Annual report on compliance with legal provisions on the separation of regulated activities within the Iberdrola Group

Annual report on the separation of regulated activities / 2014
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1. Introduction
IBERDROLA, S.A. ("IBERDROLA" or the "Company") is the holding company of a group of companies the activities of which are mainly carried out in the energy industry, both in Spain and in other Atlantic-area countries, with a notable presence in the United Kingdom, the United States of America, and Latin America (the "Group").

The Company, which performs holding company functions, is the entity holding the equity stakes of the country subholding companies. Each country subholding company in turn groups together, in each of the countries in which the Group operates, the business subholding companies (sociedades cabecera de los negocios) that perform in such territory and centralise the provision of services common to such companies, always in accordance with the provisions of applicable law and specifically the law pertaining to the separation of activities.

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

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

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

As a general rule, such regulations allow for the performance of certain activities, such as production and sale (liberalised activities), under the free competition system, in comparison with others that, due to the nature thereof, must be carried out as a monopoly, including electricity and gas distribution and transmission/transportation (regulated activities).

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

Pursuant to industry regulations in effect within the European Union², the same company may not carry out regulated and liberalised activities, but different companies belonging to the same group may do so, provided that they meet certain standards of independence in the management of regulated activities, as is the case with the Group.

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

¹ A company organised in 2014 which groups together equity stakes in subholding companies of the various businesses that perform energy-related activities in Spain.
The companies carrying out regulated activities in Spain must have a code of conduct that establishes the measures adopted to ensure compliance with such standards of independence, which must be supervised and evaluated by a competent and completely independent person or body appointed by the company for such purpose.

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

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

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

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

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

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

This report will be available on the corporate website at www.iberdrola.com.
2. Definitions
Liberalised Activities: generally, the production and sale of electricity and gas and the provision of energy recharging services, without prejudice to the specific provisions provided by applicable regulations in each country.

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

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

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

Regulated Companies: the companies of the Group that carry out Regulated Activities.
3. Separation of Activities within IBERDROLA’s Corporate Governance System and within the Group’s codes of conduct
3.1. General Principles

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

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

- The Board of Directors of the Company has the following duties, within the framework of its responsibilities in connection with the general duty of supervision, organisation, and strategic coordination of the Group:
  
  • Supervise compliance by the country subholding companies with the legal provisions on separation of activities in their respective jurisdictions (article 7.6.d of the Regulations of the Board of Directors).
  
  • Adapt the structure of the Group to the legal requirements applicable in the jurisdictions in which it carries out its activities, and specifically as regards the rules governing the separation of regulated activities which apply in each jurisdiction (section 4 b) of the Policy for the Definition and Coordination of the IBERDROLA Group and Foundations of Corporate Organisation).

- The Corporate Social Responsibility Committee of the Company’s Board of Directors is given the duty of issuing its prior opinion on the annual report on compliance with legal provisions on separation of regulated activities within the Group prepared by the compliance director for presentation to the Board of Directors in order for it to be advised thereof (articles 27.6.i of the Regulations of the Board of Directors and 5.3 of the Regulations of the Corporate Social Responsibility Committee).

In addition, article 27.4 of the Code of Ethics3 establishes the following specific obligations which, generally and without prejudice to the provisions of the laws and regulations applicable in each country, bind the Group and its professionals:

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

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

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

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

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

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

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

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

The Code of ethics has been expressly adopted by each of the Regulated and Liberalised Companies of the Group, all of which fall within the scope of its application.

### 3.2. Codes of Conduct regarding Separation of Activities

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

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

Pursuant to the provisions of article 3 of the Code for the Separation of Activities, this Code applies to:

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4 Prior to the creation of the country subholding company in Spain, in 2014 there was a Code for the Separation of Activities of the Companies of the Iberdrola Group Carrying out Regulated Activities in Spain approved by the Board of Directors of Iberdrola, which was repealed on 16 December 2014.

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Corporate Governance System and codes of conduct

- all directors, officers, and employees of Regulated Companies of the Group with activities in Spain, regardless of their level (except for those of electric power supply companies having less than 100,000 customers connected to their networks), and

- the directors, officers and employees of Liberalised Companies in Spain to the extent that they are affected by applicable regulations regarding the separation of activities.

