Annual report on compliance with legal provisions on the separation of regulated activities within the Iberdrola Group 2015
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Introduction
IBERDROLA, S.A. ("IBERDROLA" or the "Company") is the holding company of a group of companies the activities of which are mainly carried out in the energy industry, both in Spain and in other Atlantic-area countries, with a notable presence in the United Kingdom, the United States of America, and Latin America (the "Group").

The Company, which performs holding company functions, is the entity holding the equity stakes of the country subholding companies. Each country subholding company in turn groups together, in each of the countries in which the Group operates, the energy head of business companies (sociedades cabecera de los negocios energéticos) for the business carried out in such territory and centralises the provision of services common to such companies, always in accordance with the provisions of applicable law and specifically the law pertaining to the separation of activities. In addition, the Group has a country subholding company for the non-energy head of business companies, which operate in several countries. All of them are equipped with their own human and physical resources as required to independently perform the duties assigned to them by the Corporate Governance System.

This corporate structure, which has been successfully implemented in Brazil, Spain, Mexico, the United States of America, and the United Kingdom, favours a process of agile and rapid decision-making in day-to-day management, depending on the head of business companies, while it achieves proper coordination at the Group level as a result of the supervisory functions of the country subholding companies and of the Company.

Head of business companies that carry out Liberalised Activities and head of business companies that carry out Regulated Activities are subordinate to the country subholding companies for Spain, Iberdrola España, S.A. Unipersonal ("Iberdrola España"), Brazil, Iberdrola Brasil, S.A. ("Iberdrola Brasil"), the United Kingdom, Scottish Power, Limited ("Scottish Power"), and the United States of America, Avangrid, Inc.1 ("Avangrid").

Each of such territories has industry regulations to ensure the proper operation of essential services aimed at guaranteeing the supply of electric power and gas.

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1 On 16 December 2015, Iberdrola USA Inc. ("Iberdrola USA") completed its merger with UIL Holdings, Corp. ("UIL") and changed its name to Avangrid, Inc. The Company holds 81.5% of Avangrid, and the remaining 18.5% is traded on the New York Stock Exchange ("NYSE"). Avangrid is a part of the Group controlled by the Company, and is therefore a controlled company pursuant to NYSE regulations.
As a general rule, such regulations allow for the performance of certain activities, such as production and sale (liberalised activities), under the free competition system, in comparison with others that, due to the nature thereof, must be carried out as a monopoly, including electricity and gas distribution and transmission/transportation (regulated activities).

The separation between liberalised and regulated activities is intended to ensure transparent, non-discriminatory, and efficient management of the electric and gas systems.

Pursuant to industry regulations in effect within the European Union, the same company may not carry out regulated and liberalised activities, but different companies belonging to the same group may do so, provided that they meet certain standards of independence in the management of regulated activities, as is the case with the Group.

In Spain, the requirements applicable to the separation of activities are set forth in sections 12.2 of Law 24/2013 of 26 December on the Electricity Industry and Law 24/1998 of 7 October on the Hydrocarbon Industry.

The companies carrying out regulated activities in Spain must have a code of conduct that establishes the measures adopted to ensure compliance with such standards of independence, which must be supervised and evaluated by a competent and completely independent person or body appointed by the company for such purpose.

In the United Kingdom, the Utilities Act 2000 required the creation of separate entities for the businesses of electricity distribution and supply, imposing reporting requirements on companies undertaking regulated businesses, including an annual report on the separation of activities filed with the regulator, the Office of Gas and Electricity Markets Authority (“OFGEM”).

In the United States of America, regulated companies of the Group are subject to federal legislation (Energy Policy Act of 1992) and state legislation (specifically, in the states in which Avangrid has regulated subsidiaries, i.e. New York, Maine, Connecticut, and Massachusetts), which require functional and corporate separation of regulated and liberalised (deregulated) companies.

For its part, the Government of Brazil established the foundations of a new model for the electricity sector, based on Law 10,848/04 and Decree 5,163/04 regarding the supply of electric energy, which required distributors to separate interests in energy generation, transmission, and supply activities, prohibiting activities outside of the distribution service concession.

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The Company and the Group assume the legally established commitments with respect to the legal and functional separation of the regulated companies, with the country subholding companies being responsible for ensuring compliance with the legal provisions on separation of activities applicable in their respective countries. For its part, the Company, through its Board of Directors, supervises enforcement by the country subholding companies of the legal provisions on the separation of regulated activities in their respective jurisdictions.

Pursuant to the provisions of the Regulations of the Compliance Unit, IBERDROLA’s compliance officer prepares this Annual Report on Compliance with Legal Provisions on the Separation of Regulated Activities within the Group in order to present to the Board of Directors the measures adopted to ensure compliance with industry requirements in this area in those territories in which companies of the Group carry out regulated and liberalised activities, in order for it to be advised thereof after an opinion of its Corporate Social Responsibility Committee.

This Annual Report on Compliance with Legal Provisions on the Separation of Regulated Activities within the Group is prepared based on the information and reports on separation of activities previously prepared by the Compliance Divisions of the country subholding companies holding equity interests in the head of business companies that carry out regulated activities, which they have sent to IBERDROLA’s compliance officer within the framework of the evaluation processes described in section 6.

This report will be available on the corporate website at www.iberdrola.com.
2. Definitions
Liberalised Activities: generally, the production and supply of electricity and gas carried out under the free competition system and the provision of energy recharging services, without prejudice to the specific provisions contained in applicable regulations in each country.

Regulated Activities: generally, the distribution and transmission of electricity, as well as the regasification, basic storage, transmission, and distribution of gas, without prejudice to the specific provisions contained in applicable regulations in each country.

