme analyses the challenges that executives face in their daily activities as a result of this new environment.
- Driving Leadership Transformation Programme, jointly taught by IESE and IMD Business School. This new programme is directed towards established executives who have a track record with the Group and who have already taken the Global Leadership Programme. The main goal is to complete and strengthen previously-acquired knowledge.
- In Spain, the Lead by Communicating and the Personal Productivity improvement programmes (Getting Things Done methodology) are still being provided. New programmes for the executive group have also been launched, including:
  - *Powerful Conversations*
  - *How to GROW your Team*
  - *Mindfulness Workshop: Transform your limits into Possibilities!*
  - *Executive Coaching*
- Various executives from Elektro and from ScottishPower participated in their respective local coaching programmes.
- ScottishPower continued with the Leadership Excellence programme based on the elements of Iberdrola's leadership model.

Other actions carried out with the management team in 2016 included the holding of conferences, workshops, meetings, etc., as well as continued access to e-leaders, the management school's virtual space, in both its web and mobile versions.

G4-LA11 Employees receiving regular performance and career development reviews

Iberdrola believes that reviewing the performance of workers with respect to common goals helps with and contributes toward both the management of skills and the development of human capital within the organisation; the employees of the Group are thus included in formal performance review processes. These processes have an impact on variable remuneration and the annual salary review.

Employees can be reviewed in accordance with their level of responsibility:

Executive officers

Goal-based review: Measurable, quantifiable, and specific goals to be achieved over the course of the review period, relating to the goals of the Company. This process affects variable remuneration.

Performance review: Review of conduct during the achievement of the goals. This has an impact both on the employee's annual review and on their personal development plan for the future.

Other professional categories

Performance review: In this case, the performance review is used for the annual review calculation and for the variable remuneration calculation. Employees are reviewed on the basis of a number of personal competencies.

The relevant processes are implemented pursuant to a global Human Resources model. The corresponding tool, supported by SAP, allows management of the Human Resources processes relating to, amongst other things, review, development, and remuneration, together with global handling of all participants, thereby unifying the focus and standards of application to help ensure that a single common policy applies to all employees.

As regards the multidimensional review process, Elektro uses a 360° review. This type of review is performed every two years, alternating with a standard performance review.

Performance and development reviews	2016	2015	2014
Basic boundary			
Number of employees	28,395	26,978	27,387
Men	21,617	20,700	21,045
Management team	688	704	732
Middle managers and skilled technicians	8,818	8,301	8,237
Skilled workers and support personnel	12,111	11,694	12,076
Women	6,778	6,278	6,342
Management team	161	141	140
Middle managers and skilled technicians	3,837	3,522	3,441
Skilled workers and support personnel	2,780	2,616	2,761
Employees with performance reviews (%)	83.93	81.04	80.56
Men (%)	83.42	81.72	81.98
Management team	97.53	84.80	89.90
Middle managers and skilled technicians	96.16	85.45	86.82
Skilled workers and support personnel	73.33	78.89	78.19
Women (%)	85.56	78.82	75.79
Management team	98.14	78.72	80.00
Middle managers and skilled technicians	96.14	82.91	76.58
Skilled workers and support personnel	70.25	73.32	74.61
Expanded boundary			
Number of employees	30,591	29,056	29,597
Employees with performance reviews (%)	84.18	81.05	81.26

A breakdown by geographic area can be found in the *Information Supplementary to the Sustainability Report 2016*, 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 diverse abilities, promoting 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 workers with diverse abilities, promoting the labour integration thereof.

In order to give effect to the principle of non-discrimination, the *6th 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. Iberdrola is also a signatory of the *Diversity Charter* since 2009, and it renewed that commitment in 2016; as such, it respects prevailing legal provisions in terms of equal opportunity and non-discrimination, and puts diversity policies into practice.

In the United Kingdom, ScottishPower is committed to policies that promote diversity in order to create an innovative and integrative work environment, for which reason it has a Diversity and Inclusion Governance Committee. The British subsidiary guarantees equal opportunity in selection processes for persons with disabilities, and for this reason received the *Disability Confident Standard* award and also holds one of the highest positions in the *Carers Scotland* ranking.

In the United States, Avangrid has four diversity policies: *Equal opportunity in access to employment*, *Support for disabled persons or disabled veterans*, *Promotion of a non-discriminatory work environment*, and *Combating sexual harassment in the workplace.*

In Brazil, Elektro's most important goals include the hiring of disabled persons, for which reason it has designed a course to facilitate access by these persons to positions within the company. The initiative has already trained more than 200 candidates. There has also been an analysis of the suitability of the work positions for each of the people with various disabilities to relocate them into more appropriate positions if required.

The investee companies of the Neoenergia group respect diversity and comply with policies to avoid discrimination in the work place.

In 2016, Elektro was chosen as the best company to work for in Latin America, and Cosern was classified as one of the most valued companies to work for, according to the consultant *Great Place to Work*.

Iberdrola Mexico complies with the Group's policies to generate an inclusive labour environment.

Objectives

The main goals in this area during 2016 have focused on:

- The encouragement of reconciliation between employees' work and family life, which includes measures to ensure compatibility between a positive experience of parenthood and a successful professional career.
- The development of labour relations based on equal opportunity, non-discrimination, and respect for diversity.
- The fostering of diversity and the social inclusion of vulnerable groups through the corporate volunteer programme, which affords our employees an opportunity to participate in various community support initiatives and to improve the quality of life of persons in those groups.

Specific activities

- In Spain, the company has offered various options for employees on non-school days when children do not attend class, and various educational courses for children. It has also continued conducting the "Iberdrola School for Parents", which offers employees the opportunity to participate together with their children in various programmes.
- As is the case every year, there have been summer camps for the children of employees, especially taking into account those with different abilities.

- As regards diversity, the group has held the Hello/Hola and My Guest (Mi invitado) cultural exchange programs for the children of employees in Spain, the United Kingdom, and the United States.
- In order to comply with the principle of non-discrimination for reasons of diverse abilities, by the end of the 2016 financial year 76 people with diverse abilities had been relocated in our workforce, and arrangements were made to obtain disability certificates for those employees who applied for them.
- Family Plan: This plan is intended to facilitate the social and workplace integration of family members with a disability who are dependent on an employee. This year marked the completion of the eighth edition of this plan, which has benefited 555 families since it was launched.
- The companies that comprise the Iberdrola Group in Spain have made donations to entities or foundations whose purpose is professional training, entry into the job market, or the creation of employment for persons with disabilities; they have also signed contracts with special employment centres, in excess of the amount required by law for investment in alternative measures.
- In the United Kingdom, ScottishPower maintains its commitment to diversity and for that reason works with well-known organisations like Business Disability Forum, Employers Network for Equality and Inclusion, Opportunity Now, Working Families, Powerful Women and Stonewall. The British subsidiary has also engaged in e-learning and training activities on diversity to increase the awareness of its workforce in this area.
- In the United States, Avangrid has carried out various projects to support diversity, including the Troops to Energy project, as well as various alliances with organisations that defend the rights of ethnic minorities.

G4-LA12 Composition of governance bodies and employees

Employees in the workforce	2016		2015		2014	
	no.	%	no.	%	no.	%
Basic boundary						
By gender						
Men	21,617	76	22,012	76	21,045	77
Women	6,778	24	6,848	24	6,342	23
By age group						
Up to 30 years old	3,355	12	3,439	12	3,526	13
Between 31 and 50 years old	15,527	55	15,680	54	15,019	55
Over 50 years old	9,513	34	9,741	34	8,842	32
By professional category						
Management team	849	3	845	3	872	3
Middle managers and skilled technicians	12,655	45	11,823	41	11,678	43
Skilled workers and support personnel	14,891	52	14,310	50	14,837	54
Number of employees[65]	**28,395**	**100**	**28,860**	**100**	**27,387**	**100**
Expanded boundary						
Number of employees	**30,591**	**100**	**30,938**	**100**	**29,597**	**100**

65 The total number of workers and the definition of the corresponding boundaries can be found in sections G4-9, G4-10, and G4-17 of this report.

A breakdown by geographic area can be found in the *Information Supplementary to the Sustainability Report 2016*, available at www.iberdrola.com.

Board of Directors	2016		2015		2014	
	no.	%	no.	%	no.	%
By gender						
Men	9	64	9	64	9	64
Women	5	36	5	36	5	36
By age group						
Up to 30 years old	0	0	0	0	0	0
Between 31 and 50 years old	3	21	2	14	2	14
Over 50 years old	11	79	12	86	12	86
Number of members	**14**	**100**	**14**	**100**	**14**	**100**

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[66] (%)	2016	2015	2014
Basic boundary			
By professional category			
Middle managers and skilled technicians	113.00	108.70	108.97
Skilled workers and support personnel	100.02	99.00	98.87
Expanded boundary			
By professional category			
Middle managers and skilled technicians	106.63	105.50	106.81
Skilled workers and support personnel	99.84	100.70	99.11

A breakdown by geographic area can be found in the *Information Supplementary to the Sustainability Report 2016*, available at www.iberdrola.com.

66 The total number of employees by professional category and gender is available in indicator G4-LA12 above.

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.

100% of suppliers (new and existing) are evaluated according to such management approach, and their significant labour practices risks are managed through the quality processes implemented and through periodic audits.

No suppliers have been detected with a material negative impact regarding labour practices, nor have incidents been reported through the channels established for such purpose resulting in the cancellation of orders or of contracts with Group suppliers due to negative impacts from labour practices.

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 "Grievance mechanisms for impacts on society" Aspect in 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 472 grievances about labour practices in 2016[67]; of these, 147 were resolved in that same year. In addition, 512 other grievances pending from previous years have been resolved.

67 The grievances were received in Spain, the United Kingdom, and the United States. In Spain and the United Kingdom, this includes the grievances that reach the courts, while in the United States grievances include those filed with the various state and/or federal Commissions on Human Rights nnd Equality.

C2. Human Rights

Iberdrola's contribution to the SDGs with respect to Human Rights

Iberdrola has incorporated the Sustainable Development Goals (SDGs) into its business strategy and its *Sustainability Policy*. Set forth below are the SDGs to which the Company contributes in accordance with the GRI-G4 Guidelines included in this chapter. This linkage has been performed using the tool "SDG Compass. The guide for business action on the SDGs", available at www.sdgcompass.org.

Goal 2
End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

Goal 5
Achieve gender equality and empower all women and girls

Goal 8
Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

Goal 16
Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

Contents of Chapter

The aspects analysed and reported on in this chapter are the following:

Aspects of the GRI-G4 Guidelines

Investment
Management approach and indicators G4-HR1 and G4-HR2
Non-discrimination
Management approach and indicator G4-HR3
Freedom of Association and Collective Bargaining
Management approach and indicator G4-HR4
Additional information required by the GRI *Sector Supplement*
Child labour
Management approach and indicator G4-HR5
Forced labour
Management approach and indicator G4-HR6
Security practices
Management approach and indicator G4-HR7
Indigenous rights
Management approach and indicator G4-HR8
Assessment of impact on human rights
Management approach and indicator G4-HR9
Supplier human rights assessment
Management approach and indicators G4-HR10 and G4-HR11
Human rights grievance mechanisms
Management approach and indicator G4-HR12

Specific Aspect of the Iberdrola Group

Iberdrola and the Global Compact
Management Approach

Scope of information
The information boundaries used in this chapter are defined in indicator 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 tools that ensure and promote the protection of and respect for human rights, hindering or preventing the violation thereof. To that end, the Company's practices are in line with the principles forming the basis for the *United Nations Global Compact*, the *Guiding Principles on Business and Human Rights: Implementing the United Nations 'Protect, Respect and Remedy' Framework*, the *OECD Guidelines for Multinational Enterprises*, the *Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy*, and the International Labour Organisation's *Social Policy*.

Iberdrola has a *Policy on Respect for Human Rights* approved by the Board of Directors (as an instrument for further development of the *General Corporate Social Responsibility Policy*) which formalises the Group's commitment to the human and labour rights recognised by domestic and international law, 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 main principles of conduct of this policy include, among others, commitments to:

- Respect the human and labour rights recognised by domestic and international law, as well as adhere to international standards in those countries in which human rights law has been sufficiently developed.
- Reject child labour and forced or compulsory labour, and to respect freedom of association and collective bargaining as well as non-discrimination, the right to freedom of movement within each country, and the rights of ethnic minorities and of indigenous peoples in the places in which it carries out its activities.
- Promote a culture of respect for human rights and awareness among its professionals in this field at all of the Group companies and, in particular, at those in which there may be a higher risk of violation of such rights.

In order to fulfil these commitments, a *Programme for the Advancement of Human Rights within the Iberdrola Group* has been designed, which includes the planning of activities and measurable objectives to be reached across the organisation in all countries in which the company does business. This programme has been approved both by the Operating Committee and by the Reputation and Social Responsibility Committee.

The next step has been the conduct of a due diligence process, which began with the preparation of a risk/country map for each of the businesses, the different corporate areas, and the value chain, in order to identify and evaluate the situations and activities that pose the highest direct or indirect risk of violation of such rights. An officer within the ambit of the the Chairman's Office Area has been appointed to lead this task, and there is continuous reporting to the Corporate Social Responsibility Committee of the Board of Directors.

Iberdrola has enabled channels of communication with all Stakeholders via the corporate website, in order to confirm the impacts with them and provide an effective response based on the information received, making decisions and allocating resources to prevent, mitigate, or remedy where necessary. It should be noted that no complaints involving human rights were received via such channels during the period covered by this report.

Iberdrola's next goal in this process is the preparation of protocols and road maps to receive, handle, and investigate each claim or complaint in order to have a dynamic and effective claims mechanism in place.

In addition, Iberdrola has other tools that have also been approved by the Board of Directors and which must be complied with by all professionals and companies within the Group, such as the *Code of Ethics*, which governs the behaviour of all professionals, establishing control measures as well as disciplinary measures in the event of noncompliance, and the *Suppliers' Code of Ethics*, which fosters compliance with applicable legal provisions in connection with ethical, labour, environmental, and

health and safety matters, which must be expressly adhered to by all suppliers and is included as an annex to the respective contracts.

In the management of human rights, Iberdrola also applies the management elements described in the "General management approach" section of this report.

It is the responsibility of each company of 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 of 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 of any kind of activity, whether internal or external, of any actions contrary to such rights.

G4-HR1 Investment agreements and contracts that include human rights clauses

In accordance with the statement set forth in the preceding Management Approach, even if 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.

There were 65 particularly significant projects during financial year 2016[68]:

- Spain: 2 projects. The works 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.
- United Kingdom: 6 projects. Includes a new investment agreement for the East Anglia project, as well as various significant supply agreements with the companies Siemens, Navantia, Lamprell, and Nexans. Extremely significant strategic agreements include the selection of Lowestof as the port to be used during the construction process and Great Yarmouth as the port for pre-assembly of turbines.
- United States: 7 contracts relating to the construction of the following projects: Tule Wind; Deerfield Wind; El Cabo Wind; Twin Buttes II Wind. There is also a purchase agreement for the Gala Solar project upon completion of construction.
- Mexico: 4 projects corresponding to the Hermosillo Photovoltaic Plant and the Santiago Photovoltaic Plant in the States of San Luis de Potosí and Sonora, and the Pier Wind Farm and Santiago Wind Farm in the States of Puebla and Guanajuato.
- Brazil: 46 major projects of various kinds at Coelba.

68 Significant investment means one that requires more than 100 million euros or that is considered to be significant for the company even though it requires a smaller investment due to the size or strategic importance thereof.

G4-HR2 Employee training on human rights

Due to the importance that the Company attaches to the respect for human rights, various training initiatives have been undertaken in this field over the years, and in compliance with the commitment to continuous improvement, a new online course on respect for human rights at Iberdrola was developed in 2016 in collaboration with the United Nations Global Compact, which operates in Spain through the Spanish Global Compact Network.

The purpose of this course is to inform the entire organisation of the rights affecting the Company's activities. In sum, the aim is to learn to prevent risks in the Company's operations and to mitigate and remedy the potential impacts that might arise upon a breach of these rights, in order to be more competitive and responsible.

Iberdrola believes that all employees must become involved in compliance activities and in the dissemination and reporting of any violation in connection with human rights, and that the entire team is responsible for ensuring that the respect for human rights is a reality. The primary purpose is to act ethically as a company and to be a part of that social change, as proposed by the Sustainable Development Goals (SDGs).

This new course was first offered to all Spanish-speaking employees (Spain and Mexico) in the last quarter of 2016. It was attended and satisfactorily evaluated by more than 5,000 employees (close to 50% of the workforce in those countries), and represented a total commitment of more than 8,000 hours of training. In a second phase, it is expected that the course will be offered in the other countries during the first half of 2017.

Various courses were also organised in the United States on matters specifically related to Human Rights, in which almost 1,500 employees participated.

In addition, Iberdrola's employees were informed through the internal communication channels of both the firm commitment to the 12 values that define the institutional philosophy and of the *Code of Ethics* and the various Corporate Policies approved by the Board of Directors. It should be noted that all new hires receive a copy of the *Code of Ethics* along with their contract. This information is also available at www.iberdrola.com for any person wishing to become acquainted with such matters.

Aspect: Non-discrimination

Management Approach

Iberdrola believes that non-discrimination in the work place 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.)	2016	2015	2014
Expanded boundary	7	8	4

In the United States, seven complaints for employment discrimination were received and reviewed. One was closed because the deadline had passed for filing a formal complaint. The six incidents pending resolution are: complaints for retaliation against the complainant (2) and complaints for discrimination, whether based on race, colour, age, sex, or disability (4). They are being investigated by the legal team in accordance with established procedures.

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 believes are necessary to ensure that workers can 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

Information regarding locations of operations analysed for human rights issues can be viewed in the G4-HR9 indicator of this chapter.

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 in order to be hired, both in terms of physical security as well as cybersecurity, 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 employees as well as subcontracted personnel are qualified in their duties and reinforce their knowledge with a rigorous training plan that involves an evaluation and ongoing 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 affirms that it does not conduct activities in countries involved in armed conflicts and, accordingly, no provision is made for the risks stemming from possible human rights violations that might arise out of such situations, which it strongly opposes.

Iberdrola's security management system is continuously reviewed and updated in order to comply with international human rights provisions 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.)	2016	2015	2014
Basic boundary			
Company personnel	132	110	90
Subcontracted personnel	1,455	1,121	1,091

At the end of financial year 2016, Iberdrola has 132 persons in its workforce to carry out security activities, of which 120 (91%) 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 2016, 1,455 subcontracted persons did this type of work, of which 1,059 (73%) have received human rights training.

Aspect: Indigenous rights

Management Approach

In applying the *Code of Ethics* and its corporate policies (especially the *Policy on Respect for Human Rights*), 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 2016. 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, the operation of wind farms in the State of Washington might affect the Yakamay Indian tribe, but the Company has established pathways of dialogue to deal with any concerns. No incidents were recorded as of the close of this report.

