Iberdrola's Public Information

To provide our shareholders, employees, customers, suppliers, and society in general with trustworthy and relevant information regarding the Company's performance and its strategic lines for the coming years.

Annual Information

• Integrated Report
  Prepared based on the recommendations of the International Integrated Reporting Council (IIRC).

• Financial Report
  Prepared according to international financial reporting standards and externally audited.

• Corporate Governance Report
  Prepared according to the form provided by the National Securities Market Commission of Spain.

• Sustainability Report
  Prepared according to the Global Reporting Initiative (GRI) guidelines and externally assured.

• Report of the Consultative Committees of the Board of Directors
  Prepared according to Iberdrola internal standards.

• Director Remuneration Report
  Prepared according to Iberdrola internal standards.

• Report on Compliance with the Code for the Separation of Activities
  Prepared according to Iberdrola internal standards.

Additional Information

• Quarterly Results Report
• IBE Watch Fact Sheet
• Quarterly Shareholder Bulletin
• Innovation Report
• Biodiversity Report
• Greenhouse Gas Report

Information on the Corporate Website
www.iberdrola.com

• About Us
• Reputation and Sustainability
• Press Room
• Shareholders and Investors
• Customers
• Suppliers
• Networks

Access the 2014 annual reports and get further information on the Iberdrola group by scanning the corresponding QR code using your smartphone or tablet.
Your energy, our energy.

Comfort for homes
Our goal is to offer a reliable, high-quality, and environmentally-friendly energy supply.

Innovation for infrastructure
Improve the well-being of people.

Sustainability for the future
Drive the economic and social development of the communities in which we are present.

Competitiveness for companies
Create sustainable value for our shareholders, employees, customers, and suppliers.
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Dear friends:

I am pleased to present to you, for the second consecutive year, Iberdrola’s Integrated Report, which sets forth the most significant future risks and opportunities for the company, as well as the strategy we have designed to face them, whilst maximising our positive impacts on stakeholders and in all of the societies in which we operate.

For that reason, Iberdrola will continue to engage in business in accordance with a sustainable business model, based on the long term, geographic diversification, a focus on regulated activities, the quality of our assets, efficiency, and financial strength. We will do so whilst making a special effort in the ongoing promotion of ethics, transparency, good governance, innovation, and inclusion. Our goal is to continue sharing our capabilities with all of society, and to generate trust through continuous dialogue and engagement with our stakeholders.

With this model, we hope to continue being one of the leading utilities worldwide, which currently produces and supplies electricity—cleanly, reliably, and responsibly—to approximately one hundred million people, primarily in the United Kingdom, the United States of America, Mexico, Brazil, and Spain, whilst fostering their economic and social development at the same time.

For that purpose, we expect to continue progress in achieving the goals that we set out in the Outlook 2014-2016. One example of our path to compliance is the results obtained in 2014, during which gross operating income (EBITDA) increased by 3.1% compared to the previous year—to the sum of 6,965 million euros—while net profit came to 2,327 million euros, in both cases surpassing the estimates we had made and which we made public on Investor Day in February 2014.

We also expect to continue building our financial strength, as we did last year, when we reduced debt by more than 1,492 million euros, to 25,344 million euros*, which allowed us to reduce the net debt/EBITDA ratio to 3.6x, from 4x in 2013. This meant a big step towards our goal of bringing net debt to 25,000 million euros by year-end 2016 and of achieving a net debt/EBITDA ratio below 3.5x. All of this will allow us to continue maintaining our commitment to shareholder compensation, which in 2014 was 0.27 euro per share, reaching a total shareholder return** of 30.1% for the year.

Economic and social contribution and impact

At the same time, we are continuing to maximise our economic and social impact in the communities in which we operate by means of investments worth 11,200 million euros through 2016 (some 3,000 million euros in 2014), mainly for electricity transmission and distribution networks, and clean energy; and procurement in an amount of more than 5,000 million euros annually.

Furthermore, we will continue contributing to public coffers with a volume of direct taxes that last year amounted to 5,500 million euros (10,500 million*** if we add indirect and induced contributions). We

“We will continue maximising our economic and social contribution and impact in the communities in which we operate”.

Ignacio S. Galán
Chairman of Iberdrola
will also continue our wager on the maintenance and creation of stable high-quality employment, especially among younger persons. Today, Iberdrola gives direct, indirect, or induced employment to 350,000*** people all over the world.

The management of human capital will continue to be a priority for the company, in areas such as: training (with more than a million annual hours for employees (3% of working hours) and an international youth scholarship programme); professional promotion; and equality (progressive equivalence between men and women in the workforce).

We will also continue encouraging the reconciliation of family and professional life; international mobility; and job safety (with a goal of 0 accidents). Our objective is to continue increasing team pride and employee satisfaction, which during the last labour climate survey received a rating of approximately 8 out of 10.

Furthermore, R&D+i at Iberdrola (to which we allocated 170 million euros in 2014 alone) will continue to be focused on efficiency, sustainability, and the development of new products and services. We expect to continue to be at the head of the most innovative utilities in Europe, as the European Commission has recently certified.

In addition—as I already mentioned— we are going to further intensify our policy of dialogue and engagement with our stakeholders: employees, customers, suppliers, and especially our shareholders: more than 600,000 –many of them pensioners. Along these lines, our investors will continue to be at the centre of our Corporate Governance System, which we will continue to conform to the best domestic and international practices to strengthen our leadership in this area. At the same time, ethics and compliance will continue to be absolutely priority aspects at Iberdrola, both for our internal management and throughout the supply chain.

Care for the environment
As regards our contribution to caring for the environment, even though our emissions per kWh are already 30% less than the average for the European electricity sector, we have set goals for a 30% reduction in the intensity of our emissions by 2020 as compared to 2007, and to be carbon neutral by 2050. Together with this, we will continue minimising the environmental impact of our facilities and launching initiatives to support the biodiversity of our surroundings, such as with bird protection.

Finally, we will continue with our commitment to support art and culture, through illumination, restoration, exhibitions, etc. And we will especially drive our social action programmes directed towards improving the quality of life for persons in situations of vulnerability or social exclusion, as we have been doing in recent years. One example of this is the Electricity for All Programme (Programa electricidad para todos), which was launched in 2014 to strengthen activities promoting access to electricity in emerging and developing countries. Our challenge in future years will be to continue staying at the forefront of the leading sustainability indices, such as Dow Jones Sustainability, FTSE4Good, Oekom and Carbon Disclosure, among others.

This way, we can continue to create value for all of our stakeholders – our shareholders, employees, customers, suppliers... – and contribute to progress in all of the territories in which we operate. Because Iberdrola serves society and, more importantly, the well-being of people.

* As adjusted by the dividend paid in December.
** Total shareholder return (TSR): includes the dividends received by the shareholders and the increase in price of the shares.
*** Annual impact estimated by Analistas Financieros Internacionales (AFI), based on Iberdrola’s business during the 2009-2013 period.
Iberdrola today

Lempster Wind Farm in New Hampshire / United States of America
1.1 Iberdrola today

Our activities

- Production of electricity from renewable and conventional sources.
- Purchase/sale of electricity and gas on wholesale markets.
- Transmission and distribution of electricity.
- Supply of electricity, gas, and related energy services.
- Other activities, mainly linked to the energy sector.

Iberdrola is one of the leading electric companies in the world.

What we are

The process of internationalisation carried out in recent years has made the Iberdrola of today one of the leading electric companies, and among the largest utilities in the world by stock market capitalisation.

The corporate and governance structure is described in chapter 5.1 of this report and consists of:

- Iberdrola, as a holding company.
- Country subholding companies in the 5 main geographical areas of activity.
- Heads of business companies reporting to the country subholding companies.

Presence focused on the Atlantic area

Iberdrola carries out its activities mainly in the five countries of the Atlantic area: Spain, the United Kingdom, the United States of America, Mexico, and Brazil.

Iberdrola Group

2014 Data

Iberdrola Group

- 45,089 MW Installed capacity
- 14,652 MW Renewable installed capacity
- 138,892 GWh Net output
- 214,613 GWh Electric power distributed
- 32.6
- 29,597 People (1) Direct employment
- 350,000 People (2) Indirect and induced employment
- 10,500 €M Tax contribution
  (€M 5,500 direct + €M 5,000 (2) indirect and induced)
- 5,408 €M Awarded Procurement
- 2,848 €M Investments

(1) At 31 December 2014.
(2) Annual impact estimated by Analistas Financieros Internacionales (AFI), based on Iberdrola’s business during the 2009-2013 period.
1.2 Company performance

*Note: Due to legal requirements, Iberdrola has applied international financial reporting standard IFRS-11 to the financial information for the financial years 2013 and 2014, which aspect should be taken into account in evaluating the historical performance of the Company.
## 1.3 Key figures

### Financial performance (€M)

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Δ Annual average 2010-14</th>
<th>Δ 2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>30,431.0</td>
<td>31,648.0</td>
<td>34,201.2</td>
<td>31,077.1</td>
<td>30,032.3</td>
<td>-0.3%</td>
<td>-3.4%</td>
</tr>
<tr>
<td>Consolidated gross margin</td>
<td>11,645.2</td>
<td>12,025.8</td>
<td>12,578.1</td>
<td>11,781.9</td>
<td>12,179.5</td>
<td>1.1%</td>
<td>3.4%</td>
</tr>
<tr>
<td>Consolidated ebitda</td>
<td>7,528.0</td>
<td>7,650.8</td>
<td>7,726.6</td>
<td>6,759.6</td>
<td>6,648.5</td>
<td>-1.9%</td>
<td>3.1%</td>
</tr>
</tbody>
</table>

### Financial performance (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Δ Annual average 2010-14</th>
<th>Δ 2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ebitda - Outside eurozone (%)</td>
<td>47.1</td>
<td>48.3</td>
<td>51.0</td>
<td>49.5</td>
<td>54.0</td>
<td>3.7%</td>
<td>9.1%</td>
</tr>
<tr>
<td>Ebitda margin (Ebitda/sales) (%)</td>
<td>24.7</td>
<td>24.2</td>
<td>22.6</td>
<td>21.7</td>
<td>23.2</td>
<td>-1.5%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Net profit margin (Net Profit/Sales) (%)</td>
<td>9.4</td>
<td>8.9</td>
<td>8.3</td>
<td>8.3</td>
<td>7.7</td>
<td>-4.5%</td>
<td>-7.2%</td>
</tr>
<tr>
<td>NOE/Gross margin (%)</td>
<td>29.1</td>
<td>29.2</td>
<td>30.1</td>
<td>29.4</td>
<td>29.8</td>
<td>0.6%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Net financial debt/ebitda (multiple)</td>
<td>3.99</td>
<td>4.14</td>
<td>3.92</td>
<td>3.97</td>
<td>3.68</td>
<td>-1.9%</td>
<td>-7.3%</td>
</tr>
</tbody>
</table>

### Financial ratios

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<td>29.2</td>
<td>30.1</td>
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<td>3.97</td>
<td>3.68</td>
<td>-1.9%</td>
<td>-7.3%</td>
</tr>
</tbody>
</table>

### Stock market performance

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Δ Annual average 2010-14</th>
<th>Δ 2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock market capitalisation (€M)</td>
<td>31,631</td>
<td>28,465</td>
<td>25,753</td>
<td>28,922</td>
<td>35,756</td>
<td>3.3%</td>
<td>23.6%</td>
</tr>
<tr>
<td>Number of shares at year-end (millions)</td>
<td>5,484</td>
<td>5,882</td>
<td>6,139</td>
<td>6,240</td>
<td>6,388</td>
<td>4.1%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Share price (€)</td>
<td>5.77</td>
<td>4.84</td>
<td>4.20</td>
<td>4.63</td>
<td>5.60</td>
<td>-0.7%</td>
<td>20.9%</td>
</tr>
<tr>
<td>Earnings per share (EPS)</td>
<td>0.52</td>
<td>0.47</td>
<td>0.45</td>
<td>0.41</td>
<td>0.36</td>
<td>-7.7%</td>
<td>-12.2%</td>
</tr>
<tr>
<td>Dividend per share (DPS)</td>
<td>0.34</td>
<td>0.34</td>
<td>0.34</td>
<td>0.31</td>
<td>0.27</td>
<td>-4.8%</td>
<td>-11.3%</td>
</tr>
<tr>
<td>Dividend yield (%)</td>
<td>5.93</td>
<td>6.96</td>
<td>8.13</td>
<td>6.65</td>
<td>4.91</td>
<td>-4.3%</td>
<td>-26.2%</td>
</tr>
</tbody>
</table>

### Sustainability report

*Note: Due to legal requirements, Iberdrola has applied international financial reporting standard IFRS-11 to the financial information for the financial years 2013 and 2014, which aspect should be taken into account in evaluating the historical performance of the Company.*
## Operating performance

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Δ Annual average 2010-14</th>
<th>Δ 2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Installed Capacity (MW)</td>
<td>45,454</td>
<td>46,918</td>
<td>46,950</td>
<td>44,992</td>
<td>45,089</td>
<td>-0.2%</td>
<td>0.2%</td>
</tr>
<tr>
<td>Net output (GWh)</td>
<td>158,858</td>
<td>151,050</td>
<td>139,832</td>
<td>136,435</td>
<td>138,892</td>
<td>-3.1%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Electrical power distributed (GWh)</td>
<td>200,239</td>
<td>204,843</td>
<td>214,042</td>
<td>214,873</td>
<td>214,613</td>
<td>1.8%</td>
<td>-0.1%</td>
</tr>
</tbody>
</table>

## Environmental performance

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Δ Annual average 2010-14</th>
<th>Δ 2013-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emission-free installed capacity (%)</td>
<td>57.3</td>
<td>58.2</td>
<td>59.4</td>
<td>61.2</td>
<td>61.9</td>
<td>0.4%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Renewable energy installed capacity (%)</td>
<td>27.9</td>
<td>29.7</td>
<td>30.5</td>
<td>31.6</td>
<td>32.5</td>
<td>1.6%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Emission-free production (%)</td>
<td>47.8</td>
<td>48.8</td>
<td>51.9</td>
<td>54.6</td>
<td>56.8</td>
<td>0.9%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Renewable energy production (%)</td>
<td>16.5</td>
<td>19.8</td>
<td>23.6</td>
<td>24.9</td>
<td>24.4</td>
<td>5.0%</td>
<td>20.0%</td>
</tr>
<tr>
<td>Specific CO₂ emissions (t/GWh)</td>
<td>259</td>
<td>248</td>
<td>264</td>
<td>226</td>
<td>212</td>
<td>-1.0%</td>
<td>-3.9%</td>
</tr>
<tr>
<td>Fuel consumption (M Tep)</td>
<td>21,994</td>
<td>20,172</td>
<td>19,236</td>
<td>19,824</td>
<td>18,849</td>
<td>-2.1%</td>
<td>-8.3%</td>
</tr>
<tr>
<td>Environmental investments (€M)</td>
<td>142.4</td>
<td>1,297.6</td>
<td>1,062.4</td>
<td>1,015.7</td>
<td>1,100.9</td>
<td>202.8%</td>
<td>811.2%</td>
</tr>
<tr>
<td>Environmental expenses (€M)</td>
<td>149.7</td>
<td>261.3</td>
<td>723.3</td>
<td>686.4</td>
<td>635.7</td>
<td>18.6%</td>
<td>74.5%</td>
</tr>
<tr>
<td>Energy produced under certified environmental management systems (%)</td>
<td>88.7</td>
<td>87.6</td>
<td>85.2</td>
<td>84.4</td>
<td>85</td>
<td>-0.3%</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Water use/overall production (m³/GWh)</td>
<td>645</td>
<td>620</td>
<td>699</td>
<td>976</td>
<td>509</td>
<td>-1.0%</td>
<td>-3.9%</td>
</tr>
<tr>
<td>Direct CO₂ emissions. Scope 1 (kt)</td>
<td>39,939</td>
<td>36,193</td>
<td>35,461</td>
<td>31,846</td>
<td>30,217</td>
<td>-2.3%</td>
<td>-9.4%</td>
</tr>
<tr>
<td>Indirect CO₂ emissions. Scope 2 (kt)</td>
<td>1,358</td>
<td>1,156</td>
<td>2,122</td>
<td>1,544</td>
<td>1,544</td>
<td>-3.7%</td>
<td>-14.9%</td>
</tr>
<tr>
<td>CO₂ avoided due to efficiency initiatives (kt)</td>
<td>25,188</td>
<td>37,462</td>
<td>24,014</td>
<td>18,480</td>
<td>21,459</td>
<td>12.2%</td>
<td>48.7%</td>
</tr>
<tr>
<td>SO₂ emissions (t/GWh)</td>
<td>0.397</td>
<td>0.295</td>
<td>0.366</td>
<td>0.219</td>
<td>0.154</td>
<td>-6.4%</td>
<td>-25.7%</td>
</tr>
<tr>
<td>NOₓ emissions (t/GWh)</td>
<td>0.302</td>
<td>0.276</td>
<td>0.334</td>
<td>0.262</td>
<td>0.236</td>
<td>-2.2%</td>
<td>-8.6%</td>
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</table>