Commercially Sensitive information: any specific non-public information that, if known by the employees, officers, or directors of the Liberalised Companies, might entail a competitive advantage for them.

Liberalised Companies: the companies of the Group that carry out Liberalised Activities.

Regulated Companies: the companies of the Group that carry out Regulated Activities.
3.

Separation of Activities within IBERDROLA’s Corporate Governance System and within the Group’s Codes of Conduct
3.1. General Principles

Iberdrola’s Corporate Governance System, which is published on its website www.iberdrola.com, is made up of the By-Laws, the Corporate Policies, the internal corporate governance rules, and the other internal codes and procedures approved by the competent decision-making bodies of IBERDROLA, which contemplate the following commitments and assurances regarding separation of activities:

- The Company and the Group assume the commitments provided by law in connection with the legal and functional separation of regulated companies (subsection 1.m of the General Corporate Governance Policy).

- The Board of Directors of the Company has the following duties, within the framework of its responsibilities in connection with the general duty of supervision, organisation, and strategic coordination of the Group:
  • Supervise enforcement by the country subholding companies of the legal provisions on separation of regulated activities in their respective jurisdictions (article 8.9. F) b) of the Regulations of the Board of Directors).
  • Adapt the structure of the Group to the legal requirements applicable in the jurisdictions in which it carries out its activities, and specifically as regards the rules governing the separation of regulated activities which apply in each jurisdiction (section 5 b) of the Policy for the Definition and Coordination of the IBERDROLA Group and Foundations of Corporate Organisation).

- The Corporate Social Responsibility Committee of the Company’s Board of Directors is given the duty of issuing its prior opinion on the annual report on compliance with legal provisions on the separation of regulated activities within the Group prepared by the compliance officer for submission to the Board of Directors in order for it to be advised thereof (articles 29.6.i of the Regulations of the Board of Directors and 6.e of the Regulations of the Corporate Social Responsibility Committee).
In addition, article 27.4 of the Code of Ethics\(^3\) establishes the following specific obligations which, generally and without prejudice to the provisions of the laws and regulations applicable in each country, bind the Group and its professionals:

- Ensure independence in the day-to-day management of Regulated Companies and that of the persons responsible for the management thereof, avoiding the participation by Liberalised Companies in the day-to-day management thereof, without prejudice to the Group’s powers of economic oversight and management over such companies.

To such end, the Group shall ensure that Regulated Companies have the human, material, and financial resources that are adequate and necessary to carry on their day-to-day activities.

- Guarantee the independence and protection of the professional interests of the persons responsible for the management of Regulated Companies and of all workers who deserve special protection by virtue of their duties under applicable law.

- Take appropriate measures to ensure the protection of Commercially Sensitive Information of Regulated Companies that might give a competitive advantage if known by Liberalised Companies.

In this regard, Regulated Companies may not share Commercially Sensitive Information with Liberalised Companies, except where permitted by applicable laws and regulations or disclosed to third parties, in which case such information shall be shared under non-discriminatory conditions.

- Ensure that all activities of Regulated Companies are carried out following objective and non-discriminatory standards, avoiding any preferential treatment of Liberalised Companies or their customers.

- Keep the books of Regulated Companies and of Liberalised Companies duly separate, as provided by applicable laws and regulations in each country.

In addition, the Group will ensure that economic transactions relating to, among other things, the transfer of resources, assets, rights, and/or contracts, if any, made between Regulated Companies and the other companies of the Group, as well as the provision and receipt of services common to both types of company, observe the specific regulations established in each jurisdiction regarding the conditions to which such transactions must be subject.

\(^3\) The Code of Ethics is published on the corporate website www.iberdrola.com and can be downloaded via the following link: https://www.iberdrola.es/webibd/gc/prod/es/doc/normascodigoiberdrola.pdf.
The Code of Ethics has been expressly adopted by each of the Regulated and Liberalised Companies of the Group, all of which fall within the scope of application thereof, except for the special treatment of the listed company Avangrid that will be explained below.
3.2. Codes of Conduct regarding Separation of Activities

The attribution to the country subholding companies of the responsibility for ensuring compliance with legal provisions on the separation of activities applicable in their respective countries means that any internal rules governing the separation of activities in each country must be approved by the respective country subholding company upon the terms required by the legal provisions applicable in each case.

In Spain, in compliance with the provisions of sections 12.2 of Law 24/2013 of 26 December on the Electricity Industry and 63.4 of the Hydrocarbon Industry Act, the Board of Directors of Iberdrola España, at a meeting held on 10 December 2014, approved the current Code for the Separation of Activities of the Companies of the Iberdrola España Group Carrying Out Regulated Activities (the “Code for the Separation of Activities”), which is published on its website.

Pursuant to the provisions of article 3 of the Code for the Separation of Activities, this Code applies to:
- all directors, officers, and employees of Regulated Companies of the Group with activities in Spain, regardless of rank (except for those of electric power supply companies having less than 100,000 customers connected to their networks), and
- the directors, officers, and employees of Liberalised Companies in Spain to the extent that they are affected by applicable regulations regarding the separation of activities.

The Code for the Separation of Activities has been adopted by all of the Spanish companies of the Group to which it applies.

Regulated Companies in the United Kingdom are subject to requirements regarding the separation of activities provided for in their respective licences. In addition to such Regulated Companies being subject to the Code of Ethics, they are subject to Scottish Power’s own Code of Conduct.