In the State of California, the construction of the Tule Wind Power Project may affect the Ewiiaapaayp Band of Kumeyaay Indians, although the location of the project was decided following consultation with the Ewiiaapaayp Band and the US Bureau of Indian Affairs, in compliance with the National Environmental Policy Act, other relevant federal laws, and the California Environmental Quality Act. It should be noted that the project received all the federal and state approvals required for construction, as well as the support of the indigenous community.

In addition, the construction of the Montague project in Oregon is located on private land in an area traditionally used for the production of indigenous foods for the Confederated Tribes of the Umatilla Indian Reservation (CTUIR). An impact assessment was prepared, which showed that there was no adverse effect on the population that might require mitigation. At present, the Company is not aware of any specific concern having been raised in this regard.

In Brazil, the indigenous and quilombola communities without access to the supply grid are benefitting from programmes or initiatives that favour access to electricity, through the installation of photovoltaic systems consisting of solar panels, charge controllers, inverters, and battery voltage

regulators, all under the supervision of the National Indigenous Foundation (*Fundación Nacional del Indio - Funai*) and Eletrobras (a state-owned energy company). Especially noteworthy is the training given to the indigenous community both in the use of the technology and regarding possible associated risks. The Tapi-i and Takuary-Ty communities of the municipality of Cananéia and another five indigenous peoples, as well as the indigenous community of Boa Vista in Ubatuba, participate in this programme.

The municipality of Iporanga (Quilombo Grande) and the municipality of Barra do Turvo (Quilombo Reginaldo) will also be provided with this technology.

More detailed information on these programmes can be found in the "Product Responsibility" chapter within the "Access to electricity" Aspect.

Additionally, the *quilombo* located in Eldorado receives support from the social project *Meninos Ecológicos*, by means of which young people from 16 to 18 years old carry out activities such as gathering seeds and producing cuttings in tree nurseries for reforestation.

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

Iberdrola has performed a study to identify the significant locations of operation at which there might be some risk of violation of human rights. As in prior years, the Company has prepared a map of risks by country and business for this purpose. The assessment criteria has been the ratification by countries of the following international conventions and treaties:

- Conventions founding the ILO: Forced Labour (C029, C105), Freedom of Association and Collective Bargaining (C087, C098), Child Labour (C138, C182), and Non-discrimination (C100, C111).
- Indigenous and Tribal Peoples Convention (C169).
- The 2016 report of the International Labour Organisation (ILO) entitled Report of the Committee of Experts on the Application of Conventions and Recommendations.
- International Covenant on Civil and Political Rights.
- International Covenant on Economic, Social and Cultural Rights.
- American Convention on Human Rights signed at the Inter-American Specialized Conference on Human Rights (Treaty B-32).
- European Social Charter (Turin, 18 October 1961).

The position of countries on the following indices and studies has also been taken into account:

- UNDP Human Development Index.
- Transparency International (Corruption Risk, 2015 data, the latest available during the study).
- Countries involved in armed conflict (Report on Conflicts, Human Rights and Peace Processes. 2016 Alert. School for a Culture of Peace).

The analysis has identified four countries at risk (United States, Canada, Brazil, and Mexico) from among the fifteen countries in which the Company does businesses, included within the boundary of this report (described in indicator G4-17). Both the United States and Canada are countries that have still not ratified several of such conventions, but given the socio-political characteristics of each country, as well as the internal procedures defined for the U.S. subsidiary Avangrid, Iberdrola does not consider there are risks of violation of these rights for the Group's workers. In Brazil and Mexico, Iberdrola has 33 main locations of operation (information described in indicator G4-9), representing some 27% of the Group's centres of activity.

The policies and procedures described in the general management approach of this chapter are intended to ensure the protection of human rights within the Group's centres of activity, with each of the Group's companies being responsible for following approved policies and applying 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: 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.

All new suppliers are evaluated according to such management approach, and their significant risks regarding human rights are managed through the quality processes and procedures implemented and through 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 supplier corporate social responsibility clauses based on the UN *Universal Declaration of Human Rights*, the conventions of the International Labour Organisation, the principles of the Global Compact, and compliance with the *Suppliers' Code of Ethics*.

Suppliers thus commit to the principles of social responsibility and respect for human rights. 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 noncompliance 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 2016.

Approximately 8% of general procurement and approximately 56% 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-HR9 indicator of this report.

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.

Due to the importance to the Company of respecting human rights, it has been decided to provide the suppliers with a new updated online course that is customised for Iberdrola (and which was already taken by employees during 2016 as described in indicator G4-HR2 of this chapter).

The goal of this course is to inform supplier Stakeholders of the rights affecting their activities. In sum, it is to learn to prevent risks in the operations they engage in and to mitigate the potential impacts that might arise upon a breach of these rights, in order to be more competitive and responsible.

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 for the "Grievance mechanisms for impacts on society" Aspect in the "Society" section of this report.

G4-HR12 Human rights grievances

Indicator G4-HR3 of this chapter sets forth incidents relating to discrimination in the labour area in 2016.

In the United States, there were also two complaints to the Maine Human Rights Commission (MHRC) alleging discrimination due to imposing the payment of a fee for voluntarily excluding oneself from the use of the new smart meters, when the rejection was due to health reasons. It should be noted that the facts have not yet been demonstrated and that said complaints are still pending resolution.

During such financial year, Iberdrola has not received any complaint regarding other aspects relating to human rights through the 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 Asociación Española del Pacto Mundial (Spanish Global Compact Association) (Asepam), now re-named the Red Española del Pacto Mundial (Global Compact Network Spain) and has prepared progress reports on compliance with the principles of the Compact, which are publicly available both on the website of the Red Española del Pacto Mundial and on the Global Compact website

During 2016, Iberdrola took in the following actions in connection with the Global Compact:

- Submission of the Progress Report 2015 on compliance with the principles of the Compact, rated at the highest level for this type of report ("GC Advanced").
- Attendance at the 2016 General Assembly of the Red Española.
- Member of the Executive Committee of the Red Española.
- Iberdrola and the Red Española del Pacto Mundial have developed the Moving for Climate NOW initiative, within the framework of the COP22 Climate Summit held in Marrakesh in November 2016. The goal of the initiative is to transmit to society the urgency of fighting climate change, the need to join forces from all areas, and the requirement for ambitious and immediate action. The event, which was included in the official programme of the COP22 Summit, consisted of a 1,100 kilometre bicycle route between Seville and Marrakesh travelled by fifty representatives from international organisations, governments, civil society, universities, and companies.

In 2017, Iberdrola plans to actively participate in the activities of the Red Española del Pacto Mundial in a manner similar to the past year.

C3. Society

iberdrola's contribution to the SDGs with respect to Society

Iberdrola has incorporated the Sustainable Development Goals (SDGs) into its business strategy and its *Sustainability Policy*. Set forth below are the SDGs to which the Company contributes in accordance with the GRI-G4 Guidelines included in this chapter. This linkage has been performed using the tool "SDG Compass. The guide for business action on the SDGs", available at www.sdgcompass.org.

Goal 1
End poverty in all its forms everywhere

Goal 2
End hunger, achieve food security and improved nutrition and promote sustainable agriculture.

Goal 9
Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.

Goal 11
Make cities and human settlements inclusive, safe, resilient and sustainable.

Goal 16
Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

Contents of Chapter

The aspects analysed and reported on in this chapter are the following:

Aspects of the GRI-G4 Guidelines

Local communities
Management approach and indicators G4-SO1 and G4-SO_2
Additional information required by the GRI *Sector Supplement*:
– Stakeholder participation in the decision-making process
– Management of population displacements, including indicator G4-EU22
Anti-corruption
Management approach and indicators G4-SO3, G4-SO4, and G4-SO5
Public policy
Management approach and indicator G4-SO6
Anti-competitive behaviour
Management approach and indicator G4-SO7
Compliance
Management approach and indicator G4-SO8
Supplier assessment for impacts on society
Management approach and indicators G4-SO9 and G4-SO10
Grievance mechanisms for impacts on society
Management approach and indicator G4-SO11

Specific Aspect of the GRI-G4 Electric Utilities Sector Supplement

Disaster/emergency planning and response
Management approach (no related indicators)

Specific aspects of the Iberdrola Group

Iberdrola's contribution to the community
Management Approach
Iberdrola, promoting women's sports
Management Approach

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

Aspect: Local communities

Management Approach

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 like 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 regions 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 socioeconomic development, training and research, energy sustainability, art and culture, 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.
- Directly by subsidiaries or affiliates (i.e. investee companies, i.e. 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 Avangrid Foundation in the United States, and Instituto Iberdrola 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 specific areas of competence.

G4-SO1 Local community engagement, impact assessment s, and development programmes

G4-SO_2 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 providing a review of environmental impacts such as emissions, effluent, waste, changes in land use, changes in landscape aesthetics and quality, etc. They also include an evaluation of the socio-economic environment, 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 usually guaranteed during the performance 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 applicable law and informs the workers' representatives thereof.

2016 saw the closure of the 2,300 MW Longannet coal-fired thermal plant in the United Kingdom, the third largest in Europe, for which reason coal plants represent only 2% of Iberdrola's total installed capacity at year-end 2016. ScottishPower is working closely with unions and government authorities to evaluate and manage the impact of this plant's closure. The Company has made available to employees various opportunities for reassignment to other areas of the business, as well as early retirement packages. During 2016, a portion of the work team stayed to work on decommissioning, which is expected to be totally completed during 2017.

Development programmes for local communities

Iberdrola takes various types of actions to minimise, mitigate, and offset unfavourable socioeconomic 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, among other measures.

One noteworthy example is the creation of Energy Classrooms to foster an understanding of renewable production technologies, which involve not only visits to facilities but the development of an educational programme to acquire knowledge about energy, especially about renewable energy sources, and to promote an active attitude for the efficient use of energy and thus to contribute to energy saving.

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 Belo Monte plant, social monitoring campaigns covering more than 6,000 families have been carried out since 2011, which have identified significant growth in the family development index, particularly as regards access to knowledge, housing, and work. A satisfaction survey of the relocated families obtained positive levels of above 80% regarding the new location and basic sanitation infrastructure and access to energy.

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 chapter "Iberdrola's Contribution to the Community".

Local community participation processes

The participation of local communities during the project planning and construction phases is described below in the section "Stakeholder participation in the decision-making process" of this chapter.

During the operation phase for facilities, Iberdrola engages in different processes of participation with the various Stakeholders that it relates to and that are described in detail in section "4. Stakeholder engagement" (indicators G4-24 to G4-27) of this report.

Additional information required by the GRI Sector Supplement for the Local Communities Aspect

Management Approach

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; in addition, 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 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 Group's websites, 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.

Set out below are some of the activities conducted by Iberdrola in this field for projects currently under development:

- In the Wholesale and Customers Business, since the commencement of the Támega River hydroelectric project in Portugal, there has been an impact assessment process with the participation of Stakeholders through public consultations in the affected municipalities and a request for opinions by post; since June 2016 there has also been a quarterly meeting with the Environmental Monitoring Commission (Comissão de Acompanhamento Ambiental) (CAA), made up of Iberdrola and various local and national entities, the objective of which is to supervise environmental aspects and socioeconomic impact during the construction phase; in the United Kingdom, communication strategies have been devised to develop the new Damhead Creek gas combined cycle plant, which includes various information channels like newsletters, exhibitions, on-site meetings, and additional information at www.scottishpower.com.
- In the Networks Business in the United Kingdom, there is a change towards an organisational model in which key decisions on projects are made by local teams of the company, in order to ensure consideration of local community interests; in 2016, to ensure the engagement of the communities of Dumfries and Galloway in the definition of the new transmission line, a new "Community Liaison Group" has been established for the Stakeholders to be informed of the latest proposals and for them to be able to make any queries that might arise, with continued activity of "The Stakeholder Liaison Group" forum; also, in the project to strengthen the North Shropshire line, comments received in the public participation process have been taken into

account and alternatives have been identified to minimise the visual impact, among other things. 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 Programme"), a conflict resolution process has been established, in which any unresolved problem is sent to an Ombudsman, who acts as an independent mediator in the resolution of the dispute.

- In the Renewables Business, during the development of both onshore and offshore wind farms in the United Kingdom, there have been regular informational meetings and even individual visits to groups that may be particularly affected by the development; additionally, a Project Summary Document has been prepared and circulated among the Stakeholders, and a procedure has been devised for receiving complaints and suggestions, with all communications registered, investigated, and answered. Of note in the United States are the open-door meetings to inform residents, business, and organisations about new projects, with various of these meetings having been held in 2016 regarding development of Stiles Brook in Vermont and of Otter Creek in Illinois. In Brazil, consideration is given to the existence of traditional groups like quilombolas and indigenous people, who are invited to take part in public meetings, with the process being carried out by an independent multidisciplinary company.
- These types of consultation processes are also carried out in the construction of part-owned hydroelectric power plants in Brazil, including, for example, consultations at the Baixo Iguaçu plant, the establishment of two information desks, regular visits to the affected families, receiving opinions, questions, and complaints, and the regular publication of an informational document and the public availability of information via the website. At Belo Monte, since the inception of the project in 2011, over 450 meetings have been held with approximately 26,000 participants, 257,000 communication items have been distributed, and around 20,000 questions and complaints have been answered both face-to-face and via telephone, managed through the Social Support Forum (Fórum de Acompanhamento Social) created for such purpose. Also, in the development of new electrical power lines at the part-owned companies Coelba, Cosern, and Celpe, public meetings have been held with the community and owners of the areas near the projects to explain the benefits of improving the quality of the service provided to the population.

Management of population displacements

As a prevention measure, during the planning phase for new projects, Iberdrola evaluates the land that will potentially be occupied, choosing that which avoids displacement of people who either reside in the immediate area or whose economic activities are affected. In this ultimately occurs, Iberdrola and the relevant government authorities review the economic, environmental, and social consequences of such projects, and jointly adopt suitable corrective measures. The Company believes that such processes ensure the protection of general interests in the countries where these impacts occur. The measures adopted in projects of this nature currently being developed by Iberdrola are described in indicator EU22 below.

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, pursuant to the process of Declaration of Public Interest process by the Portuguese government. In the socio-economic and cultural action plan for the project, which actions are currently being developed and coordinated with the affected government administration and municipal legislatures, the affected or potentially affected families and small population centres are taken into account. For this reason, there has been a feasibility study of the affected areas, which involves field work

together with the population and city councils in order to determine by mutual agreement in each case whether the relocation or compensation of the affected families is necessary.

- 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 evaluated 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.

  In the case of the Belo Monte power station, there is continued monitoring of the social impacts pursuant to the *Project for social monitoring of the surroundings of the work and host communities*. In 2016, 930 families were relocated between urban and rural areas, and plans are in place for the relocation of approximately 27 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 care facilities to serve the population. As regards commercial activities, 633 businesses were compensated in 2016; they were monitored at the new locations and training and guidance actions were provided.

  Likewise, in the case of the Baixo Iguaçu plant, plans are still in place to compensate or relocate approximately 520 families in the coming year, as negotiations with the affected families recommenced in October 2016, after being temporarily suspended in 2015 due to a standstill in activities. The relocation of such persons to new areas is made in such a way as to allow them to continue with their agricultural activities. In order to provide the most appropriate solutions for each case, there will be a process of technical support during the three years following relocation, and there is a committee made up of the affected municipalities, rural trade unions, the affected parties, and the company.

  Finally, at the Teles Pires hydroelectric plant, which has been in operation since 2015, there is a continuation of the programme of compensation for the loss of land and mandatory displacement of the population, the main goal of which is to supervise the restructuring process of the affected population from the standpoint of economic sustainability and the environment, taking actions to monitor social reintegration and evaluate the quality of life. Similarly, since 2011, a Socioeconomic Monitoring Sub-programme has been carried out to monitor indicators that are sensitive to changes in the demand for public services and social facilities stemming from the construction of the plant, which make it possible to assess the effectiveness of the mitigation actions taken and to address any shortcomings.

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 such documents as the Group's *Code of Ethics*, the *Crime Prevention Policy*, and the *Anti-Corruption and Anti-Fraud Policy*, all of which have been approved by the Board of Directors.

As proof of this commitment, in 2016 the Company's Board of Directors approved the aforementioned *Anti-Corruption and Anti-Fraud Policy*, the aim of which is to send a strong message opposing corruption and fraud in all their forms to all the senior officers and employees of the Company and of the other companies within the Group, as well as to third parties with whom they are related.

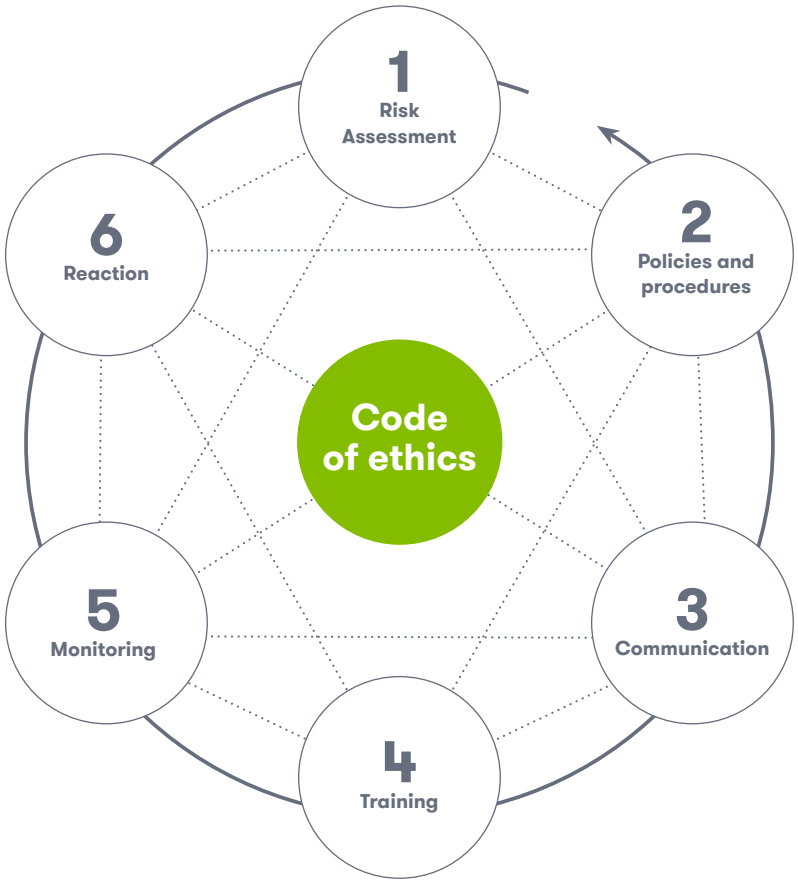
Within the framework of the compliance system, various programmes are implemented to encourage the organisation to act in accordance with the most stringent ethical standards and in accordance with applicable laws and regulations. These programmes, promoted by the Compliance Unit in the exercise of the powers assigned to it in its Regulations, are included in the *Crime Prevention Programme* and the *Programme for Compliance with the Code of Ethics within the Group*.

