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CONSOLIDATED FINANCIAL STATEMENTS

Iberdrola USA, Inc. and Subsidiaries  
(A Wholly Owned Subsidiary of IBERDROLA, S.A.)  
Years Ended December 31, 2014 and 2013  
With Report of Independent Auditors on 2014

Iberdrola USA, Inc. and Subsidiaries  
(A Wholly Owned Subsidiary of IBERDROLA, S.A.)

Consolidated Financial Statements

Years Ended December 31, 2014 and 2013

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Ernst & Young LLP  
5 Times Square  
New York, NY 10036

Tel: +1 212 773 3000  
ey.com

## Report of Independent Auditors

To the Shareholder and Board of Directors of Iberdrola USA, Inc.

We have audited the accompanying consolidated financial statements of Iberdrola USA, Inc. and subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with International Financial Reporting Standards; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Iberdrola USA, Inc. and subsidiaries at December 31, 2014, and the consolidated results of their operations and their cash flows for the year then ended in conformity with International Financial Reporting Standards.

*Ernst & Young LLP*

February 19, 2015

Iberdrola USA, Inc. and Subsidiaries  
(A Wholly Owned Subsidiary of IBERDROLA, S.A.)

Consolidated Statements of Financial Position

		December 31,	December 31,	Pro Forma January 1,
	Notes	2014	2013 *	2013 *
<i>(In Thousands)</i>				
<b>Assets</b>				
<b>Noncurrent assets:</b>				
Intangible assets		\$1,187,294	\$1,198,004	\$1,284,266
Goodwill	8	981,645	981,645	1,000,030
Other intangible assets	8	205,649	216,359	284,236
Property, plant, and equipment	9	17,397,410	17,051,676	17,042,517
Investments in joint arrangements	28	178,652	191,121	199,802
Financial assets		196,221	251,519	232,885
Other noncurrent financial investments		108,917	205,488	201,730
Derivative financial instruments	10	87,304	46,031	31,155
Other noncurrent receivables		3,600	28,942	29,374
Deferred tax assets	20	2,389,361	2,041,847	1,874,537
<b>Total noncurrent assets</b>		<b>21,352,538</b>	<b>20,763,109</b>	<b>20,663,381</b>
<b>Current assets:</b>				
Inventories	11	229,873	297,977	293,752
Current trade and other receivables	12	854,585	875,381	924,741
Current financial assets		270,309	335,900	306,873
Other financial investments		141,149	239,113	223,588
Derivative financial instruments	10	129,160	96,787	83,285
Income tax and other taxes receivables	21	190,540	152,982	202,677
Cash and cash equivalents	13	463,901	201,313	41,296
<b>Total current assets</b>		<b>2,009,208</b>	<b>1,863,553</b>	<b>1,769,339</b>
<b>TOTAL ASSETS</b>		<b>\$23,361,746</b>	<b>\$22,626,662</b>	<b>\$22,432,720</b>

See accompanying notes.

\*Consolidated Statements of Financial Position at December 31, 2013 and January 1, 2013 are presented for comparative purposes only.

**Iberdrola USA, Inc. and Subsidiaries**  
**(A Wholly Owned Subsidiary of IBERDROLA, S.A.)**

**Consolidated Statements of Financial Position**

	Notes	December 31, 2014	December 31, 2013 *	Pro Forma January 1, 2013 *
<i>(In Thousands)</i>				
<b>Equity and liabilities</b>				
<b>Shareholder's equity</b>		<b>\$10,508,073</b>	<b>\$10,295,473</b>	<b>\$9,043,740</b>
Share capital and premium	14	9,280,101	9,280,101	8,573,415
Other reserves		1,227,972	1,015,372	470,325
<b>Non-controlling interests</b>		<b>75,101</b>	<b>81,282</b>	<b>87,684</b>
<b>Total equity</b>		<b>10,583,174</b>	<b>10,376,755</b>	<b>9,131,424</b>
<b>Capital instruments with debt-like characteristics</b>	15	<b>343,615</b>	<b>454,129</b>	<b>629,857</b>
<b>Noncurrent liabilities:</b>				
Deferred income	16	1,967,758	2,006,324	2,070,077
Provisions		1,777,991	1,456,408	1,734,046
Provisions for pensions and similar obligations	17	819,123	434,374	722,879
Other provisions	18	958,868	1,022,034	1,011,167
<b>Other financial liabilities</b>		<b>2,485,233</b>	<b>2,654,120</b>	<b>2,512,556</b>
Other financial debts	19	2,446,686	2,625,030	2,456,799
Derivative financial instruments	10	38,547	29,090	55,757
<b>Other noncurrent liabilities</b>		<b>60,392</b>	<b>102,366</b>	<b>442,128</b>
<b>Deferred tax liabilities</b>	20	<b>4,539,689</b>	<b>4,075,929</b>	<b>3,744,568</b>
<b>Total noncurrent liabilities</b>		<b>10,831,063</b>	<b>10,295,147</b>	<b>10,503,375</b>
<b>Current liabilities:</b>				
Other provisions	18	36,633	31,156	41,405
<b>Other financial liabilities</b>		<b>293,154</b>	<b>229,626</b>	<b>573,281</b>
Other financial debts	19	190,421	77,921	475,205
Derivative financial instruments	10	102,733	151,705	98,076
<b>Trade and other payables</b>		<b>1,274,107</b>	<b>1,239,849</b>	<b>1,553,378</b>
Trade payables	22	693,643	898,229	848,525
Current tax liabilities and other tax payables	21	186,938	154,907	184,375
Other current liabilities		393,526	186,713	520,478
<b>Total current liabilities</b>		<b>1,603,894</b>	<b>1,500,631</b>	<b>2,168,064</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>\$23,361,746</b>	<b>\$22,626,662</b>	<b>\$22,432,720</b>

See accompanying notes.

\*Consolidated Statements of Financial Position at December 31, 2013 and January 1, 2013 are presented for comparative purposes only.

**Iberdrola USA, Inc. and Subsidiaries**  
**(A Wholly Owned Subsidiary of IBERDROLA, S.A.)**

**Consolidated Statements of Profit or Loss and Other Comprehensive Income**

<b>For The Years Ended December 31,</b>	<b>Notes</b>	<b>December 31,</b>	<b>December 31,</b>
<i>(In Thousands)</i>		<b>2014</b>	<b>2013 *</b>
			<b>Pro Forma</b>
Revenues		\$4,349,813	\$4,176,590
Cost of sales		(1,341,669)	(1,232,698)
<b>Gross margin</b>		<b>3,008,144</b>	<b>2,943,892</b>
Operating costs		(1,025,989)	(1,129,724)
Other operating income		53,612	35,410
		<b>(972,377)</b>	<b>(1,094,314)</b>
Taxes other than income tax		(365,954)	(351,239)
		<b>(1,338,331)</b>	<b>(1,445,553)</b>
Depreciation, amortization, and provisions	25	(723,939)	(896,885)
<b>Income from operations</b>		<b>945,874</b>	<b>601,454</b>
Share of profit of joint operations	28	6,219	304
Finance income	26	36,603	41,813
Finance costs	27	(216,081)	(264,209)
Results on disposal of noncurrent assets		(2,164)	(3,208)
<b>Income before Income Tax</b>		<b>770,451</b>	<b>376,154</b>
Income tax	20	(324,104)	(87,869)
<b>Net Income</b>		<b>446,347</b>	<b>288,285</b>
<b>Non-controlling interests</b>		<b>(100)</b>	<b>(1,562)</b>
<b>Net income attributable to equity holders of the parent</b>		<b>\$446,247</b>	<b>\$286,723</b>
<b>Other comprehensive income</b>			
Other comprehensive income to be reclassified			
to profit or loss in subsequent periods:			
Gross movement of cash-flow hedges		\$84,920	(\$5,422)
Other comprehensive income not to be reclassified			
to profit or loss in subsequent periods:			
(Loss) income on revaluation of defined benefit plans		(467,063)	374,990
Income tax on OCI movements		153,397	(147,155)
<b>Other comprehensive (loss) income for the year, net of tax</b>		<b>(228,746)</b>	<b>222,413</b>
<b>Total comprehensive income attributable to equity holders of the Parent</b>		<b>\$217,501</b>	<b>\$509,136</b>

See accompanying notes

\*The Consolidated Statements of Profit or Loss and Other Comprehensive Income at December 31, 2013 are presented for comparative purposes only.

Iberdrola USA, Inc. and Subsidiaries  
(A Wholly Owned Subsidiary of IBERDROLA, S.A.)

Consolidated Statements of Changes in Equity

	Share Capital & Premium (Note 14)	Retained Earnings	Hedge Revaluation Reserve (Note 14)	Other Reserves	Total	Non- Controlling Interests (Note 15)	Total Equity
<i>(In Thousands)</i>							
<b>Balance at January 1, 2013 * pro forma</b>	<b>8,573,415</b>	<b>\$1,248,383</b>	<b>(\$103,918)</b>	<b>(\$674,140)</b>	<b>\$9,043,740</b>	<b>\$87,684</b>	<b>\$9,131,424</b>
Net Income for the year	-	286,723	-	-	286,723	1,562	288,285
Other comprehensive income/(loss)	-	-	(3,710)	226,123	222,413	-	222,413
<b>Total comprehensive income</b>	<b>-</b>	<b>286,723</b>	<b>(3,710)</b>	<b>226,123</b>	<b>509,136</b>	<b>1,562</b>	<b>510,698</b>
Issue of share capital	706,686	-	-	33,285	739,971	-	739,971
Transfer of net assets from parent	-	-	-	2,626	2,626	-	2,626
Acquisition of non-controlling interests	-	-	-	-	-	(7,964)	(7,964)
<b>Balance at December 31, 2013 *</b>	<b>9,280,101</b>	<b>1,535,106</b>	<b>(107,628)</b>	<b>(412,106)</b>	<b>10,295,473</b>	<b>81,282</b>	<b>10,376,755</b>
Net Income for the year	-	446,247	-	-	446,247	100	446,347
Other comprehensive income/(loss)	-	-	52,498	(281,244)	(228,746)	-	(228,746)
<b>Total comprehensive income</b>	<b>-</b>	<b>446,247</b>	<b>52,498</b>	<b>(281,244)</b>	<b>217,501</b>	<b>100</b>	<b>217,601</b>
Transfer of net assets from parent	-	-	-	(4,901)	(4,901)	-	(4,901)
Acquisition of non-controlling interests	-	-	-	-	-	(6,281)	(6,281)
<b>Balance at December 31, 2014</b>	<b>\$9,280,101</b>	<b>\$1,981,353</b>	<b>(55,130)</b>	<b>(\$698,251)</b>	<b>\$10,508,073</b>	<b>\$75,101</b>	<b>\$10,583,174</b>

See accompanying notes.

\*The Consolidated Statements of Changes in Equity at December 31, 2013 and January 1, 2013 are presented for comparative purposes only.

**Iberdrola USA, Inc. and Subsidiaries**  
**(A Wholly Owned Subsidiary of IBERDROLA, S.A.)**  
**Consolidated Statements of Cash Flows**

<b>For The Years Ended December 31,</b>	<b>Notes</b>	<b>December 31,</b>	<b>Pro Forma December 31,</b>
<b>(Thousands)</b>		<b>2014</b>	<b>2013 *</b>
<b>Operating activities</b>			
<b>Net Income</b>		\$446,347	\$288,285
Adjustments to reconcile net income to net cash provided by operating activities			
Realized gain on derivative contracts		(28,241)	(6,837)
Depreciation and amortization	8,9,16	725,436	668,829
Investment in joint arrangements		38,270	31,944
Impairments and write-downs	8, 9	80,738	278,535
Pension	17	40,069	65,250
Pension contribution	17	(68,669)	(39,356)
Deferred taxes and investment tax credits		202,190	44,796
Change in provision	18	(48,540)	(2,731)
<b>Working capital and other adjustments:</b>			
Change in trade and other assets		163,450	78,286
Change in inventories		68,135	(4,225)
Amounts due to/from affiliates, net		(32,185)	780
Change in trade and other payables, accruals and provisions		(92,616)	50,793
Change in tax receivable/payables		3,493	23,472
Income tax (paid) received		(21,824)	104
Other		(18,344)	(16,068)
<b>Net cash flows provided by operating activities</b>		<b>1,457,709</b>	<b>1,461,857</b>
<b>Investing activities</b>			
Capital expenditures	9	(1,184,736)	(1,025,321)
Grants and contributions in aid of construction	16	70,502	73,738
Proceeds from sale of assets		30,537	1,898
Purchase of intangible assets	8	(2,498)	(2,437)
<b>Net cash flows used in investing activities</b>		<b>(1,086,195)</b>	<b>(952,122)</b>
<b>Financing activities</b>			
Capital contributions from parent		-	153,000
Changes in borrowings from affiliates		199,130	16,830
Change in Aeolus debt	15	(110,378)	(134,793)
Repayment of long-term debt and related interest	19	(176,793)	(499,514)
Financial lease	19	(21,271)	81,850
Interest paid		(7,973)	(26,339)
Long-term debt issuances		-	225,000
Notes payable three months or less, net	19	8,359	(165,752)
<b>Net cash flows used in financing activities</b>		<b>(108,926)</b>	<b>(349,718)</b>
Change in cash and cash equivalents		262,588	160,017
Cash and cash equivalents at the beginning of the year	13	201,313	41,296
<b>Cash and cash equivalents at the end of the year</b>	<b>13</b>	<b>\$463,901</b>	<b>\$201,313</b>

See accompanying notes

\*The Consolidated Statements of Cash Flows at December 31, 2013 are presented for comparative purposes only.



## Notes to Consolidated Financial Statements

December 31, 2014

### 1. Company Information

Iberdrola USA, Inc. (IUSA, the company, we, our, us), is a wholly-owned subsidiary of Iberdrola, S.A. (IBERDROLA), a corporation organized under the laws of the Kingdom of Spain. On November 20, 2013, IUSA was reorganized to become the parent company of Iberdrola Renewables Holding, Inc. (IRHI), Iberdrola USA Networks, Inc. (Networks), and Iberdrola USA Group, LLC. (IUSA Group).

IUSA transferred its investments in CMP Group, Inc. (CMP Group) and RGS Energy Group, Inc. (RGS) to Networks at the time of the reorganization, as well as its investment in Iberdrola USA Management Corporation, a company providing management services for the utilities. Also transferred to Networks were Iberdrola USA Enterprises, a holding company that owned two small natural gas companies - Maine Natural Gas and New Hampshire Gas, and equity investments in a gas storage and a gas marketing company held directly by IUSA. In accordance with the predecessor values method, Networks recognized the assets and liabilities of the entities transferred to it from IUSA using the values recorded in IUSA's consolidated financial statements. IUSA retained other assets and liabilities it held directly including goodwill, tax assets and liabilities attributable to IUSA according to the tax sharing agreement, and debt obligations. IUSA also retained its investment in IUSA Group which is a holding company of small unregulated entities.

Networks is a public utility holding company operating under the Public Utility Holding Company Act of 2005. Networks is a super-regional energy services and delivery company with operations in New York and Maine. Its wholly-owned subsidiaries, and their principal operating utility companies, include: CMP Group – Central Maine Power Company (CMP), and RGS – New York State Electric & Gas Corporation (NYSEG) and Rochester Gas and Electric Corporation (RG&E).

IRHI is a holding company for Iberdrola Renewables, LLC and its subsidiaries (collectively, IRL); Iberdrola Energy Holdings and its subsidiaries (collectively, IEH), and Scottish Power Group Holdings Company and its subsidiaries (collectively, SPGHC, and collectively with IRL and IEH, IRHI). IRL is an unregulated energy business that develops, acquires, manages, and operates thermal and renewable energy generation resources and engages in origination and marketing of wholesale electricity. IEH is an unregulated energy business focusing on natural gas and provides, through its subsidiaries, the marketing of wholesale gas, energy management services, and hub services. SPGHC includes its wholly-owned subsidiary, Scottish Power Financial Services, Inc., which is an unregulated financial services business.

Management has authorized the statements for issuance on February 19, 2014, with the company's board being expected to approve these financials, without adjustment, at its next meeting. IUSA is a privately-owned company, incorporated and domiciled in the United States. The registered office is located at 99 Washington Avenue, One Commerce Plaza, Suite 2018, Albany, New York 12210.

## **2. Basis of Presentation**

### **Applicable Accounting Standards**

The company's 2014 and 2013 consolidated financial statements were prepared in accordance with International Financial Reporting Standards (hereinafter, IFRS) as issued by the International Accounting Standards Board (IASB).

These consolidated financial statements have been prepared on a historical cost basis, except for equity investments and derivative financial instruments, which are measured at fair value. The consolidated financial statements are presented in United States dollars (USD), and all values are rounded to the nearest thousands, except when otherwise indicated.

In accounting for the reorganization of IUSA over IRHI we followed the predecessor values method for the common control entities, the accounting policy elected by our parent for comparable transactions, rather than the acquisition method. The predecessor values method requires the financial statements to be prepared using predecessor book values without any step up to fair value.

### **Basis of Consolidation**

The consolidated financial statements comprise the financial statements of the company and its subsidiaries as at December 31, 2014. The subsidiaries over which the company exercises control are fully consolidated. The company considers that it has control over a company when it has the power to apply its financial and operating policies so as to obtain benefits from its activities. Entities that the company manages jointly with other companies are evaluated under IFRS 11, *Joint Arrangements*, and consolidated accordingly. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the company's accounting policies.

The operations of the company are consolidated in accordance with the following basic principles:

1. On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are recognized at fair value. Any excess of the subsidiary's acquisition cost over the market value of its assets and liabilities is recognized as goodwill, as it corresponds to assets that cannot be separately identified and measured. The results of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition or until the effective date of disposal.
2. The current year result of accounting for investments using the equity method is classified under other reserves and share of profit (loss) of joint operations in the consolidated statement of financial position and in the consolidated statement of profit or loss and other comprehensive income, respectively.

3. The interest of non-controlling shareholders is presented under equity – of non-controlling interests on the liability side of the consolidated statement of financial position and non-controlling interests in the consolidated statement of profit or loss and other comprehensive income.
4. All balances and transactions between the fully and proportionately consolidated companies have been eliminated on consolidation.

### **3. Industry regulation**

#### Electricity and natural gas distribution

The Maine distribution rate stipulation, the Maine transmission Federal Energy Regulatory Commission (FERC) Return on Equity (ROE) case, the New York rate plans, Reforming Energy Vision (REV), and the New York Transmission Company (New York Transco) filings are some of the most important specific regulatory processes that affect Networks.

The revenues of Networks companies are essentially regulated, being based on tariffs established in accordance with administrative procedures set by the various regulatory bodies. The tariffs applied to regulated activities in the United States are approved by the regulatory commissions of the different states and are based on the cost of providing service. The revenues of each regulated utility are set to be sufficient to cover all its operating costs, including energy costs, finance costs and the costs of equity, the last of which reflect the company's capital ratio and a reasonable ROE.

Energy costs that are set on the New York and New England wholesale markets are passed on to consumers. The difference between energy costs that are budgeted for and those that are actually incurred by the utilities is offset by applying compensation procedures that result in either immediate or deferred tariff adjustments. These procedures apply to other costs, which are in most cases exceptional (effects of extreme weather conditions, environmental factors, regulatory and accounting changes, treatment of vulnerable customers, etc.) that are offset in the tariff process. Any New York revenues that allow a utility to exceed target returns (usually because of better-than-expected cost efficiency) are generally shared between the utility and its customers, resulting in future tariff reductions.