## Social performance

<table>
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<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Δ Annual average 2010-14</th>
<th>Δ 2010-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Users (millions)</td>
<td>29.3</td>
<td>30.7</td>
<td>31.7</td>
<td>32.1</td>
<td>32.6</td>
<td>2.8%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Electrical power</td>
<td>25.8</td>
<td>27.5</td>
<td>28.1</td>
<td>28.5</td>
<td>29.0</td>
<td>3.1%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Spain</td>
<td>10.6</td>
<td>10.8</td>
<td>10.9</td>
<td>10.9</td>
<td>10.9</td>
<td>0.7%</td>
<td>0.4%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3.3</td>
<td>3.2</td>
<td>3.5</td>
<td>3.5</td>
<td>3.5</td>
<td>1.5%</td>
<td>0.3%</td>
</tr>
<tr>
<td>United States</td>
<td>1.8</td>
<td>1.9</td>
<td>1.8</td>
<td>1.8</td>
<td>1.8</td>
<td>0.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Latin America</td>
<td>10.1</td>
<td>11.7</td>
<td>11.9</td>
<td>12.4</td>
<td>12.8</td>
<td>6.7%</td>
<td>3.2%</td>
</tr>
<tr>
<td>Gas</td>
<td>3.5</td>
<td>3.3</td>
<td>3.6</td>
<td>3.6</td>
<td>3.6</td>
<td>0.9%</td>
<td>1.4%</td>
</tr>
<tr>
<td>Spain</td>
<td>0.6</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.3%</td>
<td>2.4%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.0</td>
<td>2.0</td>
<td>2.2</td>
<td>2.2</td>
<td>2.2</td>
<td>2.5%</td>
<td>0.0%</td>
</tr>
<tr>
<td>United States</td>
<td>0.9</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
<td>-8.3%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Number of employees</td>
<td>29,641</td>
<td>32,809</td>
<td>30,744</td>
<td>30,532</td>
<td>29,597</td>
<td>0.0%</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Permanent contracts (%)</td>
<td>98.0</td>
<td>98.0</td>
<td>98.0</td>
<td>98.5</td>
<td>98.5</td>
<td>0.1%</td>
<td>0.0%</td>
</tr>
<tr>
<td>Employees with collective bargaining agreement (%)</td>
<td>80.0</td>
<td>81.2</td>
<td>78.8</td>
<td>79.4</td>
<td>79.0</td>
<td>-0.3%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Employee turnover (%)</td>
<td>12.4</td>
<td>6.2</td>
<td>10.6</td>
<td>6.6</td>
<td>8.6</td>
<td>-7.7%</td>
<td>30.2%</td>
</tr>
<tr>
<td>Diversity (men/women)</td>
<td>75/25</td>
<td>77/23</td>
<td>76/24</td>
<td>76/24</td>
<td>77/23</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Ratio between basic entry level wage and local minimum wage (%)</td>
<td>143</td>
<td>162</td>
<td>151</td>
<td>154</td>
<td>161</td>
<td>3.2%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Incident rate (IR)</td>
<td>0.65</td>
<td>0.46</td>
<td>0.34</td>
<td>0.46</td>
<td>0.39</td>
<td>-10.0%</td>
<td>-15.2%</td>
</tr>
<tr>
<td>Hours of training (millions of hours)</td>
<td>1.02</td>
<td>1.25</td>
<td>1.12</td>
<td>1.2</td>
<td>1.0</td>
<td>0.2%</td>
<td>-14.2%</td>
</tr>
<tr>
<td>Hours of training per employee (h)</td>
<td>35.9</td>
<td>47.1</td>
<td>44.2</td>
<td>44.7</td>
<td>38.7</td>
<td>1.9%</td>
<td>-13.4%</td>
</tr>
<tr>
<td>Funds for social development (€M)</td>
<td>88.1</td>
<td>116.2</td>
<td>51.7</td>
<td>91.7</td>
<td>65.0</td>
<td>-6.6%</td>
<td>-29.1%</td>
</tr>
<tr>
<td>Contributions to society (€M)</td>
<td>32.6</td>
<td>34.7</td>
<td>37.7</td>
<td>31.6</td>
<td>34.0</td>
<td>1.1%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Rural electrification programmes (€M)</td>
<td>55.4</td>
<td>81.5</td>
<td>14</td>
<td>60</td>
<td>31</td>
<td>-11.0%</td>
<td>-48.4%</td>
</tr>
<tr>
<td>Investments in R&amp;D+i (€M)</td>
<td>130</td>
<td>136</td>
<td>145</td>
<td>159</td>
<td>170</td>
<td>7.7%</td>
<td>6.8%</td>
</tr>
<tr>
<td>General procurement (€M invoiced)</td>
<td>5,893</td>
<td>5,322</td>
<td>4,830</td>
<td>4,359</td>
<td>4,599</td>
<td>-2.1%</td>
<td>24.1%</td>
</tr>
<tr>
<td>Procurement from qualified suppliers (%)</td>
<td>98</td>
<td>78</td>
<td>84</td>
<td>87</td>
<td>92</td>
<td>-1.5%</td>
<td>6.3%</td>
</tr>
<tr>
<td>Number of suppliers with social responsibility standards</td>
<td>187</td>
<td>1,078</td>
<td>1,233</td>
<td>1,202</td>
<td>1,326</td>
<td>152.3%</td>
<td>10.3%</td>
</tr>
<tr>
<td>Procurement in sensitive countries per ILO (%)</td>
<td>N/A</td>
<td>9.9</td>
<td>8.9</td>
<td>12.0</td>
<td>10.7</td>
<td>N/A</td>
<td>-10.8%</td>
</tr>
<tr>
<td>Procurement from local suppliers (%)</td>
<td>92</td>
<td>91</td>
<td>90</td>
<td>86</td>
<td>87</td>
<td>-1.4%</td>
<td>1.2%</td>
</tr>
</tbody>
</table>
Iberdrola in Spain
Leading energy company.

2013 / 2014
GDP 1.4%
Electricity demand -1.2%

2014 Data
25,283
MW Installed capacity
6,109
MW Renewable installed capacity
61,052
GWh Net output
90,729
GWh Electric power distributed
266,024
Km Power lines
11.7
Millions of users
10,975
Employees
520
€M Investments
3,292
€M Direct tax contribution

Primary facilities

<table>
<thead>
<tr>
<th>Type</th>
<th>Number</th>
<th>Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wind farms</td>
<td>195</td>
<td>5,701 MW</td>
</tr>
<tr>
<td>Hydroelectric plants</td>
<td>119</td>
<td>8,807 MW</td>
</tr>
<tr>
<td>Mini-hydro plants</td>
<td>91</td>
<td>358 MW</td>
</tr>
<tr>
<td>Nuclear plants</td>
<td>6</td>
<td>3,410 MW</td>
</tr>
<tr>
<td>Combined cycle gas plants</td>
<td>8</td>
<td>5,695 MW</td>
</tr>
<tr>
<td>Cogeneration plants</td>
<td>21</td>
<td>388 MW</td>
</tr>
<tr>
<td>Solar plants</td>
<td>1</td>
<td>50 MW</td>
</tr>
<tr>
<td>Thermal plants</td>
<td>2</td>
<td>874 MW</td>
</tr>
</tbody>
</table>

Wholesale and Retail
Distribution
Engineering and Contraction
Property Development
Foundation
Iberdrola in the United Kingdom
Leading wind producer.
Third-leading network company.

2013 / 2014
GDP +2.6%
Electricity demand -6.1%

2014 Data
6,462
MW Installed capacity
1,627
MW Renewable installed capacity
18,920
GWh Net output
36,539
GWh Electric power distributed
104,078
Km Power lines
5.7
Millions of users
6,856
Employees
1,301
€M Investments
454
€M Direct tax contribution

Primary facilities

<table>
<thead>
<tr>
<th>Type</th>
<th>Quantity</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wind farms</td>
<td>32</td>
<td>1,626 MW</td>
</tr>
<tr>
<td>Hydroelectric plants</td>
<td>3</td>
<td>563 MW</td>
</tr>
<tr>
<td>Underwater power line (under construction)</td>
<td>1</td>
<td>418 KM</td>
</tr>
<tr>
<td>Marine energy</td>
<td>1</td>
<td>1 MW</td>
</tr>
<tr>
<td>Cogeneration plant</td>
<td>1</td>
<td>1 MW</td>
</tr>
<tr>
<td>Combined cycle gas plants</td>
<td>4</td>
<td>1,967 MW</td>
</tr>
<tr>
<td>Thermal plant</td>
<td>1</td>
<td>2,304 MW</td>
</tr>
</tbody>
</table>

Corporate offices
Electricity distribution
Area of influence

Foundation
Engineering and Construction
Renewables
Distribution
Corporate
Iberdrola in the United States
Second-leading wind producer.
Third-leading gas storage company.
Electricity and gas distributor in New York and Maine.

2013 / 2014

GDP +2.4%
Electricity demand -2.6%

2014 Data

6,479 MW Installed capacity
5,695 MW Renewable installed capacity
17,549 GWh Net output
33,335 GWh Electric power distributed
107,098 Km Power lines
2.4 Millions of users
2.4 BCM Gas storage capacity
5,057 Employees
673 €M Investments
459 €M Direct tax contribution

Primary facilities

Wind farms
5,590 MW
9 Hydroelectric plants
118 MW
1 Transmission line
708 KM
1 Biomass plant
55 MW
1 Cogeneration plant
636 MW
3 Combined cycle gas plants
30 MW
2 Photovoltaic plants
50 MW
4 Gas storage

Corporate
Renewables
Distribution and Retail
Engineering and construction
Gas storage
Iberdrola in Mexico
Leading private electricity producer.

2013 / 2014

GDP +2.1%
Electricity demand +1.5%

2014 Data

5,259
MW Installed capacity

231
MW Renewable installed capacity

35,928
GWh Net output

736
Employees

233
€M Investments

184
€M Direct tax contribution

Primary facilities

5
Wind farms
231 MW

2
Cogeneration plants
201 MW

6
Combined cycle gas plants
4,827 MW

Wholesale

Engineering and Construction
Iberdrola in Brazil
Leading distributor in Brazil by number of customers.

2013 / 2014
GDP +0.1%
Electricity demand +2.3%

2014 Data
862 MW Installed capacity
245.5 MW Renewable installed capacity
3,987 GWh Net output
54,010 GWh Electric power distributed
556,949 Km Power lines
12.8 Millions of users
5,818 Employees
96 €M Investments
1,009 €M Direct tax contribution

Primary facilities

<table>
<thead>
<tr>
<th>Wind farms</th>
<th>Hydroelectric plants</th>
<th>Cogeneration plants</th>
<th>Combined cycle gas plant</th>
</tr>
</thead>
<tbody>
<tr>
<td>11</td>
<td>11</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>246 MW</td>
<td>381 MW</td>
<td>32 MW</td>
<td>203 MW</td>
</tr>
</tbody>
</table>

Distribution | Supply | Engineering and Construction | Renewables | Social Causes
---|---|---|---|---
[ ] | [ ] | [ ] | [ ] | [ ]

Iberdrola today 19 / IBERDROLA
Business model and strategy
2.1 The future of energy

Opportunities for continued growth
The energy sector will present various opportunities for growth over the long term.

Sources of energy for global electricity generation, 2010-2040 (TWh)

<table>
<thead>
<tr>
<th>Year</th>
<th>Oil</th>
<th>Natural Gas</th>
<th>Coal</th>
<th>Nuclear</th>
<th>Renewables</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>4.52%</td>
<td>22.13%</td>
<td>39.76%</td>
<td>12.94%</td>
<td>20.63%</td>
</tr>
<tr>
<td>2015</td>
<td>3.93%</td>
<td>21.44%</td>
<td>39.53%</td>
<td>12.51%</td>
<td>22.60%</td>
</tr>
<tr>
<td>2020</td>
<td>3.09%</td>
<td>20.81%</td>
<td>38.01%</td>
<td>13.66%</td>
<td>24.44%</td>
</tr>
<tr>
<td>2025</td>
<td>2.63%</td>
<td>20.94%</td>
<td>37.93%</td>
<td>14.28%</td>
<td>24.23%</td>
</tr>
<tr>
<td>2030</td>
<td>2.28%</td>
<td>21.86%</td>
<td>37.33%</td>
<td>14.43%</td>
<td>24.11%</td>
</tr>
<tr>
<td>2035</td>
<td>1.97%</td>
<td>23.01%</td>
<td>36.56%</td>
<td>14.20%</td>
<td>24.27%</td>
</tr>
<tr>
<td>2040</td>
<td>1.74%</td>
<td>24.01%</td>
<td>35.59%</td>
<td>14.07%</td>
<td>24.60%</td>
</tr>
</tbody>
</table>

“One of the foremost challenges facing the energy sector in the coming years will be to secure the enormous resources required to finance vital investments”.

“The Future of Electricity”, according to the WORLD ECONOMIC FORUM 2015
The electricity sector is immersed in a process of transition characterised by:

- A significant reduction in the cost of renewable technologies, combined with new sources of natural gas. This offers the opportunity to “decarbonise” the sector, increase energy security, and reduce dependence on the import of fuel.
- Heavy investment by the OECD countries, reaching 3 trillion dollars since 2000, in new renewable and conventional energy plants, the transmission and distribution of energy, and the development of energy efficiency measures. Another 8 trillion dollars will be necessary during the 2014-2040 period.
- Improvement in the reduction of carbon intensity per unit generated and increase in energy security through the reduction in imports of fossil fuels.

Maintenance of high levels of investment through 2040

Indicates the investment required to meet policy objectives

Evolution of demand

Within the current context, it is expected that energy consumption will evolve in the coming years following the GDP trend in each region. According to a PwC report, average annual GDP growth in the Atlantic area where Iberdrola operates will be positive through 2050. The EU Roadmap forecasts that electricity will at least double its share in final energy demand to 36-39 percent in 2050, for which reason it would reduce carbon emissions in heating systems and in the transport sector (electricity could satisfy about 65% of demand from automobiles and light duty vehicles).