In order to develop the *Crime Prevention Policy*, the Company, through the Compliance Unit and other appropriate bodies, has implemented a specific and effective programme for preventing the commission of crimes (as a set of measures focused on the prevention and detection of and reaction to possible crimes), which also extends 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 Criminal Code following the introduction of criminal liability for legal entities, without prejudice to the legal provisions 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 programme 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 programme is part of the Compliance System, is articulated on the same basis, and contains the same elements as those set forth in the *Protocol against Corruption and for the Prevention and Correction of Illegal or Fraudulent Conduct* approved by the Unit.

The *Code of Ethics* is the "cornerstone" on which this programme is based and permanently functions as an element "inspiring" the other elements thereof, which are shown 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 acceptable conduct guidelines.

All activities conducted in the Group within this programme are monitored by the Unit on a quarterly basis through the "*Global Compliance Scorecard*" in which the Compliance Divisions of each country subholding company and/or head of business company of the Group report to the Unit each quarter, within the framework of the *General Coordination, Collaboration, and Information Protocol* approved by the Unit, on a number of monitoring indicators established with respect to the main items that make up the compliance programme of the respective companies.

As a further indication of this commitment, in 2015 Iberdrola joined the Partnering Against Corruption Initiative (PACI), a platform through which leaders belonging to the World Economic Forum undertake to promote business conduct and practices designed to fight corruption within their organisations and to make such commitments binding on the third parties with whom they engage.

G4-SO3 Business units assessed for risks related to corruption

One of the main elements of the *Programme for Compliance with the Code of Ethics* is the performance of periodic and continuous risk assessments. The purpose of such assessments is to identify situations, factors, or actions that could be exposed to irregular acts or to situations of corruption or fraud.

The Compliance Unit develops a dynamic review and updating process for the risks mentioned in the preceding paragraph and establishes review mechanisms and tools to determine the perception of fraud risks by officers and professionals with key responsibilities within the Group, while monitoring the potential factors of exposure to the risk of corruption on an ongoing basis.

Both the corporate divisions of the Company as well as all of the businesses and countries in which the Group does business participate in this process and are analysed in collaboration with the Compliance Divisions of the country subholding companies and head of business companies. All of this is done following guidelines established by the Unit, which each Compliance Division adjusts and develops at its respective company in accordance with the specific object and activities thereof.

Fraud and corruption risks for 2016 were evaluated through an ethical culture survey launched during the year and addressed to all of the Group's professionals[69], with more than 10,000 responses throughout the Group.

This survey included a specific section to find out the perception, in terms of probability of occurrence within the Group, of certain scenarios of fraud and corruption defined by the Association of Certified Fraud Examiners within the category of occupational fraud.

Although an analysis of the results of the survey did not identify any significant risk to the Company or the Group, it will in any case be used as a starting point to determine the most effective prevention and control measures and thus allow for the appropriate allocation of resources and efforts to those areas or factors in which a potential for improvement has been identified.

Accordingly, the aforementioned risk assessment constitutes a tool upon which various actions are based and which are included within the other elements of the *Programme 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 2016 (TI CPI 2016)*; the results are shown in the table below:

Corruption risk[70]	% of purchases in countries on the CPI Index 2016	% of purchases in countries on the CPI Index 2015	% of purchases in countries on the CPI Index 2014
Low	66.3	61.7	88.9
Medium	25.7	28.1	0.2
High	8.1	10.2	10.9

69 The country subholding company Avangrid launched the ethical culture survey at the end of 2015.

70 Low risk: country index ≥ 60 / Medium risk: 59-50 / High risk: < 50 on a scale of 0 (perception of high corruption levels) to 100 (perception of low corruption levels).

The countries with a high risk of corruption in which purchases were made from suppliers registered there are mainly Mexico and Brazil.

Iberdrola has not made any purchase of general supplies in tax havens.

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 *Suppliers' 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 relied upon by 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.

Along these lines, the principal powers of the Compliance Unit include those of promoting the preparation and implementation of suitable training programmes, both in-person and online or by any other appropriate method, for the professionals of the Group to receive training regarding the duties imposed by the *Code of Ethics*, the *Anti-Corruption and Anti-Fraud Policy*, and the *Crime Prevention Policy*.

With this goal in mind, the Unit prepares and approves training and communication plans and actions, which are submitted to the Human Resources and Corporate Communications Divisions, for implementation in accordance with the overall plans of the Group.

The initiatives included in these plans include the following actions relating to ethics and the prevention of corruption:

- Training and awareness-raising regarding the Code of Ethics and the prevention of violations thereof. In coordination with the various country subholding companies and/or head of business companies, the Unit develops and regularly updates training programmes on the Code of Ethics for all Group professionals. Such programmes foster knowledge of the action standards required at the Group and promote ethical values and the principle of "zero tolerance" towards the commission of unlawful acts and situations of corruption and fraud among professionals. They are provided in various modalities:
  - Online course regarding the *Code of Ethics*. This course was launched globally throughout the Group (except for the country subholding company Avangrid), with a minimum biennial frequency. According to this schedule, in 2017 there will be a refresher course on the *Code of Ethics*, the prior version of which was taken by more than 19,600 professionals throughout the Group in 2015. Avangrid provides the course annually, for which reason 5,415 employees of this company completed the course in 2016.
  - On-site training and awareness-raising meetings led by the compliance directors of each company within an awareness-raising programme for officers and mid-level managers ("Lead with integrity") on the fundamental role of this group in developing an ethical culture within the organisation. A total of more than 600 officers and team leaders received on-site training within this programme in 2016.
- Training on Crime Prevention Programmes applicable to companies domiciled in Spain. Thanks to this online training initiative, more than 8,700 employees were trained on this topic in 2016.
- Specific anti-corruption training in accordance with the legal provisions in effect in the countries in which the Group operates:
  - ScottishPower provides periodic online training on the UK *Bribery Act* and obligations under the *Anti-bribery and Corruption Policy (ABC Policy)* as well as on the related regulations, approved by the Board of Directors of this company. This training is provided annually and is addressed

to professionals, who have a higher exposure to situations of corruption due to the work they perform on a day-to-day basis. A total of 423 employees took the course in 2016.

- At Avangrid and Elektro, on-site training course have been developed for the respective Boards of Directors (9 and 7 members, respectively) and for the management teams regarding the U.S. *Foreign Corrupt Practices Act* and the Brazilian *Clean Company Act*.

G4-SO5 Incidents of corruption

The Compliance Unit has not been advised, through the established ethics channels, of any court decisions relating to cases of corruption during the reporting period. There were also no incidents reported through the channels established for such purpose resulting in the cancellation of orders or of contracts with Group suppliers.

During 2015, the Integrity Vice Presidency ("INT") of the World Bank approved the negotiated resolution agreement signed by Iberdrola Engineering & Construction and Iberdrola S.A. (the "Agreement"), which ended the proceeding stemming from the omission by Iberdrola Engineering & Construction of information relating to a commercial agent in two bids submitted in 2004 and 2005 for projects in Albania, which constitutes a fraudulent practice under World Bank regulations.

Under the terms of the Agreement, Iberdrola Engineering & Construction and its subsidiaries were debarred from participating in projects of the World Bank Group for a 12-month period, until 26 May 2016, on which date the debarment ended. For a period of 6 months from the end of the debarment, Iberdrola Engineering and its subsidiaries have been in a situation of conditional non-debarment, i.e. qualified to participate in World Bank projects, but under supervision and provided that the Compliance System validated by the World Bank is maintained in effect.

During the conditional non-debarment period, the independent monitor appointed by the World Bank issued a new report once again confirming that Iberdrola Engineering's Compliance System fully complies with World Bank guidelines and is being effectively maintained.

As a result thereof, on 28 November 2016 the World Bank formally confirmed the final lifting of the sanction imposed on Iberdrola Engineering and its subsidiaries, such that it no longer appears on the World Bank list of conditionally debarred entities.

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 positions are exchanged. Iberdrola is thus acquainted with the concerns and proposals of regulatory entities and provides them with its own positions in the legitimate defence of its interests and those of its shareholders and customers. It also actively participates 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 and European energy policies. It also participates in the official processes of enactment of the laws and regulations and the monitoring of the application thereof.

  As a general rule, Iberdrola defends 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:

- A Sustainable Energy Model, giving priority to lower-emission energy in a manner consistent with market principles.
- Achievement of competitive supply, which requires an appropriate environmental cost allocation among all energies, following the "polluter pays" principle. Climate actions need to be financed by all polluters.
- Establishment of mechanisms supplemental to the "energy only market"[71] that make it possible to achieve the long-term supply security target level. Capacity payments must be developed that are sufficient to maintain existing back-up plants and to attract new investments.
- Smart grids offer consumers a wide array of possibilities, and must therefore be appropriately promoted and remunerated.
- All customers, whether self-consumers or not, must receive transparent bills and contribute equitably both to network costs and to the costs of environmental policies.
- Reasonable profits and sufficient rates for regulated activities.
- Clean electricity rates of costs not related to supply (additional non-mainland costs, annual rate shortfall payments, subsidies for domestic coal, premiums for renewable energy, etc.).
- Full liberalisation of activities relating to generation and end supply, including the elimination of regulated end rates.
- Introduction of measures to protect vulnerable customers and elimination of all kinds of cross subsidies among energy customers.
- Creation of the European single market.
- A CO_2 price that provides a signal incentivising investments 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, Avangrid has made the financial contributions shown in the US register:

http://soprweb.senate.gov/index.cfm?event=selectfields.

71 Term used to refer to the pure energy market, where only generated energy is remunerated, and the service that provides installed capacity to the system to ensure security of supply is not.

G4-SO6 Contributions to political parties or to related institutions

Iberdrola has a neutral position from a political standpoint. In financial year 2016, none of the Group's companies, except in the United Kingdom and the United States, contributed to the financing of political parties or organisations controlled by them.

Contributions to political parties (€)	2016	2015	2014
United Kingdom	**26,889**	**27,540**	**26,032**
United States	**129,543**	**101,963**	**131,327**
National level	0	62,315	75,566
State level	129,543	39,648	55,761
Other countries	**0**	**0**	**0**
Expanded boundary	**156,432**	**129,503**	**157,358**

In the United Kingdom, ScottishPower contributed a total of 26,889 euros, distributed among various parties across the political spectrum, to sponsor conferences and events, subject to the *Political Parties, Elections and Referendums Act (2000)*. These occasions are an important opportunity for the Group to represent its views in a non-partisan basis to politicians from across the political spectrum. The contributions do not indicate support for any particular party.

In the United States, Avangrid contributed a total of 129,543 euros. Specifically, in the Networks Business, it has made contributions to candidates and political parties in the total amount of 23,873 euros, and reported such contributions in accordance with applicable laws. In addition, the Renewables Business made contributions totalling 105,670 euros. In both cases, the contributions are those made by 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

Cases related to monopoly practices or anti-competitive behaviour that have been recorded for the Iberdrola Group are described below:

In 2009, the National Competition Commission, now known as the National Commission for Markets and Competition (*Comisión Nacional de los Mercados y la Competencia*) (CNMC) issued a Ruling in a proceeding commenced 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) charging Iberdrola Distribución Eléctrica, S.A.U. with an alleged infringement of the Competition Defence Act (*Ley de Defensa de la Competencia*) consisting in an alleged abuse of dominant position in connection with the refusal to provide to such retail energy supply company widespread and unconditional access to its distributor points-of-supply information system (*sistema de información de puntos de suministros*) (SIPS). The decision, imposing a 15,000,000 euro penalty, was challenged before the National High Court, which dismissed the contentious-administrative appeal in a 2012 decision. A constitutional petition for relief was filed against such decision with the Supreme Court which was dismissed by a June 2015 decision rejecting the appeal. A petition for "amparo" was filed with the Constitutional Court in December 2015, which was rejected by an April 2016 ruling. An appeal was filed with the European Court of Human Rights (ECHR) in October 2016, and was also rejected on 1 December 2016. The matter is definitively concluded.

In 2010, Céntrica Energía, S.L. filed a claim with Commercial 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 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. in July 2010, holding that the action was time-barred. This judgement was appealed by the opposing party to the Provincial Court of Biscay (*Audiencia Provincial de Vizcaya*), and a new judgment confirming the previous judgement was handed down in July 2011. However, Céntrica Energía filed a constitutional petition for relief with the Civil Chamber of the Supreme Court, which issued a judgement in September 2013 upholding such petition, 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 judgement in 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. In May 2014, Céntrica filed a constitutional petition for relief against the aforementioned judgment with the Third Division of the Supreme Court. In June of that year Iberdrola Distribución Eléctrica, S.A.U. filed an objection to the constitutional petition for relief with the Supreme Court and requested the rejection thereof. In July 2014 the proceedings were referred to the Office of the Prosecutor for an opinion regarding the functional jurisdiction of the Court. In October 2014 a request was made to include in the proceedings a decision of the Supreme Court favourable to the defendant in a very similar case (ENDESA). An objection to this request has been filed, as on a constitution petition for relief there can be no review of the evaluation of evidence by the trial court without the Decision to be contributed affecting or being decisive for the decision on the constitutional petition for relief.

The proceeding provided for in article 88(2) of the EC Treaty by the European Commission against Spain (State Aid C3/2007) continues 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 final 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.

Furthermore, in 2012, notice was given 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 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 in 2013. In November 2016, notice was given of the judgement of 25 October 2016 upholding the constitutional petition for relief of Endesa Energía XXI, S.L., annulling the penalty imposed by the National Competition Commission for similar grounds. Though the cases are not absolutely identical, this judgment has been included in the constitutional petition for relief of Iberdrola's retailers, arguing that in this case the petition should also be upheld.

Finally, on 2 February 2016 the CNMC approved the commencement of disciplinary proceeding S/DC/0562/15 with regard to conduct prohibited under the Defence of Competition Act (*Ley de Defensa de Competencia*) against Amara and against Iberdrola, S.A. as parent company, among other companies. The Competition Directorate (*Dirección de Competencia*) believes that there is evidence of the existence of restrictive competition practices consisting of "the fixing of prices and commercial terms and the division of the market for the distribution and sale of low- and medium-voltage cables". The proceeding is in the initial phase, and the Specification of Facts Document (*Pliego de concreción de hechos*) has not yet been received from the Competition Directorate.

No cases related to monopoly practices or anti-competitive behaviour have been recorded at the other companies of the Iberdrola Group.

Aspect: Compliance

Management Approach

As laid down in its By-Laws, Iberdrola aspires for its conduct and that of the persons connected therewith to conform and adhere not only to applicable law and its Corporate Governance System, but also to ethical principles and generally accepted principles of social responsibility. In this connection, the *Code of Ethics* of the Iberdrola Group provides that:

- Group professionals shall comply strictly with the laws in force in the jurisdiction of their workplace, heeding both the spirit and the purpose of such legal provisions, and shall observe the provisions of the Code of Ethics, the rules of the Corporate Governance System, and the basic

procedures governing the activities of the Group and of the company in which they provide their services. They shall also fully observe all obligations and commitments assumed by the Group in its contractual relations with third parties, as well as the usage and good practice of the countries in which they carry out their activities.

- The officers of the Group shall have particular knowledge of the laws and regulations, including internal ones, affecting their respective areas of activity, and must ensure that the professionals reporting to them receive the required information and training to enable such professionals to understand and fulfil the legal and regulatory obligations, including internal ones, applicable to their position.
- The Group shall respect and abide by all court and/or governmental decisions or resolutions that may be issued, but reserves the right to file such appeals as may be appropriate against any such decisions or resolutions when it believes that they do not conform to the law.

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[72]	2016	2015	2014
Expanded boundary			
Fines imposed (€)	146,673,867	35,542,577	17,022,140
Non-monetary sanctions (no.)	3	9	8
Cases being resolved through arbitration or similar mechanisms (no.)	565	8	1

Of the total amount, in Brazil fines have been imposed in an amount of 123,189,455 euros, principally corresponding to a fine for Elektro (103,467,044 euros) due to the commencement of an Infringement Procedure (*Auto de Infracción*) issued by the Brazilian Tax Authority (*Fisco de Brasil*), questioning whether the acquisition of Elektro in 2011 should have occurred in Brazil and not abroad. Elektro filed a brief in January 2017 with a clear position and strong arguments. Of the remainder, 16,103,887 euros correspond to fines against the Neoenergia group and 3,618,524 euros correspond to the Renewables Business for various penalties imposed for different reasons.

In the United Kingdom, ScottishPower has received a fine in the amount of 21,989,836 euros as a result of an investigation commenced by Ofgem regarding customer service.

In Spain, fines totalling 1,494,576 euros were imposed, of which 734,906 euros were for digging trenches without a works permit and for the construction of unauthorised facilities, all of which have been appealed. A fine of 720,160 euros has also been received for failure to adhere to the security patrol timetable at the Almaraz-Trillo nuclear plant; the Security Patrol Procedure has been modified as a corrective measure. The remaining 39,510 euros correspond to various penalties for other reasons.

72 In the labour sphere, arbitration mechanisms are not included. In addition, labour fines and sanctions for 2014 refer to the basic boundary, as there is no supplementary information available for such year.

No fines were imposed during 2016 in the other countries in which the Company operates.

Additionally, three non-monetary penalties have been imposed relating to the Renewables Business in Brazil, due to investigations by Aneel into three wind farms, and 565 cases have been dealt with via arbitration mechanisms, all in Spain.

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.

100% of suppliers (new and existing) are evaluated according to such management approach, and their significant risks regarding their impacts on society are managed through the quality processes implemented and through periodic audits.

No suppliers have been detected with a material negative social impact, nor have incidents been reported through the channels established for such purpose resulting in the cancellation of orders or of contracts with Group suppliers due to negative social impacts.

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" having been identified 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

As an indication of its efforts to encourage dialogue with its Stakeholders, and to know the satisfaction and expectations of its interested parties, the Procurement Division periodically surveys the suppliers of the Group in all countries in which these processes are carried out.

The fifth survey occurred in 2016, sending the survey to a representative group of suppliers of the Iberdrola Group: 2,640 suppliers, with 46% participating.

The results of the surveys are as follows:

Supplier satisfaction survey	5th Survey (2016)	4th Survey (2014)	3rd Survey (2012)	2nd Survey (2009)	1st Survey (2007)
Rating (out of 10)	8.06	8.00	7.74	7.57	7.56

Suppliers value very positively the professional respect of their contacts within Procurement during the bidding phase, as well as transparency and honesty.

The overall perception of the Iberdrola Group rates the Company's reputation highly, with a score of 8.8, as well as the brand and the confidence it inspires, with a score of 8.6.

The results of the survey also showed some aspects that could be improved, such as the financing possibilities offered.