Each of the five Networks supply companies must comply with regulatory procedures that differ in form but in all cases conform to the basic framework outlined above. As a general rule, tariff reviews cover various years and provide for a reasonable ROE, protection and automatic adjustments for exceptional costs incurred and efficiency incentives.

## Maine

### CMP Distribution rate stipulation

On May 1, 2013, CMP submitted its required distribution rate request with the Maine Public Utilities Commission (MPUC). After a 14-month review process, on July 3, 2014, CMP filed a rate stipulation agreement on the majority of the financial matters with the MPUC. The stipulation agreement was approved by the MPUC on August 25, 2014. The stipulation agreement also noted that certain rate design matters would be litigated, which the MPUC ruled on October 14, 2014.

The rate stipulation agreement provided for an annual CMP distribution tariff increase of 10.7% or \$24.3 million. The rate increase was based on a 9.45% ROE and 50% equity capital. CMP was authorized to implement a revenue decoupling mechanism (RDM) which protects CMP from variations in sales due to energy efficiency and weather. CMP also adjusted its storm costs recovery mechanism whereby it is allowed to collect in rates a storm allowance and to defer actual storm costs when such storm events exceed \$3.5 million. CMP and customers share storm costs that exceed a certain balance on a 50/50 basis, with CMP's exposure limited to \$3.0 million annually.

CMP will make a separate regulatory filing for a new customer billing system replacement. In accordance with the stipulation agreement, a new billing system is needed and CMP will make a filing by March 1, 2015, and can include a request for a separate rate recovery mechanism.

- The rate stipulation does not have a pre-determined rate term; CMP has the option to file for new distribution rates at its own discretion.
- The rate stipulation does not contain service quality targets or penalties. The rate stipulation also does not contain any earning sharing requirements.

### Transmission – FERC ROE proceeding

CMP's transmission rates are determined by a tariff regulated by the FERC and administered by ISO New England, Inc (ISO-NE). Transmission rates are set annually pursuant to a FERC authorized formula that allows for recovery of direct and allocated transmission operating and maintenance expenses, as well as return of and on investment in assets. The FERC provided a base ROE of 11.14% and additional incentive adders applicable to assets based upon vintage, voltage and other factors.

Complaint I - In September 2011 the Massachusetts Attorney general filed a complaint with the FERC that the ROE was too high and should be lowered by 1.94%, to a value of 9.2%. CMP is a member of the New England Transmission Owners. On October 16, 2014, the FERC commission issued an order in the ROE case which concluded:

- The base ROE is set at 10.57% effective October 16, 2014.
- There is an ROE cap on incentive returns of 11.74%, also effective October 16, 2014.

- The long-term growth rate used in the two-step DCF analysis should be GDP and is 4.39% in this proceeding. This aspect of their decision results from the paper hearing that FERC initiated in its June 2014 decision in this case.
- CMP must provide refunds for the period October 2011 through December 2012 with a base ROE of 10.57% and an ROE cap on incentives of 11.74%.

Complaint II – Filed December 27, 2012. On June 19, 2014 the Commission issued an order setting this case for settlement and hearing and set a refund effective date of December 27, 2012.

- The parties entered settlement negotiations which ended in late October 2014 when the parties were unable to reach agreement
- FERC has set a schedule for this case that calls for hearings in June 2015. The order estimates a decision by April 30, 2016 (subsequently revised to September 2016).
- On July 6, 2013, the FERC Administrative Law Judge issued its Final Decision (recommendation) determining that the current base ROE should be adjusted because it no longer meets Federal Power Act standards. He recommended a refund period from October 1, 2011, to December 31, 2012, be established based on a ROE of 10.6%, subject to the FERC approval.

Complaint III – Filed August 2014, reiterates the same position in Complaint II

CMP reserved for refunds in 2013 and 2014 under U.S. GAAP. The 2013 reserve was \$6.6 million associated with Complaint I. In 2014, CMP recorded an additional reserve of \$29.9 million associated with Complaints I, II, and III. Because these refunds will be passed on to ratepayers through rates applied to future sales, the reserves are not reflected in these statements which are prepared in accordance with IFRS.

#### New York (NYSEG) and RG&E Rate Plans:

On September 16, 2010, the New York Public Service Commission (NYPSC) approved a new rate plan for electric and natural gas service provided by NYSEG and RG&E effective August 26, 2010, through December 31, 2013. The rate plans contain continuation provisions beyond 2013 if NYSEG and RG&E do not request new rates to go into effect and the current base rates will stay in place.

The revenue requirements were based on a 10% allowed ROE applied to an equity ratio of 48%. If annual earnings exceed the allowed return, a tiered Earnings Sharing Mechanism (ESM) will capture a portion of the excess for the benefit of ratepayers. The ESM is subject to specified downward adjustments if NYSEG and RG&E fail to meet certain reliability and customer service measures. Key components of the rate plan include electric reliability performance mechanisms, natural gas safety performance measures, customer service quality metrics and targets, and electric distribution vegetation management programs that establish threshold performance targets. There will be downward revenue adjustments if the NYSEG and RG&E fail to meet the targets. The 2010 rate plans established Revenue Decoupling Mechanisms (RDM), intended to remove company disincentives to promote increased energy efficiency. Under the RDM, electric revenues are based on revenue per customer class rather

than billed revenue, while natural gas revenues are based on revenue per customer. Any shortfalls (excesses) between billed revenues and allowed revenues will be accrued for future recovery (refund).

#### Reforming Energy Vision (REV):

In April 2014, the NYPSC commenced a proceeding entitled REV which is an initiative to reform New York State's energy industry and regulatory practices. The REV has been divided into two tracks, Track 1 for Market Design and Technology, and Track 2 for Regulatory Reform. REV proposes regulatory changes that are intended to promote more efficient use of energy, deeper penetration of renewable energy resources such as wind and solar, and wider deployment of distributed energy resources, such as micro grids, on-site power supplies, and storage.

REV is also intended to promote greater use of advanced energy management products to enhance demand elasticity and efficiencies. The Track 1 of this initiative involves a collaborative process to examine the role of distribution utilities in enabling market-based deployment of distributed energy resources to promote load management and greater system efficiency, including peak load reductions. NYSEG and RG&E are participating in the initiative with other New York utilities as well as providing their unique perspective. NYPSC Staff is currently conducting public statement hearings across the state of New York regarding REV.

Various proceedings have also been initiated by the NYPSC which are REV-related, and each proceeding has its own schedule. These proceedings include the Clean Energy Fund, Demand Response Tariffs, and Community Choice Aggregation.

The Track 2 (Regulatory reform) undertaken in parallel with the first track, examines changes in current regulatory, tariff, and market designs and incentive structures to better align utility interests with achieving the Commission's policy objectives. The NYPSC Staff straw proposal is anticipated in the second quarter 2015. New York utilities will also be addressing related regulatory issues in their individual rate cases.

#### New York Transco

Affiliates of National Grid, Central Hudson, NYSEG and RG&E, together with an affiliate of Consolidated Edison and Orange and Rockland Utilities, are part of a new organization, New York Transco LLC. New York Transco is focused on developing electric transmission to meet future electricity needs of all New Yorkers and will develop New York transmission projects upon receipt of all necessary regulatory approvals.

New York Transco members are requesting regulatory approval for a group of transmission projects expected to cost \$1.7 billion funded through debt and equity. NYSEG and RG&E allocated equity contribution (20%) amounts to approximately \$183 million over the period 2015 through 2018. Additional projects may be developed in the future. Equity investments will be expressly contingent on receiving necessary regulatory approvals and acceptable economic returns. The investment will be made through a Networks affiliate, Networks New York Transco, LLC, formed on November 3, 2014.

The NY Transco filed with FERC in early December 2014. The filing requests a formula base ROE of 10.6%, plus 150 basis points ROE incentives. The filing also requests recognition of construction work in process, abandoned plant, regulatory asset for pre-commercial costs and 60% equity for five years. Various parties, including the NYPSC, have protested the filing with FERC. The company anticipates a FERC decision in 2015.

#### Electricity generation from renewable energy resources

In the United States, numerous state governments and the federal government have adopted measures and implemented numerous regulations designed to foster the development of electricity production from renewable resources. State programs have generally come in the form of 1) Renewable Portfolio Standards (RPSs) that usually require utilities to generate or purchase a minimum amount of renewable electricity and 2) tax incentives. To date, the federal government has primarily supported renewable energy development through tax credits to production and investment as well as accelerated tax depreciation.

Twenty-nine states and the District of Columbia have adopted mandatory RPS requirements, which vary across the states but will generally range from 15%-33% of generation by 2025. The requirements are typically implemented through a system of tradable renewable energy certificates that verify that a kilowatt hours (kWh) of electricity has been generated from a renewable resource. In 2014, several state legislatures debated whether to repeal or roll back significantly their RPS requirements and Ohio enacted legislation to freeze the its RPS program until 2017.

Most states also offer a variety of tax incentives to promote investment in renewable energy resources. For instance, Washington and Colorado, among other states, exempt the sale and use of renewable energy equipment from taxation, which reduces development costs substantially. Several states reduce property tax requirements on renewable generation facilities through enterprise zones or similar designations, while Minnesota has substituted a fixed-rate production tax in lieu of property taxes. Other states, such as Texas, boost the construction of electrical infrastructure (Competitive Renewable Energy Zones) to ease the transportation of renewable electricity towards load location.

In 1992 the United States Congress (Congress) enacted legislation that established a Production Tax Credit (PTC) of \$15 per megawatt hour (MWh) (adjusted for inflation) for the production of electricity from wind power facilities with 10-year duration. This program has been renewed on several occasions and has been expanded to include the production of electricity from several additional renewable resources, including biomass, geothermal, municipal solid waste and hydroelectric power. Separately, in 2005 Congress established a 30% investment tax credit (ITC) for solar power projects. That investment credit is currently applicable to all solar projects placed in service prior to 1 January 2017. The PTC, which is currently valued at \$23 per MWh, was most recently modified and extended by one year and will apply to those projects that started construction before 2015. These qualifying facilities may also elect to take a 30% ITC in lieu of the PTC. The purpose of the PTC and the ITC is to make electricity production from renewable resources more competitive relative to fossil fuel and nuclear power facilities.

In addition to the PTC and ITC, renewable energy facilities are eligible for accelerated five-year tax depreciation on their investments. This program, which is known as the Modified Accelerated Cost Recovery System does not have an expiration date. As a result of legislation enacted in 2008, 2009, 2013 and 2014, many facilities placed in service between 2008 and 2014 qualified for bonus depreciation, which allowed a 50% depreciation deduction in the year a facility was placed in service.

With respect to interstate transmission grids, the FERC has adopted a series of requirements on transmission operators to improve access and reduce costs for variable generation such as wind and solar power. Adoption of FERC Order 764 is driving changes in scheduling practices and other activities that will increase forecasting accuracy and reduce needed reserves, resulting in lower technology integration costs.

#### Regulatory assets and liabilities

Under IFRS regulatory assets (liabilities) which represent amounts to be recovered from (returned to) customers in future rates are generally not allowed, as they are under U. S. GAAP, as such they have been eliminated with a corresponding charge to reserves.

## 4. Summary of Significant Accounting Policies

The following are the significant accounting policies applied by the company in preparing its consolidated financial statements:

### a) Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The company assesses its revenue arrangements against specific criteria in order to determine if it is acting as an agent. The company has concluded that it is acting as a principal in all of its revenue arrangements. Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

The company recognizes revenue from sales of wholesale energy and natural gas when persuasive evidence of an arrangement exists, delivery has occurred or the services have been rendered, the sales price is fixed or determinable, and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to the customer at the time of delivery of the services. The company records revenues from the sale of renewable energy certificates and federal energy tax credits attributable to the company's operations are also recorded in revenues when generated and sold to the third parties.

The company provides natural gas storage services to customers. The natural gas remains the property of those customers at all times. Customers pay a two-part rate that includes (i) a fixed fee reserving the right to store natural gas in the company's facilities and (ii) a per-unit rate for



volumes actually injected into/withdrawn from storage. The fixed-fee component of the overall rate is recognized as revenue in the period the service is provided. The company recognizes the per-unit charge as revenue when the volumes are injected into or withdrawn from the company's storage facilities.

Derivative contracts associated with trading activities are marked to market (MtM) through earnings. Both realized and unrealized gains on trading contracts are reflected in revenue, unless hedge accounting is elected, at which point the changes in the unrealized asset or liability moves to hedge revaluation reserves within equity. Derivative contracts associated with non-trading activities are also MtM through earnings. Unrealized gains and losses on non-trading contracts are recorded as cost of sales for purchase contracts and revenue for power and natural gas sales contracts, unless hedge accounting is elected. Realized gains and losses on non-trading contracts are reported on a net basis to the extent they are physically settled as either revenue or cost of sales.

The company evaluates its power purchase agreements (PPAs) to determine whether the arrangements contain a lease as specified in International Financial Reporting Interpretations Committee (IFRIC) 4, *Determining Whether an Arrangement Contains a Lease* (IFRIC 4). In cases where operating-lease treatment is necessary, there is no difference in revenue recognition over the life of the contract as compared to accounting for the contract as a power sale. In cases where finance-lease treatment is necessary, the timing of revenue and expense recognition is affected. Additionally, a portion of the revenue representing interest income from the financing component of the lease receivable is reflected as interest income over the life of the contract.

The company recognizes utility revenues upon delivery of energy and energy-related products and services to its customers.

Pursuant to a Maine state law, CMP earns revenue for the delivery of energy to its retail customers, but is prohibited from selling power to them. CMP generally does not enter into purchase or sales arrangements for power with ISO-NE, the New England Power Pool, or any other independent system operator or similar entity. CMP generally sells all of its power entitlements under its nonutility generator and other purchase power contracts to unrelated third parties under bilateral contracts. If the MPUC does not approve the terms of bilateral contracts, it can direct CMP to sell power entitlements that it receives from those contracts on the spot market through ISO-NE.

NYSEG and RG&E enter into power purchase and sales transactions with the New York Independent System Operator (NYISO). When NYSEG and RG&E sell electricity from owned generation to the NYISO, and subsequently repurchase electricity from the NYISO to serve their customers, the transactions are recorded on a net basis in our consolidated statement of profit or loss and other comprehensive income. NYSEG and RG&E net their purchase and sale transactions with the NYISO on an hourly basis.

## **b) Cost of Sales**

The company records the cost of purchased power and natural gas for hedging, balancing, and optimization activities and for resale to its utility customers is recorded in the consolidated statement of profit or loss and other comprehensive income, as cost of sales. The company records the cost of natural gas purchased for consumption in its generation projects as cost of sales. Trading activities including certain risk management, balancing, and optimization activities are presented net, within revenues.

## **c) Joint Arrangements**

A joint arrangement exists whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. IFRS 11 classifies joint arrangements into two types:

**Joint Operations** – whereby the parties that have joint control of the arrangement have rights to their share of the assets and liabilities relating to the arrangement. A joint operator shall consolidate its share of assets, liabilities, revenues, and expenses based on the company's interest in the ownership in the same sections of the consolidated financial statements as its own.

**Joint Ventures** – whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint venturer shall recognize an investment and account for that investment using the equity method in accordance with International Accounting Standard (IAS) 28, *Investments in Associates and Joint Ventures*.

Under the equity method, the investment is initially recognized at cost, and then adjusted to recognize changes in the company's share of net assets since the acquisition date. The share of profit or loss of the joint venture is shown outside operating profit and represents profit or loss after tax and non-controlling interests.

After application of the equity method, the company determines whether it is necessary to recognize an impairment loss on its investment in its joint venture. At each reporting date, the company determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the company calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognizes the loss as 'Share of profit of joint operations' in the consolidated statement of profit or loss and other comprehensive income.

Upon loss of joint control over the joint venture, the company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

#### **d) Goodwill**

Goodwill represents future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is measured at acquisition cost. Goodwill is not amortized, although it is reviewed annually for impairment or when impairment indicators exist.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the fair value of the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net identifiable assets acquired, the difference is recognized in profit and loss.

#### **e) Intangible Assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life, which ranges from 4 to 40 years, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of profit or loss and other comprehensive income as the expense category that is consistent with the function of the intangible assets.

Indefinite life intangible assets are not subject to amortization and are instead tested for impairment on an annual basis or when impairment indicators exist. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

#### Other Intangible Assets

Other Intangible Assets include a valuation for the underground gas storage rights that the company has in relation to its operating gas storage facilities. In addition, it also includes wind farm projects in the development phase that meet the requirements under IAS 38, *Intangible Assets*, as they are separable and susceptible to individual sale and are carried at cost. The company transfers these assets to Property, plant, and equipment in the consolidated statement of financial position when construction of each wind farm commences. Intangible assets not yet

available for use are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit (CGU) level.

**f) Property, Plant, and Equipment**

Property, plant, and equipment are stated at cost of acquisition. In cases where the company is required to dismantle installations or to recondition the site on which they are located, the present value of such costs is added to the carrying amount of the asset, with a charge to provisions – other provisions in the consolidated statement of financial position.

The company transfers property, plant, and equipment under construction to property, plant, and equipment in use at the date of substantial completion.

The costs of expansion or improvements leading to increased productivity or capacity or to a lengthening of the useful lives of the assets are capitalized.

Replacements of complete items are recorded as additions to property, plant, and equipment, and the items replaced are derecognized. As a result of this, the company records its spare parts inventory within property, plant, and equipment.

The company periodically reviews its estimates of this present value and increases or reduces the carrying amount of its renewable generation and gas storage assets on the basis of the results obtained.

Development and construction of wind and solar generation facilities are carried out in various stages. Project costs are expensed during early-stage development activities. Once certain development milestones are achieved and it is more likely than not that the company can obtain future economic benefits from a project, salaries/wages for persons directly involved in the project, engineering, permits, licenses, meteorology, and insurance costs are capitalized. Wind turbine and related equipment costs, other project construction costs, and interest costs related to the project are capitalized during the construction period through substantial completion. Owned gas storage facilities contain injected gas that is not routinely cycled but, instead, serves the function of maintaining the necessary pressure to allow efficient operation of the facility. This gas is divided into the categories of recoverable cushion gas and unrecoverable cushion gas, based on an engineering analysis of whether the gas can be economically removed from the gas storage facility at any point during its life. The portion of the cushion gas that is determined to be unrecoverable is considered to be a permanent part of the gas storage facility itself and therefore part of property, plant, and equipment. Unrecoverable cushion gas is carried at historical cost and is depreciated over the gas storage facility's estimated useful life.

Gains or losses arising on the disposal of items of property, plant, and equipment are calculated as the difference between the amount received on the sale and the carrying amount of the asset disposed of.

Borrowing costs directly attributable to the acquisition or construction of qualifying assets are capitalized within property, plant and equipment. Capitalization of borrowing costs commences when the activities to prepare the asset for its intended use are undertaken and continue to be capitalized until the asset is placed in service. All other borrowing costs are recognized as an expense in profit or loss when incurred.