Trends in production and use of electricity

Sectoral

- The electricity sector is leading the transformation of global energy. According to World Energy Investment Outlook 2014, the electricity sector contributes more than any other to reducing the proportion of fossil fuels in the energy mix.
- The transition towards a low-emission economy due to the global drive towards a reduction in greenhouse gases (GHG). The OECD forecasts that global GHG emissions will increase by 50% due to a 70% increase in CO₂ emissions relating to power generation.
- Unsustainable pressure on natural resources. A world economy four times larger than today is projected to use 80% more energy in 2050. Without more effective policies to improve the panorama of unsustainable pressure on natural resources, the share of fossil-fuel based energy in the global energy consumption will still remain at about 85%.

Technological

- Technological advances and an improvement in efficiency are grounds for optimism, but constant political efforts are essential to change energy trends for the better.
- Smart grids will introduce home automation to network management and electricity demand management, improving process efficiency.
- Technological developments, such as new renewable energies and advances in distributed generation, can change the current model of the electricity markets.
- Electricity storage, as a still-embryonic technological possibility, can open up new vistas for the operation and management of power systems.
- Technological progress as a path toward reducing emissions, both in obtaining fuels and in producing electricity and managing its use.

Consumption

- Universal access to energy, as an element to improve well-being. “World electricity demand will grow by 80% over the next 30 years driven by improved efficiency and the expansion of service to the 1.3 billion people who still do not have access to power”. Ignacio Galán.
- The development of new uses and applications for electricity may result in new markets and opportunities: electric vehicles, robotics in the use of electricity, etc.

Average annual GDP growth in the Atlantic area where Iberdrola operates will be positive through 2050.

1 Source: “OECD Environmental Outlook to 2050”;
2 Source: “Energy Roadmap 2050”;
2.2 Business model

The purpose of the business model defined for the Iberdrola Group is the “supply of reliable, high-quality and environmentally-friendly energy”, through a sustainable, long-term industrial enterprise. The model is built on three pillars: a framework of trust based on an advanced governance model; the Group’s vision and values approved by its management units; and the distinguishing factors that make Iberdrola a different company. The model’s competitiveness is achieved through responsible management of the tangible and intangible assets of the Company.

To apply this model, Iberdrola has defined the activities in which it seeks to be an active player, the value chain, structuring its management into three global businesses: the Networks Business; the Wholesale and Retail Business; and the Renewables Business, with a Corporation as the Group’s central management unit. The Corporation develops the Group’s strategy and oversees its execution.

Framework of trust

To ensure the sustainability of its business model, Iberdrola has implemented:

- A Corporate Governance System consistent with best global practices.
- Corporate ethics, internalised by the management units and the organisation as a whole.
- Social Responsibility Policies, with a view to meeting the expectations of stakeholders.
- Advanced risk control, to maintain an optimal “risk/opportunity” balance, taking advantage of opportunities and mitigating risks.

Vision and values

“We aspire to be the preferred global energy company because of our commitment to the creation of value, quality of life, the safety of people and of supply, the protection of the environment, and customer focus”.

The Group’s vision is based on six values:

- Corporate ethics and responsibility.
- Financial results.
- Respect for the environment.
- Sense of belonging and trust.
- Safety and reliability.
- Customer focus.
2.3 Iberdrola, a different company

Focus on basic and regulated businesses

Approximately 75% of Ebitda comes from regulated businesses.

International diversification

Approximately 55% of earnings are generated outside of Spain.

Commitment to clean and competitive energies

• Generation and production of largely emission-free electricity.
• Large portfolio of offshore wind generation projects and wave and tidal power projects.
• Clear goals for reducing emissions.

Operational efficiency

In a comparative analysis of six European companies in the sector, according to a study by Ernst&Young, Iberdrola leads in three efficiency variables: net operating expenses over gross margin, workforce per unit of installed power, and workforce per number of users.

Financial strength and solidity of the group

• Strengthening of the balance sheet by reducing debt and improving solvency ratios.
• Liquidity position that covers financial needs for more than 30 months, even under stress scenarios.

Global, committed and qualified workforce

• Stable and high-quality jobs, with high level of training.
• Health and safety as values: “accident reduction” goal.
• Group companies in Spain and Brazil are considered best places to work in their sector, by Merco and Guia Você.
## 2.4 Management of tangible and intangible assets

### What is it?
- **Financial capital**: Economic resources the company holds or obtains through financing.
- **Manufactured capital**: Tangible assets or goods used by the Company to carry out its activities.
- **Intellectual capital**: Intangible, knowledge-based assets.

### Management approach
- **Financial capital**: To create value for shareholders through sustainable growth.
- **Manufactured capital**: To offer a competitive supply of energy in a safe and reliable environment.
- **Intellectual capital**: To consider innovation as a strategic element of the Company.

### Significant assets
- **Financial capital**: Sound financial structure, Operational efficiency, Monitoring of investments, Sustainable results and dividends.
- **Manufactured capital**: Power generation assets, Power transmission and distribution assets, Other assets.
- **Intellectual capital**: Promotion of R&D+i, Efficiency and new products and services, Disruptive technologies and business models.
The Iberdrola Group holds valuable assets for the development of its business model. The strategy defined by the Company transforms these assets to create value for all its stakeholders.

<table>
<thead>
<tr>
<th>Human capital</th>
<th>Natural capital</th>
<th>Social and relational capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee knowledge, skills, experience and motivation.</td>
<td>Natural resources affected by the Company’s activities.</td>
<td>Ability to share, relate, and collaborate with its stakeholders, promoting community development and well-being.</td>
</tr>
</tbody>
</table>

**To guarantee the availability of a committed and qualified workforce.**

- Global human resources management.
- Goal of “accident reduction”.
- Talent management.
- Diversity, equal opportunity, and reconciliation.

**To ensure sustainable use of natural resources and contribute to combating climate change.**

- Environmental management.
- Preservation of biodiversity.
- Prevention of pollution.
- Operating excellence and energy efficiency.
- Waste management.

**To promote relations of trust with stakeholders, improving the quality of life of people in areas where the Group has a presence.**

- Stakeholder relations.
- Community support and electricity access programmes.
- Foundations and non-profit associations linked to the Iberdrola Group.
- Corporate reputation.
- Reputation management.
- Informational transparency.
2.5 Value chain

Power generation

Electricity production through the construction, operation, and maintenance of generating plants, and purchase/sale of energy on wholesale markets.

Generating plants*

* % of 2014 net output

- 39% Renewable (Hydroelectric + wind)
- 30% Combined cycle
- 18% Nuclear
- 4% Cogeneration
- 9% Conventional thermal

Power transmission and distribution

Construction, operation, and maintenance of electrical lines, substations, transformer centres, and other infrastructure to transmit electric power from production centres to end users.

Electricity networks*

* At 31 December 2014

- Overhead lines: 4,000 High and medium voltage transformer substations
- Transmission lines: 29,446 Km
- Distribution lines: 846,281 Km
Energy supply

Supply to end users of energy and additional products and services.

Users*

* % by sector at 31 December 2014

Underground lines

960 Km

Transmission lines

1.4 million
Medium to low voltage distribution transformers

Distribution lines

187,868 Km

90.3% 5.6% 0.9% 1.0% 2.2%

Residential Retail Institutional Industrial Other
2.6 Strategic foundations for 2014-2016

Market conditions
The global energy scenario is trending toward moderate growth in the medium and long terms, driven by the economic recovery. The Company has designed a strategy to address this scenario, with specific measures adapted to the particular needs of its areas of activity.

Challenges and opportunities

Challenges
• Management of a scenario involving slow recovery in the demand for electrical power.
• Attainment of higher efficiency levels in all businesses.
• Regulatory management in all businesses, with special emphasis on transmission and distribution businesses.
• Containment of financial expenses in an environment of potential increases in medium-term interest rates.

Opportunities
• International diversification with a presence in countries with a stable and predictable regulatory framework.
• Balanced business model focused on regulated activities.
• High quality of assets.
• Culture of innovation, efficiency, and results.
• Proven management capacity.

...maintaining a commitment of sustainable remuneration to shareholders.

Growth vectors 2014-2016

Investments
• United Kingdom: Iberdrola is facing a period of expanding activity in energy transmission and distribution, as well as in onshore and offshore renewable energy projects.
• United States of America: The Company is facing growth in the networks area and in new onshore wind projects.
• Latin America: The Company will consolidate its position as the largest private generator of electricity in Mexico. In Brazil it anticipates a period of growth in hydroelectric capacity.
• Spain: Maintenance and improvement of facilities.

Operational efficiency
• In all areas of activity.

...with potential additional growth in EBITDA from improvements in market conditions and energy prices.

Beyond 2016 ...

• Projects undertaken in 2014-2016 will provide higher contribution to results.
• Additional investments in stable and attractive businesses and countries.

• Further efficiency measures: structural optimisation and additional headcount reduction.
• Portfolio management to explore new opportunities for growth.

...to increase shareholder remuneration in line with results.
Strategic pillars

Iberdrola’s strategy for 2014-2016 will be based on consolidating its financial strength, investing in regulated businesses, and continuing to implement efficiency improvements; thereby maintaining the same strategic pillars that enabled the successful navigation of the global economic and financial crisis.

1. Balanced risk profile
   • Investments focused on businesses and countries with stable and predictable regulatory frameworks.
   • Gross investment of €M 11,200, representing net investment of €M 9,600, with €M 4,400 focused on growth and the rest on maintenance and replacement.
   • Electric power transmission and distribution networks will account for 57% of total net investments. Of the overall amount, 22% will be dedicated to renewable energy and 19% to generation.
   • The regulated businesses (networks, renewables, and regulated generation) will account for 88% of all planned investments.
   • Geographically, Iberdrola will concentrate most of its efforts in the United Kingdom (41%); followed by Latin America (24%) (mainly Mexico), the United States of America (17%), and Spain (15%).

2. Operational efficiency
   • Continue implementing measures to promote savings and contain operating costs, with a view to improving efficiency and partially absorbing the effects of inflation and activity growth, on both personnel expenses and outside services:
     Personnel
     • Organic reduction of 1,000 employees in existing businesses.
     • Approximately 27,000 employees by year-end 2016.
     External services
     • Optimisation of corporate structure.
     • Procurement management.
     • Process management.

From 2014 to 2016, investments will be focused on companies with stable regulatory environments.
3. Financial strength

- Net debt reduction of €M 1,800, down to €M 25,000 by year-end 2016.
- Operating cash flow (FFO) exceeding investments across all businesses.
- Divestment of €M 500, in addition to the €M 2,000 in the divestment plan announced in 2012.
- Change in the financial model to provide subsidiaries with an optimal capital structure providing appropriate financial signals, in line with current guidelines for structural subordination.
- Optimisation of liquidity position (<€M 9,000) to current market conditions in order to improve financial costs, maintaining 24 months of coverage even during stress scenarios.
- Strengthening of financial ratios, with the following goals through 2016:
  - Leverage ≈ 40%.
  - Net debt/EBITDA <3.5.
  - FFO/Net debt >22%.

Resulting in growth over the period and a sustainable shareholder remuneration policy.

- After the impact of fiscal and regulatory modifications in Spain, the Company estimated Ebitda of €M 6,600 and net profits of €M 2,300 for 2014, with subsequent average growth of 4% annually through 2016.
- Due to the good performance of the businesses, 2014 results were higher than initially forecast. Ebitda reached €M 6,965, with net profit of €M 2,327.
- In this scenario, the Group maintains the goal of providing its shareholders with an annual remuneration of at least €0.27 (gross) per share, which could increase based on profits, with a payout of between 65% and 75%.

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>Average annual growth* 2014-2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ebitda</strong></td>
<td>6,965</td>
<td>4%</td>
</tr>
<tr>
<td><strong>Net profit</strong></td>
<td>2,327</td>
<td>4%</td>
</tr>
</tbody>
</table>

* Average annual growth potential of 4% calculated based on initial results forecasts for 2014: €M 6,600 Ebitda and €M 2,300 net profit.
### 2.7 Comparative results and rewards

#### Comparative analysis*

<table>
<thead>
<tr>
<th>Comparative economic/financial variables 2014</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Growth in EBITDA</strong></td>
<td></td>
</tr>
<tr>
<td>CAGR (%)</td>
<td>Average comparables</td>
</tr>
<tr>
<td>31-Dec.-04 / 31-Dec.-14</td>
<td>2.2%**</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Growth in Capitalisation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total growth (%)</td>
<td>Average comparables</td>
</tr>
<tr>
<td>31-Dec.-04 / 31-Dec.-14</td>
<td>-2.2%</td>
</tr>
</tbody>
</table>

Iberdrola held 6th place at the European level in terms of stock market capitalisation for the last 10 years. It is now in third place.

#### Share price

<table>
<thead>
<tr>
<th>Total growth (%)</th>
<th>Average comparables</th>
<th>Eurostoxx Utilities</th>
<th>Iberdrola</th>
</tr>
</thead>
<tbody>
<tr>
<td>31-Dec.-04 / 31-Dec.-14</td>
<td>-32.0%</td>
<td>-7.1%</td>
<td>19.7%</td>
</tr>
</tbody>
</table>

*Comparable companies analysed: GDF Suez, EDF, E.On, Enel, RWE. Uses a start date of 7 July 2005 for GDF-Suez (the date on which GDF commenced listing), and 18 November 2005 for EDF (the date of its IPO).

ACGR: Annual Compound Growth Rate, i.e. weighted average annual growth.

**For GDF Suez, the 2004 figure is for Suez S.A. (prior to the merger of GDF and Suez SA). 

<table>
<thead>
<tr>
<th>Comparative performance of total shareholder return</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Profitability (%)</td>
<td>Average comparables</td>
</tr>
<tr>
<td>31-Dec.-04 / 31-Dec.-14</td>
<td>20.9%</td>
</tr>
</tbody>
</table>

Iberdrola’s performance

Over the last 10 years, Iberdrola has quadrupled its assets, tripled its revenues, doubled its EBITDA and net profit, and increased shareholder remuneration by more than 40%, while maintaining its financial strength.

<table>
<thead>
<tr>
<th>Iberdrola</th>
<th>31-Dec.-04</th>
<th>31-Dec.-14</th>
<th>Multiple</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets (€M)</td>
<td>26,189</td>
<td>93,771</td>
<td>3.6x</td>
</tr>
<tr>
<td>Revenues (€M)</td>
<td>8,725</td>
<td>30,032</td>
<td>3.5x</td>
</tr>
<tr>
<td>EBITDA (€M)</td>
<td>2,913</td>
<td>6,965</td>
<td>2.4x</td>
</tr>
<tr>
<td>Net Profit (€M)</td>
<td>1,196</td>
<td>2,327</td>
<td>1.9x</td>
</tr>
<tr>
<td>Dividends (€/share)</td>
<td>0.19</td>
<td>0.27</td>
<td>1.4x</td>
</tr>
<tr>
<td>Net Debt/EBITda</td>
<td>3.7</td>
<td>3.7</td>
<td>1.0x</td>
</tr>
</tbody>
</table>

© Other awards / pages 63 and 79
External awards

For the Company:
- Best corporate governance among European utilities (Ethical Boardroom): 2014.
- World’s Most Ethical Company Index (Ethisphere Institute): 2014.
- Leading Ibex 35 company in the tax transparency ranking 2014, from Fundación Compromiso y Transparencia.

