

OUR STRATEGY: TO CREATE VALUE FOR SOCIETY

The development of renewable energy fosters the progress of society and contributes to change towards the implementation of a new productive sustainable framework. Based on this principle, IBERDROLA RENOVABLES assumes that a commitment to the local communities in which it operates is an essential part of its corporate strategy. Part of the Company's success comes from the creation of value for people, societies and the environment.

1. MANAGEMENT APPROACH

Involvement in the community and relationship with regulatory agencies.

The IBERDROLA RENEWABLES Group is strongly and continuously involved with communities. This commitment is inherent in its activities, since the development of renewable energy fosters the progress of society, contributing to change towards a new sustainable production framework. In addition, commitment to the local communities in which the IBERDROLA Group operates is an essential component of its corporate strategy. The Group is convinced that the key to its success lies in creating value for people and the environment.

In order to focus on high-priority areas of action and following IBERDROLA Group guidelines, the Company has developed the following strategic community support programs:

- Community socioeconomic development.
- Art and Culture.
- Education and Training.
- Activities with underprivileged persons.
- The environment.

IBERDROLA RENEWABLES believes that the main benefits it receives from its commitment to society are:

- Building, maintaining and strengthening relationships of trust with communities by supporting social organizations and local governments.
- Better brand recognition and improved reputation as a result of its commitment to the community.
- Greater employee satisfaction that comes from participating in a Company that is valued and recognized socially, and through its volunteer and community assistance programs.

The local strategy followed by the IBERDROLA RENEWABLES Group is reflected in a strategic approach in keeping with the business. Thus, following an

external and internal consultation process, activities and programs now focus on education and access to employment of persons from local communities near its generation facilities.

The activities carried out as part of such programs of activity in 2008 and the capital invested therein are described in greater detail in Annex 1 to this report.

Other stakeholders that are particularly important for the IBERDROLA RENEWABLES Group are regulatory entities and government administrations. The Group fosters relationships of mutual and transparent cooperation with various institutions in the field of renewable energy, highlighting its role as a driver of sustainable growth. Regular and reciprocal contact with various players is beneficial for all parties involved inasmuch as information, knowledge and points of view are shared.

The Company establishes three levels of communication:

- Operational: professionals involved in the promotion, construction and operation of wind farms must be part of or be in permanent contact with those entities, ministries, agencies, governments and municipalities that are significant to ensure compliance with agreed periods, as well as with all the requirements established in the project.
- Business Development: Business Development managers meet regularly with the Senior Management of the relevant agencies to discuss issues regarding policies, site selection and, in general, to ensure a relationship of mutual trust and a fluid exchange of information.
- Strategic: meetings with Senior Management to deal with long-term strategic matters and policies of interest for the energy industry.

The exchange of information with such entities, which is extremely important from the regulatory point of view, takes place systematically, individually at the company level, or through the Spanish industry associations of which the company is a member: *Asociación Empresarial Eólica Española (AEE)*, *Asociación de Productores de Energía Renovables Española (APPA)*, *Asociación de la Industria Fotovoltaica Española (ASIF)*, *Club de la Energía*, etc. For further information on the associations of which IBERDROLA RENEWABLES is a member, see section 4.13.

IBERDROLA RENEWABLES' policy in connection with such industry associations is that of utmost cooperation, with a view to obtaining benefits for the renewable energy industry. As an industry leader, the Company is involved in these associations in a manner that is committed to the efficient operation of its business.

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Relationships with such institutions are primarily of two kinds:

- Relationships geared to the enactment of efficient regulatory provisions allowing for the development of a competitive market.
- Provision of all information required by regulatory entities, both in the normal conduct of its business and that required on specific occasions.

Management of risks associated with fraud and corruption.

The Board of Directors of IBERDROLA RENOVABLES, aware of the risk that this kind of practice represents for the Company, approved a Fraud Prevention Policy in the first quarter of 2009, taking up the commitment to work against fraud in all its forms, including extortion and bribery and carrying out specific activities in this area.

The Code of Professional Conduct governs the conduct of professionals in the course of their work, and the Corporate Social Responsibility Policy explicitly states the commitment to:

- Comply with applicable law in the countries in it operates, with the supplemental adoption of international standards and guidelines in those countries in which the legal framework is inadequate.
- Favor transparency and free market rules, rejecting bribery, corrupt practices or other types of contributions aimed at obtaining corporate advantages, and respecting the rules of free competition.

