

Independent Audit Report

**IBERDROLA, S.A. AND SUBSIDIARIES
Consolidated Financial Statements and
Consolidated Management Report
for the year ended December 31, 2015**

(Translation of a report and consolidated financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails)

Translation of a report and consolidated financial statements originally issued in Spanish. In the event of discrepancy, the Spanish-language version prevails (See Note 54)

INDEPENDENT AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of IBERDROLA, S.A.:

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of IBERDROLA, S.A. (the parent company) and its subsidiaries (the Group), which comprise consolidated statement of financial position at December 31, 2015, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, and the notes thereto for the year then ended.

Directors' responsibility for the consolidated financial statements

The directors of the parent company are responsible for the preparation of the accompanying consolidated financial statements so that they give a true and fair view of the consolidated equity and consolidated financial position and the consolidated results of IBERDROLA, S.A. and its subsidiaries, in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union, and other provisions in the regulatory framework applicable to the Group in Spain, and for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying consolidated financial statements based on our audit. We conducted our audit in accordance with prevailing audit regulations in Spain. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation of consolidated financial statements by the directors of the parent company 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 accompanying consolidated financial statements give a true and fair view, in all material respects, of the consolidated equity and consolidated financial position of IBERDROLA, S.A. and its subsidiaries at December 31, 2015, and its consolidated results and consolidated cash flow for the year then ended, in accordance with IFRS, as adopted by the EU, and other provisions in the regulatory framework for financial information applicable in Spain.

Report on other legal and regulatory requirements

The accompanying consolidated 2015 management report contains such explanations as the directors of the parent company consider appropriate concerning the situation of the Group, the evolution of its business and other matters; however, it is not an integral part of the consolidated financial statements. We have checked that the accounting information included in the aforementioned consolidated management report agrees with the 2015 consolidated financial statements. Our work as auditors is limited to verifying the consolidated management report in accordance with the scope mentioned in this paragraph, and does not include the review of information other than that obtained from the accounting records of IBERDROLA, S.A. and its subsidiaries.

ERNST & YOUNG, S.L.

The original signed in Spanish

February 25, 2016

**CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATED
MANAGEMENT REPORT
FOR THE YEAR ENDED 31 DECEMBER 2015**

CONTENTS

	<u>Page</u>
Consolidated statements of financial position at 31 December 2015 and 2014	4
Consolidated income statements for the years ended 31 December 2015 and 2014	6
Consolidated statements of comprehensive income for the years ended 31 December 2015 and 2014	7
Consolidated statements of changes in equity for the years ended 31 December 2015 and 2014	8
Consolidated statements of cash flow for the years ended 31 December 2015 and 2014	10
Notes to the Consolidated financial statements	
1 Group activities	11
2 Basis of presentation of the Consolidated financial statements	12
3 Industry regulation and functioning of the electricity and gas system	16
4 Accounting policies	25
5 Financing and financial risk management policy	47
6 Use of estimates and sources of uncertainty	51
7 Geographical and business segment reporting	55
8 Intangible assets	59
9 Investment property	62
10 Property, plant and equipment	63
11 Concession arrangements	66
12 Impairment of non-financial assets	67
13 Financial investments	72
14 Non-current trade and other receivables	76
15 Measurement of financial instruments	77
16 Nuclear fuel	81
17 Inventories	81
18 Other current trade and other receivables	82
19 Cash and cash equivalents	83
20 Equity	83
21 Equity instruments having the substance of financial liability	95
22 Deferred income	95
23 Provisions for pensions and similar obligations	96
24 Other provisions	109
25 Bank borrowings and other financial liabilities-loans and others	111
26 Derivative financial instruments	117
27 Other non-current payables	119
28 Deferred taxes and income tax expense	120

	<u>Page</u>	
29	Tax receivables and payables	126
30	Trade payables	126
31	Information on deferred payments to suppliers. Third additional provision. “Duty of information” of Law 15/2010, of 5 July	126
32	Net revenue	128
33	Construction contracts	128
34	Procurements	129
35	Staff costs	129
36	Operating leases	130
37	Taxes other than income tax	131
38	Amortisation and provisions	132
39	Gains on disposal of non-current assets	132
40	Finance income	134
41	Finance cost	134
42	Business combinations	134
43	Contingent assets and liabilities	137
44	Interests in joint ventures	146
45	Guarantee commitments to third parties and other contingent liabilities	147
46	Remuneration of Board of Directors	149
47	Information on compliance with article 229 of the Spanish Companies Law	155
48	Remuneration of Senior Executives	155
49	Balances and transactions with other related parties	156
50	Financial position and events after 31 December 2015	162
51	Fees for services provided by the statutory auditors	164
52	Earnings per share	164
53	Formulation of the Consolidated financial statements	165
54	Explanation added for translation to English	165
	Appendix	166
	Consolidated management report for 2015	184

Translation of Consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS, as adopted by the European Union (Note 54). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A. AND SUBSIDIARIES
Consolidated statements of financial position at
31 December 2015 and 2014

	<i>Note</i>	Thousands of euros	
		31 December 2015	31 December 2014 (*) Restated (Note 2.a)
ASSETS			
NON-CURRENT ASSETS:			
Intangible assets	8	20,759,606	16,862,230
Goodwill		9,352,789	8,354,186
Other intangible assets		11,406,817	8,508,044
Investment property	9	480,741	482,345
Property, plant and equipment	10	61,788,590	55,107,302
Property, plant and equipment in use		56,827,455	51,090,101
Property, plant and equipment under construction		4,961,135	4,017,201
Non-current financial assets		3,711,006	3,779,855
Investments accounted for using the equity method	13.a	2,050,183	2,294,597
Non-current equity instruments	13.b	91,619	77,309
Other non-current financial assets	13.c	608,712	769,375
Derivative financial instruments	26	960,492	638,574
Non-current trade and other receivables	14	615,261	383,481
Deferred tax assets	28	6,629,508	5,884,000
		93,984,712	82,499,213
CURRENT ASSETS:			
Assets held for sale		43,675	-
Nuclear fuel	16	349,882	319,972
Inventories	17	1,797,199	2,039,298
Current trade and other receivables		6,047,818	5,519,452
Income tax receivables	29	411,322	333,223
Other tax receivables	29	266,640	367,206
Other current trade and other receivables	18	5,369,856	4,819,023
Current financial assets		1,287,623	1,558,920
Current equity instruments		4,583	4,584
Other current financial assets	13.c	683,010	1,042,081
Derivative financial instruments	26	600,030	512,255
Cash and cash equivalents	19	1,153,273	1,805,533
		10,679,470	11,243,175
TOTAL ASSETS		104,664,182	93,742,388

(*) The Consolidated statements of financial position at 31 December 2014 are presented for comparative purposes only.

The accompanying Notes 1 to 53 and the Appendix are an integral part of the Consolidated statements of financial position at 31 December 2015 and 2014.

Translation of Consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS, as adopted by the European Union (Note 54). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A. AND SUBSIDIARIES
Consolidated statements of financial position at
31 December 2015 and 2014

	Note	Thousands of euros	
		31 December 2015	31 December 2014 (*) Restated (Note 2.a)
EQUITY AND LIABILITIES			
EQUITY:			
Of shareholders of the parent	20	37,158,658	34,954,490
Issued share capital		4,752,652	4,791,362
Unrealised assets and liabilities revaluation reserve		(222,051)	(327,003)
Other reserves		31,304,757	30,383,657
Treasury shares		(639,239)	(815,990)
Translation differences		(459,039)	(1,404,052)
Net profit for the year		2,421,578	2,326,516
Of non-controlling interests		3,246,287	199,611
Subordinated perpetual obligations		551,108	551,197
		40,956,053	35,705,298
NON-CURRENT EQUITY INSTRUMENTS HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY			
	21	117,209	180,371
NON-CURRENT LIABILITIES:			
Deferred income	22	6,511,452	6,120,911
Provisions		5,005,174	4,852,359
Provisions for pensions and similar obligations	23	2,233,460	1,942,875
Other provisions	24	2,771,714	2,909,484
Bank borrowings		24,899,010	23,314,600
Bank borrowings and other financial liabilities- loans and others	25	24,567,364	22,930,226
Derivative financial instruments	26	331,646	384,374
Other non-current payables	27	689,694	611,213
Deferred tax liabilities	28	11,896,477	9,366,217
		49,001,807	44,265,300
CURRENT EQUITY INSTRUMENTS HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY			
	21	99,221	101,350
CURRENT LIABILITIES:			
Provisions		245,346	221,100
Provisions for pensions and similar obligations	23	10,396	753
Other provisions	24	234,950	220,347
Bank borrowings		5,662,019	5,034,559
Bank borrowings and other financial liabilities - loans and others	25	4,877,111	4,208,674
Derivative financial instruments	26	784,908	825,885
Trade and other payables		8,582,527	8,234,410
Trade payables	30	5,577,148	5,472,733
Income tax payables	29	250,361	418,741
Other tax payables	29	1,000,712	1,055,245
Other current liabilities	27	1,754,306	1,287,691
		14,489,892	13,490,069
TOTAL EQUITY AND LIABILITIES		104,664,182	93,742,388

(*) The Consolidated statements of financial position at 31 December 2014 are presented for comparative purposes only.

The accompanying Notes 1 to 53 and the Appendix are an integral part of the Consolidated statements of financial position at 31 December 2015 and 2014.

Translation of Consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS, as adopted by the European Union (Note 54). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A. AND SUBSIDIARIES

**Consolidated income statements for the years ended
31 December 2015 and 2014**

	<i>Note</i>	Thousands of euros	
		31 December 2015	31 December 2014 (*)
Net revenue	32	31,418,693	30,032,270
Procurements	34	(18,576,018)	(17,852,727)
		12,842,675	12,179,543
Staff costs	35	(2,430,227)	(2,318,859)
Capitalised staff costs	35	497,133	458,030
External services		(2,444,299)	(2,160,099)
Other operating income		547,082	387,154
		(3,830,311)	(3,633,774)
Taxes other than income tax	37	(1,706,463)	(1,581,243)
		7,305,901	6,964,526
Amortisation and provisions	38	(3,476,614)	(3,023,602)
OPERATING PROFIT		3,829,287	3,940,924
Result of companies accounted for using the equity method - net of taxes	13.a	55,318	135,429
Finance income	40	585,017	893,756
Finance cost	41	(1,608,071)	(2,016,205)
Gains on disposal of non-current assets	39	131,845	255,092
Losses on disposal of non-current assets	39	(6,775)	(7,209)
PROFIT BEFORE TAX		2,986,621	3,201,787
Income tax	28	(527,092)	(837,054)
NET PROFIT FOR THE YEAR		2,459,529	2,364,733
Non-controlling interests		(16,496)	(16,818)
Subordinated perpetual obligations owners	20	(21,455)	(21,399)
NET PROFIT FOR THE YEAR ATTRIBUTABLE TO THE PARENT		2,421,578	2,326,516
EARNINGS PER SHARE IN EUROS (BASIC AND DILUTED)	52	0.381	0.359

(*) The Consolidated income statement at 31 December 2014 is presented for comparative purposes only.

The accompanying Notes 1 to 53 and the Appendix are an integral part of the Consolidated income statements for years ended 31 December 2015 and 2014.

Translation of Consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS, as adopted by the European Union (Note 54). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A. AND SUBSIDIARIES
Consolidated statements of comprehensive income
for the years ended 31 December 2015 and 2014

Thousand of euros

	31 December 2015				31 December 2014 (*)			
	Of the Parent	Of non-controlling interests	Of perpetual obligations owners	Total	Of the Parent	Of non-controlling interests	Of perpetual obligations owners	Total
NET PROFIT FOR THE YEAR	2,421,578	16,496	21,455	2,459,529	2,326,516	16,818	21,399	2,364,733
OTHER COMPREHENSIVE INCOME/(LOSS) TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS								
In unrealised asset and liability revaluation reserves	79,311	(1,268)	-	78,043	(23,869)	(256)	-	(24,125)
Change in the value of available-for-sale investments	29	-	-	29	(1,835)	-	-	(1,835)
Change in the value of cash flow hedges	110,475	(2,076)	-	108,399	17,208	(342)	-	16,866
Tax effect	(31,193)	808	-	(30,385)	(39,242)	86	-	(39,156)
In foreign currency translation differences	1,502,588	7,769	-	1,510,357	770,404	(1,944)	-	768,460
TOTAL	1,581,899	6,501	-	1,588,400	746,535	(2,200)	-	744,335
OTHER COMPREHENSIVE INCOME/(LOSS) NOT TO BE RECLASSIFIED TO PROFIT OR LOSS IN SUBSEQUENT PERIODS								
In other reserves	60,940	-	-	60,940	(344,544)	-	-	(344,544)
Actuarial gains and losses on pension schemes	92,315	-	-	92,315	(527,484)	-	-	(527,484)
Tax effect	(31,375)	-	-	(31,375)	182,940	-	-	182,940
In unrealised asset and liability revaluation reserves	4,532	-	-	4,532	(2,399)	-	-	(2,399)
Change in the value of cash flow hedges	5,672	-	-	5,672	(2,152)	-	-	(2,152)
Tax effect	(1,140)	-	-	(1,140)	(247)	-	-	(247)
TOTAL	65,472	-	-	65,472	(346,943)	-	-	(346,943)
OTHER COMPREHENSIVE INCOME/(LOSS) FROM COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD (AFTER TAX)								
In other reserves	5,002	-	-	5,002	(8,786)	-	-	(8,786)
In unrealised asset and liability revaluation reserves	16,746	-	-	16,746	(3,295)	-	-	(3,295)
TOTAL (Note 13.a)	21,748	-	-	21,748	(12,081)	-	-	(12,081)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	1,669,119	6,501	-	1,675,620	387,511	(2,200)	-	385,311
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	4,090,697	22,997	21,455	4,135,149	2,714,027	14,618	21,399	2,750,044

(*) The Consolidated statement of comprehensive income for 2014 is presented for comparative purposes only.

The accompanying Notes 1 to 53 and the Appendix are an integral part of the Consolidated statements of comprehensive income for the years ended 31 December 2015 and 2014.

Translation of Consolidated financial statements originally issued in Spanish and prepared in accordance with IFRS, as adopted by the European Union (Note 54). In the event of a discrepancy, the Spanish-language version prevails.

IBERDROLA, S.A. AND SUBSIDIARIES

Consolidated statements of changes in equity for the years ended 31 December 2015 and 2014

	Thousands of euros												
	Issued share capital	Treasury shares	Other reserves				Retained earnings	Unrealised assets and liabilities revaluation reserve	Translation differences	Net profit for the year	Non-controlling interests	Subordinated perpetual obligations	Total
Legal reserve			Revaluation reserves	Share premium	Other restricted reserves								
Balance at 1 January 2015 (Restated Note 2.a)	4,791,362	(815,990)	956,019	577,893	14,667,676	299,431	13,882,638	(327,003)	(1,404,052)	2,326,516	199,611	551,197	35,705,298
Total comprehensive income for the year	-	-	-	-	-	-	65,942	100,589	1,502,588	2,421,578	22,997	21,455	4,135,149
Transactions with shareholders and owners													
Free capital increase (Note 20)	72,652	-	-	(72,652)	-	-	(664)	-	-	-	-	-	(664)
Capital reduction (Note 20)	(111,362)	827,884	-	-	-	111,362	(827,917)	-	-	-	-	-	(33)
Distribution of 2014 profit	-	-	2,252	-	-	-	2,137,134	-	-	(2,326,516)	-	-	(187,130)
Acquisition of free-of-charge allocation rights (Note 20)	-	-	-	-	-	-	(115,028)	-	-	-	-	-	(115,028)
Transactions with treasury shares (Note 20)	-	(651,133)	-	-	-	-	4,178	-	-	-	-	-	(646,955)
Transactions with non-controlling interests (Note 42)	-	-	-	-	-	-	(394,867)	4,363	(557,575)	-	948,079	-	-
Other changes in equity													
Equity instruments-based payments (Note 20)	-	-	-	-	-	-	(4,385)	-	-	-	-	-	(4,385)
Modification of the consolidation perimeter (Note 42)	-	-	-	-	-	-	-	-	-	-	2,074,185	-	2,074,185
Other movements	-	-	-	-	-	-	15,745	-	-	-	1,415	(21,544)	(4,384)
Balance at 31 December 2015	4,752,652	(639,239)	958,271	505,241	14,667,676	410,793	14,762,776	(222,051)	(459,039)	2,421,578	3,246,287	551,108	40,956,053

Thousands of euros

	Other reserves						Unrealised assets and liabilities revaluation reserve	Translation differences	Net profit for the year	Non-controlling interests	Subordinated perpetual obligations	Total	
	Issued share capital	Treasury shares	Legal reserve	Revaluation reserves	Share premium	Other restricted reserves							Retained earnings
Balance at 1 January 2014 (Restated Note 2.a)	4,679,981	(302,707)	942,177	789,374	14,667,676	199,331	13,423,739	(297,440)	(2,174,456)	2,571,804	153,093	550,814	35,203,386
Total comprehensive income for the year	-	-	-	-	-	-	(353,330)	(29,563)	770,404	2,326,516	14,618	21,399	2,750,044
Transactions with shareholders or owners													
Free capital increase (Note 20)	211,481	-	-	(211,481)	-	-	(1,180)	-	-	-	-	-	(1,180)
Capital reduction (Note 20)	(100,100)	616,886	-	-	-	100,100	(616,898)	-	-	-	-	-	(12)
Distribution of 2013 profit	-	-	13,842	-	-	-	2,371,045	-	-	(2,571,804)	-	-	(186,917)
Acquisition of free-of-charge allocation rights (Note 20)	-	-	-	-	-	-	(860,855)	-	-	-	-	-	(860,855)
Transactions with treasury shares (Note 20)	-	(1,130,169)	-	-	-	-	7,890	-	-	-	-	-	(1,122,279)
Other changes of equity													
Equity instruments-based payments (Note 20)	-	-	-	-	-	-	1,473	-	-	-	-	-	1,473
Other movements	-	-	-	-	-	-	(89,246)	-	-	-	31,900	(21,016)	(78,362)
Balance at 31 December 2014	4,791,362	(815,990)	956,019	577,893	14,667,676	299,431	13,882,638	(327,003)	(1,404,052)	2,326,516	199,611	551,197	35,705,298

(*) The Consolidated statement of changes in equity for 2014 is presented for comparative purposes only.

The accompanying Notes 1 to 53 and the Appendix are an integral part of the Consolidated statements of changes in equity for the years ended 31 December 2015 and 2014.

IBERDROLA, S.A. AND SUBSIDIARIES
Consolidated statements of cash flow
for the years ended 31 December 2015 and 2014

	Thousands of euros	
Note	31 December 2015	31 December 2014 (*)
Cash flows from operating activities:		
Profit before tax	2,986,621	3,201,787
Adjustments for		
Amortisation charge, provisions and staff costs for pensions	35,38	3,448,332
Results of companies accounted for using the equity method net of taxes	13	(135,429)
Grants credited to income	22	(203,771)
Finance income and costs	40, 41	1,122,449
Gains on disposal of non-current assets	39	(247,883)
Changes in working capital		
Change in trade and other receivables	(309,353)	(525,730)
Change in inventories	272,978	36,818
Change in trade and other payables	(49,406)	1,086,552
Effect of translation differences on working capital of foreign companies	12,900	11,526
Change in non-current receivables and other payables	31,039	17,653
Provisions paid	(473,554)	(425,064)
Income taxes paid	(691,622)	(670,624)
Dividends received	67,258	83,679
Net cash flows from operating activities	6,259,936	6,800,295
Cash flows from investing activities:		
Subsidiary acquisitions	42	(541,389)
Change in cash due to variations in the method and / or perimeter of consolidation	42	43,217
Investments in intangible assets	8	(262,979)
Investments in associates	13	(69,448)
Equity instruments		(3,176)
Other investments	13	(1,707)
Investments in investment property	9	(4,713)
Investments in property, plant and equipment	10	(3,828,998)
Capital grants		31,793
Changes in working capital due to current financial assets		(1,375)
Interest received		188,443
Income taxes		(33,718)
Proceeds from disposals of non-financial assets		20,245
Proceeds from disposals of financial assets		55,904
Net cash flows from investing activities	(4,407,901)	(2,352,108)
Cash flows from financing activities:		
Free-of-charge allocation rights acquisition	20	(115,028)
Dividends paid		(187,130)
Subordinated perpetual obligation issuance		(30,188)
Issues and disposal from borrowings		6,058,274
Repayment of borrowings		(6,546,927)
Interest paid excluded capitalised interest		(1,122,931)
Movement of working capital by revenue shortfall		285,389
Cash outflows due to capital reduction		(33)
Cash outflows due to capital increase		(664)
Treasury shares acquisition	20	(941,042)
Proceeds from disposals of treasury shares	20	92,782
Net cash flows from financing activities	(2,507,498)	(4,031,065)
Effect of exchange rate changes on cash and cash equivalents	3,203	56,676
Net increase / (decrease) in cash and cash equivalents	(652,260)	473,798
Cash and cash equivalents at the beginning of the year	1,805,533	1,331,735
Cash and cash equivalents at the end of the year	1,153,273	1,805,533

(*) The Consolidated cash flow statement for 2014 is presented for comparative purposes only.

The accompanying Notes 1 to 53 and the Appendix are an integral part of the Consolidated cash flow statements for the years ended 31 December 2015 and 2014.

IBERDROLA, S.A. AND SUBSIDIARIES

Notes to the Consolidated financial statements for the year ended 31 December 2015

1. GROUP ACTIVITIES

Pursuant to article 4 of its By-laws, the corporate purpose of Iberdrola, S.A. (hereinafter, IBERDROLA), incorporated in Spain is as follows:

- To carry out all manner of activities and construction work and provide services required for, or related to, the production, transmission, switching and distribution or retailing of electric power or electricity by-products and their applications, and involving the raw materials or primary energies required for electric power generation, energy services, engineering, computer and telecommunication services, services relating to the Internet, the treatment and distribution of water, the integral provision of urban and gas retailing services, and other gas storage, regasification, transmission or distribution activities, which will be provided indirectly through the ownership of shares or other equity investments in companies that do not engage in the retailing of gas.
- The distribution, representation and marketing of all manner of goods and services, products, articles, merchandise, computer programs, industrial equipment, machinery, machine and hand tools, spare parts and accessories.
- To engage in the research, study and planning of investment and corporate organisation projects, and to promote, set up and develop industrial, commercial and service companies.
- To provide assistance and support services to the group companies and other investees, providing for them the guarantees and collateral required for this purpose.

The aforementioned activities may be performed in Spain and abroad, and may be performed totally or partially either directly by IBERDROLA or through the ownership of shares or other equity investments in other companies, subject in all cases to the legislation applicable at any given time and, in particular, to the applicable legislation to the electricity industry (Note 3).

In general, the corporate purpose of the subsidiaries consists of the production, switching, distribution and retailing of electricity and gas, telecommunication services, real estate and engineering activity as well as other related activities in Spain and abroad.

IBERDROLA's registered address is at Plaza Euskadi 5, in Bilbao.

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

a) Applicable accounting legislation

The IBERDROLA Group's 2015 Consolidated financial statements were prepared by the directors on 23 February 2016, in accordance with International financial reporting standards (hereinafter, IFRS), as adopted by the European Union, in conformity with Regulation (EC) number 1606/2002 of the European Parliament and of the European Council. The directors of IBERDROLA expect these Consolidated financial statements to be approved at the General Shareholders' Meeting without modification.

The IBERDROLA Group's 2014 Consolidated financial statements were approved at the General Shareholders' Meeting on 27 March 2015.

On 31 December, the IBERDROLA Group presents a negative working capital of EUR 3,810 million. However, as shown in Note 50, the IBERDROLA Group has a liquidity of EUR 7,054 million, consequently, these Consolidated financial statements were prepared following the going concern principle.

These Consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale financial assets and derivative financial instruments, which have been measured at fair value. The carrying amounts of assets and liabilities hedged by fair value hedges are adjusted to reflect variations in their fair value as a result of the risk hedged.

The accounting policies used in the formulation of these Consolidated financial statements correspond with those used for the year ended on 31 December 2014, except for the application, from January 1 2015, of the following standards, amendments and interpretations published by the International Accounting Standards Board (IASB) and the following IFRS Interpretations Committee and adopted by the European Union for its use in Europe:

- Annual improvements 2011-2013 cycle.

These improvements introduce some minor modifications to IFRS 3: "Business combinations", IFRS 13: "Fair value measurement" and IAS 40: "Investment property". The annual improvement 2011-2013 cycle did not have a significant impact in these Consolidated financial Statements.

- IFRIC 21: "Levies".

The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment occurs, as identified by the relevant legislation.

For the IBERDROLA Group, the application of IFRIC 21 means bringing forward to the current year the recognition of expenditures for certain levies applied to certain IBERDROLA Group subsidiaries in the United States and in Spain, mainly in connection with ownership of property.

The impact of IFRIC 21 on the Consolidated statement of financial position at 31 December 2014 is as follows:

	<i>Thousands of euros</i>
	<i>Increase (decrease)</i>
	<u>12.31.14</u>
Deferred tax assets	46,710
Other current financial investments	(75,735)
TOTAL ASSETS	(29,025)
Other reserves	(85,210)
Deferred tax liabilities	(2,738)
Other tax payables	58,923
TOTAL LIABILITIES	(29,025)

Also, the impact of the application of IFRIC 21 in the "Equity" heading on 1 January 2014 represents a decrease of EUR 85 million.

The application of IFRIC 21 had no impact on the Consolidated statement of cash flow and income statement for the year 2014.

Pursuant to applicable accounting standards, the IBERDROLA Group restated its Consolidated statement of financial position at 31 December 2014 and its Consolidated statement of changes in equity at 31 December 2014 and its Consolidated statement of cash flow. As the impact of IFRIC 21 on the Consolidated statement of financial position as of 1 January 2014 is not significant, it is not included.

The IBERDROLA Group has not applied in advance of the formulation of these Consolidated financial statements any published standard, interpretation or amendment that has not yet come into force.

On the other hand, at the date these Consolidated financial statements were authorised for issuance, the following standards, amendments and interpretations had been issued, all of which are effective subsequent to 1 January 2015:

	<i>Standard</i>	<i>Mandatory application</i>	
		<i>IASB</i>	<i>European Union</i>
2010-2012 cycle	Annual improvements to several standards	07.01.2014	02.01.2015
Amendments to IAS 19	Defined benefit plans: employees' contributions	07.01.2014	02.01.2015
Amendments to IFRS 11	Acquisition of an interest in a joint operation	01.01.2016	01.01.2016
Amendments to IAS 16 and 38	Acceptable methods of depreciation and amortisation	01.01.2016	01.01.2016
Amendments to IAS 28 and IFRS 10 (*)	Sales or contributions of assets between an investor and its associate/joint venture	Postponed	Postponed
2012-2014 cycle	Annual improvements to several standards	01.01.2016	01.01.2016
Amendments to IAS 1	Disclosure initiative	01.01.2016	01.01.2016
Amendments to IAS 7 (*)	Statement of Cash Flows: Disclosure initiative	01.01.2017	01.01.2017
Amendments to IAS 12 (*)	Recognition of deferred tax assets of unrealised losses	01.01.2017	01.01.2017
IFRS 15 (*)	Revenues from contracts with customers	01.01.2018	01.01.2018
IFRS 9 (*)	Financial instruments	01.01.2018	01.01.2018
IFRS 16 (*)	Leases	01.01.2019	01.01.2019

(*) Pending approval from the European Union

The IBERDROLA Group is currently analysing the impact of applying the approved standards, interpretations and amendments, whose application is not mandatory for the year ended 31 December 2015. In regards to IFRS 9, IFRS 15 and IFRS 16 specifically, such analysis will continue throughout 2016 given the complexity of these two standards. As to the rest of standards, the IBERDROLA Group believes that their application would not have had a material impact on these Consolidated financial statements, and, furthermore, would not have a material impact when they are applied.

b) Basis of consolidation

The appendix to these Consolidated financial statements lists all IBERDROLA subsidiaries, jointly controlled entities and associates, together with the consolidation or measurement basis used and other related disclosures.

The subsidiaries over which the IBERDROLA Group exercises control are fully consolidated, except when they are scantily material with respect to presenting fairly the financial statements of the IBERDROLA Group.

The IBERDROLA Group considers that it controls a company when it is exposed, or has a right, to variable returns from its involvement in the company and has the capacity to influence such yields through that control. For the purposes of these Consolidated financial statements, it is considered that the Group has control over the companies in which it owns more than a 50% of the share capital and whose control can be proved. The Appendix to these Consolidated financial statements shows the companies that are less than 50% owned and fully consolidated and those which are more than 50% owned but are not fully consolidated.

The joint ventures in which the IBERDROLA Group invests were measured by the equity method.

The associates over which the IBERDROLA Group does not exercise control, but does have a significant influence on are accounted for in the Consolidated statement of financial position by the equity method. For the purpose of these Consolidated financial statements, it is considered that a significant influence is exercised over companies in which the Group has an ownership of over 20% in the share capital and it can be proved that such significant influence exists.

Despite having a stake of less than 20% in Gamesa Corporación Tecnológica, S.A. (hereinafter, GAMESA), IBERDROLA believes that it has a significant influence over the company, among other reasons, because IBERDROLA is the leading shareholder and has three directors on a board of twelve; and by the fact that there are significant transactions between both companies.

The Appendix to these Consolidated financial statements sets out disclosures on companies in which the Group has an interest of less than 20% but which have been consolidated using the equity method, and on companies in which the Group has an interest of more than 20% but less than 50% that have not been consolidated using the equity method.

On 31 December 2015 and 2014, there were no significant restrictions regarding the Group's capacity to access or use the assets and liquidate the liabilities of the subsidiaries, joint ventures or associates, particularly those related to the transfer of cash, dividends or other capital distributions, except the restrictions imposed by the financial loans regarding the dividend distribution described in Note 25.

The closing date of the Financial statements of subsidiaries, joint ventures and associates is 31 December. These companies' accounting policies are the same as or have been conformed to those used by the IBERDROLA Group.

The Financial statements of each of the foreign companies have been prepared in their respective functional currencies, defined as the currency of the economic environment in which each company operates and in which it generates and uses cash.

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

1. On the acquisition date, assets, liabilities and contingent liabilities of a subsidiary are recognised at fair value. Any excess of the subsidiary's acquisition cost over the market value of its assets and liabilities is recognised as goodwill, as it corresponds to assets that cannot be identified and measured separately. If the difference is negative, it is recognised as a credit to income in the Consolidated income statement.
2. The results of the subsidiaries acquired or disposed during the year are included in the Consolidated income statement from the effective date of acquisition or until the effective date of disposal.
3. Gain or losses on acquisitions from non-controlling interests in companies over which the Group exercises control and sales transactions without loss of control are recognised against or credited to reserves.
4. The result of accounting for investments using the equity method is classified under the "Other reserves" and the "Result of companies accounted for using the equity method - net of taxes" heading in the Consolidated statement of financial position and in the Consolidated income statement, respectively.
5. The interest of minority shareholders in equity and the results of the fully consolidated subsidiaries is presented under the "Equity – Of non-controlling interests" heading on the liability side of the Consolidated statement of financial position and under the "Non-controlling interests" heading in the Consolidated income statement, respectively.
6. The financial statements of foreign companies were converted to euros using the year end exchange rate method. This method consists of converting to euros all the assets, rights and obligations at the exchange rates prevailing at the date of the Consolidated financial statements; for at the average exchange rates for the year the Consolidated income statement items; and at the historical exchange rates at the date of acquisition for equity (or in the case of retained earnings at the average exchange rates for the year in which they were generated provided that there are no significant transactions that make the use of the average exchange rate inappropriate), as appropriate. The resulting translation differences are taken directly to reserves.
7. All balances and transactions between the fully consolidated companies have been eliminated in the consolidation process. Gains or losses on transactions with associates and joint ventures are eliminated in proportion to the percentage ownership of the companies concerned.

c) Comparative Information

Such as is indicated in Note 42, on 25 February 2015 the Boards of Directors of IBERDROLA, IBERDROLA USA, Inc. a company which, as a consequence of this transaction, has been renamed as Avangrid, Inc. (hereinafter, AVANGRID) and UIL Holdings Corporation (hereinafter UIL) have approved the terms to make UIL part of the IBERDROLA Group through its absorption by Green Merger Sub, Inc. (hereinafter GREEN MERGER SUB), a wholly-owned investee of AVANGRID. This acquisition, after obtaining the deemed approvals and authorizations, has been culminated on 16 December 2015.

UIL is a US company listed on the New York Stock Exchange, and it is the parent of a group of companies, engaged in the regulated transmission and distribution of electricity and gas in Connecticut and Massachusetts (United States of America).

The UIL acquisition must be taken into account when comparing the figures for the year 2015 included in these Consolidated financial statements with those for the year 2014.

3. INDUSTRY REGULATION AND FUNCTIONING OF THE ELECTRICITY AND GAS SYSTEM

IBERDROLA and some of the Group companies carry out electricity and gas activities in Spain and abroad (see the Appendix to these Consolidated financial statements) that are heavily influenced by the regulatory frameworks. Below is a summary of the main regulations affecting the IBERDROLA Group (the management report describes them in detail).

3.1. European Union

The EU member states in which IBERDROLA is present, mainly the UK and Spain, must comply with the EU regulations.

The regulations that have a more direct effect on the energy sector are those aimed at creating single gas and electricity markets, so that any EU consumer can freely arrange their energy contracts with any EU suppliers. The regulations have two main action areas: (i) the directives, which establish the common criteria that must be met by the national markets and which the member states have to transpose into their national regulations for implementation; and (ii) the regulations, which set out the rules for the supranational issues, especially those related to gas transportation and electricity transmission, which are directly implemented.

Another regulation which has an indirect but very significant effect deals with the energy and the environmental policy approved in 2007, especially related to the fight against climate change. The European Union has assumed the commitment to reduce greenhouse gas emissions (GGE); to do this, it has enacted a regulation aimed at stimulating energy efficiency, fostering renewable energy and establishing emission allowances trading, which condition the action framework for the national energy policies. In January 2014, the European Commission published a communication on the future of the European framework for climate change and energy for 2030, opening a debate which will help to adopt specific measures.

At the European Council of October 2014, new targets for 2030 were agreed upon, in particular a reduction of 40% of the GGE compared to 1990, a share of 27% in renewable energies and a reduction of consumption of 27%. Moreover, it was agreed upon to ensure that the exchange capacity among countries will be at least a 10% of the installed capacity for 2020. The standards arising from these agreements are not yet developed.

On 15 July 2015, the European Commission has published a package of documents that anticipate legislative action in the field of energy markets. Among the numerous published documents, stand out for our interest:

- *Communication on market design*: analysis of the European Commission on the functioning of the market and their suggestions for improvement and a questionnaire on all of the market aspects direct to interest groups.
- *Communication on retail market (New Deal for customers)*: analyzes the functioning of the retail market and makes proposals for improvement to facilitate greater interaction with the client. Linked to this communication, has published a document of "best practices" in self-consumption.
- *Reform of the ETS directive*: legislative proposal to send to the European Parliament and the Council for processing.

Finally in February 2016, the European Commission has published the "Energetic Security Measures" focused on gas issues, with new gas supply security regulations, and the strategy for the security of the liquefied natural gas and its storage.

3.2. Spain

The main new features that have been published in Spain in the year 2015 are as follows:

Energy efficiency

The Order IET/2208/2015, OF 20 October recognises the collection rights of the National System of Energy Efficiency Obligations in the year 2015. This fund, created by the Royal Decree-Law 8/2014, is financed by all suppliers of energy according to their sales, which are: suppliers of electricity and gas, wholesalers of oil products and of liquid petroleum gases. This fund will let mechanisms of economic and financial support, technical support, training and information or other measures that let the energetic efficiency grow in the different sectors and achieve the energy saving targets established in the Energy Efficiency Directive.

Voluntary Price for the Small Consumer (PVPC)

The Resolution of 2 June 2015 of the State Secretariat for Energy, approved six procedures necessary for hourly billing to those consumers covered by the PVPC. The procedures let consumers that have a smart meter be invoiced according to their real hourly consumption instead of estimating it based on an average consumption, as it has been done until this moment. These new procedures regulate protocols of information exchange, of security and of confidentiality between agents and consumers, pursuing the correct performance of the PVPC. Once these procedures were approved a period of adaptation of IT systems was established until 1 October 2015. From this date onwards, all consumers having an hourly meter should be billed according to their hourly consumption and price.

Capacity payments

The Royal Decree-Law 9/2015 of 10 of July modifies the unitary price of the payments for capacity. This mechanism was applicable to the generation facilities that use local coal as fuel; the costs derived from its use represented a direct overcost for the consumer. The fact that the mechanism for limitations relating to the guarantee of supply ended on 31 December 2014, with no possibility of extending it (Royal Decree 134/2010) is the reason behind the review of prices of payments for capacity. During 2015, consumers have continued paying this amount *“acting with prudence, until they see the real behavior of the demand”*, but there is an excess in the collection of this item, confirmed by the different payments by the CNMC in 2015. The reduction of the amounts paid by the consumers does not affect to the remuneration received by the generation facilities for the availability services nor the incentives for investing.

The Order IET/2735/2015, of 17 December, establishes the electrical access tariffs for 2016 and approves specific standard installations and remunerative parameters for electrical energy production installations from sources of renewable energy, cogeneration and waste. This order reduces the regulated part of the electricity bill as from 1 January 2016, which will bring about an average reduction of 2.8% on the electricity bill for domestic consumers compared to January 2015, and of 0.7% compared to December 2015. The drop occurs after adjusting down by 21% the unit prices of the payments for capacity. The accumulated reduction for this item is 53% sin last July. It should be noted that the results at the year end 2014 and 2015 show an estimated surplus of EUR 1,400 million, which is deposited with the CNMC until its application and use is established.

As a new feature, a fund for possible contingencies that could adversely impact the costs of the electricity system has been predicted.

Production of electricity from renewable energy, cogeneration and waste

The Order IET/1344/2015 approves the remuneration parameters of the standard installations applicable to specific installations for the production of electrical energy from renewable energy sources, cogeneration and waste. This order will be applicable to the installations for the production of electrical energy from renewable energy sources, cogeneration and waste that have recognized premium remuneration as at entry into force of Royal Decree-Law 9/2013 and which do not match any of the standard installations defined in Order IET/1045/2014 approving the remuneration parameters of the standard installations applicable to specific installations for the production of electrical energy from renewable energy sources, cogeneration and waste. Furthermore, it establishes its corresponding remuneration parameters which will be applicable to the first regulatory half-period, that is to say, until 31 December 2016.

The Order IET/1345/2015 establishes the methodology for updating the remuneration to the operation of facilities with a specific retribution regime for such facilities established in the Order IET/1045/2014 and which has been approved by the ministerial order a remuneration value of the operation different from zero and whose operating costs depend essentially on the price of fuel. The update methodology is based on the evolution of fuel prices, and in the case of technologies that mainly use natural gas, the variation of tolls for access to the gas network is also considered.

The Royal Decree 947/2015 establishes a call for granting the specific remuneration system for new facilities producing electricity from biomass in the mainland electricity system and for wind technology. They will be allocated up to 200 MW and 500 MW for biomass and wind (new or repowering), respectively. The allocation procedure and compensation parameters are developed in the ministerial order IET/2212/2015 of 23 October. Finally, the resolution of 30 November 2015 the Ministry of Energy announces the auction.

The Decision of 18 December 2015, of the Department of State of Energy, establishes the criteria to take part in the system's adjustment services, and approves specific testing procedures and operation procedures for adaptation to Royal Decree 413/2014, of 6 June, regulating the activity of electrical energy production from renewable energy sources, cogeneration and waste. By means of this Decision, renewable installations may take part in the adjustment services of the electricity system in an effective manner and in equal conditions to the rest of conventional technologies, thus improving competition in these markets. This constitutes an unprecedented step forward in the European market.

Self- consumption

The Royal Decree 900/2015, regulating the administrative technical and economic conditions of the types of electrical energy supply with self-consumption and of production with self-consumption. This royal decree distinguishes two types of self-consumption:

- Supply with self-consumption: when it is a consumer in a single point of supply or installation, who has in his internal grid one or several installations of electrical energy generation used for his own consumption and which are not registered in the corresponding register as production installation; in this case there will be a single subject, who will be the consumer subject, the capacity under contract will be no higher than 100 kW and the discharges of energy to the grid will not be subject to financial compensation.
- Production with self-consumption: when it is a consumer in a point of supply or installation, which is associated to one or several production installations that are duly inscribed in the administrative register of energy production installations; in this event, there will be two subjects: the consumer subject and the producer subject.

All consumers under any of the self-consumption modalities must be registered in the Administrative Register of self-consumption, and in order to be subject to any of the types of self-consumption, the consumer must sign an access contract with the distribution company directly or through the selling company.

With regard to the economic regime, until the charges associated to the system costs are approved, the self-consumer must pay a fixed charge applicable to the maximum generation capacity in the tariff period for manageable generation installations and a variable charge applicable to the energy that is self-consumed. Consumers who are classified under the self-consumption category whose contracted capacity is less or equal to 10 kW will be exempt from the payment of the transitory charge for the transitory charge for the self-consumed energy. In addition, of the charges for the system costs and services, self-consumers pay the grid charges for the use that they make of it, like the rest of consumers.

Energetic planification

The Order IET/2209/2015, of 21 October, publishes the Agreement of the Council of Ministers of 16 October 2015, approving the Energy Planning document: Plan for Development of the Electrical Energy Transmission Grid 2015-2020. The planning document includes provisions regarding the future behavior of the demand, the necessary resources to satisfy it, the evolution off the market conditions to guarantee the supply, and environmental protection criteria. The planning document foresees the final energy consumption in Spain to grow by an annual average rate of 0.9% between 2014 and 2020; furthermore, it foresees a change in the structure of the generator facilities, with a drop in the weight of coal, oil and gas products and an increase in the weight of renewable energies. In this regard, the planning document foresees the electrical generation with the renewable energies to reach 36.7% in 2020, (20% of the final gross energy and 10% of the energy consumption of the transportation sector). The projects considered in the planning horizon include 1,517 km of new 400 kV lines and 1,747 km of 220 kV lines. This should be added to the repowering of almost 6,200 km of lines.

Networks remuneration

The Royal Decree 1073/2015 of 27 November modifies different provisions in the royal decrees on remuneration of electricity networks (Royal Decree 1047/2013 and Royal Decree 1048/2013). The main features introduced are the following:

- It allows for a significant increase in investment in interconnections not compute these investments in the annual maximum quantity allowed certain investment in the Royal Decree 1047/2013.
- It standardizes and makes investment plans of distributors more flexible, especially for smaller enterprises.
- For both activities it deletes the references to the annual periodic review of unit values according to the IPC to meet the provisions of the Law on indexation.

This remuneration system leads to the adoption of separate ministerial orders, which set the standard facilities and unit values to be considered in calculating the remuneration:

- The Order IET/2659/2015 of 11 December, for the transmission of electricity.
- The Order IET/2660/2015 of 11 December, for the distribution of electricity with the new remuneration methodology defined in the Royal Decree 1048/2013. This milestone triggers the beginning of the first regulatory period which starts on 1 January 2016 and ending on 31 December 2019 (4 years). In addition, this order published methodologies for calculating the main parameters for calculating compensation for 2016 but not published its values, it also develops the concepts of vegetative growth and increased power and changes the formula for calculating compensation for use and local reserve.

Social tariff

The Order IET/2182/2015, of 15 October, which approves the percentages for distribution of the amounts to be financed regarding the social tariff corresponding to 2015 by the parent company of the group of companies or, by the companies that simultaneously produces, distributes and retails electricity. The amount corresponding to Iberdrola España, S.A.U. is 38.26%.

Extrapeninsulars

The Law 48/2015, of 29 October, regarding General State Budgets for the year 2016 covers 50% of the excess non-mainland costs (741 million euros) and provides the items established by Law 15/2012 (tax on the value of electrical energy production, hydroelectric tax, tax on the production of spent nuclear fuel and on the storage of radioactive waste, income originating from emission allowance auctions, etc.), for the amount of EUR 3,155 million, 7.4% lower than 2015.

Commercial margin for the Retailer of Reference

On 6 February 2016 the Supreme Court sentence of 3 November 2015 by which cancels the fixed commercial margin used to calculate the PVPC and that establishes the remuneration of referred traders. The Supreme Court cancelled the established value of EUR 4 per kW/year with effect from 1 April 2014 and ordered the Government to set a new value after the adoption of a calculation methodology. Until then, it will be billed to the current value as a temporary value, as set out in the Order IET/2735/2015 on access tariffs of electricity by 2016.

Natural gas

Law 8/2015, of 21 May, modifies Law 34/1998, of 7 October, on the Hydrocarbon Sector, and regulates certain tax and non tax measures regarding the exploitation of hydrocarbons. The main tax measures introduced by the law are summarized below. Through this Law, an organized wholesale market is established, and the operator for the organized gas market (MIBGAS) is designated. When it is completely established, this market will reflect a transparent price signal, will facilitate the entry of new sellers to invigorate the market and therefore will increase competition in the sector.

The Royal Decree 984/2015, of 30 October, regulates the organized gas market and the access to third parties to the gas natural system facilities. This royal decree establishes the basis for the development of the gas organized market, which will include initially the negotiation of standardized short-term product through an electronic platform managed by the market operator (MIBGAS-OMEL), jointly with a centralized guarantee management system. Additionally, it centralizes the subscription of capacity through an electronic platform managed by the technical manager of the system (ENAGAS), with normalized products and auction procedures.

Subsequently, the resolution of 4 December 2015, the Ministry of Energy, approves the market rules, the purchase agreement and the resolutions of the organized gas market. The organized gas market rules contain the procedures, terms and conditions that are applicable to the organization and functioning of the market as well as technical and economic management. Market Resolutions establish the details of the various processes and products in the market.

On the other hand, the Order IET/2736/2015 of 17 December establishes the tolls and fees associated with third party access to gas installations and the remuneration of regulated activities for 2016 and the Resolution of 23 December 2015 of the General Directorate for Energy Policy and Mines, publishing the tariff of last resort for natural gas. From January 2016, the receipt of natural gas will drop 3% for domestic consumers, following the drop in gas prices in international markets and the freezing of the regulated part of the bill.

3.3. United Kingdom

The main new features in 2015 in the United Kingdom are:

Competition and Markets Authority's (CMA) investigation

On 7 July 2015, the CMA published its provisional conclusions and suggested remedies. The provisional findings concluded that competition in the wholesale gas and electricity markets functions correctly, that there is no negative impact derived from vertical integration, and there is no proof of tacit coordination. However a number of AECs were identified in the retail market, some due to over-regulation, but mainly focused on the possibility that people on standard variable tariffs may be losing out through lack of engagement in the market. The CMA has put forward a number of remedies for consideration. Most are focused on increasing competition in this segment, but they have also suggested a transitional safeguard regulated tariff to apply while other changes take effect. After an extension for the deadline, the date of completion of the investigation is 25 June 2016.

Networks prices control

The RIIO-ED1 framework for ScottishPower distribution network in southern Scotland and the Manweb area was accepted on 3 March 2015 by ScottishPower Energy Networks and entered into force on 1 April 2015.

Levy Control Framework (LCF)

In November, the Government provided a new revised estimate of the costs charged against the LCF that still showed an over expense at the end of the decade. This forecast ignores recent cutting measures and a new estimate is expected in 2016.

Renewable Obligation (RO)

In June 2015 the Government announced the early closure (one year earlier than scheduled) in April 2016 of the RO for the onshore wind farm, subject to a one year grace period. It is expected that the parliamentary process to approve this measure will finish in 2016.

3.4 United States

The main new features in 2015 in the United States are:

New York Rate Cases

On 20 May 2015, the four distributors of New York (NYSEG Electric, NYSEG Gas, RG&E Electric and RG&E Gas) requested to the Commission a review of the tariffs. The process has been conducted along 2015 and a resolution is expected during the second quarter of 2016.

Reforming the Energy Vision

On 28 July, the Public Service Commission of New York (PSC) issued the White Paper in which it is described an initial proposal for Track 2 of the Reforming the Energy Vision (REV) process of New York. It examines potential changes to the current regulation, tariff, market design and structure of incentives to better align the interests of utilities with the objectives of the State of New York and NYPSC.

Tax incentives

On 18 December Congress approved legislation extending and gradually reducing fiscal credits for renewable production (PTC) and fiscal credits for renewable production (ITC). Any developers starting building works on a wind farm before 2017 will receive the credit in full, whereas those starting construction between 2017 and 2019 will receive a reduced credit. Developers starting building works on a solar project before 2020 will access an investment credit (ITC) of 30%. Projects starting construction after 2019 will be entitled to a lower ITC.

Environmental regulation

The Environmental Protection Agency (EPA) published on 3 August two regulations aimed at reducing CO₂ emissions in the electricity sector. The first (in accordance with Section 111 (d) of the Clean Air Act) obliges the States or failing these, the fossil fuel electricity generators, to reduce existing emissions. The EPA estimates that said regulations will reduce CO₂ emissions in the USA by 32% compared to 2005 levels. The second regulation (in accordance with Section 111 (d) of the Clean Air Act) imposes specific limits to the CO₂ emissions on electricity generation installation with fossil fuels, both for new installations and for those that have been substantially modified.

On 21 January the Court of Appeals of the DC Circuit rejected the request of some States, coal companies and utilities to be paralysed until the judicial process had ended, but on 9 February 2015 the Supreme Court revoked the decision of the lower court and conceded the suspension, that will remain in force until the court resolves the litigation.

3.5. Brazil

The main new features in 2015 in the Brazil are:

Tariff review

On 25 August 2015, the regulator ANEEL published ELEKTRO's (Elektro Electricidade e Serviços, S.A.) long-term tariff review corresponding to the fourth tariff cycle, which increased the tariff average in 4.2% (0.68% for residential consumers and 9.32% for industrial consumers). Some aspects to highlight of the Fourth cycle are: all investments realized were recognized in the RAB (asset regulatory base), higher remuneration rate (from 7.5% to 8.09% after tax), OPEX positive margins, remuneration of third party assets and a lower X factor.

Tariff flags

On 28 August 2015 ANEEL approved a reduction in the value of the red flag from BRL 55 per MWh to BRL 45 per MWh. The new value was applied since September. Also in December ANEEL revised the methodology of transfer of resources to the Tariff Flags Resources Centralizing Account (CCRBT). If the account has surplus only the needed to cover costs will be transferred, and the excess collected will be conserved by distributors until the next tariff adjustment, when it will be returned to consumers through the tariff.

Hydroelectric plants' tender

In November 2015, 29 hydroelectric plants, whose concessions had finished during 2015, were tendered. The news in this tender was the obligation to pay a fee in exchange of the concession of the plant, an amount to be paid by the winning companies to federal government and to be recovered over the life of the concession through an incorporated charge in the generation cost. In total BRL 17,000 million were collected by the government for this concept.

Renewal rules of distribution concessions

In October 2015, ANEEL regulated the rules that will govern the renewal of distribution concessions. The new rules include financial and quality criteria to be met by the concessionaires, otherwise they could lose the concession.

Spot price

In 2015, the minimum and maximum prices of energy in the spot market have been modified after negotiations at public hearing, from BRL 15.62 per MWh as the minimum price and BRL 822.83 per MWh as the maximum price in 2014, to a minimum of BRL 30.26 per MWh and a maximum of BRL 388.48 per MWh in 2015.

3.6. Mexico

The main new features in 2015 in Mexico are:

Energetic reform

The Mexican regulatory framework is in a process of transformation, initiated by the constitutional reform in the energy sector decreed by the end of 2013, developed in the Electricity Industry Law (LIE) published in August 2014 with the repeal of the Public Service Law of Electric Power (LSPEE), which was in force since 1975. This transformation opens the energy sector to private investment in activities previously reserved to the State, while respecting the previous regulatory framework through the transitional dispositions in the LIE, applicable to businesses and existing facilities, which bring stability and certainty to the Mexican regulatory environment.

Through the LIE, power generation and distribution activities are fully open to the private investment, also appearing a wholesale electricity market to foster a framework of efficiency, open access and fair competition between market participants. The transmission and distribution activities continue to be reserved to the State under a regulated open access framework, but the investment is allowed in them through figures such as public-private partnerships.

It should be noted that the IBERDROLA Group is the leading private electricity company in Mexico thanks to its generation of combined cycle plants, wind farms and cogeneration plants. IBERDROLA sells about 80% of its energy to the Federal Energy Commission (CFE) and the rest to industrial companies under the concept of self-sufficiency.

Electricity market bases and market practices manuals

On 8 September 2015 it was published in the Federation Official Journal the Electrical Market Bases, which established the framework for action in the electricity markets of long and short term in Mexico. The bases define the products to be supplied in market competition through long term tenders. These products are intended to cover fixed capital and production variable costs in order to favor long-term investments and stabilize consumer prices.

Once the Basis of the Market is published the next step by the Ministry of Energy (SENER) is the emission of the Market Practices Manuals. At fiscal year-end 2015, they have published seven manuals and seven are under feedback from a total of 28. The manuals set out the principles of the calculation, instructions, rules, guidelines, examples and procedures for the management and operation the wholesale electricity market.

On 24 November 2015, SENER published in the DOF the Auction manual of the long-term and the other manuals required to start the operation of the wholesale electric power market in the short term.

Finally, the short term Wholesale Electricity Market was put in use on 28 January 2016 in the national grid.

Long term auctions

The long-term auction of power, Clean Energy Certificates (CEL) and clean energy are the mechanism of electricity reform to attract investment competitively.

On the 30 November 2015, the market operator National Center for Energy Control (CENACE) published the bidding Bases of the long-term auction, the timing of the process and protocols for access and clarification meetings.

Buyers will be the suppliers of basic services. Other marketers may participate when the Clearinghouse is defined. On the other hand, sellers are new plants, existing plants and recent expansions without commitments of the delivery of products term (greater than 15 years lifespan). The Market Bases determine within 15 years for energy and power and 20 years for CEL. In addition, tenders are awarded pay as bid, minimizing the purchase cost, and the payments will be monthly with annual adjustments for inflation and exchange rate.

The first tender started in November 2015 and will finish on 31 March 2016.

In January 2016 the CFE presented the offer to purchase CEL amounting to EUR 6.4 million, equivalent to 6.4 TWh associated energy and 500 MW.

National Development Program of the National Electric Sector (PRODESEN)

On 30 June 2015 SENER issued the new National Development Programme of the National Electricity Sector (PRODESEN), which establishes an indicative programme of the incorporation and withdrawal of electricity plants in a horizon of 15 years and the respective binding programme of transport and distribution networks for the modernization and expansion of the National Electricity System.

Energetic Transition Law and Clean Energy Certificates

Specific requirements of the electricity consumption are established in the publication of targets and criteria for Clean Energy Certificates issued by the Ministry of Energy at the beginning of 2015 and the Energy Transition Law issued by the Executive on 24 December 2015. It pursues reaching the 30% of the clean energy by 2021 and the 35% by 2024, thus establishing a national strategy for energy transition and giving financial certainty to investments aimed to promote the development of electricity generation based on renewable energy resources.

CFE legal separation

On 23 June the general provisions regarding acquisitions, leases, service contracts and execution of the works of the federal commission of electricity (CFE) and its subsidiary production companies are published in the DOF. Under the CFE Law, this production company owned by the State issues the provisions for carrying out acquisitions, leases, service contracts and other actions related to its new administrative nature. It is a crucial document for auctions and purchases that the CFE will carry out in the future under the LIE (Foreign Investment Act).

Lastly, on 11 January 2016, SENER published in the DOF the Terms and Conditions for the Legal Separation of CFE, the purpose of which is to promote the efficient operation of the electricity sector and the open and not unduly discriminatory access to the transmission and distribution networks. According to these terms and conditions CFE will be divided vertically, creating legally independent companies for generation, transmission, distribution and supply, as well as horizontally.

Mexican gas sector

On 18 December 2015 CENAGAS published the Five-Year Plan System of Expansion of Transport and National Integrated Storage of Natural Gas from 2015 to 2019. This plan is an indicative planning tool that allows better assessment of the availability and demand of natural gas in the medium term, supporting infrastructure to natural gas transport projects in the country, as well as elements for investment decisions by the private sector. Its operating budget for 2016 is MXN 12,000 million of own resources and MXN 190 million in tax revenues.

4. ACCOUNTING POLICIES

a) Goodwill

Goodwill represents future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized.

Goodwill arising from acquisitions of companies with a functional currency other than the euro is converted to euros at the exchange rate prevailing at the reporting date of the Consolidated statement of financial position.

Goodwill acquired on or after 1 January 2004 is measured at acquisition cost and the ones that are acquired earlier are measured at the carrying amount at 31 December 2003 in accordance with Spanish GAAP in effect on that date and as provided in IFRS 1: "First-time adoption of International Financial Reporting Standards".

Goodwill is not amortised. However, at the end of each reporting period goodwill is reviewed for its recoverability and any impairment is written down (Note 4.i).

b) Other Intangible assets

Concessions, patents, licenses, trademarks and others

The amounts recognised as concessions, patents, licenses, trademarks and others relate to the cost incurred in their acquisition.