For the Chairman and CEO:
- Responsible Capitalism Award (First): 2014.
- Commander of the Most Excellent Order of the British Empire: 2014.
- Honorary Doctorate from the Universities of Salamanca (2011), Strathclyde (2013), and Edinburgh (2011).

For other members of the Company:
Iberdrola’s primary businesses

Regulation is a key factor in the sustainability of Iberdrola’s activities.

Energy policies must set clear and predictable goals in order to attract the investment needed to guarantee a safe, competitive, and sustainable supply, developing its potential as a source of growth and employment.
3.1 Regulatory environment

European Union
- Work continues on completing the internal market. Guidelines have been published to authorise state aid for renewables and back-up generation, preserving the internal market and price competitiveness to the extent possible.
- There are various ongoing initiatives to drive the development of energy infrastructure, including a strengthening of interconnections in Spain and the United Kingdom.
- A new energy and climate framework for 2030 has been approved that includes a goal to reduce CO₂ emissions by 40%, and others targeting a 27% increase in renewables and decrease in consumption. This new framework will give investors long-term signals for building infrastructure.
- Initiatives are being promoted to strengthen and stabilise the signal on emissions trading, in order to promote the change towards low-emission technologies.

Spain
- Most of the regulatory steps on electricity and gas reform were already taken during 2013 and 2014, for which reason a tariff deficit is not expected for 2014.
- An energy efficiency fund has been created by means of which all energies (electricity, gas, and gasolines) contribute in proportion to their demand to the costs of implementing the European goal of energy efficiency for 2020.
- A regulated tariff applying to approximately 90% of consumers is maintained.

United Kingdom
- In April 2014 the Competition and Markets Authority (CMA) opened an investigation into the entire gas and electricity supply sector. Its conclusions and proposed remedies will be published at the end of 2015.
- The Government’s Energy Market Reform package, which mainly deals with the capacity market and the implementation of contracts for difference for low carbon energy, was mostly completed in 2014.
- There will be work on reforming the wholesale market, for integration into the single European market.
Brazil

The unfavourable water situation is driving the use of more expensive thermal generation and an increase in energy prices on the spot market. A number of measures have been implemented to try to mitigate the effects of this situation:

• Provision of funds to mitigate the impact on distributors of involuntary exposure to the spot market.

• Reduction in the maximum price of energy on the spot market, from R$822/MWh to R$388/MWh.

• Use of tariff bands since the beginning of 2015, which are intended to signal the cost of generation to consumers. The tariff rises when more expensive sources of generation are used.

• Approval at year-end 2014 of a modification in the concession agreements for distributors, allowing them to recognise regulatory assets and liabilities.

United States and Canada

• The State of New York, along with other states, will continue to consider changes in the regulatory model for utilities, taking into account technological advances both in generation and distribution of electricity.

• There is expected to be continuing debate on the establishment of an efficient and stable foundation for investment in renewable energy, influenced by the latest controversies over climate change and fracking.

• The Environmental Protection Agency (EPA) expects to publish two independent regulations in 2015 proposing a reduction in CO₂ for the electricity generation sector that could have a considerable impact on decision-making for electric companies.

Mexico

• The new energy reform, the legislative development of which will continue during 2015, ends the state monopoly in the hydrocarbon and electricity sectors. In the electric sector, it will encourage investment in new generation projects that will operate in a competitive environment after the creation of various markets. The share of clean energy is forecast to increase to 35% by 2024 with the creation of a Clean Energy Certification system, based on which certain supply obligations will be determined. Furthermore, contracts with private parties will begin in the area of networks, which are still under state ownership and considered to be a public service.
Line inspections, Burgos / Spain
3.2 Networks

Regulatory environment of the business

Spain
• The transitional remuneration methodology approved in 2013 is being applied in 2014 and 2015.
• Awaiting a complete definition of the new regulatory scheme, which is pending publication of the base unit costs.

United Kingdom
• Transmission activity managed under the RIIO-T1 scheme in effect for the 2013-2021 period.
• The current DPCR5 regulatory period ends in April 2015. In November 2014 Ofgem published a final determination for the new RIIO-ED1 2015-2023 period.

Brazil
• The indicators to be used in the 4th cycle of the tariff revision for distributors will be determined in 2015.
• Elektro’s tariff agreement ends in August 2015, when the 4th tariff cycle will begin. In 2014, the annual tariff adjustment was 37.78%.
• The tariff agreements for the distributors of Neoenergia are in force through April 2017 for Celpe and April 2018 for Coelba and Cosern. The annual tariff update for 2014 was 17.79% for Coelba, 15.35% for Cosern, and 12.75% for Celpe.
• The Brazilian government has eliminated the impact on results and limited the impact of involuntary exposure to the spot market on the cash flow of the distributors.

United States
• In 2014 current tariff conditions were extended for distributors in New York.
• A new rate agreement entered into force on July 2014 for CMP (Maine), which will be in effect for one year.

New tariff periods entered into force for ScottishPower in the United Kingdom and for Elektro in Brazil during 2015.
Objectives, risks and principal activities

Objectives
• Satisfy supply under strict safety conditions, in compliance with environmental requirements.
• Increase quality in energy supply by investing in the expansion and renewal of networks, improvement of our processes, and use of the latest advances in technology.
• Maximise efficiency in system operations.
• Zero accidents.

Significant risks
• Regulatory uncertainty.
• Safety of individuals from risk of accidents.
• Incidents with environmental impact.
• Major network incidents.
• Increased fraud.

Principal activities 2014
• Spain: continuation of the STAR project for the roll-out of smart grids, after already installing over 4 million meters. 12 new electric substations were also placed into service.
• United Kingdom: the DPCR5 period ended in March 2015. At 31 December 2014, there was more than 90% compliance with the commitments made.
• United States: progress in accordance with forecast for the MPRP transmission project in Maine (700 km of network, 5 new substations, and 6 expanded substations). The level of project achievement exceeded 90%. The NY Transco initiative was launched in 2014 to develop $M 1,700 in transmission infrastructure in NY through 2018. Iberdrola contributes 20% to the programme (the other contributions will be made by transmission companies in the State of New York).
• Brazil: development of facilities to cover increases in demand, and connection of new customers.

Outlook
• 57% of the Iberdrola Group’s investments will be allocated to the Networks business.
• Work is being carried out to identify new development opportunities in transmission and the application of new technologies for the development of smart grids.

Net investment of €M 5,030 between 2014 and 2016, 56% for growth activities

Generation of cash flow 2014-2016 to finance investments (€M)

- Operating Cash Flow: 8,050
- Gross Investment: 5,030
- Free Cash Flow: 3,020
Key figures of the Networks Business

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Spain</td>
<td>United</td>
<td></td>
<td>United</td>
<td></td>
<td>United</td>
<td></td>
<td>Brazil</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Kingdom</td>
<td></td>
<td>States</td>
<td></td>
<td></td>
<td></td>
<td>Elektro</td>
<td></td>
<td>Neoenergia</td>
<td></td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross margin</td>
<td>€M</td>
<td>1,905</td>
<td>1,952</td>
<td>1,193</td>
<td>1,331</td>
<td>1,469</td>
<td>1,498</td>
<td>-</td>
<td>-</td>
<td>4,962</td>
<td>5,241</td>
<td></td>
</tr>
<tr>
<td>Ebitda</td>
<td>€M</td>
<td>1,450</td>
<td>1,439</td>
<td>939</td>
<td>1,025</td>
<td>718</td>
<td>772</td>
<td>239</td>
<td>299</td>
<td>-</td>
<td>-</td>
<td>3,346</td>
</tr>
<tr>
<td>Electric power</td>
<td>GWh</td>
<td>91,656</td>
<td>90,729</td>
<td>37,750</td>
<td>36,539</td>
<td>33,187</td>
<td>33,335</td>
<td>16,663</td>
<td>16,933</td>
<td>35,552</td>
<td>37,077</td>
<td>214,809</td>
</tr>
<tr>
<td>distributed</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Users (Electricity)</td>
<td>Millions</td>
<td>10.8</td>
<td>10.8</td>
<td>3.5</td>
<td>3.5</td>
<td>1.8</td>
<td>1.8</td>
<td>2.4</td>
<td>2.4</td>
<td>10.0</td>
<td>10.3</td>
<td>28.6</td>
</tr>
<tr>
<td>Gas supply</td>
<td>GWh</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>37,069</td>
<td>40,870</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>37,069</td>
<td>40,870</td>
<td></td>
</tr>
<tr>
<td>Users (Gas)</td>
<td>Millions</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.6</td>
<td>0.6</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.6</td>
</tr>
<tr>
<td>Investments</td>
<td>€M</td>
<td>283</td>
<td>304</td>
<td>587</td>
<td>729</td>
<td>543</td>
<td>432</td>
<td>80</td>
<td>75</td>
<td>-</td>
<td>-</td>
<td>1,494</td>
</tr>
<tr>
<td>Workforce</td>
<td>No.</td>
<td>4,055</td>
<td>3,906</td>
<td>2,910</td>
<td>2,894</td>
<td>4,131</td>
<td>4,133</td>
<td>3,778</td>
<td>3,801</td>
<td>2,182</td>
<td>2,091</td>
<td>17,056</td>
</tr>
</tbody>
</table>

International financial reporting standard (IFRS) 11 has been applied to the financial information for both 2013 and 2014.

(1) Operational information is deemed to be 100% from Neoenergia.

© Quarterly results report

Safety, quality of supply, and operational efficiency are the three strategic pillars of the Networks Business upon which the entire business rests.

Safety

- Ongoing efforts to improve safety in networks activities, which is reflected in the decrease in the Incident Rate.
- Implementation of best practices at all networks companies to reduce the risks associated with operation.
- Development of safety improvement initiatives for all Networks personnel and subcontractors.
- There has been a 23% reduction in network anomalies in Spain.

Quality of supply

- Ongoing effort to improve supply quality indicators.
- Between January and December 2014 the quality of service indicators generally improved over the prior period in all of the Company’s areas of operation, exceeding the best historical records in Spain, and at Elektro in Brazil.
- Development of transmission and distribution projects in the United Kingdom and United States to ensure the reliability of supply and optimise the cost of energy.
- Network automation project in Spain to improve its operation.

Efficiency

- Increase in operating expenses contained despite strong increase in activity.
- Implementation of best practices throughout the networks companies, mainly in the areas of asset management, processes and technology, control and automation systems, and customer service.
Monterrey Combined Cycle Plant / Mexico
3.3 Wholesale and retail

Regulatory environment of the business

Spain
- The new billing method of the Voluntary Price for the Small Consumer based on daily prices, implemented since April 2014, and the new regulated billing form since October.
- The current capacity availability service has been extended in 2015 while the Royal Decree modifying capacity payments is developed during the course of the year.
- Applicable remuneration for cogeneration and waste facilities specified due to approval of RDL 9/2013.

United Kingdom
- The Secure & Promote obligations to facilitate access by small suppliers and to create a market for wholesale electricity products entered into force on 31 March 2014.
- The first auction in the 2018/2019 capacity market took place in December 2014, with the participation of both existing plants and new projects. The clearing price was 19.40 £/kW.
- The Carbon Tax, which applies to carbon emissions, will increase from 9.55 £/t to 18.08 £/t in April 2015, changing the equilibrium of the market. After that, it will remain constant until 2020.
- The changes in transmission network tolls for generators will become effective in April 2016.
- The ECO programme, which requires suppliers to comply with certain targets to reduce emissions and home energy costs, has been extended through 2017.

Europe
- The REMIT\(^1\) registration and information obligations, to ensure the integrity and transparency of the wholesale energy market, will enter into effect in 2015.

Mexico
- The Electricity Industry Act (Ley de la Industria Eléctrica) (LIE) establishing a timetable for liberalisation was approved in August 2014. Load centres included in self-supply contracts or that have a capacity above 3 MW, which limit will be progressively reduced to 1 MW over the next three years, may thus be qualified users.
- During the first half of 2015, it is expected that there will be approval of the general terms for the electricity market, which must implement a capacity market and a power market, with the ability to enter into hedge agreements. The electricity market will allow the development of new generation by private investors.

---

**Objectives, risks and principal activities**

**Objectives**
- Operating excellence, safety, and respect for the environment.
- Risk identification and minimisation.
- Continuous improvement in operating efficiency.
- Competitive supply and excellence in service to customers.
- Analysis of growth opportunities.

**Significant risks**
- Regulatory uncertainty in the countries in which it operates.
- Changes in production of and demand for electricity and gas.
- Fluctuations in hydroelectric, wind, and solar production.
- Environmental costs and costs of fossil fuels.
- Changes in the market prices for electricity and gas.
- Credit, exchange-rate, and interest-rate risks.
- Risk of accidents with an environmental impact.
- Operating risks due to downtime of facilities.

**Principal activities 2014**
- **Spain**: request authorisation for the closing of the Castellón 3 (800 MW) CCGT plant to optimise the generating facilities of the Group. Continue developing customer loyalty-building initiatives (**Fixed payment** campaign, **Customers** app, etc).
- **United Kingdom**: agreement with National Grid to provide the Supplemental Balancing Reserve (SBR) service for the 2014-2015 period, guaranteeing 675 MW of capacity to the system. Decrease in residential electricity and gas rates due to changes in the ECO programme.
- **Mexico**: Placement into service of the expansion of the Enertek (37 MW) cogeneration plant and commencement of construction on the Kimberly Clark (50 MW) cogeneration plant, the Baja California III (300 MW) CCGT plant, and the 5th unit of the Monterrey (300 MW) CCGT plant.

**Outlook**
- Focus stays on efficiency of operations, resources, and operation of generating plants in Spain and the United Kingdom.
- New flexible hydroelectric capacity in Spain: San Pedro II (25 MW) HP and final start-up of La Muela (852 MW).
- Mexico is focus for growth in generation and search for new generating opportunities.
- Supply, customer loyalty-building in mature markets (Spain and United Kingdom), and development in Mexico.

### Key figures of the Generation and Retail Business

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross margin</td>
<td>€M</td>
<td>2,926</td>
<td>3,068</td>
<td>1,045</td>
<td>1,205</td>
<td>14</td>
<td>3</td>
<td>453</td>
<td>457</td>
<td>4,439</td>
<td>4,734</td>
</tr>
<tr>
<td>Ebitda</td>
<td>€M</td>
<td>1,343</td>
<td>1,517</td>
<td>320</td>
<td>457</td>
<td>-23</td>
<td>-32</td>
<td>348</td>
<td>350</td>
<td>1,989</td>
<td>2,292</td>
</tr>
<tr>
<td>Installed capacity</td>
<td>MW</td>
<td>19,379</td>
<td>19,174</td>
<td>4,865</td>
<td>4,835</td>
<td>N/A</td>
<td>N/A</td>
<td>4,987</td>
<td>5,028</td>
<td>29,231</td>
<td>29,037</td>
</tr>
<tr>
<td>Net output (excluding renewables)</td>
<td>GWh</td>
<td>44,219</td>
<td>47,844</td>
<td>17,142</td>
<td>15,810</td>
<td>N/A</td>
<td>N/A</td>
<td>34,212</td>
<td>35,175</td>
<td>95,573</td>
<td>98,829</td>
</tr>
<tr>
<td>Electricity contracts</td>
<td>Millions</td>
<td>10.6</td>
<td>10.4</td>
<td>3.4</td>
<td>3.3</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>14.0</td>
<td>13.7</td>
</tr>
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<td>Gas contracts</td>
<td>Millions</td>
<td>0.8</td>
<td>0.8</td>
<td>2.2</td>
<td>2.2</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Products and services contracts</td>
<td>Millions</td>
<td>3.7</td>
<td>4.4</td>
<td>0.1</td>
<td>0.1</td>
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<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>3.8</td>
<td>4.5</td>
</tr>
<tr>
<td>Total retail contracts</td>
<td>Millions</td>
<td>15.1</td>
<td>15.7</td>
<td>5.8</td>
<td>5.5</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>20.9</td>
<td>21.2</td>
</tr>
<tr>
<td>Investments</td>
<td>€M</td>
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<td>146</td>
<td>123</td>
<td>98</td>
<td>4</td>
<td>4</td>
<td>54</td>
<td>175</td>
<td>325</td>
<td>423</td>
</tr>
<tr>
<td>Workforce</td>
<td>No. people</td>
<td>3,552</td>
<td>3,478</td>
<td>2,981</td>
<td>2,505</td>
<td>122</td>
<td>117</td>
<td>433</td>
<td>442</td>
<td>7,088</td>
<td>6,542</td>
</tr>
</tbody>
</table>

International financial reporting standard (IFRS) 11 has been applied to the financial information for both 2013 and 2014.