The IBERDROLA Group's Code of Professional Conduct is available on the corporate website:
www.iberdrolarenovables.es.

2. SOCIETY PERFORMANCE INDICATORS

Aspect: Community

SO1. Nature, scope and effectiveness of any programs and practices that assess and manage the impacts of operations on communities, including entering, operating and exiting.

In performing its activities, the IBERDROLA RENOVABLES Group is conscious of the importance of taking into account the social environment and the expectations of the communities near production facilities. Accordingly, Environmental Impact Assessments include, if deemed appropriate, an evaluation of the socioeconomic impact of development. The scope of such assessment generally includes the capital costs of the project and the potential for jobs and local business during the construction, operation and dismantling stages.

Furthermore, the impacts on value for recreational, tourism and land use purposes are taken into account in the assessment of the various stages. Impacts on the local community also include environmental parameters such as noise and vibrations, traffic and transport, air quality, cultural heritage and landscape.

Another material aspect is ongoing, transparent and productive communication with stakeholders in the communities where the IBERDROLA RENOVABLES Group does business. To that end, it has developed mechanisms for dialogue and communication with the social surroundings that involve: opening channels and establishing procedures to transmit the Company's plans, listening to the positions and arguments of community members, and responding to their complaints and problems.

IBERDROLA RENOVABLES and its subsidiaries also demonstrate their social commitment through the development of community support programs, in order to help improve the socioeconomic environment in the regions in which they operate. Annex 1 provides a summary of such contributions.

Social impact of activities on the community

Due to the nature of the Company's activities, the most significant impacts are environmental impacts, for which reason the Company works with local communities, particularly on the protection of biodiversity and the recovery of spaces. The greatest impacts relate to the noise emitted by wind turbines and the potential damage to birds and plants. In compliance with current legislation, the required environmental impact assessments are performed both during the project stage of new facilities and during the operational stage, where necessary. Studies to monitor avian fauna are customarily performed following completion of the facilities, as in the case of the Fitou wind farm in France.

As regards social impacts, a number of measures are taken, such as keeping a minimum distance between the wind farm and inhabited areas to avoid noise problems, and bridleing the wind turbines at night, if necessary, to comply with applicable legal provisions regarding permitted noise levels. There is also communication with local communities prior to and during the construction of new projects to respond to questions, complaints or suggestions from the various stakeholders.

Particularly worth noting is the Environmental Education Program that the company has been carrying out in recent years through the energy classrooms that were visited by over 55,000 people and which are intended to disseminate the principal environmental features and advantages of the different sources of renewable energy.

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In the United Kingdom, pursuant to applicable legislation, environmental impact assessments are performed during the development stage of new facilities, and also during the operational stage, if necessary.

During 2008, SCOTTISHPOWER RENEWABLES conducted 35 environmental impact studies and assessments, along with others of a similar nature.

The dialogue and communication channels established by SCOTTISHPOWER RENEWABLES with nearby communities include "The Community Liaison Meetings" during the promotion and construction stages, as well as specific contacts during the development stages. Queries may be made through various channels, such as public exhibitions, brochures, meetings with local governments or other local groups, e-mails or visits. Community Trust Funds are also set up for the operational development period and local environmental, charitable or educational projects are established.

Supplementing the foregoing, SCOTTISHPOWER RENEWABLES has a Public Complaint Procedure in place to record formal complaints received, following which the required corrective measures are implemented in each specific case.

The process is normally audited by Planning Authority representatives or by third parties, who report on the activities carried out to the appropriate authorities. Construction work can only begin once the "prior-to-commencement" conditions have been satisfied. When application is made for a Habitat Management Plan, the plan will require an agreement with the relevant stakeholders. SCOTTISHPOWER RENEWABLES reports regularly on the implementation and effectiveness of the plan.

As mentioned in the environmental section, "Lessons Learned" meetings are held regularly within the Development and Construction groups to discuss the positive and negative aspects encountered during the implementation of the projects. The conclusions of these meetings are communicated to the personnel involved, in order for the identified corrective measures to be implemented in future projects.

