

6 April 2016

Environmental Policy

Content

ENVIRONMENTAL POLICY	3
1. Purpose	3
2. Scope of Application	3
3. Decentralised Environmental Organisation	3
4. Environmental Commitments	3
5. Instruments for the Adoption and Promotion of Environmental Commitments	4
6. Main Principles of Environmental Conduct of the Group	4

NOTICE. This document is a translation of a duly approved Spanish-language document, and is provided for informational purposes only. In the event of any discrepancy between the text of this translation and the text of the original Spanish-language document that this translation is intended to reflect, the text of the original Spanish-language document shall prevail.



Take care of the environment.
Printed in black and white and only if necessary.

ENVIRONMENTAL POLICY

The Board of Directors of IBERDROLA, S.A. (the “**Company**”) is vested with responsibility for formulating the strategy and approving the *Corporate Policies* of the Company and for organising the internal control systems. Pursuant to the *Mission, Vision, and Values of the Iberdrola group*, the Company’s leadership in the development of clean energy and respect for the environment are the pillars of its energy production model and the factor that distinguishes it in its industry as one of the leading companies worldwide. In the exercise of these responsibilities and in order to further develop the Company’s corporate philosophy, the Board of Directors approves this *Environmental Policy*.

1. Purpose

The *Environmental Policy* is intended to extend to all stakeholders related to the Company and to the companies belonging to the group of which the Company is the controlling entity, within the meaning established by law (the “**Group**”), its devotion to leadership in the development of clean energy and respect for the environment

In this regard, the Company’s Board of Directors believes the environment to be a central element of the concept of sustainability, and particularly one of the three pillars for reaching a sustainable energy model, together with competitiveness and the safety of supply.

The Company, aware of its potential to contribute to the preservation and protection of the environment, has voluntarily assumed the responsibility to lead the fight against climate change and to preserve biodiversity, in accordance with the provisions of the *Policy against Climate Change* and the *Biodiversity Policy*, respectively.

The Company also conceives of respect for the environment as one of the corporate values that determines its entire business strategy, as it is key to the configuration of a sustainable energy model, which in the environmental dimension translates into lower emissions and greater efficiency and the production and use of energy, as well as in complying with environmental laws and regulations and the best international practices in this area.

Given all of the above, through a policy of transparent information and a strategy of constant dialogue, the Company responds to the expectations of its stakeholders with respect to the preservation of the environment, ever more stringent regulatory requirements, and constant scrutiny of management by analysts, assessors, and various agents of civil society, in line with the Sustainable Development Goals (2015-2030) recently approved by the United Nations.

2. Scope of Application

This *Environmental Policy* applies to all companies of the Group, as well as to all investees not belonging to the Group over which the Company has effective control, within the lawfully established limits.

At those companies in which the Company has an interest and to which this policy does not apply, the Company will promote, through its representatives on the boards of directors of such companies, the alignment of their own policies with those of the Company.

This *Environmental Policy* shall also apply, to the extent relevant, to the contractors acting in the name of the Company, as well as to the joint ventures, temporary joint ventures (*uniones temporales de empresas*), and other equivalent associations, if the Company assumes the management thereof.

3. Decentralised Environmental Organisation

The management bodies of the various companies making up the Group are responsible for the determination and implementation of the *Environmental Policy* within the Iberdrola group, in accordance with the corporate and governance structures and the business model of the Group defined in the *Policy for the Definition and Coordination of the Iberdrola Group and Foundations of Corporate Organisation*.

The Company has for such purposes created an organisation that manages the environment in a decentralised manner.

The Board of Directors and the management team of the Company are thus responsible for establishing and supervising the application, respectively, of environmental strategy and organisation at the Group level.

For its part, the Company’s Innovation, Sustainability, and Quality Division, which reports to the Area of the Office of the Chairman, proposes the management models and systems, specifies the environmental guidelines and the goals associated therewith, coordinating all environmental action of the Group. Without prejudice to the foregoing, the Energy Policies and Climate Change Division, which also reports to the Area of the Office of the Chairman, proposes the guidelines relating to the Company’s *Policy against Climate Change*.

Finally, applying the principle of subsidiarity, specific matters affecting the business that are related to the environment are handled and resolved in each case by the environmental divisions of each business.

4. Environmental Commitments

The development of clean energy, investment in smart grids and other energy efficient technologies, and respect for the environment are the pillars of the Group’s energy production model and distinguish the Company in the energy sector as one of the leading companies worldwide.

The Company considers this environmental dimension as a priority in planning its businesses. This compels it to promote innovation, eco-efficiency, and the gradual reduction of environmental impacts in the activities of the Group, in order for energy to become a sustainable driver of the economy and an ally of balanced development.

Accordingly, aware of the importance of this factor in carrying out its corporate mission for its customers and shareholders and for other significant stakeholders with whom it interacts, the Company and the companies belonging to the Group undertake to promote innovation in this field and eco-efficiency (reduction of the environmental impact per production unit), i.e. to gradually reduce the environmental impacts of their activities, facilities,

NOTICE. This document is a translation of a duly approved Spanish-language document, and is provided for informational purposes only. In the event of any discrepancy between the text of this translation and the text of the original Spanish-language document that this translation is intended to reflect, the text of the original Spanish-language document shall prevail.

products, and services, as well as to offer, promote, and investigate eco-efficient solutions within their market, thus harmonizing the conduct of their activities with the legitimate right of current and future generations to enjoy an adequate environment.

Along these lines, the *Policy against Climate Change* includes a specific goal of gradually reducing the intensity of greenhouse gas emissions.

