

## D. RISK CONTROL SYSTEMS

### D.1. General description of the risk control policy adopted by the Company and/or its Group, describing and assessing the risks covered by the system and providing a justification for the adjustment of such system to the profile of each kind of risk.

The Company is subject to various risks inherent in the different countries, industries and markets in which it does business and in the activities it carries out, which may prevent it from achieving its objectives and successfully implementing its strategies.

Aware of the significance of this issue, the Board of Directors of the Company has established, through the General Risk Control and Management Policy approved at its meeting of April 14, 2008 and updated at its meeting of February 24, 2009, the mechanisms and basic principles for appropriate management of the risk-opportunity combination, at a risk level that makes it possible to:

- attain the objectives formulated in the Strategic Plan with controlled volatility;
- provide the maximum level of assurance to the shareholders;
- protect the results and the reputation of the Company;
- defend the interests of shareholders, customers and other groups interested in the Company's performance and of society in general; and
- ensure corporate stability and financial strength in the short and medium terms.

In order to actualize such commitment, the Board of Directors and its Executive Committee have the cooperation of the Audit and Compliance Committee, which, as a consultative body, monitors and reports upon the appropriateness of the system for assessment and internal control of significant risks.

Every action aimed at risk control and mitigation must comply with the following Basic Action Principles:

- INTEGRATE the risk-opportunity vision into the Company's management, through a definition of the strategy and the risk profile and the incorporation of this variable into strategic and operating decisions.
- SEGREGATE functions, at the operating level, between risk-taking areas and areas responsible for the analysis, control and monitoring of such risks, ensuring an appropriate level of independence.
- ENSURE the proper use of risk hedging instruments and the maintenance of records thereof as required by applicable law.

- INFORM regulatory agencies and the principal external players, in a transparent fashion, regarding the risks facing the Company and the operation of the systems developed to monitor such risks, maintaining suitable channels that favor communication.
- ALIGN to this general policy all the specific policies that may need to be developed in the area of risks in the various businesses and companies controlled by the Iberdrola Renovables Group.
- ADOPT, in furtherance of continual improvement, the benchmark of the best international practices as to transparency and "good governance" relating to the control, management and monitoring of risks (in particular, the Enterprise Risk Management (ERM) framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO)).
- ACT, at all times, in compliance with applicable regulations and legal provisions and with due observance of the values established in the Code of Professional Conduct of the Group.

The General Risk Control and Management Policy and the basic principles underpinning it are implemented by means of a Comprehensive Risk Control and Management System, based upon a proper definition and allocation of functions and responsibilities at the operating level and upon supporting procedures, methodologies and tools, suitable for the various stages and activities within the system, including:

- The identification of significant risks, including market, credit, business, regulatory, operational, environmental, reputational and other risks, by taking into account their possible impact on the key management objectives set out in the Strategic Plan, new investments and financial statements (including contingent liabilities and other off-balance sheet risks).
- The analysis of such risks, both at each corporate business division or function and taking into account their combined effect on the Company as a whole and, in particular, the analysis of risks associated with new investments, as an essential element of decision-making based upon profitability-risk.
- The establishment of a structure of policies, guidelines and limits, as well as of the corresponding mechanisms for the approval and implementation thereof, which effectively contribute to risk management being performed in accordance with the Company's risk profile.
- The implementation of and monitoring of compliance with the policies, guidelines and limits, by means of appropriate procedures and systems, including the contingency plans needed to mitigate the impact of the materialization of risks.

- The measurement and monitoring of risks, by following homogeneous procedures and standards which are common to the Company as a whole, and specifically, the periodic monitoring and control of income statement risks in order to control the volatility of the annual income of the Group.
- The information and internal control systems allowing for a periodic and transparent evaluation and communication of the results of the monitoring of risk control and management activities, including the observance of policies and limits.
- The continual evaluation of the suitability and efficiency of applying the system and the best practices and recommendations in the area of risks for eventual incorporation thereof into the model.
- The supervision of the System by the Internal Audit Division, in accordance with the Basic Internal Audit Regulations.
- Credit risk: possibility that the counterparty fails to perform its contractual obligations, thus causing an economic or financial loss to the Group. Counterparties may be final customers, counterparties in financial markets or in energy markets, partners, suppliers or contractors.
- Regulatory risk: associated with regulations or the possibility of regulatory changes that may have an impact on the business or the market in the short or the long term.
- Operational risk: possible direct or indirect losses caused by inadequate internal processes, technological failures, human error, or as a consequence of external events, including the economic, social, environmental and reputational impact thereof, as well as legal risk.
- Business risk: any risks other than those mentioned above, associated with variations in the key operational and valuation aspects of each business, including, for instance: demand, solar, wind and water resources, or competitors' strategies.
- Reputational risk: potential adverse impact on the Company's value caused by the Company performing below the expectations created among various stakeholders: shareholders, customers, media, analysts, Government, employees, and society at large.