Main initiatives with suppliers of materials, equipment, works, and services during 2016

Supplier of the Year Award: Promoting and rewarding supplier excellence

Iberdrola wishes to use the supplier awards to incentivise, encourage, and recognise excellence, sustainable development, quality, internationalisation, innovation, corporate social responsibility, job creation, and the prevention of occupational risks. Moreover, the Award is conceived as a tool and mechanism to thank suppliers for their contribution to the achievement of the Group's goals.

This Award was granted for the first time in 2002 in Bilbao, and a total of 9 editions were held in consecutive years across the entire Spanish territory, in which more than 200 supplier companies were given awards.

The rapid pace of internationalisation of the Company during those years left some years of reflection to be taken in order to adapt the Award to the global and international reality that the Iberdrola Group has been consolidating. Today, Iberdrola is a multinational with a focus on numerous countries and markets, with stable activities in Spain, the United Kingdom, the United States, Mexico, and Brazil.

Therefore, in 2016 the Supplier Award events were reintroduced in each one of these countries, the first editions taking place in the United Kingdom, the United States, and Mexico.

Also for the first time in 2016, Iberdrola held the Global Supplier of the Year Award event, to give awards to suppliers that have enabled quality growth together on a global level, accompanying the Company in its internationalisation, working ethically and sustainably, those that together with Iberdrola innovate with new products and services, those that do so within a safe working environment, and, most importantly, those that generate employment and wealth in the areas in which the Group does business. Only in this way can Iberdrola continue to grow and serve the societies in which it is present and to which it is committed.

Iberdrola works, and wishes to continue to work, with outstanding and sustainable suppliers, and to that end it establishes clear awareness-raising and measuring mechanisms, devoting specific resources within the Procurement Division to such task and establishing personal goals for the management team linked to the ongoing improvement of suppliers' sustainability ratios.

Iberdrola extends its commitment to reconciliation of work and personal life to its suppliers.

Iberdrola has decided to extend to its suppliers its good practices on reconciliation between the work and personal life of its employees. For this reason, the Company has revised and amended the text of the *Suppliers' Code of Ethics* to include a title on reconciliation in the *Labour Practices* section.

Iberdrola states therein that the supplier should "*assess the implementation of measures that promote respect for the personal and family life of its professionals and facilitate the achievement of an optimal balance between the latter and the work responsibilities of women and men*".

Supplier sustainability evaluation model: CSR Scoring

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. The evaluation provides added value to suppliers, allowing them to know the areas for improvement in order to focus their efforts in the area of social responsibility.

Supplier CSR Scoring Model[73]

Classification levels	2016	%	2015	%	2014	%
A+	628	38	552	36	360	27
A	871	52	813	53	757	57
B	168	10	171	11	209	16
Basic boundary	**1,667**	**100**	**1,536**	**100**	**1,326**	**100**

The CSR scoring data regarding the volume of purchases analysed (86% of the Group's total procurement) are shown below:

Supplier CSR Scoring Model

Classification levels	% amount awarded
A+	75.2
A	23.2
B	1.6
Basic boundary	**100**

Establishing improvement goals throughout the Procurement Division team relating to the increase in procurement with analysed suppliers and the increase in the percentage of procurement from A+ suppliers.

For those suppliers scoring B and A, a specific notice is sent regarding their status so that they try to improve to A+. More than 270 notices have been sent in this regard.

Of the suppliers studied, 399 (as opposed to 343 in 2015) adhere to various international corporate social responsibility initiatives or follow codes of good practices for their industry.

During the financial year, there were 38 social audits of suppliers with an order during the year. Suppliers with "non-conformities" in the process have a specific period within which to rectify the deficiencies found.

73 Suppliers with an order during the year. A+: above average suppliers, A: average suppliers and B: below average suppliers.

Suppliers diversity

Avangrid has a *Supplier Diversity Programme*, which establishes a commitment to include the following within the supplier network and increase procurement therefrom:

- Minority-Owned Business Enterprises (MBE)
- Women-Owned Business Enterprises (WBE)
- Lesbian, Gay, Bisexual, and/or Transgender-Owned Business Enterprises (LGBTBE)
- Veteran-Owned Business Enterprises (VBE)
- Service-Disabled Veteran-Owned Business Enterprises (SDVET)
- Small Disadvantaged Businesses (SDB)
- Historically Underutilized Business Zone Enterprises (HUBZone)

There is also a commercial development programme created to help disadvantaged small businesses (SBEs) to compete and gain access to the federal procurement market.

Contracting volume with these groups in 2016 was of approximately 39 million euros.

During 2016, the contracting volume with Special Employment Centres in Spain (in order to assist and work with persons with disabilities) totalled 3.5 million euros.

Development programme for small suppliers in Brazil

In Brazil, in collaboration with Sebrae (Brazilian Support Service for Micro and Small Businesses, or *Servicio Brasileño de Apoyo a las Micro y Pequeñas empresas*), Elektro has continued with the small-supplier development programme, the objective of which is to increase the competitiveness and improve the management of small businesses. At the end of the programme, each participating supplier receives a specific report on their situation, together with a guide including the action guidelines that will enable them to improve their business.

Transparency and reporting

Further information on Iberdrola's relations with and management of its suppliers can be found in the *Periodic Report on Procurement and Supplier Management* at www.iberdrola.com, and in the new "Contribution to Sustainability" section under "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.

As provided by Iberdrola's By-Laws, the corporate website (www.iberdrola.com) is a permanent channel of communication to serve the *Stakeholder Relations Policy*. For this reason, the website contains the main channels for responding to potential claims, as set out below:

- From the home page, one can directly access pages dedicated to customers and to the distribution networks of the countries in which Iberdrola does business, as well as those of the foundations and of the main companies of the Group. There is also a prominent link on the home page to the "Contact" section, in which the following appear in an organised and accessible form:
  - The addresses of the Iberdrola Group's offices in the various countries.
  - The specific contact channels (Corporate Communication Office; Investor Relations Office; Office of the Shareholder; Environment; Supplier Service Centre; Employment Channel; and so on).
  - Customer service centres in the various countries.
  - Subject-specific query mailbox.

- The Corporate Governance section of www.iberdrola.com contains the Group's corporate structure, with the corresponding links for all the companies.

The Company's Stakeholders have the channels described above, which are handled in the various countries, businesses and corporate areas, to make their complaints and suggestions 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, the Suppliers' Ethics Mailbox, and the Channel of Communication with the Audit and Risk Supervision Committee, through which employees, shareholders, and suppliers can report grievances or complaints with the assurances of resolution and confidentiality that such channels require to be effective.

G4-SO11 Grievances about impacts on society

The court claims of which Iberdrola is aware are set forth in indicators G4-EN29, G4-SO8, and G4-PR9 of this report. The Company has no evidence of any court claims brought in addition to the ones mentioned above that might have a specific social impact.

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 plans, procedures, and other mechanisms 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 on-site audits.

The Wholesale and Customers Business has various documented emergency management procedures in place at its facilities: for example, in Spain and Mexico there is 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 a Business Continuity Management System for the management and minimisation of emergency situations, which is certified to the ISO 22301 standard and externally audited. In the United States, each facility has a Prevention, Control and Countermeasures Plan, which includes preventive and reactive actions, and also has an Emergency Response Plan.

In addition, there may be specific plans based on each technology; for example, hydroelectric generation facilities also have an internal process to implement a Reservoir Emergency Plan. At the Támega project in Portugal, this plan was sent to the appropriate Portuguese authority for information and approval prior to the commencement of the works.

Thermal generation plants have established general procedures to identify and respond to potential accidents and emergency situations, as well as to prevent and reduce environmental impacts, serious accidents, and possible injuries to employees.

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). In addition, there is a *Basic Nuclear Emergency Plan* (*Plan básico de emergencia nuclear*) (PLABEN), which provides an interface as an instrument for coordination between both plans. Training in the event of emergency is also provided to the Company's own and third-party employees, and periodic drills are held, in which the employees involved in the Nuclear Emergency Response Organisation (*Organización de Respuesta ante Emergencias Nucleares*) (OREN) are trained.

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, Iberdrola 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 plans of the distribution subsidiaries of Avangrid and the operating instructions of Elektro in Brazil, which standardise safety in operations and the procedures to restore supply and for the maintenance of the electricity system. ScottishPower actively communicates with vulnerable groups during power outages to ensure that they are provided the assistance that may be required. The Company has its own fleet of generators, as well as a portfolio of suppliers to support consumers during long-lasting emergencies if necessary.

Specific aspects 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, Mexico, and Brazil.

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 in order to facilitate economic and social development and minimise 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

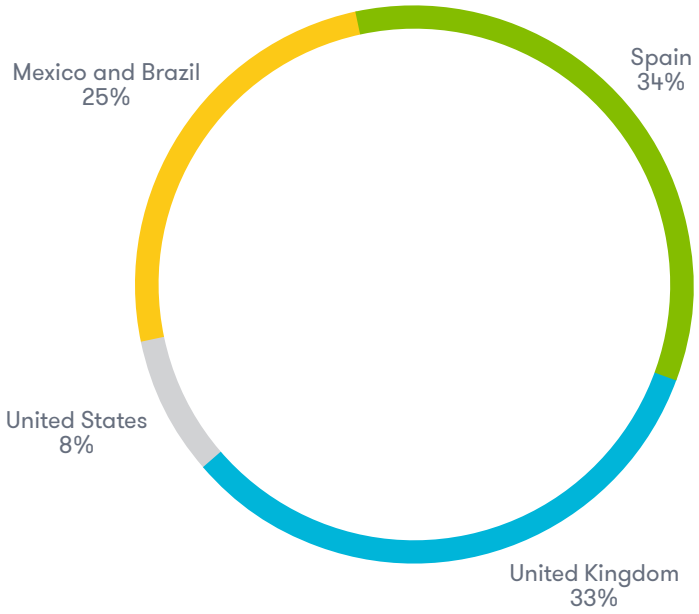
Iberdrola has selected the *London Benchmarking Group* (LBG) model to measure and assess business contributions to the community due to its wide international recognition. It is regarded as the most highly-valued standard for measuring the results and impacts of social programmes, both for the company and for the community.

A detailed description of the LBG model can be found at www.lbg.es.

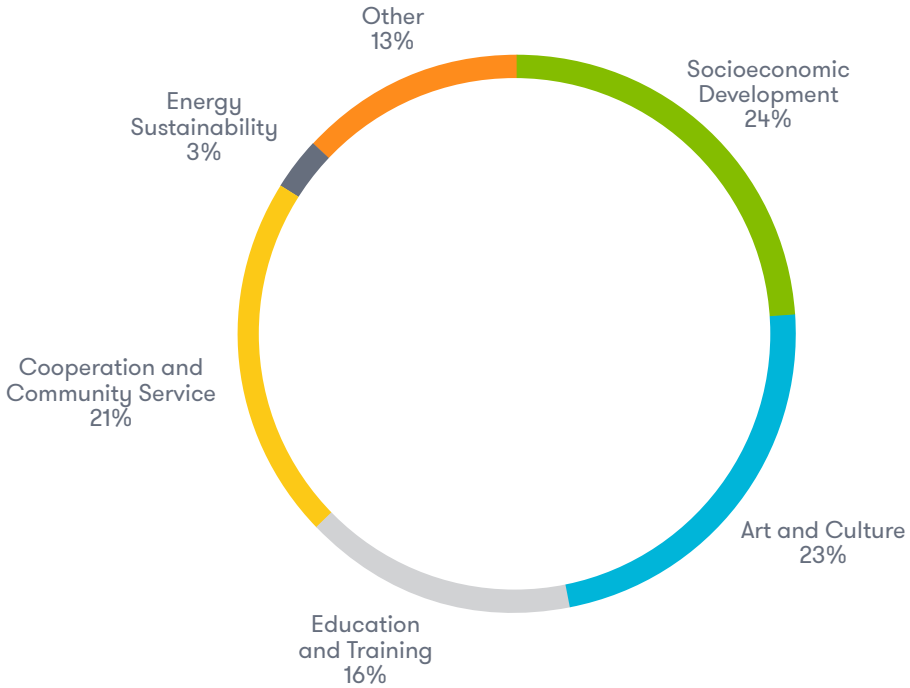
Iberdrola has used the LBG model to report its contributions to society in this *Sustainability Report 2016*.

Contribution to the community in 2016	(€ thousands)
By category	
– Specific contributions	2,380
– Community investment	32,703
• Socioeconomic development of the community	
• Energy sustainability	
• Art and culture	
• Education and training	
• Cooperation and community service	
– Commercial initiatives in the community	5,665
– Management costs	**2,973**
By type of contribution	
– Cash contributions	40,512
– Staff time	192
– In-kind contributions	44
– Management costs	2,973
Expanded boundary	**43,721**

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 17.8 million euros on a consolidated basis for the Group.

Electrification programmes 2016	(€ thousands)
Elektro, Coelba, Celpe, and Cosern	17,761

2. Outputs and impacts

Benefits for society

Iberdrola has been measuring the results achieved by its community support programmes using various parameters. Iberdrola's foundations are applying a methodology adapted from LBG 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-impact community programmes.

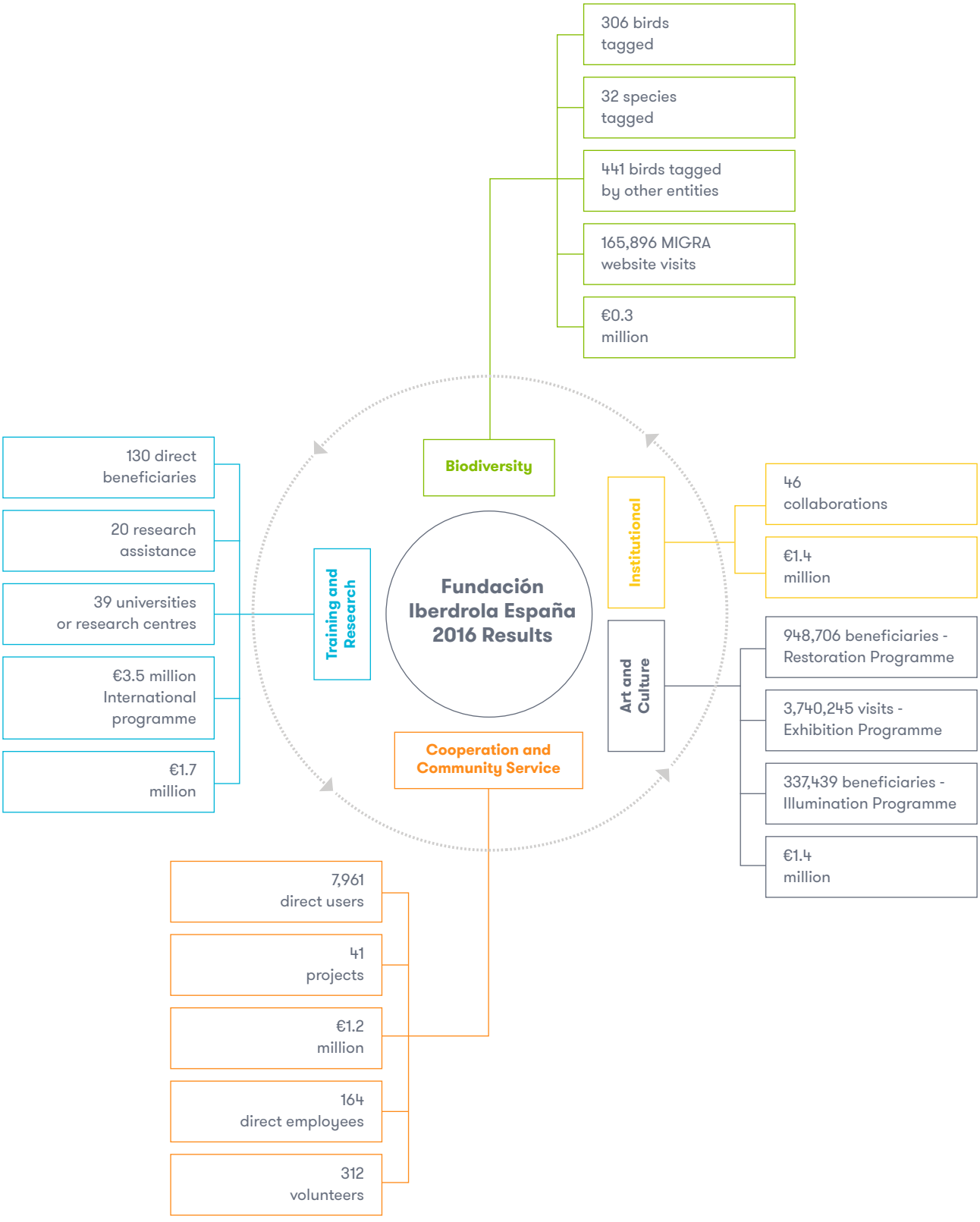
The first programmes for which there was a measurement of the outputs and impacts were the *Atlantic Romanesque Restoration Project*, the *Social Assistance Programme*, the *Cooperation for Development Programme*, and the *Scholarship and Research Aid Programme*. For more information about the results obtained from these programmes, see the *Sustainability Report 2015*.