The Wholesale and Retail Business is focused on operating efficiency, the loyalty of customers, and growth in Mexico, which will allow for the stability of results and ensure the generation of funds for the Group.

### Efficiency
- Optimisation of coal production, with investments in low-cost NO\textsubscript{X} in Spain and the United Kingdom.
- Facilitating operations in complementary markets in Spain and the United Kingdom.
- Operating improvements to increase the availability and energetic yield of the Mexico facilities.

### Growth in generation
- Mexico: Placement of 650 MW into service in 2016:
  - Baja California III CCGT (300 MW).
  - 5th Unit of Monterrey CCGT (300 MW).
  - Kimberly Clark Ramos Cogeneration (50 MW).
- United Kingdom: Participation in 2019-2020 capacity auction with the Damhead Creek II CCGT (800 MW).

### Supply
- Building loyalty of customers in Spain and launching new energy efficiency products and services (home electricity protection scheme, etc).
- Recover quality of service in Supply in United Kingdom after the stabilisation of the new systems.
- Retail development in Mexico pursuant to changes in legal provisions on energy reform.
Maintenance work on a wind turbine at Maranchón Wind Farm / Spain
3.4 Renewables

Regulatory environment of the business

Spain
- Stability in current regulation of renewable energy is expected after the regulatory adjustments made in 2014.

United Kingdom
- During 2014 facilities were pre-qualified in order to access the contracts for differences auctions process. The first auction will take place in February 2015.
- The *Renewable Obligation*, which continues to be interesting for our onshore facilities, can still be chosen through 2017.

The business will develop sustainable growth, based on onshore and offshore wind investments in the countries most important to the Group.

United States
- There is an extension of the incentives for wind energy plants that began construction before year-end 2014. No changes for solar energy that enters into service before 1 January 2017.
- It is expected that government schemes to encourage renewables will retain a relatively stable framework.
- The adoption of measures to improve the integration of renewables into electricity systems will continue to progress.

Mexico
- The new energy reform, although still in development, is expected to be an active means of developing renewable energy.
- The general foundations of the system are already in place based on tradable clean energy certificates, and in which it appears that auctions will play an important role.

Brazil
- The auction model for the development of wind and solar energy is expected to be stable. 2.2 GW of wind and 0.9 GW of photovoltaic were awarded under this mechanism during 2014.
- The local content requirements for material investment in facilities may be increased.
Objectives, risks and principal activities

Objectives
• Efficiency in operations to maximise the profitability of the assets.
• Profitable growth in onshore and offshore wind investments in the countries that are strategic for the Group.

Significant risks
• Regulatory uncertainty in the countries in which it operates.
• Prices of energy and green certifications.
• Operational and technological risk.
• Risk of access to evacuation networks and limits on production due to technical restrictions on networks.

Principal activities 2014
• 215 MW of onshore wind capacity were installed during the year: 202 MW in the United States and 13 MW in the United Kingdom.
• Two installations with a total of 136 MW in Mexico and a third with 38 MW in the United Kingdom are also under construction.
• In Brazil, 174 MW was awarded in two auction awards in June and November of this year.
• In the offshore wind area in the United Kingdom, there has been the startup of the West of Duddon Sands wind farm (388 MW*) and final approval has been received for the construction of the East Anglia One wind farm.
• The main contracts have been awarded for the 350 MW Wikinger project, located in Germany in the waters of the Baltic Sea.

* Iberdrola has 50% share (194 MW).

Outlook
• Deceleration of investments, with moderate current growth, and potential to make additional investments.
• New facilities are focused on the United States, the United Kingdom, Mexico, and Brazil.
• Promotion of offshore wind projects, through a strategy based on technological efficiency and investment profitability.

Investment plan of €M 2,300 between 2014 and 2016, 90% for growth activities

2014-2016 Cash flow generation to finance investments (€M)

- Operating Cash Flow: 3,700
- Gross Investment: 2,300
- Free Cash Flow: 1,400

Spain: 25%, United States: 53%, International: 17%
### Key figures of the Renewables Business

<table>
<thead>
<tr>
<th>Item</th>
<th>Spain</th>
<th>United Kingdom</th>
<th>United States</th>
<th>Mexico</th>
<th>Brazil</th>
<th>Rest of World</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross margin</strong></td>
<td>€M</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>978</td>
<td>728</td>
<td>303</td>
<td>368</td>
<td>704</td>
<td>736</td>
<td>41</td>
</tr>
<tr>
<td><strong>Ebitda</strong></td>
<td>€M</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>668</td>
<td>421</td>
<td>232</td>
<td>265</td>
<td>448</td>
<td>495</td>
<td>34</td>
</tr>
<tr>
<td><strong>Installed capacity</strong></td>
<td>MW</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>5,865</td>
<td>5,865</td>
<td>1,462</td>
<td>1,612</td>
<td>5,332</td>
<td>5,534</td>
<td>231</td>
</tr>
<tr>
<td><strong>Output</strong></td>
<td>GWh</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>13,275</td>
<td>12,685</td>
<td>2,767</td>
<td>3,083</td>
<td>14,336</td>
<td>14,462</td>
<td>560</td>
</tr>
<tr>
<td><strong>Load factor</strong></td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>25.80%</td>
<td>24.7%</td>
<td>25.5%</td>
<td>23.4%</td>
<td>30.7%</td>
<td>31.0%</td>
<td>29.9%</td>
</tr>
<tr>
<td><strong>Investments</strong></td>
<td>€M</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-28.7</td>
<td>-13.5</td>
<td>526.9</td>
<td>475.1</td>
<td>40.5</td>
<td>236.5</td>
<td>65.7</td>
</tr>
</tbody>
</table>

— The new consolidation standard deriving from international financial reporting standard IFRS-11 has been applied to the financial information for both 2013 and 2014. In the application thereof to operating information, 244.32 MW in Spain, 161 MW in the United States, 122 MW in Italy, 75 MW in Brazil, and 15 MW in the United Kingdom is no longer consolidated.
— The 2014 investment figures for Spain include a reversion of old provisions as well as the removal of the turbine warehouse used for projects in another country.
— The investment figures for the United States are net of ITC tax incentives.
— The figures for the United Kingdom include those of the offshore division.
— The investment figure for Rest of World include the removal of the turbine warehouse used for other countries.

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The business will have sustainable growth, based on onshore and offshore wind investments in the countries most important to the Group. Efficiency is a key factor for business sustainability in the medium and long terms. Iberdrola will take technological advances into account and will act on the supply chain to allow for improvement in the coming years.

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**Load factor**

Maximising the load factor of facilities, while minimising down time through operating and maintenance measures, as well as other external factors.

**Prices**

Minimisation of risks through appropriate hedging.

**Operation and maintenance costs**

Continuous improvement in efficiency through global standardisation and systematisation processes.

**Project portfolio**

Development of the portfolio of onshore wind projects in the United Kingdom, the United States, Mexico, and Brazil, and the Wikinger (Germany) and East Anglia 1 (United Kingdom) offshore wind projects.
3.5 Supply costs, the main factor in the political and social agenda

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.

In the European Union
- The impact of high energy costs on the competitiveness of European industry and the well-being of citizens is one of the issues of greatest concern in the EU. The accords on the 2030 framework for climate and energy propose measures for meeting environmental targets whilst allowing energy prices to remain competitive.
- Various initiatives are being adopted to improve this situation. In January 2014 the European Commission released an analysis of the components of final energy prices, making it possible to identify the measures required to reduce them.
- There are measures to support industrial sectors at risk of being pushed off-shore due to carbon emission costs, and to protect vulnerable customers.

In Spain
- Rates paid by electricity consumers incorporate costs derived from the pursuit of strategic energy goals: environmental (aid for renewable energy and the costs of reducing CO₂ emissions), industrial (interruptibility of large consumers and aid for co-generation), social (subsidies for domestic coal mining and for electricity in non-mainland territories), economic (recovery of tariff deficits from previous years), and public finance.
- Less than half the costs of electricity supply are directly related to providing the service; the rest are subsidies and taxes. With some supply costs below the European average, the end prices of electrical energy for Spanish consumers are higher than the Community average.
In the United Kingdom

- There is intense public debate on electricity and gas prices, with the involvement of political leaders and wide media coverage. This will be on the agenda in the run-up to the general elections in May 2015, with the government championing more competition and the opposition championing more regulation.
- The recent decline in international gas prices partly offset the rising costs of the energy policy, mainly the Energy Companies Obligation (ECO). In January, all of the companies announced reductions in their gas rates.
- The required future investment in networks and cleaner generation will also entail greater price pressure.

In Brazil

- Involuntary exposure of distributors to the short-term market, together with the increase in the price of energy in this market, due mainly to the unfavourable water scenario the country is experiencing, has generated a cash flow imbalance for distributors during all of 2014. This was recognised and alleviated by the government, earmarking specific funds that will have to be covered by upcoming tariff adjustments.

In Mexico

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

Iberdrola will support frameworks that expand market deregulation and transparency and that provide incentives for required investments and efficient operations, through tariff structures that give efficient signals to consumers and do not penalise them with costs unrelated to the supply of electricity.

In the United States

- Tariff revisions currently under discussion or preparation reflect pressure by regulators to limit returns on capital, while at the same time maintaining the investments required to improve the network infrastructure.
- The closure of coal plants, following the appearance of unconventional gas and new regulations being drawn up by the Environmental Protection Agency (EPA), may increase pressure on gas and electricity prices.
- Restrictions on transporting natural gas by pipeline in the Northeast may lead to volatility in electricity market prices during periods of extreme weather.
- The development of smart grids, the rapid replenishment of supplies in the face of extreme weather conditions, and the integration of new energy sources into the system require major investment, which sometimes conflicts with the goal of limiting compensation to the companies.
Our assets

Iberdrola’s assets are the basis for the creation of value by the Company, which carries out its activities through the sound management of these assets.

In this report, Iberdrola’s assets are identified in accordance with the IIRC classification system:

• Financial capital
• Manufactured capital
• Intellectual capital
• Human capital
• Natural capital
• Social and relationship capital
### 4.1 Financial capital

<table>
<thead>
<tr>
<th>Management approach</th>
<th>2014 Results</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Solid financial structure</strong></td>
<td>• Iberdrola is committed to bolstering its financial strength in order to successfully contend with market turbulence and be well placed to capitalise on the expected medium-term upturn in the economic cycle. Its strategy is geared towards further reducing debt, attaining positive cash flow in all of the businesses, and improving its solvency ratios.</td>
<td>• Average annual EBITDA and net profit growth of 4% over the 2014-2016 period.</td>
</tr>
<tr>
<td></td>
<td>• Gross margin of €M 12,179, growing by 3.4%.</td>
<td>• Maintenance of net debt at approximately €M 25,000 in 2015 and 2016.</td>
</tr>
<tr>
<td></td>
<td>• Net profit of €M 2,327, a year-on-year drop of 9.5% due to the impact of regulatory and tax measures in Spain. Recurring net profit was €M 2,113 (-2.8%).</td>
<td>• Improvement of the net debt/EBITDA and operating cash flow/net debt financial ratios.</td>
</tr>
<tr>
<td></td>
<td>• Cash flow of €M 5,459.</td>
<td>• Optimisation of the liquidity position to cover financing needs for 24 months.</td>
</tr>
<tr>
<td></td>
<td>• Reduction of net debt by €M 1,217, to €M 25,619.</td>
<td>• Liquidity of more than €M 9,000, which covers more than 30 months of financing needs.</td>
</tr>
<tr>
<td></td>
<td>• Liquidity of more than €M 9,000, which covers more than 30 months of financing needs.</td>
<td>• Average annual EBITDA and net profit growth of 4% over the 2014-2016 period.</td>
</tr>
<tr>
<td><strong>Operational efficiency</strong></td>
<td>• The current macroeconomic and regulatory environment requires an additional effort to keep operating costs under control.</td>
<td>• Maintenance of net debt at approximately €M 25,000 in 2015 and 2016.</td>
</tr>
<tr>
<td></td>
<td>• Net operating expense increased 4.8% due to the drop in activations and other non-recurring effects, such as efficiency measures affecting future periods.</td>
<td>• Improvement of the net debt/EBITDA and operating cash flow/net debt financial ratios.</td>
</tr>
<tr>
<td></td>
<td>• Recurring operating expenses grew 1.1%, less than the gross margin. Therefore, the net operating expenses / gross margin ratio improved to 28.8%, compared to 29.4% in 2013.</td>
<td>• Optimisation of the liquidity position to cover financing needs for 24 months.</td>
</tr>
<tr>
<td><strong>Monitoring of investments</strong></td>
<td>Targeted control of investments will enable:</td>
<td>• Containment of increase in operating expenses, keeping them below gross margin growth and thereby helping to boost efficiency.</td>
</tr>
<tr>
<td></td>
<td>• Assurance of return on equity through projects geared towards rapid recovery or increased stability of results, focusing on regulated businesses.</td>
<td>• Containment of increase in operating expenses, keeping them below gross margin growth and thereby helping to boost efficiency.</td>
</tr>
<tr>
<td></td>
<td>• Generation of positive free cash flow in all businesses and reduction of financial debt.</td>
<td>• Containment of increase in operating expenses, keeping them below gross margin growth and thereby helping to boost efficiency.</td>
</tr>
<tr>
<td></td>
<td>• Tailoring of investment levels to the actual needs of each market.</td>
<td>• Containment of increase in operating expenses, keeping them below gross margin growth and thereby helping to boost efficiency.</td>
</tr>
<tr>
<td><strong>Sustainable results and dividends</strong></td>
<td>• Iberdrola offers its shareholders an industrial enterprise for the long-term creation of value. The confidence of its shareholders enables Iberdrola to secure the resources needed to move its enterprise forward.</td>
<td>• Continuation of the flexible dividend programme, with a target annual payout of 0.27 euro per share over the 2014-2016 period.</td>
</tr>
<tr>
<td></td>
<td>• Shareholder remuneration of 0.275 euro per share, equal to a dividend yield of 4.91%</td>
<td>• Target of maintaining the number of shares at 6,240 million, neutralising the capital increases associated with implementation of the flexible dividend programme.</td>
</tr>
<tr>
<td></td>
<td>• Flexible dividend offering tax benefits.</td>
<td>• Potential increase in the dividend per share, based on net profit.</td>
</tr>
</tbody>
</table>
Create value for the shareholder with sustainable growth

Debt (€M)

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>26,836</td>
</tr>
<tr>
<td>2014</td>
<td>25,619</td>
</tr>
</tbody>
</table>

-4.5% decrease from 2013 to 2014.