The electricity distribution and transmission concessions held in UK by SCOTTISH POWER and those linked to the activities of AVANGRID, are not subject to any limits of a legal or other nature. Accordingly, intangible assets with an indefinite useful life are not amortised by the IBERDROLA Group, although they are assessed for indications of impairment each year, as described in Note 4.i.

This heading also includes the concession that will permit the IBERDROLA Group to build the hydro-electric complex in Alto Tâmega in Portugal.

On the other hand, IFRIC 12: "Service concession arrangements" concerning public-private service concession arrangements that meet two prerequisites:

- the grantor controls or regulates which services the operator must provide with the infrastructure, to whom it must provide them to and at what price; and
- the grantor controls any significant residual interest in the infrastructure at the end of the term of the arrangement.

Infrastructures within the scope of a service concession arrangement are not recognised as property, plant and equipment of the operator, because the operator does not have the right to control the use of the infrastructure.

If the operator performs more than one service (i.e. operation services and construction or upgrade services), the consideration received under the agreement for provision of services is recognised separately in the Consolidated income statement, pursuant to the standards applicable in each case, IAS 18: "Revenue" and IAS 11: "Construction contracts".

IFRIC 12 only affects the electricity distribution activities carried out by the IBERDROLA Group in Brazil. Remuneration for network construction and upgrade work carried out by the IBERDROLA Group in this country consisted, on the one hand, of an unconditional right to receive cash and, on the other hand, of the right to charge certain amounts to consumers. As a result, by applying IFRIC 12, two different assets were recognised for the two types of consideration received:

- A financial asset, which is recognised under "Other non-current financial assets" in the Consolidated statement of financial position (Note 13.c).
- An intangible asset, amortisable in the concession period, which is recognised under "Other intangible assets" in the Consolidated statement of financial position (Note 8).

The costs incurred in relation to the other items included under this heading in the Consolidated statement of financial position are amortised on a straight-line basis over their useful lives, between five and ten years.

Computer software

The acquisition and development costs incurred in relation to the computer software are recorded with a charge to "Other intangible assets" in the Consolidated statement of financial position.

Maintenance costs of computer software are recorded with a charge to the Consolidated income statement for the year in which they are incurred.

Computer software is amortised on a straight-line basis over a period of between three and five years from the entry into service of each asset.

Research and development expenditure

The IBERDROLA Group's policy is to record research expenses in the Consolidated income statement for the period when they are incurred. The Consolidated income statements for the years ended 31 December 2015 and 2014 recognised EUR 200,197 thousand and EUR 170,450 thousand, respectively, for this concept.

Development costs are recognised as an intangible asset in the Consolidated statement of financial position if the Group can identify them separately and show the technical viability of the asset, its intention and capacity to use or sell it, and how it will generate probable future economic benefits.

Other intangible asset

This heading includes, among other items, wind farm projects in the development phase which meet the identifiability requirement under IAS 38: "Intangible assets", as they are separable and susceptible to individual sale and are carried at acquisition cost. The IBERDROLA Group transfers these assets to "Property, plant and equipment" in the Consolidated statement of financial position when construction of each wind farm commences.

c) Investment property

Investment property is recognised at acquisition cost and its carrying amount represents 0.77% and 0.87% of the IBERDROLA Group's total property, plant and equipment at 31 December 2015 and 2014, respectively.

Investment properties are depreciated on a straight-line basis, minus material residual value, over each asset's estimated useful life which ranges between 37.5 and 75 years based on the features of each asset concerned.

The investment property owned by the IBERDROLA Group relates primarily to properties used for leasing. The rental income earned in 2015 and 2014 from the lease of investment property amounted to EUR 23,314 thousand and EUR 21,230 thousand, respectively and are presented under the "Net revenue" heading in the Consolidated income statements. These amounts represented approximately 0.07% of the net amount of the Group's revenues in 2015 and 2014.

Direct operating expenses arising on the investment property in 2015 and 2014 are not material.

The fair value of the IBERDROLA Group's investment properties is disclosed in Note 9. The fair value is determined on the basis of appraisals by independent valuers commissioned each year according to the Valuation Standards of the Royal Institution of Chartered Surveyors (RICS) of Great Britain, in the January 2014 edition. The appraisals at 31 December 2015 and 2014 are determined by Knight Frank España.

The assets have been individually appraised and not as part of a property portfolio.

The methods used for the calculation of fair value are the discounted cash flows method, income capitalisation and the comparative method, contrasted where possible the amounts with comparable transaction in order to reflect the market and prices at which transactions involving similar assets are being carried out.

The discounted cash flow method involves estimating possible net cash flows that a property could generate over a period, and considering the residual value of the asset at the end of the period. Cash flows are discounted at a target internal rate of return considered appropriate to each asset in order to reflect the urbanistic, construction and commercial risk.

For leased property, the key variables and assumptions used in the discounted cash flow analysis are:

- Net income from ownership over a specific period of time, bearing in mind the initial contractual situation, changes in tenants and expected rent, retailing expenses, disposal costs (variable percentage of 1%-3% depending on the selling price), etc.
- The discount rate or internal rate of return adjusted to reflect the investment risk based on location, occupancy, quality of tenant, age of the property, etc.
- The disposal return, which consists of an estimate of the exit (sale) price of the property applying an estimated return for the close of the transaction at that date and considering criteria of obsolescence, liquidity returns and market uncertainty.

For leased properties without as many variables, with long-term leases, 10 years or longer and a single tenant, the cost or income capitalisation approaches are used. This method entails the capitalisation to perpetuity of the contractual rent using a rate subsidy that factors in all the potential market risks.

d) Property, plant and equipment

Property, plant and equipment are stated at their acquisition cost, modified, when appropriate, as follows:

- Prior to the transition to IFRS (1 January 2004), the IBERDROLA Group revalued certain Spanish assets under "Property, plant and equipment" in the Consolidated statement of financial position as permitted by the applicable legislation, including the Royal Decree-Law 7/1996, and considered the amount of these revaluations as part of the cost of the assets, in accordance with IFRS 1.
- In case that the IBERDROLA Group is required to dismantle facilities 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, based on their net present value, with a credit to "Provisions - Other provisions" in the Consolidated statement of financial position (Note 4.r).

The IBERDROLA Group periodically reviews its estimates of this present value and increases or reduces the carrying amount of the assets on the basis of the results obtained.

On the other hand, the cost of acquisition includes the following items:

1. Finance costs relating to external funding accrued exclusively during the construction period, are determined as follows:
 - a) The interests accrued by specific-purpose sources of financing used to build certain assets are fully capitalised.
 - b) The interests accrued by general-purpose borrowings is capitalised by applying the average effective interest rate on this financing to the average cumulative investment qualifying for capitalisation, after deducting the investment financed with specific-purpose borrowings, provided that it does not exceed the total finance costs incurred in the year.

The average capitalisation rates used in 2015 and 2014 was 3.91% and 3.56%, respectively (Note 41).

2. Staff costs relating directly or indirectly to construction in progress (Note 35).

The IBERDROLA Group transfers property, plant and equipment under construction to property, plant and equipment in use at the end of the related trial period.

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

Replacements or renewals of complete items are recorded as additions to property, plant and equipment, and the items replaced are derecognised.

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.

e) 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, at annual rates based on the following years of estimated useful life:

	<i>Average years of estimated useful life</i>
Conventional thermal power plants	25 – 50
Combined cycle plants	35
Nuclear plants	40
Windfarms	25
Gas storage facilities	25 – 40
Transmission facilities	40 – 56
Distribution facilities	30 – 54
Conventional meters and measuring devices	15 – 27
Electronic or smart meters	10 – 20
Buildings	50 – 75
Dispatching centres and other facilities	4 – 50

As hydroelectric plants are operated under concessions (Note 11), the depreciation of civil engineering assets is performed over the life of the concession, while its electromechanical equipment is depreciated over the lower of the concession period or 35 years.

f) Leases

The IBERDROLA Group classifies as finance leases all arrangements under which the lessor transfers to the lessee substantially all the risks and rewards incidental to ownership of the asset. All other leases are classified as operating leases.

Assets acquired under finance leases are recognized as non-current assets in accordance with their nature and function. Assets are measured at the lower of the fair value of the leased asset and the present value of the future lease payments, and it is amortised by the useful life of each asset.

The expenses arising from operating leases are allocated to the Consolidated income statement on an accrual basis over the life of the lease agreement.

g) Nuclear fuel

The IBERDROLA Group measures its nuclear fuel stocks on the basis of the costs actually incurred in acquiring and subsequently processing the fuel.

Nuclear fuel costs include the finance costs accrued during construction, calculated as indicated in Note 4.d (Note 40).

The nuclear fuel consumed is recognised under “Procurements” in the Consolidated income statement from when the fuel loaded into the reactor starts to be used, based on the cost of the fuel and the degree of burning in each reporting period.

h) Inventories

Energy resources

Energy resources are measured at acquisition cost, calculated using the average weighted price method, or net realisable value, if the latter is lower.

No adjustments to the value of energy sources that are part of the production process are made if it is expected that the finished products into which they will be incorporated will be sold at above cost.

Real estate inventories

The real estate inventories were measured at acquisition cost, which includes both the acquisition cost of the land and plot and the costs of urban infrastructures and construction of real estate developments incurred until the year end. These costs include those incurred by the architecture and construction departments.

The acquisition cost also includes financial expenses to the extent that such expenses relate to the period of town planning permits, urbanisation or construction up until the time at which the land or plot is ready for operation, calculated using the method set out in Note 4.d (Note 41).

Commercial costs are charged to the Consolidated income statement on an accrual basis.

The IBERDROLA Group periodically compares the cost of acquisition of real estate inventories with their net realisable value, recognising the necessary impairment losses with a charge to the Consolidated income statement when the latter is lower. If the circumstance leading to the valuation adjustment no longer exists, it is reversed recognising the corresponding income.

For land, construction in progress and unsold units, net realisable value is used taking into account the appraisals by independent experts. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs to finish the production and the necessary costs to carry on with the sale of the element.

This value is determined using the residual method, where the estimated total cost of the work, is deducted from the gross value of the completed project, and the allowance for developer's risk and profit is added. The key variables of the residual method are:

- The total cost of the development, comprising the potential value of development at the valuation date based on the best estimates of independent valuers.
- The cost of the development, including all disbursements to be made by the developer of the work depending on the type (e.g. government-sponsored or private single-family dwellings) and quality of the construction. In addition to the cost of the work, it includes the cost of projects and licenses (10%-12% of the physical construction project), legal fees (1%-1.5% of the material implementation project), marketing and promotional expenses (2%-4% of income) and unforeseen contingencies (3% of income).
- The developer profit considered for each asset, depending on the zone state of the land, size and complexity of the development, ranging from 15% to 35% of total costs.

For land with licences, construction in progress and unsold units, the main difference with regard to unlicensed land is the developer profit, which in this case is lower given the stage of completion of the work and the decrease in risk as the completion of construction nears.

The heading "Net revenue" in the 2015 and 2014 Consolidated financial statements includes EUR 29,090 thousand and EUR 16,090 thousand, respectively, relating to sales of real state. These amounts represent the 0.09% and 0.05% of the IBERDROLA Group's total revenue at those dates.

Emission allowances

Emission allowances inventories are valued at acquisition cost, calculated using the average weighted price method, or net realisable value, if the latter is lower.

Emission allowances which are incorporated into the production processes are not impaired if the finished products obtained as a result of those processes are sold over their cost.

Emission allowances acquired for the purpose of benefiting through fluctuations in their market price are measured at fair value with a credit or debit to the Consolidated income statement.

Emission allowances are derecognised from the Consolidated statements of financial position when they are sold to third parties, have been delivered or expire. When the allowances are delivered, they are derecognised with a charge to the provision made when the CO₂ emissions were produced.

i) Non-Financial assets impairment

Each closing date at every accounting year, the IBERDROLA Group reviews the carrying amounts of its non-current 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, if it is necessary. For this purpose, in the case of assets that do not generate cash flows independent from other assets, the IBERDROLA Group estimates the recoverable amount of the cash-generating unit to which belongs.

In the case of goodwill and other intangible assets which have not come into use or which have an indefinite useful life, the IBERDROLA Group performs the recoverability analysis systematically every year, except when there are indications of impairment in another moment, in which case recoverability analysis is performed at the same time.

For purposes of this recoverability analysis, goodwill is allocated to the cash generating units in which it is controlled for internal management purposes (Note 8).

Recoverable amount is the higher of fair value less selling cost 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, in making the estimates include discount rates, growth rates and expected changes in selling prices and direct costs. The discount rates reflect the time value of money and the risks specific to each cash-generating unit. 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 IBERDROLA Group (Note 12).

If the recoverable amount of an asset is less than its carrying amount, the difference is registered as a charge to "Amortisation and provisions" in the Consolidated income statement.

The IBERDROLA Group distinguishes between impairment allowances and write-offs depending on whether the impairment is reversible or not reversible. A write-off involves a decrease of the carrying amount of assets, either because the impairments are considered definitive and non-reversible, or because the accounting standards establish that, such as the case of goodwill, or when considering that the value of the asset is not going to be recovered for its use or disposal. Impairment losses are due to the fact that future expected earnings to be obtained are less than the carrying amount.

Impairment losses recognised for an asset are reversed with a credit to the "Amortisation and provisions" heading when there is a change in the estimates concerning the recoverable amount of the asset, increasing the carrying amount of the asset, but so the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised.

j) Associates and joint ventures

Investments in associates and joint ventures are accounted for using the equity method. Under this method, investments are measured initially at acquisition cost, subsequently adjusted for changes to each company's equity, taking into consideration the percentage of ownership and, if applicable, any valuation adjustments.

Some investments in associates and joint ventures which in the context of these Consolidated financial statements are immaterial are recorded at acquisition cost within "Non-current investments – Non-current equity investments" heading of the Consolidated statements of financial position for the years ended 31 December 2015 and 2014 (Note 13.b).

The IBERDROLA Group regularly analyses the existence of impairment at its associates and joint ventures by comparing the total carrying amount of the associate or joint venture, including goodwill, to its recoverable amount. If the carrying amount exceeds the recoverable amount, the IBERDROLA Group recognises the related impairment with a charge to the Consolidated income statement within "Results of companies accounted for using the equity method - net of taxes".

k) Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. These Consolidated financial statements include the proportional part of the assets, liabilities, income and expenses of the joint operation in which the IBERDROLA Group takes part in (Note 44).

l) Financial instruments

Financial assets

The IBERDROLA Group measures its current and non-current financial assets in accordance with the criteria described below:

1. Financial assets classified at fair value, registering changes through credits or charges in the Consolidated income statement. These are assets that meet any of the following requirements:
 - They have been classified as held-for-trading financial assets, on the basis that the IBERDROLA Group intends to obtain a profit from fluctuations in their prices.
 - They have been included in this asset category since initial recognition.

The assets included in this category are stated at fair value in the Consolidated statement of financial position, and changes in fair value are recognised as "Finance cost" or "Finance income" in the Consolidated income statement, as appropriate.

The IBERDROLA Group includes in this category the derivative financial instruments which do not satisfy the conditions necessary for hedge accounting based on the requirements established for this purpose in IAS 39: "Financial Instruments" (Note 26).

2. Loans and receivables: these are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest rate method.

The IBERDROLA Group records the related provisions for the difference between the amount of the receivables considered recoverable and the carrying amount of the receivables.

3. Held-to-maturity investments: are investments that the IBERDROLA Group has the intention and ability to hold to the date of maturity, which are also measured at amortised cost.
4. Available-for-sale financial assets: these are other financial assets that do not fall into any of the aforementioned three categories. These investments are recognised in the Consolidated statement of financial position at fair value at year end which, in the case of companies that are not 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 recognised with a charge or credit, as appropriate, to the "Unrealised assets and liabilities revaluation reserve" in the Consolidated statement of financial position (Note 20), until the disposal or impairment of these assets at which time the cumulative balance of this heading is recognised in the Consolidated income statement.

Those equity instruments of companies that are not publicly listed, the market value of which cannot be determined reliably are carried at cost of acquisition.

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

The IBERDROLA Group recognises conventional financial asset purchases and sales on the date of operation.

Cash and cash equivalents

This heading in the Consolidated statement of financial position includes cash, current accounts and other highly liquid short-term investments that can be realised in cash quickly and are not subject to a risk of change in value.

Impairment of financial assets at amortised cost

The IBERDROLA Group assesses, at least at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. If it is determined that an impairment has occurred, the carrying amount of the financial asset is reduced by means of a "change in measured value" account in the income statement for the period.

Impairment losses are reversed when the amount of the losses declines because of a subsequent event. Such reversals are recognised in the Consolidated income statement. An impairment loss may be reversed up to the carrying amount of the asset recognised at the date of reversal had no impairment loss been recognised previously.

The amount of impairment of debt instruments stated at amortised cost is calculated individually for material financial assets and collectively for financial assets which are not individually significant.

Impairment losses determined individually

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred).

Impairment losses determined collectively

Financial assets are grouped on the basis of similarity of features relating to credit risk, which are indicative of the debtor's ability to pay all amounts due. The credit risk features considered for the purpose of grouping such assets are, among others: debtor's business sector, geographical area of activity, type of security or collateral, age of past-due amounts, and any other factor that may be relevant to estimate future cash flows.

To calculate an impairment loss on a group of financial assets, future cash flows are estimated on the basis of historical experience of losses for assets having credit risk features similar to those of the group in question.

Impairment of available-for-sale equity investments

If there is objective evidence that the impairment losses on such assets are permanent, such losses are recognised in the Consolidated income statement.

The IBERDROLA Group considers objective evidence of impairment to be a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost. To this end, for available-for-sale financial instruments, a significant or prolonged decline in the fair value (stock market value for listed instruments) is considered to be a 40% fall for at least 3 months or a loss of value below purchase price for at least 18 months.

A recovery of an impairment loss is not recognised in the Consolidated income statement. Instead, it is recorded within "Unrealised assets and liabilities revaluation reserve" heading in the Consolidated statement of financial position.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the IBERDROLA Group are classified on the basis of the nature of their issuance.

The IBERDROLA Group classifies as an equity instrument any contract that evidences a residual interest in the net assets of the Group.

Equity instruments having the substance of a financial liability

In the United States, the IBERDROLA Group has undertaken several transactions that bring minority shareholders as external partners of certain of its wind farms in exchange for cash and other financial assets primarily.

The main characteristics of these transactions are as follows:

- Regardless of the equity stake taken by the minority shareholders, the IBERDROLA Group retains ownership and management control of the wind farms; accordingly they are fully consolidated in these Consolidated financial statements.
- The minority 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 minority shareholders remain in the equity of the wind farms until they achieve the stipulated returns.
- Once these returns have been obtained, the minority 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 minority shareholders of the IBERDROLA Group obtain the agreed upon returns depends on the economic performance of the wind farms. Although the IBERDROLA Group is bound to operate and maintain these facilities in an efficient manner and to take out the appropriate insurance policies, it is not obliged to deliver cash to the minority shareholders over and above the aforementioned profits and tax credits.

Following an analysis of the economic substance of these agreements, the IBERDROLA Group classifies the consideration received at the outset of the transaction under “Equity instruments having the substance of a financial liability” heading in the Consolidated statement of financial position. Subsequently, this consideration is measured at amortised cost (Note 21).

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 these financial liabilities are measured at amortised cost, using the effective interest rate method, except for hedged transactions, which are measured using the method described below in this same note.

Also, obligations under finance leases (Note 4.f) are recognised at the present value of the lease payments under “Bank borrowings and other financial liabilities – loans and others” in the Consolidated statement of financial position.

Trade and other payables

Accounts payables are caused by ordinary operations initially recognised at fair value and are subsequently measured at amortised cost.

Contracts to buy or sell non-financial items

The IBERDROLA Group performs a detailed analysis of all its contracts to buy or sell non-financial items to ensure they are classified correctly for accounting purposes.

As a general rule, those contracts that are settled net in cash or in another financial asset are classified as derivatives and are recognised and measured as described in this note, except for contracts entered into and held for the purpose of the receipt or delivery of a non-financial item in accordance with the IBERDROLA Group’s purchase, sale, or usage requirements.

Contracts to buy or sell non-financial items to which the treatment described in the IAS 39 is not applicable, are designated as own-use contracts and are recognised as the IBERDROLA Group receives or delivers the rights or obligations originating thereunder.

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

- Until the month preceding the supply date, the IBERDROLA Group classifies as own-use contracts only those contracts to buy or sell electricity and gas that reflect its best estimate of the actual purchase requirements of the IBERDROLA Group.
- In the month preceding the date of supply, and given that demand estimates become more and more accurate each day, the IBERDROLA Group assumes that all contracts written solely in response to changes in demand estimates, whether for purchase or sale, are own-use contracts, and not therefore derivatives.
- All contracts entered into with the intention of realising short-term gains on fluctuations in the market price of electricity and gas, as well as those that do not correspond to the situations described in the preceding two points are considered derivatives, and are therefore recognised on the Consolidated statement of financial position at their fair value.

Derivative financial instruments and hedge accounting

Financial derivatives are initially recognised 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 recognised in the Consolidated income statement, unless the derivative has been designated as a cash flow hedge or a hedge of a net investment in foreign countries.

For accounting purposes, hedges are classified as follows:

- Fair value hedges: where the hedged risk is a change in the fair value of an asset or liability or a firm commitment.
- Cash-flow hedges: where the hedged risk 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.
- Hedge of a net investment in a foreign operation.

Each time a hedge transaction is entered, the IBERDROLA Group formally 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 hedging transactions is as follows:

- In the fair value hedges, changes in the fair value of the derivative financial instruments designated as a hedge and changes in the fair value of a hedged item due to the hedged risk are recognised with a charge or credit to the same heading of the Consolidated income statement.
- In cash flow hedges and hedges of a net investment in a foreign operation, changes in the fair value of the hedging derivative are recognised, in respective of the ineffective portion of the hedges, in the Consolidated income statement, while the effective portion is recognised under “Unrealised assets and liabilities revaluation reserve” and “Translation differences”, respectively, in the Consolidated statement of financial position. The cumulative gain or loss recognised in these headings is transferred to the relevant heading of the Consolidated income statement as the hedged item affects net profit or loss.

If a hedge of a forecasted transaction results in the recognition of a non-financial asset or liability, its balance is taken into account in the initial measurement of the asset or liability arising from the hedged transaction.

If a hedge of a future transaction results in the recognition of a financial asset or liability, this balance is recognised in the “Unrealised assets and liabilities revaluation reserve” until the risk hedge in the future transaction impacts the Consolidated income statement.

If a future transaction does not result in the recognition of an asset or a liability, the amounts credited or charged, to “Unrealised assets and liabilities revaluation reserve” in the Consolidated statement of financial position will be recognised in the Consolidated income statement in the same period in which the hedge transaction is realised.

When hedge accounting is discontinued, the cumulative amount at that date recognised under “Unrealised asset and liability revaluation reserve” is retained under that heading 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 recognised under the aforementioned heading is transferred to the Consolidated income statement.

Derivatives embedded in other financial instruments are recognised separately when the IBERDROLA Group 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 carried at fair value, registering changes in fair value with the gain or loss recognised in the Consolidated Income statement.

The fair value of the derivative financial instruments is calculated as follows (Note 15):

- For derivatives quoted on an organised market corresponds to its market price at year end.
- To measure derivatives not traded on an organised market, the IBERDROLA Group uses assumptions based on market conditions at year end. Specifically, the fair value of interest rate swaps is calculated as the value discounted at market interest rates of the interest rate swap contract spread. Currency futures are measured by discounting the future cash flows calculated using the forward exchange rates at year end. Finally, the fair value of contracts to trade non-financial items falling under the scope of IAS 39 is calculated on the basis of the best estimate of future price curves for the underlying non-financial items at the year end of the Consolidated financial statements, using, wherever possible, prices established on futures markets.

These measurement models take into account the risks of the asset or liability, among these, the credit risk of both the counterparty (Credit Value Adjustment) and the entity itself (Debit Value Adjustment). The credit risk is calculated according to the following parameters:

- Exposure at default: the amount of the risk arising at the time of non-payment by a counterparty, taking into account any collateral or compensation arrangements connected to the transaction.
- Probability of default: the probability that a counterparty will breach its obligations to pay the principal and/or interests, depending mainly on the features of the counterparty and its credit rating.
- Loss given default: the estimated loss in the event of default.

Derecognition of financial assets and liabilities

A financial asset is derecognised when:

- The rights to receive cash flows from the asset have expired.
- The IBERDROLA Group 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 IBERDROLA Group has transferred its rights to receive cash flows from the asset and either has transferred substantially all the risks and benefits of the asset, or has neither transferred nor retained them, but has transferred the control of the asset.

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

Offsetting of financial instruments

The financial assets and liabilities can be offset: the corresponding net amount must be shown in the Statement of financial position if the company currently has a legally enforceable right to offset the recognised amounts and the intention of settling them for the net amount or realising the assets and settling the liabilities simultaneously.

m) Treasury shares

At year end, the IBERDROLA Group's treasury shares are included under the heading "Treasury shares" in the Consolidated statement of financial position and are measured at acquisition cost.

The gains and losses obtained on disposal of treasury shares are recognised in "Other reserves" in the Consolidated statement of financial position.

n) Deferred income

Government Grants

This heading includes any non-reimbursable grants provided by the Administration whose purpose is to finance property, plant and equipment, including the cash received from the US Administration in the form of Investment Tax Credits as a result of setting up wind power facilities. All the capital grants are taken to the profit and loss statement under the "Amortisation and provisions" heading of the Consolidated income statement as the financed plants are depreciated, thereby offsetting the depreciation expense.

Transferred or financed by third parties

According to the regulations applicable to electricity distribution in the countries in which it is active, the IBERDROLA Group occasionally receives cash payments from third parties for the construction of electricity grid connection facilities or direct assignment of such facilities. Both the cash received and the fair value of the facilities received are credited to "Deferred income" heading in the Consolidated statement of financial position.

These amounts are subsequently recognised under "Other operating income" in the Consolidated income statement as the facilities are depreciated.

Other deferred income

"Deferred income" heading also includes amounts received from third parties in relation to the assignment of the right to use certain facilities which connect to the electricity grid, the IBERDROLA Group's optic fibre network and other owned assets. These amounts are taken to profit or loss on a straight-line basis over the term of each contract under "Other operating income" heading in the Consolidated income statement.

o) Post-employment and other employee benefits

The contributions to be made to the defined contribution post-employment benefit plans are expensed under the "Staff costs" heading in the Consolidated income statement on an accrual basis.

In the case of the defined benefit plans, the IBERDROLA Group recognises the expenditure relating to these obligations on an accrual basis over the working life of the employees by commissioning the appropriate independent actuarial studies using the projected unit credit method to measure the obligation accrued at year end, and the positive or negative actuarial differences are recognised under "Other reserves" heading when they arise. The provision recognised under this concept represents the present value of the defined benefit obligation reduced by the fair value of the related plans.

If the fair value of the assets exceeds the present value of the obligation, the net asset is not recognised in the Consolidated statement of financial position unless it is practically certain that it belongs to IBERDROLA Group.

The IBERDROLA Group determinates the discount rate with reference to the yields market at the end of the reporting period, corresponding to the bonds or business obligations of high credit quality (rating equivalent to AA/Aa). In the countries in which does not exist a deep market to such bonds and obligations, the discount rate is determined with reference to Government bonds.

For the Eurozone, United Kingdom and the United States of America, there is a deep bond market with a sufficient period of maturity to cover all payments expected. In reference to the countries related to the Eurozone, the depth of the bond or obligation market is evaluated at the level of the monetary union and not for the particular country. In the case of Brazil, the discount rate has been determined taking into account the Brazilian Sovereign credit, because a deep corporative market does not exist as they don't satisfy the indicated credit qualifications.

The Group applies a weighted average discount rate that reflects the estimate timing and amount of benefit payment, as well as the currency in which the benefits are to be paid.

The calculation methodology is principally based on the following principles:

- The universe and spectrum of the outstanding bonds that meet the criteria of an AA/Aa rating is generated. The source of information corresponds with Bloomberg. The IBERDROLA Group has adopted the notional emissions that are higher than EUR 50 million or its equivalent in local currency as the selection criteria.
- Once the bonds' database is obtained, the result is screened and the bonds that show any deficiencies are eliminated.
- The sample is grouped based on the bonds' duration and the return on each duration and outstanding nominal amount of the issuance is shown. As far as possible, the price return is based on the midpoint of the bid/ask spread.
- The benefit payment is calculated using a mathematical formula, i.e., the discrete minimum approximation of the quadratic function, resulting in a market return curve based on the duration. The market curve result will provide the discount factors for each future maturity date of the bonds.
- For markets in which government bonds or corporate bonds with maturity dates beyond 25/30 years are not available, it is assumed that they will remain at the same level from the latest maturity date for which there is information available.

The discount rate reflects the time value of money and estimated schedule for the benefit payments. However, it does not reflect the actuarial, investment, credit or deviation in compliance with the actuarial assumptions risk.

p) Collective redundancy procedure and other early retirement plans for employees

The IBERDROLA Group recognises termination benefits, when there is an agreement with the employees or a certain expectation that such an agreement will be reached that will enable the employees to be terminated in exchange for indemnity payment.

The IBERDROLA Group recognises the full amount of the expenditure relating to these plans when the obligation arises by performing the appropriate actuarial studies to calculate the present value of the actuarial obligation at year end. The actuarial gains and losses are recognised in the Consolidated income statement .

q) Provision for emission allowances

The IBERDROLA Group records a provision for contingencies and expenses in order to recognise the obligation to deliver CO₂ emission allowances, in accordance with the methods provided for in the national assignment plans (Notes 3 and 24).

For the portion of emissions covered by the allowances granted under these plans or by allowances acquired by the Group, the provision is recognised at the carrying amount of the allowances. If it is estimated that it will be necessary to deliver more emission allowances, the provision for this shortfall is calculated based on the market price of the allowances at the date of year end.

Under the “Procurements” heading in the 2015 and 2014 Consolidated income statements include EUR 122,773 thousand and EUR 85,273 thousand (Note 24).

r) Production facility closure costs

The IBERDROLA Group will incur in several decommissioning costs of its production plants, among which include those arising from necessary tasks to fit the land where they are located. Additionally, in accordance with the current legislation, the Group must perform certain tasks prior to the decommissioning of its nuclear plants, of which *Empresa Nacional de Residuos Radioactivos, S.A.* (hereinafter, ENRESA) is responsible for.

The estimated present value of these costs is capitalised with a credit to “Provisions – Other provisions” at the beginning of the useful life of the related asset (Note 24).

This estimate is subject to annual revision so that the provision reflects the present value of the full amount of the estimated future costs. The value of the asset is only adjusted for variances with respect to the initial one.

The IBERDROLA Group applies a risk-free rate to financially update the provision because the estimated future cash flows to satisfy the obligation reflect the specific risks of the corresponding liability. The risk-free rate used corresponds to the yield at year end on which reports, government bonds with enough depth and solvency in the same currency and similar due date to the obligation.

Any change in the provision as a result of its discounting is recognised in “Finance cost” in the Consolidated income statement.

s) Other provisions

The IBERDROLA Group recognises provisions to cover present obligations, whether these are legal or implied, 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 (Note 24). A provision is recognised when the liability or obligation arises, with a charge to the relevant heading in the Consolidated income statement depending on 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 recognised under “Finance cost” in the Consolidated income statement.

These provisions include those recorded to cover environmental damage, which were determined on the basis of a case-by-case analysis of the situation of the polluted assets and the cost of decontaminating them.

On the other hand, according to labour regulations in force, the IBERDROLA Group is obliged to pay compensations to employees who, under certain conditions, terminate their employment relationship. At the date of formulation of these Consolidated financial statements, the IBERDROLA Group does not expect to start any different plan from that mentioned in Note 23.

t) Current and non-current debt classification

In the Consolidated statement of financial position debts are classified by their maturity date at year end. Debts that are due within twelve months are classified as current items and those due within more than twelve months as non-current items.

u) Revenue recognition

Revenues from sales is measured at the fair value of the assets or rights received as consideration for the goods and services provided in the normal course of the Group companies’ business, net of discounts and applicable taxes.

Income from regulated activities where remuneration is based on a fixed margin is booked by the IBERDROLA Group under the “Net revenue” heading in the Consolidated income statement for the corresponding year.

In the case of some regulated activities carried out by the IBERDROLA Group, any discrepancies between costs estimated when setting the annual tariff and costs actually incurred are corrected in the following years’ tariffs. These discrepancies are recognised as income or expense for the year in which they arise only if its proceed or payment is certain, regardless of future sales.

Revenues from service agreements in which the results can be reliably measured are recognised in accordance with the percentage of completion method.

The IBERDROLA Group has electricity generation capacity assignment agreements with the *Comisión Federal de la Electricidad* (hereinafter, CFE) in Mexico for a term of 25 years from the date on which each combined cycle plant enters into commercial operation. These contracts set a pre-established payment timetable for assignments of electricity supply capacity and for plant operation and maintenance. IBERDROLA considered the question whether these contracts constitute a lease or service provision in accordance with the requirements of IFRIC 4: “Determining whether an arrangement contains a lease”. Given that only IBERDROLA can operate or manage the plant and that operating revenue is not transferred solely to CFE as these plants generate additional revenue that is sold to third parties and, further, due to the price of the products being linked to market rates, it was concluded that these contracts are a service to be recognised in accounting with the percentage of completion method.

Revenue from construction contracts is recognised in accordance with the accounting policy described in Note 4.v.

As to housing sales, the IBERDROLA Group follows the principle of recognising income at the time when legal title is transferred to the purchaser, which usually matches the date of notarisation of the respective contracts.

Interest income is accrued on a time proportional basis, by reference to the outstanding principal and the applicable effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the asset to that asset's carrying amount.

Dividend income is recognised when the IBERDROLA Group companies are entitled to receive them.

v) Construction contracts

If the income and expenses related to a construction contract can be estimated reliably, the income is recognised according to the degree of completion of the construction project by measuring the contract costs incurred to date as a proportion of the total estimated construction costs.

When the income from a contract cannot be reliably estimated, all such income is recognised to the extent that costs are incurred, provided that such costs are recoverable. No contract margin is recognised until it can be estimated reliably.

If the estimated costs of a contract exceed revenue from that contract, the loss is recognised immediately in the Consolidated income statement.

Changes to construction work and any claims are included within contract revenue if negotiations are at an advanced stage of maturity so that it is more likely than not that the client will accept the claim and the amount can be measured reliably.

w) Settlements relating to regulated activities and receivables due to the financing of revenue shortfall

Following there is a description of the accounting impact on the Consolidated financial statements of certain regulatory issues arising in Spain in 2015 and 2014.

2015

a) Electricity distribution.

The order IET 2444/2014, by which access tariffs of electricity for 2015 are determined, established compensation to the distribution of electricity activity carried out by the IBERDROLA Group in Spain amounting to EUR 1,589,345 thousand, which was recorded as a credit to the "Net revenue" heading in the Consolidated income statement.

b) Revenue shortfall

The Law 24/2013 of the Electricity Sector establishes that, in the case that an imbalance occurs due to revenue shortfalls in the settlement of the electricity sector, the amount may not exceed 2% of the estimated revenue of the system for that year. In addition, the accumulated debt by imbalances from previous years may not exceed 5% of the estimated revenue of the system. If these limits are exceeded, access fees will be reviewed at least in an amount equivalent to the total excess of those limits. This law additionally states that the part of the imbalance due to revenue shortfall, without exceeding the limits, and that is not compensated by raising tolls and fees, will be covered by the subjects of the settlements system proportionally to their remuneration for the activities they perform.

The IBERDROLA Group estimates that the outcome of the settlements of the Spanish electrical system corresponding to 2015 will have a surplus. However, the provisional settlements made until 31 December 2015 presented a revenue shortfall. The amount of the deficit covered by the IBERDROLA Group amounted to EUR 150,473 thousand, which have been recognized under the "Other current financial assets" heading in the Consolidated statement of financial position at 31 December 2015 (Note 13.c).

2014

a) Electricity distribution

The Order IET/107/2014, which reviewed the electricity access tolls for 2014, recognised for the IBERDROLA Group a final remuneration for its electricity distribution activity in Spain in 2014 amounting to EUR 1,568,824 thousand. This amount was recorded in the "Net revenue" heading in the Consolidated income statement for 2014.

b) Revenue shortfall

The estimation calculated by the IBERDROLA Group of the settlements of the Spanish electrical system corresponding to year 2014 did not involve the existence of a significant revenue shortfall in relation to these Consolidated financial statements.

However, in a similar way to 2015, the settlements made until 31 December 2014 included a revenue shortfall. The part covered by the IBERDROLA Group amounted to EUR 435,862 thousand (Note 13.c), which was recognised under the "Other current financial assets" heading in the Consolidated statement of financial position at 31 December 2014, amount which was collected in full in 2015.

On the other hand, during 2014, the IBERDROLA Group carried out the securitization of the revenue shortfall from prior years for which EUR 1,164,569 thousand was received.

x) Onerous contracts

The IBERDROLA Group defines an onerous contract as a contract in which the unavoidable costs for meeting the corresponding obligations exceed the economic benefits expected to be received according to the contract.

The IBERDROLA Group records a provision for the present value of the difference between the direct costs and the economic benefits of the contract.

No provision was deemed necessary under this heading at 31 December 2015 and 2014.

y) Transactions in foreign currency

Transactions carried out in currencies other than the functional currency of the Group companies are recorded at the exchange rates prevailing at the transaction date. During the year, the differences arising between the exchange rates at which the transactions were recorded and those in force at the date on which the related proceeds or payments are made are charged or credited, as appropriate, to the Consolidated income statement.

Also, debt instrument and receivables and payables denominated in foreign currencies are converted at the year end exchange rates at 31 December of every year. Exchange differences are charged to "Finance cost" or credited to "Finance income" in the Consolidated income statement, as appropriate.

Those foreign currency transactions in which the IBERDROLA Group has decided to mitigate translation risk through the use of financial derivatives or other hedging instruments are recorded as described in Note 4.I.

z) Income Tax

Since 1986, IBERDROLA has filed Consolidated Tax Returns with certain Group companies.

Foreign companies are taxed according to the current legislation of their respective jurisdiction.

Income Tax is accounted for using the general balance liability method, which consists of determining deferred tax assets and liabilities on the basis of the carrying amounts of assets and liabilities and their tax base, using the tax rates that can objectively be expected to be in force when the assets or liabilities are realised or settled. 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 IBERDROLA Group recognises deferred tax assets as long as future taxable profits are expected against which the said assets can be recovered.

Deductions in order to avoid double taxation and other tax credits as well as tax relief earned as a result of economic events occurring in the year are deducted from the Income Tax expense, unless there are doubts as to whether they can be realised.

aa) Final radioactive waste management costs

On 8 November 2003, the Royal Decree 1349/2003 was published regulating the ENRESA activities and its financing. This royal decree grouped together the previous legislation regulating the activities that ENRESA develops as well as its financing, and repeals, inter alia, the Royal Decree 1899/1984, of 1 August.

Meanwhile, the Royal Decree-Law 5/2005 and the Law 24/2005 establish that the costs relating to the management of radioactive waste and spent fuel from nuclear plants, and to the dismantling and closure of the plants attributable to their operation and incurred after 31 March 2005, will be financed by the owners of the nuclear plants in use.

On the other hand, on 7 May 2009, the Royal Decree-Law 6/2009 was published, adopting various energy sector measures and approving the social tariff. The principal measures introduced are as follows:

- Necessary costs incurred in the management of radioactive waste and nuclear fuel at nuclear power stations that are definitively decommissioned before the state-owned radioactive waste management company ENRESA begins operating, which had not yet been done at the date of these Consolidated financial statements, and all necessary costs incurred in dismantling and closing these power stations, will be treated as diversification and capacity guarantee costs.

Amounts used to cover the cost of managing radioactive waste generated by research activities directly related to nuclear electricity generation and the costs deriving from the reprocessing of spent fuel sent overseas prior to the entry into force of the Electricity Industry Law 54/1997, and all other costs that may be specified by the royal decree, shall also be considered diversification and capacity guarantee costs.

- Amounts used to register provisions to cover the costs incurred in managing radioactive waste and spent fuel generated at operational nuclear power stations after the establishment of ENRESA as well as dismantling and closure costs will not be treated as supply diversification and security costs, since these will be financed by the owners of the nuclear power stations while they are operational, irrespective of the date on which they are generated.
- The balance of ENRESA's provision remaining after deduction of the amounts needed to cover the supply security and diversification costs will be used to cover costs not included in this category.
- To cover the costs associated with nuclear power stations in operation, the companies owning the stations must pay a charge directly proportional to the volume of energy generated at each station. The definitive method used to calculate this charge will be approved by the resolution of the Council of Ministers. This fact has not taken place yet as of the date of issuance of these Consolidated financial statements.

After a detailed analysis of the impact of the Royal Decree-Law 6/2009, the IBERDROLA Group considers that the rate is the best estimate available of the accrued expenses originated for that royal decree-law.

Regarding to this, the heading "Taxes other than income tax" of the Consolidated income statements for 2015 and 2014 includes EUR 164,766 thousand and EUR 174,773 thousand, respectively.

ab) Earnings per share

Basic earnings per share are calculated by dividing the net profit for the year attributable to the Parent company by the weighted average number of ordinary shares outstanding during the year, excluding the average number of shares of the parent company held by Group companies (Notes 20 and 52).

Meanwhile, diluted earnings per share are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, adjusted by the weighted average number of ordinary shares that would have been outstanding assuming the conversion of all the potential ordinary shares into ordinary shares of IBERDROLA. For these purposes, it is considered that shares are converted at the beginning of the year or at the date of issue of the potential ordinary shares, if the latter were issued during the current period.

In the Consolidated financial statements of the IBERDROLA Group for the years ended 31 December 2015 and 2014, basic earnings per share coincide with diluted earnings per share, since there were no potential shares outstanding during these years that could be converted into ordinary shares (Note 52).

ac) Dividends

The dividend proposed by the Board of Directors of IBERDROLA to the General Shareholders' Meeting is not deducted from equity until it is approved by the latter.

ad) Non-current assets held for sale and discontinued operations

If the carrying amount of a non-current asset (or a disposable group of assets) is recovered principally through its sale rather than through its continued use, the IBERDROLA Group classifies it as held for sale and values it at the lower of its carrying amount and its fair value less the costs of sale.

A discontinued operation is a component of the entity that either has been sold or disposed of by other means, or is classified as held for sale and:

- represents a business line or geographical area that is significant and can be considered separately from the rest;
- is part of a single and coordinated plan to sell or dispose by other means a business line or geographical area that can be considered separately from the rest; or
- is a subsidiary acquired exclusively with intention to resale.

If the existence of discontinued operations is considered, the IBERDROLA Group recognizes a single amount in the Consolidated statement of comprehensive income that includes the total amount of:

- profit or loss after tax from discontinued operations, and
- profit or loss after tax recognized by measurement at fair value less costs of sale, or sale or disposal by other means of the assets or disposable groups of assets that constitutes the discontinued operation.

ae) Consolidated statements of cash flow

In the Consolidated statements of cash flow, which were prepared using the indirect method, the following terms are considered:

- Operating activities: the typical activities of the Group companies, as well as other activities that are not investing or financing activities.
- Investing activities: the acquisition, sale or disposal by other means of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of the equity and liabilities of the company that are not operating activities.

af) Share-based employee compensation

The delivery of IBERDROLA shares to employees as compensation for their services is recognised under "Staff costs" in the Consolidated income statement as the workers perform the remunerated services, with a credit to equity under "Equity – Other reserves" in the Consolidated statement of financial position at the fair value of the equity instruments on the deliver date, defined as the date the IBERDROLA Group and its employees reach an agreement establishing the terms of the share delivery.

5. FINANCING AND FINANCIAL RISK POLICY

The IBERDROLA Group is exposed to risks inherent to the different countries, industries and markets in which it operates and in the businesses it carries out, which could prevent it from achieving its objectives and executing its strategies successfully.

In particular, the financing and financial risk policy of the IBERDROLA Group approved by the Board of Directors identifies the risk factors described below. The IBERDROLA Group has an organisation and systems which allow the financial risks to which the Group is exposed to be identified, measured and controlled.

Interest rate risk

The IBERDROLA Group is exposed to the risk of fluctuations in interest rates affecting cash flows and fair value in respect of items in the statement of financial position (debt and derivatives). In order to adequately manage and limit this risk, the IBERDROLA Group yearly determines the desired structure of the debt between fixed and variable interest rate, taking into account the indexing of income at a certain indicator, either interest rate or price index, even though this may entail assuming greater risk in "Finance cost" of the Consolidated income statement. On a yearly basis, actions to be carried out are determined throughout the year: new sources of financing (at a fixed, floating or indexed rate) and/or the use of interest rate derivatives.

The debt structure at 31 December 2015 and 2014, after considering the effect of hedge derivatives, is the following:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Fixed interest rate	13,465,002	12,226,706
Floating interest rate	15,928,049	14,810,770
Limited floating interest rate (*)	51,424	101,424
	<u>29,444,475</u>	<u>27,138,900</u>

(*) Relating to certain borrowing agreements whose exposure to interest rate fluctuations is limited by caps and floors.

The reference interest rates for the floating rate borrowings are basically Euribor, Libor- sterling pound, Libor-dollar and the Brazilian reference rate.

Exchange rate risk

As the IBERDROLA Group's functional currency is the euro, fluctuations in the value of the foreign exchange rate in which borrowings are instrumented and transactions are made (mainly the sterling pound, the US dollar and the Brazilian real) with respect to the euro may have an impact on the finance costs, on the profit for the year and on the Group's equity.

The following items could be affected by exchange rate risk:

- Debt denominated in currencies other than the local or functional currency arranged by the IBERDROLA Group companies.
- Proceeds and payments for supplies, services or equipment acquisition in currencies other than the local or functional currencies.
- Income and expenses incurred by certain foreign subsidiaries indexed to currencies other than the local or functional currencies.
- Profit or loss in consolidation of the foreign subsidiaries.
- Consolidated carrying amount of investments in foreign subsidiaries.

The IBERDROLA Group reduces this risk by ensuring that all its economic flows are denominated in the functional currency of each Group company, provided that this is possible and economically practicable and efficient. The resulting open positions are integrated and managed through the use of derivatives within the approved limits and holding net borrowings in foreign currencies.

Commodity price risk

The IBERDROLA Group's activities, require the acquisition and sale of raw materials (natural gas, coal, fuel oil, gas oil, emission allowances, etc.), whose price is subject to the volatility of international (global and regional) markets where those raw materials are traded. Likewise, the prices for such raw materials are linked to the price indexes of other raw materials (mainly oil) and, therefore, they also depend on the volatility of the global oil market. The margin obtained in the operations depends on the relative competitiveness of the IBERDROLA Group's plants. This relative competitiveness also depends on raw material prices.

Inherent business risk

The activities of the IBERDROLA Group are exposed to a range of business risks related to the uncertainty of the main variables affecting it, such as the evolution of the demand for electricity and gas, the availability of hydroelectric and wind power resources in the electricity production (both for IBERDROLA's and the rest of the competitors that operate in the same market) and the availability of the electricity production plants.

Liquidity risk

Exposure to adverse situations in the debt or capital markets or the IBERDROLA Group's economic and financial situation can hinder or prevent the IBERDROLA Group from obtaining the financing required to properly carry on its business activities.

IBERDROLA Group's liquidity policy is designed to ensure that it can meet its payment obligations without having to obtain financing under unfavourable terms. For this purpose, it uses various management measures such as the arrangement of committed credit facilities of sufficient amount, term and flexibility, diversification of the coverage of financing needs through access to different markets and geographical areas, and diversification of the maturities of the debt issued (Notes 25 and 50).

The balances for cash, liquid assets and available committed credit lines are sufficient for meeting the Group's liquidity needs for more than 24 months, not including the new financing lines.

The figures relating to the IBERDROLA Group's debt performance are included in Notes 25 and 50 to the Financial Statements.

Credit risk

The IBERDROLA Group is exposed to the credit risk arising from the possibility that counterparties (customers, suppliers, financial institutions, partners, etc.) might fail to comply with contractual obligations. This exposure may arise with regard to unsettled amounts, to the cost of substituting products that are not supplied, as well as, in the case of dedicated plants, to amounts on which amortisation is pending.

Credit risk is managed and limited in accordance with the type of transaction and the creditworthiness of the counterparty. Specifically, there is a corporate credit risk policy which establishes criteria for admission, approval systems, authorisation levels, qualification tools, exposure measurement methodologies, exposition limits, mitigation tools, etc.

With regard to credit risk on trade receivables, the historical cost of defaults has remained moderate and stable at close to 1% of total turnover of this activity, despite the current difficult economic environment. Regarding other exposure (counterparties in transactions with derivatives, placement of cash surpluses, sale transactions involving energy and guarantees received from third parties), in 2015 and 2014 there have been no material non-payments or losses.

At 31 December 2015 and 2014, there was no significant concentration of credit risk for the IBERDROLA Group.

Sensitivity analysis

The following sensitivity analyses show, for each type of risk (without reflecting the interdependence among risk variables), how income for the year and equity might be affected by reasonably possible changes in each risk variable at 31 December 2015 and 2014. Therefore, the sensitivity analyses do not show the effect on income for the year and equity that might have arisen if during 2015 and 2014 the risk variables had been different.

The sensitivity of the profit and the equity to the variation of the interest rates is as follows:

	<i>Increase/ decrease in interest rate (basis points)</i>	<i>Thousands of euros</i>		
		<i>Impact on profit before taxes Income/(Expense)</i>	<i>Direct impact on equity before taxes</i>	<i>Impact on equity before taxes</i>
2015	+25	1,620	75,435	77,055
	-25	(1,620)	(75,304)	(76,924)
2014	+25	2,515	50,859	53,374
	-25	(2,515)	(50,859)	(53,374)

The sensitivity of the consolidated earnings and equity of the IBERDROLA Group to changes in the dollar/euro, sterling pound /euro and Brazilian real/euro exchange rate is as follows:

	<i>Change in the dollar/euro exchange rate</i>	<i>Thousands of euros</i>		
		<i>Impact on profit before taxes Income/(Expense)</i>	<i>Direct impact on equity before taxes</i>	<i>Impact on equity before taxes</i>
2015	+5%	222	(664,396)	(664,174)
	-5%	(245)	734,332	734,087
2014	+5%	76	(550,471)	(550,395)
	-5%	(84)	608,416	608,332

	Change in the sterling pound /euro exchange rate	Thousands of euros		
		Impact on profit before taxes Income/(Expense)	Direct impact on equity before taxes	Impact on equity before taxes
2015	+5%	13,893	(477,872)	(463,979)
	-5%	(15,356)	528,175	512,819
2014	+5%	3,624	(406,801)	(403,177)
	-5%	(4,006)	449,623	445,617

	Change in the Brazilian real /euro exchange rate	Thousands of euros		
		Impact on profit before taxes Income/(Expense)	Direct impact on equity before taxes	Impact on equity before taxes
2015	+5%	-	(83,307)	(83,307)
	-5%	-	92,076	92,076
2014	+5%	-	(120,666)	(120,666)
	-5%	-	133,368	133,368

The sensitivity of the profit and the equity to changes in the market prices of the main raw materials is as follows:

	Variation in price	Thousands of euros		
		Impact on profit before taxes Income/(Expense)	Direct impact on equity before taxes	Impact on equity before taxes
Year 2015				
Gas	+5%	(6,426)	15,548	9,122
	-5%	5,523	(15,548)	(10,025)
Electricity	+5%	(138)	5,046	4,908
	-5%	162	(5,046)	(4,884)
CO ₂	+5%	-	2,023	2,023
	-5%	-	(2,023)	(2,023)
Coal	+5%	-	837	837
	-5%	-	(837)	(837)
Year 2014				
Gas	+5%	(4,998)	5,694	696
	-5%	4,985	(5,694)	(709)
Electricity	+5%	1,217	5,443	6,660
	-5%	(1,067)	(5,443)	(6,510)
CO ₂	+5%	-	4,010	4,010
	-5%	-	(4,010)	(4,010)
Coal	+5%	709	8,394	9,103
	-5%	(709)	(8,394)	(9,103)

6. USE OF ESTIMATES AND SOURCES OF UNCERTAINTY

a) Accounting estimates

The most significant estimates made by the IBERDROLA Group in these Consolidated financial statements are as follows:

– Unbilled power supplied:

The revenue figure for each year includes an estimate of the power supplied to customers of deregulated markets but not billed because it had not been measured at year end for reasons relating to the regular meter-reading period. The estimated unbilled power at 31 December 2015 and 2014, amounted to EUR 2,218,602 thousand and EUR 2,246,453 thousand, respectively. This amount is included under "Current trade and other receivables" on the Consolidated statements of financial position at 31 December 2015 and 2014.

– Settlements relating to regulated activities in Spain:

At the end of each year, the IBERDROLA Group estimates the definitive settlements relating to regulated activities in Spain for that year, establishing the shortfall in revenue, if any, that corresponds together with the amount that will be recovered in the future on the basis of the announcements made by the authorities and the periods during which this recovery will take place (Note 4.w).

These estimates are made on the basis of the provisional settlements published up to the date of formulation of the Consolidated financial statements and all available information on the sector.

– Contracts to trade energy supplies:

As mentioned in Note 4.l, the IBERDROLA Group analyses its contracts to trade energy supplies to ensure they are properly classified for accounting purposes. This analysis involves estimating final customer demand and other variables. These estimates are revised at regular intervals.

– Provisions for contingencies and expenses:

As indicated in Note 4.s, the IBERDROLA Group recognises provisions to cover present obligations arising from past events. For this purpose, it must assess the outcome of certain of legal or other nature procedures that are ongoing at the date of formulation of these Consolidated financial statements based on the best information available.

– Useful lives:

The IBERDROLA Group's tangible assets operate over very prolonged periods of time. The Group estimates their useful lives for accounting purposes (Note 4.e) taking into account each asset's technical characteristics, the period over which they are expected to generate economic benefits and the applicable legislation in each case.

– Costs incurred in closing and dismantling electricity production and distribution facilities:

The IBERDROLA Group periodically revises the estimates made concerning the costs to be incurred in the dismantling of its generating facilities.

- Provision for pensions and similar commitments and restructuring plans:

At each year end, the IBERDROLA Group estimates the current actuarial provision required to cover obligations relating to restructuring plans, 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 IBERDROLA Group receives advice from independent actuaries and expert appraisers (Notes 4.o, 4.p and 23).

- Fair value of investment property:

The IBERDROLA Group appraises its investment property each year. While these appraisals are particularly important given the current situation of the real estate market, the IBERDROLA Group considers that its appraisals, commissioned by independent valuers, appropriately reflect this situation.

- Impairment of assets:

As described in Notes 4.i and 12, the IBERDROLA Group, in accordance with applicable accounting regulations, tests the cash-generating units that require testing for impairment each year. Specific tests are also conducted if indications of impairment are detected. These impairment tests require estimating the future cash flows of the businesses and the most appropriate discount rate in each case. The IBERDROLA Group 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. Also, the discount rates reflect the risk of cash-generating units.

- Other intangible assets:

As disclosed in Note 4.b of these Consolidated financial statements, the "Other intangible assets" heading on the Consolidated statement of financial position includes wind farm projects and gas storage facilities in the development phase. The IBERDROLA Group estimates that these projects meet the identifiability requirement under IAS 38 for them to be capitalised, and that the Group's future investment plans will include the construction of the facilities proposed in these projects.

- Deferred tax assets:

As mentioned in Note 4.z, the IBERDROLA Group only recognizes deferred tax assets when future taxable profits are expected against which the recovery of those assets is possible. In this sense, the IBERDROLA Group performs projections of its taxable earnings to reach a final conclusion, projections that are consistent with the impairment tests mentioned earlier in this Note.

- Assets held for sale and discontinued operations:

The IBERDROLA Group, at each year end, estimates the existence of specific assets or cash-generating units that meet the conditions for their classification as assets held for sale or discontinued operations.

- Business combinations:

As mentioned in Note 42, the IBERDROLA Group acquired UIL in December of 2015. As a result of this, it has conducted a preliminary allocation of the acquisition price paid at fair value of UIL's assets and liabilities, as well as calculating the corresponding goodwill. This allocation has not yet been completed taking into account that IFRS 3, which allows a window of one year for its completion, needs to be considered.

Although these estimates were made on the basis of the best information available at the date on which these Consolidated financial statements were formulated, events that could 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, recognising the effects of the change in estimates in the related future Consolidated financial statements.

b) Sources of uncertainty

There are certain aspects that, at the date of the formulation of these Consolidated financial statements, constitute a source of uncertainty concerning the accounting effect:

- The Royal Decree-Law 1048/2013 established a remuneration scheme for electricity distribution activities within Spanish territory, the scheme is based on a system of standard investment and operation costs. Likewise, this royal decree provides that the compensation in 2016 and subsequent years will be calculated taking into account the initial regulatory asset value of the companies, value which will be calculated as of 31 December 2014. At the date of formulation of these Consolidated financial statements, said initial regulatory value is not available. The IBERDROLA Group believes that the publication of said initial regulatory value will in no event entail a need to record any material impairment of the assets assigned to the energy distribution activity in Spain.
- The Corporate Income Tax Law ("*Ley del Impuesto sobre Sociedades*") introduced under the Royal Decree 4/2004, in the article 12.5, provided that goodwill arising from the acquisition of foreign companies is deductible for tax purposes. The IBERDROLA Group is applying said deductibility for the financial goodwill arising from the acquisitions of Scottish Power Plc. (now Scottish Power Limited), and Energy East Inc. (now AVANGRID, Note 42).