#### **g) Depreciation of Property, Plant, and Equipment in Use**

The cost of property, plant, and equipment in use is depreciated on a straight-line basis, less any material residual value. The company's main asset categories are depreciated over the following estimated useful lives:

	<u>Average Years of Estimated Useful Life</u>
Computer software	3-10
Combined cycle plants	30-35
Hydroelectric power stations	40-90
Wind power stations	25
Gas storage	25-40
Transport facilities	33-75
Distribution facilities	15-80
Counters and measuring device	20-41
Buildings	20-60
Operations offices	5-32

For information on the depreciation expense, please see Note 25.

#### **h) Nonfinancial Assets Impairment**

The company annually reviews the carrying amounts of its nonfinancial assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss necessary. For this purpose, in the case of assets that, taken individually, do not generate cash flows, the company estimates the recoverable amount of the CGU to which it belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use, which is taken to be the present value of the estimated future cash flows. The assumptions used in assessing value in use include: discount rates, growth rates, terminal values and expected changes in selling prices and direct costs. The discount rates reflect the time value of money and the risks specific to each CGU. The growth rates and the changes in prices and direct costs are based on contractual commitments that have already been signed, information in the public domain, sector forecasts, and the experience of the company.

If the recoverable amount of an asset or CGU is less than its carrying amount, an impairment loss is recognized for the difference with a charge to depreciation, amortization, and provisions in the consolidated statement of profit or loss and other comprehensive income. Impairment losses recognized for an asset or CGU can potentially be reversed, except in the case of goodwill. In such cases the carrying amount cannot exceed the original carrying amount recognized. In the case of goodwill and other intangible assets that have not come into use or that have an indefinite useful life, the company performs the recoverability analysis systematically every year, except when there are signs of impairment, in which case a recoverability analysis is performed immediately.

Essentially all of Networks nonfinancial assets are allowed a return pursuant to applicable regulation and are therefore not subject to annual impairment analysis. In the event that these assets were no longer allowed to earn a return, an impairment analysis would be performed.

For information related to noncurrent asset impairment losses, please see Note 25.

## **i) Financial Instruments**

### Financial assets

The company measures its current and noncurrent financial assets in accordance with the criteria described below:

1. Financial assets classified at fair value through the profit or loss. Assets included in this category are stated at fair value in the consolidated statement of financial position, and changes in fair value are recognized as finance costs or finance income in the consolidated statement of profit or loss and other comprehensive income, as appropriate.

The company includes in this category the derivative financial instruments that do not satisfy the conditions necessary for hedge accounting based on the requirements established for this purpose in IAS 39, *Financial Instruments: Recognition and Measurement* (IAS 39).

2. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest rate method. The majority of trade and other receivables, due to their short maturity, are deemed to be at fair value, after adjusting for recoverability. Certain utility receivables, due to regulatory requirements, are expected to be recovered over extended periods of time. These are adjusted to fair value by discounting, after adjusting for recoverability.
3. Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturities that the company has the intention and ability to hold to the date of maturity. These assets are measured at amortized cost.

4. Available-for-sale financial assets are the other financial assets that do not fall into any of the aforementioned three categories and correspond in almost all cases to equity instruments. These investments are also recognized in the consolidated statement of financial position at fair value at year-end, which, in the case of companies that are not publicly listed, is obtained using a range of methods such as comparable company transactions or, if there is sufficient information, by discounting the expected cash flows.

Changes in fair value are recognized with a charge or credit, as appropriate, to the hedge revaluation reserve in the consolidated statement of changes in equity until the disposal or impairment of these assets at which time the cumulative balance of this heading is recognized in full in the consolidated statement of profit or loss and other comprehensive income.

The company determines the most appropriate classification for each asset on acquisition and reviews the classification at each year-end date.

The company recognizes financial assets purchases and sales on the date of the transaction.

#### Cash and cash equivalents

Cash and cash equivalents include cash, bank accounts, and other highly liquid short-term investments that can be converted to cash quickly.

#### Financial liabilities and equity instruments

Financial liabilities are classified on the basis of the nature of their issue. The company's financial liabilities include trade and other payables, loans and borrowings (including any bank overdrafts), financial guarantee contracts, and derivative financial instruments. The company classifies as an equity instrument any contract that evidences a residual interest in the assets of the company.

#### Capital instruments with debt-like characteristics

The company has undertaken several structured institutional partnership investment transactions that bring in external partners as non-controlling shareholders of certain of its wind farms in exchange for cash and other financial assets.

The main characteristics of these transactions are as follows:

- Regardless of the equity stake taken by the non-controlling shareholders, the company retains ownership and management control of the wind farms; accordingly, they are fully consolidated in these financial statements.

- The non-controlling shareholders have the right to a substantial portion of the profits and tax credits generated by these wind farms up to the return level established at the beginning of the contract.
- The non-controlling shareholders remain shareholders of the wind farms until they achieve the stipulated returns.
- Once these returns have been obtained, the non-controlling shareholders lose their entitlement to hold capital in the wind farms, simultaneously renouncing their claim on the profits and tax credits generated.
- Whether or not the non-controlling shareholders of the company obtain the agreed-upon returns depends on the economic performance of the wind farms. Although the company is bound to operate and maintain these facilities in an efficient manner and to obtain the appropriate insurance policies, it is not obliged to deliver cash to the non-controlling shareholders over and above the aforementioned profits and tax credits.

Following an analysis of the economic substance of these agreements, the company classifies the consideration received at the outset of the transaction under capital instruments with debt-like characteristics in the consolidated statement of financial position. Subsequently, this consideration is measured at amortized cost.

#### Debentures, bonds, and bank borrowings

Loans, debentures and similar items are recorded initially at the amount received, net of transaction costs. In subsequent periods, all of these financial liabilities are measured at amortized cost, using the effective interest rate method, except for hedged transactions, which are measured using the method described below in this same note. Obligations under finance leases are recognized at the present value of the lease payments under other financial debts in the consolidated statement of financial position.

#### Trade and other payables

Trade payables are created by ordinary operations. As with trade receivables, the carrying value is taken to be the same as fair value.

#### Contracts to buy or sell nonfinancial items

The company performs a detailed analysis of all its contracts to buy or sell nonfinancial items to ensure they are classified correctly for accounting purposes.

Contracts that are settled net in cash or in another financial asset are classified as derivatives and are recognized and measured as described in this note, except for contracts entered into and held for the purpose of the receipt or delivery of a nonfinancial item in accordance with the company's purchase, sale, or usage requirements. Contracts to buy or sell nonfinancial items



which are designated as own use contracts, to which the treatment described in the IAS 39 does not apply, are recognized as the company receives or delivers the rights or obligations originating there under.

In the specific case of short-term contracts to buy or sell electricity and gas concluded on certain highly liquid markets, the company adopts the following accounting treatment:

- The company classifies as own use contracts only those contracts to buy or sell electricity or gas that reflect its best estimate of the actual purchase requirements of the company.
- All contracts entered into with the intention of realizing short-term gains on fluctuations in the market price of electricity or gas, as well as those that do not correspond to the situations described in the preceding point, are considered derivatives and are therefore recognized at their fair value in the consolidated statement of financial position.

#### Derivative Financial Instruments and Hedge Accounting

Financial derivatives are initially recognized at acquisition cost in the consolidated statement of financial position, and the required value adjustments are subsequently made to reflect their fair value at all times. Gains and losses arising from these changes are recognized in the consolidated statement of profit or loss unless the derivative has been designated as a hedge. The company primarily uses cash flow hedges, where the risk hedged is the variation in cash flows attributable to a specific risk associated with an asset or liability or a likely transaction, or to exchange rate risk in a firm commitment.

Each time a hedge transaction is entered into, the company contemporaneously documents the transaction to be treated under hedge accounting. This documentation includes its identification as a hedge instrument, the item hedged, the nature of the risk the hedge is designed to cover, and the way the effectiveness of the hedge is to be measured. In addition, hedges are reviewed periodically to ensure they are highly effective (between 80% and 125%).

The accounting treatment for cash flow hedges is as follows:

- Changes in the fair value of the hedging derivative are recognized, in respect of the ineffective portion of the hedges, in the consolidated statement of profit or loss, while the effective portion is recognized under hedge revaluation reserve in the consolidated statement of changes in equity. The cumulative gain or loss recognized is transferred to the relevant caption within the consolidated statement of profit or loss as the hedged item affects net profit or loss or in the year in which the item is disposed.
- If a hedge of a forecasted transaction results in the recognition of a nonfinancial asset or a liability, its balance is taken into account in the initial measurement of the assets or liabilities arising from the hedged transaction.

- If a hedge of a forecasted transaction results in the recognition of a financial asset or liability, this balance is recognized in the hedge revaluation reserve until the hedged item affects the consolidated statement of profit or loss.
- If a forecasted transaction does not result in recognition of an asset or a liability, the amounts credited or charged to hedge revaluation reserve in the consolidated statement of changes in equity will be recognized in the consolidated statement of profit or loss in the same period in which the hedge transaction is realized.
- When hedge accounting is discontinued, the cumulative amount at that date recognized under hedge revaluation reserve is retained until the hedged transaction occurs, at which time the gain or loss on the transaction will be adjusted. If a hedged transaction is no longer expected to occur, the gain or loss recognized under the aforementioned heading is transferred to the consolidated statement of profit or loss.

Derivatives embedded in other financial instruments are recognized separately when the company considers that their characteristics are not closely related to the financial instruments in which they are embedded and so long as the entire contract is not already and entirely carried at fair value through profit or loss, registering changes in fair value with the gain or loss recognized in the consolidated statement of profit or loss.

The fair value of the derivative financial instruments is calculated as follows:

- Derivatives quoted on an organized market are calculated at market price at year-end.
- Derivatives not traded on an organized market, the company uses assumptions based on market conditions at year-end. The fair value of contracts to trade nonfinancial items falling under the scope of IAS 39 is calculated on the basis of the best estimate of future price curves for the underlying nonfinancial items at year-end using, wherever possible, prices established on futures markets.

#### Derecognition of financial assets and liabilities

A financial asset is derecognized when:

- The rights to receive cash flows from the asset have expired.
- The company retains the rights to receive cash flows from the asset but has assumed an obligation to pay them in full to a third party and has transferred substantially all the asset's benefits and risks or does not retain them substantially.
- The company has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and rewards of the asset or has neither transferred nor retained substantially all risks and rewards of the asset but has transferred control of the asset.

Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expires.

**j) Inventories**

The company, through its gas trading operations, owns natural gas that is stored in both its own and third-party underground storage facilities. This gas is recorded as inventory. It also owns natural gas for sale to its utility natural gas customers. This gas is also included in inventory. Injections of inventory into storage are priced at the market price at the time of injection, and withdrawals of working gas from storage are priced at the weighted-average price in storage.

The company, through its gas storage operations, owns natural gas in its owned underground storage facilities classified as either inventory or as cushion gas. The component that is inventory represents the portion of gas in the company's gas storage facilities available for routine injection and withdrawal to meet demand and also optimization opportunities within the next fiscal year. The component that is cushion gas represents the gas required to maintain pressure levels for normal operating purposes and is included in property, plant, and equipment.

**k) Deferred Income**

The company includes the following items as deferred income:

Government grants

Income recognized under various state or federal programs of the United States, received in relation to investment expenditures made by the company, is recognized under deferred income as a liability in the consolidated statement of financial position when the related investments have been made and when the company has submitted a recognized formal application for the grant.

All capital grants are recognized in the profit and loss under depreciation, amortization and provisions on the consolidated statement of profit or loss and other comprehensive income as the facilities are depreciated, thereby offsetting the depreciation expense.

Contributions in Aid of Construction (CIAC)

Income recognized as a result of payments received from customers in relation to investment expenditures made by the company or resulting from contributions of property to the company, is recognized under deferred income as a liability in the consolidated statement of financial position when the related investments have been made.

All CIAC funds are recognized in the profit and loss under other income on the consolidated statement of profit or loss as the related facilities are depreciated, thereby offsetting the amount recorded to depreciation expense.

### Other deferred income

As outlined previously under Revenue Recognition, the company on occasion receives payments from transactions in advance of the resulting obligations arising from the transaction. It is the policy of the company to defer such revenues and amortize them to the consolidated statement of profit or loss and other comprehensive income consistent with the obligations.

### **l) Post-Employment and Other Employee Benefits**

The company sponsors defined benefit pension plans that cover the majority of the company's employees. The company also provides health care and life insurance benefits through various post-retirement plans for eligible retirees.

The company evaluates its actuarial assumptions on an annual basis and considers changes based upon market conditions and other factors. All of the company's qualified defined benefit plans are funded in amounts calculated by independent actuaries based on actuarial assumptions proposed by management. The company uses a December 31 measurement date for its benefits plans.

The company commissions independent actuarial studies using the projected unit credit method to measure the obligation accrued at year-end, and recognizes the positive or negative actuarial differences as other reserves in the consolidated statement of financial position, when they arise. The provision recognized in this respect represents the present value of the defined benefit obligation reduced by the fair value of the related plans' assets. The fair value of the assets move with market gains and losses, company contributions, and withdrawals made by the company to pay benefits.

### **m) Provisions**

The company has obligations relating to its electricity generation facilities that will incur decommissioning costs, and as a result it records this as a decommissioning provision (or liability).

The estimated present value of these costs is capitalized with a credit to provisions at the beginning of the useful life of the related asset. This estimate is subject to annual revision so that the provision reflects the present value of the full amount of the estimated future costs.

Any change in the provision as a result of unwinding of discounting is recognized in finance costs in the consolidated statement of profit or loss and other comprehensive income.

Additionally, from time to time the company may be required to recognize provisions to cover present obligations, whether these be legal or constructive, which arise as a result of past events, provided that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. In such cases, a provision is recognized when the liability or obligation arises, with a

charge to the relevant heading in the consolidated statement of profit or loss and other comprehensive income depending upon the nature of the obligation, for the present value of the provision when the effect of discounting the value of the obligation to present value is material.

The change in the provision due to its discounting each year is recognized under finance costs in the consolidated statement of profit or loss and other comprehensive income.

The company also records as a provision the present value of the anticipated costs to remediate certain hazardous substances at sites where gas was manufactured in the past. The anticipated costs of remediation as requirements of various state and federal environmental regulatory agencies change and as more information is obtained about the extent of remediation required. The estimate used is the best estimate, when available, or a midpoint of the range if no best estimate is available. Changes in the provisions due to either a change in the anticipated costs or changes in the discount rate are recorded in operating costs on the consolidated statement of profit or loss and other comprehensive income.

#### **n) Income Tax**

Income tax is accounted for using the liability method, which consists of determining deferred tax assets and liabilities on the basis of the carrying amounts of assets and liabilities for financial reporting purposes and their tax base, using the tax rates that can objectively be expected to be in force when the assets or liabilities are realized or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities arising as a result of direct charges or credits to equity are also accounted for with a charge or credit to equity.

The company recognizes deferred tax assets as long as future taxable profits are expected against which said assets can be recovered and that it is probable they will be realized. Deferred tax assets that do not meet this criteria are not recognized by the company.

Significant judgment is required in determining income tax provisions and evaluating tax positions. The company's tax positions are evaluated under a more-likely-than-not recognition threshold and measurement analysis before they are recognized for consolidated financial statement reporting.

Uncertain tax positions have been classified as noncurrent unless expected to be paid within one year. The company's policy is to recognize interest and penalties on uncertain tax positions as interest expense.

#### **o) Current vs. Non-Current Classification**

The company presents assets and liabilities in the consolidated statement of financial position based on current/noncurrent classification. An asset is current when one of the following:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within 12 months after the reporting period
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period

All other assets are classified as noncurrent.

A liability is current when one of the following applies:

- It is expected to be settled in the normal operating cycle.
- It is held primarily for the purpose of trading.
- It is due to be settled within 12 months after the reporting period.
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period.

The company classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities are classified as noncurrent assets and liabilities.

#### **5. First Time Adoption of IFRS**

These financial statements for the year ended December 31, 2014 are the first the company has issued under IFRS. The company did not issue a set of comparable financial statements for the period ended December 31, 2013 (the company was reorganized in November 2013). As such we are unable to provide a reconciliation to any previously issued financial statements.

The company has prepared financial statements that comply with IFRS applicable for periods ending on or after December 31, 2014, together with the comparative period data as at and for the year ended December 31, 2013, as described in the basis of presentation and summary of

significant accounting policies. In preparing these financial statements, the company's opening statement of financial position was prepared as at January 1, 2013, the company's date of transition to IFRS.

IRHI previously issued financial statements prepared in accordance with IFRS for the year ended December 31, 2013.

Networks previously issued financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) for the year ended December 31, 2013. The primary items that affected the Networks shareholder as a result of the transition to IFRS are as follows:

IFRS 3, *Business Combinations*, has not been applied to acquisitions of subsidiaries, which are considered businesses for IFRS, or of interests in associates and joint ventures that occurred before January 1, 2013. Use of this exemption means that the historical carrying amounts of assets and liabilities, that are required to be recognized under IFRS, is their deemed cost at the date of the acquisition. After the date of the acquisition, measurement is in accordance with IFRS. Assets and liabilities that do not qualify for recognition under IFRS are excluded from the opening IFRS statement of financial position. The company did not recognize or exclude any previously recognized amounts as a result of IFRS recognition requirements.

IFRS 1 also requires that the historical carrying amount of goodwill must be used in the opening IFRS statement of financial position (apart from adjustments for goodwill impairment and recognition or derecognition of intangible assets).

The company has applied the transitional provision in IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, and has assessed all arrangements based upon the conditions in place as at the date of transition.

The company has adopted IFRS later than its parent and has measured its assets and liabilities at amounts as determined by IFRS 1.

Networks has elected to use the value of its property, plant and equipment as of January 1, 2013, as its deemed cost. The costs allowed in the regulatory process are based on historical cost, including capitalized financing costs, staff costs and overheads, and reduced by depreciation, because the costs are allowed to be recovered in rates.

**Regulatory assets and liabilities** - Under IFRS regulatory assets (liabilities) that represent amounts to be recovered from (returned to) customers in future rates are generally not allowed, as they are under U. S. GAAP, as such they have been eliminated with a corresponding charge to reserves. The net amount of regulatory assets eliminated from the U.S. GAAP statements, net of regulatory liabilities, were \$1.1 billion at December 31, 2014, \$0.9 billion at December 31, 2013, and \$1.1 billion at January 1, 2013. We did not elect to apply the provisions of IFRS 14 Regulatory Deferral Accounts and therefore did not recognize any regulatory deferral accounts previously recognized under U.S. GAAP. See also Note 3.

**Post-retirement benefits** – Post-retirement benefits accounting under U.S. GAAP and IFRS are broadly similar, however, the attribution method used to accrue post-retirement medical benefits is different, resulting in a provision that is \$32 million lower for IFRS as of January 1, 2013.

**Provision for environmental remediation costs** – Under U.S. GAAP environmental remediation costs are recorded at the low end of the range if no best estimate is available. Under IFRS the midpoint of the range is used if no best estimate is available. As a result, the provision was \$99 million higher on the IFRS consolidated statement of financial position as of January 1, 2013.

The three items above create the principal differences on the statement of profit and loss and other comprehensive income between U.S. GAAP and IFRS. Under U.S. GAAP certain costs may be deferred if they will be allowed in future rates, therefore the timing of expenses will be different under IFRS. In 2013 the net effect of changes in regulatory assets and liabilities on the statement of profit and loss and other comprehensive income was \$13 million of additional operating expenses. Under U.S. GAAP any change in the provision for environmental remediation costs is deferred as a regulatory asset or liability. Under IFRS they are recorded in the statement of profit and loss and other comprehensive income. The additional environmental expense recorded under IFRS was \$66 million in 2013.