In addition, SP Transmission Plc. (“SPT”) is subject to the requirements imposed by Directive 2009/72/EC to ensure the independent operation of the transmission lines. European policy provides that the transmission systems must be owned and operated by companies that do not have interests in production or supply unless the transmission business obtains an exemption under the aforementioned Directive 2009/72/EC, which SPT obtained in 2012 and renews annually.

Scottish Power complies with the requirements regarding the separation of activities and, in particular, with those relating to:
- independent identity with respect to the supply businesses within the same corporate group; and
- restricted access to the facilities, programmes, or systems used in the distribution and transmission business.
Regulated Companies in the United States, which are subject to both federal and state codes of conduct, were grouped together on 20 November 2013 under the head of business company Iberdrola USA Networks Inc. ("Iberdrola USA Networks"). Prior to such date, Regulated Companies in the United States reported to Iberdrola USA (now, “Avangrid”), which adopted a policy in regard to its subsidiaries to ensure compliance with the Federal Standards of Conduct, which policy was filed with the Federal Energy Regulatory Commission ("FERC") on 1 June 2004, as well as an internal code of conduct with strengthened rules regarding separation of activities on 12 February 2004, which was replaced by the Code of Ethics adopted by the Board of Directors of Iberdrola USA (now, “Avangrid”) on 9 December 2011. These regulations were also adopted by the Board of Directors of Iberdrola USA Networks on 4 December 2013. Additionally, Iberdrola USA Networks has a specific Code of Conduct to ensure compliance with the requirements imposed by the Public Service Commission of the State of New York. During 2015, until completion of the above-mentioned merger on 16 December 2015, Avangrid (formerly called “Iberdrola USA”) was subject to the Code of Ethics. On 16 December 2015, Avangrid approved its own specific code, called the Code of Business Conduct and Ethics, which is a U.S. code of conduct and ethics adopted to comply with the requirements of the U.S. Securities and Exchange Commission ("SEC") and of the NYSE. Such code includes provisions regarding separation of activities and regulatory compliance similar to those set forth in the Code of Ethics. UIL has a Code of Business Conduct and Ethics and is subject to the Connecticut Commission Gas Code of Conduct. Its subsidiary The United Illuminated Company ("UIL"), as well as the subsidiaries of Iberdrola USA Networks, Central Maine Power Company ("CMP"), New York State Electric & Gas Corporation ("NYSEG"), Rochester Gas and Electric Corporation ("RGE"), and Maine Electric Power Company Inc. ("MEPCO"), also have a plan and standards of conduct aimed at compliance with the requirements established by the FERC (FERC Standard of Conduct and Plan).

As explained above, Elektro has adopted the Code of Ethics pursuant to the Group’s Corporate Governance System.

Section 5 of this report contains a description of the measures established in the aforementioned codes of conduct and the measures adopted for compliance therewith.

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4 This Code of Conduct of Avangrid (formerly called “Iberdrola USA”) was registered with the New York State Public Service Commission on 8 December 2008.
4.

Corporate and Governance Structure
4.1. Decision-making and Responsibility Areas

The Company’s Corporate Governance System contemplates a separation between the core strategy and supervision duties of IBERDROLA and the decentralised executive responsibilities to be discharged by the Group companies.

Pursuant to the provisions of the Policy for the Definition and Coordination of the Iberdrola Group and Foundations of Corporate Organisation, the governance model of the Group is defined in accordance with the foundations described below:\(^5\)

**a) Board of Directors of IBERDROLA:** attribution to the Board of Directors of IBERDROLA, which exclusively exercises the duties of a holding company, of powers relating to establishing the Group’s policies and strategies and the basic guidelines for the management thereof, as well as general supervision of the development of such policies, strategies, and guidelines, and of decisions on matters of strategic importance at the Group level, while fully respecting the special framework of strengthened autonomy of listed country subholding companies mentioned in section d) below.

**b) Chairman of the Board of Directors & chief executive officer, business CEO, and rest of the management team of the Company:** 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 of the businesses of the Group), and by the rest of the management team, of the duty of organisation and strategic coordination within the Group through the dissemination, implementation, and monitoring of the general strategy and basic management guidelines established by the Board of Directors.

**c) Country subholding companies:** 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.

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structure is rounded out with a country subholding company that groups together specific equity interests in other entities, including the non-energy head of business companies, with a presence in several countries. One of the main functions of country subholding companies is to centralise the provision of services common to the companies in which they have an interest, 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. The selection of directors at country subholding companies is free from any implied bias that may entail any kind of discrimination and, in particular, that may hinder the selection of female directors.

Country subholding companies are responsible for disseminating, implementing, and ensuring compliance with the policies, strategies, and general guidelines of the Group in each of the countries in which it operates and in connection with the businesses that each of them groups together, taking into account the characteristics and unique aspects of such countries.

In this regard, country subholding companies facilitate the coordination of the companies in which they hold interests and are given the responsibility of ensuring compliance with laws and regulations regarding the separation of regulated activities.

In order to concretise the application of the Corporate Governance System based on the applicable law in each country, as well as the characteristics and unique aspects of such countries, and to meet the responsibilities that the Corporate Governance System assigns thereto, the country subholding companies approve the rules applicable to the companies in which they have a stake and specify the application at the country level, if appropriate, of the content of the basic policies and guidelines approved by the Company’s Board of Directors for the entire Group.

d) Listed country subholding companies: these have a special framework of strengthened autonomy with effects in three areas:

In the regulatory area, the boards of directors of the listed country subholding companies have the power to approve their own corporate governance and regulatory compliance policies, their own risk policies, as well as other internal codes and procedures, which elaborate upon, further develop, or provide exceptions to the content of equivalent rules within the Corporate Governance System.