In 2009 and 2011 the European Commission issued two Decisions stating that article 12.5 constituted a forbidden State aid and should be removed. However, deductions could remain in place for acquisitions transacted or agreed before December 2007 (this being the case of the acquisitions made by the IBERDROLA Group) because the entities applying them had acted on the ground of legitimate expectations.

In February 2014, the Spanish National High Court ("*Audiencia Nacional*") issued a resolution stating that article 12.5 does not apply to indirect acquisitions (i.e. second and lower-level tier subsidiaries). This decision has been appealed against by the IBERDROLA Group and other parties concerned.

In October 2014, the European Commission issued a third Decision in which it determined that, as the Spanish tax authorities answered in 2012 to several "binding consultations" as to whether indirect acquisitions are deductible under article 12.5, it cannot be understood that the companies that made indirect acquisitions acted on the ground of legitimate expectations. Therefore, the Commission requested to the Kingdom of Spain, which has appealed against that decision, to recover the aid given.

On 7 November 2014, the General Court of the European Union (TIGUE) set aside the two Commission Decisions referred earlier on the ground that the deduction under article 12.5 is not State aid because it is not selective. This Decision has been appealed against by the European Commission.

- On 27 February 2015, the General Court of the European Union issued a Resolution rejecting the interim suspension of the third Decision, which means that Spanish tax authorities should have to recover the aid. However, this Resolution mentions a writing that was sent to the Spanish Kingdom by the General Director for Competition of the Commission, in which it is declared that the recovery of the aid won't be actively pursued until the European Court of Justice does not conclude on the appeals of the Commission against the General Court Resolutions of 7 November 2014. In addition, the resolution specifically points out that it is very likely that on the final sentence of the Court on the Third Decision, said Decision will be voided based on the same reasons that motivated the voiding of the first two Decisions. Finally, it should be noted that on the same date it was published the third Decision in the Official Journal of the European Union, against which the Company filed the corresponding appeal before the General Court on 22 May 2015. At the date of the Consolidated financial statements the mentioned appeals have not been resolved.
- In 2009, a series of incentives were established to promote renewable energies in the United States that were initially applicable only to wind farms that were brought onstream prior to 31 December 2012. Part of these, specifically, the production tax credits (PTC), were extended to wind farms whose construction has begun before 1 January 2015 (Note 3).

In December 2015 PTCs have been extended to those wind farms which construction will begin before 31 December 2019, but the unitary amount is gradually reduced for those parks which construction is initiated from 1 January 2017.

The IBERDROLA Group considers that this extension of PTCs ensures an adequate profitability for the facilities put in use until 2019. Furthermore, the IBERDROLA Group considers that the wind farms, of which construction begins after 2019, would benefit from a remuneration system that will exceed the return required by the IBERDROLA Group for its investments. Therefore, the IBERDROLA Group believes that they will be able to recover its tangible and intangible assets in the United States related to renewable energy sources at the value stated in the Consolidated Statement of Financial Position at 31 December 2015.

- The IBERDROLA Group has holdings in several nuclear facilities, all of which are located in Spain. The Santa María de Garoña nuclear plant, in which the IBERDROLA Group has a 50% stake, came into operation in 1971. It was disconnected from the electricity grid in 2012. The Royal Decree 102/2014, for the responsible and safe management of spent nuclear fuel and radioactive waste, authorises Nuclenor, S.A. (hereinafter "NUCLENOR"), the company that owns the plant, to apply for an extension of the operating licence for the plant for an indefinite period. On 2 June 2014, NUCLENOR applied to the Nuclear Safety Council (*Consejo de Seguridad Nuclear*, hereinafter "CSN") for a new operating licence valid until 2031. The application was supported by assessment papers and other necessary documents. At the date of formulation of these Consolidated Financial Statements the application is being considered by the CSN.

The operating licences in effect for the rest of nuclear plants have a term of 30 to 40 years from their coming into operation. Those plants are governed by the Sustainable Economy Law (*Ley de Economía Sostenible*), enacted on 15 February 2011, which provides, with no time limit, that the share of nuclear power in the production mix must be determined in accordance with its production timetable and the licence renewals requested by nuclear plant owners within the framework of the prevailing law.

Taking this into account, as well as the investment and maintenance policies followed at its nuclear plants, the IBERDROLA Group considers that the corresponding operating licences will be renewed at least until those plants are 40 years old. Accordingly, for accounting purposes the plants will be depreciated over the resulting period (Note 4.e).

- The Notes 28 and 43 of these Consolidated financial statements describe the principal contingent liabilities of the IBERDROLA Group, the majority of which have arisen in ongoing litigation, the future course of which cannot be determined with certainty at the date of formulation of these Consolidated financial statements.
- The IBERDROLA Group is currently involved in negotiations and/or arbitration regarding some of its long-term contracts to supply or sell raw materials and believes that their outcomes will not have a significant change on the amounts shown in the Consolidated financial statements.

The IBERDROLA Group and its legal and tax advisors consider that no losses of assets and no significant liabilities will arise for the IBERDROLA Group as a result of the matters detailed in the paragraphs above.

7. GEOGRAPHICAL AND BUSINESS SEGMENT REPORTING

IFRS 8: "Operating segments" provides that an operating segment is a component of an entity:

- that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
- which operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- for which discrete financial information is available.

Transactions among different segments are carried out on market basis.

The operating segments identified by the IBERDROLA Group are as follows:

- Network business: including all the energy transmission and distribution activities, and any other regulated activity originated in Spain, the United Kingdom, the United States and Brazil.
- Deregulated business: including electricity generation and sales businesses as well as gas trading and storage businesses carried on by the Group in Spain, Portugal, the United Kingdom and North America.
- Renewable business: activities related to renewable energies in Spain, the United Kingdom, the United States and the rest of the world.
- Other businesses: including the engineering and construction businesses and the non-power businesses.

Additionally, Corporation includes the costs of the Group's structure (Single Corporation), of the administration services of the corporate areas that are subsequently invoiced to the other companies through specific service agreements.

The IBERDROLA Group manages globally not only the financial activities but also the effects of taxation on profits. Consequently, financial income and expenses and Income Tax have not been allocated to operating segments.

The key figures for the operating segments identified are as follows:

Business segment reporting for 2015

Thousands of euros

	Deregulated				Renewable					Network					Other	Segment	Corporation	
	Spain and Portugal	United Kingdom	North America	Total	Spain	United Kingdom	United States	Rest of the world	Total	Spain	United Kingdom	United States	Brazil	Total	Total	Total	Total	Total
NET REVENUE																		
External revenues	12,752,414	7,528,930	1,486,649	21,767,993	12,041	253,895	1,008,341	219,026	1,493,303	1,790,993	1,266,694	2,674,947	1,786,477	7,519,111	865,548	31,645,955	(227,262)	31,418,693
Inter-segment revenues	26,695	32,865	52,582	112,142	752,500	543,897	(31)	897	1,297,263	174,030	266,910	8	-	440,948	4,745	1,855,098	(42,263)	1,812,835
Intercompany eliminations				(314,105)					-					-	-	(314,105)	(1,498,730)	(1,812,835)
Total revenues				21,566,030					2,790,566					7,960,059	870,293	33,186,948	(1,768,255)	31,418,693
INCOME STATEMENT																		
Segment operating profit	969,553	(283,006)	275,760	962,307	194,029	250,347	125,306	89,426	659,108	1,014,108	828,631	497,087	132,161	2,471,987	(30,111)	4,063,291	(234,004)	3,829,287
Share in net profit of companies accounted for using the equity method	(29,920)	(603)	-	(30,523)	2,910	(5,178)	(2,636)	4,497	(407)	212	-	486	42,075	42,773	46,633	58,476	(3,158)	55,318
ASSETS																		
Segment assets	10,095,990	8,015,713	3,886,454	21,998,157	4,848,182	5,301,136	10,934,171	1,289,392	22,372,881	10,743,395	12,487,333	18,761,795	1,496,279	43,488,802	1,856,121	89,715,961	594,958	90,310,919
Investments in companies accounted for using the equity method	17,352	2,210	-	19,562	57,430	14,931	155,217	136,654	364,232	51,845	-	100,718	919,146	1,071,709	594,782	2,050,285	(102)	2,050,183
LIABILITIES																		
Segment liabilities	2,673,880	909,920	610,797	4,194,597	461,633	303,297	1,989,644	236,248	2,990,822	5,938,202	1,834,208	2,989,898	482,791	11,245,099	426,846	18,857,364	906,914	19,764,278
OTHER INFORMATION																		
Total cost incurred during the period in the acquisition of property, plant and equipment and non-current intangible assets	265,694	104,305	373,233	743,232	113,998	335,443	173,374	415,227	1,038,042	481,429	1,004,739	559,561	76,307	2,122,036	1,191	3,904,501	(74,375)	3,830,126
Depreciation and amortisation expenses	532,717	703,685	121,324	1,357,726	279,175	189,420	374,192	70,429	913,216	435,528	309,383	277,305	107,364	1,129,580	19,552	3,420,074	56,540	3,476,614
Expenses of the period other than depreciation and amortisation that did not result in cash outflows	23,314	63,815	3,116	90,245	3,770	2,973	7,460	306	14,509	34,102	48,496	43,863	1,521	127,982	9,753	242,489	46,672	289,161

Business segment reporting for 2014

Thousands of euros

	Deregulated				Renewable					Network					Other	Segment	Corporation	
	Spain and Portugal	United Kingdom	North America	Total	Spain	United Kingdom	United States	Rest of the world	Total	Spain	United Kingdom	United States	Brazil	Total	Total	Total	Total	Total
NET REVENUE																		
External revenues	12,212,827	7,577,141	1,406,655	21,196,623	191,374	36,165	880,272	204,480	1,312,291	1,789,166	1,134,509	2,412,964	1,588,943	6,925,582	593,418	30,027,914	4,356	30,032,270
Inter-segment revenues	297,969	70,531	54,969	423,469	544,154	378,021	-	-	922,175	162,748	245,882	-	-	408,630	4,814	1,759,088	398	1,759,486
Intercompany eliminations				(480,122)					-					-	-	(480,122)	(1,279,364)	(1,759,486)
Total revenues				21,139,970					2,234,466					7,334,212	598,232	31,306,880	(1,274,610)	30,032,270
INCOME STATEMENT																		
Segment operating profit	958,166	99,013	218,882	1,276,061	187,277	109,068	153,187	51,354	500,886	1,018,480	752,877	495,340	188,150	2,454,847	(24,242)	4,207,552	(266,628)	3,940,924
Share in net profit of companies accounted for using the equity method	(20,222)	1,363	-	(18,859)	(411)	549	4,581	4,498	9,217	1,037	-	-	78,934	79,971	65,100	135,429	-	135,429
ASSETS																		
Segment assets	10,064,739	8,182,407	3,326,113	21,573,259	4,941,670	4,906,749	10,231,616	1,018,659	21,098,694	10,720,093	11,054,323	10,886,992	1,646,148	34,307,556	1,678,684	78,658,193	844,362	79,502,555
Investments in companies accounted for using the equity method	31,235	2,644	-	33,879	55,533	17,968	148,354	99,824	321,679	53,274	-	-	1,289,149	1,342,423	596,616	2,294,597	-	2,294,597
LIABILITIES																		
Segment liabilities	2,431,829	903,971	533,900	3,869,700	547,579	239,473	1,927,594	139,923	2,854,569	6,552,957	1,472,796	1,797,101	419,583	10,242,437	348,010	17,314,716	1,215,767	18,530,483
OTHER INFORMATION																		
Total cost incurred during the period in the acquisition of property, plant and equipment and non-current intangible assets	133,577	103,440	184,391	421,408	63,778	463,632	234,724	289,137	1,051,271	538,476	835,388	595,868	68,056	2,037,788	1,779	3,512,246	75,481	3,587,727
Depreciation and amortisation expenses	559,456	357,587	99,077	1,016,120	233,349	157,377	342,081	92,333	825,140	420,066	271,905	276,645	111,332	1,079,948	7,220	2,928,428	95,174	3,023,602
Expenses of the period other than depreciation and amortisation that did not result in cash outflows	50,036	23,050	2,454	75,540	5,059	1,798	6,890	213	13,960	70,109	33,026	12,305	3,407	118,847	8,095	216,442	77,709	294,151

Additionally the net revenue and non-current assets by geographical area is as follows:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Net revenue		
Spain	14,470,382	14,363,612
United Kingdom	9,119,973	8,802,847
North America	5,710,284	4,986,068
Brazil	1,829,692	1,640,733
Rest of the world	288,362	239,010
	<u>31,418,693</u>	<u>30,032,270</u>
	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Non-current assets (*)		
Spain	23,875,710	24,060,090
United Kingdom	24,181,832	22,401,670
North America	32,666,875	23,445,611
Brazil	1,197,105	1,588,521
Rest of the world	1,107,415	955,985
	<u>83,028,937</u>	<u>72,451,877</u>

(*) Excluding non-current financial assets, deferred tax assets and non-current trade and other receivables.

In addition, the reconciliation between segment assets and liabilities and the total assets and liabilities in the Consolidated statement of financial position is as follows:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Segment assets	90,310,919	79,502,555
Non-current financial assets	3,711,006	3,779,855
Deferred tax assets	6,629,508	5,884,000
Current trade and other receivables	893,891	511,096
Current financial investments	1,287,623	1,558,920
Income tax receivables	411,322	333,223
Other tax receivables	266,640	367,206
Cash and cash equivalents	1,153,273	1,805,533
Total Assets	<u>104,664,182</u>	<u>93,742,388</u>
	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Segment Liabilities	19,764,278	18,530,483
Equity	40,956,053	35,705,298
Non-current equity instruments having the substance of a financial liability	117,209	180,371
Non-current bank borrowings	24,899,010	23,314,600
Deferred tax liabilities	11,896,477	9,366,217
Other non-current payables	689,694	611,213
Current equity instruments having the substance of a financial liability	99,221	101,350
Current bank borrowings	5,662,019	5,034,559
Other current liabilities	580,221	898,297
Total Equity and Liabilities	<u>104,664,182</u>	<u>93,742,388</u>

The operating profit of the different businesses of the IBERDROLA Group located in Spain in the years 2015 and 2014 amounted to EUR 2,147,578 thousand and EUR 2,139,682 thousand, respectively.

8. INTANGIBLE ASSETS

The changes in 2015 and 2014 in intangible assets accounts and in the related accumulated amortisation and provisions were as follows:

<i>Thousands of euros</i>															
	<i>Balance at 01.01.14</i>	<i>Translation differences</i>	<i>Additions or (charges) / reversals</i>	<i>Capitalised staff costs (Note 35)</i>	<i>Increase (decrease) due to transfers</i>	<i>Disposals, derecognition and reductions</i>	<i>Write- offs</i>	<i>Balance at 12.31.14</i>	<i>Translation differences</i>	<i>Modification of the consolidation perimeter (Note 42)</i>	<i>Additions or (charges) / reversals</i>	<i>Capitalised staff costs (Note 35)</i>	<i>Increase (decrease) due to transfers</i>	<i>Disposals, derecognition and reductions</i>	<i>Balance at 12.31.15</i>
Cost:															
Goodwill	7,801,237	552,949	-	-	-	-	-	8,354,186	515,900	482,703	-	-	-	-	9,352,789
Concessions, patents, licenses, trademarks and others	5,016,445	371,707	12,391	-	-	(4)	-	5,400,539	234,755	1,896,685	11,161	-	2,854	(110)	7,545,884
Intangible assets classified under IFRIC 12	794,035	(11,194)	69,567	25,201	(30,562)	(9,528)	-	837,519	(199,511)	-	78,412	23,589	(6,647)	(6,854)	726,508
Computer software	1,459,181	48,038	87,437	7,960	2,951	(335,377)	-	1,270,190	44,970	235,774	124,405	5,350	340,573	(151,774)	1,869,488
Emission allowances	123	-	-	-	(23)	(12)	-	88	-	-	-	-	-	(88)	-
Other intangible assets	4,085,585	417,232	5	-	(56,951)	(2,651)	(25,532)	4,417,688	407,322	838,576	20,062	-	(755,372)	(66,575)	4,861,701
Total cost	19,156,606	1,378,732	169,400	33,161	(84,585)	(347,572)	(25,532)	20,280,210	1,003,436	3,453,738	234,040	28,939	(418,592)	(225,401)	24,356,370
Accumulated amortisation and allowances															
Concessions, patents, licenses, trademarks and others	518,450	25,491	107,620	-	(34)	(5)	-	651,522	(5,712)	-	95,381	-	1,358	-	742,549
Intangible assets classified under IFRIC 12	124,679	(3,930)	57,410	-	-	-	-	178,159	(50,199)	-	51,067	-	36,141	(5,902)	209,266
Computer software	1,047,528	30,283	128,510	-	58	(334,834)	-	871,545	32,285	105,014	158,253	-	245,881	(150,440)	1,262,538
Other intangible assets	775,404	78,791	66,364	-	7,695	-	-	928,254	73,921	-	30,738	-	(461,442)	(16,481)	554,990
Total accumulated amortisation	2,466,061	130,635	359,904	-	7,719	(334,839)	-	2,629,480	50,295	105,014	335,439	-	(178,062)	(172,823)	2,769,343
Impairment allowances (Note 12)	697,539	90,672	289	-	-	-	-	788,500	88,449	-	(49,528)	-	-	-	827,421
Total accumulated amortisation and allowances	3,163,600	221,307	360,193	-	7,719	(334,839)	-	3,417,980	138,744	105,014	285,911	-	(178,062)	(172,823)	3,596,764
Total carrying amount	15,993,006	1,157,425	(190,793)	33,161	(92,304)	(12,733)	(25,532)	16,862,230	864,692	3,348,724	(51,871)	28,939	(240,530)	(52,578)	20,759,606

The fully amortised intangible assets in use at 31 December 2015 and 2014 amounted to EUR 271,481 thousand and EUR 298,292 thousand, respectively.

The IBERDROLA Group maintains at 31 December 2015 and 2014 commitments to acquire intangible assets for EUR 8,814 and EUR 6,319 thousand.

In addition, at 31 December 2015 and 2014, there were no significant restrictions on the ownership of intangible assets, except for the regulated businesses that may require authorisation of the corresponding regulator for specific transactions.

The allocation of goodwill to the cash generating units at 31 December 2015 and 2014 is as follows:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Electricity and gas generation and supply in the UK	5,052,019	4,767,594
Regulated activities in the UK	779,845	735,940
Renewable energies in the UK	492,535	464,805
Renewable energies in the USA	1,386,866	1,245,303
Regulated activities in the USA	1,120,892	571,819
Regulated activities in Brazil	141,688	182,846
Corporate activities and others	378,944	385,879
	<u>9,352,789</u>	<u>8,354,186</u>

The allocation of indefinite life and in-progress intangible assets at 31 December 2015 and 2014 to the various cash generating units is as follows:

	<i>Thousands of euros</i>		
	<u>2015</u>		
	<i>Intangible assets with indefinite useful lives</i>	<i>Intangible assets in progress</i>	<i>Total</i>
Electricity distribution in Scotland	899,128	-	899,128
Electricity distribution in Wales and England	865,347	-	865,347
Electricity transmission in the UK	341,734	-	341,734
Renewable energies in the UK	-	382,333	382,333
Renewable energies in the USA	-	201,809	201,809
Electricity and gas distribution in New York (NYSEG)	1,081,786	-	1,081,786
Electricity and gas distribution in New York (RG&E)	975,066	-	975,066
Electricity transmission and distribution in Maine (CMP)	268,644	35,193	303,837
Electricity transmission and distribution in Conneticut (UI)	1,023,797	-	1,023,797
Gas distribution in Conneticut (CNG)	282,152	-	282,152
Gas distribution in Conneticut (SCG)	558,047	-	558,047
Gas distribution in Massachussetts (BGC)	38,061	-	38,061
Others	-	355,735	355,735
	<u>6,333,762</u>	<u>975,070</u>	<u>7,308,832</u>

	<i>Thousands of euros</i>		
	<i>2014</i>		
	<i>Intangible assets with indefinite useful lives</i>	<i>Intangible assets in progress</i>	<i>Total</i>
Electricity distribution in Scotland	848,508	-	848,508
Electricity distribution in Wales and England	816,628	-	816,628
Electricity transmission in the UK	322,494	-	322,494
Renewable energies in the UK	-	499,381	499,381
Renewable energies in the USA	-	276,213	276,213
Electricity and gas distribution in New York (NYSEG)	971,363	-	971,363
Electricity and gas distribution in New York (RG&E)	875,537	-	875,537
Electricity transmission and distribution in Maine (CMP)	241,222	91,088	332,310
Others	-	345,088	345,088
	<u>4,075,752</u>	<u>1,211,770</u>	<u>5,287,522</u>

9. INVESTMENT PROPERTY

The changes in 2015 and 2014 in the IBERDROLA Group's investment property were as follows:

	<i>Thousands of euros</i>							
	<i>Balance at 01.01.14</i>	<i>Additions/ (charge)/ reversals</i>	<i>Decreases, disposals or reductions</i>	<i>Balance at 12.31.14</i>	<i>Additions/ (charge)/ reversals</i>	<i>Increase (decrease) due to transfer</i>	<i>Decreases, disposals or reductions</i>	<i>Balance at 12.31.15</i>
Investment property	560,206	3,786	(3,445)	560,547	4,713	(2,188)	(1,199)	561,873
Impairment allowance	(38,704)	-	640	(38,064)	-	6,111	-	(31,953)
Accumulated depreciation	(33,402)	(7,186)	450	(40,138)	(7,516)	(1,716)	191	(49,179)
Total carrying amount	488,100	(3,400)	(2,355)	482,345	(2,803)	2,207	(1,008)	480,741

The fair value of the investment properties in use at 31 December 2015 and 2014 was EUR 540,018 thousand and EUR 515,707 thousand, respectively. This fair value was generally calculated as described in Note 4.c., and it would be considered as Level 3.

At 31 December 2015 and 2014, none of the investment properties had been fully depreciated and there were no restrictions on their realisation. Moreover, there were no contractual obligations to acquire, build, develop, repair or maintain investment property.

10. PROPERTY, PLANT AND EQUIPMENT

The changes in 2015 and 2014 in property, plant and equipment accounts and in the related accumulated amortised and provisions were as follows:

<i>Thousands of euros</i>														
	<i>Balance at 01.01.14</i>	<i>Translation differences</i>	<i>Additions and charges / (reversals)</i>	<i>Increase (decrease) due to transfer</i>	<i>Decreases, disposals or reductions</i>	<i>Write-offs</i>	<i>Balance at 12.31.14</i>	<i>Translation differences</i>	<i>Modification of the consolidation perimeter (Note 42)</i>	<i>Additions and charges / (reversals)</i>	<i>Increase (decrease) due to transfer</i>	<i>Decreases, disposals or reductions</i>	<i>Write-offs</i>	<i>Balance at 12.31.15</i>
Cost:														
Land and buildings	1,158,584	46,615	37,017	59,268	(4,910)	(528)	1,296,046	54,339	-	59,468	457,033	(18,167)	-	1,848,719
Operating plants														
Hydroelectric plants	6,242,867	45,985	712	40,058	(10,044)	-	6,319,578	45,121	-	-	438,415	(119)	-	6,802,995
Thermal power plants	2,594,348	88,143	(524)	37,721	(9,420)	-	2,710,268	88,721	-	20,035	3,016	(3,132)	-	2,818,908
Combined cycle plants	6,692,130	379,048	(24,489)	121,581	(20,950)	-	7,147,320	377,042	-	16,008	135,457	(94,789)	-	7,581,038
Nuclear plants	7,283,130	-	15,832	110,903	(43,634)	-	7,366,231	-	-	47,707	105,801	(60,437)	-	7,459,302
Wind-powered facilities	18,670,947	1,369,859	242,229	1,098,273	(23,828)	(22,298)	21,335,182	1,356,647	-	178,750	497,769	(65,893)	-	23,302,455
Facilities including:														
- Gas storage facilities and other alternative plants	1,200,263	124,804	-	6,954	(2,563)	-	1,329,458	91,883	-	194	3,464	(32)	-	1,424,967
- Electricity transmission facilities	4,073,287	433,508	132,276	669,229	(38,674)	-	5,269,626	456,777	-	-	622,324	(12,950)	-	6,335,777
- Gas transmission facilities	61,667	5,515	120	(21,620)	-	-	45,682	4,008	-	-	(303)	-	-	49,387
- Electricity distribution facilities	23,912,145	802,597	395,247	1,002,205	(51,305)	(1,171)	26,059,718	826,139	2,107,027	102,366	953,595	(50,953)	-	29,997,892
- Gas distribution facilities	1,042,228	142,975	46,121	38,849	(10,122)	-	1,260,051	145,990	1,621,957	-	(90,685)	(2,988)	-	2,934,325
Meters and measuring devices	1,523,138	63,767	121,870	4,608	(60,401)	(699)	1,652,283	65,211	-	134,770	114,658	(130,906)	-	1,836,016
Dispatching centres and other facilities	1,500,072	29,966	28,587	76,356	(10,177)	(20,622)	1,604,182	27,328	41,931	3,626	85,197	(33,263)	-	1,729,001
Total operating plants in use	74,796,222	3,486,167	957,981	3,185,117	(281,118)	(44,790)	82,099,579	3,484,867	3,770,915	503,456	2,868,708	(455,462)	-	92,272,063
Other items of property, plant and equipment in use	1,870,383	126,711	85,701	1,798	(131,025)	(17)	1,953,551	113,152	-	93,577	(589,685)	(128,871)	-	1,441,724
Plants under construction	4,082,606	259,245	2,645,785	(3,125,792)	(48,361)	(20,370)	3,793,113	223,685	249,387	3,355,040	(2,697,013)	(13,684)	(26,858)	4,883,670
Advances and other items of property, plant and equipment under construction (*)	264,517	19,297	183,069	3,845	(139,329)	(204)	331,195	20,349	-	147,519	(92,783)	(83,550)	(19,403)	303,327
Total cost	82,172,312	3,938,035	3,909,553	124,236	(604,743)	(65,909)	89,473,484	3,896,392	4,020,302	4,159,060	(53,740)	(699,734)	(46,261)	100,749,503

(*) Advances at 31 December 2015 and 2014 were EUR 60,249 thousand and EUR 56,455 thousand, respectively.

Thousands of euros

	Balance at 01.01.14	Translation differences	Additions and (charges) / reversals	Increase (decrease) due to transfer	Decreases, disposals or reductions	Write-offs	Balance at 12.31.14	Translation differences	Modification of the consolidation perimeter (Note 42)	Additions and (charges) / reversals	Increase (decrease) due to transfer	Decreases, disposals or reductions	Write-offs	Balance at 12.31.15
Accumulated depreciation and allowances:														
Buildings	246,401	10,946	22,678	12,308	(3,872)	-	288,461	12,770	-	33,666	90,851	(8,594)	-	417,154
Plants in use														
Hydroelectric plants	3,438,783	13,957	117,848	-	(9,869)	-	3,560,719	13,969	-	117,335	(2,058)	(71)	-	3,689,894
Thermal power plants	1,642,517	45,255	150,304	-	(5,386)	-	1,832,690	46,362	-	155,263	(21,931)	-	-	2,012,384
Combined cycle plants	2,116,161	129,656	239,287	-	(16,376)	-	2,468,728	133,706	-	271,929	8,847	(77,900)	-	2,805,310
Nuclear plants	4,876,035	-	260,577	-	(43,007)	-	5,093,605	-	-	272,937	-	(60,437)	-	5,306,105
Wind-powered facilities	4,433,700	283,626	767,547	(12,308)	(17,742)	(4,284)	5,450,539	290,028	-	893,100	9	(20,214)	-	6,613,462
Facilities including:														
- Gas storage facilities and other alternative plants	214,944	22,095	22,900	-	(1,696)	-	258,243	14,283	-	26,023	396	-	-	298,945
- Transmission facilities	1,080,467	111,807	106,890	13,910	(38,667)	-	1,274,407	111,838	-	128,962	(95,685)	(11,660)	-	1,407,862
- Gas transmission facilities	16,584	1,368	1,150	(8,174)	-	-	10,928	895	-	303	-	-	-	12,126
- Distribution facilities	8,630,743	283,344	570,484	(13,910)	(3,848)	-	9,466,813	279,978	466,199	619,888	87,457	(35,458)	-	10,884,877
- Gas distribution facilities	386,982	52,889	27,502	8,174	(10,072)	-	465,475	53,176	738,257	23,543	(42,802)	(2,629)	-	1,235,020
- Meters and measuring devices	959,657	32,666	84,225	-	(60,399)	-	1,016,149	33,844	-	98,114	30,912	(128,622)	-	1,050,397
Dispatching centres and other facilities	748,829	17,938	53,720	-	(8,240)	(8,976)	803,271	22,760	9,659	16,173	(368)	(32,600)	-	818,895
Total	28,545,402	994,601	2,402,434	(12,308)	(215,302)	(13,260)	31,701,567	1,000,839	1,214,115	2,623,570	(35,223)	(369,591)	-	36,135,277
Other items of property, plant and equipment in use	1,229,311	73,466	94,913	2,586	(113,976)	(17)	1,286,283	66,185	-	93,244	(346,061)	(126,846)	-	972,805
Total accumulated amortisation	30,021,114	1,079,013	2,520,025	2,586	(333,150)	(13,277)	33,276,311	1,079,794	1,214,115	2,750,480	(290,433)	(505,031)	-	37,525,236
Impairment allowances (Note 12)	947,109	71,369	20,380	62,335	(11,322)	-	1,089,871	63,114	-	282,692	-	-	-	1,435,677
Total accumulated amortisation and allowances	30,968,223	1,150,382	2,540,405	64,921	(344,472)	(13,277)	34,366,182	1,142,908	1,214,115	3,033,172	(290,433)	(505,031)	-	38,960,913
Total carrying amount	51,204,089	2,787,653	1,369,148	59,315	(260,271)	(52,632)	55,107,302	2,753,484	2,806,187	1,125,888	236,693	(194,703)	(46,261)	61,788,590

The breakdown by business of the main investments made in property, plant and equipment in 2015 and 2014, additional to the ones included in the acquisition of UIL (Note 42) and not including the capitalization of financial nor personnel costs is as follows:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Spain and Portugal deregulated	263,707	131,851
United Kingdom deregulated	75,186	80,026
North America deregulated	364,594	184,127
Spain renewables	113,234	62,970
United Kingdom renewables	563,421	462,985
United States renewables	21,561	232,846
Rest of the world renewables	178,894	285,388
Spain networks	457,758	529,616
United Kingdom networks	1,001,471	828,858
United States networks	539,007	595,868
Brazil networks	223	3,141
Corporation and others	30,061	30,154
	<u>3,609,117</u>	<u>3,427,830</u>

The " Amortisation and provisions" heading, in the Consolidated income statement for 2015 includes EUR 328,953 thousand for impairment of property, plant and equipment of the IBERDROLA Group. In 2014 this heading included a charge of EUR 73,012 thousand.

The breakdown by asset type of impairment charges/(reversals) recognised in 2015 and 2014 is as follows:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Thermal power plant (Note 12)	274,617	-
Wind-powered facilities (Note 12)	8,075	28,183
Other items of property, plant and equipment in construction	-	17,059
Other items of property plant and equipment	-	1,581
Reversal of provision	-	(26,443)
	<u>282,692</u>	<u>20,380</u>

The value of fully depreciated items of property, plant and equipment in use at 31 December 2015 and 2014 was EUR 3,121,123 thousand and EUR 1,930,421 thousand, respectively.

The IBERDROLA Group maintains, at 31 December 2015 and 2014, commitments to acquire property, plant and equipment amounted to EUR 3,652,397 and EUR 3,072,514 thousand, respectively.

At 31 December 2015 and 2014, the heading "Other items of property, plant and equipment in use" included EUR 171,856 and EUR 176,406 thousand, respectively, for assets held under finance leases corresponding primarily to IBERDROLA Group's corporate offices in Madrid, among other assets. The minimum payments on the lease at 31 December 2015 is as follows:

	<i>Thousands of euros</i>
	<u>12.31.15</u>
2016	15,066
2017 – 2020	51,798
From 2021 onwards	97,906
Total amounts payable	<u>164,770</u>

11. CONCESSION ARRANGEMENTS

A description is set out below of electricity distribution service concession arrangements in Brazil within the scope of IFRIC 12: “Service Concession Arrangements” (Note 4.b):

<i>Entity</i>	<i>Nº of towns</i>	<i>Locality</i>	<i>Grant date</i>	<i>Due date</i>	<i>Tariff cycle</i>	<i>Last review</i>
Elektro Electricidade e Serviços, S.A. (ELEKTRO)	223	Estado do Sao Paulo	08/27/1998	08/26/2028	4 years	August 2015
Elektro Electricidade e Serviços, S.A. (ELEKTRO)	5	Mato Grosso do Sul	08/27/1998	08/26/2028	4 years	August 2015

The duration of each concession is 30 years, and they may be extended for up to 30 years upon application by the concession holder and at the discretion of the concession grantor, which is the *Agência Nacional de Energia Elétrica* (ANEEL). The main duties and obligations of the concession holder within the terms of the concession contract are to supply electricity to clients within its concession area, carry out construction work as necessary to provide service, and maintain the assets relating to the concession (Note 4.b).

The concession holder may not transfer such assets or use them as collateral without the prior written consent of the regulatory body.

At the end of a concession the property reverts automatically to the concession grantor and the amount of indemnification due to the concession holder is assessed and determined.

The price of services provided to consumers is regulated, and is composed as follows: Parcel A (non-controllable costs, such as energy purchases, transmission and sector charges, among others) and Parcel B (efficient operating costs and capital costs – return on the investment and the regulatory reimbursement). The adjustment mechanisms are the annual tariffs and the ordinary tariff review conducted every four years.

In late 2014, ELEKTRO’s concession arrangements described above as well as the dealership distribution agreements of electricity in Brazil belonging to NEOENERGIA (Notes 13.c and 27) was edited to ensure that at the end of the concession period they are considered for the calculation of compensation remaining balances (assets or liabilities) for the eventual failure of recognition or payment for the rate of Parcel A and other financial components.

12. IMPAIRMENT OF NON-FINANCIAL ASSETS

Methodology of impairment tests

At least yearly, the IBERDROLA Group analyses its assets for indications of impairment. If such indications are found, an impairment test is conducted.

In addition, the IBERDROLA Group conducts a systematic analysis of the impairment of cash-generating units that include goodwill or intangible assets which have not come into use or with indefinite useful life.

As described in Note 2.c and 42, the IBERDROLA Group has acquired UIL in 2015. Taking into account that the control of the company was gained on 16 of December 2015 and that the IBERDROLA Group has not identified indication of impairment after this date, no impairment test has been carried out on UIL.

The projections used in the impairment tests are based on the best forecast information held by the IBERDROLA Group and include the investment plans for each country prevailing at that time.

a) Assumptions used in deregulated business:

- Production of the facilities: the hours of operation used are consistent with those in previous years, and in line with the expected evolution of the energy mix of the countries where the IBERDROLA Group operates.
- Selling prices of electricity and gas: the selling prices used are the ones agreed upon in the signed price purchase agreements. For unsold production, future prices in the market where the IBERDROLA Group operates are used. With reference to the gas storage activity in the United States and Canada, futures prices from the North American gas market have been used for the period presenting liquidity, while prices for subsequent periods have been taken from external sources.
- Gas purchase prices: the prices used are taken from long-term purchase agreements signed by the IBERDROLA Group, estimating the variables included in them according to external studies.
- Electricity and gas retail margin: growth forecasts were used for the number of customers and unit margins based on the knowledge of the markets in which the IBERDROLA Group operates and the company's relative position in each of them.
- Investment: the best information available has been used on investment plants which are going to be put in use in the coming years.
- Operation and maintenance costs: signed long-term maintenance contracts were considered. Other operating costs were projected consistent with the expected growth of each cash-generating unit, assuming its headcount grows at the same pace.

b) Assumptions used in the regulated business:

- Regulated remuneration: approved remuneration has been used for years in which it is available, while in subsequent periods revision mechanisms of such remuneration set in different regulations have been used, and these have been applied in line with the estimated costs of the corresponding cash-generating units.

- Investment: the projections were based on investment plans consistent with the expected demand growth in each concession, with the minimum required by different regulators and with the estimate of future remuneration used.
- Operation and maintenance costs: the best estimate available of the performance of the operation and maintenance cost was used, which is in line with the remuneration assumed to be received in each year.

c) Assumptions used in the renewables business:

- Production of the facilities: the hours of operation of each plant are consistent with their historical output. In this respect, the long term predictability of wind output should be taken into account, which is also covered in almost all countries by regulatory mechanisms that enable wind farms to produce whenever meteorological and network conditions allow it.
- Given that the wind facilities in the United States and United Kingdom have signed fixed-price sale agreements, the prices set out in such agreements have been used.
- As described in Note 6.b, an estimate has been made of the regulation that will apply to USA facilities whose construction starts on 31 December 2019.
- Investment: the projections were based on the best information available on plants which are expected to be put in use in the coming years, taking into account the fixed prices stated in the contracts to buy turbines from various suppliers, including GAMESA (Note 49) and the technical and financial capacity of the IBERDROLA Group to successfully complete the planned projects.
- Operation and maintenance costs: prices set in land leases and maintenance agreements for the useful life of the facilities were used, where the high predictability of the costs of wind farms must be taken into account.

d) Forecast period and nominal growth rate:

The forecast period of future cash flows and the nominal growth rate (g) used to extrapolate such forecast beyond the period under analysis are summarised in the following table:

<i>Cash-generating unit</i>	<i>Number of years</i>	<i>g</i>
Electricity and gas generation and retail in the UK	Useful life/10	- / 1.5%
Electricity distribution in Scotland	10	2.3%
Electricity distribution in England and Wales	10	2.3%
Electricity transmission in the UK	10	2.3%
Renewable energies in the UK	Useful life	-
Renewable energies in the USA	Useful life	-
Gas storage in the USA	Useful life	-
Gas storage in Canada	Useful life	-
Electricity and gas distribution in New York (NYSEG)	10	0%
Electricity and gas distribution in New York (RG&E)	10	0%
Electricity transmission and distribution in Maine (CMP)	10	0%
Regulated activities in Brazil (ELEKTRO)	Concession life	-

Although IAS 36; "Impairment of assets" recommends the use of projections to five years for impairment test purposes, IBERDROLA has decided to use the periods included in this table for the following reasons:

- The most appropriate method for assets in the generation business is using their remaining useful lives. This is due to the fact that in the generation business there are long-term energy sale contracts in force and long-term estimated prices curves are frequently used in the operating activity of the IBERDROLA Group (contracts, hedges, etc.)
- The electricity transmission and distribution concessions include longer regulatory periods and the method that the regulator will use to calculate the new tariff at the beginning of the new regulatory period is known.
- The IBERDROLA Group considers its projections to be reliable and that past experience demonstrates its ability to predict cash flows in periods such as those under consideration.

Moreover, the nominal growth rate considered in the electricity and gas transmission and distribution activities in the United Kingdom and the United States is consistent with the market and inflation growth forecasts used by the IBERDROLA Group for these markets.

e) Discount rate:

The methodology for calculating the discount rate used by the IBERDROLA Group consists of adding to the temporary value of money or risk-free rate of each market the specific asset risks or risk premium of the asset or business in question.

The risk-free rate corresponds to 10-year Treasury bonds issued in the market in question, with sufficient depth and solvency. In countries with economies or currencies lacking sufficient depth and solvency, a country risk and currency risk is estimated so that the aggregate of all such components are considered to be the finance cost without the risk spread of the asset.

The asset's risk premium corresponds to the specific risks of the asset. For the calculation, the unlevered betas estimated on the basis of comparable companies performing the same principal activity must be taken into account.

The following before-tax discount rates were used in the impairment tests:

<i>Cash-generating unit</i>	<i>2015 rates</i>	<i>2014 rates</i>
Electricity and gas generation and supply in the United Kingdom	6.28%	6.61%
Electricity distribution in Scotland	4.91%	5.36%
Electricity distribution in England and Wales	4.91%	5.36%
Electricity transmission in the UK	4.91%	5.36%
Offshore/onshore renewable energies in the UK	5.73% / 6.83%	6.11% / 7.11%
Renewable energies in the USA	6.66%	6.91%
Gas storage in the USA	6.09%	6.01%
Gas storage in Canada	6.05%	5.98%
Electricity and gas distribution in New York (NYSEG)	5.26%	5.26%
Electricity and gas distribution in New York (RG&E)	5.26%	5.26%
Electricity transmission and distribution in Maine (CMP)	5.26%	5.26%
Electricity distribution in Brazil (ELEKTRO)	13.19%	10.64%

Impairments and write-offs recognised in 2015

Taking into account the situation of the Romanian renewable assets, the IBERDROLA Group has registered an impairment of EUR 8,075 thousand (Note 10), in addition to that registered in 2014.

As a consequence of the impairment test carried out on the renewable facilities in the USA, the IBERDROLA Group has proceeded to revert part of the provision accounted for in relation their the intangible assets from past years. This reversion has amounted to EUR 49,528 thousand (Note 8).

Furthermore, the IBERDROLA Group has made the decision to close Longannet in April 2016, a coal-fired power station located in the United Kingdom, three years before the estimated closure date. In this regard, and because it is not expected that Longannet will produce positive cash flows in the first quarter of 2016, the whole plant is being written-off, except for the amount expected to be recovered through the sale of scrap and similar items. The write-off amounts to EUR 287,800 thousand (recognition of a provision for impairment amounting to EUR 274,617 thousand and a write-off amounting to EUR 13,183 thousand related to specific spare parts) (Note 10). Finally, the IBERDROLA Group has a provision for the restructuring of the workforce associated with the plant closure amounting to EUR 36,249 thousand, with a charge to the "Staff costs" heading in the Consolidated income statement of 2015.

Impairments and write-offs recognised in 2014

The " Amortisation and provisions" heading in the Consolidated income statement of 2014 included EUR 98,833 thousand for impairment of non-financial assets.

The main concepts were the following:

- During 2014, there was a modification to the remuneration system for renewable energies in Romania. Consequently, the IBERDROLA Group booked an impairment of EUR 28,183 thousand (Note 10) on its facilities in that country.
- As explained in the IBERDROLA Group's Consolidated financial statements for 2013, when these were drawn up, the details of the remuneration methodology for renewable energies in Spain established by the Royal Decree 9/2013 were not known; hence the IBERDROLA Group estimated its impact with the best information available. In 2014 the Royal Decree 413/2014 and the Order IET/1045/2014 were published, entailing an impairment in the cogeneration facilities by the amount of EUR 25,546 thousand.

In addition, in 2014 other write-offs and impairments were booked in other fixed assets, both intangible and material, in the amount of EUR 45,104 thousand.

Sensitivity analysis

The IBERDROLA Group has performed several sensitivity analyses of the impairment test results carried out in a systematic way including reasonable changes in a series of basic assumptions defined for each cash-generating unit:

- Electricity and gas generation and retail in the United Kingdom:
 - A 10% decline in energy output.
 - A 10% decline in the margin obtained per kWh.
 - A 10% decline in the increase in electricity and gas customers.
 - A 10% decline in the margin per kWh of retailing electricity and gas.
 - A 10% increase in operating and maintenance costs.
 - A 10% increase in investment cost.
- Regulated activities in United Kingdom, United States and Brazil:
 - A 10% decline in the rate of return on which the regulated remuneration is based.
 - A 10% increase in operating and maintenance costs.
 - A 10% decline in investment (which would lead to a consequent decline in remuneration).
- Renewable energies in the United Kingdom and the United States:
 - A 5% decline in energy output.
 - A 10% decline in the total price obtained per kWh, only applicable to production for which no long-term sales agreements have been entered into.
 - A 10% increase in operating and maintenance costs.
 - A 10% increase in the investment cost.
- Gas storage in the United States and Canada:
 - A 15% decline in the gas storage spread (margin per bcm due to the seasonality of prices).
 - A 10% increase in operating and maintenance costs.
 - A 10% increase in the investment cost.

The IBERDROLA Group performed an additional sensitivity analysis of a 100 basis point increase in the discount rate applicable in each case.

These sensitivity analyses carried out separately for each basic assumption did not detect the existence of any impairment, except for the following cases:

- Generation of renewable energy in the United States, the value in use of which is EUR 336 million greater than its carrying amount, meaning that an increase of 40 basis points in the discount rate, a decline in the market price of 8% or a decline in the wind energy produced of 4% would make the value in use lower than the carrying amount.

- Gas storage in the United States, whose value in use is EUR 195 million more than its carrying amount, in which a decline in the spread of 14%, would mean that the value in use would be lower than its carrying amount.

13. FINANCIAL INVESTMENTS

a) Investments accounted for using the equity method

The changes in 2015 and 2014 in the carrying amount of investments of the IBERDROLA Group companies accounted for using the equity method (see Appendix) were as follows:

	<i>Thousands of euros</i>					<i>Total</i>
	<i>Joint ventures</i>					
	<i>Associated company</i>	<i>Neoenergia Subgroup</i>	<i>Bahía de Bizkaia Electricidad, S.A.</i>	<i>Flat Rock Subgroup</i>	<i>Other joint ventures</i>	
Balance at 01.01.14	431,636	1,299,678	45,862	138,584	264,627	2,180,387
Investment	46,481	-	-	-	49,603	96,084
Transfers	-	25,790	-	-	64,397	90,187
Profit for the year from continuing operations	23,513	83,020	16,660	4,581	(33,167)	94,607
Value adjustment (provision)/reversion	65,118	-	-	-	(24,296)	40,822
Other global result	198	(8,114)	101	-	(4,266)	(12,081)
Dividends	(5,423)	(35,618)	(16,249)	(14,507)	(11,705)	(83,502)
Translation differences	9,247	(16,602)	-	17,441	2,526	12,612
Disposals	(1,210)	(21,702)	(46,374)	-	(23,251)	(92,537)
Others	1,085	1,521	-	2,255	(36,843)	(31,982)
Balance at 12.31.14	570,645	1,327,973	-	148,354	247,625	2,294,597
Investment	3,199	4,414	-	-	61,835	69,448
Modification of the consolidation perimeter (Note 42)	-	-	-	-	103,573	103,573
Transfers	-	(46,687)	-	-	45,384	(1,303)
Profit for the year from continuing operations	33,063	42,075	-	(2,636)	(21,054)	51,448
Value adjustment (provision)/reversion	-	-	-	-	3,870	3,870
Other global result	1,134	9,716	-	-	10,898	21,748
Dividends	(8,580)	(34,291)	-	(6,034)	(13,989)	(62,894)
Translation differences	(4,347)	(247,549)	-	15,534	(16,770)	(253,132)
Disposals	-	(135,320)	-	-	5,956	(129,364)
Classification as an asset held for disposal	-	-	-	-	(43,675)	(43,675)
Others	678	(3,863)	-	-	(948)	(4,133)
Balance at 12.31.15	595,792	916,468	-	155,218	382,705	2,050,183

Commitments to associated companies and joint ventures

Scottish Power Transmission Limited is working with the British operator National Grid in relation to the joint venture NGET/SPT Upgrades, Ltd. in order to build a submarine interconnection in the Irish sea to increase the power transmission capacity between England and Scotland. It is a capital-intensive project where the IBERDROLA Group has an investment commitment of EUR 235 million and EUR 90 million, in 2016 and 2017, respectively.

Impairment of investments accounted for using the equity method

The stock exchange listing of the IBERDROLA Group's holding in GAMESA at 31 December of 2015 amounts to EUR 869,778 thousand, while the book value is EUR 502,737 thousand. Consequentially, the IBERDROLA Group has not considered necessary to carry out an impairment test in 2015 on its ownership interest in GAMESA.

Nevertheless, the IBERDROLA Group conducted an impairment test as of 31 December 2014 on GAMESA, as indicated in Note 13 of the Consolidated financial statements for that year. The total write-downs as at 31 December 2014 were reversed – in the amount of EUR 81,770 thousand. The reversal was recorded in "Results of companies accounted for using the equity method - net of taxes" of the Consolidated income statement for 2014.

Main Transactions

The main transactions performed by the IBERDROLA Group in connection with these equity investments accounted for using the equity method were as follows:

2015

As described in Note 39, Iberdrola Energía, S.A.U transferred to NEOENERGIA all of its direct holding it had in COELBA and COSERN.

During 2015, the IBERDROLA Group has received offers from several buyers interested in acquiring the 50% stake that the company has in Oceanic Center, S.L. Such involvement, has been classified under the "Assets held for sale" heading in the Consolidated statement of financial position considering their carrying amount will be recovered through sale rather than continuing use. Based on the offers there are no expected losses if the transaction is formalized.

2014

As described in Note 39, in 2014 the IBERDROLA Group disposed of its 25% holding in Bahía Bizkaia Electricidad, S.L. (hereinafter, BBE) and transmitted to Termopernambuco, S.A., a wholly owned subsidiary of NEOENERGIA all direct stake held in the share capital of Brazilian Itapebi Geração of Energy, S.A.

On the other hand, on 26 June 2014, the sale was finalized of the holding of 50% representing of the share capital of the Belgian company NNB Development Company, S.A. (hereinafter NNB) to the company Advance Energy UK Limited, a subsidiary of the Toshiba Corporation of Japan (Note 39).

Summary of Financial Information

The summarised financial information as of 31 December 2015 (at 100% and before intercompany eliminations) for the major subgroups/companies accounted for using the equity method is as follows:

Thousands of euros

Segment	Subgroup Neoenergia		Subgroup Flat Rock	
	12.31.15	12.31.14	12.31.15	12.31.14
	Networks-Brazil		Renewables-United States	
Current assets	1,608,125	1,510,920	4,976	5,221
Non-current assets	5,364,914	5,890,861	323,264	310,515
Total assets	6,973,039	7,401,781	328,240	315,736
Current liabilities	1,822,602	1,333,044	1,065	344
Non-current liabilities	2,609,247	2,668,733	20,678	22,448
Total liabilities	4,431,849	4,001,777	21,743	22,792
Revenue	4,160,241	3,774,964	31,816	43,992
Depreciation and amortization	(303,804)	(336,449)	(19,829)	(18,087)
Interest income	178,482	166,365	7	4
Interest expenses	(409,646)	(377,614)	(763)	(556)
Tax (expense)/income	(50,865)	(43,921)	-	-
Profit for the year from continuing operations	119,666	195,123	5,092	10,197
Other global profit	24,915	(17,112)	-	-
Total global profit	144,581	178,011	5,092	10,197
Other information				
Cash and cash equivalents	566,312	348,798	2,647	3,044
Current financial liabilities (*)	1,071,616	550,803	-	-
Non-current financial liabilities (*)	2,331,281	2,314,915	-	-

(*) Excluding trade and other payables

b) Non-current equity instruments

All the financial assets included under this heading in the Consolidated statement of financial position at 31 December 2015 and 2014 were classified as available-for-sale assets.

On 30 June 2015, the IBERDROLA Group disposed of its holding in Euskaltel, S.A. for EUR 24,042 thousand, which has led to a gross capital gain of EUR 15,578 thousand recognised under "Finance income" on the Consolidated income statement for 2015 (Note 40).

In 2014 the IBERDROLA Group disposed of its interest in EDP - Energias de Portugal, S.A. for the amount of EUR 660,709 thousand which led to the gross surplus of EUR 96,422 thousand registered in the heading "Finance income" of the Consolidated income statement of 2014 (Note 40).

c) Other financial assets

The detail of "Other non-current financial assets" and "Other current financial assets" in the IBERDROLA Group's Consolidated statement of financial position at 31 December 2015 and 2014 is as follows:

	<i>Thousands of euros</i>		<i>Interest rate</i>	<i>Maturity</i>
	<i>12.31.15</i>	<i>12.31.14</i>		
Non-current				
Collection rights in Brazil (Notes 4.b and 11)	215,180	214,364	Indexed to inflation	From 2027 on
Long-term deposits and guarantees	110,419	119,211	-	Not set
Fixed-income securities				
Related to equity instruments having the substance of a financial liability	1,316	10,701	5.5% – 6.5%	2017
Others	16,324	18,071	Various	From 2017 on
Concessional guarantee of the sufficiency tariff in Brazil (Note 11)	76,634	86,943	13.19%	2017
Long-term deposits	32,455	40,196	Various	From 2017 on
Credits to third parties	57,707	68,412	Indexed to EURIBOR	From 2017 on
Other investments in companies accounted for using the equity method	84,568	197,917	Indexed to EURIBOR and LIBOR	From 2017 on
Others	35,553	33,842	-	From 2017 on
Bad debt provisions	(21,444)	(20,282)	-	
	608,712	769,375		
Current				
Short-term cash deposits	17,596	24,708	Indexed to EONIA	Less than a year
Fixed-income securities				
Related to equity instruments having the substance of a financial liability	10,601	20,684	5.5% - 6.5%	Less than a year
Others	1,513	1,552	6%	Less than a year
Concessional guarantee of the sufficiency tariff in Brazil (Note 11)	148,292	153,982	13.19%	Less than a year
Account receivable for financing imbalance in revenues in 2015 (Note 4.w)	150,473	-	-	Less than a year
Accounts receivable for financing imbalance in revenues in 2014 (Note 4.w)	-	419,097	-	Less than a year
Revenue shortfall for 2013 (Note 4.w)	-	16,765	2%	Less than a year
Other investments in companies accounted for using the equity method	21,865	72,517	Various	Less than a year
Short-term deposits and guarantees	138,050	189,318	-	Less than a year
Others	194,620	143,458	-	Less than a year
	683,010	1,042,081		

Collection rights in Brazil

The heading “Collection rights in Brazil” relates to the indemnification receivable by the Brazilian companies upon expiry of their service concession arrangements (Note 4.b). The Law N°12.783/13 provides that such indemnification must be determined by the replacement value (*Valor Novo de Reposição* VNR) of the concession assets which have not been depreciated/amortised by the end of the concession period.

The fair value of the financial asset receivable from the concession grantor at the end of the concession is determined using the residual value of the Regulatory Asset Base (*Base de Remuneração Regulatória BRR*) at the end of the contractual term of the concession.

The method specified by the regulator protects the value of the Regulatory Asset Base after each ordinary tariff review. Ordinary reviews are conducted every four years. This means that after the regulator has conducted a tariff review the value of the Regulatory Asset Base prior to that date cannot be changed except to the extent that it might be updated in accordance with Brazilian Market Prices General Index (*Índice General de Precios de Mercado Brasileño - IGPM*). The next tariff review will determine the value of the Regulatory Asset Base only with regard to additions in the interval between two tariff reviews.

To estimate the amount of the financial asset, observable values are used. Specifically, the net replacement value, as calculated by the energy regulator in the course of the latest tariff review. The amount is updated in the intervals between tariff reviews by additions to the underlying fixed assets and currency translation differences or, as the case may be, any changes in the method of calculation of the net realizable value and the IGPM.

Long term deposits and guarantees

"Long term deposits and guarantees" essentially corresponds to the portion of guarantees and deposits received from customers at the time of recruitment as security of electricity supply (which are recorded in "Non-Current Liabilities - Other non-current payables" in the Consolidated statement of financial position - Note 27) and have been deposited with the competent Public Authorities in accordance with the current legislation in Spain.

14. NON-CURRENT TRADE AND OTHER RECEIVABLES

The detail of "Non-current trade and other receivables" in the Consolidated statements of financial position at 31 December 2015 and 2014, is as follows:

	<i>Thousands of euros</i>		<i>Interest rate</i>	<i>Maturity</i>
	<i>12.31.15</i>	<i>12.31.14</i>		
Receivables from Brazilian customers	12,892	19,399	-	From 2017 on
CFE (Note 4.u)	355,461	330,770	5.3%	2017-2032
Account receivable for the sale to Neoenergia of COELBA and COSERN (Notes 13.a and 39)	167,016	-	12.19%	2018
Others	80,903	33,312	-	-
Bad debt provisions	(1,011)	-	-	-
	615,261	383,481		

These balances relate to accounts receivable arising in the normal course of business of the IBERDROLA Group and, therefore, are recognised at amortised cost. This broadly coincides with market value.

15. MEASUREMENT OF FINANCIAL INSTRUMENTS

The comparison between carrying amount and fair value of the IBERDROLA Group's financial instruments at 31 December 2015 and 2014 is as follows:

	<i>Thousands of euros</i>			
	<u>12.31.15</u>		<u>12.31.14</u>	
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Fair value</i>
<u>Financial assets</u>				
Equity instruments	96,202	96,202	81,893	81,893
Other financial assets	1,291,722	1,291,722	1,811,456	1,811,456
Derivative financial instruments	1,560,522	1,560,522	1,150,829	1,150,829
Current trade and other receivables	5,985,117	5,985,117	5,202,504	5,202,504
<u>Financial liabilities</u>				
Equity instruments with financial liability characteristics	216,430	247,470	281,721	328,380
Bank borrowings and other financial liabilities - loans and others	29,444,475	32,177,277	27,138,900	30,297,419
Derivative financial instruments	1,116,554	1,116,554	1,210,259	1,210,259
Other non-current payables	689,694	689,694	611,213	611,213
Trade payables	5,577,148	5,577,148	5,472,733	5,472,733
Other current liabilities	1,754,306	1,754,306	1,287,691	1,287,691

The fair value of these financial instruments has been calculated as set out in Note 4.I.