The General Risk Control and Management Policy is developed and supplemented by the following risk policies, which are also approved by the Company's Board of Directors and are listed below:

**Corporate policies:**

- Financing and financial risks policy
- Corporate Credit Risk policy
- Treasury stock policy
- Risk policy for listed affiliated companies
- Insurance policy
- Reputational risk framework policy

**Business-specific policies:**

- Investment policy
- Facilities operations risk policy
- Energy management risk policy

These policies are associated with several numerical values for limitation of the stated risks whose compliance is the subject of periodic monitoring.

Finally, there are specific procedures at each Business or corporate function, with which risks in the daily operations are managed. These procedures are aligned with the guidelines and limits provided in the aforementioned risk policies.

The system contemplates any type of risk facing deregulated and regulated activities, both at the domestic and the international level, such as:

- Market risk: exposure of the Group's results of operations to fluctuations in prices and market variables, such as prices of raw materials (electricity and gas), interest rate, exchange rate, prices of financial assets, and others.

Owing to its universal and dynamic nature, the system allows for the consideration of new risks that may affect the Iberdrola Renovables Group as a result of changes in its operating environment or revisions of objectives and strategies, as well as adjustments resulting from ongoing monitoring, verification, review and supervision activities.

**D.2. Indicate whether any of the various types of risks (operational, technological, financial, legal, reputational, tax-related, etc.) affecting the Company and/or its Group materialized during the fiscal year.**

YES	NO
X	

**If so, indicate the circumstances giving rise to them and whether the established control systems have worked:**

Risk that occurred during the fiscal year	Circumstances giving rise thereto	Performance of control systems
Risks relating to scope: market, credit, business, regulatory, operational and reputational.	Those inherent in the conduct of the business..	The control systems worked properly for the risks that occurred in 2008.

**D.3. Indicate whether there is any committee or other decision-making body in charge of establishing and supervising these control mechanisms.**

YES	NO
X	

**If so, describe its duties:**

Name of Committee or Other Body	Description of duties
BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE	Within their respective areas of authority, they are in charge of ensuring the proper identification, measurement, management and control of all significant risks, defining the company's risk strategy and profile, and approving the Company's risk policies, their limits and indicators, and the information to be provided externally regarding risks. For the proper discharge of its duties, the Executive Committee has the support of the Management Committee, the corporate and Business divisions, and the Investments unit.
AUDIT AND COMPLIANCE COMMITTEE	Among other powers and duties, it supervises compliance with risk policies, procedures and limits and reports on the adequacy of the system for assessment and internal control of risks relevant to the Company. To this end, it has the support of the Internal Audit Division, which, functionally reporting to the Chairman of the Audit and Compliance Committee and being a governance function, is responsible for supervising the management and control of significant risks facing the Company and its Strategic Plan, pursuant to the Basic Internal Audit Regulations, approved by the Audit and Compliance Committee itself.
MANAGEMENT COMMITTEE / RISK COMMITTEE	Manages and controls the Company's balance of risks following approved risk policies and limits. The Management Committee periodically meets with the Head of the Risks Unit at the Risk Committee where, among other activities, compliance with the risk policies is monitored and the map of key risks for the Group is approved.
CORPORATE AND BUSINESS DIVISIONS	They identify and manage the risks of their areas of business or authority (financial, legal, regulatory, etc.) according to the policies established at corporate level and within the approved limits.
ECONOMIC AND FINANCIAL DIVISION	Through the Risk Unit, it performs integrated analyses of risk, assesses in an integrated manner market risk and credit risk, conducts credit ratings of principal counterparties, supports business units and management in matters relating to risk, coordinates and promotes the preparation and implementation of risk policies and limits and prepares risk information for management (weekly report on energy management in the United States and quarterly report on the monitoring of policies and limits), for the parent company and various external agents. Additionally, it controls the risks and opportunities related to the annual profit and loss statement and new investments, quantifying the effect of the Group's risks at the individual and consolidated level.
INVESTMENT UNIT	Performs a global review, as well as a proper assessment of any issue relating to the management of capital (investments, divestitures and any type of business operations), complying with the objective of creating shareholder value and verifying consistency with the Strategic Plan and the Budget.

**D.4. Identification and description of the procedures for compliance with the various regulations that affect the Company and/or its Group.**

IBERDROLA RENOVABLES is present in different countries where it is subject to compliance with different regulations. The power industry is subject to strict regulations in Spain as in the other countries in which IBERDROLA RENOVABLES carries out its activities (principally the United States, the United Kingdom and the other European Union countries). In particular, the Spanish market has undergone significant changes in recent years.

Each of the IBERDROLA RENOVABLES Group's principal business units has specific Control, Legal Services and Human Resources divisions that report

to the corresponding corporate divisions and are responsible for ensuring compliance with applicable laws in each case. At those territorial units which do not have a specific division, this role is filled directly by the corporate divisions.

Additionally, as established in the By-Laws of IBERDROLA RENOVABLES, the Audit and Compliance Committee ensures compliance with legal requirements and with the Codes of Professional Conduct and Good Governance adopted by the Board of Directors.