In the United States, given the large number of owners involved in a project, a project manager is designated to monitor the project through commercial operations to liaise with owners and local governments. This method has been well received by the owners, who thus know who to contact about their problems. Persons have also been designated to attend and participate in working groups in each state.

The "KidWind" program is expected to be launched in 2009 to provide information about wind energy to schoolchildren. The program consists of holding talks at schools and programs with science teachers. Ten schools in Ohio, Indiana and Illinois will be added in 2009.

In Greece, ROKAS RENEWABLES performs the environmental impact assessment required under applicable law, during both the development stage of new projects and the operational stage, as necessary. The authorities approve the results thereof and grant the authorization for implementation of the projects.

In France, in addition to the various Environmental Impact Assessments required by the government, communities participate in impact assessment through compensatory actions such as restoring the public parks of the town, building roads, etc.

No facility owned by the IBERDROLA RENEWABLES Group was decommissioned or closed in 2008. In any case, in the event of a possible closure, the various policies of the group that ensure compliance with the law and the provisions of the respective Environmental Impact Assessments regarding the proper restoration of the area would be applied.

Dialogue and communication with the community.

The company has established the following channels for dialogue and communication with society and, in particular, with the local communities where its facilities are located:

The Environmental Management System implemented at facilities under operation includes communication procedures which establish a system for third parties to transmit their questions, complaints, requests for information or other requests. In addition, the Company's offices throughout the world are a communication channel that is always available to the local community.

IBERDROLA RENEWABLES has an online channel through its website www.iberdrolarenovables.es and, specifically, through its e-mail address, to which anyone can send questions and requests for information.

Informational meetings with groups representing local communities and with local authorities are organized regularly in order to learn their opinion and minimize impacts.

In the United Kingdom, consultation processes in connection with new projects are determined according to the periods established by law. SCOTTISHPOWER RENEWABLES tries to call meetings and, where possible, to extend the period for consultation beyond the minimum period required by law.

In the United States, informational meetings are held regularly in order to favor consultation processes for the various projects. Questions, complaints, comments and suggestions from affected social groups are addressed at such meetings. For instance, in 2008, a crop dusters group voiced their concern regarding wind turbines, believing that they are no different from other structures over which they fly their planes, such as high-voltage lines, which hamper their work and increase the risk of accidents. One of the persons responsible for such consultation at IBERDROLA RENEWABLES is working



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on a survey to focus responses in order to achieve the implementation of measures addressed at improving flight safety.

In France, IBERDROLA RENOVABLES holds meetings with community members in order to inform them about a project before construction begins. In addition, the communication channel with the communities in which wind farms are located is the municipality; if there are any complaints, citizens transmit them to the municipal corporation and to IBERDROLA RENOVABLES. If the problem is not resolved, the complaint will be referred to the state level.

Aspect: Corruption

S02. Percentage and total number of business units analyzed for risks related to corruption.

The risk system established at the level of the IBERDROLA RENOVABLES Group considers bribery and corruption as potential business risks, and regular reviews are conducted. Specifically, in the United States, corruption is taken into account in assessing the risk of fraud, since it is a part thereof. Possible fraud scenarios are considered, probabilities and possible losses are evaluated and monitored, and ways of mitigating fraud are suggested.

No corruption-related incidents occurred at the IBERDROLA RENOVABLES Group in 2008.

S03. Percentage of employees trained in the organization's anti-corruption policies and procedures.

In defense of ethically responsible corporate actions, the IBERDROLA RENOVABLES Group opposes practices related to corruption in any of its forms. In addition, as mentioned above, IBERDROLA RENOVABLES' risk management system takes bribery and corruption into account as potential business risks.

Employees of the IBERDROLA RENOVABLES Group must comply with the Code of Professional Conduct and approved corporate policies, which provide that such practices should not be used to obtain personal benefits or advantageous treatment for the Company. A presentation on fraud was made in the United States and the risk of fraud was assessed. To date, 201 employees have received fraud prevention training.

S04. Actions taken in response to incidents of corruption.

As already described under management approach, the company approved a Fraud Prevention Policy in 2009, accepting the commitment to work against fraud in all its forms, including extortion and bribery, and taking specific actions in this area.

In addition, IBERDROLA RENOVABLES establishes the possibility of reporting any breach of the Code of Professional Conduct as a fraud-prevention mechanism. Such mechanism is available to any employee of the IBERDROLA RENOVABLES Group. There were no incidents of corruption in 2008.