The sensitivity of the fair value of the IBERDROLA Group's borrowings, after the effect of hedge accounting, to changes in the euro-dollar and euro-pound sterling exchange rates is as follows:

	<i>Thousands of euros</i>			
	<u>2015</u>		<u>2014</u>	
	+5%	-5%	+5%	-5%
Dollar/euro exchange rate variation	+5%	-5%	+5%	-5%
Debt's value variation	(249,887)	276,191	(139,742)	154,452

	<i>Thousands of euros</i>			
	<u>2015</u>		<u>2014</u>	
	+5%	-5%	+5%	-5%
Pound/euro exchange rate variation	+5%	-5%	+5%	-5%
Debt's value variation	(167,330)	184,944	(140,356)	155,130

The estimated fair value of borrowings bearing fixed interest rates, after the effect of hedge accounting at 31 December 2015 and 2014, calculated by discounting future cash flows at market interest rates, amounted to EUR 15,072,306 thousand and EUR 14,079,357 thousand, respectively. The interest rate curve used to make this calculation takes into account the risks associated with the electricity industry and the credit rating of the IBERDROLA Group. The sensitivity of that fair value to interest rate fluctuations is as follows:

	<i>Thousands of euros</i>			
	<u>12.31.15</u>		<u>12.31.14</u>	
	+0.25%	-0.25%	+0.25%	-0.25%
Interest rate variation	+0.25%	-0.25%	+0.25%	-0.25%
Debt's value variation	(220,294)	226,898	(194,530)	200,184

The IBERDROLA Group measures certain available-for-sale assets and derivative financial instruments at fair value, provided they can be measured reliably, classifying them into three levels:

- Level 1: assets and liabilities quoted in liquid markets.
- Level 2: assets and liabilities whose fair value is determined using valuation techniques with observable market data.
- Level 3: assets and liabilities whose fair value is determined using valuation techniques without observable market data.

The breakdown of financial instruments measured at fair value by levels is as follows:

	<i>Thousands of euros</i>			
	<i>Value at 12.31.15</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Equity instruments (Note 13.b)	25,897	25,897	-	-
Other financial investments – Brazil receivables (Note 13.c)	215,180	-	215,180	-
Derivative financial instruments (financial assets) (Note 26)	1,560,522	95,671	1,349,664	115,187
Derivative financial instruments (financial liabilities) (Note 26)	(1,116,554)	(25,686)	(952,354)	(138,514)

	<i>Thousands of euros</i>			
	<i>Value at 12.31.14</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
Equity instruments (Note 13.b)	1,139	1,139	-	-
Other financial investments – Brazil receivables (Note 13.c)	214,364	-	214,364	-
Derivative financial instruments (financial assets) (Note 26)	1,150,829	245	1,086,778	63,806
Derivative financial instruments (financial liabilities) (Note 26)	(1,210,259)	(28,782)	(1,154,937)	(26,540)

At 31 December 2015 and 2014 equity instruments of not listed companies classified as available for sale, measured at acquisition cost, whose fair value cannot be measured reliably, amounts to EUR 70,305 thousand and EUR 80,754 thousand, respectively.

The reconciliation between initial and final balances for financial instruments classified as Level 3 of the fair-value hierarchy is as follows:

	<i>Thousands of euros</i>
	<i>Derivative financial instruments</i>
	<hr/>
Balance at 1 January 2014	35,242
Income and expense recognised in the Consolidated income statement	5,240
Income and expense recognised in the Consolidated statement of comprehensive income	(1,195)
Purchases	7,576
Sales and settlements	(20,568)
Translation differences	4,343
Transfer outside Level 3	6,628
Balance at 31 December 2014	37,266
	<hr/>
Income and expense recognised in Consolidated income statement	21,821
Income and expense recognised in the Consolidated statement of comprehensive income	(532)
Purchases	(4,557)
Sales and settlements	(7,409)
Translation differences	3,336
Modification of the consolidation perimeter (Note 42)	(60,826)
Transfer outside Level 3	(12,426)
Balance at 31 December 2015	(23,327)
	<hr/> <hr/>

The fair value of Level 3-classified financial instruments has been determined by the discounted cash flow method. Projections of these cash flows are based on assumptions not observable in the market, and mainly correspond to purchase and sale price estimates that the Group normally uses, based on its experience in the markets.

None of the possible foreseeable scenarios of the indicated assumptions would result in a material change in the fair value of the financial instruments classified at this level.

In addition, the IBERDROLA Group's financial assets and liabilities are compensated and presented net on the Consolidated statement of financial position when a legally enforceable right exists to offset the amounts recognised and the Group intends to settle the assets and liabilities net or simultaneously. The breakdown of netted financial assets and liabilities at 31 December 2015 and 2014 is as follows:

31 December 2015

Thousands of euros

	Gross amount	Compensated amount	Net amount	Uncompensated amounts under compensation agreements		Net amount
				Financial instrument	Financial guarantee	
ASSET DERIVATIVES:						
Current						
- Commodities	623,770	(342,414)	281,356	(72,011)	(28,870)	180,475
- Others	40,644	(23,179)	17,465	-	-	17,465
Non-current						
- Commodities	133,673	(36,955)	96,718	(6,099)	(33,146)	57,473
- Others	47,555	(826)	46,729	-	(39,484)	7,245
Total	845,642	(403,374)	442,268	(78,110)	(101,500)	262,658
OTHER FINANCIAL ASSETS:						
- Receivables	287,533	(217,881)	69,652	(15,491)	-	54,161
- Collateral	33,639	(33,639)	-	-	-	-
LIABILITY DERIVATIVES:						
Current						
- Commodities	573,409	(376,161)	197,248	(71,802)	(3,935)	121,511
- Others	26,780	(23,178)	3,602	-	-	3,602
Non-current						
- Commodities	74,341	(36,848)	37,493	(6,308)	(117)	31,068
- Others	1,377	(826)	551	-	-	551
Total	675,907	(437,013)	238,894	(78,110)	(4,052)	156,732
OTHER FINANCIAL LIABILITIES:						
- Payables	358,042	(217,881)	140,161	(15,491)	-	124,670

31 December 2014

Thousands of euros

	Gross amount	Compensated amount	Net amount	Uncompensated amounts under compensation agreements		Net amount
				Financial instrument	Financial guarantee	
ASSET DERIVATIVES:						
Current						
- Commodities	862,936	(636,319)	226,617	(59,067)	(41,233)	126,317
- Others	16,730	(14,317)	2,413	-	(893)	1,520
Non-current						
- Commodities	129,008	(49,028)	79,980	(8,310)	(12,277)	59,393
- Others	41,922	(3,789)	38,133	-	(35,361)	2,772
Total	1,050,596	(703,453)	347,143	(67,377)	(89,764)	190,002
OTHER FINANCIAL ASSETS:						
- Receivables	357,292	(297,787)	59,505	(17,574)	-	41,931
LIABILITY DERIVATIVES:						
Current						
- Commodities	877,016	(636,352)	240,664	(59,034)	(26,392)	155,238
- Others	35,200	(14,317)	20,883	-	-	20,883
Non-current						
- Commodities	110,108	(48,995)	61,113	(8,342)	(7,693)	45,078
- Others	5,353	(3,789)	1,564	-	-	1,564
Total	1,027,677	(703,453)	324,224	(67,376)	(34,085)	222,763
OTHER FINANCIAL LIABILITIES:						
- Payables	422,809	(297,787)	125,022	(17,574)	-	107,448

16. NUCLEAR FUEL

The detail of "Nuclear Fuel" in the Consolidated statement of financial position at 31 December 2015 and 2014, and of the changes therein in 2015 and 2014 is as follows:

	<i>Thousands of euros</i>		
	<i>Fuel loaded into the reactor core</i>	<i>Nuclear fuel in progress</i>	<i>Total</i>
Balance at 1 January 2014	247,927	122,387	370,314
Additions	688	87,274	87,962
Capitalised financing expenses (Notes 4.g and 40)	44	818	862
Transfers	111,046	(111,046)	-
Fuel consumed (Note 4.g)	(139,166)	-	(139,166)
Balance at 31 December 2014	220,539	99,433	319,972
Additions	-	155,737	155,737
Capitalised financing expenses (Notes 4.g and 40)	-	4,204	4,204
Transfers	181,011	(181,011)	-
Fuel consumed (Note 4.g)	(130,031)	-	(130,031)
Balance at 31 December 2015	271,519	78,363	349,882

The IBERDROLA Group's nuclear fuel purchase commitments at 31 December 2015 and 2014 amount to EUR 609,225 thousand and EUR 870,315 thousand, respectively.

17. INVENTORIES

The detail of "Inventories" (Note 4.h) in the Consolidated statements of financial position at 31 December 2015 and 2014 is as follows:

	<i>Thousands of euros</i>	
	<i>12.31.15</i>	<i>12.31.14</i>
Energy sources	505,380	644,694
Emission allowances	128,750	117,167
Real Estate developments	1,271,722	1,214,220
Other inventories	13,174	164,724
Impairment provision	(121,827)	(101,507)
	1,797,199	2,039,298

The variations in the impairment provision in 2015 and 2014 are as follows:

	<i>Thousands of euros</i>	
	<i>2015</i>	<i>2014</i>
Initial balance	101,507	99,748
Charges for the year	9,256	-
Reversals	(5,078)	-
Transfers	19,834	(388)
Translation differences	372	2,147
Applications and others	(4,064)	-
Final balance	121,827	101,507

At 31 December 2015, the IBERDROLA Group has in place “take or pay” contracts with several natural and liquefied natural gas suppliers for the supply of 32 bcm of gas during the period from 2016 to 2039, earmarked for retailing and for consumption at the Group’s electricity production facilities. The prices under these contracts are determined on the basis of formulas commonly used in the market, which index the price of gas to the performance of other energy variables. Moreover, the IBERDROLA Group has purchase commitments of 7 bcm of natural gas in the National Balancing Point (NBP).

18. OTHER CURRENT TRADE AND OTHER CURRENT RECEIVABLES

The detail of this heading in the Consolidated statements of financial position at 31 December 2015 and 2014 is as follows:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Trade receivables	4,976,654	4,801,160
Accounts receivables	703,800	342,937
Companies accounted for using the equity method	80,384	49,784
Bad debt provision	(390,982)	(374,858)
	<u>5,369,856</u>	<u>4,819,023</u>

Generally, the amounts included under this caption in the Consolidated statement of financial position do not bear any interest.

The variation in the bad debt provision during 2015 and 2014 is as follows:

	<i>Thousands of euros</i>	
	<u>2015</u>	<u>2014</u>
Opening balance	374,858	301,171
Charges for the year	189,515	185,539
Applications	(177,955)	(126,863)
Translation differences	7,870	9,791
Long-term transfers	-	19,374
Excess	(3,306)	(14,154)
Final balance	<u>390,982</u>	<u>374,858</u>

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

The detail of trade receivables and other current and non-current receivables with regard to their credit-risk status is as follows:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Provisioned trade receivables and other non-current receivables	1,011	-
Provisioned trade receivables and other current receivables	390,982	374,858
Non-provisioned financial assets in default	740,307	632,248
Financial assets not in default and not provisioned	5,244,810	4,570,256
Provisions	(391,993)	(374,858)
	<u>5,985,117</u>	<u>5,202,504</u>

The breakdown of the age of financial assets in default for which no provision was considered necessary as at 31 December 2015 and 2014 is as follows:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Up to 90 days	421,561	410,082
Between 90 and 180 days	224,692	137,021
More than 180 days	94,054	85,145
	<u>740,307</u>	<u>632,248</u>

19. CASH AND CASH EQUIVALENTS

The detail of this heading in the Consolidated statements of financial position at 31 December 2015 and 2014 is as follows:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Cash	248,848	391,618
Short-term deposits	904,425	1,413,915
	<u>1,153,273</u>	<u>1,805,533</u>

Short-term deposits mature within a period of less than three months and bear market interest rates. There are no restrictions on cash withdrawals for significant amounts.

20. EQUITY

Share capital

Changes in 2015 and 2014 in the different items of share capital of IBERDROLA are as follows:

	<u>Date</u>	<u>% Share Capital</u>	<u>Number of shares</u>	<u>Nominal</u>	<u>Euros</u>
Balance at 1 January 2014			<u>6,239,975,000</u>	0.75	<u>4,679,981,250</u>
Free capital increase	28 January 2014	2.139	133,492,000	0.75	100,119,000
Capital reduction	29 April 2014	2.094	(133,467,000)	0.75	(100,100,250)
Free capital increase	18 July 2014	1.078	67,239,000	0.75	50,429,250
Free capital increase	16 December 2014	1.288	81,244,000	0.75	60,933,000
Balance at 31 December 2014			<u>6,388,483,000</u>	0.75	<u>4,791,362,250</u>
Capital reduction	28 April 2015	2.324	(148,483,000)	0.75	(111,362,250)
Free capital increase	20 July 2015	1.552	96,870,000	0.75	72,652,500
Balance at 31 December 2015			<u>6,336,870,000</u>	0.75	<u>4,752,652,500</u>

The capital increases taken place in 2015 and 2014 correspond to the different execution approved by the General Shareholders' Meeting through which the *Iberdrola Flexible Dividend* system is implemented.

Information on the holders of free of charges allocation rights who accepted the irrevocable rights purchase commitment assumed by IBERDROLA is as follows:

	Free of charges allocation rights		Rights waived ¹
	Number	Thousands of euros	Number
Free capital increase			
28 January 2014	1,434,262,964	180,717	4
18 July 2014	3,012,527,967	343,428	33
16 December 2014	2,651,258,966	336,710	4
20 July 2015	1,009,019,969	115,028	1

Additionally, on 29 April 2014 and 28 April 2015, capital decreases were performed by redeeming treasury shares already held, as approved at the General Shareholders Meeting of 28 March 2014 and 27 March 2015, respectively, through the amortisation of treasury shares.

There were no changes to IBERDROLA's share capital other than those resulting from the transactions described above. There are no claims on IBERDROLA's share capital other than those provided for in the Spanish Companies Law.

IBERDROLA's shares are listed for trading on the Spanish electronic trading system (the "*Mercado Continuo Español*"), forming part of the IBEX-35 and the European Eurostoxx-50 indexes.

Major shareholders

Since IBERDROLA's shares are represented by the book-entry system, the exact stakes held by its shareholders are not known. The table below summarises major direct and indirect shareholdings in the share capital of IBERDROLA at 31 December 2015 and 2014, as well as the holdings of financial instruments disclosed by the owners of these stakes in compliance with the Royal Decree 1362/2007 of 19 October. This information is based on filings by the owners of the stakes in the official registers of the National Securities Market Commission (hereinafter, *Comisión Nacional del Mercado de Valores* - CNMV) or the company's financial statements or press releases, and it is presented in the 2015 IBERDROLA Group's Annual Corporate Governance Report.

IBERDROLA treats as a significant shareholder any shareholder who exerts a significant influence on the company's financial and operating decisions when (i) they have presence in the Board of Directors or equivalent and (ii) whose ownership interest in the company enables them to exercise the proportional representation system. Therefore, the company treats Kutxabank, S.A. and Qatar Investment Authority as significant shareholders, these being the only shareholders who satisfied that condition at the date of issue of these Consolidated financial statements.

<u>Owner</u>	<u>% of voting rights 2015</u>			<u>% Total 2014</u>	<u>Financial instruments 2015</u>	<u>Executive Directors of IBERDROLA 2015</u>
	<u>% Direct</u>	<u>% Indirect</u>	<u>% Total</u>			
Qatar Investment Authority ⁽¹⁾	-	9.726	9.726	9.647	-	-
Kutxabank, S.A, ⁽²⁾	-	3.472	3.472	3.601	-	1

(1) Parent company of Qatar Holding Luxembourg II, S.A.R.L. and DGIC Luxembourg, S.A.R.L., direct owners of the holding.

(2) Parent company of Kartera 1, S.L., direct owner of the holding.

In addition, other companies have indirect voting rights in excess of 3% of the share capital. These companies are Blackrock, Inc (3.023%) and Norges Bank (3.018%).

¹ IBERDROLA waived certain owned free of charges allocation rights in order to make the number of shares ultimately issued a whole number.

Financial management

The IBERDROLA Group's main financial management objectives are to ensure short and long-term financial stability, robust financial liquidity ratios, the optimization of the liquidity position, the management of financial risks, and at the same time maintaining a sustainable remuneration policy for its shareholders.

At this time, the credit ratings granted by Moody's, Standard & Poor's and Fitch are Baa1, BBB and BBB+, respectively.

Leverage ratios at 31 December 2015 and 2014 stand at:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Bank borrowings and other financial liabilities		
- Loans and others (Note 25)	29,444,475	27,138,900
Equity instruments having the substance of a financial liability (Note 21)	216,430	281,721
Derivative financial liabilities	679,133	770,708
Gross debt	30,340,038	28,191,329
Derivative financial assets	1,107,716	735,887
Other current financial assets	11,917	31,385
Cash and cash equivalents (Note 19)	1,153,273	1,805,533
Cash assets	2,272,906	2,572,805
Net debt	28,067,132	25,618,524
Equity		
of the parent company	37,158,658	34,954,490
of non-controlling interests	3,246,287	199,611
Subordinated perpetual obligations	551,108	551,197
	40,956,053	35,705,298
Leverage	40.66%	41.78%

Derivative financial instruments detailed in the table above only include the ones relating to financing operations which breakdown is as follows (Note 26):

	<i>Thousands of euros</i>					
	<u>2015</u>					
	<i>Derivative assets</i>			<i>Derivative liabilities</i>		
	<i>Current</i>	<i>Non current</i>	<i>Total</i>	<i>Current</i>	<i>Non current</i>	<i>Total</i>
Interest rate hedges	26,966	202,063	229,029	21,998	(91,683)	(69,685)
Foreign exchange hedges	212,670	624,814	837,484	(469,075)	(101,266)	(570,341)
Total hedging derivatives	239,636	826,877	1,066,513	(447,077)	(192,949)	(640,026)
Foreign exchange derivatives	21,700	1,391	23,091	(10,422)	(394)	(10,816)
Interest rate derivatives	-	3,258	3,258	(3,741)	(9,696)	(13,437)
Treasury shares derivatives	-	14,854	14,854	-	(14,854)	(14,854)
Total non-hedging derivatives	21,700	19,503	41,203	(14,163)	(24,944)	(39,107)
	261,336	846,380	1,107,716	(461,240)	(217,893)	(679,133)

<i>Thousands of euros</i>						
<i>2014</i>						
	<i>Derivative assets</i>			<i>Derivative liabilities</i>		
	<i>Current</i>	<i>Non current</i>	<i>Total</i>	<i>Current</i>	<i>Non current</i>	<i>Total</i>
Interest rate hedges	22,119	252,877	274,996	6,194	(143,657)	(137,463)
Foreign exchange hedges	165,092	278,800	443,892	(462,009)	(132,425)	(594,434)
Total hedging derivatives	187,211	531,677	718,888	(455,815)	(276,082)	(731,897)
Foreign exchange derivatives	10,826	2,508	13,334	(19,381)	(1,630)	(21,011)
Interest rate derivatives	1	3,664	3,665	(2,193)	(15,607)	(17,800)
Total non-hedging derivatives	10,827	6,172	16,999	(21,574)	(17,237)	(38,811)
	198,038	537,849	735,887	(477,389)	(293,319)	(770,708)

The General Shareholders' Meeting on 27 May 2011 under the ninth point of the Agenda authorized to delegate to the Board of Directors the authorisation for a five year period to issue bonds or stock convertible into Company of group companies shares or other companies' shares, and warrants on shares of new issue or IBERDROLA or another group or non-group companies outstanding shares. The maximum limit is EUR 5,000 million, with the option to exclude the shareholders' preference subscription rights.

Legal reserve

Under the Spanish Companies Law, 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

Revaluation reserves

The balance of "Revaluation reserves" arose as a result of the revaluation of property, plant and equipment made by IBERDROLA pursuant to the Royal Decree-Law 7/1996. This balance can be used, free of tax, to offset recorded losses both prior years' accumulated losses and current year losses or losses which might arise in the future, and to increase share capital. From 1 January 2007, the balance of this reserve can be taken to unrestricted reserves, provided that the monetary surplus has been realised. The surplus will be deemed to have been realised on the portion on which depreciation has been taken for accounting purposes or if the revalued assets have been transferred or derecognised. If the balance of this account was used in any way other than as specified in the Royal Decree-Law 7/1996, it would be subject to tax.

Share premium

The Spanish Companies Law expressly permits the use of the share premium account balance to increase capital and does not establish any specific restrictions as to its use.

Other restricted reserves

“Other restricted reserves” of the heading “Equity” of the Consolidated statement of financial position primarily includes the restricted reserve set up by IBERDROLA in accordance with article 335.c) of the Spanish Companies Law arising from the capital reductions carried out in prior years through the retirement of treasury shares. The restricted reserves relating to Group companies other than the parent IBERDROLA are included under “Retained earnings” of the same heading.

Subordinated perpetual obligations

On 27 February 2013, the IBERDROLA Group's perpetual subordinated bonds issuance was completed and disbursed, in the amount of EUR 525 million. The issue price was set at 99.472% of the face value, with a fixed annual coupon of 5.75% as from the issue date to 27 February 2018. From the first repricing date on, the coupon will be equal to the applicable five-year swap rate plus a 4.81% annual spread during the following five years, a 5.06% annual spread during each of the five-year repricing periods beginning on 27 February 2023, 2028 and 2033, and a 5.81% annual spread during the following five-year repricing periods.

The interest accruing on these bonds will not be callable but rather cumulative. However, the IBERDROLA Group will be obligated to settle the interest accrued in the event it distributes dividends. Although these bonds do not have a contractual maturity date, the IBERDROLA Group has the option of redeeming them on 27 February 2018, and from that date on, every five years.

After analysing the issue conditions, the IBERDROLA Group recognised the cash received with a credit to "Subordinated perpetual obligations" of the equity on the Consolidated statement of financial position, as it considers that it does not meet the criteria for classification as a financial liability, given that the IBERDROLA Group does not have a commitment to deliver cash, as the circumstances that would require it to do so - namely distribution of dividends and exercise of its right to redeem the bonds - are fully under its control. As a result, accrued interests from the obligations issue have been registered amounting to EUR 21,455 and EUR 21,399 thousand, under the heading “Subordinated perpetual obligations owners” of the Consolidated income statement at 31 December 2015 and 2014, respectively.

Unrealised assets and liabilities revaluation reserve

The change in this reserve arising from valuation adjustments to available-for-sale assets and derivatives designated as cash flow hedges at 31 December 2015 and 2014 is as follows:

	<i>Thousands of euros</i>								
	<i>01.01.14</i>	<i>Change in fair value and others</i>	<i>Allocation to the values of hedged assets</i>	<i>Amounts allocated to income</i>	<i>12.31.14</i>	<i>Change in fair value and others</i>	<i>Allocation to the values of hedged assets</i>	<i>Amounts allocated to income</i>	<i>12.31.15</i>
Unrealised assets and liabilities revaluation reserve of companies accounted for using the equity method (net of tax):	6,053	(1,713)	-	(1,582)	2,758	16,596	-	150	19,504
Available-for-sale assets:									
Energías de Portugal, S.A. (EDP) (Note 13.b)	1,857	-	-	(1,857)	-	-	-	-	-
Other	-	22	-	-	22	(11)	-	40	51
	<u>1,857</u>	<u>22</u>	<u>-</u>	<u>(1,857)</u>	<u>22</u>	<u>(11)</u>	<u>-</u>	<u>40</u>	<u>51</u>
Cash flow hedges:									
Interest rate swaps	(291,323)	(228,102)	-	64,420	(455,005)	39,035	-	37,925	(378,045)
Collars	(12,833)	(10)	-	8,395	(4,448)	(147)	-	468	(4,127)
Derivatives on commodities	(123,065)	15,166	-	140,732	32,833	(86,011)	-	86,716	33,538
Trading securities (EDP) (Note 13.b)	70,937	-	-	(70,937)	-	-	-	-	-
Currency forwards	(105,297)	22,853	32,610	29,929	(19,905)	28,280	6,717	7,527	22,619
	<u>(461,581)</u>	<u>(190,093)</u>	<u>32,610</u>	<u>172,539</u>	<u>(446,525)</u>	<u>(18,843)</u>	<u>6,717</u>	<u>132,636</u>	<u>(326,015)</u>
Tax effect on available-for-sale assets and cash flow hedges	156,231	22,680	(7,220)	(54,949)	116,742	11,260	(1,352)	(42,241)	84,409
	<u>(297,440)</u>	<u>(169,104)</u>	<u>25,390</u>	<u>114,151</u>	<u>(327,003)</u>	<u>9,002</u>	<u>5,365</u>	<u>90,585</u>	<u>(222,051)</u>

Treasury shares

The IBERDROLA Group buys and sells treasury shares in accordance with the prevailing law and the resolutions of the General Shareholders' Meeting. Such transactions include purchases and sales of company shares and of derivative instruments having company shares as the underlying asset.

At 31 December 2015 the balances of the various instruments are as follows:

	<i>Number of shares</i>	<i>Thousands of euros</i>
Treasury shares of IBERDROLA	67,636,166	405,458
Treasury shares of SCOTTISH POWER	1,638,563	10,163
Swaps over treasury shares	7,800,721	48,979
Futures over treasury shares ⁽¹⁾	14,000,000	83,962
Accumulators (exercised shares)	3,027,195	17,799
Accumulators (potential shares)	12,111,494	72,878
	<u>106,214,139</u>	<u>639,239</u>

(1) Over the Counter (OTC) futures or of non-organised markets.

(a) Treasury Shares

At 31 December 2015 and 2014, IBERDROLA owned 67,636,166 and 60,985,277 shares and SCOTTISH POWER owned 1,638,563 and 1,996,422 shares, respectively.

The changes in 2015 and 2014 in the treasury shares of IBERDROLA (Note 4.m) are as follows:

	<i>Number of shares</i>	<i>Thousands of euros</i>
Balance at 1 January 2014	<u>34,519,418</u>	<u>137,559</u>
Acquisitions	176,365,850	896,183
Capital reduction	(133,467,000)	(616,886)
Disposals	(16,432,991)	(82,842)
Balance at 31 December 2014	<u>60,985,277</u>	<u>334,014</u>
Acquisitions	162,118,086	938,283
Capital reduction	(148,483,000)	(827,884)
Disposals	(6,984,197)	(38,955)
Balance at 31 December 2015	<u>67,636,166</u>	<u>405,458</u>

The changes in 2015 and 2014 in the treasury shares of SCOTTISH POWER (Note 4.m) are as follows:

	<i>Number of shares</i>	<i>Thousands of euros</i>
Balance at 1 January 2014	<u>2,191,332</u>	<u>12,472</u>
Acquisitions	503,448	2,688
Scrip Dividend	89,616	-
Disposals (given to employees)	(787,974)	(3,455)
Balance at 31 December 2014	<u>1,996,422</u>	<u>11,705</u>
Acquisitions	438,580	2,759
Scrip Dividend	66,375	-
Disposals (given to employees)	(862,814)	(4,301)
Balance at 31 December 2015	<u>1,638,563</u>	<u>10,163</u>

These shares correspond to the matching shares held by the trust in the share plan called Share Incentive Plan.

During 2015 and 2014, treasury shares held by the IBERDROLA Group were below the legal limit.

(b) Derivatives settled by physical delivery

The IBERDROLA Group recognises the transaction directly in equity under “Treasury shares” and records the obligation to buy back the shares under “Bank borrowings and other financial liabilities – loans and others” heading of the liabilities side of the Consolidated statement of financial position.

- Total return swaps

The IBERDROLA Group has arranged four swaps on treasury shares with the following features: during the life of the contract it will pay the financial entity 3-month Euribor plus a spread on the notional and will receive the dividends in respect of the shares paid out to the financial entity. On the expiration date IBERDROLA will buy the shares at the exercise price set out in the contract.

The characteristics of these contracts at 31 December 2015 and 2014 are as follows:

	<i>No. of shares 12.31.15</i>	<i>Strike price</i>	<i>Maturity date</i>	<i>Interest Rate</i>	<i>2015 Thousands of euros</i>
Total return swap	2,202,792	6.047	01/18/2016	3 month Euribor + 0.55%	13,320
Total return swap	1,867,929	6.370	04/18/2016	3 month Euribor + 0.50%	11,899
Total return swap	1,865,000	6.370	04/18/2016	3 month Euribor + 0.50%	11,880
Total return swap	1,865,000	6.370	04/18/2016	3 month Euribor + 0.50%	11,880
	7,800,721				48,979

	<i>No. of shares 12.31.14</i>	<i>Strike price</i>	<i>Maturity date</i>	<i>Interest Rate</i>	<i>2014 Thousands of euros</i>
Total return swap	6,400,000	6.047	01/18/2016	3 month Euribor + 0.55%	38,701
Total return swap	3,300,000	6.047	01/20/2015	3 month Euribor + 0.65%	19,955
Total return swap	2,800,000	6.370	04/17/2015	3 month Euribor + 0.59%	17,836
Total return swap	2,799,795	6.370	04/17/2015	3 month Euribor + 0.45%	17,835
	15,299,795				94,327

- Futures (OTC – Over the Counter)

Under these contracts the purchase and sale of a given number of shares is agreed at a specified future date and price.

The characteristics of these contracts at 31 December 2015 and 2014 are shown in the following table:

	<i>Number of shares</i>	<i>Average price of the period</i>	<i>Due date</i>	<i>Thousands of euros</i>
2015				
Futures	14,000,000	5.9973	01/13/2016 – 02/03/2016	83,962
2014				
Futures	22,134,200	5.5484	01/07/2015 – 02/12/2015	122,809

- Treasury share accumulators

The IBERDROLA Group holds several purchase accumulators on treasury shares.

These accumulators are obligations to buy in the future, with a notional amount of zero on the start date. The number of shares to be accumulated depends on the spot price quoted on a range of observation dates throughout the life of the options – in this case, on a daily basis. A strike price is set, and a knockout level above which the structured product is “knocked out” and shares are no longer accumulated.

The accumulation mechanism is as follows:

- when the spot price is below the strike price, two units of the underlying security are accumulated;
- when the spot price is between the strike price and the knockout level, only one unit of the underlying security is accumulated; and
- when the spot price is above the knockout level, no shares are accumulated.

The characteristics of these contracts at 31 December 2015 and 2014 are as follows:

	<i>Number of shares</i>	<i>Average price of the period</i>	<i>Due date</i>	<i>Thousands of euros</i>
Exercised shares	3,027,195	5.8796	01/15/2016 – 02/19/2016	17,799
Potential maximum ⁽¹⁾	12,111,494	6.0173	01/15/2016 – 02/19/2016	72,878

	<i>Number of shares</i>	<i>Average price of the period</i>	<i>Due date</i>	<i>Thousands of euros</i>
Exercised shares	21,551,203	5.3783	02/03/2015 – 02/13/2015	115,909
Potential maximum ⁽¹⁾	24,832,346	5.5261	02/03/2015 – 02/13/2015	137,226

⁽¹⁾ Maximum number of additional shares that might be accumulated in accordance with the mechanism described above up to maturity of the structured products (assuming that the spot price during the remaining life of the structured product always remains below the strike price).

Distribution of dividends with charge to 2015 results

The IBERDROLA’s Board of Directors agreed to propose to the Ordinary General Shareholders’ Meeting, the distribution with a charge to the 2015 results and the retained earnings from previous years, a gross dividend of EUR 0.03 for each IBERDROLA share with dividend entitlement, outstanding at the date on which payment is made.

If the number of IBERDROLA’s shares outstanding at the date on which the proposed dividend payment is made will be equal to the number of shares outstanding at the formulation date of the Consolidated financial statements i.e. 6,397,197,000 ordinary shares, the dividend would amount to EUR 191,916 thousand.

In addition, at the date of formulation of the Consolidated financial statements, IBERDROLA's Board of Directors resolved to propose to the General Shareholders' Meeting, to maintain the scrip dividend that was launched in 2010, called *Iberdrola Flexible Dividend*.

Under this scheme, IBERDROLA offered shareholders an alternative that allowed them to receive IBERDROLA’s bonus shares without limiting their eligibility to receive in cash at least an amount equal to the paid out as the 2015 final dividend.

This alternative was articulated via a free capital increase subject to authorisation at the General Shareholders' Meeting of IBERDROLA. In the case of being authorised, the free capital increase would be executed by the Board of Directors or, by delegation, by the Executive Committee. It would be executed first on the date in which the shareholders would traditionally be paid the final dividend for 2015.

At the time of free capital increase, each shareholder of IBERDROLA received a bonus issue right for each share of IBERDROLA they hold. These bonus issue rights were eligible for trading on the Madrid, Barcelona, Bilbao and Valencia stock exchanges.

According to the different alternative chosen, each IBERDROLA shareholder would receive new bonus shares of IBERDROLA or an equivalent amount in cash from the sale of the bonus issue right to IBERDROLA (by virtue of the commitment that IBERDROLA would assume at a guaranteed fixed price) or in the market (in which case the compensation would vary in accordance with the price of the bonus issue rights).

The issuance would be carried out free of fees and expenses for subscribers with regard to the allocation of the new shares issued. IBERDROLA assumed the issue, subscription and admission to trading expenses, and any other expenses relating to the issue. However, the entities participating in the Spanish Central Securities Depository (*Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. or Iberclear*) at which the IBERDROLA's shares were deposited were free to establish, in accordance with the prevailing legislation, any administration commissions or expenses chargeable to the shareholders for maintaining the securities in the accounting records. Furthermore, these participating entities could freely establish, in accordance with the prevailing legislation, any fees, commissions or expenses chargeable to the shareholders for processing purchase and sale orders of subscription rights.

Share-based compensation plans

2011-2013 Strategic Bonus Programme

The General Shareholders' Meeting of 27 May 2011 approved a strategic bonus for executive directors, senior management and other management personnel of IBERDROLA and its subsidiaries (287 beneficiaries), linked to the attainment of strategic objectives in 2011-2013, and to be settled with the delivery of IBERDROLA shares.

The 2011-2013 Strategic Bonus had a term of three years for the 2011-2013 period and share payment will be implemented on deferred basis throughout 2014, 2015 and 2016.

On 24 June 2014 the Board of Directors, following the recommendation of the Appointments and Remuneration Committee, decided to pay the 2011-2013 Strategic Bonus on determining that 93.20% of the objectives had been met.

In the first half of 2015 and 2014, therefore, the first and the second of the three annual payments were made in the form of 3,120,340 and 3,208,800 shares. These shares include those delivered to executive directors (Note 46) and to Senior Management (Note 48).

The heading "Staff costs" of the Consolidated income statements of 2015 and 2014, includes a debit of EUR 5,483 thousand and a credit of EUR 1,130 thousand, respectively, corresponding to the amount incurred for the incentive plans, that has been registered as a debit and credit in the heading "Other reserves – Retained earnings" of the Consolidated statement of financial position, respectively.

2014-2016 Strategic Bonus Programme

The IBERDROLA General Shareholders' Meeting of 28 March 2014 approved, as the seventh item on the agenda, a strategic bonus for executive directors, senior management and other management personnel (350 beneficiaries), tied to the IBERDROLA Group's performance in relation to certain parameters throughout the assessment period from 2014 to 2016, relating to:

- (a) The performance of consolidated net profit. The target is that annual average growth, taking year end 2014 as the baseline, should reach 4%. This target will be treated as unmet if growth is less than 2%.
- (b) Comparative performance of the share price with respect to the Eurostoxx Utilities index and the shares of the five main European competitors (ENEL, E.ON, RWE, EDF and ENGIE). This target will be treated as having been met if the share outperforms at least three of the benchmarks.
- (c) Improvement of the IBERDROLA's financial strength as measured by the ratio FFO/Net Debt (Funds From Operations / Net Debt) > 22%.

The maximum number of shares to be delivered to beneficiaries of the 2014-2016 Strategic Bonus is 19,000,000 equivalent to 0.3% of the share capital at the agreement date, corresponding to executive directors a maximum of 2,200,000 shares.

The payment period for the scheme will run from 2017 to 2019. Payments will be made in the form of shares on a deferred basis in those three years.

The "Staff costs" heading in the 2015 and 2014 Consolidated income statements includes a charge of EUR 30,239 thousand and EUR 34,835 thousand, respectively, which correspond to the accrued amount for these incentive plans, which have been registered in "Other reserves – Retained earnings" and "Provisions – Other provisions" in the Consolidated financial statement.

As a result of UIL's integration (Note 42), the 2014-2016 Strategic Bonus for AVANGRID's company directors will be liquidated in cash for the accrued amount for 2015 and 2014, and will be substituted in 2016 by a new one, which will be referenced to AVANGRID's shares. The accumulated amount at 31 December 2015, which amounts to EUR 11,810 thousand has been reclassified into the heading "Other non-current payables" and will be liquidated as planned in 2017 and 2018.

SCOTTISH POWER share bonus

Lastly, SCOTTISH POWER has share-based plans for its employees. There are two types of plans:

- Sharesave Schemes: savings plans in which employees decide the amount they want to contribute to the plan (between GBP 5 and GBP 250 on a monthly basis) and this is deducted monthly from their salary. At the end of a three- or five-year saving period, as applicable to each plan, employees may use the money saved to buy IBERDROLA shares at a discounted option price set at the beginning of the plan or to receive the amount saved in cash.

The fair value of the employee's share purchase options is determined at the start of the plan, and is registered in the income statement over the plan's consolidation period (three or five years) with a credit to equity. The "Staff costs" heading in the 2015 Consolidated income statements includes EUR 1,596 thousand for this concept.

The plan expired at 31 December 2014, therefore the employee options were exercised or had expired. The new plan signed entitles employees to 6,039,443 shares as of 31 December 2015.

The number of transactions of stock options are as follows:

	<u>Number of accounts</u>	<u>Number of shares</u>
Balance at 1 January 2014	<u>1,496</u>	<u>3,814,602</u>
Additions	-	-
Exercised	(7)	(15,949)
Derecognised	<u>(1,489)</u>	<u>(3,798,653)</u>
Balance at 31 December 2014	<u>-</u>	<u>-</u>
Additions	3,023	6,298,862
Exercised	(3)	(1,866)
Derecognised	<u>(142)</u>	<u>(257,553)</u>
Balance at 31 December 2015	<u>2,878</u>	<u>6,039,443</u>

- Share Incentive Plan: this plan has an option for purchasing shares with tax incentives plus a contribution from the company. The employees decide on the amount they wish to contribute, which is deducted from their monthly salary (the maximum contribution allowed by the law in the United Kingdom is GBP 125 on a monthly basis). The shares purchased with this contribution are called partnership shares. Additionally, SCOTTISH POWER complements the employee's contribution to a maximum of monthly GBP 50. The shares purchased with the company contribution are called matching shares.

The contributions, both from the company and the employees, are contributed to a trust which buys the shares, and they are held in this trust until withdrawn by the employees. All shares are bought in the market at the monthly market price.

The partnership shares are owned by the employees who purchased them with their own money, however, the shares acquired with the contribution from the company (matching shares) are not consolidated until three years have passed since the date of purchase. The matching shares acquired by the trust at 31 December 2015 and 2014 amount to 1,635,172 and 1,995,813 shares, respectively. Additionally, at 31 December 2015 and 2014, the trust holds 3,391 and 609 shares, respectively, yet not assigned to employees.

The cash contributions of the Company are made monthly and are charged to the income statement for the three years the employee must remain in the company in order to be entitled to these shares. The heading "Staff costs" of the Consolidated income statements for 2015 and 2014 includes EUR 3,016 thousand and EUR 3,518 thousand, respectively, for this concept.

21. EQUITY INSTRUMENTS HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY

The change in this heading of the Consolidated statements of financial position at 31 December 2015 and 2014 is as follows (Note 4.I):

	<i>Thousands of euros</i>
Balance at 1 January 2014	329,293
Finance costs accrued during the year (Note 41)	26,628
Payments	(109,722)
Translation differences	35,522
Balance at 31 December 2014	281,721
Finance costs accrued during the year (Note 41)	22,304
Payments	(118,284)
Translation differences	30,689
Balance at 31 December 2015	216,430

The balance under this heading of the Consolidated statements of financial position at 31 December 2015 and 2014 accrues interest at an average rate of 8.53% and 8.42%, respectively.

22. DEFERRED INCOME

The change in this heading of the Consolidated statements of financial position at 31 December 2015 and 2014 is as follows:

	<i>Thousands of euros</i>						
	<i>Government grants</i>	<i>Investment Tax Credits</i>	<i>Emission rights</i>	<i>Transfer of assets from third parties</i>	<i>Assets financed from third parties</i>	<i>Other deferred income</i>	<i>Total deferred income</i>
Balance at 1 January 2014	300,255	1,221,007	117	2,631,459	1,416,725	113,005	5,682,568
Additions	491	-	282	106,500	291,441	14,161	412,875
Disposals	(10)	-	-	(3,341)	-	(200)	(3,551)
Transfers	249	-	-	40	(188)	-	101
Translation differences	7,269	154,294	-	4,955	52,633	13,911	233,062
Allocation to the income statement (Note 4.n)	(15,680)	(58,357)	(373)	(80,612)	(39,823)	(9,299)	(204,144)
Balance at 31 December 2014	292,574	1,316,944	26	2,659,001	1,720,788	131,578	6,120,911
Additions	15,740	-	516	92,285	223,256	16,053	347,850
Disposals	(12)	(268)	-	(1,426)	(832)	-	(2,538)
Transfers	3,622	-	5	(550)	20,055	3	23,135
Translation differences	7,093	148,731	-	4,463	58,416	36,153	254,856
Allocation to the income statement (Note 4.n)	(18,230)	(69,751)	(516)	(82,273)	(46,982)	(15,010)	(232,762)
Balance at 31 December 2015	300,787	1,395,656	31	2,671,500	1,974,701	168,777	6,511,452

23. PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The detail of this heading in the Consolidated statements of financial position is as follows:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Defined benefit plans (Spain)	459,986	551,549
Long-service bonuses and other long-term benefits (Spain)	41,046	88,354
Defined benefit plans (United Kingdom)	357,273	393,266
Defined benefit plans (United States)	1,145,242	671,576
Defined benefit plans and other long term benefits (Spain and other countries)	62,698	59,740
Restructuring plans	177,611	179,143
	<u>2,243,856</u>	<u>1,943,628</u>

Each year the IBERDROLA Group estimates through independent expert's actuarial evaluations and 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.

a) Defined benefit plan and other non-current benefits

Spain

The IBERDROLA Group's main defined benefit commitments to its employees in Spain, other than Social Security benefits, are as follows:

- Former employees covered by the IBERDROLA Group's Collective Labour Agreement retired before 9 October 1996 are covered by a defined benefit retirement pension scheme, the actuarial value of which was externalised in full at 31 December 2015 and 2014.

The IBERDROLA Group has no liabilities in relation to these employees nor does it have any claims on any potential returns from this plan assets in excess of the guaranteed benefits.

- Also, in relation to current employees and employees who have retired since 1996, covered by the IBERDROLA Group's Collective Labour Agreement and participant/beneficiary of the Iberdrola Pension Scheme, its risk benefits (e.g. widowhood, permanent disability or orphanage), guaranteeing a defined benefit at the time the event giving rise to such benefits occurs, are instrumented through a pluriannual insurance policy. The defined benefit is measured as the difference between the present actuarial value of the benefit at the time of the contingency and the employees' consolidated rights at the time of the event giving rise to the benefits under the aforementioned defined benefit plan, if lower. The premium paid for this insurance policy in 2015 and 2014 amounted to EUR 12,662 thousand and EUR 10,669 thousand, respectively, and is recorded under "Staff costs" in the Consolidated income statements.
- In addition, the IBERDROLA Group also has a provision for certain commitments to its employees in Spain other than those indicated above, which are covered by internal provisions related to social benefits, consisting mainly of free electricity supply, with an annual consumption limit for retired employees, and other long-term benefits, primarily long-service bonuses for active employees in the 10, 20, and 30 years of service (until the signing of the VI Collective Agreement of the IBERDROLA Group on 20 July 2015, the long-service bonuses for active employees was in the 25 and 40 years of service).

The changes in 2015 and 2014 in the provision recognised to meet the commitments set out in the paragraph above are as follows:

	<i>Thousands of euros</i>	
	<i>Electricity for employees</i>	<i>Long-service bonuses</i>
Balance at 1 January 2014	472,829	82,436
Normal cost (Note 35)	7,269	4,231
Other costs charged to "Staff costs" (Note 35)	(5,287)	-
Finance cost (Note 41)	13,157	2,233
Actuarial gains and losses		
To profit and loss (Note 35)	-	8,982
To reserves	76,742	-
Payments	(13,161)	(9,528)
Balance at 31 December 2014	551,549	88,354
Normal cost (Note 35)	9,136	4,773
Other costs charged to "Staff costs" (Note 35)	(8,241)	-
Finance cost (Note 41)	10,979	1,097
Actuarial gains and losses		
To profit and loss (Note 35)	-	2,896
To reserves	(89,071)	-
Payments	(14,366)	(56,074)
Balance at 31 December 2015	459,986	41,046

The main assumptions used in the actuarial valuations undertaken to determine the provision required at 31 December 2015 and 2014 to cover the aforementioned obligations are as follows:

	<i>2015</i>			<i>2014</i>		
	<i>Discount rate</i>	<i>Wage inflation/kWh price increase</i>	<i>Survivorship tables</i>	<i>Discount rate</i>	<i>Wage inflation/kWh price increase</i>	<i>Survivorship tables</i>
Long-service bonus and electricity for employees	1.70%/	1.00%/	PERM/	1.75%/	2.50%	PERM/F
	2.10%	2.00%	F 2000P	2,00%		2000P

In both cases, the retirement age has been established pursuant to the Law 27/2011, of 1 August, on the upgrade, adjustment and modernisation of the Social Security system, providing for a gradual increase in the retirement age in accordance with the law.

The average length at the end of the year of the liability for the Long-service bonus and electricity for employees' benefits is 7 and 17 years, respectively.

The most relevant figures for these commitments over the last years are the following:

	<i>Thousands of euros</i>				
	<i>2015</i>	<i>2014</i>	<i>2013</i>	<i>2012</i>	<i>2011</i>
Present value of obligation	(501,032)	(639,903)	(555,265)	(503,801)	(444,893)
Experience adjustments	25,355	5,442	15,280	(2,067)	(8,523)

The sensitivity of the present value of the obligation of these commitments to changes in the discount rate at 31 December 2015 is as follows:

	<i>Increase/decrease in discount rate (basis points)</i>	<i>Thousands of euros</i>
		<i>Effect on present value of the obligation</i>
Electricity for employees	+10	(12,229)
	-10	12,637
Long-service bonus	+10	(810)
	-10	780

United Kingdom (SCOTTISH POWER)

SCOTTISH POWER employees residing in the United Kingdom, hired before 1 April 2006, are covered by several defined benefit retirement plans.

The key data pertaining to the United Kingdom plans are the following:

	<i>Thousands of euros</i>	
	<i>United Kingdom</i>	
	<i>12.31.15</i>	<i>12.31.14</i>
Present value of obligation	(6,272,818)	(5,884,621)
Fair value of plan assets	5,915,545	5,491,355
Net asset / (Net provision)	<u>(357,273)</u>	<u>(393,266)</u>
Amounts recognised in the Consolidated statement of financial position:		
- Provision for pensions and similar liabilities	<u>(357,273)</u>	<u>(393,266)</u>
Net asset / (Net provision)	<u>(357,273)</u>	<u>(393,266)</u>

The movement in the present value of the obligation in this connection is as follows:

	<i>Thousands of euros</i>
	<i>United Kingdom</i>
Present value of obligation at 1 January 2014	<u>5,055,518</u>
Normal cost (Note 35)	59,616
Cost for past services (Note 35)	(11,592)
Finance cost (Note 41)	227,044
Actuarial gains and losses to reserves	417,858
Members contributions	12,025
Payments	(209,157)
Translation differences	333,309
Present value of obligation at 31 December 2014	<u>5,884,621</u>
Normal cost (Note 35)	76,034
Cost for past services (Note 35)	29,847
Finance cost (Note 41)	240,291
Actuarial gains and losses to reserves	(62,670)
Members contributions	12,531
Payments	(258,194)
Translation differences	350,358
Present value of obligation at 31 December 2015	<u>6,272,818</u>

The average length at the end of the year of the liability for the employee benefits described previously is 18 years, approximately.

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

	<u>Thousands of euros</u> <u>United Kingdom</u>
Fair value at 1 January 2014	4,656,454
Estimated revaluation (Note 41)	211,242
Actuarial gains and losses to reserves	329,368
Company contributions	182,438
Members contributions	12,025
Payments	(209,157)
Translation differences	308,985
Fair value at 31 December 2014	5,491,355
Estimated revaluation (Note 41)	227,485
Actuarial gains and losses to reserves	(77,098)
Company contributions	197,103
Members contributions	12,531
Payments	(258,194)
Translation differences	322,363
Fair value at 31 December 2015	5,915,545

The main assumptions used in the actuarial evaluations undertaken to determine the provision required at 31 December 2015 and 2014 to cover the aforementioned obligations are as follows:

	<u>2015</u>		
	<u>Discount rate</u>	<u>CPI/ Wage inflation</u>	<u>Survivorship table (before retirement/after retirement)</u>
United Kingdom	3.80%	3.10% / 3.60%	Men: 85% AMC00/ 95% PNMA00 CMI 2011 (1.15%) Women: 85% AFC00/ 105% PNFA00 CMI 2011 (1.15%)
	<u>2014</u>		
	<u>Discount rate</u>	<u>CPI/ Wage inflation</u>	<u>Survivorship tables (before retirement/after retirement)</u>
United Kingdom	3.85%	3.20% / 3.70%	Men: 85% AMC00/ 95% PNMA00 CMI 2011 (1.15%) Women: 85% AFC00/ 105% PNFA00 CMI 2011 (1.15%)

The most relevant figures for this plan over the last years have been the following:

	<i>Thousands of euros</i>				
	2015	2014	2013	2012	2011
Present value of the obligation	(6,272,818)	(5,884,621)	(5,055,518)	(4,951,415)	(4,172,546)
Fair value of the plan assets	5,915,545	5,491,355	4,656,454	4,340,301	3,918,618
Net asset / (Net provision)	(357,273)	(393,266)	(399,064)	(611,114)	(253,928)
Experience adjustments in the plan liabilities	27,541	59,629	(471)	(45,044)	20,165
Experience adjustments in the plan assets	(77,098)	329,368	250,978	204,884	(82,145)

The sensitivity at 31 December 2015 of the present value of the obligation of these commitments to changes in the discount rate, survivorship tables and inflation is as follows:

Increase/decrease in discount rate (basis points)	<i>Thousands of euros</i>	
	<i>Effect on present value of the obligation</i>	
+10	(106,263)	
-10	106,263	

Increase/decrease in inflation (basis points)	<i>Thousands of euros</i>	
	<i>Effect on present value of the obligation</i>	
+10	106,209	
-10	(106,885)	

Increase/decrease in survivorship tables estimates (years)	<i>Thousands of euros</i>	
	<i>Effect on present value of the obligation</i>	
+1	196,068	
-1	(196,068)	

United States (AVANGRID)

The former employees of SCOTTISH POWER that now form part of the workforce of the IBERDROLA Group in the United States, most of them belonging to the workforce of the Iberdrola Renewables Holding Inc. Group (hereinafter, IRHI), are members of various post-employment plans (Supplemental Executive Retirement Plan, Iberdrola Renewables Retiree Benefits Plan and Iberdrola Renewables Retirement Plan).

With effect from 30 April 2011, a change affecting all plan participants occurred in the Iberdrola Renewables Retiree Benefits Plan, whereby the benefit receivable at retirement age was set at the amount accrued until 30 April 2011 and the plan became a defined-contribution scheme from that date onwards.

On the other hand, the employees of IBERDROLA USA NETWORKS Group are affiliated to various defined benefit retirement pension plans (Qualified Pension Plans, Non-Qualified Pension Plans), disability benefit plans (Long Term Disability Plans) and health insurance plans (Postretirement Welfare Plans).

Finally, as indicated in Note 2.c, UIL has been acquired on 16 December 2015. UIL's employees are covered by several defined benefit retirement plans (Qualified Pension Plans, Non-Qualified Pension Plans) and health plans (Postretirement Welfare Plans).

The most significant data for the IRHI, UIL and IBERDROLA USA NETWORKS plans are as follows:

	<i>Thousands of euros</i>					
	<i>IRHI</i>		<i>UIL</i>		<i>IBERDROLA USA NETWORKS</i>	
	<i>12.31.15</i>	<i>12.31.14</i>	<i>12.31.15</i>	<i>12.31.14</i>	<i>12.31.15</i>	<i>12.31.14</i>
Present value of the obligation	(73,133)	(73,564)	(1,055,586)	-	(2,595,775)	(2,460,863)
Fair value of plan assets	38,284	38,519	647,357	-	1,893,611	1,824,332
Net asset / (net provision)	<u>(34,849)</u>	<u>(35,045)</u>	<u>(408,229)</u>	<u>-</u>	<u>(702,164)</u>	<u>(636,531)</u>
Amounts recognised in the Consolidated statement of financial position:						
Provision for pensions and similar commitments	(34,849)	(35,045)	(408,229)	-	(702,164)	(636,531)
Net asset / (net provision)	<u>(34,849)</u>	<u>(35,045)</u>	<u>(408,229)</u>	<u>-</u>	<u>(702,164)</u>	<u>(636,531)</u>

The movement in the present value of the obligation on this connection is as follows:

	<i>Thousands of euros</i>		
	<i>IRHI</i>	<i>UIL</i>	<i>IBERDROLA USA NETWORKS</i>
Present value of the obligation at 1 January 2014	<u>60,777</u>	<u>-</u>	<u>1,921,426</u>
Normal cost (Note 35)	1,023	-	27,188
Finance cost (Note 41)	3,055	-	94,061
Plan modifications (Note 35)	-	-	(11,493)
Actuarial gain and losses to reserves	3,968	-	388,952
Payments	(3,604)	-	(234,457)
Translation differences	8,345	-	275,186
Present value of the obligation at 31 December 2014	<u>73,564</u>	<u>-</u>	<u>2,460,863</u>
Modification of the consolidation perimeter (Note 42)	-	1,057,741	-
Normal cost (Note 35)	745	591	37,304
Finance cost (Note 41)	3,065	1,810	99,309
Employee contributions	-	184	-
Plan modifications (Note 35)	-	-	(5,520)
Actuarial gain and losses to reserves	(8,133)	(182)	(117,404)
Payments	(4,445)	(3,676)	(160,303)
Translation differences	8,337	(882)	281,526
Present value of the obligation at 31 December 2015	<u>73,133</u>	<u>1,055,586</u>	<u>2,595,775</u>

The average duration at the end of the year of the liability for defined benefit plan in IRHI, UIL and IBERDROLA USA NETWORKS is 10.5, 13 and 12 years, respectively.