In the area of related-party transactions, the boards of directors of the listed country subholding companies have a Board committee made up exclusively of directors that are not related to the Company, which has the power to approve all transactions between the listed country subholding company and its subsidiaries and the other companies within the Group (in addition to any authorisations that may generally be required in each case, taking into account the characteristics of each transaction).
In the area of management, listed country subholding companies enjoy a system of strengthened autonomy in their relations with the Company, which prevents the Company and the other Group companies from giving instructions to their management team and to that of their subsidiaries that may entail encroaching upon the powers assigned thereto by the Corporate Governance System.

The special framework of strengthened autonomy is spelled out in the respective contracts signed by the Company with each listed country subholding company.

Along these lines, Avangrid has strengthened independence and is also subject to the requirements binding listed companies in the United States, including SEC regulations.

e) **Head of business companies:** the head of business companies of the Group assume decentralised executive responsibilities, enjoy the independence necessary to carry out the day-to-day and effective management of each business, and are assigned responsibility for the day-to-day control thereof.

These head of business companies are organised through their respective boards of directors, which include independent directors, where appropriate, and their own management decision-making bodies; they may also have their own audit committees, internal audit areas, and compliance units or divisions. The selection of directors at head of business companies is free from any implied bias that may entail any kind of discrimination and, in particular, that may hinder the selection of female directors.

In order to facilitate the orderly performance of its duties in its capacity as holding company within the Group, the Board of Directors of the Company establishes a series of mechanisms allowing for the exchange of information as required for the strategic coordination of the activities conducted by the various country subholding companies and head of business companies, without impairing the decision-making autonomy of any of them and with due observance of the requirements binding their directors under the law and the Corporate Governance System, in the interest of all of the companies within the Group.
4.2. Bodies Responsible for the Administration and Management of Regulated and Liberalised Companies

In Spain, the only active Regulated Company subject to the Code for the Separation of Activities is Iberdrola Distribución Eléctrica, S.A., Unipersonal ("Iberdrola Distribución Eléctrica"), a wholly-owned subsidiary of Iberdrola España, through its subsidiary Iberdrola Redes España, S.A., Unipersonal.\(^6\)

As regards the Liberalised Companies, Iberdrola Generación España, S.A., Sociedad Unipersonal ("Iberdrola Generación España") is the head of business company for the liberalised business in Spain that manages central services for the business of generation, wholesale gas distribution, and energy management activities, and is also the holding company of the company Iberdrola Generación, S.A., Sociedad Unipersonal, the activities of which are limited to the generation of electricity, and the company Iberdrola Clientes, S.A., Sociedad Unipersonal, which groups together the energy retailing activities. The production of renewable energy is carried out through Iberdrola Renovables Energía, S.A., Unipersonal ("Iberdrola Renovables").

Both Iberdrola Distribución Eléctrica and Iberdrola Generación España and Iberdrola Renovables have the administration and management structures of the Group’s head of business companies.

Iberdrola Distribución Eléctrica has a Board of Directors with independent directors, an Audit and Compliance Committee, and its own internal audit division and compliance division. Iberdrola Generación España and Iberdrola Renovables are also organised based on boards of directors and have their own compliance divisions, respectively (see map of Regulated Companies in Spain).

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\(^6\) The other regulated companies that appear on the map are not subject to the Code for the Separation of Activities, as they have fewer than 100,000 customers connected to their networks.
Map of regulated companies in Spain

- Electricity Distribution
In the United Kingdom, Scottish Power is the country subholding company of the Group which includes, among other subsidiaries, the head of business companies Scottish Power Energy Networks Holding Limited ("SPEN"), on the one hand, and Scottish Power Generation Holdings Limited and ScottishPower Renewable Energy Limited, on the other, which are responsible for the effective administration and day-to-day management of Regulated and Liberalised Activities, respectively, in the United Kingdom.

SPEN, the holding company in charge of regulated activities, has its own Board of Directors, the members of which do not perform other activities with management responsibility in the liberalised businesses. In addition, in 2011, SPEN appointed a chief executive officer with full operating and financial powers to manage the Regulated Activities, reporting directly and exclusively to the Board of Directors of SPEN.

SPEN is the parent company of the Regulated Companies SP Distribution Plc. ("SP Distribution") and SPT, which hold electricity distribution and transmission licences covering the geographic areas of central and southern Scotland, and SP Manweb Plc. ("SP Manweb"), which holds an electricity distribution licence in a portion of the areas of Merseyside and Cheshire in England and in Northern Wales (see map of Regulated Companies in the United Kingdom). SPEN is also the parent company of SP Power Systems Limited ("SPPS"), which is in charge of the administration and day-to-day management of the networks business pursuant to the terms of the licences.
Map of regulated companies in United Kingdom

• Electricity Distribution

- Scottish Power Limited (100%)
  - Scottish Power UK Holdings Ltd. (100%)
  - Scottish Power UK Plc. (100%)
    - Scottish Power Energy Networks Holdings Ltd. (100%)
      - SP Distribution Plc. (100%)
      - SP Manweb Plc. (100%)
      - SP Transmission Plc. (100%)
      - SP Power Systems Ltd. (100%)
In the United States, Avangrid (formerly called “Iberdrola USA”) is the parent company of Iberdrola Energy Holdings LLC and Iberdrola Renewables, LLC, which are the head of business companies for the gas and renewable energy business in the United States; of Iberdrola USA Networks, the head of business company for Regulated Activities, the corporate and governance structure of which conforms to both the functional and corporate separation required by federal and state legislation, respectively, and of UIL.\(^7\)