In addition to the different attribution period for post-retirement medical benefits, there are other differences between U.S. GAAP and IFRS that affect the statement of profit and loss related to pensions and post-retirement medical benefits. Under U.S. GAAP actuarial gains and losses are amortized into income, whereas under IFRS all gains and losses are taken directly to equity and are not amortized to profit and loss. In addition, the expected return on plan assets is different than the discount rate under U.S. GAAP whereas, as required by IAS 19, the expected return is equal to the discount rate, resulting in a different return on assets, which is included in the total pension and post-retirement benefit cost. The net effect of all of these items was the U.S. GAAP expense was \$15 million lower than the IFRS expense in 2013.

There is no significant difference in cash flows between U.S. GAAP and IFRS as cash flows from operations, investing and financing would generally be the same.

Networks has elected to use the value of its property, plant and equipment as of January 1, 2013, as its deemed cost. The costs allowed in the regulatory process are based on historical cost, including capitalized financing costs, staff costs and overheads, and reduced by depreciation, because the costs are allowed to be recovered in rates.

## **6. Financing and Financial Risk Management Policy**

The company is exposed to various inherent risks in the industries and markets in which it operates, which could prevent it from achieving its objectives and executing its strategies successfully. The company has an organization and systems that allow the financial risks to



which it is exposed to be identified, measured, and controlled. The financing and financial risk policy identifies the following as the main risk factors faced by the company.

### **Energy Market Risk**

The company faces a number of energy market risk exposures, including fixed price, basis (both location and time), and heat rate risk. Its contracted gas storage exposures are affected by gas price differentials across time. It manages this exposure with fixed price, basis, and index gas derivatives. In addition, contracted transport positions are subject to gas price risk across location (i.e., the price differentials between the receipt and delivery points associated with the leased pipelines). The company hedges this exposure with basis swaps. Its merchant power plants are subject to heat rate risk, which is hedged with fixed price power and fixed price gas and basis positions. The company's merchant wind facilities are subject to fixed price power risk, which is hedged with fixed price power trades. Some of the derivative transactions entered into to manage economic risk are either ineligible for hedge accounting, or we have elected not to use hedge accounting and therefore, are MtM. Because the exposures (e.g., transport, storage, power plant) are accounted for on an accrual basis, timing differences are created between the derivatives and accrual basis earnings, as it pertains to earnings recognition.

Commodity price risk, due to volatility experienced in the wholesale energy markets, is a significant issue for the electric and natural gas utility industries. The company manages that risk through a combination of regulatory mechanisms, such as the pass-through of the market price of electricity and natural gas to customers, and through comprehensive risk management processes. Those measures mitigate our commodity price exposure, but do not completely eliminate it. Long-term supply contracts reduce our exposure to market fluctuations.

The company has electricity commodity purchases and sales contracts for both capacity and energy (physical contracts) that have been designated and qualify for the own use exemption in accordance with the accounting requirements concerning derivative instruments and hedging activities.

The company also uses electricity contracts, both physical and financial, to manage fluctuations in electricity commodity prices in order to provide price stability to customers. It also uses natural gas futures and forwards to manage fluctuations in natural gas commodity prices in order to provide price stability to customers. It includes the cost or benefit of those contracts in the amount expensed for electricity purchased when the related electricity is sold. We record changes in the fair value of electric hedge contracts to derivative assets and/or liabilities with an offset to other comprehensive income.

### **Treasury Management (including Liquidity Risk)**

*IUSA:* IUSA's cash management and short-term funding activities are coordinated with its ultimate parent, Iberdrola. IUSA is able, effectively, to borrow from or lend to its parent. IUSA and its subsidiaries use a series of arms-length agreements to provide short term funding to its unregulated subsidiaries, to minimize overall short-term funding costs and to maximize returns

on temporary cash investments. IUSA has the capacity to borrow from third parties through a \$300 million revolving credit facility that expires in 2019 and was undrawn at December 31, 2014. IUSA had no other third-party debt at December 31, 2014.

*Regulated Utilities:* IUSA's regulated utilities fund their operations independently, except to the extent that they borrow on a short-term basis from unregulated affiliates and from each other when circumstances warrant in order to minimize short-term funding costs and maximize returns on temporary cash investments. The regulated utilities are prohibited by regulation from lending to unregulated affiliates. NYSEG, RG&E and CMP each independently access the investment grade debt capital markets for long-term funding and each are borrowers in a joint revolving credit facility in which the aggregate credit limit is \$600 million. This facility expires in 2018 and had \$586 million of credit available as of December 31, 2014. NYSEG and CMP also have commercial paper programs.

CMP issued \$225 million of first mortgage bonds in January 2013 that had been priced in a private transaction in May 2012. The regulated utilities had approximately \$2.5 billion of outstanding third-party debt at December 31, 2014.

The company's regulated utilities are subjected by regulation to certain credit quality maintenance measures, including minimum equity ratios, that are linked to the level of equity assumed in the establishment of revenue requirements. The companies maintain their equity ratios at or above the minimum through dividend declarations or, when necessary, capital contributions from IUSA.

*IRHI:* IRHI has primarily funded operations through equity contributions from its parent. It has also raised a small percentage of its capital through tax equity partnerships, secured loans and sale-leaseback arrangements. The balance of the outstanding tax equity liability at December 31, 2014 was \$344 million and the balance of loans and leases was \$87 million.

*Treasury risks:* IUSA manages its foreign currency exposure in Canadian dollars arising from the trading activities by Iberdrola Energy Services by entering into forward foreign exchange hedges with select banks. IUSA did not utilize interest rate derivatives in 2014.

The company maintains cash and cash equivalents with several high-quality financial institutions and financial service providers where balances may periodically exceed federally insured limits. The company has not experienced any losses related to these balances, and management believes the risk of loss is minimal.

*Debt Covenants:* In its third-party debt agreements, the borrowers in each case make certain covenants to the lenders, including, in certain agreements, covenants regarding the ratio of indebtedness to total capitalization. The company continually monitors compliance with its covenants and, as of December 31, 2014 and February 19, 2015, is aware of no situation which would constitute an Event of Default or which would cause acceleration of scheduled repayments.

## Credit Risk

This risk is defined as the risk that a third party will not fulfill its contractual obligations and, therefore, generate losses for the company.

The company's renewables and gas storage businesses sell their energy products and services to customers in the electric and natural gas industries and to financial institutions. These industry concentrations have the potential to affect overall exposure to credit risk, either positively or negatively, because the customer base may be similarly affected by changes in economic, industry, weather, or other conditions.

The company's credit department, based on guidelines approved by the board of directors, establishes and manages its counterparty credit limits. The company has developed a matrix of unsecured credit thresholds that are dependent on a counterparty's or the counterparty guarantor's applicable credit rating (normally Moody's or S&P). Credit risk is mitigated by contracting with multiple counterparties and limiting exposure to individual counterparties or counterparty families to clearly defined limits based upon the risk of counterparty default. At the counterparty level, the company employs specific eligibility criteria in determining appropriate limits for each prospective counterparty and supplements this with netting and collateral agreements, including margining, guarantees, letters of credit, and cash deposits, where appropriate.

The company is exposed to both settlement and replacement risk with counterparties. Our credit risk system provides current credit exposure to counterparties on a daily basis.

The company has master netting agreements in place with most of its significant trading counterparties and enters into master netting agreements in an attempt to both mitigate credit exposure and reduce collateral requirements. In general, the agreements allow the aggregation of credit exposure, margin, and set off. As a result, potential credit loss arising from a counterparty default decreases. Beyond these agreements, the company mitigates its risk exposure with other agreements that allow netting, including accounts receivable and accounts payable netting, and other normal credit activities necessary to minimize its overall exposure. The company includes cash collateral deposited with counterparties in current assets and includes cash collateral due to counterparties in current liabilities on the consolidated statement of financial position. For financial statement presentation, we do not offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim or the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.

Balances with individual counterparties can fluctuate greatly depending upon the prevailing market conditions. Limits are set for all counterparties, and exposure is monitored proactively. While individual counterparty balances can be large, collateral or guarantees will be in place to mitigate any exposure the company has.

Certain of our agreements contain provisions that require us to maintain an investment grade credit rating on our debt from each of the major credit rating agencies. If our debt were to fall below investment grade, it would be in violation of those provisions, and the counterparties to

the agreements could request immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions.

Networks faces risks regarding the recovery of receivables for delivery service provided to utility customers. Accounts receivable do not bear interest, although late fees may be assessed.

The collection practices for retail customer accounts receivable, including the ability of the company to terminate service for nonpayment, are governed by state regulatory requirements. When a residential customer of a utility company becomes delinquent in making payments, that company's state regulatory commission requires it to allow the customer to enter into a deferred payment arrangement (DPA) to settle the account balance. A DPA allows the account balance to be paid in installments over an extended time by negotiating mutually acceptable payment terms. Generally, the utility company must continue to serve a customer who cannot pay an account balance in full if the customer: pays a reasonable portion of the balance; agrees to pay the balance in installments; and agrees to pay future bills within 30 days until the DPA is paid in full.

At December 31, 2014 and 2013, there was no material credit risk concentration with all counterparties located in the United States.

### **Sensitivity Analysis**

IRHI uses a Monte Carlo Simulation Value-at-Risk (VaR) to measure and control the level of risk it undertakes. VaR is a statistical technique used to measure and quantify the level of risk within a portfolio over a given timeframe and within a specified level of confidence. VaR is primarily composed of three variables: the measured amount of potential loss, the probability of not exceeding the amount of potential loss, and the portfolio holding period.

IRHI uses a 99% probability level over a five-day holding period, indicating that it can be 99% confident that losses over five days would not exceed that value. Using a simple summation approach across commodities, IRHI's average VaR for 2014 was \$12.5 million compared to a 2013 average of \$12.3 million. This approach has limitations in that it ignores the extent of correlation between commodity prices and diversification between positions; as a result, VaR is not additive.

As noted above, VaR is a statistical technique and is not intended to be a guarantee of the maximum loss IRHI may incur.

Because all gains or losses on Networks' commodity contracts will ultimately be passed on to retail customers, no sensitivity analysis is performed for Networks.

## **7. Significant Accounting Assumptions and Estimates, and Judgments.**

### **a) Assumptions and Estimates**

The preparation of the company's consolidated financial statements requires management to make judgments, estimates, and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Although these estimates are made on the basis of the best information available at the date on which these consolidated financial statements were prepared, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in estimates would be applied prospectively, recognizing the effects of the change in estimates in the related future consolidated financial statements.

The key assumptions and estimates made by the company that have a significant risk of causing a material adjustment in these consolidated financial statements are shown below.

#### *Provisions for Contingencies*

The company recognizes provisions to cover present obligations arising from past events. For this purpose, it must assess the outcome of certain procedures of a legal or other nature that are ongoing at the date of authorization for issue of these consolidated financial statements based on the best information available.

Provisions include environmental remediation costs for site remediation resulting from hazardous substances, including the residue of manufacturing gas. The company's estimates of these costs consider applicable legal requirements and the amount of remediation required based on its best understanding of the conditions at the various sites.

#### *Useful Lives*

The company's tangible assets operate over prolonged periods of time. The company estimates their useful lives for accounting purposes, taking into account each asset's technical characteristics, the period over which they are expected to generate economic benefits, and applicable legislation in each case.

The useful lives for the utility assets are consistent with the depreciation rates allowed by the applicable regulatory agency, which is determined using historical information and takes into consideration other technical considerations.

#### *Provision for Decommissioning*

As the estimate for decommissioning is being made today in anticipation of future costs, there are a number of assumptions and estimates made, such as discount rates, inflation rates, and future costs. The company annually reviews the assumptions and estimates made. Asset

retirement obligations are calculated based on discounting future cash flows using the risk free rate. In accordance with IBERDROLA policy the discount rate is based on treasury bonds with a maturity that matches the payment of the liability. Where the liability is expected to mature after 10 years the company uses the 10 year rate. See Note 18 for further details.

#### *Provision for Pensions and Similar Commitments*

At each year-end the company estimates the current actuarial provision required to cover obligations relating to pensions and other similar obligations to its employees. In several cases, it involves the valuation of the assets affected to certain plans. In making these estimates, the company receives advice from independent actuaries.

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates, and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of corporate bonds consistent with the currencies of the post-employment benefit obligation with at least an AA rating or above, as set by an internationally-acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation. The underlying bonds are further reviewed for quality. Those having excessive credit spreads are excluded from the analysis of bonds on which the discount rate is based, on the basis that they do not represent high-quality corporate bonds.

The mortality rate is based on publicly available mortality tables for the United States. Future salary increases and pension increases are based on expected future inflation rates. See Note 17 for further details.

#### *Impairment of Assets*

The company, in accordance with applicable accounting standards, tests impairment each year as of September 30th. These impairment tests require estimating the future cash flows of the businesses and the most appropriate discount rate in each case. These estimates of future cash flows include many inputs based upon estimations and predictions of future events. The company believes its estimates in this respect are appropriate and consistent with the current market situation and reflect its investment plans and the best available estimate of its future expense and income. It is, however, possible that changes in some of these future assumptions or estimates could have a material effect on the valuation of the company assets and liabilities. The discount rates, before taxes, used by the company for impairment test purposes on its wind generation and gas storage assets were, 6.0%-6.9% for 2014 and 6.5%-7.84% for 2013 depending upon the assets being evaluated. These discount rates, before taxes, are based on the time value of money or the risk-free rate of that market, plus the specific risks of the asset or risk premium of the asset or business in question.

Although IAS 36, Impairment of Assets, recommends the use of projections to five years for impairment test purposes, the company has decided to use the useful lives, due to the fact that in the generation business there are long-term energy sale contracts in force, and long-term estimated price curves are frequently used in the operating activity (contracts, hedges, etc.).

The projections used in the impairment tests coincide with the best forecast information held by the company or its ultimate parent, IBERDROLA, at the date the tests were carried out and include the investment plan prevailing at that time.

The company also conducts an impairment test as of September 30 of each year for its long-lived intangible assets, which relates to its development projects that have been purchased and assigned purchase price allocation value. During 2014 and 2013, the company impaired certain of these development projects as a result of these tests. See Notes 8 and 25 for further details.

Part of our business relates to the development of new facilities in both renewable energy and gas storage in order to ensure future growth, as a result of which, we have ongoing construction in progress expenditures in the consolidated statement of financial position. In light of this, we have developed a process to periodically review our development projects to ensure that they remain economically viable, based on a variety of factors.

The company conducts an annual impairment test for its goodwill as of September. All remaining goodwill relates to its utility operations. It updates its goodwill impairment test if circumstances occur that would more likely than not reduce the fair value of a CGU below its carrying value. These impairment tests require estimating the future cash flows of the businesses and the most appropriate discount rate. These estimates of future cash flows include many inputs based upon estimations and predictions of future events. The company believes its estimates in this respect are appropriate and consistent with the current market and regulatory situation and reflect its investment plans and the best available estimate of its future expense and income. It is, however, possible that changes in some of these future assumptions or estimates could have a material effect on the valuation of the company's utility assets and liabilities. The discount rates, before taxes, used by Networks for impairment test purposes were 5.26% for 2014 and 5.38% for 2013. These discount rates, before taxes, are based on the time value of money or the risk-free rate of that market, plus the specific risks of the regulated businesses being evaluated.

#### Other Intangible Assets

The other intangible assets caption on the consolidated statement of financial position includes wind farm projects and gas storage facilities in the development phase. The company estimates that these projects meet the requirements under IAS 38 for them to be capitalized and that the company's future investment plans will include constructing the facilities proposed in these projects. See Note 8 for further details.

### *Taxes*

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate adjustments to future tax income and expense.

Significant judgment is required in determining income tax provisions and evaluating tax positions. The company's tax positions are evaluated under a more-likely-than-not recognition threshold and measurement analysis before they are recognized for consolidated financial statement reporting.

Deferred tax assets are recognized for unused tax losses and tax credits, to the extent that it is probable that taxable profit will be available against which the losses and credits can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. See Note 20 for further details.

### *Unbilled Revenues*

Networks' unbilled revenues represent estimates of receivables for energy provided but not yet billed. The estimates are determined based on various assumptions, including current month energy load requirements, billing rates by customer class and delivery loss factors. Changes in those assumptions could significantly affect the estimated amount of unbilled revenues.

### *Allowance for Doubtful Accounts*

The allowance for doubtful accounts is the company's best estimate of the amount of probable credit losses in its existing accounts receivable, determined based on experience for each service region. Each month the operating companies review their allowance for doubtful accounts and past due accounts by age. When an operating company believes that a receivable will not be recovered, it charges off the account balance against the allowance. Changes in assumptions about input factors and customer receivables, which are inherently uncertain and susceptible to change from period to period, could significantly affect the allowance for doubtful accounts estimates.



## **b) Judgments**

The most significant judgments made by the company in these consolidated financial statements are as follows:

### *Consolidation of Entities*

The company fully consolidates subsidiaries over which it exercises control, unless they are considered insignificant to the fair presentation of the company. Control in this context is evidenced when the company has the power to govern the financial and operating policies so as to obtain benefits from its activities.

As described in Note 28, the company is party to both joint arrangements and also structured institutional partnership investment arrangements.

The company is party to three joint arrangements where it owns 50% and one other partner holds the remaining 50% of each wind farm facility. In light of the requirements of IFRS 11, the company has reviewed the operations of these facilities and the significant contracts of these entities and has held meetings with the other partners to review these findings. From these reviews it was agreed that one would be classified as a joint operation (with a 50% proportional consolidation) and the other two would be classified as joint ventures (with 50% equity investment accounting). See Note 28 for further details.

The structured institutional partnership investment arrangements – shown under capital instruments with debt-like characteristics in the consolidated statement of financial position refer to structures where a variety of third-party institutional investors invest in the equity of a holding company that owns wind farm facilities. In return the investors receive profit/loss, cash distributions, and tax benefits resulting from the wind farm energy generation. In each of these cases a non-controlling (5%–10%) stake is offered, and the company retains total control of the operations of the facilities. Accordingly, these arrangements are consolidated 100% with the investors share shown as non-controlling interests in the equity section of the consolidated statement of financial position. See Note 15 for further details.

### *Fair Value of Financial Instruments*

When the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, their fair value is determined using valuation techniques, including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. See Note 10 for further details.