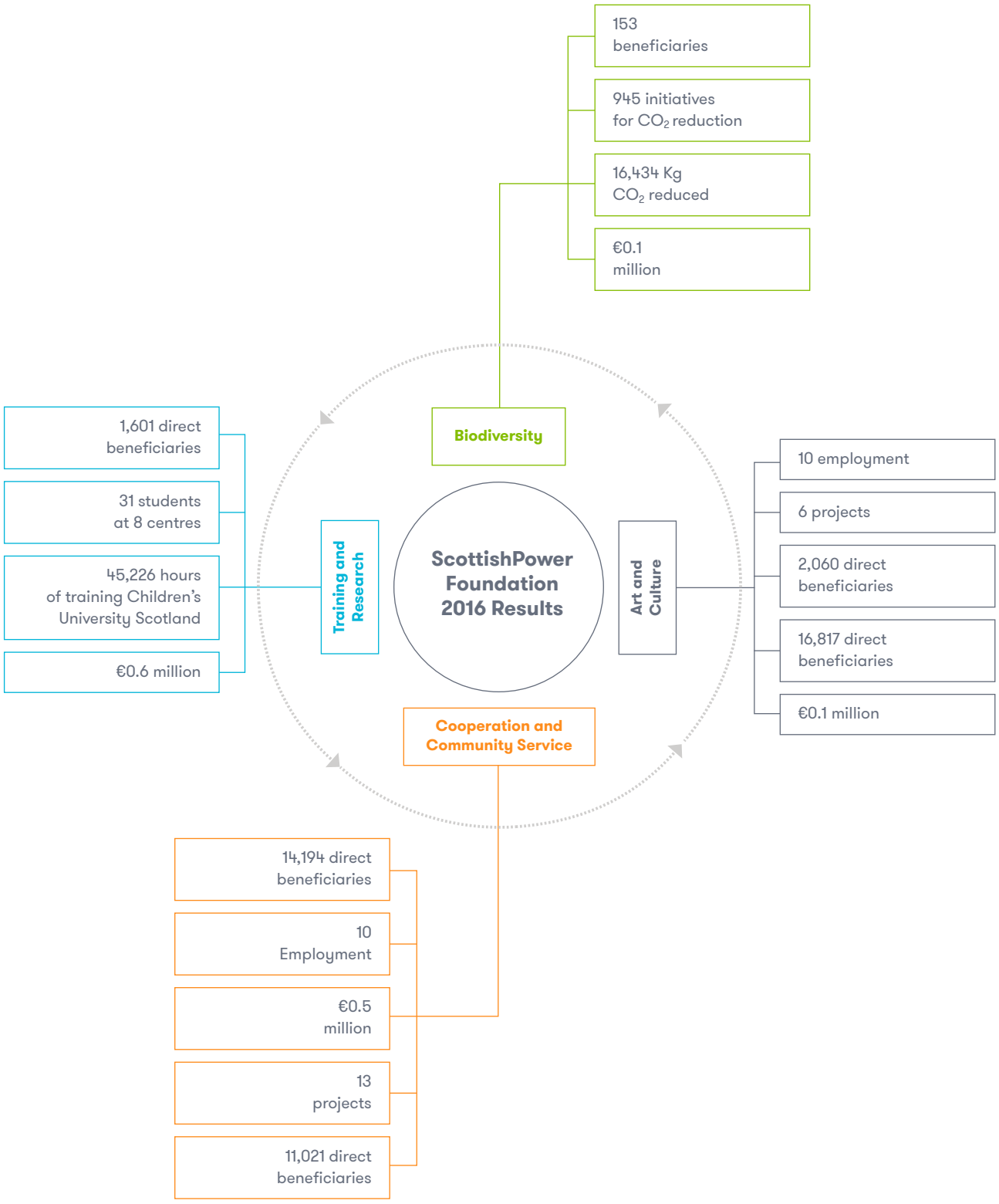
In 2016, Iberdrola's foundations extended the application of this methodology to a total of 170 projects in Spain and the United Kingdom, resulting in a total investment of 7.3 million euros, with more than 22,000 direct beneficiaries as well as more than 5 million indirect beneficiaries. Also worth noting is the creation of 184 direct jobs to implement these activities. Other notable achievements have been funding the award of 130 scholarships and research grants in 2016, and the reduction of 16,434 kg of atmospheric emissions of CO_2 through the implementation of various initiatives.

The programmes are divided into the principal areas of activity of Fundación Iberdrola:

- Training and Research: its main goals include contributing to the training of a new generation of professionals able to drive transformation toward a sustainable energy model.
- Biodiversity: supporting conservation programmes for endangered species and the restoration of protected habitats.
- Art and Culture: promoting culture, with particular attention to the care and maintenance of diversity, uniqueness, and cultural and artistic wealth.
- Cooperation and Community Service: actively contributing to the improvement of the quality of life of the most vulnerable people and groups, and to social and labour inclusion.

The charts below show the results and achievements from each area of activity in Spain and the United Kingdom during 2016:




153 beneficiaries
945 initiatives for CO_2 reduction
16,434 Kg CO_2 reduced
€0.1 million
Biodiversity
1,601 direct beneficiaries
31 students at 8 centres
45,226 hours of training Children's University Scotland
€0.6 million
Training and Research
ScottishPower Foundation 2016 Results
Art and Culture
10 employment
6 projects
2,060 direct beneficiaries
16,817 direct beneficiaries
€0.1 million
Cooperation and Community Service
14,194 direct beneficiaries
10 Employment
€0.5 million
13 projects
11,021 direct beneficiaries

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 their belonging to a socially valued and recognised company.

3. Corporate volunteering programme

The Iberdrola Group offers its workforce various volunteering opportunities within the framework of its Corporate Volunteering Programme. This Programme, which was launched in 2006, is a global and international project aligned with the values of the Group and its *Sustainability Policy*, which is intended to channel the community service spirit of employees and motivate them to participate in social projects aimed at the integration of vulnerable groups, improving the environment, and sustainable development. As a result of this effort, the Iberdrola Group's corporate volunteering received a Special Mention from the King of Spain, Felipe VI, on the celebration of the first decade of its International Programme.

Also, in 2016 the Corporate Volunteering Programme was aligned with the Sustainable Development Goals defined by the United Nations for the 2015-2030 period. It is focused on goals 3 (good health and well-being), 4 (quality education), 7 (affordable and clean energy), 10 (reduced inequalities), and 13 (climate action).

Some of the more noteworthy initiatives carried out in 2016 were the following:

- The fifth year of the global project International Volunteering Vacation for Education (INVOLVE), which offers training in new technologies to youths at risk of social exclusion, with a two-week stay of a team of volunteers from Spain, the United Kingdom, and the United States. This year the project has been extended to Mexico, in addition to Brazil.
- National and international volunteering days were organised, among which particularly worth noting is the sixth International Volunteering Day held simultaneously in Spain, the United Kingdom, the United States, Mexico, Brazil, and Mexico, with more than 1,000 simultaneous participants. Volunteering days were also held in Spain, with games and sports days to encourage the normalisation and integration of persons with disabilities.
- The Iberdrola "Operation Kilo" campaign allowed for the collection of 5,600 kg of basic foodstuffs and children's products at work centres in Spain, with the cooperation of social organisations. At the same time, Iberdrola cooperated with several entities such as UNICEF, Aldeas Infantiles, and Federación Española de Bancos de Alimentos. The Smile for Christmas (Una Sonrisa por Navidad) campaign was also held to deliver Epiphany presents to children in situations of vulnerability.
- Cooperation initiatives for development in African countries, within the framework of the Electricity for All Programme (Electricidad para Todos), and its public-private cooperation project to improve electric power supply at several refugee camps in Ethiopia. Added to this was the Know your Laws (Conoce tus Leyes) programme for the integration of immigrants by means of courses offered by employees of the Company who are experts in law, and Lights... and Action! together with Fundación Tomillo to provide energy efficiency training and develop the employability of youths from disadvantaged environments.
- Environmental volunteering activities, including the holding of the 9th Tree Day for the creation of the "Iberdrola Forest" and reforestation workshops in various countries. The Company

also participated in various popular races or competitions organised for different social and environmental purposes.

- The volunteer activity of the Iberdrola with Refugees (Iberdrola con los refugiados) programme has continued, contributing to the opening of four Integration Schools in which approximately one hundred refugees have been able to benefit from training in the Spanish language and adaptation to their surroundings, among other aspects. Inclusion days such as Iberdrola-Chef have also been carried out, with the aim of encouraging refugee integration.
- In the context of the International Day for the Elimination of Violence against Women, volunteer actions have been carried out with prisoners in the women's wing of the Alcalá-Meco prison.
- Collaboration with the Corporate Volunteering Observatory (Observatorio de Voluntariado Corporativo), with the publication of the Corporate Volunteering Report in Latin America 2015. This research work, which was extended for the first time to Latin America, involved the participation of 223 companies and 90 charitable organisations.
- Participation in the main volunteering working groups and international associations such as Even, Voluntare, IAVE, etc.

The new version of the *Volunteer Portal* continues to be the meeting point for all professionals of the Group interested in social and community service actions, using a global and trilingual website. The *Volunteering Newsletter* has provided weekly information on activities.

4. Iberdrola Foundations

In 2016, the Iberdrola Foundations continued to carry out their programme of activities, following its current Master Plan for the period 2015-2019, the aim of which is to support improvements and social progress, commitment to the community, and the improvement in the quality of life of the people living in the principal countries in which the Iberdrola Group operates (Spain, the United Kingdom, the United States, Brazil, and Mexico).

In all these countries, the respective foundations carry out their programmes of activity on the basis of this Master Plan. Activities continued to increase at a global level in 2016. Of particular note is the increase in the Avangrid Foundation (United States) due to the process of purchase and absorption of the company UIL within the Iberdrola Group and the integration of the activities and funds of the former UIL Foundation within the Avangrid Foundation.

The Master Plan includes significant programmes and initiatives in the Areas of Training and Research, Biodiversity, Art and Culture, Cooperation and Community Service, and Institutional Collaborations. The most significant activities in 2016 were the following:

a) Training and research area

Fundación Iberdrola's *Scholarship and Research Aid Programme in Energy and Environmental Research* grants Master's scholarships each year in energy and environmental research in Spain, the United Kingdom, the United States, Mexico, and Brazil, 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 meeting the energy demands of the population and the protection of the environment with a complete and global concept of sustainability.

This programme strengthens collaboration with prestigious professionals, universities, and innovation centres in Spain, the United Kingdom, and the United States, and a total of 110 scholarships and 20 research grants were awarded in 2016. The Scholarship Programme also has the participation of the Restoration Workshops of the Prado Museum and the Fine Arts Museum in Bilbao, financial support for university studies of Paralympic athletes, and the Prince of Asturias Chair in Information Science and

Technologies at the University of New Mexico, in the United States, which includes studies, research, and grants for Spanish doctorate students at this university.

In July 2016, the *Scholarship Award Event* was held at the central offices of the Company in Madrid, with the presence of their Majesties the King and Queen of Spain, at which youths from the five countries (Spain, the United Kingdom, the United States, Mexico, and Brazil) who participated in this edition of the programme received their diplomas.

Fundación Iberdrola España has also collaborated with other entities in granting scholarships and research grants, of which the following deserve mention:

- 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 Spanish university graduates through master's or doctorate programmes in the United States.

Finally, there has been a strengthening of the *English Language Training Programme* through immersion courses for students and professors using the facilities made available by the Company during holiday periods. In 2016 there were courses in three Autonomous Communities that were greatly welcomed and used by the students.

At the foundations in the United Kingdom and the United States, there were programmes of collaboration with local universities for the professional training of technicians and youth, as well as support for innovation projects and educational programmes of research and training centres for various groups (children, youth, and the elderly).

b) Biodiversity area

Fundación Iberdrola España's collaboration on the *Bird Migration Scheme* (*Programa de migración de las aves*) (MIGRA) in 2016 resulted in funding the banding of 17 new specimens of birds with GPS transmitters. Since the outset of the project in 2011, a total of 747 birds have been banded from 28 species, with an extraordinary amount of information obtained regarding their migrations and available at www.migraciondeaves.org. This year, various articles have been published in renowned scientific journals and the first monographic work on Audouin's gull has been published, a scientific document produced on the basis of the available data.

2016 saw the completion of the LIFE+ Protection of the Cantabrian Capercaillie (*LIFE+ Protección del Urogallo Cantábrico*) programme, supported by Fundación Iberdrola España since 2010, leaving the legacy of an operational breeding centre for these birds and a model for local protection and reintegration actions, as well as all the experience obtained from its many activities over the last six years.

In the United Kingdom, collaboration has continued through ScottishPower Foundation with the Royal Society for the Protection of Birds Scotland (RSPB) on improving access to the Loch Lomond Nature Reserve, and the Young Scots Enterprise Climate 2050 Group's Young Leaders Development Programme has been training future environmental leaders.

In the United States, various collaborations have been carried out through Avangrid Foundation with environmental institutions, museums, and centres, including projects dedicated to the efficient use of energy, promotion of electrical vehicles, efficient construction, and projects to improve river and sea habitats and for the conservation of birds.

Instituto Iberdrola Brasil has continued to collaborate with Flyways projects, involving census work relating to wading birds at risk of extinction in the north-east, and Beehive Care (*Cuida Colmena*), aimed at the breeding and conservation of bees and exploitation of beehives by youths at risk of social exclusion.

In Mexico, support activities have continued for the *Let's clean the world* (*Limpiemos el mundo*) campaign in the municipality of La Laguna.

c) Art and culture area

In Spain, very important activities that serve as a benchmark for other foundations have continued, including the following:

The *Atlantic Romanesque Restoration Project* (www.romanicoatlantico.org) at the San Martín Church, Salamanca, consisting of the installation of sensors to monitor the structural and environmental status of the temple, and the creation of an Interpretation Centre for the project. The second activity was at the Cathedral of Ciudad Rodrigo, with the installation of sensors and the implementation of a preventive intervention project, as well as an Interpretation Centre project. As a complement to the interventions, there has been progress on a Dissemination Plan (*Plan de difusión*) through a series of training and information activities, intended to boost tourism and the economic development of the areas of influence.

Fundación Iberdrola España continues to be a "Benefactor of the Prado Museum" and supports the Museum's Restoration Workshop, restoring more than 200 works in 2016, including paintings, sculptures, illustrated documents, and frames. There has been continued implementation of the *Lighting the Prado* project, the aim of which is to provide the Museum's exhibition rooms with a new lighting system with LED technology to replace the existing system based on halogen lamps. The advantages afforded by this technology include improved conservation of the works exhibited, improved viewing of the works given the similarity to natural light, and improved efficiency and durability, which provides for significant savings in annual consumption and maintenance. From the environmental standpoint, this lighting system will provide annual energy savings of 75%, prevent the emission into the atmosphere of 320 tons of CO_2 every year, and reduce maintenance costs.

Several significant projects were carried out as part of the *Lighting Programme* to showcase local historical and artistic heritage, including new LED technology in the lighting. The following lighting projects were completed in 2016:

- Complete renovation of the lighting of the Santa María la Blanca Synagogue (Toledo).
- Partial renovation of the rooms of the Museum of the San Fernando Royal Academy of Fine Arts (Madrid).
- New exterior lighting of the Palace of Spires (Logroño).
- New exterior lighting of the Donosti City Hall (San Sebastián), within the legacy of the European Capital of Culture.
- New lighting of the Chapel of the College of the Patriarch (Valencia), with an innovative and cutting-edge solution for the lighting of tapestries.

Work has also been carried out on six other significant lighting projects, which are expected to be completed and inaugurated during 2017.

The restoration work also includes collaboration with the restoration workshop of the Fine Arts Museum of Bilbao, the restoration of codices of the Monastery of San Millán de la Cogolla and, above all, the completion of the first four Flemish tapestries of the College of the Patriarch of Valencia in collaboration with the Royal Tapestry Factoryof Madrid and the exhibition held within the chapel of the Corpus Christi Seminary, which had great success among the public.

Other exhibitions during 2016 included collaboration with the Reina Sofía Museum of Madrid on the *"Closed Field"* (*"Campo Cerrado"*) exhibition, with the Guggenheim of Bilbao on the major Francis Bacon exhibition *"From Picasso to Velázquez"*, and with the Sorolla Museum of Madrid on the *"Sorolla in Paris"* exhibition.

In the United Kingdom, funded by ScottishPower Foundation, of note is the special collaboration with the National Museum of Scotland in Edinburgh and the creation within the museum of the new *Energise gallery*, which was inaugurated in November 2016 by Iberdrola's chairman and chief executive officer. The collaboration has continued with the training programme for young students in renewable production systems and energy efficiency.

The activities of the ScottishPower Pipe Band, National Library of Wales, National Museum of Scotland, and The Aloud Charity have also been supported in the United Kingdom, and there have been collaborations with Theatre Nemo and Citizens Theatre, and with the Llangollen International Musical Eisteddfod music festival.

In the United States, the Avangrid Foundation is collaborating on a significant theatre restoration project at the Eastman School of Music in Rochester, and in 2016 it gave financial support to many cultural institutions and musical centres, museums, and art initiatives (*the Abyssinian Meeting House, the Binghamtom Philharmonic, the Eastman Theatre, the Maine Irish Heritage Center, the Maine State Ballet, the Memorial Art Gallery, the Portland Museum of Art, the Rochester International Jazz festival, the Tompkins Country Library, the Tri-cities Opera*, etc.).

It should be noted that in mid-2016, due to the merger of the UIL Foundation within the Avangrid Foundation, new collaborations were added to its sphere of influence, including *the Barrington Stage in Berkshire, the Shubert Theatre, the LA Public Theater, Mass MoCA, and the New Haven Symphony Orchestra*.

In Brazil, the cultural activity of Instituto Iberdrola Brasil was focused on completing the first project of the Lighting Programme for Cruz de Cabrália, a national symbol located in Ilhéu de Coroa Vermelha (Bahía), which was inaugurated in July 2016. Work has already commenced on the exterior lighting project for Fuerte de las Cinco Puntas in Pernambuco, which is expected to be completed in 2017.

d) Cooperation and community service area

Social Programmes 2016

The most important social action of Fundación Iberdrola España is the *Call for Social Assistance* (*Convocatoria de Ayudas Sociales*), the aim of which 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 2016, the call has continued to prioritise initiatives that foster education and training to encourage social and workplace integration and improvement in quality of life, with 30 projects from various NGOs being winners and obtaining financial support from Fundación Iberdrola amounting to more than one million euros.

The 32 projects that won in the 2015 call were also carried out, with in-depth monitoring of all of them to ensure a positive outcome.

In January 2016, the first edition of the Iberdrola Community Service Awards (*Premios a la Solidaridad Iberdrola*) was held, recognising institutions that have stood out due to their initiatives in support of community service, of innovative social inclusion, and of improvements to health and quality of life.

ScottishPower Foundation has promoted collaboration with 11 social projects in the United Kingdom, giving priority to programmes for people affected by health related issues and their families (cancer, autism, Huntington's disease, blindness, Alzheimer's disease, etc.), transport in rural communities to access vital services, music in care settings, and the improvement of infrastructure for health care centres (*O Ddrws i Ddrws, Music in Hospitals, Scottish Huntington's Association, Prince & Princess of Wales Hospice and Alzheimer Scotland Dementia*).

Also worthy of note is the event organised annually by the ScottishPower Foundation recognising the work of social institutions with which it collaborates and giving prizes to the best initiatives at the ScottishPower Foundation Awards. This year, the ceremony was held in September at the Theatre Clwyd in the city of Mold (Wales).

In the United States, Avangrid Foundation has collaborated with social organisations on more than 60 occasions in 2016, including the following:

- Assistance funds for electricity supply and efficiency (American Red Cross SHARE Heating Fund, Broome Country Habitat for Humanity, Working cities, Lifespan, etc.).
- Assistance in the fight against disease such as cancer, heart disease, fibrosis and leukaemia (Yale New Haven Hospital, Maine Hospital, etc.).
- Social collaboration (United Way, Bike Coalition, Habitat for Humanity, Food processing, Kids First Centre, Maine General Hospital, Morrison Family Services, Oregon food bank, United Way Rochester, Urban League, Junior League of Portland, Working Cities, I have a dream, YMCA, Monroe Community College, etc.).

In Mexico, social support activities have been carried out at 7 schools and elderly centres, with activities to improve their basic infrastructure, and an educational reinforcement programme has been commenced at these centres. In addition, in 2016 the Company collaborated with other social entities: Civil Protection, the Fire Brigade, and the Red Cross.

The first social project has been carried out in Brazil, consisting of enabling the electrification of a centre for orphaned children.

Cooperation for development

The foundations' collaboration in the area of cooperation is defined by Goals 7 ("Ensure access to affordable, reliable, sustainable and modern energy for all") and 13 ("Take urgent action to combat climate change and its impacts") of the Sustainable Development Goals (SDGs), with efforts focusing on the groups considered most vulnerable, such as infants and youths.