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

	<i>Thousands of euros</i>		
	<i>IRHI</i>	<i>UIL</i>	<i>IBERDROLA USA NETWORKS</i>
Fair value at 1 January 2014	33,813	-	1,671,768
Estimated revaluation (Note 41)	1,667	-	82,419
Actuarial gain and losses to reserves	1,805	-	40,051
Company contributions	410	-	51,538
Payments	(3,604)	-	(234,457)
Translation differences	4,428	-	213,013
Fair value at 31 December 2014	38,519	-	1,824,332
Modification of the consolidation perimeter (Note 42)	-	661,020	-
Estimated revaluation (Note 41)	1,573	1,118	73,562
Actuarial gain and losses to reserves	(2,695)	(10,620)	(95,019)
Employee contributions	-	184	-
Company contributions	968	334	43,138
Payments	(4,445)	(3,676)	(160,303)
Translation differences	4,364	(1,003)	207,901
Fair value at 31 December 2015	38,284	647,357	1,893,611

The main assumptions used in the actuarial valuations undertaken to determine the provision required at 31 December 2015 and 2014 in connection with these plans are as follows:

	<i>2015</i>			
	<i>Discount rate</i>	<i>CPI/ Wage inflation</i>	<i>Health insurance cost</i>	<i>Survivorship tables</i>
IRHI	3.90%	2.10%/ N/A	Based on the year RX: 2016: 7.00%/9.00%; [...] year 2028: 4.50%	RP-2006 fully generational table using the scale MP- 2015
UIL	4.24%	2.00%/ 3.50% - 3.80%	Based on the year RX: 2016: 7.00%; [...] year 2026: 4.50%	RP-2006 fully generational table using the scale MP- 2015
IBERDROLA USA NETWORKS	4.10%	2.10% / Based on the age and Union/ Non Union	Based on the year RX: 2016: 7.00%/9.00%; [...] year 2028: 4.50%	RP-2006 fully generational table using the scale MP- 2015
	<i>2014</i>			
	<i>Discount rate</i>	<i>CPI/ Wage inflation</i>	<i>Health insurance cost</i>	<i>Survivorship tables</i>
IRHI	3.90%	2.20%/ N/A	Based on the year RX: 2015: 7.50%/7.00%; [...] year 2027: 4.50%	RP-2014 fully generational table using the scale MP- 2014
IBERDROLA USA NETWORKS	3.80%	2.20% / Based on the age and Union/ Non Union	Based on the year RX: 2015: 7.50%/7.00%; [...] year 2027: 4.50%	RP-2014 fully generational table using the scale MP- 2014

The main figures for IRHI's pension plans over the past few years have been as follows:

	<i>Thousands of euros</i>				
	2015	2014	2013	2012	2011
Present value of the obligation	(73,133)	(73,564)	(60,777)	(70,708)	(60,443)
Fair value of the plan assets	38,284	38,519	33,813	38,021	35,779
(Net provision)	(34,849)	(35,045)	(26,964)	(32,687)	(24,664)
Experience adjustments arising on plan liabilities	7,834	(1,955)	2,259	1,040	790
Experience adjustments arising on plan assets	(2,695)	1,805	1,958	1,974	(3,295)

The main figures for IBERDROLA USA NETWORKS's pension plans over the past few years have been as follows:

	<i>Thousands of euros</i>				
	2015	2014	2013	2012	2011
Present value of the obligation	(2,595,775)	(2,460,863)	(1,921,426)	(2,270,728)	(2,173,148)
Fair value of the plan assets	1,893,611	1,824,332	1,671,768	1,754,602	1,665,791
(Net provision)	(702,164)	(636,531)	(249,658)	(516,126)	(507,357)
Experience adjustments arising on plan liabilities	(11,669)	(17,729)	(17,831)	(22,262)	20,185
Experience adjustments arising on plan assets	(95,019)	40,051	78,020	133,925	(141,542)

The main figures for UIL's pension plans have been as follows:

	<i>Thousands of euros</i>
	<u>2015</u>
Present value of the obligation	(1,055,586)
Fair value of the plan assets	647,357
(Net provision)	(408,229)
Experience adjustments arising on plan liabilities	182
Experience adjustments arising on plan assets	(10,620)

The sensitivity at 31 December 2015 of the present value of the obligation of these commitments to changes in the discount rate, wage increase and health cost is as follows:

<i>Increase/decrease in discount rate (basis points)</i>	<i>Thousands of euros</i>		
	<i>Effect on present value of the obligation</i>		
	IBERDROLA USA NETWORKS	UIL	IRHI
+10	(29,163)	(14,572)	(922)
-10	30,007	14,256	902

<i>Increase/decrease in wage increase (basis points)</i>	<i>Thousands of euros</i>		
	<i>Effect on present value of the obligation</i>		
	IBERDROLA USA NETWORKS	UIL	IRHI
+10	2,927	2,455	-
-10	(2,898)	(2,483)	-

Increase/decrease in health cost (basis points)	Thousands of euros		
	Effect on present value of the obligation		
	IBERDROLA USA NETWORKS	UIL	IRHI
+25	1,372	1,113	328
-25	(1,433)	(1,308)	(371)

ELEKTRO

The employees of ELEKTRO are the beneficiaries of a defined-benefit retirement plan.

The most significant data regarding this plan are as follows:

	Thousands of euros	
	ELEKTRO	
	12.31.15	12.31.14
Present value of the obligation	(206,387)	(273,740)
Fair value of plan assets	270,711	336,762
	64,324	63,022

The related amounts have not been recognised in the Consolidated statement of financial position at 31 December 2015 and 2014, respectively, since the requirements set forth in the current legislation for their accounting treatment are not met.

The variation in the present value of the obligation on this account is as follows:

	Thousands of euros
	ELEKTRO
Present value of the obligation at 1 January 2014	248,859
Normal cost (Note 35)	1,595
Finance cost (Note 41)	30,086
Actuarial gain and losses to reserves	13,181
Members contributions	973
Payments	(16,922)
Translation differences	(4,032)
Present value of the obligation at 31 December 2014	273,740
Normal cost (Note 35)	1,521
Finance cost (Note 41)	28,060
Actuarial gain and losses to reserves	(22,437)
Members contributions	938
Payments	(14,631)
Translation differences	(60,804)
Present value of the obligation at 31 December 2015	206,387

The average duration at year end of defined benefit obligation liability in ELEKTRO is 13.2 years.

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

	<i>Thousands of euros</i>
	<u>ELEKTRO</u>
Fair value at 1 January 2014	317,751
Revaluation (Note 41)	38,643
Actuarial gain and losses to reserves	47
Company contributions	823
Members contributions	973
Payments	(16,922)
Translation differences	(4,553)
Fair value at 31 December 2014	336,762
Revaluation (Note 41)	34,696
Actuarial gain and losses to reserves	(10,632)
Company contributions	764
Members contributions	938
Payments	(14,631)
Translation differences	(77,186)
Fair value at 31 December 2015	270,711

As the surplus was not recognised, the actuarial differences recognised against reserves were adjusted upwards in 2014 and downwards in 2015 by EUR 13,905 thousand and EUR 11,048 thousand in the application of the current legislation IFRIC 14: "IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction".

The main assumptions applied in the actuarial reports that determined the provision needed to meet the abovementioned commitment at 31 December 2015 and 2014 are as follows:

	2015			2014		
	<i>Discount rate</i>	<i>CPI/ Wage inflation</i>	<i>Survivorship tables</i>	<i>Discount rate</i>	<i>CPI/ Wage Inflation</i>	<i>Survivorship tables</i>
ELEKTRO	12.07%	4.50%/7.63%	AT – 2000 (1996 US Annuity 2000)	11.90%	5.40% / 8.56%	AT – 2000 (1996 US Annuity 2000)

The most relevant figures for ELEKTRO's pensions plan are as follows:

	<i>Thousands of euros</i>				
	2015	2014	2013	2012	2011
Obligation present value	(206,387)	(273,740)	(248,859)	(398,102)	(315,198)
Fair value of allocated assets	270,711	336,762	317,751	410,516	382,626
Net assets	64,324	63,022	68,892	12,414	67,428
Experience adjustments in the plan liabilities	(5,980)	(3,507)	(1,827)	6,142	(1,982)
Experience adjustments in the plan assets	(10,632)	47	(48,654)	55,068	(2,210)

The sensitivity at 31 December 2015 of the present value of the obligation of these commitments to changes in the discount rate, wage increase, and survivorship tables is as follows:

	<i>Thousands of euros</i>	
Increase/decrease in discount rate (basis points)	Effect on present value of the obligation	
+10	(1,972)	
-10	2,379	

<i>Thousands of euros</i>	
Increase/decrease in wages (basis points)	Effect on present value of the obligation
+10	429
-10	(389)

<i>Thousands of euros</i>	
Increase/decrease in survivorship tables (years)	Effect on present value of the obligation
+1	1,963
-1	(1,963)

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

<i>2015</i>				
	<i>Equity securities</i>	<i>Fixed-income securities</i>	<i>Cash and cash equivalents</i>	<i>Other</i>
United Kingdom	23%	50%	5%	22%
IRHI				
<i>Retirement plan</i>	40%	47%	-	13%
<i>Retiree Benefits Plan</i>	46%	54%	-	-
UIL				
<i>Qualified Pension Plans</i>	58%	40%	-	2%
<i>Postretirement Welfare Plans</i>	67%	26%	5%	2%
IBERDROLA USA NETWORKS				
<i>Qualified Pension Plans</i>	34%	36%	3%	27%
<i>Postretirement Welfare Plans</i>	53%	31%	2%	14%
ELEKTRO	11%	79%	-	10%

<i>2014</i>				
	<i>Equity securities</i>	<i>Fixed-income securities</i>	<i>Cash and cash equivalents</i>	<i>Other</i>
United Kingdom	27%	49%	4%	20%
IRHI				
<i>Retirement plan</i>	33%	50%	-	17%
<i>Retiree Benefits Plan</i>	46%	54%	-	-
IBERDROLA USA NETWORKS				
<i>Qualified Pension Plans</i>	31%	45%	2%	22%
<i>Postretirement Welfare Plans</i>	52%	35%	-	13%
ELEKTRO	18%	74%	-	8%

The assets associated with these plans include neither financial instruments issued by the IBERDROLA Group nor tangible nor intangible assets.

The breakdown of assets of the plans measured at fair value by level is as follows:

	<i>Thousands of euros</i>			
	<i>12.31.15</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>
United Kingdom	5,915,545	161,793	4,982,386	771,366
IRHI	38,284	278	38,006	-
UIL	647,357	28,963	618,394	-
IBERDROLA USA NETWORKS	1,893,611	360,836	1,122,813	409,962
ELEKTRO	270,711	-	248,729	21,982
	8,765,508	551,870	7,010,328	1,203,310

	<i>Thousands of euros</i>			
	<u>12.31.14</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
United Kingdom	5,491,355	168,280	4,793,699	529,376
IRHI	38,519	106	35,048	3,365
IBERDROLA USA NETWORKS	1,824,332	347,635	1,081,734	394,963
ELEKTRO	336,762	193,955	110,821	31,986
	<u>7,690,968</u>	<u>709,976</u>	<u>6,021,302</u>	<u>959,690</u>

Other commitments with employees

In addition, some IBERDROLA Group companies have provisions to meet certain commitments with their employees, other than those described above, which are met by in-house pension provisions.

The variation in 2015 and 2014 in the provision recognised to meet the commitments referred to in the preceding paragraph are as follows:

	<u><i>Thousands of euros</i></u>
Balance at 31 January 2014	<u>40,792</u>
Normal cost (Note 35)	5,536
Finance cost (Note 41)	2,088
Actuarial gain and losses	
To profit and loss (Note 35)	(781)
To reserves	11,959
Payments and others	146
Balance at 31 December 2014	<u>59,740</u>
Normal cost (Note 35)	5,499
Finance cost (Note 41)	2,028
Actuarial gain and losses	
To profit and loss (Note 35)	(582)
To reserves	470
Payments and others	(4,457)
Balance at 31 December 2015	<u>62,698</u>

b) Defined contribution plans

The active employees of the IBERDROLA Group and employees who have retired since 9 October 1996, beneficiaries of the IBERDROLA Group's pension plan with joint promoters, are covered by an occupational, defined-contribution pension system independent from the Social Security System, for retirement.

The periodic contribution to be made in accordance with this system and with the existing Collective Labour Agreement of the IBERDROLA Group is calculated as a percentage of the annual pensionable salary of each employee, except for employees hired after 9 October 1996, in which case the tax ratio is 55% by the company and 45% by the employee and for employees hired after the 20 July 2015, in which the company provides 1/3 of the total contribution provided that the worker contributes the remaining 2/3 until the date in which the employee takes part in the Base Salary Rating (SBC). At this moment the same criteria will be applied to those employees as the ones who were hired since 9 October 1996. The respective subsidiaries finance these contributions for all their active employees with less than 65 years old.

The contributions made by the IBERDROLA Group in 2015 and 2014 amounted to EUR 25,529 thousand and EUR 23,720 thousand, respectively. These amounts are recognised under "Staff costs" in the Consolidated income statements.

Employees of SCOTTISH POWER hired after 1 April 2006 have the choice to be included by a defined contribution plan. The contribution made on account of these employees in 2015 and 2014 amounts to EUR 9,044 thousand and EUR 6,973 thousand and is recognised under "Staff costs" in the Consolidated income statements.

AVANGRID has business contribution plans defined as 401k. The contributions made by AVANGRID through these plans for the years 2015 and 2014 amounted to EUR 19,581 thousand and EUR 14,662 thousand recorded under "Staff costs" in the Consolidated income statements.

c) Restructuring plans

In 2012, given the interest shown by some employees in requesting early retirement, the IBERDROLA Group offered these employees a mutually agreed termination of the employment relationship. The IBERDROLA Group has carried out a process of individual termination contracts in Spain, having signed a total of 400 contracts prior to 31 December 2012. In 2014 and 2013, 1 and 11 additional contracts were signed, respectively (none in 2015). At 31 December 2015, the IBERDROLA Group has a provision in this regard amounting to EUR 25,587 thousand.

At 19 December 2013, SCOTTISH POWER announced a restructuring plan of up to 355 people of its sales division, which was provisioned at 31 December 2013 and has ended prior to 31 December 2014. On the other hand, as a result of the decision to close one of its coal-fired plants (Note 12), a restructuring plan was initiated by the IBERDROLA Group for which it has a provision amounting to EUR 8,294 thousand at 31 December 2015.

Furthermore, in 2014 the IBERDROLA Group, given the interest shown by some workers to seek early retirement, has offered to these workers the termination as a mutual agreement of the employment relationship linking them by performing a process of disengagement in individual contracts in Spain, having signed a total of 389 contracts before 31 December 2014. At year end the IBERDROLA Group has a provision in this regard amounting to EUR 105,208 thousand.

Additionally, during the year 2015, the IBERDROLA Group, given the interest shown in early retirement by 94 workers, has offered to these workers the termination as a mutual agreement of the employment relationship linking them by performing a process of disengagement in individual contracts in Spain, having signed a total of 94 contracts before 31 December 2015. At 31 December 2015, the IBERDROLA Group has a provision for this item amounting to EUR 27,573 thousand.

Finally, in 2015, the subsidiary of the IBERDROLA Group, Iberdrola Ingeniería y Construcción, S.A.U., given the interest shown in early retirement by 36 workers, has offered to these workers the termination as a mutual agreement of the employment relationship linking them by performing a process of disengagement in individual contracts in Spain, having signed a total of 36 contracts before 31 December 2015. At 31 December 2015, the IBERDROLA Group has a provision for this item amounting to EUR 9,877 thousand.

The discounted present value of the provisions is charged to "Finance cost" in the Consolidated income statement.

The variation in 2015 and 2014 on the provision recognised to meet these commitments are as follows:

	<i>Thousands of euros</i>
	<i>Restructuring plans</i>
Balance at 1 January 2014	88,869
Charge (Note 35)	130,250
Finance cost (Note 41)	1,258
Actuarial gain and losses and other (Note 35)	(1,517)
Payments and translation differences	(39,717)
Balance at 31 December 2014	179,143
Charge (Note 35)	45,734
Finance cost (Note 41)	1,279
Actuarial gain and losses and other (Note 35)	559
Payments and translation differences ^(*)	(49,104)
Balance at 31 December 2015	177,611

(*) Payments made during 2015 amount to EUR 49,005 thousand.

The main assumptions used in the actuarial studies undertaken to determine the provision required at 31 December 2014 and 2015 to cover the Group's obligations in relation to the aforementioned restructuring plans are the following:

	2015			2014		
	<i>Discount rate</i>	<i>CPI</i>	<i>Survivorship tables</i>	<i>Discount rate</i>	<i>CPI</i>	<i>Survivorship tables</i>
Employment regulation plan and other restructuring plans	0.50%/1.16%	0.70%/1.00%	PERM/F 2000P	0.47%/1.11%	1.00%/1.50%	PERM/F 2000P

24. OTHER PROVISIONS

The detail and movement of "Other Provisions" on the liability side of the Consolidated statements of financial position in 2015 and 2014 are as follows:

	<i>Thousands of euros</i>				
	<i>Provisions for litigation, indemnity payments and similar costs</i>	<i>Provision for CO₂ emissions (Note 4.q)</i>	<i>Provision for facility closure costs (Notes 4.r and 6.a)</i>	<i>Other provisions</i>	<i>Total other provisions</i>
Balance at 1 January 2014	1,024,817	97,477	1,407,935	430,574	2,960,803
Charge or reversals for the year with a debit/credit to "Property, Plant and Equipment" (Note 4.d)	2,911	-	(1,875)	16,157	17,193
Charge for discount to present value (Note 41)	35,621	-	54,307	-	89,928
Charge for the year to income Statement	140,781	85,273	75	42,917	269,046
Reversal due to overprovision	(22,634)	-	(7,127)	(49,478)	(79,239)
Translation differences	12,241	4,353	65,970	41,766	124,330
Payments made, transfers and other	64,700	(101,120)	(81,803)	(134,007)	(252,230)
Balance at 31 December 2014	1,258,437	85,983	1,437,482	347,929	3,129,831
Charge or reversals for the year with a debit/credit to "Property, Plant and Equipment" (Note 4.d)	-	-	103,368	-	103,368
Charge for discount to present value (Note 41)	1,576	-	47,755	-	49,331
Charge for the year to income Statement	95,756	122,773	-	42,372	260,901
Reversal due to overprovision	(280,627)	(4,806)	(3,783)	(11,199)	(300,415)
Modification of the consolidation perimeter (Note 42)	2,673	-	17,452	96,026	116,151
Translation differences	(570)	3,552	58,624	39,887	101,493
Payments made, transfers and other	(310,725)	(86,002)	(26,120)	(31,149)	(453,996)
Balance at 31 December 2015	766,520	121,500	1,634,778	483,866	3,006,664

The IBERDROLA Group records provisions for responsibilities arising from litigation in progress and from indemnity payments, obligations, collateral and other similar guarantees, and those aimed at covering environmental risks. These last ones have been determined on the basis of a case-by-case analysis of the polluted assets status and the cost that will have to be incurred in cleaning them.

The IBERDROLA Group also maintains allowances to meet a series of costs needed for decommissioning work at its nuclear and thermal power plants, its wind farms, and at certain other facilities.

The cost arising from dismantling obligations is recalculated on a regular basis to incorporate to the estimate of future costs our experience of the reasonableness of provisions in the face of actual decommissioning events, or to take account of new statutory or regulatory requirements.

The detail of provision for plants closure costs is as follows:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Thermal power plants	117,010	104,117
Nuclear plants	516,909	451,113
Wind-powered farms and other alternative stations	851,695	765,930
Combined cycle plants	99,287	74,653
Other facilities	49,877	41,669
	<u>1,634,778</u>	<u>1,437,482</u>

Regarding nuclear plants, this position covers the costs in which the plant operator will incur from the end of its useful life until ENRESA (Note 4.aa) takes control of them.

The discount rates (minimum and maximum range) before taxes of the main countries in which the IBERDROLA Group used in the present value of the operating provisions are:

<u>Country</u>	<u>Currency</u>	<i>2015 Discount Rate</i>	
		<u>5 years</u>	<u>30 years</u>
Spain	Euro	0.67%	2.97%
United Kingdom	Sterling Pound	1.34%	2.67%
United States	US Dollar	1.76%	3.02%

The estimated dates on which the IBERDROLA Group considers that it will have to meet the payments relating to the provisions and allowances included in this caption of the Consolidated statement of financial position at 31 December 2015 are as follows:

	<i>Thousands of euros</i>
2016	234,950
2017	205,406
2018	217,186
2019 and subsequent years	2,349,122
	<u>3,006,664</u>

25. BANK BORROWINGS AND OTHER FINANCIAL LIABILITIES-LOANS AND OTHERS

The detail of the bank borrowings pending of amortization at 31 December 2015 and 2014 and the repayment schedules are as follows:

	<i>Thousands of euros</i>								
	<i>Borrowings at 31 December 2015 and maturing in</i>								
	<i>Balance at 12.31.14</i>	<i>Balance at 12.31.15</i>	<i>Current maturity 2016 (*)</i>	<i>Non current maturity</i>					<i>2021 and subsequent years</i>
			<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>			
Euros									
Finance leases	71,252	67,357	4,351	4,345	4,345	4,345	4,345	45,626	63,006
Debentures and bonds	15,440,340	15,216,656	2,586,348	1,211,207	1,699,282	1,495,537	1,799,475	6,424,807	12,630,308
Other financing transactions	4,579,902	4,246,408	796,441	249,394	973,291	1,219,647	451,686	555,949	3,449,967
Unpaid accrued interest	319,040	300,982	300,982	-	-	-	-	-	-
	20,410,534	19,831,403	3,688,122	1,464,946	2,676,918	2,719,529	2,255,506	7,026,382	16,143,281
Foreign currency									
US dollars	2,885,592	5,183,311	771,264	267,971	142,918	316,980	649,600	3,034,578	4,412,047
Sterling pound	2,881,087	3,441,873	108,989	297,471	229,158	55,183	55,185	2,695,887	3,332,884
Brazilian reals	837,095	841,574	162,422	51,668	108,575	162,711	34,034	322,164	679,152
Unpaid accrued interest	124,592	146,314	146,314	-	-	-	-	-	-
	6,728,366	9,613,072	1,188,989	617,110	480,651	534,874	738,819	6,052,629	8,424,083
	27,138,900	29,444,475	4,877,111	2,082,056	3,157,569	3,254,403	2,994,325	13,079,011	24,567,364

(*) As at 31 December 2015, financial debt includes EUR 194,395 thousand from drawdowns on credit lines and credit facilities, and EUR 1,543,476 thousand from issues of domestic promissory notes and the *Euro Commercial Paper* (ECP).

The foregoing loan balances correspond to amounts drawn down and not repaid at 31 December 2015 and 2014. At 31 December 2015 and 2014, the IBERDROLA Group had undrawn loans and credit facilities amounting to EUR 7,054,459 thousand and EUR 8,731,277 thousand, respectively, maturing between 2016 and 2020 (Note 50).

The most significant financial transactions performed by the IBERDROLA Group during the year 2015 have been the following:

Bond Issues in the Euromarket:

- On 14 January 2015, the IBERDROLA Group issued bonds with a nominal amount of EUR 600 million and an annual coupon of 1.125%, maturing on 27 January 2023.
- On 7 September 2015 the IBERDROLA Group issued EUR 500 million in bonds that mature on 17 September 2023 and a coupon of 1.75%.

These two transactions are part of separate bond exchange operations that have enabled the Group to extend the duration of the debt and laminate the medium term maturity profile and continue to improve liquidity. Therefore, and in parallel with these issues, there have been various offers to repurchase outstanding bonds IBERDROLA Group companies for further exchange with the new standards. As a result, it has reduced debt maturities EUR 91.4 million in 2016, EUR 378.7 million in 2017 and EUR 557.5 million in 2018.

- On 6 November 2015 the IBERDROLA Group has structured a bond issue -referenced to the share price of Iberdrola, S.A.- amounting to EUR 500 million maturing in November 2022 and without coupon.

These bonds incorporate an option that may be exercised by their holders around the time when due, under which they would receive a cash payment when which it will be determined the evolution of the share price of IBERDROLA, with a reference price of EUR 8.7479 per share.

To address these potential cash payments, IBERDROLA has simultaneously contracted a put option payable in cash by the same amount issued to hedge the risk. The reference price of this option will also be EUR 8.7479 per share.

Banking Market:

- On 13 February 2015 the IBERDROLA Group arranged the renewal, of EUR 2,000 million revolving credit granted in November 2013, falling due in November 2018. The renewal increased the available credit to EUR 2,500 million, extended the due date to February 2020, and enhanced the applicable economic conditions.
- On 13 February 2015 the IBERDROLA Group arranged the renewal, of EUR 2,000 million revolving credit granted in April 2014, falling due in April 2019. The renewal increased the available credit to EUR 2,500 million, extended the due date to February 2020, and enhanced the applicable economic conditions.
- On 13 February 2015 the IBERDROLA Group cancelled in advance a EUR 2,247 million revolving credit granted in June 2011 with a maturity in June 2017.

- On 23 March 2015 the IBERDROLA Group also signed a four-year EUR 900 million bank loan in Club Deal format, with a 1 + 1 year extension option.
- On 23 March 2015 the IBERDROLA Group canceled a loan in advance of EUR 753 million euros maturing on June 2017.
- On 31 March 2015 the IBERDROLA Group also signed a EUR 75 million bilateral loan maturing in March 2019, with a 1 + 1 year extension option.
- On 16 March 2015 and 18 March 2015 ELEKTRO, a subsidiary of the IBERDROLA Group, signed two bank loans for BRL 300 million pursuant to the Law 4131, maturing in 2018.
- On 24 June 2015 the IBERDROLA Group restructured an existing bilateral EUR 600 million loan, extending the original due date from June 2016 to June 2018 and maintaining the option to extend it for a further year, with the other conditions unchanged.
- On 14 December 2015 Iberdrola México, S.A. de C.V. (hereinafter, IBERDROLA MEXICO) has signed a syndicated bank loan for USD 300 million maturing on 31 March 2018.

Loans of the European Investment Bank (EIB):

- On 27 May 2015, the IBERDROLA Group renegotiated several tranches of loans held with the European Investment Bank (EIB), which were guaranteed by several bank for a total of EUR 479 million. This restructuring has resulted in improving the cost, due date and structure of this debt as well as the cancelation of guarantees. Nowadays, there is just one operation left with the EIB with a bank guarantee amounting to EUR 58 million.
- On 27 May 2015, the IBERDROLA Group renegotiated three tranches of the loan held with the EIB in order to finance investments in networks in Scotland and Spain totaling GBP 150 million and EUR 86 million, respectively. This restructuring has resulted in amendments of due dates in January 2023.
- On 22 June 2015, the IBERDROLA Group renegotiated three loans held with the EIB, which were mediated by a bank, totaling EUR 350 million. This restructuring has entailed reconverting the EIB financing into another series of bilateral loans, keeping the original due dates and reducing the margins to levels that are more in line with current market conditions.
- On 25 June 2015 Iberdrola Distribución Eléctrica, S.A.U. signed up a new direct EUR 325 million loan with the EIB to finance the 2014/2015 investment programme to update the electricity network, telecontrol and automation of substations. This loan's due date is in January 2023.

The most significant financing transactions performed by the IBERDROLA Group in 2014 were as follows:

Bond issues in the Euromarket:

- On 24 April 2014, the IBERDROLA Group issued EUR 750 million in a green bond maturing October 2022 and a coupon of 2.5%. The bond issue was categorized as green bonus on the basis that the funds were applied to refinance investments in projects that meet environmental and sustainability objectives and social responsibility in the development and management of projects, as rated by Vigeo, an independent expert on corporate social responsibility.

The refinancing took place through a liability management exercise whereby the emitted green bond was exchanged for other bonds with short maturities and were issued in 2005, 2010 and 2011, nominal amounts of EUR 320.2 million, EUR 277.4 million and EUR 152.2 million. These funds were used to finance investments in 2006, 2011 and 2012, respectively, renewable energy, transmission, distribution and smart meters (smart grids).

The allocation of funds is shown in the following table:

<u>Year</u>	<i>Thousands of euros</i>		
	<i>Renewables</i>	<i>Distribution and Smart meters</i>	<i>Total</i>
2006	320.9	-	320.9
2011	170.8	117.8	288.6
2012	86.2	54.1	140.3
	<u>577.9</u>	<u>171.9</u>	<u>749.8</u>

- On 8 October 2014 the IBERDROLA Group issued bonds totaling 500 million euros to ten years maturing in October 2024 with a coupon of 1.875%.
- These operations are part of separate bond exchange operations conducted with the aim of extending the duration of debt, improving liquidity and laminating the medium term maturity profile. Alongside these emissions offers have been made to repurchase different IBERDROLA Group outstanding bonds for further exchange with the new references made. As a result, it was reduced debt maturities by EUR 320 million in 2015, EUR 403 million in 2016 and EUR 527 million in 2017.

Private Issues in the United States:

- In October 2014 Central Maine Power Co. (hereinafter CMP), a subsidiary of IBERDROLA Group, conducted a private placement (USPP) amounting to USD 150 million consisting of three sections of USD 65 million, USD 20 million and USD 65 million, with a maturity of ten, fifteen and thirty years, and coupon of 3.15%, 3.37% and 4.07% respectively. The release of this operation was completed in January 2015.

Banking market

- The IBERDROLA Group executed on 29 April 2014 a syndicated credit facility for an amount of EUR 2,000 million that consists of two parts: EUR 600 million and EUR 1,400 million both maturing in five years. This is subjected to the bank's acceptance and it can be extended for one or two more years.

This was the reconfiguration of two already existing syndicated credit facilities: a EUR 2,150 million syndicated credit facility executed in July 2010 maturing in five years; and syndicated credit facility for the amount of EUR 1,089 million executed in May 2012 maturing in four and five years for the loan part and the credit part, respectively. With this reconfiguration, the IBERDROLA Group fitted the liquidity volume, decreased the cost of its credit operations and made more flexible its management of the liquidity.

- On 11 June 2014 the IBERDROLA Group exercised its right of extension of the syndicated credit facility which amounted to EUR 3,000 million of 2016 and 2017.
- On 24 June 2014 the IBERDROLA Group signed a loan for the amount of EUR 600 million maturing in 2016.
- During June of 2014, ELEKTRO signed three bank loans with the same number of foreign entities for an amount of BRL 400 million under the Law 4131 maturing in 2016. These operations facilitated the access for the Brazilian subsidiary to external financing at a competitive cost to attend the working capital necessity.

Loan from the European Investment Bank (EIB)

- The IBERDROLA Group and the EIB signed in January and September of 2014 the first and second parts of a loan to finance the construction, installation and operation of the West of Duddon Sands wind farm amounting to GBP 93 million and GBP 77 million, respectively, for a total amount of GBP 170 million.

Certain Group investment projects, mainly related to renewable energies, have been financed specifically through loans that include covenants such as the compliance with certain financial ratios or the obligation to pledge in benefit of creditors the shares of the project-companies (Note 45). The outstanding balance of such loans at 31 December 2015 and 2014 amounted to EUR 658 and EUR 801 million, respectively. In some of these loans, amounting to EUR 226 and EUR 336 thousand at December 2015 and 2014, respectively, the establishment of a reserved deposit for the fulfilment of the obligations under the loan agreements is required, being the default ratios and/or the security deposit not reaching the agreed amount, the reason to preclude the dividends in the year in which they had not been fulfilled.

With regards to the clauses relating to credit ratings, the IBERDROLA Group has agreed with the EIB financing operations at 31 December 2015 and 2014 amounting to EUR 1,531 and 1,799 million, respectively, which may require additional guarantees or renegotiation in the event of a rating drop. Also, at 31 December 2015 and 2014, the IBERDROLA Group has arranged loans and credits amounting to EUR 900 and 803 million, respectively, whose cost would be revised as a result of the decline in its credit rating. However, in both cases, the increase in cost would not be significant.

Additionally, financial entities have facilitated IBERDROLA and its subsidiaries loans and other agreements with a maturity that can be affected by a change of control being; the most significant ones at 31 December 2015 were the following ones:

- There are loans subject to an anticipated maturity date or that may require additional guarantees if a change of corporate control takes place in a public offering. In total they account for EUR 1,960,914 thousand approximately, except in the case when the change of control cannot be prejudicial.

- Moreover, approximately BRL 1,077,522 thousand (equivalent to EUR 253,511 thousand) in issues and BRL 1,294,017 thousand (equivalent to EUR 304,446 thousand) in loans corresponding to ELEKTRO would be affected by a change of control in the issuer, except for in the case when it takes place as a consequence of reorganizations within the Group or is allowed by lenders.
- On the other hand, approximately EUR 10,300,989 thousand corresponding to shares issued in the Euromarket will be subject to an anticipated maturity date when a change of control takes place if the credit rating of IBERDROLA drops below the investment grade, or if it is already below it, it drops a notch, provided that the rating agency has downgraded the rating due to a change of control.
- Lastly, approximately EUR 726,992 thousand, USD 636,500 thousand (equivalent to EUR 581,172 thousand) corresponding to IBERDROLA MÉXICO and UIL, BRL 287,147 thousand (equivalent to EUR 67,558 thousand) corresponding to loans belonging to ELEKTRO and USD 1,150,000 thousand (equivalent to EUR 1,050,037 thousand) corresponding to issues by the IBERDROLA Group in the United States would be subject to an anticipated maturity if a change of control of the lender takes place.

At 31 December 2015 and 2014, the IBERDROLA Group had fulfilled all its obligations relating to its financial debt. Therefore, as seen in the table above, there are no amounts due prior to 31 December 2015.

At the date of formulation of these Consolidated financial statements, neither IBERDROLA nor any of its material subsidiaries were in breach of its financial obligations or any kind of obligation that could lead to early redemption of their financial commitments.

The average cost of debt of the IBERDROLA Group in 2015 and 2014 was 3.57% and 4.14% respectively.

26. DERIVATIVE FINANCIAL INSTRUMENTS

The detail of the balances at 31 December 2015 and 2014 that includes the valuation of derivative financial instruments is as follows:

	Thousands of euros							
	2015				2014			
	Assets		Liabilities		Assets		Liabilities	
	Short - term	Long - term	Short - term	Long - term	Short - term	Long - term	Short - term	Long - term
INTEREST RATE HEDGE:	26,966	202,063	21,998	(91,683)	22,119	252,877	6,194	(143,657)
Cash flow hedge	-	17,961	(27,716)	(80,073)	-	-	(39,064)	(128,113)
- Interest rate swap	-	17,961	(27,267)	(79,956)	-	-	(38,525)	(127,566)
- Collar	-	-	(449)	(117)	-	-	(539)	(547)
Fair value hedge	26,966	184,102	49,714	(11,610)	22,119	252,877	45,258	(15,544)
- Interest rate swap	26,966	174,987	47,195	-	22,119	241,256	42,813	-
- Others	-	9,115	2,519	(11,610)	-	11,621	2,445	(15,544)
FOREIGN EXCHANGE HEDGE:	212,670	624,814	(469,075)	(101,266)	165,092	278,800	(462,009)	(132,425)
Cash flow hedge	107,668	86,152	(160,499)	(44,419)	89,449	57,514	(122,251)	(80,911)
- Currency swap	7,874	51,051	6,027	(34,182)	(4,051)	12,165	12,881	(32,934)
- Foreign exchange hedge	99,794	35,101	(166,526)	(10,237)	93,500	45,349	(135,132)	(47,977)
Fair value hedge	71,666	538,662	30,781	(20,498)	25,795	221,286	4,914	(29,759)
- Currency swap	71,666	533,740	30,758	(20,464)	25,795	217,314	4,831	(29,689)
- Others	-	4,922	23	(34)	-	3,972	83	(70)
Hedge of a net investment in a foreign country:	33,336	-	(339,357)	(36,349)	49,848	-	(344,672)	(21,755)
- Currency swap	(3,571)	-	(3,968)	(36,349)	46,583	-	(3,590)	(21,755)
- Foreign exchange hedge	36,907	-	(335,389)	-	3,265	-	(341,082)	-
RAW MATERIAL HEDGE:	261,923	41,355	(305,497)	(38,914)	274,779	62,955	(325,880)	(69,813)
Cash flow hedge	261,923	41,355	(305,497)	(38,914)	274,779	62,955	(325,880)	(69,813)
- Forward	261,923	41,355	(305,497)	(38,914)	274,779	62,955	(325,880)	(69,813)
NON-HEDGING DERIVATIVES:	464,064	130,041	(431,673)	(137,457)	700,901	96,759	(694,859)	(91,263)
Derivatives on treasury shares	-	14,854	(74)	(14,854)	-	-	-	-
- Equity swap	-	14,854	(74)	(14,854)	-	-	-	-
Derivatives on foreign exchange	21,700	1,391	(10,422)	(394)	10,826	2,508	(19,381)	(1,630)
- Foreign exchange hedge	21,700	1,391	(10,422)	(394)	10,826	2,508	(19,381)	(1,630)
Derivatives on raw materials	442,364	110,538	(417,436)	(112,513)	690,074	90,587	(673,285)	(74,026)
- Forward	424,486	110,448	(400,085)	(101,389)	687,768	90,587	(669,275)	(63,562)
- Others	17,878	90	(17,351)	(11,124)	2,306	-	(4,010)	(10,464)
Interest rate derivatives	-	3,258	(3,741)	(9,696)	1	3,664	(2,193)	(15,607)
- Interest rate swap	-	2,024	762	-	-	2,224	1,065	-
- Others	-	1,234	(4,503)	(9,696)	1	1,440	(3,258)	(15,607)
NETTED OPERATIONS (Note 15)	(365,593)	(37,781)	399,339	37,674	(650,636)	(52,817)	650,669	52,784
	600,030	960,492	(784,908)	(331,646)	512,255	638,574	(825,885)	(384,374)

The detail, by maturity, of the notional amounts of the derivative financial instruments arranged by the IBERDROLA Group outstanding at 31 December 2015 is as follows:

	<i>Thousands of euros</i>					
	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020 and subsequent years</i>	<i>Total</i>
INTEREST RATE HEDGE:	799,582	489,061	1,157,334	258,400	7,779,639	10,484,016
Cash flow hedge	439,142	57,061	7,334	7,556	4,288,639	4,799,732
- Interest rate swap	439,142	7,061	7,334	7,556	4,288,639	4,749,732
- Collar	-	50,000	-	-	-	50,000
Fair value hedge	360,440	432,000	1,150,000	250,844	3,491,000	5,684,284
- Interest rate swap	340,000	432,000	1,150,000	194,794	3,443,000	5,559,794
- Others	20,440	-	-	56,050	48,000	124,490
FOREIGN EXCHANGE HEDGE:	11,044,936	859,577	208,198	1,294,030	1,509,909	14,916,650
Cash flow hedge	5,125,713	792,600	19,879	395	164,884	6,103,471
- Currency swap	31,963	409,085	-	-	59,141	500,189
- Foreign exchange hedge	5,093,750	383,515	19,879	395	105,743	5,603,282
Fair value hedge	179,102	66,977	95,278	1,293,635	1,345,025	2,980,017
- Currency swap	158,102	66,977	95,278	1,290,035	1,345,025	2,955,417
- Others	21,000	-	-	3,600	-	24,600
Hedge of a net investment in a foreign country:	5,740,121	-	93,041	-	-	5,833,162
- Currency swap	-	-	93,041	-	-	93,041
- Foreign exchange hedge	5,740,121	-	-	-	-	5,740,121
RAW MATERIAL HEDGE:	2,560,066	423,155	56,163	870	-	3,040,254
Cash flow hedge	2,560,066	423,155	56,163	870	-	3,040,254
- Forward	2,560,066	423,155	56,163	870	-	3,040,254
NON-HEDGING DERIVATIVES:	3,902,598	469,936	145,611	95,794	1,094,852	5,708,791
Derivatives on treasury shares	33	-	-	-	1,000,000	1,000,033
- Derivatives on treasury shares	33	-	-	-	1,000,000	1,000,033
Derivatives on foreign exchange	789,993	53,155	-	-	-	843,148
- Foreign exchange hedge	789,993	53,155	-	-	-	843,148
Derivatives on raw materials	2,922,572	416,781	115,611	45,794	19,852	3,520,610
- Forward	2,789,154	415,814	115,611	45,794	19,852	3,386,225
-Others	133,418	967	-	-	-	134,385
Interest rate derivatives	190,000	-	30,000	50,000	75,000	345,000
- Interest rate swap	-	-	-	50,000	-	50,000
- Others	190,000	-	30,000	-	75,000	295,000
Total	18,307,182	2,241,729	1,567,306	1,649,094	10,384,400	34,149,711

The information presented in the table above includes gross notional amounts of derivative financial instruments arranged in absolute terms (without offsetting asset and liability or purchase and sale positions) and, therefore, do not constitute the risk assumed by the IBERDROLA Group since this amount only records the basis on which the calculations are made to settle the derivative.

The heading "Finance cost" in the 2015 and 2014 Consolidated income statements includes EUR 98,095 thousand and EUR 46,535 thousand, respectively, in connection with derivatives linked to financial indices that fail to meet the conditions to qualify as hedging instruments or, having met the conditions, but as explained in Notes 4.I and 41 are partially ineffective. The "Finance income" heading in the Consolidated income statements for the same years also includes EUR 62,771 thousand and EUR 40,520 thousand, respectively, for the abovementioned items (Note 40).

The detail of the nominal value of the main liabilities on which foreign exchange hedges (Note 5) have been arranged is as follows:

<i>Type of hedge</i>	2015					
	<i>Thousands of US dollars</i>	<i>Thousands of Japanese yens</i>	<i>Thousands of Norwegian crowns</i>	<i>Thousands of Mexican pesos</i>	<i>Thousands of Swiss francs</i>	<i>Thousands of Sterling pounds</i>
Cash Flow	247,000	-	450,000	1,500,000	250,000	-
Fair Value	2,407,196	28,000,000	350,000	-	27,000	700,000

<i>Type of hedge</i>	2014					
	<i>Thousands of US dollars</i>	<i>Thousands of Japanese yens</i>	<i>Thousands of Norwegian crowns</i>	<i>Thousands of Mexican pesos</i>	<i>Thousands of Swiss francs</i>	<i>Thousands of Sterling pounds</i>
Cash Flow	847,000	-	450,000	1,500,000	250,000	-
Fair Value	2,312,255	33,000,000	350,000	-	21,000	-

The nominal value of the most significant liabilities for which interest rate hedges (Note 5) have been arranged is as follows:

<i>Type of hedge</i>	2015		
	<i>Thousands of euros</i>	<i>Thousands of US dollars</i>	<i>Thousands of Sterling pounds</i>
Cash Flow	152,473	473,500	225,000
Fair Value	5,789,784	-	-

<i>Type of hedge</i>	2014		
	<i>Thousands of euros</i>	<i>Thousands of US dollars</i>	<i>Thousands of Sterling pounds</i>
Cash Flow	610,286	568,200	150,000
Fair Value	5,378,784	-	-

27. OTHER NON-CURRENT PAYABLES

The detail of "Other non-current payables" heading in the liability side of the Consolidated statements of financial position at 31 December 2015 and at 31 December 2014 is as follows:

	<i>Thousands of euros</i>	
	<i>12.31.15</i>	<i>12.31.14</i>
Long-term guarantees and deposits received (Note 13.c)	128,658	138,367
Tariff sufficiency concessional guarantee in Brazil (Note 11)	62,582	65,990
Debts with companies consolidated by using the equity method	9,946	31,416
Others	488,508	375,440
	689,694	611,213

The detail of "Current Liabilities" of the Consolidated statements of financial position at 31 December 2015 and 2014 is as follows:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Short-term guarantees and deposits received (Note 13.c)	177,167	40,226
Tariff sufficiency concessional guarantee in Brazil (Note 11)	64,399	52,574
Debts with companies consolidated by using the equity method	228,756	265,502
Short term fixed assets suppliers	496,601	355,280
Remuneration payable to staff	178,899	178,370
Others	608,484	395,739
	<u>1,754,306</u>	<u>1,287,691</u>

28. DEFERRED TAXES AND INCOME TAX EXPENSE

As in 2014, in 2015 IBERDROLA as the parent company of the Group 2/86, filed a consolidated annual tax return in Spain. The Group will continue to be taxed under this tax regime indefinitely for as long as the related requirements are met and the Group does not expressly waive application of the regime by filing the related taxpayer registration form.

Without prejudice to this special tax regime in Spain applicable to IBERDROLA and certain of its consolidated Spanish subsidiaries, other Spanish and foreign subsidiaries file individual or aggregated Income Tax returns, in accordance with the legislation applicable to them.

The difference between the tax charge allocated to 2015 and 2014 and the tax payable for those years, recorded under "Deferred tax assets" and "Deferred tax liabilities", as appropriate, in the Consolidated statements of financial position at 31 December 2015 and 2014, 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 temporary differences are the following:

- Temporary differences generated from the measurement of available-for-sale investments, derivatives and assets that have been measured at their fair value in business combinations for which the difference between the tax base and the carrying amount is not deductible for tax purposes.
- Temporary differences arising from the application of profits from the free amortization or accelerated amortization compared to that recognised in the accounts.
- Temporary differences arising from the non-deductibility for tax purposes of certain liabilities, including those recognised in relation to pension liabilities and to employment regulation plans (Notes 4.o, 4.p and 23).
- Temporary differences arising from changes in the value of investment securities which carrying amount is not fully deductible for tax purposes or where deductions are not considered for accounting purposes.
- Temporary differences arising from the tax treatment of financial goodwill generated from the acquisition of equity stakes in non-resident entities.

The detail of current and deferred Income Tax expense is as follows:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Current taxes	319,384	676,467
Deferred taxes	207,708	160,587
(Income) / expense	<u>527,092</u>	<u>837,054</u>

The detail of the headings “Deferred tax assets” and “Deferred tax liabilities” in the Consolidated statements of financial position therein is as follows:

Thousands of euros

	<i>Balance at 01.01.14</i>	<i>Translation differences</i>	<i>Credit (charge) to Consolidated income statement</i>	<i>Credit (charge) to asset and liability revaluation reserve</i>	<i>Credit (charge) to "Other reserves"</i>	<i>Balance at 12.31.14</i>	<i>Consolidation perimeter modification (Note 42)</i>	<i>Translation differences</i>	<i>Credit (charge) to Consolidated income statement</i>	<i>Credit (charge) to asset and liability revaluation reserve</i>	<i>Credit (charge) to "Other reserves"</i>	<i>Balance at 12.31.15</i>
Deferred tax assets:												
Derivative financial instruments valuation	631,671	77,767	(54,102)	(47,523)	-	607,813	-	16,087	7,859	(47,338)	-	584,421
Balance sheet revaluation 16/2012	1,848,185	-	(665)	-	-	1,847,520	-	-	(135,043)	-	-	1,712,477
Pension and similar commitments	410,520	24,125	(23,324)	-	182,940	594,261	111,612	48,209	(35,971)	-	(31,375)	686,736
Allocation of non-deductible negative goodwill arising on consolidation	87,028	-	(16,398)	-	-	70,630	-	-	(1,893)	-	-	68,737
Provision for facility closure costs	70,652	827	(19,558)	-	-	51,921	-	870	3,273	-	-	56,064
Tax loss and tax credit deduction	1,460,229	153,720	90,017	-	-	1,703,966	54,309	157,604	125,442	-	-	2,041,321
Other deferred tax assets	2,033,244	(1,071,849)	46,494	-	-	1,077,889	127,765	299,724	44,374	-	-	1,479,752
	6,541,529	(815,410)	22,464	(47,523)	182,940	5,884,000	293,686	522,494	8,041	(47,338)	(31,375)	6,629,508

Thousands of euros

	<i>Balance at 01.01.14</i>	<i>Translation differences</i>	<i>Charge (Credit) to Consolidated income statement</i>	<i>Charge (credit) to asset and liability revaluation reserve</i>	<i>Balance at 12.31.14</i>	<i>Modification of the consolidation perimeter (Note 42)</i>	<i>Translation differences</i>	<i>Charge (credit) to Consolidated income statement</i>	<i>Charge (credit) to asset and liability revaluation reserve</i>	<i>Balance at 12.31.15</i>
Deferred tax liabilities:										
Available-for-sale assets valuation	8,397	-	-	(8,389)	8	-	-	(8)	-	-
Derivative financial instruments valuation	516,296	14,491	15,967	270	547,024	-	16,884	(4,283)	(15,813)	543,812
Accelerated amortisation	4,134,793	471,598	286,402	-	4,892,793	570,183	480,742	73,233	-	6,016,951
Overprice assigned in business combinations	3,302,699	282,772	(175,758)	-	3,409,713	969,986	267,599	(86,642)	-	4,560,656
Other deferred tax liabilities	371,005	89,234	56,440	-	516,679	-	24,930	233,449	-	775,058
	8,333,190	858,095	183,051	(8,119)	9,366,217	1,540,169	790,155	215,749	(15,813)	11,896,477

At 31 December 2015 and 2014, there were no significant unrecognised deferred tax assets or other significant tax credits at the IBERDROLA Group companies.

Moreover, based on the information available at the year end, including the historic levels of profits and the IBERDROLA Group's results projections for the coming years, it is considered that sufficient positive taxable bases will be generated to allow the recovery of the deferred taxation assets booked at 31 December 2015.

In addition, the headings "Other reserves" and "Unrealised assets and liabilities revaluation reserve" in 2015 and 2014 Consolidated statements of financial position includes debits and credits of EUR 63,708 thousand and EUR 143,451 thousand, respectively, relating to the tax charge on actuarial deviations and on cash flow hedge valuation adjustments and available-for-sale investments.

Income Tax expense breakdown for 2015 and 2014 is calculated as follows:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Consolidated profit before taxes	2,986,621	3,201,787
Non-deductible expenses and non-computable income:		
- from individual companies	(82,768)	30,157
- from consolidation adjustments	(2,391)	(55,310)
Net result of companies accounted for using the equity method	(55,318)	(135,429)
Adjusted accounting result	2,846,144	3,041,205
Gross tax calculated at the tax rate in force in each country (a)	815,730	882,153
Tax credits deductions due to reinvestment of extraordinary profits and other tax credits	(42,224)	(73,157)
Adjustment of prior years Income Tax expense	9,791	(25,251)
Net movement in provisions for litigation, indemnity payments, similar costs and other provisions (b)	(123,852)	83,622
Adjustments of deferred tax assets and liabilities (c)	(216,319)	(52,795)
Taxes related to non-distributed earnings	84,808	23,393
Others	(842)	(911)
Income Tax expense / (income)	<u>527,092</u>	<u>837,054</u>

- (a) The different foreign companies of IBERDROLA Group calculate the Income Tax expense and the resulting quotas related to the taxes applicable in accordance with the legislation and on the basis of the tax rates in force in each country. Also, the subsidiaries subject to the Basque Country tax legislation apply the tax rate in force in each historical territory.
- (b) The amount registered in 2015 is mainly due to the reassessment made by Iberdrola Group, of the necessary provision to cover the potential risk derived from several issues after the favourable Court sentences received in the period.

The amount recorded for this concept in 2014 is mainly due to the reassessment made by Iberdrola Group of the necessary provision cover the fiscal risk arising from contingencies made by the IBERDROLA Group.

- (c) The revenue recorded for this concept in 2015 mainly reflects the effect arising from the recalculation of prepaid and deferred taxes of UK's Group companies due to rate reduction from 20% to 18% (EUR 167,698 thousand).

The revenue recorded for this concept in 2014 reflects the effect arising from the recalculation after the modification of the tax approved in November 2014 by the Law 27/2014 of the anticipated and deferred taxes of the Spanish companies of the IBERDROLA Group, registered and pending of revision at 31 December 2014, depending on the estimated tax rate in force at the date of reversal.

In general terms, the companies of the Group keep 2010 and subsequent fiscal years open to fiscal inspection in relation to the principal taxes in which they are subject to, with the exception to the Income Tax which is open for 2008 and subsequent fiscal years. Nevertheless, the aforementioned period may vary for those entities of the Group subject to other tax legislations.

On 11 March 2014, the State Tax Administration Agency initiated a general tax audit of the taxes of Fiscal Group 2/86. The years and taxes that are being inspected are the Income Tax for the years 2008 to 2011; the Value Added Tax of the years 2010 and 2011; withholdings on personal income taxes from May 2009 to December 2011 and non-resident withholdings for years 2010 and 2011.

At the date of formulation of these Consolidated financial statement inspection minutes have been issued regarding the income tax (specific to transfer pricing), withholding on Personal Income Tax, and withholding on non-residents. No significant equity impact has derived thereof. Nevertheless, the tax inspection is currently in its final phase and it is expected that the final inspection minutes will be signed during the first half of 2016.

The IBERDROLA Group's directors and, where appropriate, their tax consultants consider that the current inspection process will not give rise to additional liabilities of significance for the IBERDROLA Group at 31 December 2015.

As a result of other tax inspections by the tax authorities, tax audit minutes have been issued to several Group companies. Some of these minutes have been signed without agreement and have been appealed against.

29. TAX RECEIVABLES AND PAYABLES

The breakdown of the headings "Income tax receivables/payables" and "Other tax receivables/payables" on the asset and liability sides, respectively, in the Consolidated statements of financial position at 31 December 2015 and 2014 is as follows:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Tax receivables		
Income Tax receivable	411,322	333,223
VAT receivable	60,991	121,292
Tax withholdings and prepayments	80,935	59,140
Other tax receivable	124,714	186,774
	<u>677,962</u>	<u>700,429</u>
Tax payables		
Income Tax payable	250,361	418,741
VAT payable	129,263	93,046
Tax withholdings and prepayments	58,379	118,837
Other tax payable	791,057	823,592
Social Security tax payable	22,013	19,770
	<u>1,251,073</u>	<u>1,473,986</u>

30. TRADE PAYABLES

The detail of this heading in the Consolidated statements of financial position at 31 December 2015 and 2014 is as follows:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Suppliers	3,680,479	3,414,756
Suppliers of services provided	1,447,580	1,435,031
Trade payables	237,470	130,993
Customer advances	211,619	491,953
	<u>5,577,148</u>	<u>5,472,733</u>

The majority of these accounts payable do not accrued interest.

31. INFORMATION ON DEFERRED PAYMENTS TO SUPPLIERS. THIRD ADDITIONAL PROVISION. "DUTY OF INFORMATION" OF LAW 15/2010, OF 5 JULY

In accordance with what is established in the additional disposition of the Resolution of 29 January 2016, the *Instituto the Contabilidad y Auditoría de Cuentas* (ICAC), about the information that should appear in the annual Consolidated financial statements in relation to the average payment period to suppliers in commercial transactions operations, the IBERDROLA Group breakdown only the information relating to 2015 and does not present comparative information. This is because 2015 is the first year in which this information is qualified as required in the Consolidated financial statements keeping in mind the application of the principle of uniformity and comparability requirement.

The breakdown of the required information for the year 2015 is as follows:

	<u>Number of days</u>
	<u>2015</u>
Average payment period to suppliers	17
Paid transactions ratio	17
Outstanding payment transactions ratio	31

	<u>Thousands of euros</u>
	<u>2015</u>
Total payments made	13,581,910
Total outstanding payments	189,151

The information in the table above has been prepared in accordance with the Law 15/2010 of 5 July, amending Law 3/2004 of 29 December, establishing measures to combat late payments in commercial operations and in accordance with the Resolution of 29 January 2016, from the *Instituto de Contabilidad y Auditoría de Cuentas*, on the information to be included in the notes to the financial statements in relation to deferred payments to suppliers in commercial transactions operations. The specifications with which such information has been prepared are the following:

- Ratio of paid operations: amount in days of the ratio between the sum of the amount of each of the operations paid and the number of paydays, and in the denominator, the total amount of payments made during the year.
- Ratio of outstanding payment operations: amount in days of the ratio between the sum of the amount of the outstanding payment transaction and the number of unpaid days, and in the denominator, the total amount of outstanding payments.
- Suppliers: trade payables generated from debts of goods or services with suppliers included in the current liabilities heading of Consolidated statements of financial position.
- Property, plant and equipment and other financial lease suppliers are not considered in the information scope.
- Taxes, levies, indemnifications and some other headings are not considered in the information scope since they are not commercial transactions.
- The table below shows information corresponding to Spanish companies included in the consolidated group once the credits and debits between the subsidiary companies are eliminated.

32. NET REVENUE

The detail of this heading in the Consolidated income statements for 2015 and 2014 is as follows:

	<i>Thousands of euros</i>	
	12.31.15	12.31.14
Deregulated business	21,566,030	21,139,970
Spain and Portugal	12,779,109	12,510,796
United Kingdom	7,561,795	7,647,672
North America	1,539,231	1,461,624
Write off	(314,105)	(480,122)
Renewable business	2,790,566	2,234,466
Spain	764,541	735,528
United Kingdom	797,792	414,186
North America	1,008,310	880,272
Rest of the world	219,923	204,480
Network business	7,960,059	7,334,212
Spain	1,965,023	1,951,914
United Kingdom	1,533,604	1,380,391
North America	2,674,955	2,412,964
Brazil	1,786,477	1,588,943
Other businesses	870,293	598,232
Corporation and adjustments	(1,768,255)	(1,274,610)
Net revenue	31,418,693	30,032,270

33. CONSTRUCTION CONTRACTS

The accumulated amounts relating to uncompleted contracts at 31 December 2015 and 2014 are as follows:

	<i>Thousands of euros</i>			
	<i>Accumulated revenue recognised by reference to degree of completion since the beginning of the contract</i>	<i>Amount billed to clients since the beginning of the contract</i>	<i>Work in progress at 31 December</i>	<i>Advances received from clients at 31 December</i>
2015	<u>5,294,328</u>	<u>5,242,497</u>	<u>187,403</u>	<u>135,572</u>
2014	<u>5,220,726</u>	<u>5,181,695</u>	<u>240,499</u>	<u>201,468</u>

The amount registered in Consolidated income statements during the years 2015 and 2014 for these contracts amounts to EUR 616,523 thousand and EUR 531,136 thousand, respectively.

34. PROCUREMENTS

The detail of this heading in the Consolidated income statements for 2015 and 2014 is as follows:

	<i>Thousands of euros</i>	
	12.31.15	12.31.14
Deregulated business	16,724,475	16,406,523
Spain and Portugal	9,807,741	9,442,437
United Kingdom	6,255,393	6,442,580
North America	975,433	1,001,642
Write off	(314,092)	(480,136)
Renewable business	429,720	200,968
Spain	13,749	7,062
United Kingdom	225,889	45,692
North America	185,738	144,484
Rest of the world	4,344	3,730
Network business	2,446,254	2,093,608
Spain	13,345	-
United Kingdom	61,744	49,198
North America	976,541	914,776
Brazil	1,394,624	1,129,634
Other businesses	635,278	381,897
Corporation and adjustments	(1,659,709)	(1,230,269)
Total procurements	18,576,018	17,852,727

35. STAFF COSTS

The detail of this heading in the Consolidated income statements for 2015 and 2014 is as follows:

	<i>Thousands of euros</i>	
	12.31.15	12.31.14
Wages and salaries	1,779,783	1,663,807
Employer Social Security costs	252,244	242,031
Additional provisions for pensions and similar obligations and defined contributions to the external pension plan (Notes 4.o and 23)	267,112	271,044
By-law stipulated directors' emoluments art. 48.1 (Note 46)	17,000	19,000
By-law stipulated directors' emoluments art. 48.4	5,050	4,107
Other employee welfare expenses	109,038	118,870
	2,430,227	2,318,859
Capitalised staff costs:		
- Intangible assets (Note 8)	(28,939)	(33,161)
- Property, plant and equipment (Note 4.d)	(468,194)	(424,869)
	(497,133)	(458,030)
	1,933,094	1,860,829

In 2015 and 2014 the IBERDROLA Group's average workforce totalled 27,169 and 28,021 employees, of which 6,257 and 6,565 were female workers, respectively.