## 8. Intangible Assets

The changes during 2014 and 2013 in intangible assets accounts and in the related accumulated amortization and provisions were as follows:

<i>(In Thousands)</i>	Goodwill	Gas Storage Rights	Computer Software	Other Intangible Assets	Total
<b>Cost</b>					
<b>Balance at January 1, 2013 Pro Forma</b>	<b>\$1,000,030</b>	<b>\$241,982</b>	<b>\$57,189</b>	<b>\$88,036</b>	<b>\$1,387,237</b>
Additions	-	-	1,796	-	1,796
Capitalized staff costs	-	-	641	-	641
Disposals	-	-	(9,257)	(1)	(9,258)
Transfers/reclasses	-	-	1,926	(26,857)	(24,931)
Impairments	(18,385)	-	-	(39,891)	(58,276)
<b>Balance at December 31, 2013</b>	<b>981,645</b>	<b>241,982</b>	<b>52,295</b>	<b>21,287</b>	<b>1,297,209</b>
Additions	-	-	-	-	-
Capitalized staff costs	-	-	2,498	-	2,498
Disposals	-	-	-	(1)	(1)
Transfers/reclasses	-	-	-	(30)	(30)
Impairments	-	-	-	(1,558)	(1,558)
<b>Balance at December 31, 2014</b>	<b>\$981,645</b>	<b>\$241,982</b>	<b>\$54,793</b>	<b>\$19,698</b>	<b>\$1,298,118</b>
<b>Amortization and provisions</b>					
<b>Balance at January 1, 2013 Pro Forma</b>	-	(\$39,783)	(\$43,920)	(\$19,268)	(\$102,971)
Charge for the year	-	(6,398)	(8,608)	(882)	(15,888)
Disposals	-	-	9,257	-	9,257
Transfers/reclasses	-	-	(239)	10,636	10,397
<b>Balance at December 31, 2013</b>	-	<b>(46,181)</b>	<b>(43,510)</b>	<b>(9,514)</b>	<b>(99,205)</b>
Charge for the year	-	(6,398)	(4,531)	(690)	(11,619)
Disposals	-	-	-	-	-
Transfers/reclasses	-	-	-	-	-
<b>Balance at December 31, 2014</b>	-	<b>(\$52,579)</b>	<b>(\$48,041)</b>	<b>(\$10,204)</b>	<b>(\$110,824)</b>
<b>Net book value</b>					
<b>At January 1, 2013</b>	<b>\$1,000,030</b>	<b>\$202,199</b>	<b>\$13,269</b>	<b>\$68,768</b>	<b>\$1,284,266</b>
<b>At December 31, 2013</b>	<b>\$981,645</b>	<b>\$195,801</b>	<b>\$8,785</b>	<b>\$11,773</b>	<b>\$1,198,004</b>
<b>At December 31, 2014</b>	<b>\$981,645</b>	<b>\$189,403</b>	<b>\$6,752</b>	<b>\$9,494</b>	<b>\$1,187,294</b>

Total accumulated impairments of goodwill as of December 31, 2014, and December 31, 2013 were \$18.4 million. There were no accumulated impairments of goodwill as of January 1, 2013. See Note 25.

Fully amortized intangible assets in use at December 31, 2014, and 2013, amounted to \$48.1 million and \$31.3 million, respectively.

As of December 31, 2014 and 2013, there were no significant restrictions on the ownership of intangible assets.

Over time, the company's renewables group has purchased development projects from third parties and has assigned purchase price allocation values accordingly, which are accounted for as indefinite life intangible assets. These project values are transferred to tangible assets as the projects are completed. The company conducts impairment tests on these assets annually. See Note 7.

The amount of indefinite life and in-progress intangible assets, on a value-in-use basis, at December 31, 2014, and 2013, amounted to \$6.1 million and \$7.7 million, respectively, with the reduction arising due to the impairments in the year. See Note 25.

Amortization and impairment expenses are shown in the depreciation, amortization, and provisions line of the consolidated statement of profit or loss and other comprehensive income. For further details, see Note 25.

## 9. Property, Plant, and Equipment

The changes during 2014 and 2013 in property, plant, and equipment accounts and in the related accumulated depreciation and provisions were as follows:

	Land and Buildings	Construction in Progress	Plant and Equipment	Other	Total
<i>(In Thousands)</i>					
<b>Cost</b>					
<b>Balance at January 1, 2013 Pro Forma</b>	<b>\$249,790</b>	<b>\$1,512,606</b>	<b>\$19,768,132</b>	<b>\$1,143,829</b>	<b>\$22,674,357</b>
Additions	2,297	521,530	452,392	49,102	1,025,321
Disposals	(1,346)	(38,266)	(191,415)	(26,629)	(257,656)
Transfers/reclasses	975	(474,914)	470,079	26,221	22,361
Impairments	(4,500)	(190,225)	-	-	(194,725)
<b>Balance at December 31, 2013</b>	<b>247,216</b>	<b>1,330,731</b>	<b>20,499,188</b>	<b>1,192,523</b>	<b>23,269,658</b>
Additions	5,332	679,017	451,932	48,455	1,184,736
Disposals	(862)	(35,998)	(151,648)	(117,008)	(305,516)
Transfers/reclasses	31,337	(421,247)	372,671	17,237	(2)
Impairments	-	(15,408)	-	-	(15,408)
<b>Balance at December 31, 2014</b>	<b>\$283,023</b>	<b>\$1,537,095</b>	<b>\$21,172,143</b>	<b>\$1,141,207</b>	<b>\$24,133,468</b>
<b>Depreciation and provisions</b>					
<b>Balance at January 1, 2013 Pro Forma</b>	<b>(\$63,557)</b>	-	<b>(\$4,968,425)</b>	<b>(\$599,858)</b>	<b>(\$5,631,840)</b>
Charge for the year	(3,179)	-	(613,391)	(68,868)	(685,438)
Disposals	380	-	85,997	25,350	111,727
Transfers/reclasses	2,714	-	(12,520)	(2,625)	(12,431)
<b>Balance at December 31, 2013</b>	<b>(63,642)</b>	-	<b>(5,508,339)</b>	<b>(646,001)</b>	<b>(6,217,982)</b>
Charge for the year	(2,127)	-	(655,573)	(57,986)	(715,686)
Disposals	628	-	118,552	79,002	198,182
Transfers/reclasses	-	-	2,436	(3,008)	(572)
<b>Balance at December 31, 2014</b>	<b>(\$65,141)</b>	-	<b>(\$6,042,924)</b>	<b>(\$627,993)</b>	<b>(\$6,736,058)</b>
<b>Net Book Value</b>					
<b>At January 1, 2013</b>	<b>\$186,233</b>	<b>\$1,512,606</b>	<b>\$14,799,707</b>	<b>\$543,971</b>	<b>\$17,042,517</b>
<b>At December 31, 2013</b>	<b>\$183,574</b>	<b>\$1,330,731</b>	<b>\$14,990,849</b>	<b>\$546,522</b>	<b>\$17,051,676</b>
<b>At December 31, 2014</b>	<b>\$217,882</b>	<b>\$1,537,095</b>	<b>\$15,129,219</b>	<b>\$513,214</b>	<b>\$17,397,410</b>

The fully depreciated items of property, plant, and equipment in use amounted to \$273 million at December 31, 2014 and 2013. Amounts with restrictions on title were \$57.6 million in 2014 and \$63.5 million in 2013. The value of compensation or recoveries from third parties was \$1.8 million in 2014 and \$5.9 million in 2013.

At December 31, 2014, the company had property, plant, and equipment purchase commitments amounting to \$168 million.

Depreciation and impairment expenses are shown in the depreciation, amortization, and provisions line of the consolidated statement of profit or loss and other comprehensive income. For further details, see Note 25.

Additionally, the cost of acquisition includes the following items:

- Borrowing costs relating to funding incurred during the construction period only, by applying the average effective interest rate to the average cumulative investment qualifying for capitalization. The average capitalization rates used were 1.54% to 7.2% in 2014 and 7.0% in 2013. In 2014 and 2013, we capitalized to property, plant, and equipment, borrowing costs of \$19 million and \$3.9 million respectively, with a credit to Finance income in the consolidated statement of profit or loss and other comprehensive income.

Staff costs relating directly or indirectly to construction-in-progress. The amounts capitalized in this respect were \$61.4 million in 2014 and \$43.9 million in 2013.

## 10. Measurement of Financial Instruments

The comparison between carrying amount and fair value of the company's financial instruments at December 31, is as follows:

December 31, 2014	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<i>(In Thousands)</i>					
Securities portfolio (available for sale)	\$24,390	\$24,390	\$1,389	-	\$23,001
<b>Financial assets</b>					
Derivative financial instruments-Power	\$77,682	\$77,682	-	\$47,810	\$29,872
Derivative financial instruments-Gas	\$138,782	\$138,782	\$299	\$90,629	\$47,854
	<b>\$216,464</b>	<b>\$216,464</b>	<b>\$299</b>	<b>\$138,439</b>	<b>\$77,726</b>
<b>Financial liabilities</b>					
Derivative financial instruments-Power	(\$36,158)	(\$36,158)	(\$28,420)	(\$7,633)	(\$105)
Derivative financial instruments-Gas	(101,802)	(101,802)	(6,686)	(66,169)	(28,947)
Derivative financial instruments-Other	(3,320)	(3,320)	-	-	(3,320)
	<b>(\$141,280)</b>	<b>(\$141,280)</b>	<b>(\$35,106)</b>	<b>(\$73,802)</b>	<b>(\$32,372)</b>

There have been no transfers between Level 1 and Level 2 during the periods reported.

<b>December 31, 2013</b> <i>(In Thousands)</i>	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Securities portfolio (available for sale)</b>	<b>\$44,674</b>	<b>\$44,674</b>	<b>\$44,674</b>	<b>-</b>	<b>-</b>
<b>Financial assets</b>					
Derivative financial instruments-Power	\$71,347	\$71,347	\$3,126	\$29,174	\$39,047
Derivative financial instruments-Gas	71,471	71,471	1,018	21,322	49,131
	<b>\$142,818</b>	<b>\$142,818</b>	<b>\$4,144</b>	<b>\$50,496</b>	<b>\$88,178</b>
<b>Financial liabilities</b>					
Derivative financial instruments-Power	(\$27,623)	(\$27,623)	(\$1,184)	(\$1,888)	(\$24,551)
Derivative financial instruments-Gas	(152,625)	(152,625)	(7,232)	(129,347)	(16,046)
Derivative financial instruments-Other	(547)	(547)	-	-	(547)
	<b>(\$180,795)</b>	<b>(\$180,795)</b>	<b>(\$8,416)</b>	<b>(\$131,235)</b>	<b>(\$41,144)</b>

There have been no transfers between Level 1 and Level 2 during the periods reported.

***Reconciliation of Level 3 Fair Value items***

<i>In Thousands</i>	
<b>December 31, 2013</b>	<b>\$47,035</b>
Gains for the period recognized in Revenues	7,910
Losses for the period recognized in Revenues	(952)
Total gains or losses for the period recognized in Revenues	<b>6,958</b>
Gains recognized in Hedge Revaluation Reserve	2,192
Losses recognized in Hedge Revaluation Reserve	(3,781)
Total gains or losses recognized in Hedge Revaluation Reserve	<b>(1,589)</b>
Purchases	<b>9,979</b>
Settlements	<b>(25,840)</b>
Transfers into Level 3	23,001
Transfers out of Level 3 (moved into 'liquid' period)	8,811
Transfers	<b>31,812</b>
<b>December 31, 2014</b>	<b>\$68,355</b>

<b>December 31, 2014</b>	<b>Current Asset</b>	<b>Noncurrent Asset</b>	<b>Current Liability</b>	<b>Noncurrent Liability</b>
<i>(In Thousands)</i>				
Financial assets and liabilities subject to offsetting:				
Gross amounts recognized	\$707,877	\$134,113	(\$681,490)	(\$85,316)
Amounts of offsetting	(578,717)	(46,809)	578,757	46,769
<b>Net amounts presented in the statement of financial position</b>	<b>\$129,160</b>	<b>\$87,304</b>	<b>(\$102,733)</b>	<b>(\$38,547)</b>
Related amounts not set off in the statement of financial position:				
Financial instruments	(\$55,939)	(\$10,012)	\$55,901	\$10,051
Cash collateral	(49,521)	(14,974)	28,741	9,383
<b>Balance as at December 31, 2014</b>	<b>\$23,700</b>	<b>\$62,318</b>	<b>(\$18,091)</b>	<b>(\$19,113)</b>

The fair value of these financial instruments has been calculated described in under Note 3.

The company measures financial instruments, such as derivatives at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset according to its highest and best use or by selling it to another market participant that would use the asset according to its highest and best use.

The company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole:

- Level 1 –Consist of exchange-traded transactions such as the New York Mercantile Exchange (NYMEX) with quoted market prices in active markets for identical products.
- Level 2 – Consist of transactions with delivery periods of two years or less that trade in active markets and are valued with or derived from observable market data for identical or similar products (e.g., over-the-counter NYMEX, foreign exchange swaps, fixed price physical, basis and index trades). Monthly data points will be included in this category provided they fall within the bid/ask data provided by brokers for seasonal strips and

quarterly quotes. Trader marks that fall outside of a 5% threshold of the average broker marks and fall outside of the widest bid/ask spreads will be adjusted to reflect the broker quotes. Any position that is initially classified as Level 2 will be evaluated before and after the provision of credit reserves with incremental value changes of 10% or more classified as Level 3. To be included in this category, market data, or a derivative thereof, must be available for the entire term of the trade.

- Level 3 – Consist of transactions with delivery periods exceeding two years or that have unobservable inputs or inputs that cannot be corroborated with market data for identical or similar products (e.g., tolling arrangements with historical volatilities, park and loan arrangements that include the value of expired legs, transactions with significant credit adjustments). The valuation premise in this category will be based on market participant assumptions.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level of input that is significant to the fair value measurement as a whole) at the end of each reporting period.

### Level 3 Fair Value Measurement

The table below illustrates the significant sources of unobservable inputs used in the fair value measurement of the company's Level 3 derivatives. It represents the variability in prices for those transactions that fall into the illiquid period, using past and current views of prices for those future periods.

Instruments	Instrument Description	Valuation Technique	Valuation Inputs	Index	Variability Avg.	Max.	Min.
Fixed price power and gas swaps with delivery period > two years	Transactions with delivery periods exceeding two years	Mark to market	Observable and extrapolated forward gas & power prices not all of which can be corroborated by market data for identical or similar products	NYMEX (\$/MMBtu)	\$ 4.33	\$ 5.47	\$ 3.34
				SP15 (\$/MWh)	\$ 43.27	\$ 59.12	\$ 30.04
				Mid C (\$/MWh)	\$ 36.16	\$ 56.28	\$ 12.62
				Cinergy (\$/MWh)	\$ 37.41	\$ 68.65	\$ 21.17

The company's Level 3 valuations primarily consist of NYMEX gas and fixed price power swaps with delivery periods extending through 2017. The gas swaps are used to hedge both gas inventory in firm storage and merchant wind positions. The power swaps are traded at liquid hubs in the West and Midwest and are used to hedge merchant wind production in those regions.



A sensitivity analysis was performed around the Level 3 gas and power positions to changes in the valuations inputs noted above and it was concluded that no material change to the financial statements is expected given the following: (i) Any changes in the fair value of the gas swaps hedging inventory would be expected to be largely offset by changes in the value of the inventory; (ii) Any changes in the fair value of the gas swaps hedging merchant generation would be expected to be significantly offset by changes in the value of future power generation.

Future commodity prices are the significant unobservable inputs to fair value. Any significant increases in prices would result in a lower fair value of derivatives. Conversely, significant reductions in prices would result in a higher fair value of derivatives.

The company maintains a formal Risk Management Policy and Procedures manual that sets out the requirements for maintaining the models used in calculating fair value, with requirements to maintain documentation describing the detailed methodologies and tools used to construct the assumptions, forward curves, and key parameters used in the valuation models. These detailed documents provide all necessary information and data necessary to independently value any transaction.

The company maintains full documentation describing the models, forward curves, and other parameters used in valuation models. Descriptions of valuation models and pricing data are maintained and documented by the Structuring and Market Analysis group and the Mid Office. Summaries of valuation models developed are maintained and documented by the Structuring and Market Analysis group.

Two elements of the analytical infrastructure employed in valuing transactions are the price curves used in calculation of market value and the models themselves. Authorized trading points and associated forward price curves are maintained and documented by Mid Office. Models used in valuation of the various products are developed and documented by the Structuring and Market Analysis group.

Transaction models are valued in part on the basis of forward price, correlation, and volatility curves. Description of these curves and their derivations are maintained and documented by the Structuring and Market Analysis group. Forward price curves used in valuing the models are applied to the full duration of transactional models, to a maximum of approximately 30 years.

## 11. Inventories

The detail of inventories in the consolidated statements of financial position is as follows:

	December 31, 2014	December 31, 2013	Pro Forma January 1, 2013
<i>(In Thousands)</i>			
Gas inventory	\$228,157	\$285,408	\$279,459
Other Inventory	1,716	12,569	14,293
	<b>\$229,873</b>	<b>\$297,977</b>	<b>\$293,752</b>

The company expensed \$2.1 billion of inventory during the year ended December 31, 2014, and \$2.0 billion for the year ended December 31, 2013. IRHI's gas inventory relates to proprietary trading and it is required to be netted off within revenues and is not expensed under cost of sales in the consolidated statement of profit or loss and other comprehensive income. Inventory used for sale to utility customers is expensed to cost of sales.

The company recorded a provision at December 31, 2014, to record the difference between its cost of gas inventory and spot prices. This reduction in inventory value is more than offset by the contracted cash flows of the forward hedges under which this inventory has been sold. The cash flows to be realized from the forward hedges exceeds the inventory expense by more than the original provision and as such the provision for the change in inventory value was offset by the revaluation reserves in the consolidated statements of financial position.

At December 31, 2014, the company has contractual commitments to purchase 506 billion cubic feet of gas in future years. This amount is gross of any sales commitments and excludes financial transactions where gas does not physically move.

## 12. Current Trade and Other Receivables

The detail of current trade and other receivables in the consolidated statements of financial position is as follows:

	December 31, 2014	December 31, 2013	Pro Forma January 1, 2013
<i>(In Thousands)</i>			
Trade receivables	\$863,040	\$912,373	\$969,602
Receivables from associates	50,170	22,641	14,985
Other receivables	(36)	45	(3,204)
Bad debt provision	(58,589)	(59,678)	(56,642)
	<b>\$854,585</b>	<b>\$875,381</b>	<b>\$924,741</b>

The breakdown of the trade receivables is as follows:

	December 31, 2014	December 31, 2013	Pro Forma January 1, 2013
<i>(In Thousands)</i>			
Neither past due nor impaired	\$699,516	\$721,681	\$824,287
up to 90 days	47,005	51,366	52,878
90-180 days	47,680	59,146	26,898
More than 180 days	68,839	80,180	65,539
	<b>\$863,040</b>	<b>\$912,373</b>	<b>\$969,602</b>

The amounts included do not bear any interest under this caption in the consolidated statement of financial position, although Network's utility subsidiary may charge late fees.

Accounts receivable includes amounts due under DPAs. A DPA allows the account balance to be paid in installments over an extended period of time, which generally exceeds one year, by negotiating mutually acceptable payment terms. Generally, the utility company must continue to serve a customer who cannot pay an account balance in full if the customer: pays a reasonable portion of the balance; agrees to pay the balance in installments; and agrees to pay future bills within 30 days until the DPA is paid in full. DPA receivable balances, net of the applicable reserve, at December 31, 2014, and December 31, 2013, were \$40.1 million and \$51.1 million, respectively.

The variations in the bad debt provision in 2013 and 2014 were as follows:

	December 31, 2014	December 31, 2013
<i>(In Thousands)</i>		
Beginning Balances	\$59,678	\$56,642
Provision	47,759	38,064
Utilization of provisions	(43,467)	(33,548)
Transfers	(5,381)	(1,480)
Ending Balance	<b>\$58,589</b>	<b>\$59,678</b>

The bad debt provision relates entirely to gas and electricity consumers.