In 2016, Fundación Iberdrola España, with the collaboration of Iberdrola México, is carrying out a project for electrification and potable water in the rural community of Catecas Altas in the State of Oaxaca (Mexico). This project is within the scope of Iberdrola's *Electricity for All* initiative, and is being implemented by the NGOs Energía sin Fronteras and Save the Children. The first phase consisted of identifying needs, a feasibility study, and a participative process with the affected communities, which was completed in August. Work has since commenced on the project and various activities in the area of electrification, improvement of electrical infrastructure, and provision of water in basic community centres.

e) Institutional collaboration

Finally, Fundación Iberdrola España collaborates with nationally and internationally renowned cultural, social, scientific, and cooperation entities, showing its commitment to such institutions and to the aims thereof.

The amount dedicated to these institutional collaborations in 2016 exceeded one million three hundred thousand euros, the following collaborations being of note, among others: Instituto Elcano, Fundación Carolina, Fundación Baluarte, the Royal Spanish Academy of Language, History and Medicine (*Real Academia Española de la Lengua, de la Historia y de la Medicina*), COTEC, the Cervantes Institute, Fundación Atapuerca, Aspen Institute, Casa de América, the Red Cross Foundation, Support against Drug Addiction (*Ayuda contra la drogadicción*), the Hispanic-Brazilian Cultural Foundation (*Fundación Cultural Hispano Brasileña*), the Applied Economic Studies Foundation (*Fundación de Estudios de Economía Aplicada*), the Energy Foundation of the Community

of Madrid and Asturias (*Fundación de Energía de la Comunidad de Madrid y de Asturias*), Energy without Borders (*Energía sin Fronteras*), and Fundación Novia Salcedo.

Details about the Iberdrola Foundations can be found on their respective websites:

- Spain: Fundación Iberdrola España www.fundacioniberdrolaespana.org
- United Kingdom: ScottishPower Foundation www.scottishpower.com
- United States: Avangrid Foundation www.avangrid.com
- Brazil: Instituto Iberdrola Brazil www.elektro.com.br

5. *Electricity for All Programme*

The approval of the Sustainable Development Goals (SDGs) 2015-2030, which Iberdrola has included in its business strategy, has entailed the recognition of energy as the driver of sustainable development.

The *Electricity for All Programme* (*Programa Electricidad para todos*) is Iberdrola's response to the call of the international community to extend universal access to modern forms of energy, with environmentally sustainable, financially affordable, and socially inclusive models. The aim of the programme is to ensure access to electricity in emerging and developing countries. This ambitious initiative focuses on sustainable electrification actions, for which purpose Iberdrola brings to bear its technical, logistic, organisational, and financial capabilities.

The Company has set itself the goal of reaching four million beneficiaries of the *Electricity for All Programme* by 2020. Iberdrola announced this goal at the UN SE4ALL Forum held in New York in May 2015. At year-end 2016, the programme already has a total of more than 2.4 million beneficiaries.

The initiative has three areas of activity:

- 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.
- Activities with a social impact: investments promoted by businesses in the countries in which Iberdrola has distribution networks. Such is the case with the Light for All Programme of distribution companies in north-eastern Brazil, or the activities carried out by Iberdrola Ineniería.
- Development of projects with a high social component: develop its own projects in the areas it serves, with the support of NGOs and corporate volunteers.

As an activity that cuts across the three lines of action described above, a Chair for the Universalisation of Basic Energy Services was created in 2014 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.

Aspect: Iberdrola, promoting women's sports

In 2016, Iberdrola commenced the Women, Health, and Sport (*Mujer, salud y deporte*) initiative in Spain, the principal goals of which consist of driving the success and practice of women's sport, promoting gender equality, and fostering healthy habits from a young age. The Company has thus become the main driver behind the Universal Woman (*Universo Mujer*) programme of the Higher Council for Sport (*Consejo Superior de Deportes* (CSD), placing it in the vanguard of backing for women's sport.

Within this context, Iberdrola supports national federations from different disciplines, who emphasise the promotion and growth of female participation, existence of grass-roots sport development programmes and other social projects, as well as by their extraordinary successes and high levels of participation, including rhythmic gymnastics, triathlon, swimming, rugby, canoeing, badminton, football, handball, volleyball, and beach volleyball. Together with each of the federations, Iberdrola supports women's sport development programmes in schools and at local sport facilities.

Moreover, since November 2016 the Women, Health, and Sport Tour (*Tour Mujer, salud y deporte*) has been taking place, consisting of a tour around various Spanish cities, which will continue during 2017 with the aim of promoting women's sport and transmitting the concepts of effort and improvement via the practice and exhibition of various disciplines.

In short, through the Women, Health, and Sport initiative, Iberdrola reinforces its commitment to the promotion of talent, effective equality, and social development, which form part of the Company's key pillars. Its support for values such as teamwork and overcoming challenges materialises through various projects with the aim of reinforcing the social and cultural dimension of sport and activating support for women's sport.

C4. Product responsibility

iberdrola's contribution to the SDGs with respect to Product Responsibility

Iberdrola has incorporated the Sustainable Development Goals (SDGs) into its business strategy and its *Sustainability Policy*. Set forth below are the SDGs to which the Company contributes in accordance with the GRI-G4 Guidelines included in this chapter. This linkage has been performed using the tool "SDG Compass. The guide for business action on the SDGs", available at www.sdgcompass.org.

Goal 1
End poverty in all its forms everywhere

Goal 7
Ensure access to affordable, reliable, sustainable and modern energy for all.

Goal 12
Ensure sustainable consumption and production patterns.

Goal 16
Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

Contents of Chapter

The aspects analysed and reported on in this chapter are the following:

Aspects of the GRI-G4 Guidelines

Customer health and safety
Management approach and indicators G4-PR1 and G4-PR2
Additional information required by the GRI *Sector Supplement*:
– Management approach - Electric and magnetic fields
– Indicator EU25
Products and service labelling
Management approach and indicators G4-PR3, G4-PR4, and G4-PR5
Marketing communications
Management approach and indicators G4-PR6 and G4-PR7
Customer privacy
Management approach and indicator G4-PR8
Compliance
Management approach and indicator G4-PR9

Specific Aspects of the GRI-G4 Electric Utilities Sector Supplement

Access to electricity
Management approach and indicators EU26, EU27, EU28, EU29, and EU30
Access to adequate information
Management approach (no related indicators)

Scope of information
• The information boundaries used in this chapter are defined in indicator G4-17 of this report.

Specific management approach to product responsibility

In the retail markets, Iberdrola mainly provides its customers with two products: electricity and natural gas. Although the Iberdrola Group engages in other activities, due to the nature and scope thereof, these activities are insignificant in connection with customers for purposes of the information presented in this report.

Accordingly, this chapter sets forth the information relating to the activities of distribution and supply of electric power and gas in the retail markets in Spain, the United Kingdom, the United States, and Brazil, which are the most significant as to the number of customers. The specific EU30 indicator, which refers to the availability factors of the production plants, includes Mexico as well.

As a whole, the companies and affiliates of the Group covered by this report (expanded boundary) handle a total of 34.5 million energy supply points, of which 30.4 million correspond to electric power and 4.1 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, and Brazil, and the Wholesale and Customers 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 highly regulated 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 citizens.

Therefore, in the planning stage for the facilities, the community participates through its social and political representatives in broad discussions concerning the energy model to be adopted in the country. During the approval stage, citizens can participate during public information periods, taking into consideration economic, environmental, and health and safety aspects, as well as the reliability of supply, generating public policies that lay the groundwork for the companies within the Iberdrola Group to adopt investment strategies that are consistent therewith.

In the countries in which Iberdrola engages in electric power production activities, there are extensive environmental and labour regulations aimed at ensuring that existing risks to human health and safety remain within the limits established thereby. The companies thus 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 these 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.

During the retail stage, the Company also believes that the most effective way of protecting public health and safety in the use of power and gas is the provision of training and information to customers. There are also gas maintenance operating procedures to ensure safety in Spain. In the United Kingdom, devices have been developed to improve the safety of customers, such as carbon dioxide alarms, fire alarms, and devices preventing hypothermia.

As a complement to the foregoing, the Iberdrola Group voluntarily adopts various measures to improve aspects relating to product safety. Specific internal regulations have been developed at distribution networks in this regard and there are also training seminars for third parties so that they understand electricity-related risks (fire brigade, Guardia Civil, Civil Protection, Military Emergency Unit, students, etc.).

Finally, Iberdrola has various means to inform and train the public through actions and programs that are explained in more detail under the "Access to adequate information" Aspect in this chapter. There are also direct channels of communication with customers, as shown in indicator G4-26 of this report.

Electric and magnetic fields

The possible influence of electric and magnetic fields on the health of human beings has historically been a topic of public debate. The studies performed 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 differences in the practices relating to this issue in the various countries in which the Company does business:

In Spain, two reports are prepared regarding electric and magnetic fields at facilities, which are audited by Aenor. In 2016, all facilities emitted electric and magnetic fields below the maximum limits established by law.

In the United Kingdom and the United States, the facilities comply with applicable regulations and measurements are not taken at the facilities unless requested by the customer; during 2016, the company received 45 such requests in the United Kingdom, with 37 field surveys verifying emissions and providing the information to the customer. There are no actions pending for violation of maximum levels. In the United Kingdom, there is also monitoring of applicable legislation and changes therein, as well as research through working groups within the **Energy Networks Association.**

In Brazil, there are measurements of electromagnetic fields to check compliance with the benchmark figures under current law, and no nonconformity was detected in 2016 at either Elektro or at any of the affiliates, Celpe, Coelba, and Cosern. There are also measurements and simulations at new facilities and when there is an expansion of a substation.

G4-PR1 Products and services for which health and safety impacts are assessed

The processes required for the supply of electricity and gas at all stages, described in the above management approach, 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 2016, 1 of which resulted in a fine in the United States.

Incidents stemming from non-compliance with regulations or voluntary codes (no.)	2016	2015	2014
Resulting in a fine	1	1	2
Resulting in a warning	0	0	0
Relating to voluntary codes	0	4	0
Expanded boundary	**1**	**5**	**2**

EU25 Injuries and fatalities to the public involving company assets

In order to facilitate citizens' access to an essential service such as electricity, the construction, operation, and maintenance of various infrastructure is required, which entails certain risks, which may at times give rise to incidents affecting citizens outside of the control of the Company, such as, for example, coming into unintentional contact with electricity lines or their supports, injuries caused by contact with electrical cables, etc.

The following table shows the accidents of this kind that occurred during financial year 2016: 8 of the persons who suffered accidents were in Spain, 51 in the United Kingdom, 34 in the United States, and 73 in Brazil (19 at Elektro and the rest at the Neoenergia group). Of the accidents that have occurred, 4 involved a fatality in Spain, 2 in the United States, and 19 in Brazil (8 at Elektro and the rest at the Neoenergia group).

Accidents of persons not belonging to the Company[74] (no.)	2016	2015	2014
Expanded boundary			
Accident victims	166	176	135
Fatalities	25	24	69

74 Data for 2015 and 2014 have changed with respect to prior reports, pursuant to the standards for applying ownership percentages specified in indicator G4-17.

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. Legal proceedings finished and pending by year-end 2016 amounted to 83 in Spain, 42 in the United States, and 87 in Brazil:

Legal proceedings[75] (no.)	2016	2015	2014
Expanded boundary			
Settled and pending, stemming from those accidents	212	234	227

Aspect: Product and service labelling

Management Approach

G4-PR3 Product and service information and labelling required by procedures in force and by regulations

In Spain, Iberdrola informs its customers about the source of the energy sold by the retail supplier and the associated environmental impact thereof by means of a label included in the electricity bills and in advertising to customers. This information is presented using model images and labels established by the National Markets and Competition Commission (*Comisión Nacional de los Mercados y la Competencia*) (CNMC). The CNMV has launched a System for Guarantees of Origin of energy produced in order to create the labels and images. This information is also available at www.iberdrola.es (Your Home > Offers and Services > Useful information > Electricity labelling).

In the United Kingdom, ScottishPower reports the origin of its energy each year and the environmental impact thereof. New customers receive this information as part of their Welcome Cycle communications, and existing customers receive this information in a brochure that is included with each invoice or notice, in accordance with the guarantees of origin rules established by Ofgem, which are published quarterly. All information about the label is also available at www.scottishpower.co.uk (Your Home > Customer Services > Bills, payments and refunds > Bill Explained).

There is no obligation to label electricity in the United States or Brazil. Gas is not currently labelled in the countries in which the Company sells this product.

Finally, such additional information as may be of help for consumers to make a more rational, efficient, and safe use of these products is set forth at the end of this chapter in the Aspect "Access to adequate information".

75 Data for 2015 and 2014 have changed with respect to prior reports, pursuant to the standards for applying ownership percentages specified in indicator G4-17.

G4-PR4 Incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling

The following table sets forth the incidents related to information and labelling that occurred during financial year 2016, which have resulted in 6 fines in Spain and 2 in Brazil.

Incident relating to information and labelling (no.)	2016	2015	2014
Resulting in a fine	8	12	1
Resulting in a warning	0	5	0
Relating to voluntary codes	0	0	0
Expanded boundary	**8**	**17**	**1**

G4-PR5 Surveys measuring customer satisfaction

Iberdrola has various mechanisms to measure customer satisfaction levels and to gather the opinions of its customers, as well as to verify compliance with its quality standards within the customer service and sales channels.

In Spain, most of the studies use the Net Promoter Score (NPS) Index, involving telephone interviews by various research institutes. These studies include quarterly satisfaction surveys for the telephone sales service channels in order to know consumer ratings. There was an increase in residential customers' global satisfaction with the service during the third quarter of 2016, from 7.4 out of 10 in 2015 to 7.74 in 2016, with a notable increase in the net recommendation level, rising from 15.7% in 2015 to 26% in 2016. There is also a Gas Maintenance Service Satisfaction Survey, conducted on a yearly basis, maintaining a high level of satisfaction, with level of service and professionalism of the technicians showing a 3-point improvement over the previous financial year. Another notable survey is the *Voice of the Customer Study*, which also offers detailed information regarding other attributes like agility, treatment within the service channels, clarity of the invoice, management and claims regarding complaints, and others including quality of supply, price competitiveness, and electronic billing, whether for large customers, companies, small businesses, or residential customers. Overall satisfaction exceeded 7 out of 10 for the second consecutive time.

In the United Kingdom, customer satisfaction is measured by a series of internal and external studies within the *Customer Insight* department, including monthly and quarterly follow-up satisfaction surveys by a customer research panel (*Your Energy People*). Customer satisfaction surveys show that ScottishPower has been improving: 7.5 out of 10 in 2016 compared to 6.3 in 2015. The score for probability of recommending ScottishPower was 7.3 in 2016 compared to 6.3 the prior year.

There is also a series of external comparative studies measuring the satisfaction of ScottishPower's customers as compared to its competitors, such as those conducted by USwitch, Which?, Nunwood, NCSI, and UK-CSI. The same metrics are reviewed each month in the *Reptrak* study through the monthly publication *YouGov monthly Brand Index reporting*.

In the United States, the companies CMP, NYSEG, and RGE take two kinds of measurements:

- Customer satisfaction in recent contracts, the results of which are compared to the regulator's objectives and with the results of other companies in the industry; NYSEG and RGE reached general satisfaction results of 89.5% and 88.0%, respectively.
- Consumers' perception of the performance of the companies CMP, NYSEG, and RGE, which is conducted on an annual basis, through 600 telephone interviews for each company. The results

show that in 2016 they are among the 5 leading companies in the Northeast in the 3 reference indices: customer satisfaction, energy delivery, and customer interaction.

In Brazil, two kinds of customer satisfaction surveys are carried out each year. The first uses the methodology established by the Brazilian Association of Electric Power Distributors (Associaçâo Brasileira de Distribuidores de Energia Elétrica) (Abradee), which analyses up to 46 customer satisfaction attributes distributed among areas such as customer service, image, and price, among others, and the second, conducted by the National Electric Power Agency (Agência Nacional de Energia Elétrica) (Aneel), analyses 40 attributes based on a sample of 450 customers of the distributors. In the first one, Elektro obtained a 74.90% score in 2016 in what is called the Satisfaction and Perceived Quality Index for Residential Customers. The affiliates Celpe, Cosern, and Coelba, obtained scores of 74.00%, 76.08%, and 80.70%, respectively, in the first customer satisfaction survey. In the second survey performed by Aneel, called the Customer Satisfaction Index, the score obtained by Elektro was 69.93%, while the scores obtained by the affiliates, Celpe, Coelba, and Cosern were 72.98%, 61.02%, and 77.91%, respectively.

There is also a customer satisfaction and perceived quality survey at Elektro that follows the Abradee methodology for medium- and high-voltage customers, with the Brazilian company obtaining a score of 81.40% in 2016.

Aspect: Marketing communications

Management Approach

Iberdrola observes the laws and abides by the regulations governing its advertising or marketing communications, and adopts mechanisms and voluntary codes that cause such communications to be transparent and truthful, and the *Code of Ethics* also applies in this area for all employees regardless of their area of responsibility.

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 the assumption of 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. A *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 Agriculture and Fisheries, Food and Environment. Iberdrola reviews its commitment to these codes on an annual basis.

ScottishPower complies with all the laws applicable to it on these terms, as well as with conditions SLC 25 and SLC 7B of the supply licence, which requires clarity, simplicity, and justice for customers. It 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 procedure called P-CT-001, which covers all internal and external communications actions and is consistent with the ethical values and principles governing Iberdrola. In Brazil, the affiliates Celpe and Cosern, in addition to having internal rules for the preparation of marketing communications and advertising activities, follow the principles of responsible advertising

of the National Council on Advertising Self-Regulation (*Consejo Nacional de Autorregulación Publicitaria*) (Conar Statute).

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 one is set forth in the management approach to the Aspect "Customer health and safety" in this chapter, while the second one 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 following table sets forth the incidents that occurred due to noncompliance regarding marketing, advertising, promotion, and sponsorship in connection with information and labelling during financial year 2016, and which resulted in 2 fines in Spain.

Incidents of non-compliances concerning marketing, advertising, promotion, and sponsorship (no.)	2016	2015	2014
Resulting in a fine	2	2	19
Resulting in a warning	0	0	0
Relating to voluntary codes	0	0	0
Expanded boundary	**2**	**2**	**19**

Aspect: Customer privacy

Management Approach

Iberdrola has a *Personal Data Protection Policy*, approved on 15 December 2015 by the Company's Board of Directors, to ensure the privacy of the personal information of the Group's customers. Its purpose is to ensure respect for the right to dignity and privacy in processing of the personal data of any people engaging with the companies of the Group, and particularly compliance with applicable law on this topic.

The Legal Affairs Division and Corporate Security Division are the bodies of the Company responsible for applying these principles, with the technological support of the System Division, in processing the personal data held by the Group for customers, employees, suppliers, and other groups, identifying the types of data and processing, as well as the areas using them.