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

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

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

Scottish Power complies with the requirements regarding the separation of activities and, in particular, with those relating to:

- independent identity with respect to the supply businesses within the same corporate group; and

- restricted access to the facilities, programmes, or systems used in the distribution and transmission business.

Regulated Companies in the United States, which are subject to both federal and state codes of conduct, were grouped together on 20 November 2013 under the businesses subholding company Iberdrola USA Networks Inc. ("Iberdrola USA Networks"). Prior to the above date, Regulated Companies in the United States reported to Iberdrola USA, Inc. ("Iberdrola USA") which adopted a policy in regard to its subsidiaries to ensure compliance with the Federal Standards of Conduct, which policy was filed with the Federal Energy Regulatory Commission (FERC) on 1 June 2004, as well as an internal code of conduct with strengthened rules regarding separation of activities on 12 February 2004, which was replaced by the Code of Ethics adopted by the Board of Directors of Iberdrola USA on 9 December 2011. These regulations were also adopted by the Board of Directors of Iberdrola USA Networks on 4 December 2013. Additionally, Iberdrola USA Networks has a specific Code of Conduct to ensure compliance with the requirements imposed by the Public Service Commission of the State of New York.

In 2013 Elektro Eletricidade e Serviços, S.A. ("Elektro") adopted the Code of Ethics pursuant to the Group’s Corporate Governance System.

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

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

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

Pursuant to the provisions of the Policy for the Definition and Coordination of the Iberdrola Group and Foundations of Corporate Organisation, the corporate and governance structure of the Group is based on the following division of duties:

a) **Board of Directors of IBERDROLA**: attribution to the Board of Directors of IBERDROLA, which exclusively exercises the duties of a holding company, of powers relating to establishing the Group’s policies and strategies and the basic guidelines for the management thereof, as well as general supervision of the development of such policies, strategies, and guidelines, and of decisions on matters of strategic importance at the Group level.

b) **Chairman & chief executive officer, business CEO, and rest of the management team of the Company**: assumption by the chairman of the Board of Directors & chief executive officer, with the technical support of the Operating Committee, by the Business CEO appointed by the Board of Directors (with overall responsibility for all of the businesses of the Group) and the rest of the management team, of the duty of organisation and strategic coordination within the Group through the dissemination, implementation, and monitoring of the general strategy and basic management guidelines established by the Board of Directors.

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

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

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

In order to concretise the application of the Corporate Governance System based on the applicable law in each country, as well as the characteristics and unique aspects of such countries, and to meet the responsibilities that the Corporate Governance System assigns thereto, the country subholding companies approve the rules applicable to the companies in which they have a stake, and specify the

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application at the country level of the content of the basic policies and guidelines approved by the Company’s Board of Directors for the entire Group.

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

These business subholding companies are organised through their respective boards of directors, which include independent directors, where appropriate, and their own management decision-making bodies; they may also have their own audit committees, internal audit areas, and compliance units or divisions.

4.2. Bodies Responsible for the Administration and Management of Regulated and Liberalised Companies

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

As regards the Liberalised Companies, due to the internal reorganisation carried out within the Group in 2014 in Spain, Iberdrola Generación España, S.A., Sociedad Unipersonal (“Iberdrola Generación España”) is now the country subholding company that manages central services for the business of generation, wholesale gas distribution, and energy management activities, and is also the holding company of the company Iberdrola Generación, S.A., Sociedad Unipersonal, the activities of which are limited to the generation of electricity, and the company Iberdrola Clientes, S.A., Sociedad Unipersonal, which groups together the energy retailing activities. The production of renewable energy is carried out through Iberdrola Renovables Energy, S.A., Unipersonal (“Iberdrola Renovables”).

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

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

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7 The other regulated companies that appear on the map are not subject to the Code for the Separation of Activities, as they have fewer than 100,000 customers connected to their networks.

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

SPEN, the holding company in charge of regulated activities, has its own Board of Directors, the members of which do not perform other activities with management responsibility in the liberalised businesses.

In addition, in 2011, SPEN appointed a chief executive officer with full operating and financial powers to manage the Regulated Activities, reporting directly and exclusively to the Board of Directors of SPEN.