### 13. Cash and Cash Equivalents

The detail of cash and cash equivalents in the consolidated statement of financial position is as follows:

	December 31, 2014	December 31, 2013	Pro Forma January 1, 2013
<i>(In Thousands)</i>			
Cash and cash equivalents	\$455,609	\$191,697	\$10,448
Short-term deposits	8,292	9,616	30,848
	<b>\$463,901</b>	<b>\$201,313</b>	<b>\$41,296</b>

This heading includes short-term deposits that mature within a period of less than three months and bear market rates. These accounts have no restrictions on cash withdrawals. The company has no overdraft amounts at December 31, 2014 and 2013.

The company is free to move its cash balances across those entities that it owns, without restriction. For the 50/50 joint arrangements, approval of the other owner is necessary to withdraw any cash balances.

### 14. Equity

#### Share Capital

The company's ending share capital and premium at December 31, 2013, was \$9.3 billion, representing 243 shares with a nominal value of \$0.01. The company has 243 ordinary shares authorized, but has no treasury shares or convertible preference shares.

During 2013, IRHI issued 498 new shares to its parent, IFUL, in return for \$800 million of new equity, \$153 million in cash and the remainder in the form of loan notes. As a result, at December 31, 2013, IRHI's ending share capital was \$8.6 billion, representing 6,786 shares with a nominal value of \$0.01. Due to the transfer of ownership of IRHI, as mentioned in Note 1, all of IRHI's shares are held by its parent, IUSA. IRHI has 10,000 ordinary shares authorized, but has no treasury shares or convertible preference shares.

### Capital Management

The company's capital management is controlled on a group basis by its ultimate parent, IBERDROLA. At this time, IBERDROLA's credit ratings are Baa1 granted by Moody's and BBB granted by Standard & Poor's.

### Hedge Revaluation Reserve

The change in this reserve arising from valuation adjustments to derivatives designated as cash flow hedges at December 31, 2014, and 2013, is as follows:

(In Thousands)	Commodity Derivatives
<b>Balance at January 1, 2013 Pro Forma</b>	<b>\$(103,918)</b>
Change in fair value	(36,881)
Amounts allocated to income and others	31,459
Income tax effect	1,712
<b>Balance at December 31, 2013</b>	<b>\$(107,628)</b>
Change in fair value	17,699
Amounts allocated to income and others	67,221
Income tax effect	(32,422)
<b>Balance at December 31, 2014</b>	<b>\$(55,130)</b>

The commodity hedges are expected to mature within, and reverse to the consolidated statements of profit or loss and other comprehensive income, over the years 2015 – 2017. During the year ended December 31, 2014, the company recognized \$2.6 million of income as compared to \$0.2 million of expense in 2013 in relation to hedge ineffectiveness. The IRHI trading activities are recorded to revenues in the consolidated statement of profit or loss.

The commodity hedges are expected to mature within, and reverse to the consolidated statements of profit or loss and other comprehensive income, over the years 2015 – 2017.

## 15. Capital Instruments With Debt-Like Characteristics

The detail of the consolidated statements of financial position at December 31, 2014 and 2013 is as follows:

(In Thousands)

<b>Balance at January 1, 2013 Pro Forma</b>	<b>\$629,857</b>
Finance costs accrued during the year	38,890
Payments	(125,500)
Amortization	(40,936)
Repurchases	(48,182)
<b>Balance at December 31, 2013</b>	<b>454,129</b>
Finance costs accrued during the year	34,653
Payments	(118,897)
Amortization	(26,270)
<b>Balance at December 31, 2014</b>	<b>\$343,615</b>

The balance in Capital Instruments with Debt-like Characteristics of the consolidated statements of financial position at December 31, 2014, accrues interest at an average rate of 7.2% compared to 6.1% at December 31, 2013.

Wind power generation is subject to certain favorable tax treatments within the U.S. In order to monetize the tax benefits generated by the company's wind farms, the company has entered into structured institutional partnership investment transactions related to certain wind farms located throughout the U.S. There are five such structures: Aeolus Wind Power I LLC, Aeolus Wind Power IV LLC and Locust Ridge Wind Farms LLC (collectively, Aeolus). Under the Aeolus structures, the company contributes certain wind assets, relating both to existing wind farms and wind farms that are being placed into operation at the time of the relevant transaction, and other parties invest in the share equity of the Aeolus limited liability holding company. As consideration for their investment, the third parties pay the company a specified amount of up-front cash and enter into fixed and/or contingent notes.

Under each Aeolus structure, for a specified period of time the third-party investors receive a disproportionate amount of the profit/loss, cash distributions, and tax benefits resulting from the wind farm energy generation. For Aeolus wind farm structures in place at December 31, 2014 and 2013, the disproportionate returns of the investors represented a percentage of the cash flows and tax benefits from the Aeolus wind farm operations during the preferential return period, which continues until the investor entitled to the preferential return recovers its investment and achieves a cumulative annual after-tax return. The company cannot estimate the preferential return period for Aeolus wind farm structures in place at December 31, 2014 and 2013, because the length of the preferential return period depends on estimated future cash flows as well as projected tax benefits. At the end of the specified period, the majority of the profit/loss, cash distributions, and tax benefits, if any, flip back to the company. In all of the Aeolus structures, the company retains a class of membership interests and day-to-day operational and management control of the wind farms, subject to investor approval of certain

major decisions. The institutional investors do not receive a lien on any wind farm assets and have no recourse against the company for the upfront cash payments.

During 2014 the investor returns on the Aeolus I structure successfully met the investor requirements, causing the structure to flip back, with the investor and company each retaining returns appropriate to their investment. From that point forward, the investor interest is now being recorded as a 10% non-controlling interest, with a commensurate share of the returns of the portfolio.

The effects of the Aeolus transactions are accounted for as follows in the company's consolidated financial statements:

**Fixed notes** – Fixed notes receivable are unsecured and are reflected in current or noncurrent other financial investments, depending on the fixed note maturities. Principal and interest payments are due on a quarterly basis. Interest accrued on the fixed notes receivable is credited to finance income in the period earned.

**Contingent notes** – Contingent notes are credited to revenue when they are earned, payment is considered virtually certain, and the asset is no longer regarded as contingent. The contingent notes receivable have fixed interest rates and maturity dates, with principal and interest payments due on a quarterly basis. As the payments are received quarterly, a small receivable balance, shown under current trade and other receivables, is the only balance recognized in the consolidated statement of financial position.

**Capital instruments with debt-like characteristics** – The sale of a membership interest in the Aeolus structures represents the sale of an equity interest in a structure that is considered in substance real estate. Under existing guidance for real estate financings, the membership interests in the Aeolus structures that were sold by the company to the third-party investors are reflected as a financing obligation on the consolidated statement of financial position. The company continues to fully consolidate the Aeolus wind farms' assets and liabilities on the consolidated statement of financial position and to report the results of the operations of the wind farms in the consolidated statement of profit or loss and other comprehensive income. The presentation reflects revenues and expenses from the Aeolus wind farms' operations on a gross basis. The balances are increased for cash contributed by the third-party investors, interest accrued, and by the federal income tax impact to the third-party investors of the allocation of taxable income. Interest is accrued on the balance using the effective interest method and the third-party investors' targeted rate of return. The balances are reduced by cash distributions to the third-party investors, the allocation of production tax credits to the third-party investors, and the federal income tax impact to the third-party investors of the allocation of taxable losses. This treatment is expected to remain consistent over the terms of the Aeolus structures. The portion of this balance expected to mature within one year is \$123.6 million for 2014, compared to \$118.2 million in 2013.

**Income tax expense** – The federal income tax affect of the difference between depreciation for financial reporting, which is recognized on a straight-line basis, and the accelerated depreciation

used for tax purposes, is accounted for as a long-term deferred liability due to the investors with an offsetting adjustment to interest expense. The adjustment normalizes the impact on interest expense of the accelerated tax depreciation used for tax purposes.

Revenue – Amounts related to the PTCs on the electricity generated from the wind farms are credited to revenue in the period associated with the related generation from the wind farms.

Finance income – Interest is accrued on the fixed and contingent note receivables and credited to finance income in the period earned.

Finance expense – Interest is accrued on the outstanding balance of the capital instruments with debt-like characteristics using the effective interest method.

Non-controlling interests – A non-controlling interest based on the estimated value that the third party investor will have after the flip date is recorded in the consolidated statement of financial position on the closing date of the Aeolus transactions.

One of the Aeolus transactions provides the investor class of share equity with a contingent put option in case a specified event takes place as defined in the Aeolus agreements. If the put option were exercised, the company would be obliged to buy the third-party investor's member interest. All Aeolus transactions provide the company with a call option to acquire the third-party investor's member interest upon the occurrence of a specified event as defined in the Aeolus agreements. Such an event did occur in 2013, and the company exercised its option to repurchase a portion of the holding of one of the third-party investors.



The company's interests in the wind farms are not subject to any protective rights of non-controlling interests which may restrict the company's ability to access or use the assets or settle any existing liabilities associated with the interests. Summarized financial information as it relates to these structures with non-controlling interests is as follows:

	Aeolus Wind Power I, LLC	Aeolus Wind Power II, LLC	Aeolus Wind Power III, LLC	Aeolus Wind Power IV, LLC	Locust Ridge Wind Farms, LLC
Non-controlling ownership (%)	10%	5%	5%	5%	5%
Non-controlling voting rights (%)	45%	25%	25%	25%	53.7%
<b>2014 Summarized Financial Information</b>					
<i>(In Thousands)</i>					
Current assets	\$1,644	\$5,302	\$4,472	\$11,023	\$898
Noncurrent assets	\$109,003	\$507,470	\$339,811	\$681,259	\$36,346
Current liabilities	\$(1,519)	\$(3,410)	\$(3,054)	\$(4,913)	\$(1,317)
Noncurrent liabilities	\$(19,771)	\$(39,503)	\$(26,078)	\$(49,007)	\$(2,693)
Revenue	\$14,357	\$51,029	\$43,250	\$95,342	\$4,598
(Loss) or Profit	\$(1,322)	\$12,206	\$12,026	\$29,832	\$1,048
Total comprehensive (loss) income	\$(1,322)	\$12,206	\$12,026	\$29,832	\$1,048
Dividends/distributions paid to non-controlling interest	\$2,886	\$26,830	\$24,367	\$63,288	\$1,854

## 16. Deferred Income

The detail of deferred income in the consolidated statement of financial position as of December 31, 2014, and 2013, is as follows:

	Government Grants	Other Deferred Income	Total
<i>(In Thousands)</i>			
<b>Balance at January 1, 2013 Pro Forma</b>	<b>\$1,849,205</b>	<b>\$220,872</b>	<b>\$2,070,077</b>
Additions	31,094	42,644	73,738
Disposals	(33,579)	-	(33,579)
Allocated to statement of Profit or Loss and Other Comprehensive Income	-	-	-
	(82,183)	(21,729)	(103,912)
<b>Balance at December 31, 2013</b>	<b>\$1,764,537</b>	<b>\$241,787</b>	<b>\$2,006,324</b>
Additions	-	70,502	70,502
Disposals	(3,347)	-	(3,347)
Allocated to statement of Profit or Loss and Other Comprehensive Income	-	-	-
	(82,153)	(23,568)	(105,721)
<b>Balance at December 31, 2014</b>	<b>\$1,679,037</b>	<b>\$288,721</b>	<b>\$1,967,758</b>

Within the government grants heading, the company classifies grants received under Section 1603 of the American Recovery and Reinvestment Act of 2009, where the United States Department of the Treasury (DOT) provided eligible parties the option of claiming grants for specified energy property in lieu of tax credits, which the company claimed for the majority of its qualifying properties. Deferred income has been recorded for the amount of the grants and is amortized as an offset against depreciation expense using the straight-line method over the estimated useful life of the associated property to which the grants apply.

The company is required to comply with certain terms and conditions applicable to each grant. If a disqualifying event should occur, as specified in the grant's terms and conditions, the company is required to repay the grant funds to the DOT. At December 31, 2014, the company continues to believe that it is in compliance with each grant's terms and conditions.

Other deferred income relates predominantly to gas a storage transaction, where revenue is recognized as services are provided. See the revenue recognition section within Note 4 for further details.

Networks periodically receives CIACs or conveyed assets when it constructs and owns property for the benefit of its customers. These contributions are recorded as deferred income and amortized as other income on the consolidated statement of profit or loss and other comprehensive income.

## 17. Provisions for Pensions and Similar Obligations

The detail of pensions and similar obligations in the consolidated statements of financial position is as follows:

	December 31, 2014	December 31, 2013
<i>(In Thousands)</i>		
Networks Pension Benefits	(\$508,577)	(\$124,482)
Networks Postretirement Benefits	(268,302)	(220,048)
IRHI Retirement and SERP	(18,424)	(11,958)
IRHI Postretirement Health and	(24,322)	(25,247)
	<b>(\$819,625)</b>	<b>(\$381,735)</b>

Each year the company estimates through independent actuarial studies the payment amount for pensions and similar commitments in the year ahead. This amount is recorded as a current liability in the consolidated statement of financial position.

### **Defined benefit and other non-current benefits**

The employees of Networks are included in various defined benefit pension plans (Qualified Pension Plans and Non Qualified Pension Plans) and postretirement benefits plans (Post Retirement Health Insurance and Long-Term Disability).

Networks has funded noncontributory defined benefit pension plans that cover substantially all employees. For most employees, generally those hired before 2002, the plans provide defined benefits based on years of service and final average salary. Employees hired in 2002 or later are covered under a cash balance plan or formula where their benefit accumulates based on a percentage of annual salary and credited interest. During 2013 Networks announced that it would freeze the benefits for all non-union employees covered under the cash balance plans. Their earned balances would continue to accrue interest, but would no longer be increased by a percentage of earnings. In place of the pension benefit for those employees, they will receive a minimum contribution to their account under their respective company's defined contribution plan. There was no change to the defined benefit plans for employees covered under the plans that provide defined benefits based on years of service and final average salary.

Networks also has other postretirement health care benefit plans covering substantially all employees. The health care plans are contributory with participants' contributions adjusted annually.

During 2014, Networks gave current retirees an option to accept a lump sum payment in settlement of future pension payments. As a result, and based on the option selected by eligible retirees, Networks paid \$118 million and recognized a prior service credit of \$14 million, which is included in normal cost.

The Company also sponsors defined contribution plans for certain eligible employees in Rabbi Trusts. The assets associated with this deferred compensation plan approximated \$36 million as of December 31, 2014 and \$39 million as of December 31, 2013.

Funding for the Qualified Pension Plan is determined periodically within the requirements of the Employee Retirement Income Security Act (ERISA) and applicable Internal Revenue Service guidelines. Networks plans to contribute \$0.8 million to the Pension Benefits Plans in 2015.

The most significant data for the Networks plans are as follows:

	December 31, 2014		December 31, 2013	
	Pension Benefits	Postretirement Benefits	Pension Benefits	Postretirement Benefits
<i>(In Thousands)</i>				
Present value of obligation	(\$2,605,818)	(\$396,167)	(\$2,301,985)	(\$348,079)
Fair value of plan assets	2,097,241	127,865	2,177,503	128,031
<b>Net asset / (net provision)</b>	<b>(\$508,577)</b>	<b>(\$268,302)</b>	<b>(\$124,482)</b>	<b>(\$220,048)</b>

Amounts recognized in  
the Consolidated statement  
of financial position:

Other non-current financial investment	-	-	\$52,651	-
Provision for pensions and similar commitments	(\$508,577)	(\$268,302)	(177,133)	(\$220,048)
<b>Net asset / (net provision)</b>	<b>(\$508,577)</b>	<b>(\$268,302)</b>	<b>(\$124,482)</b>	<b>(\$220,048)</b>

The former employees of Scottish Power that now form part of the workforce of the company, most of them belonging to the workforce of IRHI, are members of various post-employment plans (Supplemental Executive Retirement Plan (SERP), and Iberdrola Renewables Retirement Plan).

The SERP Plan is a special retirement benefit for qualifying executives and subject to CEO approval.

The Retirement Plan is for eligible employees hired prior to January, 2008 based on participant's age, service, and five years average pay at the time of freeze date of April 30, 2011.

The plans are fully funded for purposes of minimum funding under the Employee Retirement Income Security Act (ERISA) and therefore there were no required cash contributions for 2013 and 2014.

The Postretirement Health and Welfare Plan is for eligible retirees, employees hired prior to January 1, 2008. Health and life insurance rates are based on age and service points at the time of retirement.

There are no plans for IRHI to make contributions in 2015 to the Retirement and SERP Plans or the Postretirement Health and Welfare Plan.

The most significant data for the IRHI plans are as follows:

	December 31, 2014		December 31, 2013	
	Retirement SERP	Postretirement Health & Welfare	Retirement SERP	Postretirement Health & Welfare
<i>(In Thousands)</i>				
Present value of obligation	(\$64,071)	(\$25,656)	(\$57,069)	(\$26,749)
Fair value of plan assets	45,647	1,334	45,111	1,502
<b>Net asset / (net provision)</b>	<b>(\$18,424)</b>	<b>(\$24,322)</b>	<b>(\$11,958)</b>	<b>(\$25,247)</b>
<b>Amounts recognized in the Consolidated statement of financial position:</b>				
Provision for pensions and similar commitments	(18,424)	(24,322)	(11,958)	(25,247)
<b>Net asset / (net provision)</b>	<b>(\$18,424)</b>	<b>(\$24,322)</b>	<b>(\$11,958)</b>	<b>(\$25,247)</b>

The movement in the present value of the obligations is as follows:

	Networks		IRHI	
	Pension Benefits	Postretirement Benefits	Retirement and SERP	Postretirement Health and Welfare
<i>(In Thousands)</i>				
<b>Present value of obligation at</b>				
<b>January 1, 2013 Pro Forma</b>	<b>(\$2,598,652)</b>	<b>(\$397,345)</b>	<b>(\$73,795)</b>	<b>(\$19,103)</b>
Normal cost	(37,279)	(6,719)	-	(737)
Finance cost	(103,166)	(15,273)	(1,004)	(683)
Actuarial deviations credited to reserves	224,409	40,338	9,732	(6,569)
Payments	212,703	30,920	7,998	343
<b>Present value of obligation at</b>				
<b>December 31, 2013</b>	<b>(2,301,985)</b>	<b>(348,079)</b>	<b>(57,069)</b>	<b>(26,749)</b>
Normal cost	(14,954)	(6,880)	-	(1,361)
Finance cost	(108,774)	(15,992)	(2,715)	(1,348)
Actuarial deviations credited to reserves	(454,006)	(63,296)	(8,627)	3,349
Payments	273,901	38,080	4,340	453
<b>Present value of obligation at</b>				
<b>December 31, 2014</b>	<b>(\$2,605,818)</b>	<b>(\$396,167)</b>	<b>(\$64,071)</b>	<b>(\$25,656)</b>

Of the \$517 million actuarial loss incurred by Networks' benefit plans in 2014, \$331 million resulted from a decrease in the discount rate and \$159 million resulted from the adoption of the new mortality tables. Of the \$265 million actuarial gain incurred by Networks' benefit plans in 2013, \$238 million resulted from an increase in the discount rate.