Strengthening of the balance sheet, as planned.

Maturity of financial debt* (€M)

16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>3,029</td>
</tr>
<tr>
<td>2016</td>
<td>2,741</td>
</tr>
<tr>
<td>2017</td>
<td>2,763</td>
</tr>
<tr>
<td>2018</td>
<td>2,713</td>
</tr>
<tr>
<td>2019</td>
<td>2,234</td>
</tr>
<tr>
<td>2020+</td>
<td>13,508</td>
</tr>
</tbody>
</table>

* Does not include drawn credit facilities.

Comfortable maturity profile.

Investment by geographic areas 2014

- 24% United States
- 18% Spain
- 3% Brazil
- 46% United Kingdom
- 8% Mexico
- 1% Other

Diversification of investments, with a heavy concentration outside of the euro zone.

Ebitda by business 2014

- 19% Renewables
- 33% Wholesale and Retail
- 1% Other Businesses and Corporation
- 51% Networks

Debt (€M) 2013 2014

- 26,836
- 25,619

-4.5% decrease from 2013 to 2014.

Strengthening of the balance sheet, as planned.

Debt structure by currency in 2014

- 55% Euro
- 23% Dollar
- 20% Pound
- 2% Real and others
- -3% Renewables
- -1% Other Businesses and Corporation

Debt structured by origin of cash flow earned in each currency

Comfortable maturity profile.

Gross margin by business 2014

- 43% Networks
- 39% Wholesale and Retail
- 17% Renewables
- 1% Other Businesses and Corporation

- 46% United Kingdom
- 24% United States
- 18% Spain
- 3% Brazil
- 8% Mexico
- 1% Other

Diversification of investments, with a heavy concentration outside of the euro zone.
## 4.2 Manufactured capital

<table>
<thead>
<tr>
<th>Scope</th>
<th>Principal activities 2014</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Electrical power generation assets</strong></td>
<td>Iberdrola’s generation assets comprise nearly 300 wind farms, almost 80 hydroelectric power plants (in addition to the mini-hydro plants), 34 thermal power stations using various technologies, 5 of which are nuclear, and other facilities built and operated according to the best available practices.</td>
<td>ISO 9001 and ISO 14001 quality and environmental certification has been attained for the Company’s generation operations in Spain, the United Kingdom, and Mexico.</td>
</tr>
<tr>
<td></td>
<td>• Iberdrola’s generation assets comprise nearly 300 wind farms, almost 80 hydroelectric power plants (in addition to the mini-hydro plants), 34 thermal power stations using various technologies, 5 of which are nuclear, and other facilities built and operated according to the best available practices.</td>
<td>• ISO 9000 certification has also been attained for the operation of wind farms in Spain and the United Kingdom.</td>
</tr>
<tr>
<td><strong>Power transmission and distribution assets</strong></td>
<td>Iberdrola has electricity transmission and distribution networks comprise over 30,000 km of transmission lines, over 1 million km of distribution lines, roughly 4,000 substations and over 1.4 million transformers, built and operated to supply a high-quality, reliable service.</td>
<td>Iberdrola USA obtained ISO 9001:2008 certification in 2014 for the quality management system covering the design, construction and startup of large electricity and natural gas investment projects.</td>
</tr>
<tr>
<td></td>
<td>• Iberdrola has electricity transmission and distribution networks comprise over 30,000 km of transmission lines, over 1 million km of distribution lines, roughly 4,000 substations and over 1.4 million transformers, built and operated to supply a high-quality, reliable service.</td>
<td>• The quality of service indicators improved over the prior period in all of the Company’s areas of operation, exceeding the best historical records in Spain, the United Kingdom, and Brazil.</td>
</tr>
<tr>
<td><strong>Other assets</strong></td>
<td>• Iberdrola has corporate offices in all of the geographic regions in which it distributes electricity, as well as other buildings and ancillary infrastructure associated with its operations.</td>
<td>Certifications have been obtained for the energy management system in accordance with the UNE-EN ISO 50001:2011 standard for the Torre Iberdrola (Bilbao) and Tomás Redondo (Madrid) properties in Spain.</td>
</tr>
<tr>
<td></td>
<td>• Iberdrola has corporate offices in all of the geographic regions in which it distributes electricity, as well as other buildings and ancillary infrastructure associated with its operations.</td>
<td>• All of the real property in Spain is covered by a certified environmental management system, with the scope being expanded to the sales offices in 2014.</td>
</tr>
</tbody>
</table>
Offer a secure supply of energy that is competitive in price and quality

Average availability factor of Iberdrola’s generation facilities

Iberdrola’s average: 88.7%

Quality of electricity supply

<table>
<thead>
<tr>
<th>Average power outage duration</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain TIEPI (m)</td>
<td>62.4</td>
<td>55.7</td>
</tr>
<tr>
<td>United Kingdom CML (m)</td>
<td>44.0</td>
<td>44.0</td>
</tr>
<tr>
<td>United States CAIDI (h)</td>
<td>2.47</td>
<td>1.89</td>
</tr>
<tr>
<td>Brazil DEC (h)</td>
<td>18.61</td>
<td>19.93</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Power outage frequency</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain NIEPI (no.)</td>
<td>1.20</td>
<td>1.07</td>
</tr>
<tr>
<td>United Kingdom CI (ratio)</td>
<td>44.0</td>
<td>48.00</td>
</tr>
<tr>
<td>United States SAIFI (index)</td>
<td>1.24</td>
<td>1.23</td>
</tr>
<tr>
<td>Brazil FEC (frequency)</td>
<td>7.64</td>
<td>7.62</td>
</tr>
</tbody>
</table>

Property, plant, and equipment (€M)

<table>
<thead>
<tr>
<th>Year</th>
<th>Ongoing</th>
<th>Exploitation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>52,040</td>
<td>47,837</td>
</tr>
<tr>
<td>2013</td>
<td>51,204</td>
<td>46,857</td>
</tr>
<tr>
<td>2014</td>
<td>55,107</td>
<td>50,983</td>
</tr>
</tbody>
</table>

TIEPI: Installed Capacity Equivalent Interrupt Time.
CML: Customer Minutes Lost Per Connected Customer.
CAIDI: Customer Average Interruption Duration Index.
DEC: Equivalent Duration of Interruption by Consumer Unit.
NIEPI: Installed Capacity Equivalent Interrupt Number.
CI: Customer Interruptions Per 100 Connected Customers.
SAIFI: System Average Interruptions Frequency Index.
FEC: Equivalent Frequency of Interruption by Consumer Unit.
## 4.3 Intellectual capital

<table>
<thead>
<tr>
<th>Management approach</th>
<th>Principal activities 2014</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Promotion of R&amp;D+i</strong></td>
<td>• Promotion of research, development and innovation (R&amp;D+i) activities, enabling Iberdrola to guarantee the sustainability and reliability of supply.</td>
<td>• Development of the R&amp;D+i Plan 2014-2016.</td>
</tr>
<tr>
<td></td>
<td>© Innovation report</td>
<td>• Consolidation of an open, decentralised international management model.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Continue to promote R&amp;D+i projects.</td>
</tr>
<tr>
<td><strong>Efficiency and new products and services</strong></td>
<td>• Continuous optimisation of our operations in the management of the lifecycle of facilities and equipment, reducing operating and maintenance costs, and decreasing environmental impact.</td>
<td>• Positioning as innovation leaders on prestigious external indices and ratings.</td>
</tr>
<tr>
<td></td>
<td>• New products and services that meet customer needs in an increasingly global and competitive market.</td>
<td>• Foster the creation of new business opportunities for Iberdrola.</td>
</tr>
<tr>
<td><strong>Disruptive technology and business models</strong></td>
<td>Through Iberdrola Ventures-Perseo, the Company’s corporate venture capital programme, investments are made in disruptive technologies and new businesses to ensure the sustainability of the energy model. Lines of activity:</td>
<td>• Ensure Iberdrola’s access to the energy technologies of the future.</td>
</tr>
<tr>
<td></td>
<td>• Distributed energy resources (DER): customer-side technologies including energy efficiency and active demand response, distributed generation and storage, green mobility, etc.</td>
<td>• Foster entrepreneurship and the development of an innovative entrepreneurial fabric within the energy sector: investment in initiatives with a high social and job creation component.</td>
</tr>
<tr>
<td></td>
<td>• Renewable energy: solar (PV and thermal), wind (offshore), marine (wave and tidal), etc.</td>
<td><strong>Open Innovation Ventures</strong>: establishment of alliances with key technology providers for Iberdrola.</td>
</tr>
<tr>
<td></td>
<td>• New technologies for the operation and maintenance of energy infrastructures.</td>
<td>• Within the framework of the Spanish government’s Innvierte programme, more than €M 25 will be invested in the coming years in new technology projects for the energy sector.</td>
</tr>
<tr>
<td></td>
<td>• Other technologies aimed at improving the sustainability of the energy sector.</td>
<td></td>
</tr>
</tbody>
</table>
Emphasise the value of the Company’s intangible assets

Main R&D+i research projects

Renewable energy
- OCOA Project for the development of new gravity foundations for installation at intermediate depths (30-50 metres).
- Continuation of OWA activities in the United Kingdom to reduce costs and the implementation risk of offshore wind technology.
- Completion of the INPACTO OPENFOAM project to develop computational analysis models and their application to energy resource estimates.
- Various projects to improve operation and maintenance in order to reduce operating costs.

Smart grids
- Deployment of smart grids and PRICE projects in Spain and ARC and Flexible Net in Scotland. European UPGGRID project for the advanced operation and the exploitation of low- and medium-voltage networks in the area of smart grids, strengthening the ability for them to be integrated into the active demand and distributed generation network.
- Other European projects like Grid4EU and iGreenGrid projects for the integration of renewable energy into electricity networks.

Clean generation
- The Coeben II and DESOX projects for the reduction of NO\textsubscript{x} and SO\textsubscript{2} emissions, respectively.
- INSROCA, SIRO and ECRIGEN projects to ensure the structural integrity of files and maximise the life cycle.
- CO2FORMARE project to reduce environmental impact.

Investments in R&D+i (€M)

+132.9%
### 4.4 Human capital

<table>
<thead>
<tr>
<th>Management approach</th>
<th>Principal activities 2014</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global human resources management</strong></td>
<td>• Achievement of the goals for competitiveness and business efficiency in a climate of social peace, fostering stable, high-quality employment.</td>
<td>• Strengthen the commitment to social responsibility, fostering ethical and responsible behaviour.</td>
</tr>
<tr>
<td></td>
<td>• Harmonisation of human resources processes and make inroads with implementing the Iberdrola culture in all countries, respecting specific local conditions.</td>
<td>• Consolidate the Human Resources function at Elektro, extending and unifying best practices.</td>
</tr>
<tr>
<td><strong>Goal of “accident reduction”</strong></td>
<td>• Prioritise the safety of individuals at the Group’s facilities and within its sphere of influence, fostering a progressive reduction in incident rates and improving health and safety conditions.</td>
<td>• Assessment of level of conformance to global standards.</td>
</tr>
<tr>
<td></td>
<td>• Replicate the best practices identified with respect to occupational health and safety, fostering a culture of excellence in management and coordinating global preventive activities.</td>
<td>• Analysis of incident rate and establishment of a global model for the management of occupational health and safety at subcontractors.</td>
</tr>
<tr>
<td></td>
<td>• Attainment and/or maintenance of the OHSAS 18001 certification, and development of a system of global prevention standards.</td>
<td>• Systems to identify and recognise the best ideas in order to optimise health and safety.</td>
</tr>
<tr>
<td></td>
<td>• Establishment of proactive and reactive indicators among the Group’s companies for the global scorecard.</td>
<td>• Global campaigns to raise awareness on certain types of common accidents.</td>
</tr>
<tr>
<td></td>
<td>• Continue harmonising and monitoring of goals.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Identification and application of best safety practices/Exchange of lessons learned/Creation of groups to promote safe behaviour.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Attainment and/or maintenance of the OHSAS 18001 certification, and development of a system of global prevention standards.</td>
<td></td>
</tr>
<tr>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>• Continue harmonising and monitoring of goals.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Identification and application of best safety practices/Exchange of lessons learned/Creation of groups to promote safe behaviour.</td>
<td></td>
</tr>
<tr>
<td><strong>Talent management</strong></td>
<td>• Drive staff qualifications, preparing employees to work in a multicultural environment and making continual efforts to improve their employability.</td>
<td>• Strengthen the talent and leadership development management model at the international level.</td>
</tr>
<tr>
<td></td>
<td>• Develop alternative to compensate for factors stemming from the ageing of the workforce.</td>
<td>• International certification of training quality.</td>
</tr>
<tr>
<td></td>
<td>• Define a framework to develop a global quality management system.</td>
<td>• Define and implement the Global Development Roadmap for the Iberdrola Group.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Global executive talent management.</td>
</tr>
<tr>
<td><strong>Diversity, equal opportunity, and reconciliation</strong></td>
<td>• Tackle diversity in all Human Resources activities of the Group, ensuring equal opportunity and the labour integration of disadvantaged groups.</td>
<td>• Foster improvements in the quality of people’s lives through social-welfare activities in all of the countries in which the Iberdrola Group has a presence, creating a global volunteer community.</td>
</tr>
<tr>
<td></td>
<td>• Develop these principles, providing measures to help reconcile personal, family, and working life.</td>
<td>• Strengthen team pride and job commitment.</td>
</tr>
<tr>
<td></td>
<td>• In the countries in which Iberdrola operates, foster a position of leadership in these areas similar to that enjoyed in Spain.</td>
<td>• Promote the internationalisation of social programmes and bring together employees from various countries.</td>
</tr>
<tr>
<td></td>
<td>• International cultural exchange programmes.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• International Volunteering Day, “Sao Paulo 2.0” multicultural volunteer programme in Brazil and professional volunteering programme in Ethiopia.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Continue with “Family-Responsible Company” certifications.</td>
<td></td>
</tr>
</tbody>
</table>
Ensure the availability of a committed, qualified workforce in a safe and stable environment

Growth and geographic diversification of the workforce

2006: 16,155 employees

- 22% Latin America
- 78% Spain

2014: 29,597 employees

- 17% United States
- 37% Spain
- 23% United Kingdom
- 1% Other
- 7% Affiliates

Key figures / page 10

Incident rate (2011-2014): progressive reduction

- 0.33 in 2011, 0.29 in 2012, 0.32 in 2013, 0.26 in 2014

Subcontracted and Company personnel:
- -32% in subcontracted personnel and -21% in Company personnel.

Commitment to people

Iberdrola Sao Paulo Volunteering 2.0-2014

“My guest” cultural exchange programme 2014

Social recognition

Iberdrola: among the best 3 companies to work for in Spain.
Elektro: again chosen as best company to work for in Brazil.