Iberdrola USA Networks holds interests in Regulated Companies in the State of New York (NYSEG, RGE, and New York TransCo, LLC) and in the State of Maine (CMP and MEPCO)\(^8\) but holds no interests in Liberalised Companies in these States. After the merger with UIL, Avangrid also holds interests in Regulated Companies in the State of Connecticut (The United Illuminated Company (“UI”), The Southern Connecticut Gas Company, and Connecticut Natural Gas Corporation) and in the State of Massachusetts (The Berkshire Gas Company). In the State of Connecticut, UI is a party to a joint venture with some subsidiaries of NRG Energy, Inc., whereby UI holds 50% of GCE Holding LLC, whose wholly owned subsidiary GenConn Energy LLC operates peaking generation plants in Devon, Connecticut, and Middletown, Connecticut (see map of Regulated Companies in the United States).

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\(^7\) Following the merger, Avangrid holds a direct interest in UIL. Pursuant to the applications and approvals for the merger in the States of Connecticut and Massachusetts, Avangrid will transfer UIL and its subsidiaries to Iberdrola USA Networks.

\(^8\) On 2 January 2015, it transferred 100% of New Hampshire Gas Corporation in the State of New Hampshire.
Map of regulated companies in the United States

- Electricity Distribution and Transmission
- Gas
Avangrid and Iberdrola USA Networks are responsible for the effective supervision of the separation of activities of the regulated and liberalised business in the United States of America.

Finally, in Brazil, Elektro is the head of business company for Regulated Activities, and is controlled through the country subholding company Iberdrola Brasil. In that country, the Group also holds a 39% interest in the capital of Neoenergia, S.A., which in turn is the majority shareholder of Companhia de Electricidade do Estado da Bahia, S.A. ("Coelba"), Companhia Energetica do Rio Grande do Norte, S.A. ("Cosern") and Companhia Energética de Pernambuco, S.A. ("Celpe") (see map of Regulated Companies in Brazil).
The management of Elektro is shared between a Management Board and a Board of Directors, which also has its own Audit and Regulatory Compliance Committee and its own Internal Audit area.
5.

Specific Measures Adopted to Ensure Compliance with the Codes of Conduct in the Area of Separation of Activities
In order to ensure the effective functional separation of Regulated Companies from Liberalised Companies and comply with the legally established independence standards, the Group has adopted the following measures:

5.1. Measures relating to the Differentiation of Companies within the Iberdrola Group

Regulated Companies have company names that are sufficiently differentiated from those of the Liberalised Companies, all of which contain a reference to the regulated activity that is the object of the company.\(^9\)

In Spain, this provision is expressly set forth in the *Code for the Separation of Activities of Iberdrola España*.

In compliance with applicable regulations, Regulated Companies engaged in the Regulated Activities of electricity distribution and transmission in the United Kingdom use a brand (“*SP Energy Networks*”) that must be differentiated from that of Liberalised Companies.

Although applicable provisions allow Avangrid and Iberdrola USA Networks to use the same brand for both Regulated and Liberalised Activities, Liberalised Companies in the United States do not use the specific names of the Regulated Companies.

Such differentiation also exists between Regulated and Liberalised Companies in Brazil.

Furthermore, none of the Regulated Companies hold shares in Liberalised Companies.

\(^9\) The attached *Annex* includes a table with a description of the object of the Regulated Companies.
5.2. Measures relating to the Provision of Common Services

The provision of corporate services to the various companies of the Iberdrola Group is always provided pursuant to an appropriate corporate services agreement which in any event guarantees compliance with legal provisions on the separation of activities applicable in each country.

In Spain, the provision of common support and assistance services to the companies belonging to the Iberdrola España group during financial year 2015 was carried out under a master services agreement to which various companies of such group, including Iberdrola Distribución Eléctrica, adhered, which agreement provided for the specific services to be provided to each company.

The accession commitments signed for such purposes expressly guarantee to Regulated Companies effective decision-making capacity regarding the services the management of which they entrust to Iberdrola España and that the rules of the Code for the Separation of Activities are considered part of the text of the agreement, subject to the provision that the rights and obligations arising under the services agreement may not be enforced upon terms that contradict or ignore them.

In the United Kingdom, SPEN signs a corporate services agreement each year with Scottish Power in favour of SPPS, SPT, SP Manweb, and SP Distribution, among others.

Iberdrola USA Management Corporation is a subsidiary of Iberdrola USA Networks, which provides corporate services to the Regulated and Liberalised Companies of Iberdrola USA Networks in accordance with cost allocation standards established to determine the price of the services in the corresponding services agreements, in full compliance with federal legislation, the Public Service Law of New York, and the Public Utilities Act of Maine.

In Brazil, a corporate services agreement was executed on 1 October 2012 between Elektro and the country subholding company Iberdrola Brasil for the current statutory maximum term of four years. Elektro and Elektro Comercializadora Ltda have been linked since before their inclusion within the Group by a services and infrastructure sharing agreement, with an indefinite term, for the provision of corporate services by Elektro to Elektro Comercializadora Ltda, which was approved by the National Electrical Energy Agency (Agência Nacional de Energia Elétrica) on 26 December 2003.
5.3. Organisational Measures

In Spain, the Code for the Separation of Activities requires an organisational structure in which none of the persons responsible for the management of Regulated Companies is responsible for the day-to-day management of Liberalised Companies.

The decision-making scope of the Board of Directors of Iberdrola Distribución Eléctrica covers all matters that are not expressly allocated to the shareholders acting at a General Shareholders’ Meeting, whose powers in no event allow interference in the management of these companies by IBERDROLA or by other companies of the Group.