The average number of employees in the consolidated group corresponds to all the employees in those consolidated companies that have been integrated using the global integration method, as well as the employees of the joint ventures determined based on the participation share in those ones.

36. OPERATING LEASES

The heading "External services" in the Consolidated income statements for 2015 and 2014 included EUR 112,710 thousand and EUR 129,996 thousand, respectively, relating to operating leases. The detail of the total future minimum lease payments under non-cancellable operating leases at 31 December 2015 is as follows:

	<i>Thousands of euros</i>
2016	89,507
2017	77,817
2018	67,037
2019	60,280
2020	55,674
From 2021 onwards	518,841
	<u>869,156</u>

The leasing contracts for most of the lands on which the IBERDROLA Group's wind power facilities are located have renewal on expiry or early termination clauses. The payments detailed in the table above relate to the period of remaining useful life of the facilities, as well as the expenditure which the termination of the contract at the end of its term would entail.

On the other hand, the IBERDROLA Group acts as lessor in certain operating leases consisting basically on the rental of investment property (Note 9) and the lease of fibre optics.

The heading "Net revenue" in the Consolidated income statements in 2015 and 2014, includes EUR 55,580 thousand and EUR 53,021 thousand, respectively, related to this concept and the detail of the estimated future minimum proceeds under non-cancellable leases at 31 December 2015 is as follows:

	<i>Thousands of euros</i>
2016	37,288
2017	36,175
2018	34,753
2019	33,553
2020	32,084
From 2021 onwards	61,576
	<u>235,429</u>

37. TAXES OTHER THAN INCOME TAX

The detail of this heading in the Consolidated income statement of 2015 and 2014 is as follows:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Deregulated Business	955,278	929,637
Spain	780,622	746,808
United Kingdom	170,239	178,138
North America and Canada	3,079	3,151
Mexico	1,338	1,540
Renewable Business	153,727	140,117
Spain	92,872	89,668
United Kingdom	18,496	14,821
North America	38,314	31,743
Other	4,045	3,885
Network Business	499,084	431,947
Spain	97,548	93,714
United Kingdom	112,577	100,361
North America	288,124	235,830
Brazil	835	2,042
Other businesses	3,824	3,257
Corporation and adjustments	94,550	76,285
Total	<u>1,706,463</u>	<u>1,581,243</u>

In addition, Law 15/2012 was published on 28 December 2012, regarding tax measures to ensure sustainability of the energy sector. The law introduced the following tax figures registered under "Taxes other than income tax" of the Consolidated income statements of 2015 and 2014:

- A tax on the value of electricity output, entailing payment of 7% of the total amount to be received by the taxpayer for the production of electricity and incorporation thereof in the Spanish electricity system, measured at power station busbars, during the tax period. This tax gave rise to an expense of EUR 224,548 thousand and EUR 211,560 thousand in 2015 and 2014, respectively.
- A tax on spent nuclear fuel, amounting to EUR 117,792 thousand and EUR 108,571 thousand in 2015 and 2014, respectively.
- A royalty on the use of inland water affecting production of electricity that is levied on the economic value of hydroelectric power produced, with a rate of 22%. The corresponding expense in 2015 and 2014, amounting to EUR 110,228 thousand and EUR 148,689 thousand, respectively.
- A green cent tax levied against energy products used in electricity production, entailing a cost for the IBERDROLA Group of EUR 51,758 thousand and EUR 25,768 in 2015 and 2014, respectively. This payment was recognised under "Procurements" in the Consolidated income statement.

38. AMORTISATION AND PROVISIONS

The detail of this heading in the Consolidated income statements for 2015 and 2014 is as follows:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Tangible assets depreciation allowances:		
- Property, plant and equipment (Note 10)	2,750,480	2,520,025
- Investment property (Note 9)	7,516	7,186
Intangible asset depreciation allowances (Note 8)	335,439	359,904
Grants related to assets transferred to income for the year (Note 22)	(87,981)	(74,037)
Allowances for impairments and write-offs of non-financial assets (Note 12)	279,425	98,833
Changes in provisions	191,735	111,691
	<u>3,476,614</u>	<u>3,023,602</u>

39. GAINS AND LOSSES ON DISPOSAL OF NON-CURRENT ASSETS

The detail of "Gains on disposal of non-current assets" in the Consolidated income statements for 2015 and 2014 is as follows:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Gain on the disposal of land, buildings and other structures	16,996	4,974
Gain on the disposal of equity investments	114,849	250,118
	<u>131,845</u>	<u>255,092</u>

The breakdown of "Losses on disposal of non-current assets" in the Consolidated income statements for the year 2015 and 2014 is as follows:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Loss on the disposal of land, building and other structures	1,267	179
Loss on the disposal of equity investments	5,508	7,030
	<u>6,775</u>	<u>7,209</u>

2015

On 27 February 2015, Iberdrola Energía, S.A.U. transferred to NEOENERGIA its entire holding in distributors COELBA and COSERN. The selling price of COELBA shares, accounting for 8.50% of share capital, amounts to BRL 532,101 thousand (the equivalent of EUR 163,714 thousand). The selling price of COSERN shares, accounting for 7.01% of share capital, amounts to BRL 107,048 thousand (the equivalent of EUR 32,963 thousand).

Receipt of the total price of COELBA and COSERN shares will be deferred until 26 February 2018, when Iberdrola Energía, S.A.U. will also receive the sum of interest calculated at an annual rate of 12.19% (Note 14).

The operation has led to a gross gain of EUR 74,024 thousand, recognised under “Gains on disposal of non-current assets” on the Consolidated income statement for the fiscal year 2015.

On the other hand, on 16 November 2015, the IBERDROLA Group, has signed a transactional contract with the Bolivian Government which recognizes the payment of compensation to the Group because of the nationalization of the entire shareholding in the companies in which it owned the amount of EUR 31,862 thousand, these amounts are presented under the “Gains on disposal of non-currents assets” heading in the Consolidated income statement in 2014.

2014

Iberdrola Energía, S.A.U. transferred to Termopernambuco, S.A., a wholly-owned subsidiary of NEOENERGIA, the direct stake it held in the share capital of Itapebi Geração de Energia, S.A. of Brazil, in other words, 5,650,000 shares representing 22.6 % of its share capital. The price paid was BRL 325.19 million (equivalent to approximately EUR 99,097 thousand), giving a gross capital gain of EUR 76,206 thousand. That has been recognised under “Gains on disposal of non-current assets” in the Consolidated income statement of 2014.

On 26 June 2014, the IBERDROLA Group completed the sale of its 50% shareholding interest in NNB Development Company, S.A. of Belgium (hereinafter, NNB) to Advance Energy UK Limited, a subsidiary of Toshiba Corporation of Japan. NNB owned 100% of the share capital of the British company NuGeneration Limited whose Moorside project aims to develop a new generation nuclear power station of up to 3.6 GW on land in West Cumbria. The sale price was GBP 86 million (equivalent to approximately EUR 107 million). The EUR 95,198 thousand gross capital gains generated were recognised in “Gains on disposal of non-current assets” in the Consolidated income statement of 2014.

On 3 October 2014, the IBERDROLA Group sold its holding in BBE (Note 13.a), representing 25% of the share capital. The amount received was EUR 111 million, of which EUR 104 million corresponds to the final price from the sale of the holding and EUR 7 million to the dividends distributed by BBE before the sale was finalized. The capital gain, which amounted to EUR 64,626 million, was recognised in “Gains on disposal of non-current assets” in the Consolidated income statement for 2014.

40. FINANCE INCOME

The detail of "Finance income" in the Consolidated income statements for 2015 and 2014 is as follows:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Income from equity investments	4,363	176
Other interest and finance income	205,647	135,737
Disposal of the Euskaltel, S.A. investment (Note 13.b)	15,578	-
Disposal of the EDP-Energias de Portugal, S.A. investment (Note 13.b)	-	96,422
Other interest and finance income due to credits to associated companies	28,231	8,522
Derivatives not designated as hedging instruments and inefficiencies (Note 26)	62,771	40,520
Exchange gains in foreign currency for financing activities	53,125	173,160
Other positive exchange gains in foreign currency	116,283	368,201
Capitalised finance costs		
- Intangible asset (Note 8)	13,034	13,302
- Property, plant and equipment (Note 10)	81,749	56,854
- Nuclear fuel (Note 16)	4,204	862
- Real Estate (Note 17)	32	-
	<u>585,017</u>	<u>893,756</u>

41. FINANCE COST

The detail of "Finance cost" in the Consolidated income statements for 2015 and 2014 is as follows:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Finance and similar financing costs	1,090,097	1,159,420
Other finance and similar cost	95,380	91,753
Equity instruments having the substance of a financial liability (Note 21)	22,304	26,628
Derivatives not designated as hedging instruments and inefficiencies (Note 26)	98,095	46,535
Exchange losses in foreign currency for financing activities	62,068	190,144
Other negative exchange losses	134,676	372,786
Financial update of other provisions (Note 24)	49,331	89,928
Financial update of the provisions for pensions and similar obligations (Note 23)	56,120	39,011
	<u>1,608,071</u>	<u>2,016,205</u>

42. BUSINESS COMBINATIONS

2015

On 25 February 2015, the Boards of Directors of IBERDROLA, Iberdrola USA Inc. and UIL Holdings Corporation (UIL) approved the terms for integrating UIL in the IBERDROLA Group through its absorption by Green Merger Sub. Inc. (hereinafter GREEN MERGER SUB), a company owned by Iberdrola USA, Inc., a company that, as a result of this operation has been renamed as Avangrid, Inc. (AVANGRID).

UIL was an American company whose shares came to trade on the New York Stock Exchange (hereinafter, NYSE) and the headquarters of a group of companies engaged mainly regulated business of transmission and distribution of electricity and gas in the states of Connecticut and Massachusetts.

This agreement contains the usual terms for this type of transaction and its realization was subject to the following conditions precedent:

- The approval of the transaction by the shareholders of UIL holding the majority of its share capital.
- Obtaining the necessary regulatory approvals in the United States at the state and federal level.
- The listing of the shares of AVANGRID on the New York Stock Exchange.

These conditions have been met on 16 December 2015. On 17 December 2015, AVANGRID shares have begun trading on the New York Stock Exchange.

The transaction was structured by merging GREEN MERGER SUB (acquiring company) and UIL (the acquired company). Following the merge, the shares of UIL have been canceled and their holders have received as consideration, an action of AVANGRID and USD 10.50 in cash (representing a total cash of USD 595 million).

As a result of the transaction, the share capital of AVANGRID is 81.5% owned by IBERDROLA, while the former shareholders of UIL received 18.5%.

Facing the accounting for this business combination, the IBERDROLA Group has opted to measure minority interests in UIL by the proportional share of the fair value of identifiable assets and liabilities.

The fair value of the assets and liabilities of UIL at 16 December 2015 and its book value at that date is as follows:

	<i>Thousands of euros</i>	
	<i>Fair Value at 16 December 2015</i>	<i>Carrying amount at 16 December 2015</i>
Intangible Assets	2,866,021	373,138
Property, plant and equipment	2,806,187	2,806,187
Non-current financial assets	149,558	149,558
Deferred tax assets	293,686	281,801
Non-current trade and other receivables	1,350	1,350
Inventories	60,788	60,788
Current trade and other receivables	239,802	239,802
Current financial assets	11,012	11,012
Cash and cash equivalents	43,217	43,217
	<u>6,471,621</u>	<u>3,966,853</u>

	<i>Thousands of euros</i>	
	<i>Fair Value at 16 December 2015</i>	<i>Carrying amount at 16 December 2015</i>
Non-current provisions	512,872	472,828
Non-current bank borrowings	1,762,556	1,626,446
Other non-current payables	12,336	12,336
Deferred tax liabilities	1,540,169	564,428
Current bank borrowings	199,683	199,683
Trade and other payables	311,133	311,133
	<u>4,338,749</u>	<u>3,186,854</u>
Net assets	2,132,872	
Goodwill generated in the acquisition (Note 8)	482,703	
Total cost of the acquisition	<u>2,615,575</u>	

Taking into account that UIL stock was being negotiated with liquidity in the NYSE while the Iberdrola USA Inc. stock was not listed, the IBERDROLA Group has calculated the cost of the business combination using the UIL quote the date of acquisition. This cost, amounting to EUR 2,615,575 thousand, breaks down as follows:

	<i>Thousands of euros</i>
Cash	541,389
AVANGRID Shares	2,074,186
	<u>2,615,575</u>

The costs incurred in the acquisition amount to EUR 33,459 thousand, which were recorded under the heading "External services" in the Consolidated income statement for 2015.

As a result of this transaction, the heading "Equity- Of non-controlling interests" in the Consolidated statement of financial position includes 18.5% of the net assets of AVANGRID that has been delivered to the shareholders of UIL on 16 December 2015 amounting to EUR 3,022,264 thousand. The difference between the sum of this amount and the EUR 541,389 thousand paid in cash to shareholders of UIL and the fair value of the net assets of UIL on 16 December 2015, difference that comes up to EUR 948,079 thousand, has been registered under the heading "Other reserves", "Unrealised assets and liabilities revaluation reserve" and "Translation differences" in the Consolidated statement of financial position.

The calculation of the cash outflow arising from the acquisition of UIL is as follows:

	<i>Thousands of euros</i>
Cash and cash equivalents of UIL at 16 December 2015	(43,217)
Cash paid by AVANGRID	541,389
Other expenses incurred for the acquisition	33,459
	<u>531,631</u>

UIL's contribution to consolidated net income for the IBERDROLA Group since 16 December 2015, amounted to EUR 19,727 thousand approximately. If the acquisition would have taken place on 1 January 2015, the increase in net consolidated revenues and consolidated net income for the year 2015 would have amounted to EUR 1,401,068 and EUR 116,990 thousand, respectively.

The goodwill resulting from this business combination, which comes up to EUR 482,703 thousand, consists mainly of future economic benefits from the activity of UIL that do not meet the conditions established for accounting recognition at the time of the business combination.

The accounting for this business combination has been determined provisionally by the date of formulation of these Consolidated financial statements, due to the fact that the valuation of the acquired assets and liabilities (Note 8) has not yet been completed and neither has the 12 month period since the acquisition of UIL established by IFRS 3 "Business Combinations".

2014

In 2014, the IBERDROLA Group has not carried out any significant business combination.

43. CONTINGENT ASSETS AND LIABILITIES

The IBERDROLA Group companies are part of some legal and out-of-court disputes arising as part of their ordinary course of business (ranging from conflicts with suppliers, clients, administrative or tax authorities, individuals, environmental activists and employees).

The IBERDROLA Group's legal advisors believe that these proceedings will not have a material impact on its financial and equity position.

The most important proceedings in which IBERDROLA or its subsidiaries are involved at the date of formulation of these Consolidated financial statements are described below:

- a) The appeal submitted by Iberdrola Distribución Eléctrica, S.A.U. (IBERDROLA DISTRIBUCIÓN) was finally admitted against the National Court ruling of 16 May 2012 dismissing the contentious-administrative appeal submitted by the company against the Resolution by the National Competition Commission (CNC) on 2 April 2009, imposing a fine of EUR 15 million (the fine had been suspended through a guarantee of payment), as the result of a complaint by Centrica Energía, S.L. (in parallel to the appeal submitted by the company against the other distributors forming part of vertically integrated groups) on the alleged grounds of an abuse of a dominant position in relation to en masse access to the database of delivery points. IBERDROLA DISTRIBUCIÓN asked for the fine to be cancelled on the grounds that there had been no infringement of competition regulations and that it had complied with the prevailing regulations of the sector and the criterion established in 2002 by the Spanish Energy Commission (CNE) in this regard. On 30 June 2015 the Third Chamber of the Supreme Court announced it had admitted the appeal submitted by IBERDROLA DISTRIBUCIÓN, on the grounds of failure to provide an adequate statement of grounds. However, after admitting the appeal and dismissing the Ruling, the Supreme Court took over the direct contentious-administrative appeal proceedings of the court in the terms of the case heard by the National Court, and upheld the fine originally imposed. On 10 December 2015 an appeal was submitted against this ruling at the Constitutional Court following dismissal by the Supreme Court.

- b) Céntrica Energía, S.L. instigated a claim at the Nº 1 Bilbao Business Court against IBERDROLA DISTRIBUCIÓN for the sum of EUR 11.9 million in damages allegedly occasioned for not permitting unconditional en masse access to the database of delivery points, as result of the fine imposed by the CNC (now the National Market and Competition Commission, CNMC) on 2 April 2009. IBERDROLA DISTRIBUCIÓN challenged this on the grounds it had been time-barred, also claiming that it had fully complied with the prevailing regulations of the sector and the criterion established in 2002 by the Spanish Energy Commission (CNE) in this regard. A ruling in favour of IBERDROLA DISTRIBUCIÓN was issued on 16 July 2010, admitting the time-bar confirmed by the Provincial Court of Bizkaia on 8 July 2011. Céntrica Energía, S.L. appealed against this to the Supreme Court, which found that the time-bar could not be acknowledged, and those proceedings should return to the Provincial Court of Bizkaia for a ruling on the merits of the case. On 28 March 2014 the Provincial Court of Bizkaia ruled against the entire claim by Céntrica Energía, S.L., whereupon Céntrica Energía, S.L. appealed to the Supreme Court on 21 May 2014.
- c) Fuentenueva del Sur S.L., Fuente La Reina Aranjuez S.L., Promoción Terrazas de Playamar III S.L. and Landeche Servicios Inmobiliarios S.L. submitted a civil claim at the Madrid Nº 36 Court of First Instance for the cancellation, or the possibility of cancellation, of the public deed of purchase of land in Madrid at the location of the Melancólicos Substation owned by IBERDROLA DISTRIBUCIÓN. The acquisition cost amounted to EUR 24,664 thousand. An application has been made for the guarantees provided by Caja Madrid in this operation to be declared invalid, and the plaintiffs have also made a subsidiary application for the final purchase price to be stipulated as EUR 12,255 thousand to take account of the difference in the volume of land for construction of residences (from 8,300 m² to 4,300 m²). The buyers succeeded in their application for a provisional curtailment of implementation of the guarantees in a court ruling against which IBERDROLA DISTRIBUCIÓN submitted an appeal, admitted by the Madrid Provincial Court. IBERDROLA DISTRIBUCIÓN claimed damages arising from the suspension, and this is still pending appeal as the request has not been admitted by the Court of First Instance. On 7 January 2014 the Madrid Nº 36 Court of First Instance completely overruled the claim submitted by Fuente Nueva del Sur, S.L. and another three companies in the same group. The decision was appealed at the Madrid Provincial Court, and is pending a vote and a ruling.
- d) The Lorca Town Hall notified IBERDROLA DISTRIBUCIÓN of a provisional settlement for administrative activities for the granting of a business licence for the Carril transformation substation, in the amount of EUR 12,294 thousand. The amount of the settlement is excessive and disproportionate because it exceeds the limits set by the actual or foreseeable cost of the municipal service or activity or, failing this, the value of the services received. On 12 March 2013 an application was submitted for reconsideration by the same authority. A decision was issued on 12 April 2013, upholding the application and issuing a new settlement for a value of EUR 5,400 thousand, plus EUR 748 thousand in late-payment interest. This decision was challenged in proceedings in the Murcia Contentious-Administrative Court. Application was made for suspension of the administrative act. The court issued a ruling on 20 November 2013 suspending execution of the challenged act, on condition a bond was paid into court in the amount of the settlement to the defendant local authority. On 20 December 2013 the Lorca Town Hall was presented with a bank guarantee as security for the suspension of the tax debt challenged. Lorca Town Hall returned the guarantee to Caixabank for cancellation. On 25 February 2014 Caixabank announced it had cancelled it on notification of suspension of the settlement, with no need for the guarantee stipulated by the Town Hall. The court agreed to combine proceedings. A ruling in the first instance is pending by the Lorca Contentious-Administrative Court.

- e) On 16 June 2014, the CNMC began sanction proceedings against IBERDROLA GENERACIÓN ESPAÑA for alleged fraudulent procedures to alter the price of electricity at the Duero, Tajo and Sil hydroelectric power generation units in December 2013. The fine was announced on 30 November 2015, in the amount of EUR 25 million. IBERDROLA GENERACIÓN ESPAÑA submitted an appeal to the National Court's Contentious-Administrative Section, and this was admitted to proceedings. The IBERDROLA Group believes its action was proper and legal, and did not therefore make any provision for this during the year.

The IBERDROLA Group's appeals on regulatory issues were submitted in opposition to general dispositions of an indefinite amount, affecting the regulatory and remuneration framework of the companies. They therefore concern regulatory dispositions that were in force at the time of appeal.

IBERDROLA's assets are not at risk with respect to the appeals submitted against general energy stipulations because the economic effects of the stipulations challenged apply when they come into force. An estimate of the appeals submitted by third parties has a limited economic scope, as this would force amendments to the regulatory framework and possible refunds.

The following are the main appeals submitted by IBERDROLA against general regulatory dispositions:

- a) The Contentious-administrative appeal by IBERDROLA to the Supreme Court against Ministerial Order IET/1491/2013 of 1 August reviewing electricity access fees for application as of August 2013 and certain tariffs and premiums in relation to special-regime plants in the second quarter of 2013. Expert reports were presented on 14 January 2016.
- b) The Contentious-administrative appeal by IBERDROLA to the Supreme Court against Ministerial Order IET/107/2014 of 31 January reviewing electricity access fees for 2014. The appeal was submitted on 25 February 2014, no application was made for an injunction, and on 23 June 2014 the case was transferred to the State Lawyer to challenge. Appeal conclusions were submitted on 7 December 2015.
- c) On 21 February 2014, IBERDROLA DISTRIBUCIÓN applied for judicial review of the Royal Decree 1048/2013, of 27 December, establishing the method of calculation of remuneration of electricity distribution activities, and the Order IET/2442/2013, of 26 December, establishing remuneration for the second period of 2013 for electricity transmission and distribution activities and other measures in relation to the remuneration of transmission and distribution activities in previous years. It has totally abandoned the appeal against the Royal Decree 1048/2013 and partially the appeal against the Order IET/2442/2013.
- d) IBERDROLA GENERACIÓN, S.A. and TARRAGONA POWER, S.L. submitted appeals to the National Court against the Ministerial Orders ITC/2844/2011 and IET/2599/2012 regulating transfers of funds for the years 2011 and 2012 to Spain's Institute for Energy Diversification and Savings. The National Court's Contentious Section decided to investigate whether the Savings Plans were unconstitutional on the grounds they could constitute a breach of equal rights. Both appeals are pending a ruling by the Constitutional Court concerning the constitutionality of Additional Provision 3 of the Royal Legislative Decree 14/2010.

- e) On 29 January 2014 IBERDROLA GENERACIÓN, S.A. and TARRAGONA POWER, S.L. submitted contentious-administrative appeals against the Ministerial Order IET/75/2014 of 27 January regulating transfers of funds, charged to electricity production companies, from the specific CNMC account to the Institute for Energy Diversification and Savings, in 2013 in implementation of the 2011-2020 Energy Savings and Diversification Action Plan, and the criteria for implementation of the measures stipulated in this plan. The appeal was formally submitted on 8 May 2014. The appeal was suspended until the Constitutional Court could resolve the issues of unconstitutionality involved.

IBERDROLA considers there is a contingent asset for the periods challenged that are pending a ruling. The Consolidated income statement for 2015 does not include any of the income for these periods, income that would amount to EUR 258 million.

- f) IBERDROLA RENOVABLES ENERGÍA, S.A.U. (IRE) submitted an application for judicial review before the Supreme Court against the Royal Decree 413/2014, of 6 June, regulating electricity production from renewable energy sources, cogeneration and waste, and against the Ministerial Order IET/1045/2014, of 16 June, adopting the remuneration metrics for model facilities applicable to certain facilities for electricity production from renewable energy sources, cogeneration and waste. The separate challenges to each statutory instrument have been joined into a single set of proceedings because the "Metrics Order" was adopted by way of implementing the Royal Decree 413/2014, and the two instruments shape the new regulatory scenario that now governs facilities for producing electricity from renewable energy sources. The State attorney has requested the suspension of the appeal proceedings until the European Commission decides whether the remuneration assigned by the provisions allocated can be considered aid. The application for suspension was dismissed by the Supreme Court. On 21 December 2015 the Supreme Court issued a ruling whereby, with a suspension of the period for passing sentence, it was agreed that the parties and the prosecution would have a common deadline of 10 days to make their statements concerning the possibility of submitting the unconstitutionality of certain sections of the Royal Legislative Decree 9/2013 of 12 July and the Law 24/2013 of 26 December of the Electricity Sector to the Constitutional Court.
- g) The appeal to the Constitutional Court by IBERDROLA against provisional settlement 11/2011 (on IBERDROLA's obligation to fund revenue shortfall) and the rulings by the National Court and the Supreme Court dismissing the contentious-administrative appeal submitted by IBERDROLA against this.

On 16 April 2015 the Constitutional Court agreed to admit the appeal to proceedings. Its ruling stipulated that this was of constitutional significance since the possible infringement of the basic right stipulated could arise from the law or from another general stipulation. Pleas were presented on 8 July 2015.

- h) The application for amparo to the Constitutional Court by IBERDROLA against the ruling by the Supreme Court refusing to accept an appeal against CNE settlement 14/2011 (the issue was whether or not the provisional settlement formed part of proceedings). On 6 July 2015 the Constitutional Court agreed to admit the application for amparo to proceedings. The ruling stipulated that the issue was related to the specific case because it involved a legal precept with major general social or economic repercussions. On 30 September 2015 the allegations were presented.

- i) The Contentious-administrative appeal by IBERDROLA to the National Court against the Ministerial Order IET/350/2014 of 7 March setting the percentage shares of the amounts to be financed with regard to the social tariff for 2014. The State Lawyer contested the appeal in writing on 4 August 2014.
- j) The Contentious-administrative appeal by IBERDROLA to the Supreme Court against the Royal Decree 968/2014 of 21 November, implementing the methodology setting the percentage shares of the amounts to be financed with regard to the social tariff. The appeal has reached the phase of conclusions.
- k) The Contentious-administrative appeal by Iberdrola España, S.A.U. to the National Court against the Ministerial Order IET/2182/2015 of 15 October approving the percentage shares of the amounts to be financed with regard to the social tariff for 2015.
- l) The Contentious-administrative appeal by Iberdrola España, S.A.U. to the Supreme Court against the Order IET/2444/2014 of 19 December by the Ministry of Industry, Energy and Tourism determining electricity access fees for 2015. The appeal has reached the phase of conclusions.
- m) The Contentious-administrative appeal by IBERDROLA DISTRIBUCIÓN to the National Court against the Resolution by the State Energy Secretariat of 2 June 2015 approving certain procedures for the processing of data from type 5 measurement units for the purposes of energy billing and payment.

Among the regulatory litigation brought by third parties that may affect the remuneration and equity of the IBERDROLA Group there are no outstanding resources for its importance.

Regarding judicial proceedings dealing with tax matters the most significant litigations are as follows: As to national taxes, and in particular the new electricity taxes created under the Law 15/2012, of 27 December, of tax measures for energetic sustainability, applications for judicial review have been submitted in respect of the orders (issued by the national government and the regional governments of the Basque Country and Navarre) adopting self-assessment forms for the tax on the value of electricity production and the taxes on the production and storage of spent nuclear fuel and radioactive waste. The National Court overruled the application, an appeal was submitted to the Supreme Court and the proceedings are pending a vote and a ruling.

- b) An appeal was submitted against the Royal Decree 198/2015 of 23 March implementing the article 112 bis of the revised Spanish Water Law and regulating the fee for using ground water to produce electricity in intercommunity demarcations, published in the Official State Journal Nº 72 of 25 March 2015. The Supreme Court has issued a ruling stipulating its competence.

- c) Concerning the Extremadura "green tax", applications for judicial review have been submitted in respect of the settlements for the period 2006-2014 under the "Ley de la Asamblea de Extremadura 8/2005" of the Tax on Facilities affecting the Environment in the Autonomous Community of Extremadura. The Constitutional Court upheld the unconstitutionality declared by the Supreme Court in a ruling handed down on 16 February 2015. Final judgments were issued in respect of IBERDROLA GENERACIÓN's company years 2006, 2007 and 2008, and the Extremadura Regional Government appealed against company year 2009. The Extremadura High Court agreed to submit a new issue of unconstitutionality to the Constitutional Court in the proceedings instigated against the settlement in respect of 2012 by IBERDROLA GENERACIÓN NUCLEAR. The High Court from Extremadura is issuing rulings to maintain suspension of processes as of 2010, until the Constitutional Court issues its own ruling.

After the favourable judicial reviews, IBERDROLA considers the existence of a contingent asset according to the alleged periods and pending of judicial reviews. The Consolidated statement of financial position does not include any income for these periods, income that should be EUR 316 million.

- d) With respect to the Tax on environmental damage caused by certain usages and processes involving reservoir water, created by the Galician Parliament Law 15/2008 of 19 December, IBERDROLA GENERACIÓN, S.A.U. appealed against the settlements paid in respect of the years 2009, 2010, 2011 and 2012 under this law on the possible grounds of unconstitutionality. The High Court in Galicia issued final judgments in 2009 and 2010. An appeal was submitted against settlements in respect of the year 2011, and the proceedings are awaiting a vote and a ruling. Contentious-administrative appeals were submitted against the settlement agreements arising from the Non-conformity Documents in the years 2009, 2010, 2011 and 2012 with respect to the tax on environmental damage caused by certain usages and processes involving reservoir water.
- e) Appeals were submitted against the self-assessments as a result of wind power charges by the Autonomous Communities of Castilla La Mancha, Galicia and Castilla y León, the tax on facilities affecting the environment in Murcia and Valencia, the tax on the visual impact caused by equipment and the supply of electricity and fixed communications equipment in La Rioja, and the tax on disposal of waste at dumps in Castilla y León. An appeal was also submitted against provisions for the tax on the production of nuclear electricity-production facilities in Catalonia. On 10 July 2014 the Supreme Court dismissed the appeal submitted by IBERDROLA RENOVABLES GALICIA, S.A.U. against wind power charges in Galicia. Following dismissal of this judgment as a first step to approach the Constitutional Court, on 26 January 2015 the ruling of 16 December 2014 was announced in dismissal of the proceedings. Subsequently a constitutional appeal was submitted on 5 March 2015, and this was rejected by the Constitutional Court in June 2015.

- f) An appeal was submitted against the resolution by the Central Economic-Administrative Court of 5 March 2015, issued with respect to Economic-Administrative Claims 00/00317/2005, submitted against the resolution of 4 November 2004 issued by the Tax Authority's National Inspection Agency, against the provisional settlement agreement by the National Inspection Agency concerning the Tax on Corporations - Consolidated Taxation Regime, in the year 2002, and 00/05607/2013, submitted against the resolution of 6 September 2013 by the Central of Major Taxpayers' Delegation, which overruled the appeal against the final settlement agreement by the Central of Major Taxpayers' Delegation concerning the Tax on Corporations - Consolidated Taxation Regime, in the year 2002. The proceedings have reached the phase of conclusions.

The main legal proceedings in which IBERDROLA or foreign subsidiaries are involved at the date of formulation of these Consolidated financial statements are as follows:

- a) SCOTTISH POWER has begun legal proceedings against BP Exploration Operating Company Ltd. (hereinafter, BP) in which the Group is claiming GBP 83 million for breach of a long-term gas supply contract entered into with BP and its joint venture partners (Talisman North Sea Ltd., ENI TNS Ltd. and JX Nippon Exploration and Production (UK) Ltd.) whereby SCOTTISH POWER buys gas from Andrew Field. BP ceased to supply gas to SCOTTISH POWER in May 2011. In July 2015 preliminary issues were heard, following which a ruling was issued on 25 September 2015 establishing that SCOTTISH POWER was entitled to gas for the duration of the supply shutdown, although the exact amount has still to be decided. It was also decided that BP had failed to fulfil its contract as it had not acted as a "reasonable and prudent operator". The legal ruling, however, did not establish that SCOTTISH POWER was entitled to damages, and it was given leave to appeal. The appeal was scheduled for October or November 2016.
- b) There are eight lawsuits (one administrative and seven civil) involving IBERDROLA in relation to the formulation on 1 July 2008 by its subsidiary IBERDROLA RENOVABLES, S.A. of a takeover bid targeting the ordinary and preference shares of the Greek investee C. ROKAS, S.A. (hereinafter ROKAS). On the occasion of the merging out of existence of IBERDROLA RENOVABLES, S.A. into IBERDROLA, the latter became subrogated to all rights and obligations of the former, including those arising from the proceedings so far referred to. The administrative proceedings consist of an appeal in cassation against the penalty imposed by the Greek securities market commission (HCMC) on IBERDROLA RENOVABLES, S.A. with respect to the takeover bid launched in 2008. The hearing at which that appeal in cassation was to be decided upon had been originally scheduled for 19 May 2015 and although it was foreseen that the sentence would be known before the year 2015 ends, it will not be known until mid 2016.

The remaining civil actions (seven) were instituted by shareholders of C. ROKAS, S.A. and consist of claims for damages equivalent to the difference between the price at which Iberdrola Renovables, S.A. launched the takeover bid (EUR 16 per ordinary share and EUR 11 per preference share), a price which was authorised by HCMC, and the price which those shareholders believe ought to have been set (EUR 21.75 per ordinary share and EUR 21.50 per preference share).

On 14 October 2014, IBERDROLA was notified of the decision issued regarding three of the civil actions, which had been joined into a single one. The decision was unfavorable and IBERDROLA was ordered to pay EUR 10.9 million plus interests (which, at 24 October 2014, came to EUR 4.1 million), of which EUR 0.632 million (plus interests) are IBERDROLA's responsibility on its own, whereas the rest of the amount of the damages must be paid severally by IBERDROLA, Christos Rokas and Georgios Rokas. IBERDROLA does not have face claimants' costs awarded in these proceedings. IBERDROLA has appealed against this decision having set the date to resolve it on 12 November 2015. However, the hearing could not be held on that date, so that it was finally summoned on 24 March 2016. In relation to these three accumulated proceedings, on 26 March 2015 the Court handed down a definitive ruling dismissing IBERDROLA's request for injunctive stay of the provisional implementation of the ruling of 14 October 2014, confirming provisional implementation of the ruling, and compelling IBERDROLA to pay out EUR 420 thousand in relation to two of the three proceedings (EUR 300 thousand and EUR 120 thousand respectively), and EUR 300 in court costs. In May 2015 IBERDROLA proceeded to pay such amounts to the plaintiffs which, in return, proceeded to return the guarantees provided by IBERDROLA. With regard to the third set of proceedings (Collective Suit, Litsa and others), IBERDROLA abandoned its request for stay of execution after reaching an agreement with the plaintiffs, whereby IBERDROLA issued a first-request bank guarantee in their favour for a total of EUR 12.7 million, which can only be called if an unfavourable ruling is handed down against IBERDROLA's appeal. On 23 September 2015 the plaintiffs in the third case (Collective Suit, Litsa and others) instigated a fresh round of proceedings to claim capitalisation of the interest accrued and not paid in connection with the ruling of 14 October 2014. The total amount of the capitalised interest claimed by the plaintiffs was EUR 824 thousand, calculated from the date on which the claim was notified (23 September 2015) to the intended date of the hearing (scheduled for 21 September 2017), with consideration of the prevailing rate in Greece (9.30%). The amount claimed is an estimate, as the interest rate can fluctuate and depends on the date on which the hearing actually takes place.

The remaining other three civil actions are still in a preliminary phase, so it is difficult to determine when a decision upon them will be forthcoming, given the circumstances of the courts of that country. At the date of formulation of these Consolidated financial statements, the hearing for these procedures is set on 2 March 2016, 26 May 2016 and 18 January 2017. In 2011, a final judgement in favour of IBERDROLA was obtained in one of the other civil proceedings, while the other seven civil proceedings remain at various procedural stages. The total amount now being claimed (excluding the proceedings where a final judgement has been handed down in favour of IBERDROLA), after reduction of the claimed amounts, mainly under the head of moral damages, has been fixed at EUR 15.5 million, to which must be added any amounts relating to statutory interest and legal costs.

- c) At the São Paulo Regional Court, a revocatory action was submitted by ELEKTRO to overturn the decision by the Court not to exempt the company from payment of charges for using hard shoulders on motorways to lay electricity cable. The amount of the charges outstanding, updated to 2015, was EUR 25 million, and this sum had been duly provisioned at 31 December 2015. The outcome of proceedings is uncertain as this is a conflict between sectoral regulations, and the energy sector determines that the use of hard shoulders is free of charge for distributors, while the transport sector establishes an annual charge for the right to use them. Irrespective of this conflict, concessionaires have commenced debit proceedings and ELEKTRO obtained favourable first-instance rulings because it had difficulty accrediting the sums owed. There are indications that the electricity regulator ANEEL would agree for these amounts to be transferred to tariffs if they finally had to be paid.

- d) There are various employment, civil and tax claims imposed on ELEKTRO and on different companies of the NEONERGIA Group in Brazil. The IBERDROLA Group considers the chance of losing these claims to be very slight and the related amounts not significant.
- e) The US Environmental Protection Agency has filed claims against various subsidiaries of AVANGRID for failing to comply with environmental issues. The IBERDROLA Group considers that the possibility of these claims being lost is remote and that the amount involved could not be significant. On the other hand, AVANGRID instigated legal proceedings against the former owners of certain sites in order to recover the costs of environmental restoration work it was forced to pay. The IBERDROLA Group did not recognise collection rights for this item, as the conditions of registration required by accounting regulations had not been met.
- f) Normal development of building facilities for third parties includes a negotiation phase and friendly closure at the completion in which aspects of different nature are discussed, and may give rise to claims for and against the Group. In the year 2015, the Group has opened a claim filed before a customer consortium amounting to EUR 240 million and a complaint received by the consortium of which the Group is a partner in the amount of EUR 273 million. The IBERDROLA Group does not consider probable to thrive customer complaint so it has not made any provision for the year. Likewise, there has not been further consideration to the derivative of the selling price of the contract receivable.
- g) Claims were submitted against SCOTTISH POWER by third parties for allegedly occupying their land in the absence of any prior agreement. The IBERDROLA Group feels that these claims will not have any material effect on its assets.
- h) The IBERDROLA Group has a non-controlling EUR 64 million stake in a Brazilian company which is being investigated as part of the wider investigation of ELETROBRAS, the majority shareholder. The IBERDROLA Group does not consider these issues will have any material effect on its assets.
- i) British regulator OFGEM is conducting an investigation to ascertain whether SCOTTISH POWER has met the standards of conduct in connection with its gas and electricity supply licence ("Standards of Conduct (SOC) SLC 25 C") and the 2008 "Complaints Handling Regulations". An investigation is also ongoing into compliance with the CNES 27.17 27.18 regulation concerning the issue of final invoices.

The investigation will ascertain whether SCOTTISH POWER met these regulations, and will decide whether consumers were issued with contact, whether action was taken promptly and courteously when an error was detected, and whether action was taken to ensure that agreements drawn up with customers were appropriate to their situation. The investigation was still ongoing at the date on which these consolidated financial statements were drawn up, and the IBERDROLA Group does not expect it to have any material effect on its assets. It has therefore not made any provision in this regard.

44. INTERESTS IN JOINT VENTURES

The detail (at 100%) of the most significant economic aggregates in 2015 and 2014 relating to the main joint ventures involving the IBERDROLA Group is as follows:

		<i>Thousands of euros</i>								
		<u>Joint property of nuclear and thermal plants</u>								
2015		<u>Almaraz</u>	<u>Trillo</u>	<u>Vandellós</u>	<u>Ascó</u>	<u>Aceca</u>	A.I.E. Almaraz -Trillo	A.I.E. Ascó- Valdellós	West of Duddon Sands	Torre Iberdrola
Segment		<u>Deregulated</u>							<u>Renewables</u>	<u>Other businesses</u>
Intangible assets	-	-	-	-	-	-	4,437	-	-	6
Property, plant and equipment										
Technical instalations	840,152	1,167,698	1,163,848	746,319	-	-	-	1,797,206	-	-
Other fixed assets	413	5,268	14,762	-	1,811	1,626	-	19,191	218,207	-
Non-Current financial Assets	22,913	11,290	45,533	9,864	2,430	1,823	110,437	-	11,916	-
Current assets	<u>518,022</u>	<u>320,585</u>	<u>312,386</u>	<u>318,793</u>	<u>5,380</u>	<u>59,946</u>	<u>142,587</u>	<u>12,142</u>	<u>-</u>	<u>-</u>
Total assets	<u>1,381,500</u>	<u>1,504,841</u>	<u>1,536,529</u>	<u>1,074,976</u>	<u>9,621</u>	<u>67,832</u>	<u>253,024</u>	<u>1,828,539</u>	<u>230,129</u>	<u>-</u>
Non-Current Liabilities	283,565	439,338	456,793	200,342	3,088	46,015	125,320	-	1,445	-
Current Liabilities	1,078,506	1,063,930	1,071,935	824,055	1,669	21,817	108,469	61,651	1,769	-
Income	807,316	406,438	381,018	424,798	6,192	154,629	287,233	6,461	11,788	-
Expenses	798,560	416,689	414,391	387,968	2,243	154,629	297,222	36,770	10,741	-
2014										
Intangible assets	-	-	-	-	-	4,933	-	-	11	-
Property, plant and equipment										
Technical instalations	1,048,986	1,178,986	1,167,349	779,673	-	-	-	1,628,982	-	-
Other fixed assets	435	5,646	14,829	-	1,809	2,074	-	3,108	219,219	-
Non-Current financial Assets	23,173	11,290	47,098	9,864	2,435	1,837	85,393	-	-	-
Current assets	<u>455,966</u>	<u>278,433</u>	<u>285,176</u>	<u>234,434</u>	<u>7,021</u>	<u>60,777</u>	<u>217,056</u>	<u>-</u>	<u>-</u>	<u>9,309</u>
Total assets	<u>1,528,560</u>	<u>1,474,355</u>	<u>1,514,452</u>	<u>1,023,971</u>	<u>11,265</u>	<u>69,621</u>	<u>302,449</u>	<u>1,632,090</u>	<u>228,539</u>	<u>-</u>
Non-Current Liabilities	350,901	374,449	362,396	156,822	6,675	45,224	136,852	-	1,333	-
Current Liabilities	1,252,969	1,191,928	1,177,899	959,661	2,352	24,397	146,363	19,581	1,438	-
Income	637,091	307,380	373,745	277,059	6,395	136,873	356,161	8,579	10,365	-
Expenses	723,828	412,225	446,947	381,633	5,073	136,873	288,270	24,594	10,095	-

45. GUARANTEE COMMITMENTS TO THIRD PARTIES AND OTHER CONTINGENT LIABILITIES

IBERDROLA and its subsidiaries are required to provide the bank or corporate guarantees associated with the ordinary management of the Group's activities in the countries where the Group operates.

For its activity of electricity generation, the IBERDROLA Group guarantees the obligations undertaken in energy purchase agreements and grid access transactions in different energy markets and against the operators of different electricity systems (MEFF, OMEL, OMI Clear, National Grid, CFE, REE and EDP Distribución).

With regard to generation from renewable sources, the IBERDROLA Group has provided guarantees to third parties to cover the construction, bringing into service and dismantling of facilities, in addition to its responsibilities in long-term energy sales.

Further, as part of its engineering business, the IBERDROLA Group guarantees not only the supply, but also the design, bringing into service and operation of turnkey construction projects sold to its customers.

At 31 December 2015 and 2014, there were outstanding obligations resulting from bond issues in the United States amounting to EUR 1,574,141 and EUR 1,180,495 thousand that were secured by the items in the property, plant and equipment of the subgroup AVANGRID.

In addition, at 31 December 2015 and 2014, there were no outstanding obligations resulting from mortgage loans secured by items of the property, plant and equipment.

IBERDROLA considers that any additional liabilities that could arise from the guarantees provided at 31 December 2015, if any, will not be significant.

The IBERDROLA Group in compliance with the contractual obligations associated with loans received from banks, had fully or partially pledged some of its subsidiaries shares at 31 December 2015 and 2014. The detail, by company, of the shares pledged is as follows:

Company	2015			2014		
	Carrying amount (thousands of euros)	Percentage of ownership	Carrying amount by percentage of IBERDROLA Group's ownership (thousands of euros)	Carrying amount (thousands of euros)	Percentage of ownership	Carrying amount by percentage of IBERDROLA Group's ownership (thousands of euros)
Renewables business - Spain						
Biovent Energía, S.A.	63,754	95.00%	60,566	62,450	95.00%	59,328
Desarrollo de Energías Renovables de La Rioja, S.A. ⁽¹⁾	-	-	-	22,065	40.51%	8,939
Energía de Castilla y León, S.A.	6,466	85.50%	5,528	5,613	85.50%	4,799
Energías Eólicas de Cuenca, S.A.	16,174	100.00%	16,174	13,216	100.00%	13,216
Energías Renovables de la Región de Murcia, S.A.	-	-	-	75,148	100.00%	75,148
Eólica 2000, S.L.	4,663	51.00%	2,378	4,297	51.00%	2,191
Eólica de Campollano, S.A. ⁽¹⁾	25,010	25.00%	6,253	27,075	25.00%	6,769
Molinos de La Rioja, S.A. ⁽¹⁾	8,260	42.37%	3,500	7,693	42.37%	3,260
Molinos del Cidacos, S.A. ⁽¹⁾	27,942	31.78%	8,880	26,267	31.78%	8,348
Sistemas Energéticos Torralba, S.A.	-	-	-	4,513	60.00%	2,708
Iberdrola Renovables La Rioja, S.A. ⁽¹⁾	96,862	63.55%	61,556	95,608	63.55%	60,759
Renewables business – United States						
Colorado Green Holdings, LLC	72,917	40.75%	29,714	66,526	50.00%	33,263

Company	2015			2014		
	Carrying amount (thousands of euros)	Percentage of ownership	Carrying amount by percentage of IBERDROLA Group's ownership (thousands of euros)	Carrying amount (thousands of euros)	Percentage of ownership	Carrying amount by percentage of IBERDROLA Group's ownership (thousands of euros)
Renewables business – Brazil						
Arizona 1 Energía Renovável, S.A	10,711	69.50%	7,444	12,420	69.50%	8,632
Caetité 1 Energía Renovável, S.A. ⁽¹⁾	16,558	69.50%	11,508	19,916	69.50%	13,842
Caetité 2 Energía Renovável, S.A. ⁽¹⁾	17,562	69.50%	12,206	20,915	69.50%	14,536
Caetité 3 Energía Renovável, S.A	15,826	69.50%	10,999	18,171	69.50%	12,629
Calango 1 Energía Renovável, S.A. ⁽¹⁾	12,875	69.50%	8,948	14,921	69.50%	10,370
Calango 2 Energía Renovável, S.A.	8,920	69.50%	6,199	10,289	69.50%	7,151
Calango 3 Energía Renovável, S.A.	10,021	69.50%	6,965	11,826	69.50%	8,219
Calango 4 Energía Renovável, S.A. ⁽¹⁾	9,951	69.50%	6,916	11,564	69.50%	8,037
Calango 5 Energía Renovável, S.A. ⁽¹⁾	11,505	69.50%	7,996	13,131	69.50%	9,126
Energias Renovaveis do Brasil, S.A.	25,287	100.00%	25,287	36,676	100.00%	36,676
Mel 2 Energía Renovável, S.A.	7,407	69.50%	5,148	9,599	69.50%	6,671
Força Eolica do Brasil 1, S.A. ⁽¹⁾	72,484	69.50%	50,376	81,891	69.50%	56,914
Força Eolica do Brasil 2, S.A. ⁽¹⁾	60,099	69.50%	41,769	65,812	69.50%	45,739
Renewables business – Other						
Societat Energie Rinnovabili 1, S.p.A. ⁽¹⁾	22,367	49.90%	11,161	16,734	49.90%	8,350
Societat Energie Rinnovabili, S.p.A. ⁽¹⁾	21,645	49.90%	10,801	18,769	49.90%	9,366
Network business – Brazil						
Baguari Geração de Energia Eléctrica, S.A. ⁽¹⁾	25,025	39.00%	9,760	28,009	39.00%	10,924
Bahia PCH I, S.A. ⁽¹⁾	28,624	39.00%	11,163	36,857	39.00%	14,374
Companhia Hidreletrica Teles Pires, S.A. ⁽¹⁾	468,881	19.54%	91,619	552,559	19.54%	107,970
Energetica Aguas da Pedra, S.A.	104,681	19.89%	20,821	118,764	19.89%	23,622
Geração CIII, S.A. ⁽¹⁾	40,067	39.00%	15,626	46,385	39.00%	18,090
Goias Sul Geração de Energia, S.A. ⁽¹⁾	47,924	39.00%	18,690	57,754	39.00%	22,524
Rio PCH I, S.A. ⁽¹⁾	29,131	27.30%	7,953	37,096	27.30%	10,127
Belo Monte Participações, S.A. ⁽¹⁾	165,833	39.00%	64,675	165,600	39.00%	64,584
Deregulated business - Mexico						
Iberdrola Energía Altamira, S.A. de C.V. ⁽²⁾	330,102	100.00%	330,102	283,022	100.00%	283,022
Iberdrola Energía del Golfo, S.A. de C.V. ⁽²⁾	177,144	100.00%	177,144	147,210	100.00%	147,210
Iberdrola Energía La Laguna, S.A. de C.V. ⁽²⁾	186,626	99.99%	186,607	155,269	99.99%	155,253
Iberdrola Energía Monterrey, S.A. de C.V. ⁽²⁾	131,185	99.99%	131,172	88,201	99.99%	88,192
Iberdrola Energía Tamazunchale, S.A. C.V. ⁽²⁾	197,739	99.99%	197,719	153,217	99.99%	153,202
Iberdrola Generación México, S.A. de C.V. ⁽²⁾	638,019	100.00%	638,019	579,710	100.00%	579,710
Enertek, S.A. de C.V. ⁽²⁾	92,678	99.99%	92,669	89,836	99.99%	89,827
Deregulated business - Spain						
Tirme, S.A. ⁽¹⁾	35,875	20.00%	7,175	62,125	20.00%	12,425

Company	2015			2014		
	Carrying amount (thousands of euros)	Percentage of ownership	Carrying amount by percentage of IBERDROLA Group's ownership (thousands of euros)	Carrying amount (thousands of euros)	Percentage of ownership	Carrying amount by percentage of IBERDROLA Group's ownership (thousands of euros)
	3,344,800		2,419,186	3,374,719		2,316,042

- (1) Companies accounted for using the equity method.
(2) The 99% of the shares is in trust.

46. REMUNERATION OF BOARD OF DIRECTORS

1. 2015 by-law stipulated remuneration

Article 48 of IBERDROLA's by-laws provides that the Company shall assign, as an expense, an amount equal to up to 2% of the profit obtained in the year by the consolidated group for the following purposes:

- To remunerate directors, in accordance to both, the positions they have held and their executive functions, considering their dedication and attendance at meetings of corporate bodies.
- To set up a fund to meet the Company's obligations in pensions, life insurance premiums and payment of indemnities to current and former directors.

In particular, the board of directors will receive a remuneration which consists of an annual fixed assignment, assistance fees and appropriate hedge risk benefits (death or permanent disability). In the case of dismissal before the end of the period for which they were appointed, the non-executive directors who were not external, shall be entitled to receive compensation for non-attendance; except those whose dismissal could have been motivated by serious breaches of administrator's function that are attributable to their own fault or be exclusively voluntary.

Assignment of up to 2% may be accrued only if the yearly profit is sufficient to cover assignments to the legal reserves and any other obligatory charges, and if shareholders have been allotted a dividend equal to 4% of the share capital.

On the proposal of the Appointments and Remuneration Committee, the Board of Directors has decided to propose to the General Shareholders Meeting to assign by-law stipulated remuneration of EUR 17,000 thousand in 2015. In 2014, it amounted to EUR 19,000 thousand.

These amounts have been registered under "Staff costs" in the Consolidated income statements (Note 35) and the break down is as follows:

a) Fixed Remuneration

The fixed annual remuneration received by the board members depends on the duties assigned to them in the Board of Directors and its commissions in 2015 and 2014. The detail of which is as follows:

	<i>Thousands of euros</i>	
	<i>2015</i>	<i>2014</i>
Chairman	567	567
Committee chairmen	440	440
Committee members	253	253
Board members	165	165

The fixed remuneration earned by members of the Board of Directors with a charge to the by-law stipulated remuneration amounted to EUR 4,551 thousand and EUR 4,335 thousand in 2015 and 2014, respectively.

The detailed fixed remuneration accrued by the members of the Board of Directors, individually, during 2015 and 2014, respectively, is detailed as follows:

	<i>Thousands of euros</i>	
	<i>Fixed remuneration 2015 (*)</i>	<i>Fixed remuneration 2014</i>
Chairman		
Mr. José Ignacio Sánchez Galán	567	567
Committee chairmen		
Mrs. Inés Macho Stadler	440	440
Mrs. Samantha Barber	440	440
Mrs. Maria Helena Antolín Raybaud ⁽¹⁾	396	253
Mrs. Georgina Kessel Martínez ⁽²⁾	415	253
Committee members		
Mr. Xabier de Irala Estévez	253	253
Mr. Íñigo Víctor de Oriol Ibarra	253	253
Mr. Braulio Medel Cámara	253	253
Mr. Santiago Martínez Lage	253	253
Mr. José Luis San Pedro Guerenabarrena	253	253
Mr. Ángel Jesús Acebes Paniagua	253	253
Mrs. Denise Mary Holt ⁽³⁾	253	126
Mr. Jose Walfredo Fernández ⁽⁴⁾	220	-
Mr. Manuel Moreu Munaiz ⁽⁵⁾	211	-
Directors that resigned		
Mr. Manuel Lagares Gómez-Abascal ⁽⁶⁾	-	45
Mr. Julio de Miguel Aynat ⁽⁷⁾	58	440
Mr. Sebastián Battaner Arias ⁽⁸⁾	33	253
Total remuneration	4,551	4,335

(*) Amounts accrued in 2015, not satisfied until the approval of 2015 by-law stipulated remuneration by the General Shareholders Meeting 2016.

(1) Appointed president of the Appointment Committee after the constitution on the 27 March 2015.

(2) Appointed president of the Audit and Risk Supervision Committee by the Board of Directors in the meeting on the 17 February 2015.

(3) Appointed external director by the Board of Directors at its meeting on 24 June 2014. Furthermore, on 22 July 2014 her appointment was approved as a member of the Audit and Risk Supervision Committee.

(4) Appointed external director by the Board of Directors at its meeting on 17 February 2015. In turn, on that date, the Board of Directors approved his appointment as a member of the Audit and Risk Supervision Committee.

- (5) Appointed advisor as external by the Boards of Directors at its meeting on 17 February 2015. Also, on 27 March 2015, the Boards Director approved his appointment as member of the Social Responsibility Commission.
- (6) Ceased as vice-chairman of Boards of Directors at their meeting on 10 April 2014.
- (7) Ceased as independent director at the Board Meeting on 17 February 2015.
- (8) Ceased as independent director at the Board Meeting on 17 February 2015.

As a proposal of the Board of Directors, at the General Shareholder's Meeting which took place on 27 March 2015, approved the separation of the Appointments and Remuneration Commission into two different commissions; on one hand creating the Remuneration Commission and on the other the Appointments Commission.

Currently, all members of the Board of Directors of IBERDROLA assume responsibility for any of the four committees of the Board.

b) Attendance fee

The attendance fees paid in 2015 and 2014 for attending the meetings of the Board of Directors and its commissions, based on the duties discharged in each case, were as follows:

	<i>Thousands of euros</i>	
	<u>2015</u>	<u>2014</u>
Chairman of the Board of Directors and committees chairmen	4	4
Committee members and members of the Board of Directors	2	2

The attendance fees paid to the members of the Board of Directors with a charge to the by-law stipulated remuneration amounted to EUR 676 thousand and EUR 590 thousand in 2015 and 2014, respectively.