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

- **Electricity Distribution**

  - **Scottish Power Limited**
    - **Scottish Power UK Holdings Ltd.**
      - **Scottish Power UK Plc.**
        - **Scottish Power Energy Networks Holdings Ltd.**
          - **SP Distribution Plc.**
            - **SP Manweb Plc.**
              - **SP Transmission Plc.**
                - **SP Power Systems Ltd.**

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In the United States, the business subholding company for Regulated Activities is Iberdrola USA Networks, the corporate and governance structure of which conforms to both the functional and corporate separation required by federal and state legislation, respectively.

Iberdrola USA Networks holds interests in Regulated Companies in the State of New York (New York State Electric & Gas Corporation, Rochester Gas and Electric Corporation, and New York TransCo, LLC) and in the State of Maine (Central Maine Power Company and Maine Electric Power Company Inc.), but holds no interests in Liberalised Companies in these States (see map of Regulated Companies in the United States).

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8 During 2014, it was also the owner of 100% of New Hampshire Gas Corporation in the State of New Hampshire, which was transferred on 2 January 2015.

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Map of regulated companies in the United States

- **Electricity Distribution and Transmission**
- **Gas Distribution**

IBERDROLA USA, Inc. (New York) 100%

IBERDROLA USA Networks Inc. (Maine) 100%

CMP Group. Inc. (Maine) 100%

Central Maine Power Company (Maine) 100%

Maine Electric Power Company, Inc (Maine) 78.28%

RGS Energy Group. Inc. (New York) 100%

New York State Electric & Gas Corp. (New York) 100%

Rochester Gas & Electric Corporation (New York) 100%

Iberdrola USA Networks TransCo, LLC (New York) 100%

New York TransCo, LLC (New York) 19.973%
Furthermore, since 20 November 2013 Iberdrola USA has been the parent company of Iberdrola Energy Holdings LLC and Iberdrola Renewables, LLC, which are the gas and renewables business subholding companies in the United States of America, and of Iberdrola USA Networks. Both Iberdrola USA and Iberdrola USA Networks are responsible for the effective supervision of the separation of activities of regulated and liberalised businesses in the United States of America.

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

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

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

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

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

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

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

There is also a differentiation between Regulated and Liberalised Companies in Brazil.

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

5.2. Measures relating to the Provision of Common Services

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

In Spain, Iberdrola Distribución Eléctrica signed a master corporate services agreement with the Company on 1 January 2011 and has been signing subsequent amendments by novation thereof. Pursuant to the agreement effective 1 July 2014 between the Company and Iberdrola España, Iberdrola Distribución Eléctrica has benefitted from the corresponding provision of corporate services by Iberdrola. The accession commitment signed for such purposes expressly guarantee to Iberdrola Distribución Eléctrica effective decision-making capacity regarding the services for which management thereof is entrusted to Iberdrola and that the rules of the *Code for the Separation of Activities* are considered part of the text of the agreement, subject to the provision that the rights and obligations arising under the services agreement may not be enforced upon terms that contradict or ignore them.

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

Iberdrola USA Management Corporation is a subsidiary of Iberdrola USA Networks, which provides corporate services to the Regulated and Liberalised Companies of Iberdrola USA Networks in accordance with cost allocation standards established to determine the price of the services in the corresponding

\(^9\) The attached Annex includes a descriptive table of the corporate purpose of the Regulated Companies.

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services agreements, in full compliance with federal legislation, the Public Service Law of New York, and the Public Utilities Act of Maine.

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

5.3. Organisational Measures

In Spain, the Code for the Separation of Activities requires an organisational structure in which none of the persons responsible for the management of Regulated Companies is responsible for the day-to-day management of Liberalised Companies. Thus, none of the persons responsible for the management of Iberdrola Distribución Eléctrica has participated in the organisational structures for the day-to-day management of Liberalised Activities during financial year 2014.

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

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

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

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

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

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

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

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

At Iberdrola Distribución Eléctrica:

- none of the Persons Responsible for Management directly or indirectly hold shares in Liberalised Companies;
- none of the Persons Responsible for Management participated in the organisational structures for the day-to-day management of Liberalised Companies during financial year 2014;
- Iberdrola Distribución Eléctrica itself establishes the remuneration that the Persons Responsible for Management receive for the duties they perform at such company; and
- such remuneration does not depend on the results from the Liberalised Activities.