To ensure compliance with applicable requirements, the Iberdrola Group has established an internal strategy for its companies that rests on the allocation of human resources for management and publication of a global mandatory standard for the processing of personal data, adhering to applicable law in each country.

G4-PR8 Substantiated complaints regarding breaches of customer privacy and losses of customer data

Incidents relating to privacy (no.)	2016	2015	2014
From regulatory bodies	175	203	396
From other sources, substantiated[76]	785	888	54
Expanded boundary	**960**	**1,091**	**450**

Of the incidents arising from regulatory bodies, 18 occurred in Spain, and 157 in the United Kingdom, and of those from other sources, 2 occurred in Spain, 9 in the United Kingdom, and 774 in Brazil.

During 2016, there were also 95 cases of loss of or damage to customer data: 1 in Spain, 92 in the United Kingdom, and 2 in the United States.

76 2014 data do not include Coelba.

Aspect: Compliance

Management Approach

The management approach of the Iberdrola Group on this issue is described in the Aspect "Regulatory compliance" of the "Society" section of this report.

G4-PR9 Significant fines for non-compliance with laws and regulations concerning the provision and use of products and services

During financial year 2016, incidents relating to indicators G4-PR2, G4-PR4, and G4-PR7, as well as other incidents relating to the activities of distribution and retail sale of electricity and gas, involved the following fines:

Fines imposed for activities of distribution and retail sale of electricity and gas (€)	2016	2015	2014
Expanded boundary			
Total amount of fines imposed	2,661,710	2,128,552	5,680,930

A breakdown by geographic area of the total amount of fines imposed is as follows: Brazil, 2,358,387 euros; United Kingdom, 185,705 euros; Spain, 114,908 euros; and United States, 2,710. The fines at Elektro (Brazil) regarding quality of supply and other technical violations are noteworthy due to the significance thereof.

Electric Utilities Sector Specific Aspects

Aspect: Access to electricity

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.

Access to electricity for vulnerable customers

In February 2016 the Board of Directors approved a change to the *General Corporate Social Responsibility Policy*, which makes it a principle of conduct to pay attention to customers who are financially disadvantaged or in any other situation of vulnerability, establishing specific protection and collaboration procedures to facilitate continued access to electricity and gas supply in accordance with the policies established by the competent government administrations.

Among the programmes to facilitate access to energy by people who are at risk of exclusion or in a situation of vulnerability, the Company and its subsidiaries and affiliates engage in various initiatives to facilitate access to people with low income, including the following:

- In Spain, this commitment takes form through the definition and application of a Vulnerable Customer Protection Procedure, which is focused on increasing collection periods, making payment terms more flexible, and providing personalised advice. Iberdrola is also encouraging the signing of agreements with various public entities or other collaborating bodies. These agreements allow for the establishment of coordination mechanisms needed to prevent the

suspension of electric and/or gas supply due to non-payment of the invoice by economically disadvantaged citizens, and to ensure the immediate restoration of service if already suspended. The Company also has a free exclusive telephone service line for customers in vulnerable situations: 900 100 752.

The conventions signed by the Company through the end of 2016 protect approximately 98.8% of Iberdrola's domestic customers in Spain that might be in situations of vulnerability.

There are also subsidised electricity rates (known as *Bono social*) which allow lower electricity prices to be applied to electricity consumers considered to be vulnerable on the basis of certain social, consumption, and purchasing power characteristics. The system for financing the subsidised rate is pending establishment by the Ministry of Energy, Tourism and Digital Agenda, after the Supreme Court declared the system applied since January 2014 and based on instalments assigned by the Ministry to be inapplicable. At the end of 2016, Iberdrola had 870,600 supplies with subsidised rates.

- In the United Kingdom, ScottishPower has signed the Energy UK Safety Net for Vulnerable Customers agreement, which includes a commitment not to disconnect those customers who have been declared vulnerable due to reasons of age, health, disability, or other serious reasons, and to reconnect them, if applicable, on a priority basis. A Warm Home Discount scheme for households at risk of poverty is also still in operation.
- In the United States, agreements have been signed 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), which take place through two levels of assistance: Basic Benefit (basic benefit with monthly billing of credit) and Limited Benefit (limited benefit to forgive debt for late payment). CMP has implemented an Arrears Management Program (AMP), which is an assistance program for low-income customers that also guarantees a connection for people with limited resources who depend on an oxygen tank.
- In Brazil, Elektro and the affiliate companies Celpe, Coelba, and Cosern have a special different rate for low-income customers and advantageous prices and special terms for persons in difficulty. At year-end 2016, Cosern launched an informational campaign and an update of the registry due to the expiration of assistance for social programmes from the federal government.

Access to electricity for off-grid customers

Energy is an undeniable vector of human growth and development with multiple cross-cutting benefits, as is apparent from Sustainable Development Goal No. 7: "Affordable and sustainable energy". Thus, energy is a source of income and employment generation in communities, and serves as a means to facilitate social changes such as accessibility to information (through television or other media) and essential services such as healthcare and education.

Iberdrola has incorporated the Sustainable Development Goals into its business strategy, which is committed to the safe, sustainable, and non-polluting supply of energy. Along these lines, at the second *SE4ALL* Forum in New York in 2015, Iberdrola made a public commitment to reach 4 million beneficiaries of the *Electricity for All* programme by 2020, in order to extend universal access to modern forms of energy that are environmentally, socially, and economically more sustainable, as stated in the chapter on "Society" under the specific aspect "Iberdrola's Contribution to the Community".

In addition, Brazilian populations with this difficulty, such as indigenous populations or *quilombolas*, receive various assistance programmes from Elektro. In order to ensure universal access to the distribution network, there are also programmes such as *Luz para Todos (Light for All)*, financed by Banco Nacional de Desenvolvimento Económico y Social (BNDES), with the collaboration of Celpe, Coelba, and Cosern.

EU26 Population unserved in distribution areas

For the companies of the Iberdrola Group in Spain, the United Kingdom, and the United States, the electrification level covers practically the entire population. In Brazil, in the Elektro and Neoenergia distribution area (around 835,000 km^2, with a resident population of slightly more than 34.1 million persons), approximately 200,774 persons do not have electricity, representing less than 0.6% of the total population within the area of Elektro and Neoenergia.

EU27 Residential disconnections for non-payment

A detailed description of the set of procedures implemented in various countries to minimise the effect of supply outages and to provide access to the supply of electric power and gas is contained in the management approach to this Aspect, called "Access to electricity for vulnerable customers".

Information regarding disconnection for non-payment and subsequent reconnections in accordance with the *Electric Utilities Sector Supplement* of the Global Reporting Initiative (GRI) is shown in the following table:

Residential disconnections for non-payment (no.)	**2016**	**2015**	**2014**
Paid up to 48 h after disconnection	1,182,466	970,366	1,254,197
Paid between 48 h and one week after disconnection	237,576	305,393	232,862
Paid between one week and one month after disconnection	214,745	213,953	205,104
Paid between one month and one year	188,504	185,922	157,751
Paid after more than one year	0	5	24
Outstanding and unclassified	48,606	53,486	19,529
Iberdrola Total	**1,871,897**	**1,729,125**	**1,869,467**

Residential reconnections following payment of unpaid bills (no.)	2016	2015	2014
Less than 24 h after payment	1,561,202	1,444,560	1,547,230
Between 24 h and one week after payment	191,332	162,840	173,820
More than one week after payment	102,068	105,461	112,929
Unclassified	14,634	9,156	70,512
Iberdrola Total	**1,869,236**	**1,722,017**	**1,904,491**

Detailed information on disconnections and reconnections in the various countries can be found in the *Information Supplementary to the Sustainability Report 2016*, 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. The figures are as follows:

- Installed Capacity Equivalent Interrupt Number (Spanish acronym "NIEPI") is used in Spain.

NIEPI	2016	2015	2014
Spain	1.04	1.20	1.07

- Customer interruptions per 100 connected customers ("CI") is used in the United Kingdom.

CI	2016	2015	2014
United Kingdom	42.6	40.1	48.0

- System average interruptions frequency index ("SAIFI") is used in the United States.

SAIFI	2016	2015	2014
United States	1.15	1.21	1.23

- Equivalent frequency of interruption by consumer unit (Portuguese acronym "FEC") is used in Brazil.

FEC	2016	2015	2014
Brazil[77]	7.46	7.22	7.62

77 Includes Elektro and Neoenergia.

The Aspect "Research and Development" in the Economic Dimension of this report provides additional information regarding the development of smart grids to improve the quality of electric supply, among other things.

EU29 Average power outage duration

Similarly to the preceding section, the figures are as follows:

- Installed Capacity Equivalent Interrupt Time (Spanish acronym "TIEPI") is used in Spain.

TIEPI	2016	2015	2014
Spain	54.0 min	61.9 min	55.7 min

- Customer minutes lost per connected customers ("CML") is used in the United Kingdom.

CML	2016	2015	2014
United Kingdom	33.5 min	34.8 min	44.0 min

- Customer average interruption duration index ("CAIDI") is used in the United States.

CAIDI	2016	2015	2014
United States	1.91 h	1.89 h	1.89 h

- Equivalent duration of interruption by consumer unit (Portuguese acronym "DEC") is used in Brazil.

DEC	2016	2015	2014
Brazil[78]	17.23 h	18.81 h	19.93 h

78 Includes Elektro and Neoenergia.

EU30 Average plant availability

The following table shows the average availability of the Company's various production technologies during financial year 2016:

Average availability factor (%)	2016	2015[79]	2014
Combined cycle	90.08	93.25	91.89
Conventional thermal	85.54	75.44	80.91
Cogeneration	90.82	90.56	95.51
Nuclear	85.99	89.48	92.69
Hydroelectric	86.30	83.97	84.91
Mini-hydro	95.00	95.41	94.36
Wind	96.84	97.00	96.70
Expanded boundary	**91.37**	**90.47**	**88.70**

Information on the availability factors in the various countries is described in the *Information Supplementary to the Sustainability Report 2016*, available at www.iberdrola.com.

Aspect: Access to adequate information

Management Approach

Apart from commercial information, the safety of users of the electricity grid, or the promotion of the efficient use of energy is an on-going concern at the subsidiaries and affiliates of the Group. To progress in all these areas, information and training plans, programmes, and activities are developed in each geographic area.

Accessibility of information

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.

Iberdrola is the only company in the energy industry in Spain that offers sign language video-interpreting in its customer service area. This initiative arises from the collaboration agreement signed between Iberdrola and Fundación CNSE in 2012, and renewed in 2016. In this way, persons who are deaf or hard of hearing can contact the Company through sign language interpreters. Furthermore, the website and the Virtual Office of the customer are available in Spanish, Euskera (Basque), and English. Invoices are currently issued in ten languages: Spanish, English, Italian, German, French, and Portuguese and the regional languages Valencian, Euskera, Gallego, and Catalan.

79 Data have changed compared to previous reporting due to revision and update.

The corporate website has a Double-A Technosite + Euracert WCAG 2.0 certificate for compliance with the W3C-WAI's web content accessibility guidelines 2.0, and complies with the guidelines required to satisfy the UNE 139803:2012 Standard 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. It should also be noted that an *Iberdrola Customers app* has been developed for *iPhone* and *Android*, which includes product information and functions of the Virtual Office for both residential customers and SMEs as well as businesses and institutions, in addition to channels of contact. Finally, Iberdrola promotes information and training campaigns regarding safety and energy saving measures amongst disabled groups and underprivileged groups or those at risk of social exclusion, in order to contribute to the equality of these persons, removing barriers to communication.

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* offers a variety of additional 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.

In the United States, the companies CMP and NYSEG have a special communication service for hearing-impaired people called *Telecommunication Device for the Deaf (TDD/TYY)*, to facilitate communication through written messages. NYSEG also provides special printed invoices for visually-impaired customers, as well as the ability to designate a third person at NYSEG to receive important notices, called *Third Party Notification*. There is also a service to help people with special needs and advise them on choosing services that might be useful. CMP and RG&E also 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 the availability of employees trained in sign language.

Education in the safe use of electricity

Both the corporate website and the websites of the companies of the Iberdrola Group, make recommendations and information available to consumers regarding the most significant aspects relating to 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 affecting the proper use thereof.

In Spain, Iberdrola promotes informational and educational campaigns on safety measures and energy saving directed towards the general public. It also collaborates with consumer associations and special groups in order to contribute to communication on matters relating to safety, training, and education. Iberdrola also spreads information messages regarding safety and energy savings via its customer profile on Twitter (@Tulberdrola), and in 2016 carried out a pilot programme of electricity maintenance visits to homes in order to review installations and perform energy audits.

In the United Kingdom, ScottishPower has maintained its *PowerWise* program regarding electrical safety for parents, teachers, and students, with 22,123 visits in 2016. It has also continued with extensive campaigns to promote electrical safety, with programmes such as childrens' visits to *DangerPoint* in Northern Wales and *The Risk Factory* in Edinburgh, with a total of 15,309 visits. Further, 8,785 children also attended the *Crucial Crew* event; 188,449 attended the *Royal Highland Show*; and 80,000 attended the *Cheshire Show* and 57,000 the *Anglesey Show*, especially dedicated to farm workers and their families. ScottishPower also associated with Crimestoppers in 2016 to launch

the "*stayenergysafe*" service in order to inform the public about energy-related crime and the risks it involves.

In the United States, information and recommendations are provided regarding how to act in an emergency, such as adverse weather conditions, poisoning, or health risks, as well as safety advice in case of storms or outages causing lines or equipment to fall. In addition, CMP has launched an *Outreach Campaign* targeting at-risk groups such as school children, safety personnel, contractors, and emergency personnel.

In Brazil, Elektro provides this information on the bill, in customer service areas, through conferences on the proper use of electricity and building safety, messages on the website, on social media, and while on hold with the call centre, so as to reach all consumers. Throughout the year, at the affiliated companies Coelba, Celpe, and Cosern, numerous programmes were also implemented to achieve improved use of electricity, such as the training seminars for low-voltage electricians, educational projects at schools, conferences at associations and community associations, distribution of educational material, etc. The *Celpe Space* (*Espaço Celpe*) at Celpe provides commercial and orientation services on the safe use of electricity. At Coelba, there have been advertising campaigns about these topics, as well as educational activities.

Annexes

Annex 1:
Content Index in Relation to the Principles of the Global Compact

Annex 2:
Green Bond Returns Report
External Independent Assurance Report on Green Bonds

Annex 3:
External Independent Assurance Report on the Sustainability Report

Annex 1:
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
Human Rights	**Principle 1.** Businesses should support and respect the protection of internationally proclaimed human rights.	G4-HR2, G4-HR7 to G4-HR9, G4-HR12 G4-SO1, G4-SO_2
	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 to 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 to G4-EN17, G4-EN20, G4-EN21, G4-EN27 G4-EN31
	Principle 8. Businesses should undertake initiatives to promote greater environmental responsibility.	G4-EN1 to 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 to G4-58 G4-SO3 to G4-SO6

Annex 2:
Green Bond Returns Report

Iberdrola has issued a total of 4 green bonds (the "Green Bonds"). The issue dates, as well as the principal characteristics thereof, are as follows:

Green Bonds				
Issuer	**Iberdrola International**	**Iberdrola International**	**Iberdrola International**	**Iberdrola Finanzas**
Issue date	24 April 2014	21 April 2016	15 September 2016	7 December 2016
ISIN	XS1057055060	XS1398476793	XS1490726590	XS1527758145
Face value (€ millions)	750	1,000	700	750
Maturity	October 2022	April 2026	September 2025	March 2024
Coupon	2.50%	1.125%	0.375%	1%

The proceeds have been used to refinance investments in projects that met certain environmental and social responsibility criteria validated both by Iberdrola and subsequently by VigeoEiris (an independent entity). These projects are mainly within the area of renewable energy

Iberdrola used VigeoEiris as an independent expert in establishing "green" classification of its bonds, which entailed a selection of social and environmental criteria to be met by the projects, as well as the allocation thereof to the various bonds. VigeoEiris also issues its rating of the issuer not only with respect to the management of the selected projects, but also regarding its general environmental commitments and the social responsibility that it actually implements in the ordinary course of its business.

For the first bond issued in 2014, the eligible projects were reviewed by VigeoEiris by analysing a sample covering approximately 50% of the nominal value of the funding received. In subsequent bonds, the complete inventory of allocated assets was provided for review. In all instances VigeoEiris also performed an analysis to rate Iberdrola's sustainability policies and practices, finding that the criteria were met with a satisfactory security level.

The conclusions of VigeoEiris, together with the eligibility criteria, are described in the "Second Party Opinion" for each Green Bond. This information is available at www.iberdrola.com (Shareholders and Investors > Investors > Fixed Income > Information Related to Green Bonds).

With this Report, Iberdrola meets the commitments made in the issue of each Green Bond, reporting with the required frequency (annually) the impacts of the portfolio of eligible assets financed by these issues in terms of corporate social responsibility.

The structure of this report on returns is grouped by benefits and indicators for each Green Bond, so that the final investors can know the impact of the projects financed by each of them.

A. April 2014 Bond (ISIN code XS1057055060)

Assets allocated

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW)[80]
Distribution	Networks	Renewable generation connection in Scotland	United Kingdom	2011-2016	N/A	N/A
Distribution	Networks	Strengthen international connection in Scotland	United Kingdom	2011-2016	N/A	N/A
Distribution	Networks	Castile-La Mancha photovoltaic connection plan	Spain	2011-2014	N/A	N/A
Distribution/ Smart grids	Networks	STAR project	Spain	2011-2018	N/A	N/A
Renewables	Onshore wind	Pico Collalbas	Spain	2006	30.0	30.0
Renewables	Onshore wind	Carrascosa	Spain	2006	38.0	24.8
Renewables	Onshore wind	Sierra Menera	Spain	2006	40.0	40.0
Renewables	Onshore wind	Clares	Spain	2006	32.0	32.0
Renewables	Onshore wind	Escalón	Spain	2006	30.0	16.8
Renewables	Onshore wind	Tarayuela	Spain	2006	30.0	19.9
Renewables	Onshore wind	Morón de Almazán	Spain	2006	50.0	15.4
Renewables	Onshore wind	Los Campillos	Spain	2006	34.0	25.7
Renewables	Onshore wind	Dólar I	Spain	2006	49.5	22.4
Renewables	Onshore wind	Dólar III	Spain	2006	49.5	8.5
Renewables	Onshore wind	Doña Benita	Spain	2006	32.0	0.6
Renewables	Onshore wind	Ferreira II	Spain	2006	49.5	7.2
Renewables	Onshore wind	Hueneja	Spain	2006	49.5	7.7
Renewables	Onshore wind	Sil Expansion	Spain	2006	40.0	8.3
Renewables	Onshore wind	O Vieiro	Spain	2006	19.6	1.0
Renewables	Onshore wind	Luzón-Norte	Spain	2006	38.0	9.2
Renewables	Onshore wind	Bordecorex Norte	Spain	2006	44.0	6.7
Renewables	Onshore wind	Cerro Blanco	Spain	2006	42.0	6.3
Renewables	Onshore wind	Grijota	Spain	2006	5.0	5.0
Renewables	Onshore wind	Cabezuelo	Spain	2006	30.0	17.2
Renewables	Onshore wind	Mark Hill	United Kingdom	2011	56.0	14.1
Renewables	Onshore wind	Collados	Spain	2011	11.0	10.4
Renewables	Onshore wind	Fuentesalada	Spain	2011	46.4	44.1
Renewables	Onshore wind	Cruz de Carrutero	Spain	2011	40.0	32.0
Renewables	Onshore wind	Cabras	Spain	2012	22.0	22.0
Renewables	Onshore wind	Ventosa del Ducado	Spain	2012	44.0	0.0
Renewables	Onshore wind	Layna	Spain	2012	50.0	50.0

80 Installed capacities attributable to each Green Bond take into account the proportion represented by the allocated amount of the total investment in each of them.