Below are listed, individually, the attendance fees received by the members of the Board of Directors during 2015 and 2014, respectively:

	<i>Thousands of euros</i>	
	<i>Attendance fee 2015</i>	<i>Attendance fee 2014</i>
Chairman		
Mr. José Ignacio Sánchez Galán	88	88
Committee chairmen		
Mrs. Inés Macho Stadler	72	76
Mrs. Samantha Barber	44	54
Mrs. María Helena Antolín Raybaud	44	32
Mrs. Georgina Kessel Martínez	68	32
Committee members		
Mr. Xabier de Irala Estévez	44	44
Mr. Iñigo Víctor de Oriol Ibarra	42	30
Mr. Braulio Medel Cámara	28	18
Mr. Santiago Martínez Lage	30	30
Mr. José Luis San Pedro Guerenabarrena	42	44
Mr. Ángel Jesús Acebes Paniagua	56	44
Mrs. Denise Mary Holt	42	14
Mr. Jose Walfredo Fernández	36	-
Mr. Manuel Moreu Munaiz	24	-
Directors that resigned		
Mr. Manuel Lagares Gómez-Abascal	-	4
Mr. Julio de Miguel Aynat	10	50
Mr. Sebastián Battaner Arias	6	30
Total attendance fees	676	590

c) Remuneration of the executive directors for discharging their executive duties

The remunerations earned in 2015 and 2014 by the chairman and chief executive officer for their executive duties, and which are also recognised with a charge to the by-law stipulated remuneration for the year are indicated below individually by remuneration components:

Remuneration components of chairman and chief executive officer:

	<i>Thousands of euros</i>	
	<i>2015</i>	<i>2014</i>
Fixed remuneration	2,250	2,250
Variable annual remuneration (1)	3,200	3,146
Compensation in kind	66	66

(1) Amount relates to variable remuneration received in years 2015 and 2014, respectively, based on attainment of targets and personal performance in 2014 and 2013, respectively.

The Board of Directors has resolved to maintain the fixed remuneration for the chairman and chief executive officer in 2016 at EUR 2,250 thousand. It also decided to maintain the limit of variable annual remuneration, which may not exceed EUR 3,250 thousand and which will be paid as far as been agreed in 2017.

On the other hand, in 2015, the former chief operating officer received EUR 500 thousand by way of annual variable remuneration for 2014 for carrying out functions up until 24 June 2014. He also received EUR 1 thousand as remuneration in kind in 2015. In 2014 he received EUR 484 thousand as fixed remuneration, EUR 21 thousand as remuneration in kind, and EUR 16 thousand for other items.

d) Provisions and guarantees provided by the Company for directors

This account includes the following items:

- The premium incurred to cover benefits payable in the event of the death, disability and other insurance of current directors, amounting to EUR 658 thousand and EUR 869 thousand in 2015 and 2014, respectively.
- The premium paid to cover directors' Civil Liability Insurance amounts to EUR 68 thousand and EUR 86 thousand in 2015 and 2014, respectively.
- In 2015 and 2014 rebates were received amounting to EUR 447 thousand and EUR 276 thousand, respectively, with respect to the adjustment of the pension insurance policies relating to former Members of the Board of Directors.

In 2015 and 2014 no contribution was made to provision schemes additional to the public Social Security system.

e) Others

The expenses of the Board of Directors related to external services and other items during 2015 and 2014 amounted to EUR 1,393 thousand and EUR 1,189 thousand, respectively.

Additionally, under the by-law stipulated in 2015 agreements acquired by the company have been addressed amounting to EUR 63 thousand. No such payment was recorded in 2014.

The undistributed by-law stipulated remuneration for 2015 amounting to EUR 4,021 thousand can be externalized to cover the obligations incurred by the Company to ensure them, in the event they should be materialized.

At 31 December 2015 and 2014 there are no loan or advance granted by the IBERDROLA Group to the members of the Board of Directors of IBERDROLA.

2. Remuneration through the delivery of Company shares

Section 4 of Article 48 of IBERDROLA's by-laws stipulates that independently of the provisions of the foregoing paragraph, and subject always to the approval of the General Shareholders' Meeting, the compensation of directors may also consist of the delivery of shares or options thereon, as well as a payment which takes as its reference the value of the Company's shares.

Consequently, the remuneration through the delivery of Company's shares, or any other remuneration related to such shares is additional, compatible and independent of profit sharing, which is established in Section 1 article 48 of the by-laws of IBERDROLA.

a) 2011-2013 Strategic Bonus

On 24 June 2014, based on a proposal from the Appointments and Remuneration Committee, the Board of Directors resolved to settle, having met 93.20% of the targets set, the 2011-2013 Strategic Bonus, approved at the General Shareholders' Meeting of 27 May 2011 and regulated by the 2011-2013 Strategic Bonus Regulations which were also approved by the Board of Directors. Accordingly, the second of the three annual settlements were made in 2015. The Chairman and the CEO received 536,359 IBERDROLA shares while the Chief Operating Officer received 90,640 shares.

b) 2014-2016 Strategic Bonus

On 28 March 2014, the General Shareholders' Meeting resolved, in connection with item seven on the agenda, on the 2014-2016 Strategic Bonus (Note 20) aimed at executive directors, senior executives and other management personnel of the Company and its subsidiaries. The maximum number of shares to be delivered to the beneficiaries (350) of the 2014-2016 Strategic Bonus will be 19,000,000 shares, equal to 0.3% of the share capital at the time this resolution is adopted. A maximum of 2,200,000 shares will be delivered to the executive directors in compliance with the terms and conditions of the scheme. The liquidation of this strategic bonus depends on the completion of the planned objectives and it will be realised in the years 2017, 2018 and 2019.

3. Termination benefits

In the event of termination of a non-executive director prior to the end of the period for which he was appointed not due to non-compliance attributable to such director and not due exclusively to his own will, the Company will pay such director a termination benefit subject to the director's obligation during the remaining period of his term (with a maximum of two years) not to accept positions on the governing bodies of companies in the energy sector or competing companies and not to participate in the management or advisory of the same in any other form.

Termination benefits are equal to 90% of the fixed amount the director would have received for serving his or her remaining term as officer (maintaining any annual fixed amount receivable upon leaving the Board), that could not exceed an amount that is twice 90% of that annual fixed amount.

Since the end of the 90s, executive directors, as well as a group of managers, have the right to receive a termination benefit in the event of termination of the contractual relationship with the Company not due to non-compliance attributable to such director and not due exclusively to his own will. The amount of compensation for the chairman and the chief executive officer is currently set at three annuities. The limit shall be two annuities for new contracts with executive directors and senior executives, since 2011.

In addition, executive director contracts contain a non-compete clause in respect of companies and activities of a similar nature, applicable throughout the director's relationship with the Company and for a maximum of two years subsequent to departure. As compensation for this commitment, the executive directors are entitled to receive a payment equal to the remuneration that would correspond to these periods.

4. By-law stipulated remuneration in 2016

At the proposal of the Appointments and Remuneration Committee, the Board of Directors unanimously resolved to freeze, for the 2016 fiscal year, directors' compensation in the form of fixed annual remuneration based on position and meeting attendance fees, as it has done since 2008.

47. INFORMATION REGARDING COMPLIANCE WITH ARTICLE 229 OF THE SPANISH COMPANIES LAW

As established in article 229 of the Spanish Companies Law (*Ley de Sociedades de Capital*) introduced by the Royal Decree-Law 1/2010 of 2 July 2010 and in the Law 31/2014, of 3 December 2014, modifying the Spanish Companies Law for the improvement of corporate governance, the conflicts of interest, direct or indirect, that the members of the Board have had with the Company, and the treatment thereof, are indicated below.

The Board of Directors discussed the appointment, re-election and salary of directors in absence of those affected in each case.

Additionally, all the directors were refrained from participating in the revision of their respective ratings as executives, external dominical and external independent.

Likewise, Mr. Xabier de Irala Estévez left the meeting during the discussion of the resolutions regarding the agreements involving Kutxabank, S.A. (specifically, the contracting of Norbolsa Sociedad de Valores, S.A. as the agent for the execution of the *Iberdrola dividendo flexible* system and the modification of the terms cancellation agreement of the mortgage loan to Norapex, S.A. to CajaSur Banco, S.A.)

Also, Mr. Manuel Moreu Munaiz left during the discussion and voting of the proposal related to the contracting of Seaplace, S.L., which is linked to Mr. Moreu Munaiz with Iberdrola Renovables Energía, S.A. in the framework of the ATEMPO project.

Finally, Mr. Ángel Jesús Acebes Paniagua left during the discussion of certain framework agreements about corporate rates subsidised with specific airline companies, being one of them a client of this director's law firm.

48. REMUNERATION OF SENIOR EXECUTIVES

Senior executives are those who answer directly to the Company's Board of Directors, chairman and chief executive officer and, in all cases, the Internal audit director, apart from any other director recognised as senior executive.

At the date of these Consolidated financial statements such condition has not been recognized to any director by the Board of Directors.

At 31 December 2015 and 2014, the Company has 6 and 7 senior executives, respectively.

The staff costs relating to senior executives amounting to EUR 9,751 thousand and EUR 8,189 thousand in 2015 and 2014, respectively, are recognised under "Staff costs" in the Consolidated income statements of the mentioned years.

The remuneration and other compensation received by senior executives in 2015 and 2014 are detailed below:

	<i>Thousands of euros</i>	
	<u>12.31.15</u>	<u>12.31.14</u>
Monetary remuneration	4,569	3,630
Variable remuneration	2,537	2,213
Compensation in kind	418	386
Payments to account not charged	60	75
Social Security	80	93
Promoter contribution pension plan	41	57
Complementary policy accrual	1,647	1,400
Complementary policy risk	399	335
Total staff costs	<u>9,751</u>	<u>8,189</u>
	<i>Number of shares</i>	
Share-based payment plan, strategic bonus	340,381	385,057 ⁽¹⁾

- (1) During the years 2015 and 2014, 340,381 and 385,057 shares were delivered to senior executives, respectively, for the Strategic Bonus 2011-2013, described in Note 20, for which senior executives received shares of IBERDROLA in equal parts for the years from 2014 to 2016.

A maximum of 2,199,079 shares in aggregate are to be delivered to senior executives under the 2014-2016 Strategic Bonus (Note 20), tied to their success in achievement of objectives. As of 31 December 2015 and 2014, EUR 8,211 thousand and EUR 4,769 thousand have been provided for these commitments.

For senior executives, including executive directors, there are clauses providing guarantees or protection against different cases of contract termination. These contracts have been approved by the Board of Directors of IBERDROLA and are described in Note 46.

The amount of termination benefits is based on the length of service at the Company and the causes of cease, with a maximum payment of five annuities. Since 2011, for contracts with senior executives, the maximum will be two annuities.

The contracts for senior executives set in any case an obligation not to compete in relation to companies and activities similar in nature to those of IBERDROLA and the Group for a period not less than one year after its termination.

On the other hand, during 2015 and 2014 there were no other transactions with the executives outside the normal course of the business.

49. BALANCES AND TRANSACTIONS WITH OTHER RELATED PARTIES

The transactions detailed below are specific to the ordinary business activity and have been carried out on an arm's-length basis:

Transactions carried out by IBERDROLA with major shareholders

The most noteworthy transactions in 2015 and 2014 have been as follows:

Transaction type	Thousands of euros			
	Major shareholders ⁽²⁾			
	2015		2014	
Kutxabank, S.A.	Qatar Investment Authority	Kutxabank, S.A.	Qatar Investment Authority	
Expenses and income				
Finance cost	15	-	45	-
Service received	-	-	479	-
Finance income	28	-	-	-
Other transactions				
Financing agreements: loans and capital injection (given)	-	-	5,267	-
Dividends and other distributed profit ⁽¹⁾	32,835	21,571	93,278	244,543

(1) The amounts distributed as dividends and other benefits corresponding to the free allocation rights arising from capital increases agreed by the General Meeting of Shareholders of 27 March 2015, 28 March 2014 and 22 March 2013, respectively, which have been sold to IBERDROLA at a guaranteed price according to the terms of the aforementioned increases, as well as the attendance bonus to the General meeting received from the related party, if applicable.

(2) IBERDROLA treats as a major shareholder any shareholder who exerts a significant influence on the company's financial and operating decisions. Significant influence is defined as having at least one director on the Board.

This also applies to those significant shareholders whose ownership interest in the company enables them to exercise the proportional representation system

Therefore, the amounts relating to major shareholders reflect transactions with Kutxabank and Qatar Investment Authority, these being the only shareholders who satisfied that condition at the date of issuance of these financial statements.

Transactions of other IBERDROLA Group companies with major shareholders

The most noteworthy transactions in 2015 and 2014 were as follows:

	<i>Thousands of euros</i>			
	Major shareholders ⁽²⁾			
	2015		2014	
	Kutxabank, S.A.	Qatar Investment Authority	Kutxabank, S.A.	Qatar Investment Authority
Transaction type				
Expenses and income				
Finance cost	223	-	227	-
Received services	24	-	56	-
Finance income	-	-	11	-
Other transactions				
Financing agreements: loans and capital injection (given)	-	-	1,410	-
Financing agreements: loans and capital injection (received) ⁽¹⁾	6,962	-	6,601	-
Guarantees provided	2,246	-	2,246	-
Commitments and guarantees cancelled	-	-	10,827	-

(1) It includes, inter alia, deposits, debt derivatives, promissory notes, etc.

(2) IBERDROLA treats as a "significant shareholder" any shareholder who exerts a significant influence on the company's financial and operating decisions. "Significant influence" is defined as having at least one director on the Board.

This also applies to those significant shareholders whose ownership interest in the company enables them to exercise the proportional representation system.

Therefore, the company treats Kutxabank, S.A. and Qatar Investment Authority as significant shareholders, these being the only shareholders who satisfied that condition at the date of issuance of these financial statements.

Transactions with companies integrated by the equity method

The breakdown of transactions with companies accounted for using the equity method which are related parties that were not eliminated in consolidation (Note 2.b) is as follows:

	<i>Thousands of euros</i>									
	<i>2015</i>					<i>2014</i>				
	<i>Asset acquisition</i>	<i>Trade payables</i>	<i>Trade receivables</i>	<i>Sales and services provided</i>	<i>Received services</i>	<i>Asset acquisition</i>	<i>Trade payables</i>	<i>Trade receivables</i>	<i>Sales and services provided</i>	<i>Received services</i>
GAMESA	275,436	272,216	63,185	35,272	61,852	200,277	270,560	120,854	1,555	65,398
Amara, S.A.U.	12,494	5,520	1	2,125	11,121	10,129	5,966	476	2,023	9,908
East Anglia Offshore Wind, Ltd.	4,395	6,489	27,849	3,508	5,470	8	4,353	56,309	8,569	-
Societa Energie Rinnovabili, S.p.A.	2,313	-	60,345	136	-	-	92	75,718	672	-
Nuclenor, S.A.	136	32,251	118	453	-	-	33,094	23	349	-
NGET/SPT Upgrades Ltd.	68,447	2,283	3,001	2,737	-	16,064	-	4,024	2,855	-
Bahía Bizkaia Electricidad, S.L. (Note 13.a)	-	-	-	-	-	54,026	-	-	37,154	-
Bidelek Sareak, S.L.	13,627	36,272	734	7,643	-	10,957	40,291	417	5,152	-
Termopernambuco, S.A.	-	1,199	12,405	34,213	-	-	-	174	12,425	-
Neoenergía, S.A.	-	790	176,934	287	-	-	247	-	-	-
Other companies	2,594	21,528	15,787	12,204	31,687	21,706	24,232	62,221	20,885	14,081
Total	<u>379,442</u>	<u>378,548</u>	<u>360,359</u>	<u>98,578</u>	<u>110,130</u>	<u>313,167</u>	<u>378,835</u>	<u>320,216</u>	<u>91,639</u>	<u>89,387</u>

On 21 December 2011, IBERDROLA and Gamesa Eólica, S.L.U (a company belonging to the GAMESA Group) entered into a framework agreement for the supply and maintenance of wind turbines whereby:

- IBERDROLA undertakes to acquire from GAMESA a minimum amount of megawatts equal to 50% of the total fleet of onshore wind turbines acquired by IBERDROLA for its renewables business unit during the term of the framework agreement.
- This commitment will remain in force from 1 January 2013 until 31 December 2022 or until the number of megawatts acquired by IBERDROLA from GAMESA under the framework agreement reaches 3,800, whichever occurs first.
- IBERDROLA and GAMESA will work closely together on new opportunities relating to the offshore wind power business.
- IBERDROLA and GAMESA will work together in the area of maintenance services to enable GAMESA to become the benchmark company in the maintenance of wind farms for IBERDROLA's entire scope of activity. In particular, the two companies agreed:
 - To establish new areas of study and analysis in the provision of maintenance services by GAMESA to IBERDROLA and, in particular, in the provision of maintenance services in the United States, the sale and installation of reliability improvements in wind turbines, the extension of their useful life, and the conversion and upgrade of wind turbines.
 - The extension of the current maintenance services, in the following terms and conditions:
 - Technology Contract G4X and G5X (Spain): Effective date on the 1 January 2015 and will maintain its validity during a 3 year period. IBERDROLA could extend the lengthening of the Master Agreement during two consecutive periods of one year each. The minimum number of wind turbines in maintenance will be 1,136 G5X wind turbines / 1,188 G4X wind turbines, although during the validity of the contract, IBERDROLA would have the possibility to take out to third parties a maximum accumulated of 200 MW.
 - Technology contract G8X (Spain and Portugal): Signed on 1 January 2015 and effective with a retrospective nature on 1 January 2014. It will maintain its validity for four years. IBERDROLA could extend the lengthening of the Master Agreement for two consecutive additional periods of one year each. The minimum number of wind turbines in maintenance it would be:
 - First year:
 - Risk Service scope for 2,168 MW (92 MW in Portugal).
 - AT+R scope for 338 MW.
 - Second year:
 - Risk Service scope for 1,800 MW.
 - AT+R scope for the rest of wind farms.
 - Third year:
 - Risk Service scope for 1,600 MW.
 - AT+R scope for the rest of wind farms.

- Fourth year (and expansion 1 and 2):
 - Risk Service scope for 1,400 MW.
 - AT+R scope for the rest of wind farms.

Note:

- Risk Service scope includes the preventive maintenance, as well as the Technical Assistance, for a fixed annual price per turbine.
- AT+R scope refers to the Technical Assistance and refill supplies (optional).

Transactions with directors and senior executives

	<i>Thousands of euros</i>			
	Main Shareholders ⁽¹⁾			
	2015		2014	
	Directors	Executives	Directors	Executives
Type of operation				
Expenses and Income				
Services received	1,287	-	-	-
Other transactions				
Dividends and other distributed benefits ⁽¹⁾	467	67	746	34

- (1) The amounts considered dividends and other distributed profit correspond to the free allocation rights arising from the scrip dividends agreed upon by the Shareholders at the General Meetings of 27 March 2015, 28 March 2014, and 22 March 2013, respectively have been sold to IBERDROLA at a guaranteed fixed price in accordance with the terms and conditions of the aforementioned increases.

As described in Note 47, in 2015 and 2014 there took place transactions related to two directors. The directors did not participate directly or indirectly in any phase, respecting what was established in the procedure for conflicts of interest and transactions with directors, significant shareholders and senior management.

Seaplace, S.L. company, which is related to the director of Iberdrola, S.A. Mr. Manuel Moreu Munaiz, is awarded with several contracts for R&D of Iberdrola Renovables Energía, S.A. The turnover of this company during the fiscal year ended 31 December 2015 amounted to EUR 312 thousand, approximately.

In 2014 the company Soil Tratamiento de Aguas Industriales, S.L., linked to the director Mr. Iñigo Víctor de Oriol Ibarra, was awarded the contract for the supply, transportation, assembly and commissioning of the water processing plant of Cogeneración Ramos in Mexico. The contract was awarded in the framework of an international tender in which 15 companies were selected for making the most advantageous offer. The award added up to USD 1,999,516 (EUR 1,695 thousand). The turnover of this company in the 2015 added up to USD 1,083 thousand (EUR 975 thousand, approximately). There wasn't any turnover in the year 2014.

50. FINANCIAL POSITION AND EVENTS AFTER 31 DECEMBER 2015

Financial position

In 2016, the IBERDROLA Group expects to face the regular investment programs with cash flows generated from its operations and access to capital bank funding markets, although the Group has cash, credit facilities and enough loans available to deal with such investments.

As indicated in Note 25, at 31 December 2015 the IBERDROLA Group had undrawn loans and credit facilities of approximately EUR 7,054,459 thousand.

As indicated in Note 19, at 31 December 2015 the IBERDROLA Group had EUR 248,848 thousand in cash and equivalents and EUR 904,425 thousand in short-term deposits.

The IBERDROLA Group's liquidity position exceeds EUR 8,000 million, which is equivalent to more than 28 months of the Group's financing needs.

	<u>Thousands of euros</u>
	<u>Available</u>
Maturity of Credit facility	
2016	915,251
2017	330,008
2018 and subsequent years	5,809,200
Total	7,054,459
Cash and cash equivalents	1,153,273
Total adjusted liquidity	8,207,732

Subsequent events

Iberdrola flexible dividend

On 8 January 2016, the facts in relation to the first implementation of the first paid-up capital increase (*Iberdrola flexible dividend*) approved at the IBERDROLA General Shareholders' Meeting on 27 March 2014, under item A, point six of the agenda, were determined and were as follows:

- i. The maximum number of shares to be issued under the capital increase is 126,737,400.
- ii. The number of free allocation rights required to receive one new share is 50.
- iii. The maximum nominal value of the capital increase amounts to EUR 95,053,050.
- iv. The acquisition price of the free allocation rights under the purchase commitment made by IBERDROLA is EUR 0.127.

At the end of the trading period for free allocation rights:

- The holders of 3,320,519,969 free allocation rights have accepted the irrevocable commitment to purchase assumed by IBERDROLA. Accordingly, IBERDROLA will acquire such rights for a gross amount of EUR 421,706 thousand.

- The final number of new ordinary shares with a nominal value of EUR 0.75 to be issued will be 60,327,000, giving a nominal capital increase from this implementation of EUR 45,245 thousand. This will add 0.952% to IBERDROLA's pre-issue share capital.

Subject to compliance with on legal requirements (and verification of compliance by the Spanish National Security Market Commission), the new shares are expected to be admitted for trading on the continuous market of the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges on 2 February 2016. The ordinary trading of new shares is expected to start on 3 February 2016.

Transactions with treasury shares

At the date of formulation of these Consolidated financial statements, all accumulators on treasury shares have matured (Note 20) and the liquidation has resulted in the acquisition of 9,624,817 treasury shares amounting to EUR 57,914 thousand (6,597,622 shares have accumulated of the 12,111,494 maximum potential shares to accumulate at 31 December 2015). There has also been the liquidation of future treasury shares (Note 20) which has led to the acquisition of 14,000,000 treasury shares amounting to EUR 83,962 thousand.

Finally, from the 2015 year-end until the date of formulation of these Consolidated financial statements 44,584,844 treasury shares have been acquired amounting to EUR 267,826 thousand and derivatives were contracted that have resulted in 13,000,000 more treasury shares amounting to EUR 81,903 thousand. At the date of formulation of these financial statements, Iberdrola, S.A. had EUR 148,845,917 in treasury shares.

Bond Issue in the Euromarket

On 15 February 2016, the IBERDROLA Group through its subsidiary Iberdrola International B.V. has closed a bond issue in the Euromarket, with the guarantee of IBERDROLA for an amount of EUR 50 million and maturing on 15 February 2023.

Banking Market

On 13 February 2016, the IBERDROLA Group has extended the term for syndicated loans for an amount of EUR 4,242,999 thousand lengthening the maturity from 2020 to 2021.

51. FEES FOR SERVICES PROVIDED BY THE STATUTORY AUDITOR

The fees resulted from the services provided in 2015 and 2014 by the statutory auditor are detailed in the chart below:

	Thousands of euros								
	To IBERDROLA			To the rest of the Group Companies			Total		
	Primary auditor	Other auditors	Total	Primary auditor ⁽¹⁾	Other auditors ⁽¹⁾	Total	Primary auditor	Other auditors	Total
2015									
Auditing services	2,681	-	2,681	15,894	2,898	18,792	18,575	2,898	21,473
Other provided services related to auditing ⁽¹⁾	1,087	-	1,087	7,569	680	8,249	8,656	680	9,336
	3,768	-	3,768	23,463	3,578	27,041	27,231	3,578	30,809
Other professional services	-	824	824	75	2,346	2,421	75	3,170	3,245
	3,768	824	4,592	23,538	5,924	29,462	27,306	6,748	34,054

(1) Other provided services related to the audit include fees arising from the AVANGRID's initial public offering of EUR 5,890 thousand of the main auditor and EUR 1,621 thousand of other auditors.

	Thousands of euros								
	To IBERDROLA			To the rest of the Group Companies			Total		
	Primary auditor	Other auditors	Total	Primary auditor	Other auditors	Total	Primary auditor	Other auditors	Total
2014									
Auditing services	3,078	-	3,078	10,769	190	10,959	13,847	190	14,037
Other services provided related to auditing	260	-	260	979	10	989	1,239	10	1,249
	3,338	-	3,338	11,748	200	11,948	15,086	200	15,286
Other professional services	3	-	3	417	4,823	5,240	420	4,823	5,243
	3,341	-	3,341	12,165	5,023	17,188	15,506	5,023	20,529

52. EARNING PER SHARE

The weighted average number of ordinary shares used in the calculation of the basic and diluted earnings per share at 31 December 2015 and 2014 (Note 4.ab) is as follows:

	2015	2014
Average number of shares during the year	6,445,199,723	6,591,387,877
Average number of treasury shares held	(93,975,655)	(104,143,455)
Average number of shares outstanding	6,351,224,068	6,487,244,422

Basic and diluted earnings per share for 2015 and 2014 are as follows:

	2015	2014
Net profit for the year (thousands of euros)	2,421,578	2,326,516
Average number of shares outstanding	6,351,224,068	6,487,244,422
Basic and diluted earnings per share (euros)	0.381	0.359

As described in Note 20 and 50 of these Consolidated financial statements, in July 2015 and January 2016 two free capital increases took place in the context of the “*Iberdrola flexible dividend*” programme. According to IAS 33: “Earning per share” these free capital increases have resulted in the correction of the earnings per share corresponding to the 2014 year end included in the Consolidated financial statements for that year, and they have been taken into account to calculate the 2015 year share basic and diluted earnings per share.

53. PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated financial statements for the year ended on 31 December 2015 have been formally prepared by the directors of IBERDROLA on 23 February 2016.

54. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

These Consolidated financial statements are presented on the basis of IFRS, as adopted by the European Union. Certain accounting practices applied by the Group that conform to IFRS may not conform to other generally accepted accounting principles in other countries.

YEAR 2015 ADDITIONAL INFORMATION RELATED TO GROUP COMPANIES, JOINTLY-CONTROLLED COMPANIES AND ASSOCIATES OF THE IBERDROLA GROUP.

Below is the detail of the proportion of direct or indirect ownership that Iberdrola, S.A. holds in its subsidiaries in its different businesses. The proportion of decision-making votes in the bodies of these companies controlled by Iberdrola basically corresponds with the proportion of ownership.

(*) The consolidation method by company is detailed as follows:

F: Full consolidation

E: Integration by equity method

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method(*)
			12.31.15	12.31.14		
<u>DEREGULATED BUSINESS</u>						
<u>Spain and Portugal</u>						
Cobane, A.I.E.	Spain	Energy	100.00	100.00	EY	F
Cofrusa Cogeneración, S.A.	Spain	Energy	50.00	50.00	Others	E
Cogeneración Gequisa, S.A.	Spain	Energy	50.00	50.00	PWC	E
Enercrisa, S.A.	Spain	Energy	50.00	50.00	KPMG	E
Energía Portátil Cogeneración, S.A.	Spain	Energy	50.00	50.00	EY	E
Energyworks Aranda, S.L.	Spain	Energy	99.00	99.00	EY	F
Energyworks Carballo, S.L.	Spain	Energy	99.00	99.00	EY	F
Energyworks Cartagena, S.L.	Spain	Energy	99.00	99.00	EY	F
Energyworks Fonz, S.L.	Spain	Energy	100.00	100.00	EY	F
Energyworks Milagros, S.L.	Spain	Energy	100.00	100.00	EY	F
Energyworks Monzón, S.L.	Spain	Energy	100.00	100.00	EY	F
Energyworks San Millán, S.L.	Spain	Energy	100.00	100.00	EY	F
Energyworks Villarobledo, S.L.	Spain	Energy	99.00	99.00	EY	F
Energyworks Vit-Vall, S.L.	Spain	Energy	99.00	99.00	EY	F
Fudepor, S.L.	Spain	Energy	50.00	50.00	PWC	E
Fuerzas Eléctricas de Navarra, S.A.	Spain	Energy	100.00	100.00	EY	F
Hidroeléctrica Ibérica, S.L.U.	Spain	Energy	100.00	100.00	EY	F
Iberdrola Clientes, S.A.U.	Spain	Wholesale/Retail	100.00	100.00	EY	F
Iberdrola Cogeneración, S.L.U.	Spain	Holding	100.00	100.00	EY	F
Iberdrola Comercialización de Último Recurso, S.A.U.	Spain	Wholesale/Retail	100.00	100.00	EY	F
Iberdrola Generación España, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Iberdrola Generación Nuclear, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Iberdrola Generación, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Iberdrola Operación y Mantenimiento, S.A.U.	Spain	Services	100.00	100.00	EY	F
Iberdrola Servicios Energéticos, S.A.U.	Spain	Services	100.00	100.00	EY	F
Iberduero, S.L.U.	Spain	Energy	100.00	100.00	-	F
Intermalta Energía, S.A.	Spain	Energy	50.00	50.00	EY	E
Italcogeneración, S.A.	Spain	Energy	50.00	50.00	-	E
Nuclenor, S.A.	Spain	Energy	50.00	50.00	EY	E
Peninsular Cogeneración, S.A.	Spain	Energy	50.00	50.00	EY	E
Productos y Servicios de Confort, S.A.	Spain	Services	100.00	100.00	-	F
S.E.D.A. Cogeneración, S.A.	Spain	Energy	50.00	50.00	-	E
Subgrupo Tirme	Spain	Energy	20.00	20.00	KPMG	E
Tarragona Power, S.L.U.	Spain	Energy	100.00	100.00	EY	F
Tecnatom, S.A. ⁽⁵⁾	Spain	Services	30.00	30.00	-	-
Iberdrola Clientes Portugal, Unipessoal Ltda.	Portugal	Services	100.00	100.00	-	F
<u>United Kingdom</u>						
Caledonian Gas, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Manweb Energy Consultants, Ltd.	United Kingdom	Energy	100.00	100.00	EY	F

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method(*)
			12.31.15	12.31.14		
Manweb Gas, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Scotash, Ltd.	United Kingdom	Others	50.00	50.00	EY	E
Scottish Power Generation Holdings, Ltd.	United Kingdom	Holding	100.00	100.00	EY	F
Scottish Power (DCL), Ltd.	United Kingdom	Energy	100.00	100.00	EY	F
Scottish Power (DCOL), Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Scottish Power (SCPL), Ltd.	United Kingdom	Energy	100.00	100.00	EY	F
Scottish Power (SOCL), Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Scottish Power Energy Management (Agency), Ltd.	United Kingdom	Services	100.00	100.00	EY	F
Scottish Power Energy Management, Ltd.	United Kingdom	Energy	100.00	100.00	EY	F
Scottish Power Energy Retail, Ltd.	United Kingdom	Energy	100.00	100.00	EY	F
Scottish Power Generation, Ltd.	United Kingdom	Energy	100.00	100.00	EY	F
SMW, Ltd.	United Kingdom	Others	100.00	100.00	EY	F
SP Dataserve, Ltd.	United Kingdom	Data Management	100.00	100.00	EY	F
SP Gas Transportation Cockenzie, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
SP Gas Transportation Hatfield, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Sterling Collections, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Rest of Europe						
Iberdrola Energie Deutschland, GmbH ⁽⁵⁾	Germany	Services	100.00	100.00	-	-
Iberdrola Energie France, S.A.S. ⁽⁵⁾	France	Services	100.00	100.00	EY	-
Iberdrola Energia Italia, S.R.L. ⁽⁵⁾	Italy	Services	100.00	100.00	-	-
Iberdrola Energie Romania, S.R.L. ⁽⁵⁾	Romania	Energy	100.00	100.00	-	-
Mexico						
Hidro I, S.L.U.	Spain	Holding	100.00	100.00	EY	F
Cinergy, S.R.L. de C.V.	Mexico	Services	100.00	100.00	EY	F
Electricidad de Veracruz, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Enertek, S.A. de C.V.	Mexico	Energy	99.99	99.99	EY	F
Iberdrola Clientes, S.A. de C.V.	Mexico	Wholesale/Retail	100.00	-	EY	F
Iberdrola Cogeneración Altamira, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Cogeneración Bajío, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Cogeneración Ramos, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Energía Altamira de Servicios, S.A. de C.V.	Mexico	Services	100.00	100.00	EY	F
Iberdrola Energía Altamira, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Energía Baja California, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Energía del Golfo, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Energía Escobedo, S.A. de C.V.	Mexico	Energy	100.00	-	-	F
Iberdrola Energía La Laguna, S.A. de C.V.	Mexico	Energy	99.99	99.99	EY	F
Iberdrola Energía Monterrey, S.A. de C.V.	Mexico	Energy	99.99	99.99	EY	F
Iberdrola Energía Norte, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Energía Tamazunchale, S.A. de C.V.	Mexico	Energy	99.99	99.99	EY	F
Iberdrola Generación, S.A. de C.V.	Mexico	Services	100.00	-	EY	F
Iberdrola Generación México, S.A. de C.V.	Mexico	Holding	100.00	100.00	EY	F
Iberdrola México, S.A. de C.V.	Mexico	Holding	100.00	100.00	EY	F
Iberdrola Servicios Corporativos, S.A. de C.V.	Mexico	Services	100.00	-	EY	F
Servicios Administrativos Tamazunchale, S.A. de C.V.	Mexico	Services	100.00	100.00	EY	F
Servicios de Operación La Laguna, S.A. de C.V.	Mexico	Services	100.00	100.00	EY	F
Servicios Industriales y Administrativos del Noreste, S.R.L. de C.V.	Mexico	Gas	51.12	51.12	EY	F
United States and Canada						
Iberdrola Canada Energy Services, Ltd.	Canada	Energy	100.00	100.00	EY	F

YEAR 2015 ADDITIONAL INFORMATION RELATED TO GROUP COMPANIES, JOINTLY-CONTROLLED COMPANIES AND ASSOCIATES OF THE IBERDROLA GROUP.

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method (*)
			12.31.15	12.31.14		
RENEWABLE BUSINESS						
Spain						
Biocantaber, S.L.	Spain	Energy	50.00	50.00	-	E
Bionor Eólica, S.A.	Spain	Energy	57.00	57.00	EY	F
Biovent Energía, S.A.	Spain	Energy	95.00	95.00	EY	F
Cantaber Generación Eólica, S.L.	Spain	Energy	69.01	69.01	EY	F
Ciener, S.A.U.	Spain	Holding	100.00	100.00	EY	F
Desarrollo de Energías Renovables de La Rioja, S.A.	Spain	Energy	40.51	40.51	EY	E
Ecobarcial, S.A.	Spain	Energy	43.78	43.78	EY	E
Electra de Malvana, S.A.	Spain	Energy	48.00	48.00	-	E
Electra Sierra de los Castillos, S.L.	Spain	Energy	97.00	97.00	-	F
Electra Sierra de San Pedro, S.A.	Spain	Energy	80.00	80.00	-	F
Eléctricas de la Alcarria, S.L.	Spain	Energy	90.00	90.00	-	F
Eme Hueneja Cuatro, S.L.	Spain	Energy	100.00	100.00	-	F
Energías de Castilla y León, S.A.	Spain	Energy	85.50	85.50	EY	F
Energías Ecológicas de Fuenteliente, S.L. ⁽³⁾	Spain	Energy	50.00	50.00	-	F
Energías Ecológicas de La Palma, S.A. ⁽³⁾	Spain	Energy	50.00	50.00	-	F
Energías Ecológicas de Tenerife, S.A. ⁽³⁾	Spain	Energy	50.00	50.00	-	F
Energías Eólicas de Cuenca, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Energías Renovables de la Región de Murcia, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Eólica Campollano, S.A.	Spain	Energy	25.00	25.00	KPMG	E
Eólica 2000, S.L.	Spain	Holding	51.00	51.00	EY	F
Eólicas de Euskadi, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Iberdrola Energía Solar de Puertollano, S.A.	Spain	Energy	90.00	90.00	EY	F
Iberdrola Renewables Solutions, S.A.U.	Spain	Energy	100.00	100.00	-	F
Iberdrola Renovables Galicia, S.A.U.	Spain	Holding	100.00	100.00	EY	F
Iberdrola Renovables Andalucía, S.A.U.	Spain	Holding	100.00	100.00	EY	F
Iberdrola Renovables Aragón, S.A.U.	Spain	Holding	100.00	100.00	EY	F
Iberdrola Renovables Asturias, S.A.U.	Spain	Holding	100.00	100.00	-	F
Iberdrola Renovables Canarias, S.A.U.	Spain	Holding	100.00	100.00	-	F
Iberdrola Renovables Castilla – La Mancha, S.A.U.	Spain	Holding	100.00	100.00	EY	F
Iberdrola Renovables Castilla y León, S.A.	Spain	Holding	95.00	95.00	EY	F
Iberdrola Renovables Energía, S.A.U.	Spain	Holding	100.00	100.00	EY	F
Iberdrola Renovables La Rioja, S.A. ⁽²⁾	Spain	Holding	63.55	63.55	EY	E
Ibernova Promociones, S.A.U.	Spain	Holding	100.00	100.00	EY	F
Iberjalón, S.A.	Spain	Energy	80.00	80.00	-	F
Minicentrales del Tajo, S.A.	Spain	Energy	66.58	66.58	EY	F
Molinos de La Rioja, S.A.	Spain	Energy	42.37	42.37	EY	E
Molinos del Cidacos, S.A.	Spain	Energy	31.78	31.78	EY	E
Parque Eólico Cruz del Carrutero, S.L.	Spain	Energy	76.00	76.00	EY	F
Peache Energías Renovables, S.A.	Spain	Energy	95.00	95.00	-	F
Producciones Energéticas Asturianas, S.L.	Spain	Energy	80.00	80.00	EY	F
Producciones Energéticas de Castilla y León, S.A. ⁽²⁾	Spain	Energy	85.50	85.50	EY	E
Productora de Energía Eólica, S.A.U.	Spain	Energy	95.00	95.00	-	F
Renovables de la Ribera, S.L. ⁽⁵⁾	Spain	Energy	50.00	50.00	-	-
Sistemas Energéticos Altamira, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Sistemas Energéticos Chandrexa, S.A.	Spain	Energy	96.07	96.07	EY	F
Sistemas Energéticos del Moncayo, S.A.	Spain	Energy	75.00	75.00	EY	F
Sistemas Energéticos Gomera, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Sistemas Energéticos La Higuera, S.A.	Spain	Energy	55.00	55.00	EY	F

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method (*)
			12.31.15	12.31.14		
Sistemas Energéticos de la Linera, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Sistemas Energéticos La Muela, S.A.	Spain	Energy	80.00	80.00	EY	F
Sistemas Energéticos Mas Garullo, S.A.	Spain	Energy	78.00	78.00	EY	F
Sistemas Energéticos Nacimiento, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Sistemas Energéticos Tacica de Plata, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Sistemas Energéticos Torralba, S.A.	Spain	Energy	60.00	60.00	EY	F
Sistemas Energetics Savalla del Comtat, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Sociedad Gestora de Parques Eólicos de Andalucía, S.A.	Spain	Energy	63.91	63.91	EY	F
Sotavento Galicia, S.A. ⁽⁴⁾	Spain	Energy	8.00	8.00	Others	E
United Kingdom						
Celtpower, Ltd.	United Kingdom	Energy	50.00	50.00	KPMG	E
Coldham Windfarm, Ltd.	United Kingdom	Energy	80.00	80.00	EY	F
East Anglia Four, Ltd.	United Kingdom	Energy	50.00	50.00	-	E
East Anglia Offshore Wind, Ltd.	United Kingdom	Energy	50.00	50.00	EY	E
East Anglia One, Ltd.	United Kingdom	Energy	100.00	50.00	-	F
East Anglia Three, Ltd.	United Kingdom	Energy	50.00	50.00	-	E
Morecambe Wind, Ltd.	United Kingdom	Energy	50.00	50.00	EY	E
Scottish Power Renewable Energy, Ltd.	United Kingdom	Holding	100.00	100.00	EY	F
Scottish Power Renewables (WODS), Ltd.	United Kingdom	Energy	100.00	100.00	EY	F
Scottish Power Renewables UK, Ltd.	United Kingdom	Energy	100.00	100.00	EY	F
Rest of the World						
Iberdrola Renovables Offshore Deutschland GmbH	Germany	Energy	100.00	100.00	EY	F
Iberdrola Renovables Deutschland, GmbH	Germany	Energy	100.00	100.00	EY	F
Scottish Power Hazelwood, Pty. Ltd.	Australia	Holding	100.00	100.00	-	F
Iberdrola Renovables Bulgaria, EOOD	Bulgaria	Energy	100.00	100.00	-	F
Iberdrola Renovables Canadá, Ltd.	Canada	Holding	100.00	100.00	-	F
Rokas Aeoliki Cyprus, Ltd.	Cyprus	Energy	74.82	75.00	EY	F
Ailes Marine, S.A.S.	France	Energy	70.00	70.00	EY	F
Haute Marne Energies, S.A.S.	France	Energy	51.00	51.00	EY	F
Iberdrola Renovables France, S.A.S.	France	Energy	100.00	100.00	EY	F
C. Rokas Industrial Commercial Company, S.A.	Greece	Holding	99.76	99.76	EY	F
PPC Renewables Rokas, S.A.	Greece	Energy	50.88	50.88	EY	F
Rokas Aeoliki Achladotopos, S.A.	Greece	Energy	99.63	99.63	EY	F
Rokas Aeoliki Macedonia I, S.A.	Greece	Energy	99.76	99.76	EY	F
Rokas Aeoliki Macedonia II, S.A.	Greece	Energy	99.76	99.76	EY	F
Rokas Aeoliki Peloponnisos I, S.A.	Greece	Energy	99.76	99.76	EY	F
Rokas Aeoliki Peloponnisos II, S.A.	Greece	Energy	99.76	99.76	EY	F
Rokas Aeoliki Thraki III, S.A.	Greece	Energy	99.61	99.61	EY	F
Rokas Aeoliki Vorios Ellas I, S.A.	Greece	Energy	99.76	99.76	EY	F
Rokas Aeoliki Vorios Ellas II, S.A.	Greece	Energy	99.76	99.76	EY	F
Rokas Aeolos, Ltd.	Greece	Energy	99.76	99.76	EY	F
Rokas Construction, S.A.	Greece	Energy	99.76	99.76	EY	F
Rokas Energy, S.A.	Greece	Energy	99.72	99.72	EY	F
Rokas Hydroelectric, S.A.	Greece	Energy	99.76	99.76	EY	F
Iberdrola Renovables Magyarorszag KFT	Hungary	Holding	75.00	75.00	EY	F
Eólica Lucana, S.R.L.	Italia	Energy	100.00	100.00	EY	F
Iberdrola Renovables Italia, S.p.A.	Italia	Holding	100.00	100.00	-	F
Societa Energie Rinnovabili 1, S.p.A.	Italia	Energy	49.90	49.90	EY	E
Societa Energie Rinnovabili 2, S.p.A.	Italia	Energy	50.00	50.00	-	E
Societa Energie Rinnovabili, S.p.A.	Italia	Energy	49.90	49.90	EY	E

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method (*)
			12.31.15	12.31.14		
Uppm-Rokas Cranes ⁽⁵⁾	Latvia	Energy	49.88	49.88	-	-
Iberdrola Renewables Portugal, S.A.	Portugal	Holding	100.00	100.00	EY	F
Parque Eólico da Serra do Alvao, S.A.	Portugal	Energy	100.00	100.00	EY	F
Eolica Dobrogea One, S.R.L.	Romania	Energy	100.00	100.00	EY	F
Iberdrola Renewables Romania, S.R.L.	Romania	Holding	100.00	100.00	EY	F
Eolica Dobrogea (Schweiz) I, GmbH.	Switzerland	Energy	100.00	100.00	EY	F
Mugla Ruzgar Enerjisinden Elektrik Uret ⁽⁵⁾	Turkey	Energy	100.00	100.00	-	-
Yaprak Ruzgar Enerjisinden Elektrik Uret ⁽⁵⁾	Turkey	Energy	100.00	100.00	-	-
Mexico						
BII NEE Stipa Energía Eólica, S.A. de C.V.	Mexico	Energy	99.99	99.99	EY	F
Corporativo Iberdrola Renovables México, S.A. de C.V.	Mexico	Services	100.00	-	EY	F
Energías Renovables Venta III, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Eólica Dos Arbolitos, S.A.P.I. de C.V.	Mexico	Energy	100.00	-	EY	F
Iberdrola Renovables Centro, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Renovables del Bajío, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Renovables del Irapuato, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Renovables del Zacatecas, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Renovables México, S.A. de C.V.	Mexico	Holding	100.00	100.00	EY	F
Iberdrola Renovables Noroeste, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Iberdrola Renovables Norte, S.A. de C.V.	Mexico	Energy	100.00	100.00	EY	F
Parque Industrial de Energía Renovables, S.A. de C.V. ⁽⁵⁾	Mexico	Inactive	51.00	51.00	-	-
Parques Ecológicos de México, S.A. de C.V.	Mexico	Energy	99.99	99.99	EY	F
Pier II Quecholac Felipe Angeles, S.A. de C.V.	Mexico	Energy	51.00	51.00	EY	F
Pier IV, S.A. de C.V. ⁽⁵⁾	Mexico	Inactive	51.00	51.00	-	-
Servicios Operación Eoloeléctrica de México, S.A. de C.V.	Mexico	Services	100.00	100.00	EY	F
Brazil						
Arizona 1 Energía Renovável, S.A.	Brazil	Energy	69.50	69.50	EY	F
Caetité 1 Energía Renovável, S.A. ⁽²⁾	Brazil	Energy	69.50	69.50	EY	E
Caetité 2 Energía Renovável, S.A. ⁽²⁾	Brazil	Energy	69.50	69.50	EY	E
Caetité 3 Energía Renovável, S.A.	Brazil	Energy	69.50	69.50	EY	F
Calango 1 Energía Renovável, S.A. ⁽²⁾	Brazil	Energy	69.50	69.50	EY	E
Calango 2 Energía Renovável, S.A.	Brazil	Energy	69.50	69.50	EY	F
Calango 3 Energía Renovável, S.A.	Brazil	Energy	69.50	69.50	EY	F
Calango 4 Energía Renovável, S.A. ⁽²⁾	Brazil	Energy	69.50	69.50	EY	E
Calango 5 Energía Renovável, S.A. ⁽²⁾	Brazil	Energy	69.50	69.50	EY	E
Calango 6 Energía Renovável, S.A. ⁽²⁾	Brazil	Energy	69.50	69.50	EY	E
Canoas, S.A.	Brazil	Energy	69.50	-	EY	E
Energias Renováveis do Brasil, S.A.	Brazil	Energy	100.00	100.00	EY	F
FE Participações, S.A.	Brazil	Energy	69.50	69.50	EY	F
Força Eolica do Brasil 1, S.A. ⁽²⁾	Brazil	Energy	69.50	69.50	EY	E
Força Eolica do Brasil 2, S.A.	Brazil	Energy	69.50	69.50	EY	F
Força Eolica do Brasil, S.A. ⁽²⁾	Brazil	Energy	69.50	69.50	EY	E
Iberdrola Renováveis do Brasil, S.A.	Brazil	Energy	100.00	100.00	EY	F
Lagoa I, S.A.	Brazil	Energy	69.50	-	EY	E
Lagoa II, S.A.	Brazil	Energy	69.50	-	EY	E
Mel 2 Energía Renovável, S.A.	Brazil	Energy	69.50	69.50	EY	F
Santana 1, Energía Renovável, S.A. ⁽²⁾	Brazil	Energy	69.50	69.50	EY	E
Santana 2, Energía Renovável, S.A. ⁽²⁾	Brazil	Energy	69.50	69.50	EY	E

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method (*)
			12.31.15	12.31.14		
<u>Innovation</u>						
Algaenergy, S.A. ⁽⁵⁾	Spain	Energy	19.32	20.02	KPMG	-
Arborea Intellbird.S.L. ⁽⁴⁾	Spain	Services	18.89	25.97	-	E
GDES Technology for services, S.L.	Spain	Services	40.00	40.00	-	E
Iberdrola Servicios de Innovación, S.L.	Spain	Services	100.00	100.00	-	F
Inversiones Financieras Perseo, S.L.	Spain	Holding	100.00	100.00	EY	F
Oceantec Energías Marinas, S.L.	Spain	Energy	44.39	44.27	EY	E

YEAR 2015 ADDITIONAL INFORMATION RELATED TO GROUP COMPANIES, JOINTLY-CONTROLLED COMPANIES AND ASSOCIATES OF THE IBERDROLA GROUP.

Company	Address	Activity	Percentage of direct and indirect participation		Auditor	Method(*)
			12.31.15	12.31.14		
NETWORK BUSINESS						
Spain						
Anselmo León Distribución, S.L. ⁽¹⁾	Spain	Energy	100.00	100.00	-	E
Anselmo León Hidráulica, S.L. ⁽¹⁾	Spain	Energy	100.00	100.00	-	E
Anselmo León, S.A.U. ⁽¹⁾	Spain	Holding	100.00	100.00	-	E
Bidelek Sareak, A.I.E. ⁽²⁾	Spain	Others	54.00	54.00	EY	E
Distribuidora de Energía Eléctrica Enrique García Serrano, S.L. ⁽¹⁾	Spain	Energy	100.00	100.00	-	E
Distribuidora Eléctrica Navasfrías, S.L. ⁽¹⁾	Spain	Energy	100.00	100.00	-	E
Eléctrica Conquense Distribución Eléctrica, S.A.	Spain	Energy	53.59	53.59	EY	F
Eléctrica Conquense, S.A.	Spain	Energy	53.59	53.59	EY	F
Electro-Distribuidora Castellano-Leonesa, S.A. ⁽¹⁾	Spain	Energy	100.00	100.00	-	E
Empresa Eléctrica del Cabriel, S.L. ⁽¹⁾	Spain	Energy	100.00	100.00	-	E
Herederos María Alonso Calzada – Venta de Baños, S.L. ⁽¹⁾	Spain	Energy	100.00	100.00	-	E
Hidroeléctrica de San Cipriano de Rueda, S.L. ⁽¹⁾	Spain	Energy	100.00	100.00	-	E
Iberdrola Distribución de Gas, S.A.U.	Spain	Inactive	100.00	100.00	-	F
Iberdrola Distribución Eléctrica, S.A.U.	Spain	Energy	100.00	100.00	EY	F
Iberdrola Infraestructuras y Servicios de Redes, S.A. ⁽⁵⁾	Spain	Inactive	100.00	100.00	-	-
Iberdrola Redes España, S.A.	Spain	Energy	100.00	100.00	EY	F
Sociedad Distribuidora de Electricidad de Elorrio, S.A. ⁽¹⁾	Spain	Energy	96.86	96.86	-	E
United Kingdom						
Manweb Services, Ltd.	United Kingdom	Energy	100.00	100.00	EY	F
NGET/SPT Upgrades, Ltd.	United Kingdom	Energy	50.00	50.00	EY	E
Scottish Power Energy Networks Holdings, Ltd.	United Kingdom	Holding	100.00	100.00	EY	F
SP Distribution, Plc	United Kingdom	Energy	100.00	100.00	EY	F
SP Gas, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
SP Manweb, Plc	United Kingdom	Energy	100.00	100.00	EY	F
SP Network Connections, Ltd.	United Kingdom	General Networking Asset	100.00	100.00	EY	F
SP Power Systems, Ltd.	United Kingdom	Management Services	100.00	100.00	EY	F
SP Transmission, Plc	United Kingdom	Energy	100.00	100.00	EY	F
SPD Finance UK, Plc	United Kingdom	Inactive	100.00	100.00	EY	F
Brazil						
Afluente Geração de Energia Elétrica, S.A.	Brazil	Energy	42.76	42.76	EY	E
Afluente Transmissao de Energia Elétrica, S.A.	Brazil	Energy	42.76	42.76	EY	E
Baguari Geração de Energia Elétrica, S.A.	Brazil	Energy	39.00	39.00	EY	E
Bahia PCH I, S.A.	Brazil	Energy	39.00	39.00	EY	E
Bahia PCH II, S.A. Bahía Pequeña C. Hidroeléctrica	Brazil	Energy	39.00	39.00	PWC	E
Bahia PCH III, S.A. Bahía Geração de Energia	Brazil	Energy	39.00	39.00	PWC	E
Belo Monte Participações, S.A.	Brazil	Energy	39.00	39.00	EY	E
Capuava Energy, Ltda.	Brazil	Energy	39.00	39.00	-	E
Companhia de Eletricidade do Estado do Bahia, S.A.	Brazil	Energy	37.57	42.76	EY	E
Companhia Energética de Pernambuco, S.A.	Brazil	Energy	34.96	34.96	EY	E
Companhia Energetica do Rio Grande do Norte, S.A.	Brazil	Energy	35.67	39.95	EY	E

Company	Address	Activity	Percentage of direct and indirect participation		Auditor	Method(*)
			12.31.15	12.31.14		
Companhia Hidreletrica Teles Pires, S.A. ⁽⁴⁾	Brazil	Energy	19.54	19.54	EY	E
Elektro Comercializadora de Energía Ltda.	Brazil	Energy	100.00	100.00	EY	F
Elektro Electricidade e Serviços, S.A.	Brazil	Energy	99.68	99.68	EY	F
Energetica Aguas da Pedra, S.A. ⁽⁴⁾	Brazil	Energy	19.89	19.89	PWC	E
Energética Corumba III, S.A. ⁽⁴⁾	Brazil	Energy	6.08	6.08	Others	E
Energyworks do Brasil, Ltda.	Brazil	Energy	39.00	39.00	EY	E
Geração Ceu Azul, S.A.	Brazil	Energy	39.00	39.00	EY	E
Geração CIII, S.A.	Brazil	Energy	39.00	39.00	EY	E
Goiás Sul Geração de Energia, S.A.	Brazil	Energy	39.00	39.00	EY	E
Iberdrola Brasil, S.A.	Brazil	Holding	100.00	100.00	EY	F
Iberdrola Operação e Manutenção, Ltd.	Brazil	Services	99.99	99.99	EY	F
Itapebí Geração de Energia, S.A.	Brazil	Energy	39.00	39.00	EY	E
Meridiano 1 energia renovavel, S.A.	Brazil	Energy	39.00	-	PWC	E
Meridiano 2 energia renovavel, S.A.	Brazil	Energy	39.00	-	PWC	E
Meridiano 3 energia renovavel, S.A.	Brazil	Energy	39.00	-	PWC	E
Meridiano 4 energia renovavel, S.A.	Brazil	Energy	39.00	-	PWC	E
Meridiano 5 energia renovavel, S.A.	Brazil	Energy	39.00	-	PWC	E
Meridiano 6 energia renovavel, S.A.	Brazil	Energy	39.00	-	PWC	E
NC Energia, S.A.	Brazil	Energy	39.00	39.00	EY	E
Neoenergia Investimentos, S.A.	Brazil	Services	39.00	39.00	EY	E
Neoenergia Operação e Manutenção, S.A.	Brazil	Services	39.00	39.00	EY	E
Neoenergia Servicios, Ltd.	Brazil	Services	39.00	39.00	EY	E
Neoenergia, S.A.	Brazil	Holding	39.00	39.00	EY	E
Norte Energia, S.A. ⁽⁴⁾	Brazil	Energy	3.90	3.90	PWC	E
PCH Alto do Rio Grande, S.A.	Brazil	Energy	39.00	39.00	-	E
Potiguar Sul Transmissao de Energia, S.A.	Brazil	Energy	39.00	39.00	EY	E
Rio PCH I, S.A.	Brazil	Energy	27.30	27.30	PWC	E
S.E. Narandiba, S.A.	Brazil	Energy	39.00	39.00	EY	E
Sever RJ Participacoes S.A.	Brazil	Energy	39.00	-	PWC	E
Soumaya RJ Participacoes S.A.	Brazil	Energy	39.00	-	PWC	E
Tacca RJ Participacoes S.A.	Brazil	Energy	39.00	-	PWC	E
Titanum RJ Participacoes S.A.	Brazil	Energy	39.00	-	PWC	E
Teles Pires Participações, S.A. ⁽⁴⁾	Brazil	Holding	19.72	19.72	PWC	E
Termopernambuco, S.A.	Brazil	Energy	39.00	39.00	PWC	E
Garter Properties, Inc.	Brit. Virgin Islands	Finance	39.00	39.00	PWC	E

YEAR 2015 ADDITIONAL INFORMATION RELATED TO GROUP COMPANIES, JOINTLY-CONTROLLED COMPANIES AND ASSOCIATES OF THE IBERDROLA GROUP.