The Group also optimises the management of water and hazardous and non-hazardous waste through systems that set objectives and goals on, among other aspects, waste reduction, the use of best practices in water usage, and the use of recycled materials.

5. Instruments for the Adoption and Promotion of Environmental Commitments

The environmental commitments of the Group are promoted through:

- a) An organizational structure with clearly defined responsibilities in connection with the environment and sustainability in general, which is decentralised and based on the principle of subsidiarity.
- b) This *Environmental Policy* and other specific policies relating to significant specific aspects, such as biodiversity and climate change.
- c) The consideration of the environmental variable in risk control and management policies.
- d) A global environmental management system, which allows for a reduction in environmental risks, improving the management of resources and optimising investments and costs.
- e) The funding of specific budgets.
- f) The periodic preparation of specific strategic plans that determine strategic priorities and key matters relating to the environment.
- g) The establishment of specific and verifiable environmental goals.
- h) Training of and provision of information to officers and employees.
- i) Collaboration with suppliers so that respect for the environment is a principle informing the entire value production chain of the Group.
- j) Participation in international initiatives, ratings, and indices relating to sustainability and the environment.

All of the foregoing such that the various levels of the organisation are aware of the importance of respect for the environment in the planning and subsequent implementation of all the actions of the Company, and that all employees contribute with their daily work to the achievement of the goals set in this field.

6. Main Principles of Environmental Conduct of the Group

To achieve the implementation of these commitments, the Group shall be guided by the following main principles of conduct:

- a) Respect applicable environmental laws and regulations in the countries in which it operates and, to the extent possible, anticipate the application of new legal provisions when more stringent, and comply with voluntarily assumed commitments and with international rules of environmental conduct, particularly when they are more ambitious.
- b) Know and assess the environmental risk of production facilities on an ongoing basis, and constantly improve and update the mechanisms designed to mitigate or eradicate them.
- c) Establish indicators and reporting systems that allow for knowing and objectively comparing the environmental impact of the various activities of the Group, classifying them and allowing for the traceability thereof, in order to be able to use such information efficiently in the decision-making process of the businesses of the Group.
- d) Prevent the occurrence of such risks and, if appropriate, mitigate the consequences of such occurrence, including, when deemed appropriate, the provision of financial guarantees.
- e) Integrate fully the environmental dimension and respect for the natural environment into the strategy of the Group.
- f) Ensure at all times the compatibility of environmental protection, the meeting of social needs in the energy arena, and the sustainable creation of value through innovation and eco-efficiency, contributing to a sustainable and responsible energy model.
- g) Consume responsibly, making sustainable use of resources and increasing consumption of renewable resources to the extent possible.
- h) Incorporate the environmental dimension into investment decision processes and the planning and carrying out of activities, promoting the consideration thereof in cost-benefit analyses.
- i) Establish appropriate management systems, based on a philosophy of ongoing improvement, that help to reduce environmental risk and that include:
 1. Ongoing efforts to identify, assess, and reduce the adverse environmental effects of the activities, facilities, products, and services of the Group.
 2. Provision of information to and training of employees on the effects of the development of the Group's processes and products to minimise the detrimental effects of its activities on their health and on the environment.
 3. Development of plans and programmes setting objectives and goals and updating of emergency plans that will make it possible to reduce risks, minimise adverse environmental effects, and regularly monitor the progress and effectiveness of the measures applied, fostering the ongoing improvement of the Group's processes and practices.

NOTICE. This document is a translation of a duly approved Spanish-language document, and is provided for informational purposes only. In the event of any discrepancy between the text of this translation and the text of the original Spanish-language document that this translation is intended to reflect, the text of the original Spanish-language document shall prevail.



4. Carry out monitoring, measurement, and, if appropriate, corrective activities.
 5. Performance of internal and external audits.
- j) Identify and incorporate available technical improvements for the production and distribution of electric power from a technical financial, environmental, and social standpoint.
 - k) Respect nature, biodiversity, and the historical and artistic heritage in the natural environment where the Group's facilities are located.
 - l) Foster research and development of new technologies and processes that help to address climate change and other environmental challenges with a preventive approach and allow for a more efficient use of natural resources to progress towards a more sustainable energy model, including electric mobility.
 - m) Promote behaviour of the Group that is in line with the principles of this *Environmental Policy*, assigning positive value to alignment therewith, particularly in the selection of contractors and suppliers.
 - n) Establish a constructive dialogue with Government Agencies, regulatory authorities, non-governmental organisations, multilateral agencies, shareholders, customers, local communities, and other stakeholders in order to:
 1. Mutually understand the interests and objectives of each of the parties.
 2. Work jointly in the search for solutions to environmental problems and dilemmas.
 3. Contribute to the development of a useful public policy from the environmental standpoint that is efficient in economic terms.
 4. Raise awareness of the importance of taking measures to reduce greenhouse gas emissions.
 - o) Report transparently on environmental results and actions, establishing the appropriate channels to favour communication with the stakeholders and recognizing both achievements and aspects that need to be improved.
 - p) Share acquired knowledge with their customers in order to improve their environmental behaviour in connection with energy.
 - q) Support legal measures, initiatives and innovations focused on permitting greater electrification of consumer uses of the economy, like electric cars and trains, heat pumps, etc. as an effective and efficient vector of the fight against climate change due to the de-carbonisation that they engender.

This *Environmental Policy* was initially approved by the Board of Directors on 18 December 2007, and was last amended on 6 April 2015.