In accordance with this framework of powers, Iberdrola Distribución Eléctrica itself has the power to establish an organisational structure independent from the other companies of the Group, including the appointment of persons responsible for management, as well as the structure of powers required to carry out the management of its business activities.

In the United Kingdom, SPEN is responsible for the effective administration and day-to-day management of the Regulated Activities of Scottish Power. SP Distribution, SP Manweb, and SPT are the companies that own the facilities relating to regulated activities (electric power stations and cables, among others) and the companies holding licences for the distribution and transmission of electricity. SPPS is in charge of managing the obligations contracted by the licensee companies in accordance with the terms of the distribution and transmission licences (hiring of suppliers, hiring of personnel, among others).

As mentioned above, Avangrid is the country subholding company in the United States of America, and the parent of both Regulated Companies and Liberalised Companies. Avangrid ensures that its subsidiaries have separate activities compliance programmes and are responsible for the required separation of activities. Its subsidiaries UIL and Iberdrola USA Networks, which are parents of Regulated Companies, have their own compliance programmes to ensure compliance with the requirements of the Regulated Companies. Avangrid’s subsidiaries Iberdrola Renewables and Iberdrola Energy Holdings also have their own compliance programmes to ensure compliance with the requirements of separation of activities.

In Brazil, Elektro has an organisational structure that is independent of the other companies and is the one that manages the regulated business directly in its concession area.
5.4. Measures Aimed at the Protection of the Functional Independence of the Persons Responsible for the Management of Regulated Companies

In Spain, in order to ensure that the independence of the company is fully effective, the legal representation of Iberdrola Distribución Eléctrica is expressly vested in the Board of Directors as well as in its chairman, and if appropriate and if so decided by the Board of Directors, in the Executive Committee and in the chief executive officer (article 28 of the By-Laws).

All resolutions for the appointment and withdrawal of members of the Board of Directors of Iberdrola Distribución Eléctrica must be adopted after a favourable report from the Audit and Compliance Committee of Iberdrola España, which is responsible for ensuring the competence of the candidates proposed with a view to an effectively independent management of Regulated Companies (article 12.a of the Code for the Separation of Activities).

The other persons responsible for management have been appointed by the Board of Directors of Iberdrola Distribución Eléctrica and have sufficient powers to perform the tasks with which they are charged, in line with the powers of attorney granted to them, which are duly registered with the Commercial Registry, allowing them to exercise effective decision-making independent of the Iberdrola Group.

At Iberdrola Distribución Eléctrica:
- none of the Persons Responsible for Management may directly or indirectly hold shares in Liberalised Companies;
- none of the Persons Responsible for Management may participate in the organisational structures for the day-to-day management of Liberalised Companies;
- Iberdrola Distribución Eléctrica itself must establish the remuneration that the Persons Responsible for Management receive for the duties they perform at such company; and
- such remuneration must not depend on the results from the Liberalised Activities.

In the United Kingdom, the Utilities Act of 2000 requires companies to create separate companies for the distribution and supply businesses. This is reflected in the legal structure of the Scottish Power Group. SPEN, which is the holding company of the Scottish Power Group’s regulated network companies, is responsible for the day-to-day management of Regulated Activities within Scottish Power, and has its own Board of Directors, which is made up of directors who do not have responsibilities within other areas of Scottish Power, including Liberalised Activities, in order to strengthen the separation of activities, as explained above. In addition, the Board of Directors of SPEN has two non-executive directors, and the Boards of Directors of the regulated companies have two “Sufficiently Independent Directors”, pursuant to the terms of the licences.
For its part, Iberdrola USA Networks has adopted the requirements imposed by orders of the Public Service Commission of the State of New York, pursuant to which the directors of Iberdrola USA Networks may be directors but in no case perform executive duties within the Regulated Companies. Iberdrola USA Networks has its own Board of Directors, including independent directors, and its own Audit and Compliance Committee with a majority of independent directors, as well as a chairman who is also an independent director. Furthermore, in any event, Regulated and Liberalised Companies in the United States have different directors and officers.

In Brazil, the regulator ANEEL allows companies of the same Group to share a chief executive officer, which does not affect the separation of activities, although a regulatory resolution put forward by ANEEL is currently subject to public consultation regarding this issue which, if approved in its current form, would affect the possibility of sharing infrastructures and management personnel between differentiated segments of activity.
5.5. Measures Aimed at the Protection of Commercially Sensitive Information

Pursuant to article 14.2 of the Code for the Separation of Activities, Iberdrola Distribución Eléctrica and its employees, officers, and directors are prohibited from sharing Commercially Sensitive Information with Liberalised Companies or with the personnel attached thereto.

Furthermore, article 38.2 b) of the By-Laws of Iberdrola Distribución Eléctrica expressly prohibits its directors from “sharing commercially sensitive information relating to the Company or its subsidiaries or affiliates with companies that carry out liberalised activities within the Iberdrola Group”.

In order to at all times accurately identify the scope of Commercially Sensitive Information held by Iberdrola Distribución Eléctrica, it selects such information and adopts the measures required to maintain the confidentiality thereof.

In the area of information technology, there has been a verification of the existence of systems for restricted access to Commercially Sensitive Information of Iberdrola Distribución Eléctrica, as well as the existence of measures designed to ensure that such information is not accessible from external systems.

In the United Kingdom, the distribution and transmission licences of the Regulated Companies (SP Distribution, SPT, and SP Manweb) have specific provisions regarding confidentiality, requiring the establishment of policies and personnel training to ensure that the employees of the Liberalised Companies of Scottish Power do not have access to or share any confidential information of the Regulated Companies regarding third parties or their customers. In addition, separation controls have been put in place covering physical and computer access to information technology systems shared by Scottish Power’s Liberalised and Regulated Companies.