The movement in the fair value of the plan assets is as follows:

(In Thousands)	Networks		IRHI	
	Pension Benefits	Postretirement Benefits	Retirement and SERP	Postretirement Health and Welfare
<b>Fair value at</b>				
<b>January 1, 2013 Pro Forma</b>	<b>\$2,196,573</b>	<b>\$118,449</b>	<b>\$47,740</b>	<b>\$2,029</b>
Estimated revaluation	87,134	4,659	5,041	159
Actuarial deviations credited to reserves	95,659	7,923	-	-
Contributions	8,052	35,274	-	-
Payments and other	(209,915)	(38,274)	(7,670)	(686)
<b>Fair value at December 31, 2013</b>	<b>\$2,177,503</b>	<b>\$128,031</b>	<b>\$45,111</b>	<b>\$1,502</b>
Estimated revaluation	103,343	6,273	4,330	285
Actuarial deviations credited to reserves	55,636	(2,368)	1	-
Company contributions	31,306	32,911	-	-
Payments	(270,547)	(36,982)	(3,795)	(453)
<b>Fair value at 31 December 2014</b>	<b>\$2,097,241</b>	<b>\$127,865</b>	<b>\$45,647</b>	<b>\$1,334</b>

The main categories of plan assets, as a percentage of total plan assets at the close of each year, are shown in the table below:

	Equity securities	Fixed-income securities	Other
<b>December 31, 2014</b>			
Retirement Plan	34%	36%	30%
Retiree Benefits Plan	53%	31%	16%
<b>December 31, 2013</b>			
Pension Plans	44%	35%	21%
Postretirement Welfare Plans	60%	29%	11%

The assets associated with these plans include neither financial instruments issued by the Iberdrola Group, IUSA, IRHI or Networks, nor tangible nor intangible assets.

The main assumptions used in the actuarial studies undertaken to determine the provision required at December 31, 2014, and 2013, in connection with these plans were as follows:

<b>2014</b>				
	<i>Discount rate</i>	<i>CPI/Wage Inflation</i>	<i>Health insurance cost</i>	<i>Survivorship tables</i>
<b>Networks</b>	<b>3.80%</b>	2.20% / Age-linked wage growth and Union/Non Union	<b>Based on the year RX: 2014</b> 7.75%/7.25%; (pre 65/post 65) year 2027: 4.50%	RP-2014 fully generational projection
<b>IRHI</b>	<b>3.90%</b>	<b>2.20% -0.00%</b>	<b>Based on the year RX: 2014:</b> 7.50%; year 2027: 4.50%	RP-2014 fully generational, MP-2014
<b>2013</b>				
	<i>Discount rate</i>	<i>CPI/Wage Inflation</i>	<i>Health insurance cost</i>	<i>Survivorship tables</i>
<b>Networks</b>	<b>4.90%</b>	2.40% / Age-linked wage growth and Union/Non Union	<b>Based on the year RX: 2013:</b> 8.00%/7.50%; (pre 65/post 65) year 2027: 4.50%	RP-2000 fully generational projection
<b>IRHI</b>	<b>5.00%</b>	<b>2.40%-0.00%</b>	<b>Based on the year RX: 2013:</b> 7.75%; year 2025: 4.75%	RP-2000 [Combined] fully generational projection



The sensitivity of the present value of the obligation of these commitments to changes in the discount rate, wage increase and health cost at December 31, 2014 is as follows:

<i><b>Increase/decrease (basis points)</b></i>	<i><b>Effect on present value of the obligation (In Thousands)</b></i>
<b>Discount rate</b>	
+10	\$2,996
-10	\$3,038
<b>Wage increase</b>	
+10	\$3,006
-10	\$2,998
<b>Health cost</b>	
+25	\$390
-25	\$387

The following payments are expected to be made in future years out of the defined benefit plan obligations:

	<b>Networks Pension Benefits</b>	<b>IRHI Retirement and SERP</b>
<i>(In Thousands)</i>		
Within the next 12 months (next annual reporting period)	\$150,010	\$4,074
Between 2 and 5 years	623,373	16,101
Between 5 and 10 years	786,853	20,107
Beyond 10 years	2,811,895	54,055
<b>Total expected payments</b>	<b>\$4,372,131</b>	<b>\$94,337</b>

### Defined contribution plans

The company has defined contribution plans defined as 401(k). The annual contributions made through these plans amounted to \$19.8 million for 2014 and \$14.5 million for 2013. Those amounts are recognized under Staff costs in the consolidated statement of profit or loss and other Comprehensive Income.

## 18. Other Provisions

The detail of other provisions in the liability section of the consolidated statements of financial position is as follows:

	Decommissioning	Environmental	Other Provisions	Total
<i>(In Thousands)</i>				
<b>Balances at Jan 1, 2013 Pro Forma</b>	<b>\$609,574</b>	<b>\$285,139</b>	<b>\$157,859</b>	<b>\$1,052,572</b>
Additions	-	113,525	5,548	119,073
Utilized during year	(4,913)	(22,087)	(9,273)	(36,273)
Discount unwind and changes in discount note	(85,530)	-	-	(85,530)
Transfers	(4,992)	-	8,340	3,348
<b>Balance at December 31, 2013</b>	<b>514,139</b>	<b>376,577</b>	<b>162,474</b>	<b>1,053,190</b>
Additions	-	14,225	1,946	16,171
Utilized during year	(54,960)	(23,972)	(26)	(78,958)
Discount unwind and changes in discount note	17,854	-	45	17,899
Transfers	800	-	(13,601)	(12,801)
<b>Balance at December 31, 2014</b>	<b>\$477,833</b>	<b>\$366,830</b>	<b>\$150,838</b>	<b>\$995,501</b>

Decommissioning provisions are intended to meet the costs for dismantling and restoration work at operational facilities that the company has committed to carry out. None of these liabilities mature within the next five years.

The estimated years in which the company expects it will have to meet the payments relating to the provisions included in this caption of the consolidated statement of financial position at December 31, 2014, are as follows:

<i>(In Thousands)</i>	
2015	\$(36,633)
2016	(37,644)
2017	(36,087)
2018	(30,970)
2019 and thereafter	(854,167)
	<u>\$(995,501)</u>

Within other provisions, the company records provisions for responsibilities arising from litigation and similar disputes. Such items are determined on a case-by-case basis.

## 19. Bank borrowings and other financial liabilities

The detail of the bank borrowings pending of amortization at December 31, 2014 and 2013 and the repayment schedules are as follows:

Borrowings at December 31, 2014									
			Current Maturity		Non-Current Maturity			2020 and subsequent years	
	Balance at December 31, 2014	Balance at December 31, 2013	2015	2016	2017	2018	2019	Total noncurrent	
<i>(In Thousands)</i>									
Finance leases	\$79,599	\$100,870	\$13,404	\$6,352	\$3,481	\$2,900	\$3,699	\$49,763	\$66,195
Debentures and bonds	2,506,608	2,561,609	134,840	181,033	201,183	1,183	301,183	1,687,186	\$2,371,768
Notes	12,859	4,500	4,136	8,723	-	-	-	-	8,723
Other financing transactions	4,030	1,726	4,030	-	-	-	-	-	-
Unpaid accrued interest	34,011	34,246	34,011	-	-	-	-	-	-
	<b>\$2,637,107</b>	<b>\$2,702,951</b>	<b>\$190,421</b>	<b>\$196,108</b>	<b>\$204,664</b>	<b>\$4,083</b>	<b>\$304,882</b>	<b>\$1,736,949</b>	<b>\$2,446,686</b>

The foregoing loan balances correspond to amounts drawn down and not repaid at December 31, 2014 and 2013. At December 31, 2014 and 2013, the company had undrawn loans and credit facilities amounting to \$886 million and \$874 million, respectively, maturing between 2018 and 2019.

Bond issues:

The most significant financing transactions performed by the company in 2013 were as follows:

In January, CMP collected the second tranche of the mortgage-backed bond issue signed in May 2012 amounting to \$225 million at an interest rate of 4.4% and maturing in 30 years.

At the date of preparation of these consolidated financial statements, neither IUSA nor any of its material subsidiaries are in breach of their financial commitments or of any kind of obligation that could trigger the early redemption of their financial undertakings.

The company's average cost of debt in 2014 and 2013 was 4.9%.

*Fair Market Value of Debt:* The estimated fair value of financial liabilities at December 31, 2014 and 2013 amounted to \$3,001 million and \$3,036 million, respectively. The market value was determined by discounting the future cash flows at market interest rates. The interest rate curve used to make this calculation takes into account the risks associated with the electricity industry and the credit ratings of the borrowers in each case. The sensitivity of the aforementioned fair value to interest rate fluctuations is as follows:

December 31,	2014		2013	
	Interest Rate Fluctuation		Interest Rate Fluctuation	
(Thousands)	+0.25%	-0.25%	+0.25%	-0.25%
Change in the value of borrowings	-\$55,326	+\$55,655	-\$53,884	+\$55,808

## 20. Deferred Taxes and Income Tax Expense

The difference between the tax charge allocated to 2014 and 2013, and the tax payable for those years, recorded under deferred tax assets and deferred tax liabilities in the consolidated statements of financial position at December 31, 2014 and 2013, arose as a result of the temporary differences relating to the difference between the carrying amount of certain assets and liabilities and their tax bases. The main differences are the following:

- Temporary differences arising from the accelerated depreciation taken for tax purposes compared to the depreciation reported in the financial accounts.

- Temporary differences arising from the basis differences between book reporting and tax reporting on certain joint ventures and partnerships.
- Temporary differences arising from the measurement of assets and liabilities related to derivatives and assets that were measured at their market value for which differences between the tax base and carrying amount is not deductible for tax purposes.
- Temporary differences arising from the timing of the deductibility of certain employee benefits for tax purposes.

The detail of current and deferred income tax expense is summarized as follows:

<b>December 31,</b>	<b>2014</b>	<b>Pro Forma 2013</b>
<i>(In Thousands)</i>		
Current tax (benefit) expense:		
Current tax expense (benefit) from current period operations	\$11,922	\$46,888
Current tax (benefit) expense relating to adjustments recognized in the current period for tax of prior periods	7,922	(47,309)
Current tax (benefit) expense relating to current year accruals to tax reserves	1,947	(16,646)
Deferred tax (benefit) expense:		
Deferred tax (benefit) expense relating to origination and reversal of temporary differences	296,782	87,656
Deferred tax (benefit) expense relating to adjustments recognized in the current period for tax of prior periods	3,828	14,786
Deferred tax (benefit) expense relating to the write-down of temporary items recognized in a prior period	1,703	2,494
<b>Total income tax expense</b>	<b>\$324,104</b>	<b>\$87,869</b>

The Deferred tax expense relating to origination and reversal of temporary differences above includes impacts associated with the enactment of a Unitary Tax regime in New York State effective for tax years beginning after December 31, 2014 and the reduction in the New York State tax rate from 7.1% to 6.5% for tax years beginning after December 31, 2015.

The impact associated with the enactment of the Unitary Tax regime in New York State was an increase to deferred tax expense of \$42 million, net of the federal offset. The impact of the reduction in the New York State tax rate was a decrease to deferred income taxes of \$14 million, net of the federal offset.

The difference between the U.S. federal statutory rate of 35% and the effective income tax rate is reconciled as follows:

<b>December 31,</b>	<b>2014</b>	<b>Pro Forma 2013</b>
<i>(In Thousands)</i>		
Profit before taxes	\$769,033	\$374,776
Nondeductible expenses	1,418	1,378
<b>Adjusted accounting profit</b>	<b>\$770,451</b>	<b>\$376,154</b>
Expected income tax at the federal statutory rate	\$269,658	\$131,654
State taxes, net of federal benefit,	88,704	(15,224)
Tax reserves and related interest	1,946	(4,010)
Prior year adjustments	(9,986)	9,808
Write-down of deferred tax items	342	2,540
Aeolus permanent differences	(18,330)	(22,815)
Amortization of investment tax credit	(12,465)	(12,871)
Tax credits	(9,091)	(7,470)
Other	13,326	6,257
<b>Income tax expense</b>	<b>\$324,104</b>	<b>\$87,869</b>
<b>Effective tax rate</b>	<b>42.1%</b>	<b>23.4%</b>

The detail of the movements in deferred tax assets and deferred tax liabilities in the consolidated statements of financial position is as follows:

	Pro Forma January 1, 2013	Charge (Credit) to Consolidated Statement of Comprehensive Income	Charge (Credit) to Hedge Revaluation Reserve	Other	December 31 , 2013	Charge (Credit) to Consolidated Statement of Comprehensive Income	Charge (Credit) to Hedge Revaluation Reserve	Other	December 31, 2014
<b>Deferred tax assets</b>									
Employee benefits	\$275,419	\$(71,805)	-	\$(29,431)	\$174,183	\$5,833	-	\$184,719	\$364,735
Impairments	1,781	54,349	-	-	56,130	(467)	-	-	55,663
Derivative contracts	55,017	6,523	\$1,939	(6,628)	56,851	(21,050)	\$13,353	5,910	55,064
Net operating loss and tax credit carryforwards	1,066,072	365,775	-	17,790	1,449,637	160,705	-	(41,898)	1,568,444
Other deferred tax assets	476,248	(86,143)	-	(85,059)	305,046	46,773	-	(6,364)	345,455
	<b>\$1,874,537</b>	<b>\$268,699</b>	<b>\$1,939</b>	<b>\$(103,328)</b>	<b>\$2,041,847</b>	<b>\$191,794</b>	<b>\$13,353</b>	<b>\$142,367</b>	<b>\$2,389,361</b>
<b>Deferred tax liabilities</b>									
Property, plant, and equipment	\$2,767,294	\$304,304	-	\$22,002	\$3,093,600	\$319,333	-	\$(38,323)	\$3,374,610
Leveraged leases	7,205	(2,975)	-	-	4,230	(4,230)	-	-	-
Derivative contracts	387	-	\$226	-	613	31,781	\$45,775	(7,979)	70,190
Joint ventures and partnerships	881,591	70,540	-	(58,112)	894,019	97,502	-	(70,676)	920,845
Other deferred tax liabilities	88,091	1,766	-	(6,390)	83,467	49,721	-	40,856	174,044
	<b>\$3,744,568</b>	<b>\$373,635</b>	<b>\$226</b>	<b>\$(42,500)</b>	<b>\$4,075,929</b>	<b>\$494,107</b>	<b>\$45,775</b>	<b>\$(76,122)</b>	<b>\$4,539,689</b>

The company has established, and periodically reviews, a tax reserve recorded on its consolidated statement of financial position to provide for probable adverse outcomes in tax proceedings and for tax assets for which realization is virtually certain. The current year accruals for tax liabilities are primarily attributable to the reversal of \$8 million of previously accrued interest related to the settlement of the IUSA, without IRHI, 2006 – 2009 IRS audit.

During 2012, the Internal Revenue Service concluded its examination of the IRHI for 2008–2010 tax years, the results of which were reviewed by the Joint Committee on Taxation of the United States Congress and approved April 1, 2013. All federal tax returns filed by IHRI from the period ended March 31, 2004 to December 31, 2009, are closed for adjustment. Generally, the adjustment period for the individual states the company filed in is at least as long as the federal period.

On December 29, 2014, the Joint Committee on Taxation approved the examination of Iberdrola IUSA, without IRHI, for the 1998-2009 tax years. The results of these audits, net of reserves already provided, were immaterial. All New York and Maine state returns, which were filed without IRHI, are closed through 2011.

At December 31, 2014, the company had federal tax net operating losses of \$3.2 billion, federal renewable energy credits, federal R&D tax credits and other federal credits of \$304 million, state tax net operating losses of varying values in several jurisdictions and miscellaneous state tax credits of \$17 million available to carry forward and reduce future income tax liabilities. The tax value of the state net operating losses is \$118 million. The company has determined that the reversal of federal temporary differences as of December 31, 2014, provides ample future taxable income to utilize all of the federal net operating losses and federal tax credits. For state purposes, the company utilized a combination of the reversing state timing differences and a projected additional taxable income for its regulated companies in determining that \$109 million of the gross \$135 million state income tax benefits will be utilized. The inclusion of additional taxable income for the regulated companies is appropriate based on the guaranteed rate of returns on rate base that these companies are allowed. The net operating losses begin to expire in 2025, while the federal tax credits begin to expire in 2024.

## 21. Tax Receivables and Payables

The detail of current tax receivables and current tax liabilities and other tax payments is as follows:

	December 31, 2014	December 31, 2013	Pro Forma January 1, 2013
<i>(In Thousands)</i>			
Income tax receivable	\$186,774	\$136,246	\$202,677
Property and sales tax receivable	3,766	16,736	-
	<b>\$190,540</b>	<b>\$152,982</b>	<b>\$202,677</b>
<hr/>			
	2014	2013	2012
<i>(In Thousands)</i>			
Income tax payable	\$136,509	\$96,912	\$148,291
Accrued property tax	46,863	50,747	30,928
Other tax payables	3,566	7,248	5,156
	<b>\$186,938</b>	<b>\$154,907</b>	<b>\$184,375</b>

Amounts included in income tax payable include tax reserves.



## 22. Trade Payables

The detail of trade payables in the consolidated statements of financial position is as follows:

	December 31, 2014	December 31, 2013	Pro Forma January 1, 2013
<i>(In Thousands)</i>			
Suppliers	\$517,063	\$666,812	\$719,210
Rendering of services creditors	157,803	193,306	106,060
Suppliers, group and associated companies	(2,432)	8,022	-
Creditors, group and associated companies	19,864	23,836	13,919
Advances from customers	1,345	6,253	9,336
<b>Trade payables</b>	<b>\$693,643</b>	<b>\$898,229</b>	<b>\$848,525</b>

The majority of these payables do not bear interest.

## 23. Staff Costs

Staff costs are included within the operating costs heading in the consolidated statement of profit or loss and other comprehensive income. The details of 2014 and 2013 are as follows:

	December 31, 2014	Pro Forma December 31, 2013
<i>(In Thousands)</i>		
Wages and salaries	(\$483,397)	(\$472,842)
Retirement and other benefits	(141,903)	(145,493)
	(625,300)	(618,335)
Capitalized staff costs:		
Intangible assets	-	641
Property, plant and equipment	152,248	152,206
	<b>(\$473,052)</b>	<b>(\$465,488)</b>

The compensation of the key management personnel during the periods was as follows:

	December 31, 2014	Pro Forma December 31, 2013
<i>(In Thousands)</i>		
Short-term employee benefits	\$2,434	\$2,187
Post-employment pension & medical benefits	211	192
Share-based payments	535	89
	<b>\$3,180</b>	<b>\$2,468</b>

These amounts were expensed and appear within operating costs on the consolidated statement of profit or loss and other comprehensive income.

## 24. Leases

The heading operating costs in the consolidated statements of profit or loss and other comprehensive income for 2014 and 2013, includes \$48.7 million and \$67.6 million, respectively, relating to operating leases arising from operational facilities, office building leases, and vehicle and equipment leases. Of those amounts, \$20.4 million and \$20.6 million, respectively, related to contingent payments, which are predominantly linked to electricity generation at the respective facilities.

The contracts for leasing most of the land on which wind farm facilities are located have various renewal and termination clauses. The payments detailed in the table below relate to the period of the remaining useful life of the facilities and are on a discounted basis due to their maturity.