In the United Kingdom, the Utilities Act of 2000 requires companies to create separate companies for the distribution and supply businesses. This is reflected in the legal structure of the Scottish Power Group. SPEN, which is the holding company of the Scottish Power Group’s regulated network companies, is responsible for the day-to-day management of Regulated Activities within Scottish Power, and has its own Board of Directors, which is made up of directors who do not have responsibilities within other areas of Scottish Power, including Liberalised Activities, in order to strengthen the separation of activities, as explained above. In addition, both the Board of Directors of SPEN and the Boards of Directors of the regulated companies have three “Sufficiently Independent Directors”, pursuant to the terms of the licenses.

For its part, Iberdrola USA Networks has adopted the requirements imposed by orders of the Public Service Commission of the State of New York, pursuant to which the officers of Iberdrola USA Networks may be directors but in no case perform executive duties within the Regulated Companies. Iberdrola USA Networks has its own Board of Directors, including independent directors, and its own Audit and Compliance Committee with a majority of independent directors, and a chairman who is also an independent director. Furthermore, in any event, Regulated and Liberalised Companies in the United States have different directors and officers.
In Brazil, the regulator ANEEL allows companies of the same Group to share a chief executive officer, which does not affect the separation of activities, although a regulatory resolution put forward by ANEEL is currently under review regarding this issue which, if approved in its current form, would restrict the possibility of sharing infrastructures and management personnel between differentiated segments of activity.

5.5. Measures Aimed at the Protection of Commercially Sensitive Information

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

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

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

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

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

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

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

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

The Code for the Separation of Activities recently approved by Iberdrola España is published in the employee’s portal of the Group and on the corporate website of Iberdrola Distribución Eléctrica, and will be published in the employee portal of Iberdrola España and on its corporate website, which is currently being created. Likewise, this approval has been communicated to all employees of Iberdrola Distribución Eléctrica by e-mail.

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

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

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

In Brazil, Elektro also provides annual training to its employees on the Code of Ethics.
6. Evaluation processes
In Spain, the person charged with evaluating compliance and effectiveness of the Code for the Separation of Activities is the compliance director of Iberdrola España. This evaluation provides the basis for the preparation of the Annual Report on Compliance with the Code for the Separation of Activities of the Companies of the Iberdrola España Group Carrying Out Regulated Activities in Spain, the content and results of which are reported to the Board of Directors of Iberdrola Distribución Eléctrica.

The Annual Report on Compliance with the Code for the Separation of Activities of the Companies of the Iberdrola Group Carrying Out Regulated Activities in Spain for 2014 was submitted to the Board of Directors of Iberdrola España on 9 February for it to be advised thereof after a favourable report from its Audit and Compliance Committee. The report was sent to the Ministry of Industry, Energy, and Tourism and to the National Markets and Competition Commission, and is published in accordance with applicable legal provisions.

The transmission and distribution licences of the Regulated Companies in the United Kingdom also require the appointment of a compliance officer. At Scottish Power, a compliance officer has been appointed for such purposes, and who is also the current corporate compliance officer.

The compliance officer of Scottish Power prepares an annual report that the regulated companies submit to OFGEM describing the procedures implemented to ensure compliance with the requirements of their licenses in the area of separation of activities. The compliance officer also issues an Annual Report on Separation of Activities regarding the effectiveness of the practices, procedures, and systems adopted in accordance with the report submitted to OFGEM by the regulated companies and regarding any required improvement action. In June 2014, the Board of Directors of SPEN approved the first of such reports for the period from April 2013 through March 2014. This report is published on the website of Scottish Power. The second was approved by the Audit and Compliance Committee at its meeting held on 8 July 2014.

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

The Report on the Separation of Activities for 2014 is sent to the Board of Directors of Iberdrola USA, after a report from its Audit and Compliance Committee.

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

NOTICE: This document is a translation of a duly approved Spanish-language document, and is provided for informational purposes only. In the event of any discrepancy between the text of this translation and the text of the original Spanish-language document that this translation is intended to reflect, the text of the original Spanish-language document shall prevail.
The Report on the Separation of Activities for 2014 was sent to the Board of Directors of Iberdrola USA Networks, after a favourable report from its Audit and Compliance Committee.