At Avangrid, there are policies that prohibit employees of Regulated Companies from sharing Commercially Sensitive Information, including data on planning, operations, and customers, with employees of the Liberalised Companies.

Both electronic and physical access to such information is controlled by means of limits, restrictions, and separate networks, as well as through appropriate security procedures.

In Brazil, Elektro has policies prohibiting employees from sharing customer information, and both electronic and physical access to such information is controlled by means of specific internal controls and security procedures. The contracts signed by Elektro contain clauses regarding the confidentiality of its information.
5.6. Measures for Dissemination of the Codes of Conduct

The Code for the Separation of Activities is published in the employee’s portals and on the corporate websites of Iberdrola Distribución Eléctrica and Iberdrola España. The approval thereof was communicated to all employees of Iberdrola Distribución Eléctrica by e-mail.

The Code of Ethics, as well as the specific codes of conduct of each company, are also published on the respective employee information portals and websites of Iberdrola, Scottish Power, Avangrid, and Elektro.

In Spain, there are training activities on the Code of Ethics and there is also specific training on separation of activities.

In the United Kingdom and the United States, actions have been taken to emphasise the importance of maintaining the confidentiality of information and to avoid discrimination against producers and suppliers. In the United Kingdom, the employees have received training in the Code of Ethics. Every year, Iberdrola USA Networks provides training in the Code of Ethics for all its employees, and Avangrid (formerly, “Iberdrola USA”) provides specific yearly training both on the separation of activities and on market rules for all employees who take part in Regulated and Liberalised Activities.

In Brazil, Elektro also provides annual training to and conducts communication campaigns among its employees on the Code of Ethics.

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10 As set forth above, Avangrid has had its own code of conduct and ethics since 16 December 2015.
6. Evaluation processes
In Spain, the person charged with evaluating compliance and effectiveness of the Code for the Separation of Activities is the compliance officer of Iberdrola España. This evaluation provides the basis for the preparation of the Annual Report on Compliance with the Code for the Separation of Activities of the Companies of the Iberdrola España Group Carrying Out Regulated Activities, the content and results of which are reported to the Board of Directors of Iberdrola Distribución Eléctrica.

The Annual Report on Compliance with the Code for the Separation of Activities of the Companies of the Iberdrola España Group Carrying Out Regulated Activities for 2015 will be submitted to the Board of Directors of Iberdrola España on 15 February 2016 for it to be advised thereof after a favourable report from its Audit and Compliance Committee. The report is sent to the Ministry of Industry, Energy, and Tourism and to the National Markets and Competition Commission, and is published in accordance with applicable legal provisions.

Scottish Power has a compliance programme and has appointed its own compliance officer with duties in the area of separation of activities, who has direct access to the Audit and Compliance Committee. The transmission and distribution licences of the Regulated Companies in the United Kingdom also require the appointment of a compliance officer. At Scottish Power, a compliance officer has been appointed for such purposes.

The compliance officer of Scottish Power prepares a Compliance Officer Report that is submitted to the Board of Directors of SPEN, describing the procedures implemented to ensure compliance with the requirements of its licences in the area of separation of activities and of which the Audit and Compliance Committee of Scottish Power was advised at its July 2015 meeting. In addition, SPEN prepares a Business Separation Compliance Annual Report, regarding the effectiveness of the practices, procedures, and systems adopted, which is submitted to OFGEM by the regulated companies and regarding any required improvement action. In June 2015, the Board of Directors of SPEN approved the Business Separation Compliance Annual Report for the period from April 2014 through March 2015. This report is published on the website of Scottish Power.
Avangrid has a compliance programme in place and has appointed its own compliance officer with duties in the area of separation of activities and who has direct access to the chief executive officer, the Audit and Compliance Committee, and the Board of Directors. The Regulations of the Audit and Compliance Committee of Avangrid provide that said committee is responsible for supervising the application of such compliance programme and that it must meet at least twice per year with the compliance officer of Avangrid. The compliance officer ensures effective application of the compliance programme and compiles an annual report on the separation of activities that is submitted to the Audit and Compliance Committee, which in turn submits it to the Board.

The Report on the Separation of Activities for 2015 is submitted to the Board of Directors of Avangrid, after a report from its Audit and Compliance Committee.

Iberdrola USA Networks also has a compliance programme for the regulated business in the United States of America, as well as its own compliance officer with duties in the area of separation of activities and who has direct access to the chief executive officer, the Audit and Compliance Committee, and the Board of Directors. The Regulations of the Audit and Compliance Committee of Iberdrola USA Networks also provide that said committee is responsible for supervising the application of its compliance programme and must meet at least twice a year with the compliance officer of Iberdrola USA Networks. The compliance officer ensures effective application of the compliance programme and compiles an annual report on the separation of activities that is submitted to the Audit and Compliance Committee, which in turn submits it to the Board.

The Report on the Separation of Activities for 2015 is sent to the Board of Directors of Iberdrola USA Networks, after a favourable report from its Audit and Compliance Committee.

Iberdrola Renewables, LLC also has a compliance programme in place and has appointed its own compliance officer with duties in the area of separation of activities and who has direct access to the chief executive officer, the Audit and Compliance Committee, and the Board of Directors of this company. The Regulations of the Audit and Compliance Committee of Iberdrola Renewables also provide that said Committee is responsible for supervising the application of its compliance programme and must meet at least twice a year with the compliance officer of that company. The compliance officer ensures effective application of the compliance programme and compiles an annual report on the separation of activities that is submitted to the Audit and Compliance Committee, which in turn submits it to the Board.