In April 2013 the company concluded a sale and subsequent lease-back transaction on one of its operating facilities for an initial cash receipt of \$110 million. Under the terms of the agreement the company will simultaneously sell and then lease back the facility over a 15-year period, with an option to repurchase the facility at year 10. During the lease period, the company will continue to maintain and operate the entire facility. The company accounted for this as a finance sale-leaseback transaction, under which a lease payable liability is created, offset by the increase in cash.

On January 16, 2014, as required by its regulator, NYSEG renewed a Reliability Support Services Agreement (RSS Agreement) with Cayuga Operating Company, LLC (Cayuga) for Cayuga to provide reliability support services through June 2017 in order to maintain necessary system reliability. Cayuga owns and operates the Cayuga Generating Facility (Facility), a coal-fired generating station that includes two generating units. Cayuga will operate and maintain the RSS units, and interface and comply with scheduling deadlines and requirements for maintaining the Facility and the RSS units as eligible energy and capacity providers, as well as

comply with dispatch instructions. NYSEG will pay Cayuga a Monthly Fixed Price and will also pay for capital expenditures for specified capital projects. NYSEG will also be entitled to a share of any capacity and energy revenues earned by Cayuga. The company accounts for the arrangement as an operating lease. The net expense incurred in 2014 was \$19.8 million.

At December 31, 2014, the company concluded the sale for \$19.6 million of its 10% undivided interest in Unit 1 of the Springerville power plant to Tucson Electric Power, which it previously accounted for as a lease. This amount was recorded in 'Other Operating Income' in the company's consolidated statements of profit or loss and other comprehensive income.

The detail of the total future minimum lease payments at December 31, 2014 are set out in the table below.

	Operating Lease	Finance Leases	Total
<i>(In Thousands)</i>			
2015	\$23,848	\$13,404	\$37,252
2016-2019	\$88,838	\$16,434	\$105,272
2020 and thereafter	\$225,654	\$49,761	\$275,415

## 25. Depreciation, Amortization, and Provisions

The detail in the consolidated statements of profit or loss and comprehensive income for 2014 and 2013 is as follows:

	December 31, 2014	Pro Forma December 31, 2013
<i>(In Thousands)</i>		
Tangible assets depreciation charge	(\$715,686)	(\$685,438)
Intangible assets amortization charge	(12,250)	(16,339)
Grants related to assets	84,735	83,427
Impairments and write-downs - tangible	(15,408)	(194,725)
Impairments and write-downs - intangible	(1,558)	(58,276)
Impairments and write-downs - other	(63,772)	(25,534)
	<b>(\$723,939)</b>	<b>(\$896,885)</b>

The depreciation expense represents straight-line expense over the remaining life of the asset, as described in Notes 4 and 7 and in accordance with the asset lives shown in the accounting policy under Note 4g. For further details of the grants related to assets depreciation offset, see Note 16.

During the year ended December 31, 2014, the company impaired or wrote off \$76.3 million of development projects. The comparable amount for the year ended December 31, 2013, was \$286.1 million as a result of impairment of certain gas storage development projects. Impairments and write-downs – other are mostly related to accounts receivable. Some of these projects could become economic in the future if conditions change, and if so, the impairments would be reversed.

## 26. Finance Income

The detail of finance income in the consolidated statements of profit or loss and other comprehensive income for 2014 and 2013 is as follows:

<i>(In Thousands)</i>	December 31, 2014	Pro Forma December 31, 2013
Income from affiliates	\$74	\$22,634
Income from investments and other instruments	10,145	10,181
Capitalized finance costs	22,109	4,197
Exchange gains	1,845	3,045
Other interest and finance income	2,430	1,756
	<b>\$36,603</b>	<b>\$41,813</b>

## 27. Finance Costs

The detail of finance costs in the consolidated statements of profit or loss and other comprehensive income for 2014 and 2013 is as follows:

<i>(In Thousands)</i>	December 31, 2014	Pro Forma December 31, 2013
Expense from affiliates	(\$1,499)	(\$7,950)
Expense on borrowings	(150,100)	(169,373)
Provision discounting unwind	(21,808)	(34,845)
Equity instruments	(35,415)	(34,605)
Exchange gains	(1,499)	(2,702)
Other interest and finance expense	(5,760)	(14,734)
	<b>(\$216,081)</b>	<b>(\$264,209)</b>

## **28. Interests in Joint Arrangements**

As outlined previously, the company is party to several joint arrangements.

The company owns 50% of the Flat Rock Windpower LLC and Flat Rock Windpower II LLC projects (together, Flat Rock). The Flat Rock projects are two wind farms jointly owned and operated with Horizon Wind Energy LLC. Both projects are located in Lewis County, New York. Due to the way these facilities operate, they are classified as joint ventures and accordingly, the company's 50% share of Flat Rock is accounted for as an equity investment.

The company also owns 50% of Colorado Wind Ventures LLC in conjunction with Shell WindEnergy Inc. Colorado Wind Ventures LLC owns a wind farm project in Prowers County, Colorado, which both partners then own and operate. The form of the operations and contracts for this arrangement allow this project to be proportionally consolidated on a 50% basis.

Because both the Flat Rock and Colorado Wind Ventures LLC entities prepare their accounts under U.S. GAAP, the company has adjusted their balances and presented the summarized financial information below. The respective balances are as follows:

	Flatrock	Flatrock II	Equity Total	Colorado
<i>(In Thousands)</i>				
<b>December 31, 2014</b>				
Non-current assets	\$273,485	\$105,251	\$378,736	\$115,267
Current Assets	5,313	1,055	6,368	5,008
<i>Cash and cash equivalents (included above)</i>	<i>3,065</i>	<i>648</i>	<i>3,713</i>	<i>3,428</i>
Non-current liabilities	(19,740)	(7,639)	(27,379)	(30,051)
<i>Non-current financial liabilities (included above)</i>	<i>-</i>	<i>-</i>	<i>(145)</i>	<i>(17,446)</i>
Current liabilities	(276)	(145)	(421)	(9,082)
<i>Current financial liabilities (included above)</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>(8,272)</i>
<b>Equity</b>	<b>(\$258,782)</b>	<b>(\$98,522)</b>	<b>(\$357,304)</b>	<b>(\$81,142)</b>
Equity ownership interest	50%	50%	50%	
<b>Carrying amount of investment</b>	<b>\$129,391</b>	<b>\$49,261</b>	<b>\$178,652</b>	
Revenue	(\$42,445)	(\$11,211)	(\$53,656)	(\$18,020)
Depreciation amortization and provisions	\$16,131	\$5,930	\$22,061	\$12,701
Financial Income	(\$4)	(\$1)	(\$5)	-
Financial expense	\$488	\$190	\$678	\$1,678
Income tax expense	\$0	\$0	\$0	\$0
Profit (loss) from continuing operation	(\$11,841)	(\$597)	(\$12,438)	\$3,932
Other Comprehensive income	\$0	\$0	\$0	\$0
Total comprehensive income	(\$11,841)	(\$597)	(\$12,438)	\$3,932
Total comprehensive income attributable to the Company	(\$5,920)	(\$299)	(\$6,219)	\$1,966

	Flatrock	Flatrock II	Equity Total	Colorado
<i>(In Thousands)</i>				
<b>December 31, 2013</b>				
Non-current assets	\$289,752	\$111,558	\$401,310	\$127,121
Current Assets	8,949	2,020	10,969	4,773
Cash and cash equivalents (included above)	4,191	1,282	5,473	1,870
			-	
Non-current liabilities	(21,391)	(8,309)	(29,700)	(40,714)
Non-current financial liabilities (included above)	-	-	-	27,300
Current liabilities	(204)	(133)	(337)	(9,270)
Current financial liabilities (included above)	-	-	-	(7,465)
Equity	(\$277,106)	(\$105,136)	(\$382,242)	(\$81,910)

Equity ownership interest	50%	50%	50%
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Carrying amount of investment	\$138,553	\$52,568	\$191,121
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Revenue	(\$33,474)	(\$7,887)	(\$41,361)	(\$18,949)
Depreciation amortization and provisions	\$15,786	\$5,830	\$21,616	\$12,078
Financial Income	(\$5)	(\$1)	(\$6)	-
Financial expense	\$26	\$10	\$36	\$2,725
Profit (loss) from continuing operation	(\$3,153)	\$2,545	(\$608)	\$4,966
Total comprehensive income	(\$3,153)	\$2,545	(\$608)	\$4,966
Total comprehensive income attributable to the Company	(\$1,576)	\$1,272	(\$304)	\$2,483

	Flatrock	Flatrock II	Equity Total	Colorado
<i>(In Thousands)</i>				
<b>January 1, 2013 Pro Forma</b>				
Non-current assets	\$286,759	\$110,111	\$396,870	\$125,754
Current Assets	5,340	1,496	6,836	3,380
Cash and cash equivalents (included above)	2,790	825	3,615	1,462
Non-current liabilities	(2,637)	(1,026)	(3,663)	(37,443)
Non-current financial liabilities (included above)	-	-	-	(34,765)
Current liabilities	(349)	(90)	(439)	(15,903)
Current financial liabilities (included above)	-	-	-	(14,304)
Equity	(\$289,113)	(\$110,491)	(\$399,604)	(\$75,788)

Equity ownership interest	50%	50%	50%
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Carrying amount of investment	\$144,556	\$55,246	\$199,802
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None of the joint ventures had any contingent liabilities or capital commitments.

For information regarding subsidiaries with non-controlling interest, please see Note 15.

## **29. Guarantee Commitments to Third Parties and Other Contingent Liabilities**

The company and its subsidiaries are, at times, required to provide bank or corporate guarantees in the normal course of business. These include the following guarantees provided to market operators to enable the company and its subsidiaries to participate in the energy markets:

Market Guarantee – Guarantees given to cover risks of buying and trading electricity and gas with the company or its subsidiaries.

Performance Guarantees – Guarantees to secure fulfillment of obligations, resulting from the exercise of its business activities, of the company or its subsidiary entities.

Management does not believe that the company will be required to perform under these guarantees and as such has not recognized any liability related to them.

IRHI has executed a guaranty and support agreement from IBERDROLA, which obligates IBERDROLA to provide any necessary financial support to the company to allow it to meet payment obligations on indebtedness that it may incur or for claims made against the company pursuant to its obligations as a guarantor to its subsidiaries.

In order to continue to develop and grow, the company has future commitments to purchase property, plant, and equipment. As at December 31, 2014 and 2013, those amounts were \$168.3 million and \$570.0 million, respectively.

The company is party to various legal and out-of-court disputes arising as part of its normal activities.

FirstEnergy: NYSEG sued FirstEnergy under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) to recover environmental clean-up costs at 16 former manufactured gas sites. (Liability was based upon FirstEnergy's status as successor to Associated Gas & Electric Company (AGECO), a utility holding conglomerate that unlawfully dominated operations at the plants from approximately 1906-1942.) In July 2011, the Court issued a decision and order in NYSEG's favor. Based upon past and future clean-up costs at the 16 sites in dispute, FirstEnergy will be required to pay NYSEG approximately US \$60 million if the decision is upheld on appeal. FirstEnergy appealed the decision to the Second Circuit Court of Appeals. On September 9, 2011, FirstEnergy paid NYSEG \$30 million, representing their share of past costs of \$27 million and pre-judgment interest of \$3 million.



On September 11, 2014 the Second Circuit Court of Appeals affirmed the District Court's decision in NYSEG's favor, but modified it for nine sites, reducing NYSEG's damages for incurred costs from \$27 million to \$22 million (excluding interest) and reducing FirstEnergy's allocable share of future costs at these sites. NYSEG refunded FirstEnergy the excess \$5 million in November 2014.

FirstEnergy remains liable for a substantial share of clean-up expense at nine MPG sites. Because the District Court's original damage award for incurred costs was based upon 2009 figures, FirstEnergy now owes NYSEG an additional damages payment of approximately \$16 million for clean-up costs incurred while the appeal was pending.

In addition to the \$16 million, excluding interest, in damages incurred through 2014, FirstEnergy would be liable for a share of future costs. Based on current projections, the future costs would be \$27 million. At the present time both of these amounts are being treated as contingent assets and have not been recorded as either a receivable or a decrease to the environmental provision.

### 30. Related-Party Transactions

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

December 31, (In Thousands)	Year	Sales to	Purchases From	Owed by	Owed to
Iberdrola Renovables Energia, S.L.	2014	(157)	9,798	-	-
	2013	(49)	10,227	-	-
CNE Energy Services Group, Inc. USA Services	2014	(26,593)	-	-	-
	2013	-	-	-	-
Iberdrola Renewables	2014	-	11,718	-	-
	2013	-	11,242	-	-
		-	-	-	-
Iberdrola Spain	2014	(236)	25,597	107	(497)
	2013	(4,441)	29,059	2,182	(1,725)
ICES	2014	(590)	49,217	1,330	-
	2013	(1,781)	74,844	11,643	(8,662)
		-	-	-	-
Gamesa Corporation Tecnologica SA	2014	-	-	32,942	(222,775)
	2013	-	-	6,044	(25,018)
		-	-	-	-
Iberdrola I.I. S.A. U. Inc.	2014	-	-	-	(10,744)
	2013	(25,891)	-	411	(9,108)
		-	-	-	-
Iberdrola Ing. E.E.U.U, Inc.	2014	-	-	11,091	(14,605)
	2013	-	-	8,346	(9,377)
		-	-	-	-
SP LTD	2014	-	-	-	-
	2013	-	6,426	-	-
		-	-	-	-
Other	2014	(12,104)	5,668	1,502	(1,300)
	2013	(11,733)	5,705	4,060	(2,276)

Transactions with Iberdrola Canada Energy Services are predominantly in relation to the purchase of gas for IRHI's gas-fired generation facility at Klamath.

Transactions with the company's ultimate parent, IBERDROLA, relate predominantly to recharges of corporate services/management fees. Also included within the purchases category are charges for credit support, relating to parent company guarantees that IBERDROLA has provided to third parties to guarantee the performance of the company.

There have been no guarantees provided or received for any related-party receivables or payables. These balances are unsecured and are typically settled in cash. Interest is not charged on regular business transactions but is charged on loan balances outstanding. There have been no impairments or provisions made against any affiliated balances.

### **31. New and Amended Accounting Standards and Interpretations**

#### **New and amended standards and interpretations adopted:**

##### **IFRIC 21 Levies**

IFRIC 21 provides guidance for when an entity recognizes a liability for a levy imposed by a government that is within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The liability is recognized when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, IFRIC 21 clarifies that no liability should be recognized before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014, and retrospective application is required. IUSA began applying IFRIC 21 as of January 1, 2014, and, as required, has accounted for the change in accounting policy retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

The impact of the adoption of IFRIC 21 was not material to the company's financial statements.

#### **New and amended standards and interpretations issued but not yet adopted:**

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the company's financial statements are disclosed below. The company intends to adopt these standards, as applicable, when they become effective.

##### **IFRS 9 Financial Instruments**

IFRS 9, as previously issued, reflected the first phase of the IASB's work on the replacement of IAS 39 and applied to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after January 1, 2013, but Amendments to IFRS 9, Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to January 1, 2015. The final version of IFRS 9, issued in July 2014, combines classification and

measurement, the expected credit loss impairment model, and hedge accounting, and will eventually replace IAS 39 and all previous versions of IFRS 9. An entity will base its measurement of financial assets at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, on the entity's business model for managing the financial assets and the financial asset's contractual cash flow characteristics. Except for 'own credit risk' requirements, the classification and measurement of financial liabilities is unchanged from existing requirements. Application of the final version of IFRS 9 is required for annual periods beginning on or after January 1, 2018, with earlier application permitted. The application of IFRS 9 will have an effect on the classification and measurement of the company's financial assets but not on its financial liabilities. The company will quantify the effect in conjunction with the other phases.

#### **IFRS 11 Joint Arrangements – Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations**

The amendments add new guidance to IFRS 11 on accounting for the acquisition of an interest (initial and additional) in a joint operation that constitutes a business, as defined in IFRS 3, *Business Combinations*. The amendments are effective for annual periods beginning on or after January 1, 2016, with prospective application required and earlier application permitted. The company expects the effects of the amendments will not be material to its financial statements.

#### **IFRS 14 Regulatory Deferral Accounts**

IFRS 14 represents an interim standard as an additional phase of the Rate-regulated Activities project. It allows entities that adopt IFRS to continue to recognize regulatory deferral accounts in accordance with their previous GAAP (as defined in IFRS 1 *First-time Adoption of International Financial Reporting Standards*, i.e., the basis of accounting that a first-time adopter used immediately before adopting IFRS). The standard allows those entities to avoid making major changes in accounting policy on transition to IFRS until guidance can be developed through the comprehensive project. It requires the effect of rate regulation to be presented separately from other items. This interim standard does not imply the IASB is anticipating the outcome of the comprehensive rate-regulated activities project. IFRS 14 can be applied in an entity's first annual IFRS financial statements for periods beginning on or after January 1, 2016, with earlier application permitted. The company has decided not to apply IFRS 14.

#### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 is primarily principles-based guidance that provides a framework intended to improve financial reporting of revenue and improve comparability of revenue reporting in financial statements. The standard replaces all existing IFRS revenue requirements. The core principle is for an entity to recognize revenue to represent the transfer of goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services, to be achieved by applying the following five steps: 1) Identify the contract(s) with a customer; 2) Identify the performance obligations in the contract; 3) Determine

the transaction price; 4) Allocate the transaction price to the performance obligations in the contract; and 5) Recognize revenue when (or as) the entity satisfies a performance obligation. The standard also enhances disclosures about revenue, provides guidance for transactions not previously addressed comprehensively and improves guidance for multiple-element arrangements. Application of IFRS 15 is required for annual periods beginning on or after January 1, 2017, with earlier application permitted. The company has not yet determined the effect that the adoption of the standard will have on its financial statements.

#### **IAS 16 Property, Plant and Equipment and IAS 38 intangible Assets – Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortization**

The amendments to IAS 16 and IAS 38 are to ensure that preparers do not use revenue-based methods to calculate charges for the depreciation or amortization of items of property, plant and equipment. A revenue-based method reflects a pattern of economic benefits being generated from the asset, rather than the expected pattern of consumption of the future economic benefits embodied in the asset. The amendments are effective for annual periods beginning on or after January 1, 2016, with prospective application required and earlier application permitted. The company expects the amendments will not have a material effect on its financial statements.

#### **Disclosure Initiative – Amendments to IAS 1**

The amendments to IAS 1 are part of a package of several projects aimed at improving disclosure of financial information and represent narrow-focus clarifying amendments to address some concerns about existing presentation and disclosure requirements and ensure entities are able to use judgment when preparing their financial statements. The amendments are designed to encourage companies to apply professional judgment in determining what information to disclose in their financial statements, including determining where and in what order information is presented. For example, the amendments clarify that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016, with earlier application permitted and prospective or retrospective application required as specified. The company expects the amendments will not have a material effect on its financial statements.

### **32. Subsequent Events**

The company has performed a review of subsequent events through February 19, 2015, which is the date these financial statements were available to be issued, and the financial statements reflect events occurring from January 1, 2015 through such date. Through the date of this review, one subsequent event was identified relating to CMP's issuance of first mortgage bonds in January of 2015 that were priced in October of 2014 for \$150 million.