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

The Report on the Separation of Activities for 2014 was sent to the Board of Directors of Iberdrola USA Renewables, LLC, after a favourable report from its Audit and Compliance Committee.

Iberdrola Energy Holdings, LLC also has a compliance programme in place and has appointed its own compliance officer with duties in the area of separation of activities and who has direct access to the chief executive officer and the Board of Directors. The compliance director ensures effective application of the compliance programme and compiles an annual report on the separation of activities which is submitted to the Board of Directors.

The Report on the Separation of Activities for 2014 was sent to the Board of Directors of Iberdrola USA Energy Holdings, LLC.

In Brazil, Elektro also has a compliance director charged with ensuring regulatory compliance, who reports directly to the company’s Audit and Regulatory Compliance Committee. Applicable legal provisions in Brazil do not require the issuance of annual reports on separation of activities.

The processes of evaluation carried out in 2014 have not shown breaches of the regulations applicable to the separation of activities in any material respect.
Pursuant to the provisions of article 8 of the Regulations of the Compliance Unit, based on the information provided by the Compliance Divisions referred to above, the Company’s compliance director issues this report, the content of which has been reported to the Compliance Unit at its meeting of 9 February 2015.

Once the Corporate Social Responsibility Committee has issued its favourable opinion on this report, it has been transmitted to the Company’s Board of Directors for the notice thereof.
### Corporate Purpose of the main Regulated Companies

<table>
<thead>
<tr>
<th>Company</th>
<th>Corporate Object</th>
<th>Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBERDROLA Distribución Eléctrica, S.A. Unipersonal</td>
<td>The performance of all kinds of activities, works and services inherent or relating to the business of electricity transmission, supply, and third party access to the electricity network, always subject to the provisions of the laws applicable to the electricity industry at any given time.</td>
<td>Avenida San Adrián 48, Bilbao (Bizkaia), CP 48003 España</td>
</tr>
<tr>
<td>SP Distribution plc.</td>
<td>Ownership and management of electricity distribution networks in areas of central and southern Scotland.</td>
<td>1 Atlantic Quay Glasgow, Scotland G2 8SP United Kingdom</td>
</tr>
<tr>
<td>SP Transmission plc.</td>
<td>Ownership and management of electricity distribution networks in areas of central and southern Scotland and of interconnections with other energy transmission systems in Northern Ireland, England and Wales.</td>
<td>1 Atlantic Quay Glasgow, Scotland G2 8SP United Kingdom</td>
</tr>
<tr>
<td>SP Manweb Plc.</td>
<td>Ownership and management of electricity distribution networks in areas of Mersey, Cheshire and Northern Wales.</td>
<td>3 Prenton Way Prenton, Cheshire CH 43 3ET United Kingdom</td>
</tr>
<tr>
<td>New York State Electric &amp; Gas Corporation</td>
<td>Ownership and management of electricity and gas distribution networks in New York State.</td>
<td>89 East Avenue Rochester, New York 14649 United States</td>
</tr>
<tr>
<td>Rochester Gas and Electric Corporation</td>
<td>Ownership and management of electricity and gas distribution networks in northern New York State.</td>
<td>89 East Avenue Rochester, New York 14649 United States</td>
</tr>
<tr>
<td>Central Maine Power Company</td>
<td>Ownership and management of electricity distribution networks in areas of central and southern Maine.</td>
<td>83 Edison Drive Augusta, Maine 04336 United States</td>
</tr>
<tr>
<td>Maine Electric Power Company Inc.</td>
<td>Ownership and management of electricity transmission networks on the US-Canada border.</td>
<td>52 Farm View Drive New Gloucester, Maine 04260 United States</td>
</tr>
<tr>
<td>Elektro Electricidade e Serviços, S.A.</td>
<td>Study, planning, projection, construction, and operation of energy distribution systems.</td>
<td>Rua Ary Antenor de Souza, 321 Jd. Nova América Campinas - Sao Paolo 13053-024 Brazil</td>
</tr>
</tbody>
</table>