Iberdrola university restoration report

Our assets 63 / 64
## 4.5 Natural capital

<table>
<thead>
<tr>
<th>Management approach</th>
<th>Principal activities 2014</th>
<th>Outlook</th>
</tr>
</thead>
</table>
| **Environmental management and biodiversity** | • Actively promote environmental and biodiversity management due to the repercussions thereof on the availability of natural resources and its ties to social development.  
• Inform and raise awareness, both internally and externally, of the compatibility of the Company’s activities with the protection, conservation, and sustainable use of the natural environment. | • Implementation of corporate model for environmental risk management.  
• Development of a methodology for economic evaluation of ecosystem services and the impact on biodiversity.  
• Fostering and promotion of social values relating to the environment and natural resources.  
• Approval of EU LIFE2+ CO2FORMARE Project at the Castellón plant. |
| **Prevention of pollution** | • Prevent pollution and the emission of greenhouse gases through practices that reduce or eliminate the production of pollutants at source.  
• Reduce emissions per GWh produced via the installation of desulphurisation units, the introduction of improvements to the combustion process, and the decommissioning of less environmentally efficient units. | • 8% reduction in intensity of CO₂ emissions per kWh produced.  
• Thermal emission factor has decreased from 483 gr/thermal kWh generated in 2013 to 476 gr/kWh generated in 2014.  
• Increase in emission-free installed capacity.  
• Development of methodology to calculate the environmental footprint of the Group’s activities (EPI Environmental Performance Index Project).  
• Signing of the CDP Roadmap to Paris, with a commitment to reduce emissions and participation in the Climate Change Week in New York. | • Achieve a 30% reduction in emissions intensity by the year 2020 in comparison to 2007, a figure 20% better than the scenario suggested by the IEA.  
• Increase the scope of independent verification of emissions.  
• Develop innovation projects geared towards reducing pollution.  
• Active participation in preparations for the upcoming Climate Change Conference to be held in Paris (December 2015). |
| **Operating excellence and energy efficiency** | • Performing activities that foster environmental conservation will enable Iberdrola to improve its competitiveness, with greater efficiency in the production and use of energy.  
• Efficient management of scarce resources such as water is a priority for the Company. | • Activities aimed at continual improvement to increase energy efficiency and promote the use of environmentally friendly resources.  
• Public water management strategy via the CEO Water Mandate and CDP Water. | • Development and promotion of eco-design initiatives.  
• Life-cycle and green purchasing analysis. |
| **Waste management** | • Non-hazardous waste is managed via environmental management systems, which set targets for waste reduction and the use of recycled material.  
• The production and disposal of hazardous waste is carried out in accordance with the strict laws applicable in each country. | • Reuse of waste from thermal coal plants.  
• Carry out waste minimisation plans, recycling plans, and awareness campaigns aimed at employees.  
• Iberdrola and GE Hitachi join in a project to reuse nuclear fuel in the United Kingdom. | • Make progress in the optimisation of waste management.  
• Draw up economic and financial analyses of the best waste management strategies. |
The environmental dimension is a key factor in the concept of sustainability

CO₂ emissions at companies in the industry
(Carbon factor in kg CO₂/MWh)

Production of Iberdrola plants using local energy sources in the countries in which it operates

Energy savings of green products and services (GJ)

Volume of recovered, reused, or recycled waste

European carbon factor 2013: 328 kg CO₂/MWh
Source: “Changement climatique et Électricité, factor carbone européen Comparaison des émissions de CO2 des principaux électriciens européens” PwC France.
4.6 Social and relationship capital

Stakeholder relations

Iberdrola wants to strengthen trust and the connection to institutions and companies in its environment, maintaining responsible relations with groups that affect or are affected by the activities carried out by the Company (stakeholders).

<table>
<thead>
<tr>
<th>Management approach</th>
<th>Principal activities 2014 and outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iberdrola’s strategic approach sets great store by its relations with stakeholders, giving importance to the dual facets of this relationship:</td>
<td>• Consolidation of channels of communication with stakeholders to identify the most important issues and provide a well balanced, reasonable response thereto.</td>
</tr>
<tr>
<td>• In terms of social responsibility, meeting stakeholder expectations and needs.</td>
<td>• Completion of implementation of the AA1000 Assurance Standard, in accordance with the principles of inclusiveness, materiality, and responsiveness established in such standard, through a multi-annual programme deployed in the businesses as well as in the corporate areas of the Group. The AA1000 standard will continue to be applied and refined through the Company in the coming years.</td>
</tr>
<tr>
<td>• In terms of reputation, managing stakeholders’ perception of the Company.</td>
<td>• The Board of Directors approved a Stakeholder Relations Policy in February 2015.</td>
</tr>
</tbody>
</table>

A materiality analysis allows for prioritisation of the issues most important to the Company’s stakeholders.

Materiality

Materiality analysis

Evaluation of materiality enables the issues that are most important to stakeholders to be prioritised according to their degree of significance and maturity. These issues are represented in the upper right quadrant of the chart, and comprise the following:

• Electricity generation.
• Renewable energy development.
• Price risk management.
• Climate change strategy.
• Business opportunities.
• Government relations/public policy/lobbying.
• Customer relations management.
• Impacts on and benefits for local communities.
• Transmission and distribution.

In the Sustainability Report 2014 Iberdrola explains the management approaches taken by the Company in regard to these significant issues and any results achieved during the financial year.
Community support and electricity access programmes

Primary programmes

Activities 2014

- Contribution of €34M to the community, measured according to the London Benchmarking Group (LBG) international standard, in the countries in which Iberdrola operates.
- International corporate volunteering programme, offering more than 6,000 volunteering opportunities to employees in Spain, the United Kingdom, the United States, Mexico, and Brazil.
- Entrepreneurial support: over €41M in procurement from companies in operation for less than 4 years, and €70M in venture capital for new initiatives with high technological value.
- Programmes and pricing to aid vulnerable groups in Spain, the United Kingdom, the United States, and Brazil.
- Rural electrification programmes in Brazil, to which over €31M has been allocated on a consolidated basis.
- Programmes implemented by the Foundations created by Iberdrola in the principal countries in which it operates.
- Development of the Electricity for Everyone programme.

Electricity for everyone

In order to promote universal access to electricity, Iberdrola implements a programme with the following lines of action:

a) financing of projects through equity investment,

b) activities conducted by the Businesses in the countries in which the Company has a presence, and

c) development of projects with a high social component, with support for NGOs and through corporate volunteering.

As a major support tool, a Chair for the Universalisation of Basic Energy Services was created within the Centre for Innovation in Technologies for Human Development (Centro de Innovación en Tecnologías para el Desarrollo Humano) of Universidad Politécnica de Madrid (ITD-UPM).

Foundations linked to the Iberdrola group: Fundación Iberdrola

Activities 2014

- Fundación Iberdrola, which is linked to Iberdrola España, S.A.U., the subholding company group together the energy businesses in Spain, has completed its Master Plan 2010-2014 in its four areas of activity:
  - Training and research
  - Art and culture
  - Sustainability and biodiversity
  - Cooperation and community service
- The Scholarship and Research Aid Programme in Energy and Environmental Research granted 80 Master’s scholarships at prestigious universities in Spain, the United Kingdom, and the United States in 2014. In addition, 4 scholarships were granted for training and research at the Restoration Workshop of the Prado Museum and the Fine Arts Museum in Bilbao.
- The Prince of Asturias Chair in Information Science and Related Technologies at the University of New Mexico, focusing primarily on research in the area of smart grids, has become firmly established.
- In 2014, 45 social organisations benefited from the Social Assistance programme.
- Significant examples in other areas are the restoration of Romanesque churches in Spain and Portugal within the Atlantic Romanesque Programme, and the Bird Migration project in collaboration with SEO-BirdLife.

Programme results 2014

Contribution by region (%)

<table>
<thead>
<tr>
<th>Region</th>
<th>Contribution (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>39%</td>
</tr>
<tr>
<td>Mexico and Brazil</td>
<td>29%</td>
</tr>
<tr>
<td>United States</td>
<td>7%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>25%</td>
</tr>
<tr>
<td>Other</td>
<td>10%</td>
</tr>
<tr>
<td>Socioeconomic development</td>
<td>20%</td>
</tr>
<tr>
<td>Energy sustainability</td>
<td>7%</td>
</tr>
<tr>
<td>Cooperation and solidarity</td>
<td>21%</td>
</tr>
<tr>
<td>Education and training</td>
<td>26%</td>
</tr>
<tr>
<td>Art and culture</td>
<td>16%</td>
</tr>
</tbody>
</table>

© Sustainability report
Soundness and strength of the brand

- Manage the brand in such a way that it transmits the corporate Vision and Values and reflects the environmental commitment of the Company’s strategy.
- Consolidation of an international brand, strengthening communication and alignment under a single brand positioning strategy in the countries in which the Company operates.

Corporate reputation

- Stakeholders are a significant element in the management of Iberdrola’s reputation.
- The Group’s reputational management model assesses the degree of alignment between the company’s actions and the perceptions of its stakeholders.
- Management of the reputational strengths of Iberdrola compared to its competitors.
- Periodic evaluation of the Group’s reputation, a process initiated in 2005, using the RepTrak international standard.
- Completion of the Reputation Programme 2013-2014, incorporating reputation as a cultural factor of Iberdrola.
- Specific actions to improve stakeholder confidence in the 7 dimensions of Iberdrola’s reputation model, which is aligned with the Reptrak international standard.
- Progress made in reputational risk management, stemming from implementation of the Company’s Reputational Risk Framework Policy. Coordination and integration of the Triple Line of Defence function.
- Updating and monitoring of the reputational impact activities map.
- Reputational analysis of perception in social media and detection of reputational opportunities to differentiate Iberdrola from the industry.
- Monitoring and management of external indices.

Evolution of the digital ecosystem

- Offer useful and dynamic information, with messages adapted to each stakeholder.
- Facilitate direct interaction with our stakeholders, overcoming barriers and making use of existing synergies.

Iberdrola on social media and the internet

![Social Media Icons]
Training at Maranchón Wind Farm, Guadalajara / Spain
A framework of trust
5.1 Corporate governance model

Foundations of Iberdrola’s corporate governance model

A. Corporate governance system
Iberdrola has adopted a Corporate Governance System made up of the By-Laws, Corporate Policies, internal corporate governance rules, and other internal codes and procedures, all available at www.iberdrola.com.

The content thereof is inspired by and based on a commitment to the values assumed by the Company and to best corporate governance practices, business ethics, and social responsibility in all of its areas of activity.

<table>
<thead>
<tr>
<th>Position</th>
<th>Director</th>
<th>Status</th>
<th>Date of last appointment</th>
<th>Date term ends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman &amp; Chief Executive Officer</td>
<td>Mr José Ignacio Sánchez Galán (Salamanca, Spain, 1950)</td>
<td>Executive</td>
<td>26-03-2010</td>
<td>26-03-2015</td>
</tr>
<tr>
<td>Director</td>
<td>Mr Xabier de Irala Estévez (New York, United States, 1946)</td>
<td>Proprietary</td>
<td>22-06-2012</td>
<td>22-06-2016</td>
</tr>
<tr>
<td>Director</td>
<td>Mr Íñigo Víctor de Oriol Ibarra (Madrid, Spain, 1962)</td>
<td>Independent</td>
<td>22-06-2012</td>
<td>22-06-2016</td>
</tr>
<tr>
<td>Director</td>
<td>Ms Inés Macho Stadler (Bilbao, Spain, 1959)</td>
<td>Independent</td>
<td>22-06-2012</td>
<td>22-06-2016</td>
</tr>
<tr>
<td>Director</td>
<td>Mr Braulio Medel Cámara (Marchena, Seville, Spain, 1947)</td>
<td>Independent</td>
<td>22-06-2012</td>
<td>22-06-2016</td>
</tr>
<tr>
<td>Director</td>
<td>Ms Samantha Barber (Dunfermline, Fife, Scotland, United Kingdom, 1969)</td>
<td>Independent</td>
<td>22-06-2012</td>
<td>22-06-2016</td>
</tr>
<tr>
<td>Director</td>
<td>Ms María Helena Antolín Raybaud (Toulon, France, 1966)</td>
<td>Independent</td>
<td>26-03-2010</td>
<td>26-03-2015</td>
</tr>
<tr>
<td>Director</td>
<td>Mr Santiago Martínez Lage (Betanzos, A Coruña, Spain, 1946)</td>
<td>Independent</td>
<td>26-03-2010</td>
<td>26-03-2015</td>
</tr>
<tr>
<td>Director</td>
<td>Mr José Luis San Pedro Guerenabarrena (Bilbao, Spain, 1946)</td>
<td>Other external</td>
<td>22-06-2012</td>
<td>26-03-2015</td>
</tr>
<tr>
<td>Director</td>
<td>Mr Ángel Jesús Acebes Paniagua (Ávila, Spain, 1958)</td>
<td>Independent</td>
<td>22-06-2012</td>
<td>26-03-2015</td>
</tr>
<tr>
<td>Director</td>
<td>Ms Georgina Kessel Martínez (Mexico City, Mexico, 1950)</td>
<td>Independent</td>
<td>28-03-2014</td>
<td>28-03-2018</td>
</tr>
<tr>
<td>Director</td>
<td>Ms Denise Mary Holt (Vienna, Austria, 1949)</td>
<td>Independent</td>
<td>24-06-2014</td>
<td>27-03-2015</td>
</tr>
<tr>
<td>Director</td>
<td>Mr José W. Fernández (Cienfuegos, Cuba, 1955)</td>
<td>Independent</td>
<td>17-02-2015</td>
<td>27-03-2015</td>
</tr>
<tr>
<td>Director</td>
<td>Mr Manuel Moreu Munaiz (Pontevedra, Spain, 1953)</td>
<td>Other external</td>
<td>17-02-2015</td>
<td>27-03-2015</td>
</tr>
</tbody>
</table>
B. Governance model

Appropriate differentiation between the duties of supervision and management:

- The Board of Directors of Iberdrola, S.A., made up of a large majority of independent directors, focuses its activity on the determination, supervision, and monitoring of the strategies and general guidelines that must be followed by the Group.

- The chairman of the Board of Directors & chief executive officer and the rest of the management team are responsible for the organisation and strategic coordination of the Group, through the dissemination, implementation, and monitoring of the overall strategy and basic guidelines.

- In all of the countries in which the Company operates, organisation and strategic coordination is implemented through country subholding companies, which group together equity stakes in the head of business companies carrying out their activities in the respective country and centralise the provision of services common to such companies. The country subholding companies have boards of directors that include independent directors and their own audit and compliance committees, internal audit areas, and compliance units or divisions.

- The head of business companies are in charge of the day-to-day administration and effective management of each business. They also have boards of directors, which include independent directors and specific management teams.

This structure, which operates together with the Group’s Business Model, allows for an overall integration of the businesses (Networks, Liberalised, and Renewables) and focuses on maximising the operational efficiency thereof through the exchange of best practices among the companies involved.

Iberdrola’s corporate and governance structure.
C. Equity structure
Iberdrola has more than 600,000 shareholders throughout the world, and none of them has the power of control.

Foreign institutional shareholders account for 60% of the capital.

Iberdrola’s response to the corporate governance challenge

A. Continuous improvement of its corporate governance rules and practices
The Company refers to generally accepted recommendations in the international markets on corporate governance matters.

77% of the non-executive directors are independent.

Remuneration policy
- Executive directors’ variable remuneration tied to objectives.
- Transparency.
- Provision for revising deferred variable remuneration.

Operation of the Board
- 77% of non-executive directors are independent, all having less than 12 years in office.
- System of checks and balances, including a lead independent director (consejera coordinadora).
- All members of the consultative committees are independent.
- Gender diversity: 5 women on the Board. All consultative committees are chaired by women.
- Cultural diversity: directors from 7 countries of origin.
- Rationale for proposed appointments.
- External evaluation of governance bodies.