In the United Kingdom, procedures for conformity with corporate behavior are spelled out in a document entitled "Compliance, Behaviour and the Law," known as the Red Book. An internal Reporting Policy was also implemented at SCOTTISHPOWER in 2008. Such policy requires that all employees report actual or alleged fraudulent activities immediately. To ensure compliance therewith, SCOTTISHPOWER RENEWABLES has prepared a document entitled "Control of Gifts and Hospitality" that governs aspects relating to gifts offered and similar matters. Furthermore, the SCOTTISHPOWER RENEWABLES' employment agreement includes a reference to such policy.

Aspect: Public policy

S05. Public policy positions and participation in public policy development and lobbying.

The Company continually reviews mechanisms to support renewable energy in the markets in which it has invested or plans to do so. It has established an ongoing dialogue with all stakeholders in the industry in order to fully understand regulations in such markets and to transmit IBERDROLA RENOVABLES' position to the players involved. It participates in such processes through associations in Spain, Britain, the United States and other countries in which the Company operates. IBERDROLA RENOVABLES also has regular contacts with agencies at the European level. The list of

associations with which the IBERDROLA RENEWABLES Group cooperates may be found in section 4.13 of this report.

The Company also has a presence in forums and organizations that engage in discussions and research regarding regulatory matters, such as the Global Wind Energy Council (GWEC), the Regulators' School in Florence, or the Center for Energy and Environmental Policy Research (MIT). At the European level, particularly worthy of note is the approval, in December 2008, of the European directive on the promotion of energy from renewable sources, the content of which the Company finds highly favorable for the development of renewable energies.

In the United Kingdom, SCOTTISHPOWER RENEWABLES has established relationships with decision-makers in all aspects relating to its business. It is in direct contact with politicians and governments in the United Kingdom as well as, indirectly, with associations such as the SCOTTISH RENEWABLES Forum and The British Wind Energy Associations. It has also established relationships through the UKBCSE forums and the Government's Renewables Advisory Board. The most often recurring subjects are the necessary efficiency and reforms, network access policy, incentive mechanisms and the need for greater employment opportunities and manufacturing of renewable infrastructure.

In the United States, IBERDROLA RENEWABLES lobbies governmental authorities, particularly the US Congress and certain agencies. IBERDROLA RENEWABLES communicates directly with governmental authorities, providing information and putting forward its points of view. Such information is public and may be viewed at <http://soprweb.senate.gov>. IBERDROLA RENEWABLES also works through supporting coalitions, including the American Wind Energy Association, Solar Energy Industries Association and similar regional groups. Such organizations focus on the promotion of renewable energy. Their work is directed to the regulators responsible for policies such as tax policies, policies promoting sustainable development, renewable energy standards, the development of transmission, etc.

In Greece, ROKAS RENEWABLES has established relationships with public authorities through various organizations and public associations.

As in the aforementioned cases, in Poland, IBERDROLA RENEWABLES has established relationships with the various governmental organizations through meetings to explain the Company's position and provide the

required information. It also lobbies through the organizations of the Polish Wind Energy Association (PSEW).

In France, the company has an influence on the government through its participation in the *Syndicat des Energies Renouvelables* (SER). It also exercises its influence through agreements and meetings with various governmental entities to explain its position in the industry.

SO6. Total value of financial and in-kind contributions to political parties, politicians and related institutions by countries.

Contributions within the framework of lobbying activities have only been made in the United States and in accordance with applicable law, and can be viewed at <http://soprweb.senate.gov>.

No other company of the IBERDROLA RENEWABLES Group made any contribution to the financing of political parties or dependent organizations during fiscal year 2008.

Aspect: Anti-competitive behavior

SO7. Total number of legal actions for anti-competitive behavior, anti-trust and monopoly practices and their outcomes.

There is no legal proceeding against the IBERDROLA RENEWABLES Group for reasons relating to monopolistic or anticompetitive practices.

Aspect: Compliance

SO8. Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.

In the United States, the organization was fined twice in 2008: one was at the Katy gas storage facility, in the amount of 2,766 euros for delay in providing documentation. The second was at the Portland headquarters, in the amount of 29 euros, for breach of office safety codes.