Total amount invested by area

Area	Investment allocated to the bond (€ millions)
Distribution	94
Distribution/Smart grids	80
Renewables	576
Total	**750**

Sustainability indicators in the area of distribution

Name of project	Increase in capacity within the horizon of the investment plan (MW)
Renewable generation connection in Scotland	2,167
Strengthen international connection in Scotland	6,640
Castile-La Mancha photovoltaic connection plan	604

Sustainability indicators in the area of smart grids

STAR Project	Status as of 2011[81]	Status as of 2012
Smart meters (no.)	154,428	449,441
Smart meters installed (%)	1.44	4.16
Transformer centres adapted for remote management (no.)	583	2,692
Transformer centres adapted for remote management (%)	0.88	4.01

Sustainability indicators in the area of renewable energy[82]

Installed capacity (MW)	Installed capacity attributable to the bond (MW)	2016 output (GWh)	2016 output attributable to the bond (GWh)	CO_2 avoided attributable to the bond (Tm)[83]
1,002.0	477.4	1,956	973	238,453

81 Takes data from 2011 and 2012 in order to allow for identification of profits from investments made.
82 Emissions avoided take into account the percentage of production of each facility that corresponds to the percentage of the amount invested and installed capacity allocated to each Green Bond. In the 2015 report a simplified method was used pursuant to which all production was used to calculate the benefit obtained.
83 Emissions avoided, reported throughout this Annex 2: Green Bond Returns Report, have been calculated as a product of 2016 production attributable to the bond and the emission factor for the country in which the facilities are geographically located. Sources: REE for Spain (January 2017), DEFRA for United Kingdom (September 2016), and World Energy Outlook EU for Portugal (November 2016).

B. April 2016 Bond (ISIN code XS1398476793)

Assets allocated

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW)
Renewables	*Onshore wind*	Alvao	Portugal	2009	42.0	42.0
Renewables	*Onshore wind*	Puerto de Malaga	Spain	2008	12.0	12.0
Renewables	*Onshore wind*	Cortijo Linera	Spain	2008	28.0	28.0
Renewables	*Onshore wind*	Cabezas	Spain	2009	17.4	17.4
Renewables	*Onshore wind*	Centenar	Spain	2009	40.0	40.0
Renewables	*Onshore wind*	Majal Alto	Spain	2009	50.0	50.0
Renewables	*Onshore wind*	Retuerta	Spain	2009	38.0	38.0
Renewables	*Onshore wind*	Saucito	Spain	2009	30.0	30.0
Renewables	*Onshore wind*	Tallisca	Spain	2009	40.0	40.0
Renewables	*Onshore wind*	Valdefuentes	Spain	2009	28.0	28.0
Renewables	*Onshore wind*	Torrecilla	Spain	2009	16.0	16.0
Renewables	*Onshore wind*	Coterejon II	Spain	2009	6.0	6.0
Renewables	*Onshore wind*	Altamira	Spain	2009	49.0	49.0
Renewables	*Onshore wind*	Lirios	Spain	2010	48.0	48.0
Renewables	*Onshore wind*	Nogueira	Spain	2010	3.0	3.0
Renewables	*Onshore wind*	Alto de la Degollada	Spain	2010	50.0	50.0
Renewables	*Onshore wind*	Gomera	Spain	2010	12.0	12.0
Renewables	*Onshore wind*	Savalla	Spain	2010	18.0	18.0
Renewables	*Onshore wind*	Conesa II	Spain	2011	32.0	32.0
Renewables	*Onshore wind*	Espartal	Spain	2012	6.0	6.0
Renewables	*Onshore wind*	Torrecilla II	Spain	2012	22.0	22.0
Renewables	*Onshore wind*	Gomera II	Spain	2012	6.0	6.0
Renewables	*Onshore wind*	Las Cabras	Spain	2012	22.0	22.0
Renewables	*Onshore wind*	Ventosa del Ducado	Spain	2012	44.0	0.5
Renewables	*Onshore wind*	Arecleoch	United Kingdom	2011	120.0	120.0

Total amount invested by area

Area	Investment allocated to the bond (€ millions)
Renewables	1,000

Sustainability indicators in the area of renewable energy

Installed capacity (MW)	Installed capacity attributable to the bond (MW)	2016 output (GWh)	2016 output attributable to the bond (GWh)	CO_2 avoided attributable to the bond (Tm)
779.4	735.9	1,451	1,351	360,891

C. September 2016 Bond (ISIN code XS1490726590)

Assets allocated

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW)
Renewables	*Onshore wind*	Whitelee Ext	United Kingdom	2012	217.0	140.3
Renewables	*Onshore wind*	Middleton	United Kingdom	2013	12.0	12.0
Renewables	*Onshore wind*	Lynemouth	United Kingdom	2012	26.0	26.0
Renewables	*Onshore wind*	Beinn An Tuirc 2	United Kingdom	2013	44.0	44.0
Renewables	*Onshore wind*	Carland Cross Ext	United Kingdom	2013	20.0	20.0
Renewables	*Onshore wind*	Coal Clough Repowering	United Kingdom	2014	16.0	16.0
Renewables	*Onshore wind*	Blacklaw Ext	United Kingdom	2016	38.0	38.0
Renewables	*Onshore wind*	Blacklaw Ext Ph2	United Kingdom	2016	25.0	25.0
Renewables	*Onshore wind*	Dersalloch	United Kingdom	2016	69.0	69.0
Renewables	*Onshore wind*	Ewe Hill	United Kingdom	2016	14.0	14.0

Total amount invested by area

Area	Investment allocated to the bond (€ millions)
Renewables	700

Sustainability indicators in the area of renewable energy

Installed capacity (MW)	Installed capacity attributable to the bond (MW)	2016 output (GWh)	2016 output attributable to the bond (GWh)	CO_2 avoided attributable to the bond (Tm)
481.0	404.3	643	543	221,965

D. December 2016 Bond (ISIN code XS1527758145)

Assets allocated

Area	Technology	Name of project	Location	Start-up year	Installed Capacity (MW)	Installed capacity attributable to the bond (MW)
Renewables	*Onshore wind*	Doña Benita	Spain	2008	32.0	31.3
Renewables	*Onshore wind*	Sabina	Spain	2008	48.0	48.0
Renewables	*Onshore wind*	Vieiro	Spain	2008	19.6	19.6
Renewables	*Onshore wind*	Argañoso	Spain	2009	22.0	20.9
Renewables	*Onshore wind*	Bullana	Spain	2009	38.0	36.1
Renewables	*Onshore wind*	Carril	Spain	2008	28.0	26.6
Renewables	*Onshore wind*	Cerro Blanco	Spain	2009	42.0	39.9
Renewables	*Onshore wind*	Cotera	Spain	2009	18.0	17.1
Renewables	*Onshore wind*	Paramo Vega	Spain	2009	18.0	17.1
Renewables	*Onshore wind*	Radona I	Spain	2009	24.0	22.8
Renewables	*Onshore wind*	Radona II	Spain	2009	32.0	30.4
Renewables	*Onshore wind*	Sombrio	Spain	2008	28.0	26.6
Renewables	*Onshore wind*	Valdecarrion	Spain	2010	34.0	32.3
Renewables	*Onshore wind*	Valdeperondo	Spain	2010	46.0	43.7
Renewables	*Onshore wind*	Viñas	Spain	2010	38.0	36.1
Renewables	*Onshore wind*	Bolaños	Spain	2008	24.0	24.0
Renewables	*Onshore wind*	Dos Pueblos	Spain	2008	20.0	20.0
Renewables	*Onshore wind*	Nacimiento	Spain	2008	23.8	23.8
Renewables	*Onshore wind*	Tacica de Plata	Spain	2008	26.0	26.0

Total amount invested by area

Area	Investment allocated to the bond (€ millions)
Renewables	750

Sustainability indicators in the area of renewable energy

Installed capacity (MW)	Installed capacity attributable to the bond (MW)	2016 output (GWh)	2016 output attributable to the bond (GWh)	CO_2 avoided attributable to the bond (Tm)
561.4	542.3	1,531	1,092	264,344

External Independent Assurance Report on Green Bonds

Free translation from the original in Spanish. In the event of a discrepancy, the Spanish language version prevails.

INDEPENDENT ASSURANCE REPORT

To the Management of Iberdrola, S.A.:

We have carried out our work to provide limited assurance on the indicators of "CO2 emissions avoided attributable to bond" (hereinafter, CO2 avoided) referred to the investments in renewable energy projects financed by the issue of the Green Bonds ISIN XS1057055060, ISIN XS1398476793, ISIN XS1490726590 e ISIN XS1527758145 in 2014 and 2016, contained in the "Annex 2: Green Bond Returns Report" of the 2016 Sustainability Report of Iberdrola, S.A. and subsidiaries (hereinafter, "Iberdrola") for the year ended 31 December 2016.

Responsibility of Management

Management of Iberdrola is responsible for the preparation, content and presentation of the "Annex 2: Green Bond Returns Report", and the calculation of CO2 avoided indicators defined in Annex 2, as indicated in the "Second party opinion on Sustainability of Iberdrola's Green Bond" available at *https://www.iberdrola.com/accionistas-inversores/inversores/renta-fija/bonos-verdes*, that describes the eligibility criteria of projects and the environmental and social performance indicators used in terms of Iberdrola's investment impact. This responsibility includes designing, implementing and maintaining the internal controls required to ensure that CO2 avoided indicators are free from any material misstatement due to fraud or error.

Our responsibility

Our responsibility is to issue a limited assurance report based on the procedures carried out and evidence obtained. Our limited assurance engagement was done in accordance with the guidance of the International Standard on Assurance Engagements 3000 (ISAE 3000) (Reviewed) "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).

The scope of a limited assurance engagement is substantially less extensive than the scope of a reasonable assurance engagement and thus, less security is provided.

The procedures that we have carried out are based on our professional judgment and have included consultations, observation of processes, document inspection, analytical procedures and random sampling tests. The general procedures employed are described below:

- Meetings with Iberdrola's personnel from various departments who have been involved in the preparation of the "Annex 2: Green Bond Returns Report" of the 2016 Sustainability Report.

- Analysis of the procedures used to obtaining and validating the data presented in the CO2 avoided indicators.

- Verification, through random sampling test revisions, internal control tests and substantive tests on the information used to determine CO2 avoided indicators. We have also verified whether they have been appropriately compiled from the data provided by Iberdrola's sources of information.

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Our Independence and Quality Control

We have fulfilled our work in accordance with the independence requirement and other ethical requirements of the Code of Ethics for Professional Accountants of the International Ethics Standard Board for Accountants (IESBA), which are based on basic principles of integrity, objectivity, professional competence and diligence, confidentiality and professional conduct.

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and thus employs an exhaustive quality control system which includes documented policies and procedures on the compliance of ethical requirements, professional standards and statutory laws and applicable regulations.

Limited assurance conclusion

As a result of the procedures carried out and the evidence obtained, no matters have come to our attention which may lead us to believe that the indicators of "CO_2 emissions avoided attributable to bond", referred to the investments in renewable energy projects financed by the issue of the Green Bonds in 2014 and 2016 ISIN XS1057055060, ISIN XS1398476793, ISIN XS1490726590 and ISIN XS1527758145 contained in the "Annex 2: Green Bond Returns Report" of the Iberdrola's 2016 Sustainability Report for the year ended 31st December 2016, contain any significant misstatement or have not been prepared, in all of their significant matters, in accordance with the Annex 2 and the document "Second party opinion on Sustainability of Iberdrola's Green Bond" available at *https://www.iberdrola.com/accionistas-inversores/inversores/renta-fija/bonos-verdes*.

Use and Distribution

Our report is only issued to the Management of Iberdrola, in accordance with the terms and conditions of our engagement letter with Iberdrola. We do not assume any liability to third parties other than Iberdrola's Management.

PricewaterhouseCoopers Auditores S.L.

Mª Luz Castilla

23 February 2017

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Annex 3: External Independent Assurance Report on the Sustainability Report

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Free translation from the original in Spanish. In the event of a discrepancy, the Spanish language version prevails.

INDEPENDENT ASSURANCE REPORT

To the Management of Iberdrola S.A.:

We have carried out our work to provide a limited assurance on the non-financial information included in the "GRI content index" of the 2016 Sustainability Report (hereinafter, "CSR indicators") of Iberdrola, S.A. and its corporate group (hereinafter, "Iberdrola") for the year ended 31 December 2016, prepared in accordance with the general basic and specific content proposed in the Guidelines for the preparation of the Sustainability Report of the Global Reporting Initiative (GRI) version G4 (hereinafter, "GRI G4 Guidelines") and its Sector Supplement of Electric Utilities.

Additionally, we have carried out a moderate assurance of application of the principles of inclusivity, materiality and responsiveness as described in the information included in the indicators G4-26 and G4-27 of 2016 Sustainability Report in accordance with the 2008 Accountability Principles Standard AA1000 (AA1000APS) issued by AccountAbility.

Responsibility of Management

Management of Iberdrola is responsible for the preparation, content and presentation of the Sustainability Report in accordance with the Comprehensive option of the GRI G4 Guidelines and its Sector Supplement of Electric Utilities. Management's responsibility includes establishing, implementing and maintaining the internal controls required to ensure that the CSR indicators are free from any material misstatement due to fraud or error.

Management of Iberdrola is also responsible for defining, implementing, adapting and maintaining the management systems from which the information required to prepare the CSR indicators are obtained and for monitoring the level of compliance of corporate responsibility commitments and application of AA10000APS (2008) principles.

Our responsibility

Our responsibility is to issue a limited assurance report based on the procedures that we carried out and the evidence obtained. Our limited assurance engagement was done in accordance with the International Standard on Assurance Engagements 3000 (ISAE 3000) (Reviewed) "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). We have also carried out our moderate assurance engagement (type 2) in accordance with the 2008 AA1000 Assurance Standard issued by AccountAbility.

The scope of a limited and moderate assurance engagement is substantially less extensive than the scope of a reasonable assurance engagement and thus, less security is provided.

The procedures that we carried out are based on our professional judgement and have included consultations, observation of processes, document inspection, analytical procedures and random sampling test. The general procedures employed are described below:

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- Meetings with Iberdrola's personnel from various departments who have been involved in the preparation of the Sustainability Report.

- Verifying Iberdrola's processes for determining the material aspects and engagement of their stakeholders.

- Analysis of the procedures used to obtaining and validating the data presented in the CSR indicators.

- Analysis of the Iberdrola's CSR indicators adaptation to the requirement established by the GRI G4 Guidelines or the preparation of reports and its Sector Supplement of Electric Utilities.

- Verification, through random sampling tests revisions, internal control tests and substantive tests on the information used to determine Iberdrola's CSR indicators. We have also verified whether they have been appropriately compiled from the data provided by Iberdrola´s sources of information.

- Analysis of the documentation and actions related to the application of inclusivity, materiality and responsiveness principles of the AA1000APS AccountAbility Principles Standard.

Our independence and quality control

We have fulfilled our work in accordance with the independence requirements and other ethical requirements of the Code of Ethics for Professional Accountants of the International Ethics Standard Board for Accountants (IESBA), which are based on basic principles of integrity, objectivity, professional competence and diligence, confidentiality and professional conduct.

Our firm applies the International Standard on Quality Control 1 (ISQC 1) and thus employs an exhaustive quality control system which includes documented policies and procedures on the compliance of ethical requirements, professional standards and statutory laws and applicable regulations.

Limited and moderate assurance conclusion

As a result of the procedures carried out and the evidence obtained, no matters have come to our attention which may lead us to believe that:

- Iberdrola's CSR indicators, for the financial year ending 31st December 2016, contain significant misstatement or have not been prepared, in all of their significant matters, in accordance with the G4 GRI Guidelines and its Sector Supplement of Electric Utilities.

- The information included in the indicators G4-26 and G4-27, concerning the principles of inclusivity, materiality and responsiveness, has not been prepared, in all significant respects, in accordance with Standard AA1000APS (2008).

Recommendations

During our assurance engagement, some observations and recommendations for improvements have come to our attention, which we have presented in an internal document. Set out below is a summary of the main recommendations regarding improvements to the application of the AA1000APS (2008) principles of inclusivity, materiality and responsiveness, which do not alter our opinion or our limited or moderate assurance conclusions given in this report.

Inclusivity

As part of its commitment to drive and continue improving its stakeholder relations, in 2016 Iberdrola approved a new Stakeholder Relations Model which aims to further promote the standardisation of stakeholder relations throughout the Company. The approval of this model strengthens Iberdrola's policy on relations with stakeholders approved in 2015. In this respect, a comprehensive follow-up of the new model's implementation is recommended, enabling the continued promotion of internal and external dialogue so as to continue to include stakeholders' expectations in all the Company's decisions.

Materiality

Iberdrola has made a materiality analysis to determine the relevant issues for the Company, taking into account their Stakeholders' expectations, which are set out in the 2016 Sustainability Report. In this respect, the implementation of the Stakeholder Relations Model, approved in 2016, will enable Iberdrola to deepen its knowledge of the materiality of the issues identified and therefore the results obtained on the Model's implementation should be included in the materiality analysis.

Responsiveness

The Sustainability Report responds to the way in which the significant issues identified are addressed and handled by Iberdrola, highlighting the organisation's capacity to respond to its stakeholders' needs and expectations. Within this context, one of the objectives of the implementation of the Stakeholder Relations Model is to drive a business culture of dialogue, engaging with stakeholders to improve Iberdrola's sustainable performance through actions that respond to stakeholders' expectations and needs. In this respect, it is recommended that work continue on ensuring that the initiatives, plans and programmes implemented are assessed through indicators enabling the Company's performance to be assessed.

Use and distribution

Our report is only issued to the Management of Iberdrola, in accordance with the terms and conditions of our engagement letter with Iberdrola. We do not assume any liability to third parties other than Iberdrola's Management.

PricewaterhouseCoopers Auditores, S.L.

23 February 2017

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