Social responsibility and corporate reputation
- Specific Corporate Social Responsibility Committee
- Social Responsibility Policies.
- Company social responsibility strategy through connected foundations in Spain, United Kingdom, Brazil, United States, and Mexico.
B. Commitment to shareholders and investors

• The strength of the Group’s industrial and financial model has made it possible to consolidate profits and maintain shareholder remuneration despite the decline in the economic environment and the impact of regulatory measures in various countries.

• Engagement: Shareholders are the key players within the Corporate Governance System, which include good governance practices beyond those required by applicable law. The Shareholder Engagement Policy is implemented through various channels of participation intended to build a continuous dialogue beyond the General Shareholders’ Meeting.

• Participation encouraged: Iberdrola has encouraged shareholders’ participation at the General Shareholders’ Meeting through the payment of an attendance bonus. Since its implementation in 2007, attendance at the General Shareholders’ Meeting has exceeded 75%, and has exceeded 81% during the last two years.

The quorum at the 2014 General Shareholders’ Meeting was 82.24%.

C. Alignment between corporate governance and strategy

• Director remuneration aligned with strategic objectives. The remuneration model for directors is based on three primary components:

<table>
<thead>
<tr>
<th>Remuneration model for the Board</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type of remuneration</strong></td>
</tr>
<tr>
<td>Fixed</td>
</tr>
<tr>
<td>Short-term variable</td>
</tr>
<tr>
<td>Long-term variable</td>
</tr>
</tbody>
</table>

Variable remuneration is tied to pre-established financial, industrial, and social responsibility parameters, including shareholder return. The Annual Director Remuneration Report 2013 only received 1.37% votes against.

Parameters to which the annual variable remuneration of executive directors is tied in 2015

<table>
<thead>
<tr>
<th>Financial</th>
<th>Results.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial</td>
<td>Quality and service level.</td>
</tr>
<tr>
<td>Social responsibility</td>
<td>Presence on international indices. Publication of an integrated report.</td>
</tr>
<tr>
<td></td>
<td>Level of consensus received for the proposals of the Board at the General Shareholders’ Meeting.</td>
</tr>
</tbody>
</table>

© Annual director remuneration report 2014
5.2 Risks

Main risks facing the Iberdrola Group

The Iberdrola Group is exposed to various risks inherent in the different countries, industries, and markets in which it operates and in the activities it carries out, which may prevent it from achieving its objectives and from successfully implementing its strategies. The following significant risks can be pointed out:

- Regulatory uncertainty in the countries in which it operates.
- Volatility in the prices of electricity and fuel, including the potential effects of the collapse in oil prices.
- Volatility in exchange rates and interest rates.
- Changes in the production of and demand for electricity and gas due to the effect of climatological variables (temperature, hydraulic activity, wind activity), and growth in internal consumption over the long term.
- Operational risks due to downtime of facilities and significant incidents affecting the grids, including those arising from improper access to information or to the information technology and communications systems of the Group (cyberattacks).

Commitment of the Board and of Senior Management

Iberdrola’s Board of Directors and Senior Management is strongly committed to and engaged in the management of the Group’s risks:

- Acceptable levels of risk tolerance are reviewed and approved ex ante on an annual basis through risk policies and limits that establish the qualitative and quantitative risk appetite at the Group level and at each of the main businesses.
- There is then a periodic monitoring ex post of significant risks and threats and of compliance with the approved risk policies and limits.

Consolidated financial statements
The essential elements of proper risk management are foresight and control, acting with independence and commitment to the business objectives.

Comprehensive risk control and management system

At the operational level, the commitment of the Board of Directors is implemented by means of a comprehensive risk control and management system, supported by a Risk Committee and an independent specialised risk organisation deployed within the main businesses of the Group.

Duties of the Risk Division

ERM Approach – Integrated Vision

Ensure that the Group’s significant risks are adequately identified, measured, managed, and controlled and that they are periodically reported.

Basic instruments:
- Risk policies and limits.
- Reports on key risks

Centralised approach – Active management

Credit risk
- Approval of counterparties and limits and/or establishment of admission criteria in order to minimise credit losses within the Group.

Market risk
- Approval of detailed limits in order to delimit the effects of volatility in the markets in which the Group operates.

Operational risk management through insurance.

© Risks facing Iberdrola’s primary businesses / page 42
5.3 Ethics and social responsibility

Compliance Unit

Iberdrola has a Compliance Unit, as a collective, internal, and permanent body linked to the Corporate Social Responsibility Committee of the Board of Directors.

There are also compliance divisions at the level of the country subholding companies and/or the head of business companies. Their goals include promoting a culture of ethical behaviour and zero tolerance for the commission of unlawful acts or fraud.

There is a compliance system intended to encourage action by the organisation in accordance with ethics and applicable legal provisions by means of a set of procedures and actions designed to prevent, detect, and react to irregular activities, fraud, or acts contrary to the *Code of Ethics* of the Iberdrola Group or applicable regulations.

Main activities in the area of ethics and compliance

As part of the Compliance System, various programmes, control systems, and activity frameworks are implemented within the Group to encourage the organisation to act in accordance with the most stringent ethical standards and in accordance with applicable laws and regulations.

These include the *Crime Prevention Programme*, which is implemented within the framework of the process of reviewing and adapting the duties imposed by the Spanish Criminal Code, 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 has defined an action framework for compliance with the Code of Ethics, the fundamental 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.

Powers of the Unit

The Compliance Unit has powers related to the *Code of Ethics*, the *Crime Prevention and Anti-Fraud Policy*, the *Internal Regulations for Conduct in the Securities Markets*, legal provisions regarding the separation of activities, and all other powers that may be entrusted thereto by the Corporate Social Responsibility Committee or the Board of Directors of the Company or that are established in Iberdrola’s Corporate Governance System.

The Iberdrola Group’s ethics and compliance system

**PREVENT**

- Periodic evaluation of risks.
- Development of policies, procedures, and protocols.
- Training, dissemination, and communication measures.

**DETECT**

- Periodic reports.
- Systems and channels for making complaints.
- Identification and evaluation of compliance controls.

**REACT**

- Investigation of complaints.
- Corrective measures.
- Disciplinary rules.

**COMMITMENT OF THE GOVERNANCE BODIES**

**INTEGRATED WITHIN THE ORGANISATION**

**TRACEABLE AND DOCUMENTED SYSTEM**

**AUDITABLE AND UNDER CONTINUOUS IMPROVEMENT**

Action framework for compliance with the Code of Ethics

- The *Code of Ethics* is the “cornerstone” upon which this framework and its actions and procedures are implemented, including plans for training and dissemination in this area.
- It is projected towards third parties with which the Group works.
Iberdrola regards the commitment to good corporate governance, business ethics, and transparency as “business values”

Organisation of social responsibility within the Group

The Iberdrola Group has an organisational structure designed to promote and manage responsible actions with its stakeholders.

The Corporate CSR and Reputation Committee and the CSR and Reputation Committees of the country subholding companies coordinate the balanced development of these matters within the Iberdrola Group. The CSR Committee of the Board of Directors performs the duties of supervision within its purview.

CSR plans of the group

In 2014, Iberdrola completed the Social Responsibility Plan for the 2013-2014 period, which is articulated around the goals of contributing to the generation of a culture of global responsibility within the Group, strengthening trust through the continuous promotion of responsible behaviour, and contributing to the creation of value shared with its stakeholders.

This plan is analysed by the Corporate CSR and Reputation Committee and the CSR Committee of the Board of Directors every six months, and upon the completion thereof, it reached a 96% level of compliance with the established goals.

The CSR Plan for the 2015-2017 period is currently being prepared.

External awards

- 86 points.
- First utility with nuclear assets to be selected on the index.
- Carbon Disclosure Leadership Index (CDLI), 99 points.
- Carbon Performance Leadership Index A.
- Iberdrola one of the developers.
- First Spanish utility.
- Iberdrola selected.
- Sustainability Yearbook 2014 “Silver Class” in the electricity sector.
- Honourable Mention in Environment and Sustainability.
- Iberdrola is leading most sustainable Spanish utility and third worldwide.
- Leader among Spanish utilities: electricity, gas, and water.
- Classified as “Prime”.
5.4 Triple line of defence

Model of Triple Line of Defence

The Internal Control System of Iberdrola and the companies of its Group is configured by reference to international best practices. It is based on a guarantee combined around three lines of defence, providing a comprehensive view of how the different parts of the organisation interact in an effective and coordinated manner, making more efficient the processes for management and internal control of the entity’s significant risks.

Operational management

As the first line of defence, the Management Team and the professionals of Iberdrola and its Group are the direct managers of the risks of the entity. Thus, the Management of the Company is responsible for maintaining effective control and implementing procedures to control risks on a continuous basis.

Assurance functions

As the second line of defence, certain duties provide the foundation for the entity’s internal control system, proposing guidelines to the Board and monitoring how the first line of defence implements them.

The primary assurance functions within Iberdrola, within their respective areas of responsibility, are (i) the Risk Committee of the Group, within the framework of its duties within the Comprehensive Risk Control and Management System; (ii) the Compliance Unit, which is responsible for the Compliance System; and (iii) the Internal Control Division, which is part of the Administration and Control Division, within its duties relating to the internal control and risk management systems in relation to the issuance of financial information (ICFRS).

Internal Control Objectives (COSO. May 2013)

• Operations objectives - Pertain to the effectiveness and efficiency of the entity's operations, including operational and financial performance goals, and safeguarding assets against loss.

• Reporting objectives - Pertain to internal and external financial and non-financial reporting and may encompass reliability, timeliness, transparency, or other terms as set forth by regulators, recognised standard setters, or the entity's policies.

• Compliance objectives - Pertain to adherence to laws and regulations to which the entity is subject.
Internal Audit

The internal audit function, in its capacity as the third line of defence, supervises the internal control and risk management systems, auditing how the first and second lines carry out their respective duties of management and control.

To ensure its independence, the director of the Internal Audit Area reports hierarchically to the Chairman of the Board of Directors and functionally to the Audit and Risk Supervision Committee.

The internal audit divisions of the various country subholding companies have this same positioning, and are coordinated under the framework of the Basic Internal Audit Regulations of Iberdrola and the Companies of its Group.

The 2014 annual activities plans of the Internal Audit Area Division of Iberdrola, S.A. and of the internal audit divisions of the Group responded to the requirements established by the Audit and Risk Supervision Committee of Iberdrola, S.A. and the respective audit and compliance committees of the country subholding companies in their respective regulations, and included work for the Senior Management and the rest of the organisation, including:

• Annual audits of compliance with the Code of Ethics at Iberdrola, S.A. and at each of the country subholding companies.
• Audit of the Corporate Risk Policy regarding Treasury Shares.
• Six-month reviews of the operation of the most critical controls of the Internal Control Over Financial Reporting (ICFR) Model, as well as reviews of the various cycles of preparation of the financial information of Iberdrola, S.A. and the various companies of the Group, within the framework of the general goal of reviewing the entire ICFR over a period of 3 years.

External assurance

The auditors, regulatory bodies, and other entities external to the organisation play a significant role in the general structure of governance, internal control, and risks of Iberdrola, especially in the regulated businesses.

The regulators establish requirements with the intention to strengthen the controls of an organisation and perform a function of independent and separate monitoring.

On the other hand, the auditors provide assurance regarding the true and fair view of the entity’s financial information.
About this report

This report, which Iberdrola directs to both its shareholders and investors and all of its stakeholders, has been prepared under the emerging “integrated report” concept, and constitutes one more example of the Group’s intention to be innovative in the area of transparency.
6.1 About this report

Integrated report
- This report has been prepared in accordance with the reporting framework published by the International Integrated Reporting Council (IIRC) and in accordance with the recommendations thereof, taking into consideration the individual and consolidated financial statements of the Company formulated by the Board of Directors, audited and pending approval by the shareholders at the General Shareholders’ Meeting of Iberdrola, S.A.
- A multi-disciplinary team made up of corporate businesses and areas of the Group was created in order to provide a complete view of the Company, its business model, the challenges and risks it faces, and its social, environmental, financial, and governance performance. The participating organisations guarantee the completeness of the information included.
- This report has been analysed by the Operating Committee of the company and approved by the Board of Directors of Iberdrola at its meeting of 17 February 2015.
- As regards the key issues identified by the IIRC, it is expected that future reports will delve into the establishment of increased interrelation between the Company’s objectives and their effects on capital.

Information boundaries
- The information submitted covers Iberdrola, S.A. and its subsidiaries and affiliates. The information boundaries are defined in the Group’s Annual Financial Statements and Sustainability Report.
- The Group’s performance over the last years is connected to external corporate transactions and internal management decisions, which the reader should take into account in order to properly interpret this report. These transactions and activities are described in the Group’s public information, the following being particularly noteworthy:
  - The acquisition and merger of companies in Brazil (2011) and the nationalisation in Bolivia (2011).
  - Beginning on 1 January 2011, the focus on a Group management model based on global businesses.
  - The application of IFRS 11 to the 2013 and 2014 figures, which mainly affect Brazil.

Material aspects
- Iberdrola has channels of communication and dialogue with its stakeholders, developed in accordance with the principles of the AA1000 Assurance Standard, as described in detail in the Sustainability Report.
- In addition, it performs materiality analyses that help identify matters of significance to the Company’s stakeholders, bringing to light particularly sensitive financial, environmental, or social issues related to the business in the various communities and geographic areas in which the Group operates.
- The contents of this report have been selected by taking into account the existing channels for dialogue as well as the materiality analyses and the framework defined by the IIRC for this kind of information.

Internal and external verification
- This report has been subject to a process of internal verification, by means of a limited review performed by the Management of the Internal Audit Area of Iberdrola, S.A.
- Although it has not been subject to a process of independent external verification, a significant portion of the information contained herein relating to financial year 2014 and to previous years comes from annual financial reports and sustainability reports, all of which have been the subject of an external audit or verification for which the respective certificates are available. The remaining information comes mainly from other reports or public presentations made by the Company.
Legal disclaimer with respect to forward-looking statements, errors, and omissions

• This document contains forward-looking information and statements about Iberdrola, S.A. Such statements include projections and estimates and their underlying assumptions, statements regarding plans, objectives, and expectations with respect to future transactions, investments, synergies, products, and services, and statements regarding future performance. Forward-looking statements are not historical facts and are generally identified by the words “expects”, “anticipates”, “believes”, “intends”, “estimates”, and similar expressions.

• In this regard, although Iberdrola, S.A. believes that the expectations reflected in such statements are reasonable, investors and holders of Iberdrola, S.A. shares are cautioned that forward-looking information and statements are subject to risks and uncertainties, many of which are difficult to predict and generally beyond the control of Iberdrola, S.A., which risks could cause actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. These risks and uncertainties include those identified in the documents sent by Iberdrola, S.A. to the National Securities Market Commission (Comisión Nacional del Mercado de Valores) and which are accessible to the public.

• Forward-looking statements are not guarantees of future performance and have not been reviewed by the auditors of Iberdrola, S.A. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date they were made. All forward-looking statements included in this report are expressly qualified by the cautionary statement above. All forward-looking statements included in this document are based on information available as of the date of publication hereof. Except as required by applicable law, Iberdrola, S.A. does not undertake any obligation to publicly update its forward-looking statements or to revise any forward-looking information, even if new data are published or new events occur.
Your energy, our energy.