The Report on the Separation of Activities for 2015 is sent to the Board of Directors of Iberdrola USA Renewables, LLC, after a favourable report from its Audit and Compliance Committee.
Iberdrola Energy Holdings, LLC also has a compliance programme in place and has appointed its own compliance officer with duties in the area of separation of activities and who has direct access to the chief executive officer and the Board of Directors. The compliance officer ensures effective application of the compliance programme and compiles an annual report on the separation of activities that is submitted to the Board of Directors.

The Report on the Separation of Activities for 2015 is sent to the Board of Directors of Iberdrola USA Energy Holdings, LLC.

UIL also has a compliance officer with duties in the area of separation of activities and who has direct access to the chief executive officer and the Board of Directors.

In Brazil, Elektro also has a compliance officer charged with ensuring regulatory compliance, with duties in the area of separation of activities, who reports directly to the company’s Audit and Regulatory Compliance Committee and issues an annual report on the separation of activities, although applicable legal provisions in Brazil do not require the issuance of annual reports on this matter.

The evaluation processes carried out in 2015 did not show breaches of the regulations applicable to the separation of activities in any material respect.
7.

Issuance of Annual Report on Compliance with Legal Provisions on the Separation of Regulated Activities within the Iberdrola Group
Pursuant to the provisions of article 8 of the Regulations of the Compliance Unit, based on the information provided by the Compliance Divisions referred to above, the Company’s compliance officer issues this report, the content of which has been reported to the Compliance Unit at its meeting of 9 February 2016.

Once the Corporate Social Responsibility Committee has issued its favourable opinion on this report, it has been transmitted to the Company’s Board of Directors for it to be advised hereof.
Annex 1

Object of the Main Regulated Companies
<table>
<thead>
<tr>
<th>Company</th>
<th>Object</th>
<th>Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBERDROLA Distribución Eléctrica, S.A. Unipersonal</td>
<td>The performance of all kinds of activities, works, and services inherent or relating to the business of electricity transmission, supply, and third-party access to the electricity network, always subject to the provisions of the laws applicable to the electricity industry at any given time.</td>
<td>Avenida San Adrián 48, Bilbao (Biscay), CP 48003 Spain</td>
</tr>
<tr>
<td>SP Distribution Plc.</td>
<td>Ownership and management of electricity distribution networks in areas of central and southern Scotland.</td>
<td>1 Atlantic Quay Glasgow, Scotland G2 8SP United Kingdom</td>
</tr>
<tr>
<td>SP Transmission Plc.</td>
<td>Ownership and management of electricity transmission networks in areas of central and southern Scotland and of interconnections with other energy transmission systems in Northern Ireland, England, and Wales.</td>
<td>1 Atlantic Quay Glasgow, Scotland G2 8SP United Kingdom</td>
</tr>
<tr>
<td>SP Manweb Plc.</td>
<td>Ownership and management of electricity distribution networks in areas of Mersey, Cheshire, and northern Wales.</td>
<td>3 Prenton Way Prenton, Cheshire CH 43 3ET United Kingdom</td>
</tr>
<tr>
<td>New York State Electric &amp; Gas Corporation</td>
<td>Ownership and management of electricity and gas distribution networks in New York State.</td>
<td>89 East Avenue Rochester, New York 14649 United States</td>
</tr>
<tr>
<td>Company Name</td>
<td>Ownership and management of energy networks</td>
<td>Address</td>
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<tr>
<td>Rochester Gas and Electric Corp.</td>
<td>Ownership and management of electricity and gas distribution networks in northern New York State.</td>
<td>89 East Avenue Rochester, New York 14649 United States</td>
</tr>
<tr>
<td>Central Maine Power Company</td>
<td>Ownership and management of electricity distribution networks in areas of central and southern Maine.</td>
<td>83 Edison Drive Augusta, Maine 04336 United States</td>
</tr>
<tr>
<td>Maine Electric Power Co. Inc.</td>
<td>Ownership and management of electricity transmission networks on the US-Canada border.</td>
<td>52 Farm View Drive New Gloucester, Maine 04260 United States</td>
</tr>
<tr>
<td>The Berkshire Gas Company</td>
<td>Ownership and management of natural gas transmission and distribution networks and sale in western Massachusetts.</td>
<td>115 Cheshire Road Pittsfield, MA 01201 United States</td>
</tr>
<tr>
<td>The Southern Connecticut Gas Co.</td>
<td>Ownership and management of natural gas transmission and distribution networks and sale in southern Connecticut.</td>
<td>60 Marsh Hill Road Orange, CT 06108 United States</td>
</tr>
<tr>
<td>Connecticut Natural Gas Corp.</td>
<td>Ownership and management of natural gas transmission and distribution networks and sale in central Connecticut.</td>
<td>77 Hartland Street East Hartford, CT 06108 United States</td>
</tr>
<tr>
<td>The United Illuminating Company</td>
<td>Ownership and management of electricity transmission and distribution networks in central and southern Connecticut.</td>
<td>180 Marsh Hill Road, Orange, CT 06477, United States</td>
</tr>
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</tr>
<tr>
<td>Elektro Electricidade e Serviços, S.A.</td>
<td>Study, planning, projection, construction, and operation of energy distribution systems.</td>
<td>Rua Ary Antenor de Souza, 321 Jd., Nova América, Campinas - São Paulo, 13053-024 Brazil</td>
</tr>
</tbody>
</table>