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method(*)
			12.31.15	12.31.14		
AVANGRID						
DEREGULATED BUSINESS						
Caledonia Energy Partners, LLC	USA	Energy	81.50	100.00	-	F
E.O. Resources, LLC	USA	Energy	81.50	100.00	-	F
Enstor Grama Ridge Storage and Transportation, LLC	USA	Energy	81.50	100.00	-	F
Enstor Houston Hub Storage and Transportation, Ltd.	USA	Energy	81.50	100.00	-	F
Enstor Inc.	USA	Holding	81.50	100.00	-	F
Enstor Katy Storage and Transportation, LLC	USA	Energy	81.50	100.00	-	F
Enstor Louisiana, LLC	USA	Energy	81.50	100.00	-	F
Enstor Operating Company, LLC	USA	Holding	81.50	100.00	-	F
Enstor Sundance Storage and Transportation, LLC	USA	Energy	81.50	100.00	-	F
Enstor Waha Storage and Transportation, LLC	USA	Energy	81.50	100.00	-	F
Freebird Assets Inc.	USA	Holding	81.50	100.00	-	F
Freebird Gas Storage, LLC	USA	Energy	81.50	100.00	-	F
Gemini Capital, LLC	USA	Energy	81.50	100.00	-	F
Iberdrola Energy Holding, LLC	USA	Holding	81.50	100.00	-	F
Iberdrola Energy Services, LLC	USA	Energy	81.50	100.00	-	F
RENEWABLE BUSINESS						
Aeolus Wind Power I, LLC	USA	Holding	81.50	90.00 ⁽⁶⁾	EY	F
Aeolus Wind Power II, LLC ⁽⁶⁾	USA	Holding	61.13	75.00	EY	F
Aeolus Wind Power III, LLC ⁽⁶⁾	USA	Holding	61.13	75.00	EY	F
Aeolus Wind Power IV, LLC ⁽⁶⁾	USA	Holding	61.13	75.00	EY	F
Aeolus Wind Power V, LLC	USA	Holding	81.50	100.00	-	F
Aeolus Wind Power VI, LLC	USA	Holding	81.50	100.00	-	F
Atlantic Renewable Energy Corporation	USA	Holding	81.50	100.00	-	F
Atlantic Renewable Projects II, LLC ⁽⁶⁾	USA	Holding	61.13	75.00	-	F
Atlantic Renewable Projects, LLC ⁽⁶⁾	USA	Holding	61.13	75.00	-	F
Atlantic Wind, LLC	USA	Holding	81.50	100.00	-	F
Aurora Solar, LLC	USA	Energy	81.50	100.00	-	F
Bakeoven Wind, LLC	USA	Energy	81.50	100.00	-	F
Barton Windpower, LLC	USA	Energy	81.50	100.00	-	F
Big Horn II Wind Project, LLC	USA	Energy	81.50	100.00	-	F
Big Horn Wind Project, LLC ⁽⁶⁾	USA	Energy	61.13	75.00	-	F
Blue Creek Wind Farm, LLC	USA	Energy	81.50	100.00	-	F
Buffalo Ridge I, LLC	USA	Energy	81.50	100.00	-	F
Buffalo Ridge II, LLC	USA	Energy	81.50	100.00	-	F
Buffalo Ridge III, LLC	USA	Energy	81.50	100.00	-	F
Casselman Wind Power, LLC ⁽⁶⁾	USA	Energy	61.13	75.00	-	F
Deerfield Wind, LLC	USA	Energy	81.50	100.00	-	F
Desert Wind Farm, LLC	USA	Energy	81.50	-	-	F
Dillon Wind, LLC	USA	Energy	81.50	100.00	-	F
EI Cabo Wind, LLC	USA	Energy	81.50	-	-	F
EI Cabo Wind Holdings	USA	Holding	81.50	-	-	F
Elk River Wind Farm, LLC ⁽⁶⁾	USA	Energy	61.13	75.00	-	F
Elm Creek Wind II, LLC	USA	Energy	81.50	100.00	-	F
Elm Creek Wind, LLC	USA	Energy	81.50	100.00	-	F
Farmers City Wind, LLC	USA	Energy	81.50	100.00	-	F
Flat Rock Windpower II, LLC ⁽⁶⁾	USA	Energy	30.56	37.50	EY	E
Flat Rock Windpower, LLC ⁽⁶⁾	USA	Energy	30.56	37.50	EY	E

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method(*)
			12.31.15	12.31.14		
Flying Cloud Power Partners, LLC	USA	Energy	81.50	90.00 ⁽⁶⁾	-	F
Goodland Wind, LLC	USA	Energy	81.50	100.00	-	F
Groton Wind, LLC	USA	Energy	81.50	100.00	-	F
Hardscrabble Wind Power, LLC	USA	Energy	81.50	100.00	-	F
Hay Canyon Wind, LLC	USA	Energy	81.50	100.00	-	F
Hazelwood Australia, Inc. ⁽⁵⁾	USA	Holding	81.50	100.00	-	-
Hazelwood Ventures, Inc. ⁽⁵⁾	USA	Holding	81.50	100.00	-	-
Heartland Wind, LLC	USA	Energy	81.50	100.00	-	F
Helix Wind Power Facility, LLC	USA	Energy	81.50	100.00	-	F
Iberdrola Arizona Renewables, LLC	USA	Energy	81.50	100.00	-	F
Iberdrola Logistic Services, LLC	USA	Holding	81.50	100.00	-	F
Iberdrola Renewables Holdings, Inc.	USA	Holding	81.50	100.00	EY	F
Iberdrola Renewables, LLC	USA	Holding	81.50	100.00	-	F
Iberdrola Texas Renewables, LLC	USA	Energy	81.50	100.00	-	F
Juniper Canyon Wind Power II, LLC	USA	Energy	81.50	100.00	-	F
Juniper Canyon Wind Power, LLC	USA	Energy	81.50	100.00	-	F
Klamath Energy, LLC	USA	Energy	81.50	100.00	-	F
Klamath Generation, LLC	USA	Energy	81.50	100.00	-	F
Klondike Wind Power II, LLC	USA	Energy	81.50	100.00	-	F
Klondike Wind Power III, LLC ⁽⁶⁾	USA	Energy	61.13	75.00	-	F
Klondike Wind Power, LLC	USA	Energy	81.50	90.00 ⁽⁶⁾	-	F
Lakeview Cogeneration, LLC	USA	Energy	81.50	100.00	-	F
Leaning Juniper Wind Power II, LLC	USA	Energy	81.50	100.00	-	F
Leipsic Wind, LLC	USA	Energy	81.50	100.00	-	F
Lempter Wind, LLC	USA	Energy	81.50	100.00	-	F
Locust Ridge II, LLC	USA	Energy	81.50	100.00	-	F
Locust Ridge Wind Farms, LLC ⁽³⁾	USA	Energy	37.74	46.30	EY	F
Loma Vista, LLC	USA	Energy	81.50	100.00	-	F
Manzana Power Services, Inc.	USA	Services	81.50	100.00	-	F
Manzana Wind, LLC	USA	Energy	81.50	100.00	-	F
Midland Wind, LLC	USA	Energy	81.50	100.00	-	F
Minndakota Wind, LLC ⁽⁶⁾	USA	Energy	61.13	75.00	-	F
Montague Wind Power Facility, LLC	USA	Energy	81.50	100.00	-	F
Moraine Wind II, LLC	USA	Energy	81.50	100.00	-	F
Moraine Wind, LLC	USA	Energy	81.50	90.00 ⁽⁶⁾	-	F
Mount Pleasant Wind, LLC	USA	Energy	81.50	100.00	-	F
Mountain View Power Partners III, LLC	USA	Energy	81.50	90.00 ⁽⁶⁾	-	F
New England Wind, LLC	USA	Energy	81.50	100.00	-	F
New Harvest Wind Project, LLC	USA	Energy	81.50	100.00	-	F
Northern Iowa WindPower II, LLC ⁽⁶⁾	USA	Energy	61.13	75.00	-	F
Otter Creek Wind Farm, LLC	USA	Energy	81.50	100.00	-	F
Pacific Harbor Capital, Inc.	USA	Others	81.50	100.00	-	F
Pacific Solar Investments, Inc.	USA	Energy	81.50	100.00	-	F
Pacific Wind Development, LLC	USA	Energy	81.50	100.00	-	F
Pebble Springs Wind, LLC	USA	Energy	81.50	100.00	-	F
Phoenix Wind Power, LLC	USA	Energy	81.50	100.00	-	F
PPM Colorado Wind Ventures, Inc.	USA	Holding	81.50	100.00	-	F
PPM Roaring Brook, LLC	USA	Energy	81.50	100.00	-	F
PPM Technical Services, Inc.	USA	Services	81.50	100.00	-	F
PPM Wind Energy, LLC	USA	Holding	81.50	100.00	-	F
Providence Heights Wind, LLC	USA	Energy	81.50	100.00	-	F
Rugby Wind, LLC	USA	Energy	81.50	100.00	-	F
San Luis Solar, LLC	USA	Energy	81.50	100.00	-	F
Scottish Power Financial Services, Inc.	USA	Holding	81.50	100.00	-	F
Scottish Power Group Holdings Company	USA	Holding	81.50	100.00	-	F
Scottish Power International Group Holdings Company	USA	Holding	81.50	100.00	-	F

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method(*)
			12.31.15	12.31.14		
Shiloh I Wind Project, LLC ⁽⁶⁾	USA	Energy	61.13	75.00	-	F
South Chestnut, LLC	USA	Energy	81.50	100.00	-	F
Start Point Wind Project, LLC	USA	Energy	81.50	100.00	-	F
Streator Cayuga Ridge Wind Power, LLC	USA	Energy	81.50	100.00	-	F
Streator Deer Run Wind Farmer, LLC	USA	Energy	81.50	100.00	-	F
Trimont Wind I, LLC ⁽⁶⁾	USA	Energy	61.13	75.00	-	F
Tule Wind, LLC	USA	Energy	81.50	100.00	-	F
Twin Buttes Wind, LLC ⁽⁶⁾	USA	Energy	61.13	75.00	-	F
Twin Buttes Wind II, LLC	USA	Energy	81.50	-	-	F
West Valley Leasing Company, LLC	USA	Services	81.50	100.00	-	F
Winnebago Windpower II, LLC	USA	Energy	81.50	100.00	-	F
Winnebago Windpower, LLC	USA	Energy	81.50	100.00	-	F
NETWORK BUSINESS						
Avangrid, Inc. (previously Iberdrola USA Inc.)	USA	Holding	81.50	100.00	EY	F
Berkshire Energy Resources	USA	Holding	81.50	-	PWC	F
Cayuga Energy, Inc.	USA	Energy	81.50	100.00	-	F
Central Maine Power Company	USA	Electricity	81.50	100.00	EY	F
Chester SVC Partnership ⁽³⁾	USA	Electricity	40.75	50.00	-	F
CMP Group, Inc.	USA	Holding	81.50	100.00	-	F
CNE Energy Services Group, LLC	USA	Services	81.50	100.00	-	F
CNE Peaking, LLC	USA	Services	81.50	-	-	F
Connecticut Energy Corporation	USA	Holding	81.50	-	PWC	F
Connecticut Natural Gas Corporation	USA	Gas	81.50	-	-	F
CTG Resources, Inc.	USA	Holding	81.50	-	PWC	F
GCE Holding, LLC	USA	Holding	40.75	-	-	E
GenConn Devon, LLC	USA	Generation	40.75	-	-	E
GenConn Energy, LLC	USA	Generation	40.75	-	-	E
GenConn Middletown, LLC	USA	Generation	40.75	-	-	E
Iberdrola USA Enterprises, Inc.	USA	Holding	81.50	100.00	-	F
Iberdrola USA Group, LLC	USA	Holding	81.50	100.00	-	F
Iberdrola USA Management Corporation	USA	Services	81.50	100.00	-	F
Iberdrola USA Networks New York TransCo, LLC	USA	Holding	81.50	100.00	-	F
Iberdrola USA Networks, Inc.	USA	Holding	81.50	100.00	EY	F
Iberdrola USA Solutions, Inc.	USA	Marketing	81.50	100.00	-	F
Maine Electric Power Company, Inc.	USA	Energy	63.80	78.28	-	F
Maine Natural Gas Corporation	USA	Gas	81.50	100.00	EY	F
Maine Yankee Atomic Power Company ⁽⁵⁾	USA	Electricity	30.97	38.00	-	-
MaineCom Services	USA	Telecommunications	81.50	100.00	-	F
New York State Electric & Gas Corporation	USA	Electricity and Gas	81.50	100.00	EY	F
NORVARCO	USA	Holding	81.50	100.00	-	F
Nth Power Technologies Fund I, LP. ⁽⁵⁾	USA	Others	21.92	26.90	-	-
RGS Energy Group, Inc.	USA	Holding	81.50	100.00	-	F
Rochester Gas and Electric Corporation	USA	Electricity and Gas	81.50	100.00	EY	F
South Glens Falls Energy, LLC ⁽⁵⁾	USA	Energy	69.28	85.00	-	-
TEN Transmission Company	USA	Gas	81.50	100.00	-	F
The Berkshire Gas Company	USA	Gas	81.50	-	-	F
The Southern Connecticut Gas Company (SCG)	USA	Gas	81.50	-	-	F
The Union Water Power Company	USA	Services	81.50	100.00	-	F
The United Illuminating Company	USA	Energy	81.50	-	PWC	F
Thermal Energies, Inc	USA	Inactive	81.50	-	-	F
Total Peaking Services, LLC	USA	Services	81.50	-	-	F
UIL Distributed Resources	USA	Services	81.50	-	-	F

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method(*)
			12.31.15	12.31.14		
UIL Holdings, Inc. (previously Green Merger Sub, Inc.)	USA	Holding	81.50	-	PWC	F
United Capital Investments	USA	Inactive	81.50	-	-	F
United Resources, Inc.	USA	Holding	81.50	-	-	F
WGP Acquisition, LLC	USA	Inactive	81.50	-	-	F
Xcal Services, Inc.	USA	Inactive	81.50	-	-	F
Xcelcom, Inc.	USA	Inactive	81.50	-	-	F

YEAR 2015 ADDITIONAL INFORMATION RELATED TO GROUP COMPANIES, JOINTLY-CONTROLLED COMPANIES AND ASSOCIATES OF THE IBERDROLA GROUP.

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method(*)
			12.31.15	12.31.14		
OTHER BUSINESSES						
Engineering						
Adicora Servicios de Ingeniería, S.L.	Spain	Engineering	100.00	100.00	-	F
Empresarios Agrupados Internacional, S.A.	Spain	Engineering	25.46	25.46	PWC	E
Empresarios Agrupados, A.I.E.	Spain	Engineering	25.46	25.46	PWC	E
Ghesa Ingeniería y Tecnología, S.A.	Spain	Engineering	41.18	41.18	PWC	E
Iberdrola Ingeniería de Explotación, S.A.U.	Spain	Engineering	100.00	100.00	EY	F
Iberdrola Ingeniería y Construcción, S.A.U.	Spain	Engineering	100.00	100.00	EY	F
Ingeniería, Estudios y Construcciones, S.A.	Spain	Engineering	100.00	100.00	-	F
Iberdrola Engineering and Construction Germany GmbH.	Germany	Engineering	100.00	100.00	-	F
Iberdrola Engineering and Construction Saudi Arabia, LLC	Saudi Arabia	Engineering	100.00	100.00	-	F
Iberdrola Construção e Serviços, Ltd.	Brazil	Engineering	100.00	100.00	-	F
Iberdrola Energy Projects Canada Corporation	Canada	Engineering	100.00	100.00	-	F
Iberdrola Ingeniería y Construcción Chile, S.A.	Chile	Engineering	100.00	100.00	-	F
Iberdrola Ingeniería y Construcción Costa Rica, S.A.	Costa Rica	Engineering	100,00	-	-	-
Iberdrola Engineering and Construction Middle East, Ltd.	Dubai	Inactive	100.00	100.00	-	F
Iberdrola Energy Project, Inc.	USA	Engineering	100.00	100.00	-	F
Iberinco Hellas Techniki kai Kataskevastiki EPE	Greece	Engineering	100.00	100.00	-	F
Iberdrola Magyarország Mernoki és Építő Körtaló	Hungary	Engineering	100.00	100.00	EY	F
Iberdrola Ingegneria e Costruzioni Italia, SRL.	Italy	Engineering	100.00	100.00	-	F
Enermón S.A. de C.V.	Mexico	Engineering	100.00	100.00	EY	F
Iberdrola Ingeniería y Construcción México, S.A. de C.V.	Mexico	Engineering	100.00	100.00	EY	F
Iberservicios, S.A. de C.V.	Mexico	Engineering	100.00	100.00	EY	F
Iberdrola Ingeniería y Construcción Panamá, S.A.	Panama	Engineering	100.00	100.00	-	F
Iberdrola Engineering and Construction Poland, SP Z.O.O.	Poland	Engineering	100.00	100.00	EY	F
Iberdrola Engenharia e Construção Portugal, Unipessoal Lda.	Portugal	Engineering	100.00	100.00	-	F
Iberdrola Engineering and Construction Networks, Ltd.	United Kingdom	Engineering	100.00	100.00	EY	F
Iberdrola Engineering and Construction UK, Ltd.	United Kingdom	Engineering	100.00	100.00	EY	F
Iberdrola Engineering and Construction Ro, SRL.	Romania	Engineering	100.00	100.00	-	F
Iberdrola Inzhiniring I Stroiteistvo, LLC	Russia	Engineering	100.00	100.00	EY	F
Iberdrola Engineering and Construction South Africa	South Africa	Engineering	100.00	100.00	EY	F
Iberdrola Ingeniería y Construcción Venezuela, S.A.	Venezuela	Engineering	99.81	99.81	EY	F
Real Estate						
Arrendamiento de Viviendas Protegidas Siglo XXI, S.L.	Spain	Real Estate	100.00	100.00	-	F
Camarate Golf, S.A.	Spain	Real Estate	26.00	26.00	Deloitte	E
Fiuna, S.A.	Spain	Real Estate	70.00	70.00	PWC	F
Iberdrola Inmobiliaria Patrimonio, S.A.U.	Spain	Real Estate	100.00	100.00	EY	F
Iberdrola Inmobiliaria, S.A.	Spain	Real Estate	100.00	100.00	EY	F
Oceanic Center, S.L.	Spain	Real Estate	50.00	50.00	EY	E
Promotora la Castellana de Burgos, S.A.	Spain	Real Estate	100.00	100.00	EY	F
Urbanizadora Marina de Cope, S.L.	Spain	Real Estate	80.00	60.00	EY	F
Iberdrola Inmobiliaria Real State Investment, EOOD	Bulgaria	Real Estate	100.00	100.00	-	F
Desarrollos Inmobiliarias Laguna del Mar, S.A.	Mexico	Real Estate	100.00	100.00	EY	F

<i>Company</i>	<i>Address</i>	<i>Activity</i>	<i>Percentage of direct or indirect participation</i>		<i>Auditor</i>	<i>Method(*)</i>
			<i>12.31.15</i>	<i>12.31.14</i>		
de C.V.						
Promociones La Malinche, S.A. de C.V.	Mexico	Real Estate	50.00	50.00	-	E
<u>Other Businesses</u>						
Amara, S.A.U. ⁽¹⁾	Spain	Services and material merchandising	100.00	100.00	EY	E
Subgrupo Corporación IBV Participaciones Empresariales	Spain	Inactive	50.00	50.00	Deloitte	E
Gamesa Corporación Tecnológica, S.A. ⁽⁴⁾	Spain	Holding	19.69	19.69	EY	E
Iberdrola Inversiones 2010, S.A.U.	Spain	Holding	100.00	100.00	-	F
Iberdrola Participaciones, S.A. (previously Iberdrola Redes, S.A.)	Spain	Holding	100.00	100.00	-	F
Investigación y Desarrollo de Equipos Avanzados, S.A.U. ⁽¹⁾	Spain	Services	100.00	100.00	-	E
Keytech Sistemas Integrales, S.A.	Spain	Security Systems	37.00	37.00	-	E
Amara Brasil, Ltd. ⁽¹⁾	Brazil	Services	100.00	100.00	EY	E
Lanmóvil Amara Celular da Bahia Ltd (Lanmara). ⁽¹⁾	Brazil	Retail	65.00	65.00	-	E
Ergytech Inc. ⁽¹⁾	USA	Purchase agent	100.00	100.00	EY	E
Amergy Mexicana, S.A. de C.V. ⁽¹⁾	Mexico	Retail	100.00	100.00	EY	E
Amergy Servicios de México S.A. de C.V. ⁽¹⁾	Mexico	Services	99.00	99.00	EY	E

YEAR 2015 ADDITIONAL INFORMATION RELATED TO GROUP COMPANIES, JOINTLY-CONTROLLED COMPANIES AND ASSOCIATES OF THE IBERDROLA GROUP.

Company	Address	Activity	Percentage of direct or indirect participation		Auditor	Method(*)
			12.31.15	12.31.14		
CORPORATION						
Cartera Park, S.A. ⁽⁵⁾	Spain	Inactive	100.00	100.00	-	-
Iberdrola Corporación, S.A. ⁽⁵⁾	Spain	Inactive	100.00	100.00	-	-
Iberdrola España, S.A.U.	Spain	Holding	100.00	100.00	EY	F
Iberdrola Energía, S.A.U.	Spain	Holding	100.00	100.00	EY	F
Iberdrola Financiación, S.A.	Spain	Finance	100.00	100.00	EY	F
Iberdrola Finanzas, S.A.U.	Spain	Finance	100.00	100.00	EY	F
Iberdrola Corporate Services, Inc.	USA	Services	100.00	100.00	-	F
Iberdrola International, B.V.	Netherlands	Finance	100.00	100.00	EY	F
Iberdrola Finance Ireland, Ltd.	Ireland	Finance	100.00	100.00	EY	F
Iberdrola Re, S.A.	Luxembourg	Insurance	100.00	100.00	EY	F
Iberdrola Portugal Electricidade e Gas, S.A.	Portugal	Energy	100.00	100.00	EY	F
Camjar Plc	United Kingdom	Inactive	100.00	100.00	-	F
Clubcall Telephone Services, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Clubline Services, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Demon Internet, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Manweb Contracting Services, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Manweb Nominees, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Manweb Pensions Trustee, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Manweb Share Scheme Trustees, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Scottish Power Trustees, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Scottish Power UK Group, Ltd.	United Kingdom	Holding	100.00	100.00	EY	F
Scottish Power UK Holdings, Ltd.	United Kingdom	Holding	100.00	100.00	EY	F
Scottish Power UK, Plc	United Kingdom	Holding	100.00	100.00	EY	F
Scottish Power, Ltd.	United Kingdom	Holding	100.00	100.00	EY	F
Scottish Power Investments, Ltd.	United Kingdom	Holding	100.00	100.00	EY	F
Scottish Power Overseas Holdings, Ltd.	United Kingdom	Holding	100.00	100.00	EY	F
Scottish Power Share Scheme Trustees, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Scottish Power Sharesave Trustees, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
SPPT, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
SPW Investments Ltd.	United Kingdom	Holding	100.00	100.00	EY	F
Teledata (Holdings), Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Teledata (Outsourcing), Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Teledata Scotland, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Telephone Information Services, Plc	United Kingdom	Inactive	100.00	100.00	-	F
Telephone International Media Holding, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
Telephone International Media, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
The CallCentre Service Limited	United Kingdom	Others	100.00	100.00	EY	F
The Information Service, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F
TIM, Ltd.	United Kingdom	Inactive	100.00	100.00	-	F

JOINT OPERATIONS OF THE IBERDROLA GROUP COMPANIES STRUCTURED THROUGH AN INDEPENDENT VEHICLE FOR THE YEARS 2015 and 2014.

Company	Address	Activity	Percentage of direct or indirect participation	
			12.31.15	12.31.14
<u>DEREGULATED BUSINESS</u>				
Asociación Nuclear Ascó – Vandellós, A.I.E.	Spain	Energy	14.59	14.59
Centrales Nucleares Almaraz – Trillo, A.I.E.	Spain	Energy	51.44	51.44
<u>RENEWABLE BUSINESS</u>				
Infraestructuras de Medinaceli, S.L.	Spain	Energy	39.69	39.69
Sistema Eléctrico de Conexión Hueneja, S.L.	Spain	Energy	47.36	47.36
Colorado Green Holdings, LLC	USA	Energy	40.75	50.00
Colorado Wind Ventures, LLC	USA	Holding	40.75	50.00
<u>OTHER BUSINESSES</u>				
Torre Iberdrola, A.I.E.	Spain	Real Estate	68.10	68.10

GROUP COMPANIES AT 31 DECEMBER WHICH HAVE LEFT THE PERIMETER IN 2015 AS A RESULT OF DISPOSAL. MERGER OR LIQUIDATION.

<i>Company</i>	<i>Address</i>	<i>Activity</i>	<i>Percentage of direct or indirect participation</i>	
			<i>12.31.15</i>	<i>12.31.14</i>
<u>DEREGULATED BUSINESS</u>				
Oficina Cambio de Suministrador, S.A.	Spain	Services	-	20.00
Palencia 3 Investigación, Desarrollo y Explotación, S.L.	Spain	Services	-	39.00
Zirconio Cogeneración, S.A.	Spain	Energy	-	50.00
Damhead Creek Finance, Ltd.	Caiman Islands	Inactive	-	100.00
Iberdrola Servicios Monterrey, S.A. de C.V.	Mexico	Services	-	100.00
Servicios de Operación Altamira, S.A. de C.V.	Mexico	Services	-	100.00
Iberdrola Energía Polska Spolka, Z.O.O.	Poland	Services	-	100.00
<u>RENEWABLES BUSINESS</u>				
Eosoria Aire, S.L.	Spain	Energy	-	47.50
Iberdrola Renovables Cantabria, S.A.U.	Spain	Holding	-	100.00
Somozas Energías y Recursos Medioambientales, S.A.	Spain	Energy	-	100.00
Baffin Wind, LLC	USA	Energy	-	100.00
Jazeneuil Energies, S.A.S.	France	Energy	-	100.00
Le Moulins de la Somme, S.A.R.L.	France	Energy	-	50.00
Perle Marine, S.A.S.	France	Energy	-	70.00
Rokas Aeoliki Komito, S.A.	Greece	Energy	-	99.76
Rokas Iliaki I, S.A.	Greece	Energy	-	99.76
Kaptar Széleromu, KFT.	Hungary	Energy	-	75.00
Mistral Energetika Villamosenergia-Termelo, KFT.	Hungary	Energy	-	75.00
Vento Energetika Villamosenergia-Termelo, KFT.	Hungary	Energy	-	75.00
<u>NETWORK BUSINESS</u>				
Iberbolivia de Inversiones, S.A.	Bolivia	Holding	-	63.39
Iberdrola de Inversiones, S.A.	Bolivia	Holding	-	99.99
New Hampshire Gas Corporation	USA	Gas	-	100.00
<u>OTHER BUSINESS</u>				
Iberdrola Consultoria e Serviços do Brasil, Ltd.	Brazil	Engineering	-	100.00
IEC California, Inc.	USA	Engineering	-	100.00
Las Pedrazas Golf, S.L.	Spain	Real Estate	-	50.00
Norapex, S.A.	Spain	Real Estate	-	50.00
Torre Occidente Inmobiliaria, S.A.	Portugal	Real Estate	-	25.00
<u>CORPORATION</u>				
Scottish Power Finance (US), Inc.	USA	Finance	-	100.00
Dornoch International Insurance, Ltd.	Ireland	Insurance	-	100.00
Scottish Power Insurance, Ltd.	Isle of Man	Insurance	-	100.00
Iberdrola Finance UK, Ltd.	United Kingdom	Inactive	-	100.00
Scottish Power NA 1, Ltd.	United Kingdom	Inactive	-	100.00
Scottish Power NA 2, Ltd.	United Kingdom	Inactive	-	100.00
SP Finance 2, Ltd.	United Kingdom	Inactive	-	100.00

- (1) Companies that are controlled by the Group but due to their immateriality have been integrated using the equity method. At 31 December 2015, the total aggregate assets value and the profit for the year corresponding to these companies amounts to EUR 83,348 thousand and EUR 4,884 thousand, respectively. On 31 December 2014, the aggregate total assets and results of the corresponding period of such companies amounted to EUR 85,369 thousand and 4,348 thousand euros, respectively.
- (2) Companies considered joint ventures, accounted for the equity method, where shareholders agreements just grant the right to the net assets of the business.
- (3) Companies, where despite holding a percentage of voting rights less than 51%, the Group holds the control through shareholders agreements.
- (4) Companies where the Group has significant influence despite holding a percentage of voting rights less than 20%, since it is represented these companies' Board of Directors.
- (5) Companies where the Group holds the control, joint control or significant influence, but given its limited relevance, they have not been included in the consolidation scope.
- (6) The ownership percentage in these companies corresponds to voting rights.

CONSOLIDATED MANAGEMENT REPORT

2015

This management report has been prepared taking into consideration the "Guide of recommendations for the development of management reports of listed companies", published by the CNMV in July 2013.

1. COMPANY'S STANDING

IBERDROLA has undergone a wide-ranging transformation over the last ten years which has enabled it to advance through the ranks to become the number one Spanish energy group, one of the Spanish main companies in the Ibex 35 by market capitalization, the world leader in wind energy, and one of the world's top power companies.

Our work has led us to an international reference position, becoming one of the leading operators in the United Kingdom, one of the most important electrical companies in the United States of America, the largest private generator of Mexico and has strengthened its leadership as an electricity supplier by number of customers in Brazil.

Strategic Projection

This positive evolution has been made possible thanks to a strategic vision that has enabled IBERDROLA to anticipate the needs of the energy sector throughout three stages:

- 2001-2006: planning over these years was focused on energy business growth principally in Spain and Latin America, with the company succeeding in doubling its size and profits by the end of the period. Installed capacity rose from 16,500 to 30,500 MW while net earnings came to EUR 1,660 million in 2006.
- 2007-2013: the strategy was marked by strong international expansion and consolidation. During this period, IBERDROLA carried out the integration of the Scottish company Scottish Power, the North American company Energy East (called Iberdrola USA until 16 December 2015, date in which the friendly integration with UIL Holdings Corporation was consummated, resulting in a new company, AVANGRID, and the Brazilian ELEKTRO, as well as the expansion of its activities in renewable energy.
- 2014-2016: IBERDROLA has continued making great efforts to optimize the Group's operational and financial management in order to keep advancing with respect to meeting the targets set in Forecast 2014-2016. The company will continue developing its sustainable business and long term model through its investment programme which amounts to EUR 11,200 million, allocated mainly to areas of power transmission and distribution (T&D) and renewable energy in their reference markets.

AVANGRID, one of the largest electricity utilities in the United States

Notable features of this third stage include Iberdrola USA's obtaining all necessary approvals to seal its friendly merger with UIL Holdings Corporation. Completion of the merger on 16 December 2015 gave rise to the new company AVANGRID. The Company, which boasts assets worth in excess of USD 35,000 million, was listed on the New York Stock Exchange on 17 December. The new company is one of the largest electricity utilities in the U.S. consolidating its position as the second largest wind energy operator, as the company has presence in 25 States. By its nature as a listed subholding it has full independence and strengthened autonomy.

1.1 Governance system

IBERDROLA and the companies belonging to the Group are committed to a mission, vision and values, approved by the Board of Directors.

The Group's mission is to create value in a sustainable way in the development of its activities for the society, citizens, customers and shareholders, being the leading multinational group in the energy sector providing quality service by using energy sources that respect the environment, innovating and considering its employees a strategic asset, encouraging their development, training and conciliation measures, favouring a good working environment and equal opportunities, committed to social return throughout its business, generating employment and wealth in their environment and all of these, going together with its strategy of social responsibility and compliance of tax rules.

This mission goes hand in hand with a vision based on the ambition to lead a better future, creating sustainable value with a top-quality service for people and communities in which the Group operates, incorporating twelve values: the creation of sustainable value, ethical principles, good corporate governance and transparency, development of the Group's human resources, social commitment, a sense of belonging, safety and reliability, quality, innovation, protection of the environment, a focus on the customer and institutional loyalty.

The Group's mission, vision and values inspire the contents of the Corporate governance system, a set of internal regulations which, in accordance with current legislation and utilising the corporate autonomy permitted by this legislation, furthers the Company's corporate purpose at the head of a multinational energy leader operating across a range of social and economic contexts, satisfaction of social interests, understood as the common interests of all the shareholders of an independent company determined to carry out its corporate purpose in a sustainable fashion and create long-term value, with a wide-ranging non-controlling and institutional shareholding structure.

The corporate governance system is based on the following principles:

1. Involvement of shareholders

IBERDROLA believes it is vital to involve shareholders in corporate affairs, and it therefore operates a policy to involve them, establishing mechanisms and guarantees to this end.

2. Consideration of the legitimate interests of other stakeholders

IBERDROLA and the Group pursue the corporate purpose in due consideration of the other legitimate public and private interests forming part of their business activity and institutional reality, especially those of the different communities and regions in which they operate, those of their employees, and of other Group stakeholders. To this end, IBERDROLA has a Policy of relations with stakeholders, the purpose of which is to implement a relations framework to make stakeholders part of the Group's business and activities through an effective coordination mechanism.

3. Balanced and diverse composition of the Board of Directors

The composition of the IBERDROLA Board of Directors was devised to best suit the requirements of the various areas of business and markets in which the Group operates. Renewal of the Board is scaled, and the objective is that each year the appointment or re-election of approximately one quarter of Board members is submitted to a vote at the General Shareholders' Meeting.

4. A corporate and governance structure combining decentralised management with proper Group coordination

The corporate structure encompasses the Company (IBERDROLA, S.A.), subholding companies and business parent companies.

IBERDROLA, which performs exclusively the function of the parent company, is the company holding the stake of the subholding companies. Such entities group together equity stakes in the energy head of business companies carrying out their activities within the various countries in which the Group operates. This structure is rounded out with a country subholding company that groups together certain equity interests in other entities, including the non-energy head of business companies. One of the main functions of the subholding companies is the centralization of the common services provided to one another, always in accordance with the provisions of the applicable law.

This corporate structure has been successfully deployed in Spain, Mexico, Brazil and the UK, and produces a rapid streamlined process for ordinary management decisions to be taken by business parents, and introduces proper Group coordination, in exercise of the supervisory functions of subholding companies and IBERDROLA.

In the United States of America, the Company holds a majority stake in the subholding company listed on the New York Stock Exchange, Avangrid, Inc. For this company the Corporate governance system contemplates a special system of greater autonomy to properly protect the interests of non-controlling shareholders, boosting vigilance of operations in connection with other Group companies, and this gives it a greater measure of independence to coordinate its investees and run businesses.

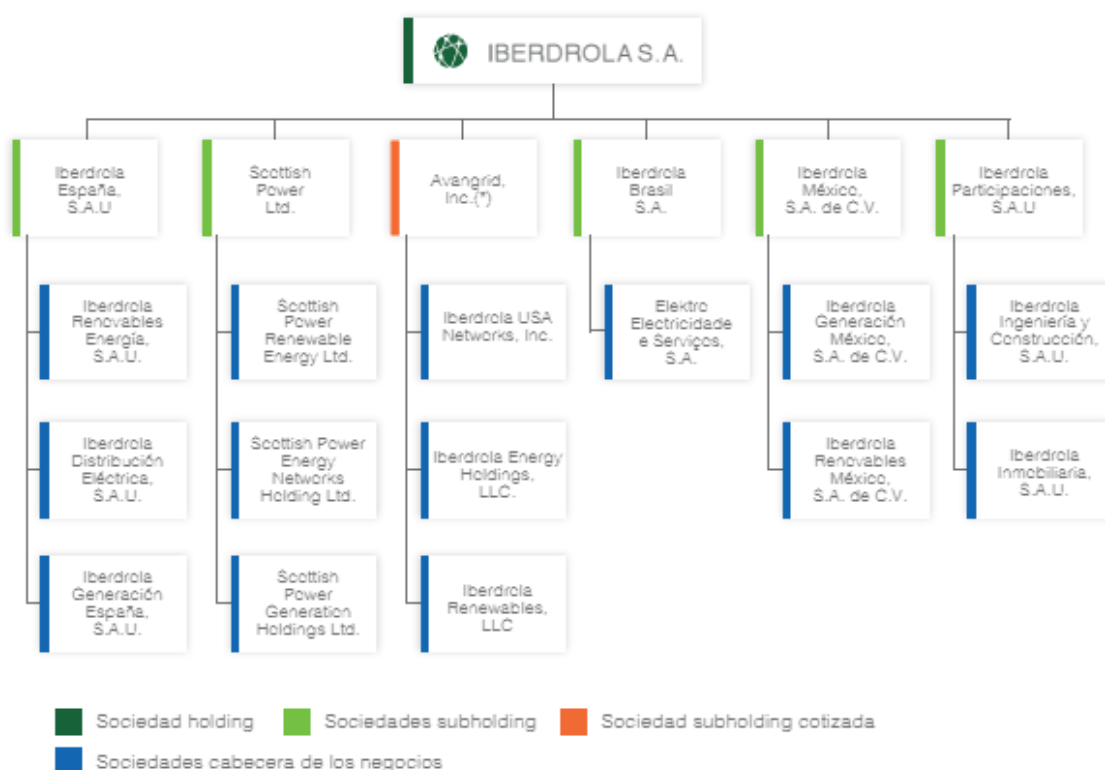
1.2 Scope of activities, sectors and geographical areas

Since 2011, the IBERDROLA Group's economic-financial and operational information has been grouped in the following lines of business: Network business, Generation and Retail businesses, Renewables business, and other businesses. The Corporation includes the costs of the Group's structure (Single Corporation), of the administration services of the corporate areas that are subsequently invoiced to the other companies through specific service agreements.

Given the nature of the activities carried out by the IBERDROLA Group, its organization responds to the strategic business units, rather than product and service lines. These businesses are managed independently, as they respond to different technologies, regulations, and geographic markets (Note 7).

The IBERDROLA Group has a decentralised structure and management model to approximate the decision taking to places where they should have effect, through the subholding companies and parent companies of the businesses. In addition, the independence and listed subholding companies' reinforced autonomy are guaranteed.

Simplified diagram of the Group's corporate structure



*Avangrid, Inc. está participada en un 81,80% por Iberdrola, S.A.

The corporate structure comprises the Company, country subholding companies, and business subholding companies.

The Company, which performs exclusively the functions of the parent company, is the entity that holds the equity stakes in the country subholding companies. Each country subholding company, in turn, groups together the business subholding companies that conduct their activities in each country in which the Group operates. The Group also has a subholding company that meets certain interests in other entities, including leading companies of non-energy businesses. Its main function consists on centralizing the common service providing to such companies, always in accordance with the provisions of applicable law.

This corporate structure has been successfully deployed in Spain, Mexico, Brazil and the UK, and produces a rapid streamlined process for ordinary management decisions to be taken by business parents, and introduces proper Group coordination, in exercise of the supervisory functions of subholding companies and IBERDROLA.

In the United States of America, the Company holds a majority stake in the subholding company listed on the New York Stock Exchange, Avangrid, Inc. For this company the corporate governance system contemplates a special system of greater autonomy to properly protect the interests of non-controlling shareholders, boosting vigilance of operations in connection with other Group companies, and this gives it a greater measure of independence to coordinate its investees and run businesses.

The Company's and the Group's governance conforms to the structure described above: separates the duties relating to strategy, oversight, and control of the Group as a whole, the duties of organisation and coordination of the businesses in each country and the multinational no-energetic business, as well as those of day-to-day administration and effective management of each business.

1.3 Governance system

The Company's and the Group's governance conforms to the structure described above: separates the duties relating to strategy, oversight, and control of the Group as a whole, the duties of organisation and coordination of the businesses in each country and the multinational no-energetic business, as well as those of day-to-day administration and effective management of each business.

It is established on the following bases:

- a) The Board of Directors of the Company, which exclusively exercises holding company duties, has assigned powers relating to the establishment of the Group's policies and strategies and of the basic guidelines for the management thereof, as well as general oversight of the development of such policies, strategies and guidelines and of decisions on matters that are strategically significant at the Group level.
- b) The chairman of the Board of Directors & chief executive officer of the Company, with the technical support of the Operating Committee, the Group's Business CEO and the rest of the management team, assumes the duty of organisation and strategic coordination of the Group through the dissemination, implementation and monitoring of the overall strategy and of the basic management guidelines established by the Board of Directors.
- c) This organisation and coordination duty is strengthened through the boards of directors of country subholding companies, which includes independent directors, and their own audit committees, internal audit areas, and compliance units or divisions.
- d) The business subholding companies of the Group assume decentralised executive responsibilities. They carry out the day-to-day administration and effective management of each of the businesses, and are responsible for the day-to-day control thereof. These business subholding companies are organised through their respective boards of directors and their own decision-making bodies.

The corporate and governance structure of the Group described above operates jointly with the Group's Business Model, which entails the global integration of the businesses and aims to maximise the operational efficiency of the different units. The Business Model ensures the dissemination, implementation and monitoring of the overall strategy and of the basic management guidelines established for each business, primarily through the exchange of best practices among the various companies of the Group, without detracting from their independence in decision-making.

In any case, the Company and the Group assume the commitments established by law in connection with the legal and functional separation of the companies carrying out regulated activities, while the country subholding companies ensure compliance with the law on this matter.

1.4 Organization of the Board, or bodies in which it delegates its decision, including control functions and the policy followed with minority interests.

A comprehensive description of the governance structure of the Company, functions and internal regulations of the committees can be seen in Appendix C of the Annual Corporate Governance Report, which forms part of this Management Report.

1.5 Vision and values

IBERDROLA works to be an energy company committed to ethics and respect for the environment as the foundation for a sense of belonging and for the trust of all persons and its various stakeholders.

IBERDROLA's vision, which brings together the economic, social and environmental aspects of sustainability, is based on six values representing firm commitments of the Company:

- Ethics and Corporate responsibility.
- Economic results.
- Respect for the environment.
- Sense of belonging and trust.
- Safety and reliability.
- Customer focus.

1.6 Business model

The business model defined in the IBERDROLA Group aims to supply reliable power of quality and environmentally respectful, throughout a long term sustainable industrial project.

The model is based on three pillars: a framework of trust based on an advanced corporate governance model; the vision and values of the Group approved by its management; and the differential elements that make IBERDROLA a different company:

- Focus in regulated businesses.
- International diversification.
- Clean and competitive energy commitment.
- Operational efficiency.
- Strength of the group.
- Global team committed and qualified.

1.7 Regulatory framework of the activities

A comprehensive description of sector regulation and operation of electric and gas system in the markets in which the Group operates can be seen in section 4 of this report.

1.8 Main products and services, production processes

The main products that IBERDROLA offers to its customers are power and natural gas, both in the wholesale and retail markets reaching the final consumer. Also offers a wide range of products, services and solutions in the fields of:

- Improving the quality of life, calm and safety of the consumer.
- Efficiency and energy services.
- Caring for the environment: renewable energy and sustainable mobility.
- Power quality and safety of the facilities.
- Installation of electrical infrastructure.
- Global management of facilities and energy supplies.

Through its subsidiaries it also provides engineering and construction services of power generation facilities, distribution and control; operation and maintenance of power generation facilities, management and promotion of the ground; and sale and rental of housing, offices and commercials. More detailed information can be found in www.iberdrola.com, in "customers" section.

As a general rule, companies directly manage the activities that belong to its core business, and outsource other estimated to be developed more efficiently by other specialized companies, which IBERDROLA requires certain quality standards and responsible behaviour in environmental, social and labour fields.

This information can be extended with corresponding indicators described in the Sustainability Report.

1.9 Strategic principles for the 2016-2020 period

IBERDROLA's outlook for 2016-2020 implements the company's sustainable business model, focusing on growth of regulated business and clean energies: geographic diversification in countries with high credit ratings; higher operating efficiency; financial solvency to take up growth opportunities in the markets in which it operates; higher returns to shareholders and a firm social commitment seeking to create value for all stakeholders.

IBERDROLA is undertaking a new era of investment and growth during which it expects to boost both the Group's EBITDA and net profits by an annual average of 6% between 2016 and 2020.

The Company's strategy will therefore focus chiefly on investment in high-quality assets in its main markets, operating efficiency, financial solvency and sustainability of its dividend.

Investment

The strategic basis presented by IBERDROLA in respect of 2016-2020 establishes a net investment programme of EUR 24,000 million in its main geographic and business areas, EUR 17,000 million of which are accounted for by investment focusing on growth. The company has now allocated almost EUR 22,000 million of its total investment to projects that are already ongoing or have been confirmed.

88% of the investment scheduled over the next five years will target regulated business or long-term contracts, mostly networks and renewable energies, providing the security, stability and visibility that characterise the Group's business model and will generate 81% of Group EBITDA by 2020.

The Group will focus primarily on two areas of business: electricity transmission and distribution networks, to which IBERDROLA will allocate 46% of total investments and, to a lesser extent, renewable energies, to which it will allocate 33% of the total amount forecast. 12% of total investment will be earmarked for generation and commercial business, and 9% of the remainder to regulated generation.

Main projects

- **United Kingdom:** IBERDROLA will continue to implement network infrastructures under the regulatory frameworks already approved for transmission and distribution (RIIO-T1 and RIIO-ED1). With respect to renewable energy projects in the UK, the company is building six new land-based wind plants with a combined power output of 450 MW, and is continuing its East of Anglia project in the North Sea which, along with the Wikingen offshore wind farm in the Baltic Sea (Germany), will add 1,100 MW to IBERDROLA's offshore installed power output.
- **United States:** Through AVANGRID, the Group will continue to invest in regulated business in the states of New York, Maine, Connecticut and Massachusetts, and hopes to add new transmission projects to the portfolio. IBERDROLA is also building four wind power plants in the US with a combined power output of 750 MW.
- **Mexico:** IBERDROLA's investment packages will focus on regulated generation and renewable energies, on the strength of the energy reform introduced in this country. The Company is building three combined-cycle plants and three cogeneration plants on long-term contracts, with a combined power output of 1,600 MW, and has plans for further investment in renewable energies in the years ahead.
- **Spain:** investment will focus on networks, where the distribution regulatory framework has been approved up to 2019.
- **Portugal:** the company has begun work on construction of a 1,200 MW hydroelectric storage facility at the River Tâmega, which should be up and running by 2023.
- **Brazil:** IBERDROLA is building seven wind plants with a combined power output of 180 MW, and is also involved in hydroelectric projects such as Belo Monte and Baixo Iguaçu along with NEOENERGÍA. In terms of networks, tariff frameworks have been approved for ELEKTRO (up to 2019), CELPE (up to 2017), COELBA and COSERN (up to 2018).

Operating efficiency

IBERDROLA, one of Europe's most efficient major electricity companies, will continue to boost its operating efficiency on the strength of technical progress in terms of the automation and digitalisation of all its businesses and processes.

Financial solvency

The Company will continue to hold a solid financial position that will enable it to take up growth opportunities in its markets and continue to improve its solvency ratios. Thus it intends to maintain operating cash flows above the levels of investment in all businesses.

Shareholder remuneration

The trend forecast for the period will enable the company to increase long-term remuneration for shareholders, in keeping with results, with a payout in the region of 65-75%. IBERDROLA intends to maintain the scrip dividend formula used in recent years, and the current number of shares - around 6,240 million - is kept steady through repurchase operations.

This caption of the management report of IBERDROLA contains forward-looking information, including financial projections and estimates and their underlying assumptions, statements regarding plans, objectives and expectations with respect to future operations, capital expenditures, synergies, products and services and statements regarding future performance or administrators estimates which are based on assumptions that are considered reasonable by them.

Although IBERDROLA believes that the expectations reflected in such forward-looking statements are reasonable, investors are cautioned that forward-looking information and statements are subject to various risks and uncertainties, many of which are difficult to predict and generally beyond the control of IBERDROLA, risks that could cause actual results and developments to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements.

Forward-looking statements are not guarantees of future performance and have not been reviewed by the auditors of IBERDROLA. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date they were made. All subsequent oral or written forward-looking statements included in this report are expressly qualified in their entirety by the cautionary statement above. All forward looking statements included herein are based on the information available on the date hereof. Except for required by applicable law, IBERDROLA undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

2. BUSINESS EVOLUTION AND RESULTS

2.1 Operating highlights for the period

IBERDROLA's results in the period must be framed within the company strategy, which is defined by the growing weight of regulated activities (transmission and distribution) and the renewable business, both in the selection of investment opportunities and in the contribution to the Group's profits. Furthermore, fiscal year 2015 was positively affected by the appreciation of two of IBERDROLA's reference currencies, the US dollar and the Sterling pound, an effect partially offset by the depreciation of the Brazilian real.

In this respect, it is worth noting the following:

- In Spain, the period was characterized by a lower hydraulicity compared to the same period last year (-27.6%), as 2014 was a year in which extraordinary rainfall occurred, as well as an increase in the electric demand by 1.8%, and 1.6% in adjusted terms of working days and temperature. In this sense, we emphasize the evolution of the industrial sector of large consumers that grew 2.4% in the last 12 months.
- In the United Kingdom, the electricity demand dropped by 1.2% compared to 2014, whereas the gas demand (which does not include the generation consumption) increased by 2.2%, due to the low temperatures registered the first months of the year.
- IBERDROLA's operational area on the United States saw a 0.1% increase in electricity demand and a 5.7% in gas demand, as a result of the high temperatures registered in 2015.
- As for Brazil, the rate of growth of demand dropped by 1.6% compared to the same period of the previous year. Thus, ELEKTRO's demand decreases by 4.4%, while NEOENERGÍA's demand increases by 2.0%.

During financial year 2015, international markets of raw materials evolved as follows:

- The average price of Brent oil was USD 52.8 per barrel compared to USD 99.1 per barrel for the previous year (-47%).
- The average price of gas (TTF) over the period rose to EUR 19.8 per MWh compared to EUR 20.9 per MWh in 2014 (-5%).
- The average price of API2 coal was USD 55.9 per MT compared to USD 75 per MT (-25%) for the previous year.
- The average cost of CO₂ allowances dropped from EUR 7.7 per MT in 2014 to EUR 6.0 per MT in 2015 (-22%).

During 2015, the average evolution of IBERDROLA's main currencies compared to the Euro was as follows: the Sterling pound revaluated by 10.0% while the US dollar and the Brazilian real devalued by 16.5% and 18.3%, respectively.

In this context, IBERDROLA Group's total production in this period decreased by 1.6% to 130,594 GWh (132,726 GWh in 2014). The Net Production by geographical areas is the following:

Net Production (GWh)	2015	2014	% Change
Spain	54,453	59,413	-8.3
United Kingdom	18,448	18,720	-1.5
United States	17,015	17,157	-0.8
Mexico	38,866	35,845	8.4
Brazil	441	344	28.2
Rest of the world	1,371	1,247	9.9
Total	130,594	132,726	-1.6

At the end of 2015, IBERDROLA had 44,574 MW installed generation capacity, of which 62% produces emission-free energy while operating at a very low variable cost. In the table below distribution classified by countries and technologies is shown:

Countries	2015	2014	MW change (15-14)
Spain	25,607	24,701	906
United Kingdom	6,450	6,447	3
United States	6,294	6,294	-
Mexico	5,415	5,218	197
Brazil	187	187	-
Rest of the world	621	621	-
Total power (MW)	44,574	43,468	1,106

Technologies	2015	2014	MW change (15-14)
Hydraulic	10,392	9,486	906
Nuclear	3,166	3,166	-
Coal	3,178	3,178	-
Gas Combined Cycles	13,353	13,292	61
Cogeneration	299	296	3
Wind power, mini-hydraulic and other renewables	14,186	14,050	136
Total power (MW)	44,574	43,468	1,106

The following exceptional highlights should be noted with regard to the period analysed, compared with the previous fiscal year:

- The merge of IBERDROLA USA and the US company UIL, and its subsequent establishment as AVANGRID has been effective since last 16 December 2015. As a result, the Consolidated financial statements of the IBERDROLA Group include, at the year end, the following events of impact:
 - Profit and loss account: Lower EBITDA by EUR 60 million and Net Profit by EUR 45 million resulting from the inclusion of operating expenses as well as of the costs generated by the regulatory conditions established by the regulatory Authorities of the States of Connecticut and Massachusetts.
 - Balance sheet: The incremental debt originating from UIL (now integrated in AVANGRID) amounts to EUR 2,406 million, including the cash payment to UIL shareholders.
- In the Spanish network business, there was a reversal of tax provisions with a positive impact which brought EUR 220 million less corporate tax expenditure.

- The business in the United Kingdom has been negatively affected by the planned closure of the Longannet Coal Power Station for the end of the first quarter of 2016, whose impact increases the provisions item for the year 2015 by EUR 230 million after tax.
- Tax reduction in the United Kingdom (down to 18% in 2020), reflect positive results of EUR 170 million.
- The evolution of Renewables USA was affected by the low wind energy resource of the year, resulting from adverse weather conditions.

The optimisation of financial soundness and liquidity as strategic priorities are summarized as follows:

- Net Debt was EUR 28,067 million, with the leverage ratio increasing to 40.7% compared to 41.8% recorded in 2014. Excluding the impact of UIL's integration, Net Debt would reach EUR 25,661 million, with the leverage at 40.1%.
- The funds generated from operations in 2015 grew by 8.2% to EUR 5,907 million.
- Solvency ratios already reached the level expected for the end of 2016, with the target having been achieved a year in advance.

2.2 Business evolution

2.2.1 Analysis of the profit and loss account

The key figures for the financial year 2015 are as follows:

Millions of euros	2015	2014	% Change
Revenue	31,419	30,032	4.6
Gross margin ⁽¹⁾	12,843	12,180	5.4
EBITDA ⁽²⁾	7,306	6,965	4.9
EBIT ⁽³⁾	3,829	3,941	-2.8
Net profit	2,422	2,327	4.1

⁽¹⁾ Gross Margin: Revenue – Procurements

⁽²⁾ EBITDA: Operating profit+ Amortisation and provisions

⁽³⁾ EBIT: Operating profit

2.2.1.1 Gross Margin

Gross Margin came to EUR 12,843 million, a 5.4% increase compared to 2014.

Millions of euros	2015	2014	% Change
Network Business	5,514	5,241	5.2
Deregulated Business	4,841	4,733	2.3
Renewable Business	2,361	2,034	16.1
Other Businesses	235	216	8.8
Corporation and adjustments	-108	-44	145.5
Gross Margin	12,843	12,180	5.4

- **Network business**

The Network business increased its contribution by 5.2% to EUR 5,514 million (EUR 5,241 million in 2014).

Millions of euros	2015	2014	% Change
Spain	1,952	1,952	0.0
United Kingdom	1,472	1,331	10.6
United States	1,698	1,498	13.4
Brazil	392	460	-14.8
Total Network business	5,514	5,241	5.2

The Networks Business increased by 5.2% compared to 2014, reaching EUR 5,514 million, and showed positive trends in all countries. The most significant events of the year were the following:

- In Spain it reached EUR 1,952 million as a result of the application of RDL 9/2013 and despite the negative impact of EUR 40 million, the accrual of investments from previous years having been accounted for in 2014.
- The figure for the United Kingdom reached EUR 1,472 million (+10.6%) due to the Sterling pound appreciation (+10%). The greater base of assets to remunerate from the investments made and derived from applying the RIIO-T1 in Transmission, offset by the income profile defined in the new regulatory framework for Distribution RIIO-ED1, which will be in force from April 2015 to 2023.
- The contribution of Iberdrola USA for this period is EUR 1,698 million (+13.4%) with the appreciation of the US dollar.
- The Gross Margin for Brazil totalled EUR 392 million (-14.8%), affected by the depreciation of the Real and for an extraordinary profit accounted for in 2014, which is partially offset by the increase in ELEKTRO's tariffs (+38%) and affects the year-by-year comparison.

- **Deregulated Business**

The Deregulated Business (Generation and Retail) increased by 2.3% to EUR 4,841 million (EUR 4,733 million in 2014).

Millions of euros	2015	2014	% Change
Spain	2,971	3,068	-3.2
United Kingdom	1,306	1,205	8.4
Mexico	584	457	27.8
United States	-20	3	-766.7
Total Deregulated Business	4,841	4,733	2.3

- In Spain the figure reached EUR 2,971 million (-3.2%) despite the greater volume of energy sold, and mainly due to the greater procurement costs resulting from the different generation mix, a result of the drop in hydroelectric production (-30.3%) given the extraordinary hydraulic conditions of the previous year. Additionally, in March 2014, an extraordinary positive impact of EUR 43 million was registered in the gas business due to the renegotiation of contracts, which affects the year-on-year comparison. However, this effect was partially offset by the good performance of net operating expenses.
- The Gross Margin for the United Kingdom was EUR 1,306 million, positively affected by the appreciation of the Sterling pound. The generation business decreased its contribution due to the lower production (-1.5%) and the increase in costs (carbon tax). The commercial business improved due to the greater sales, which compensate the drop in tariffs and the increase of regulated costs (ROCs, DuOS and TuOS). It is noteworthy the good performance of the gas business in this period.
- Mexico contributed EUR 584 million to the Gross Margin (+27.8%) resulting from the new contracts with private clients and the appreciation of the US dollar.

- **Renewables business**

The Renewable business increased its Gross Margin by 16.1% to EUR 2,361 million (EUR 2,034 million in 2014).

Millions of euros	2015	2014	% change
Spain	751	728	3.2
United Kingdom	572	369	55.0
United States	822	736	11.7
Mexico and Brazil	93	93	0.0
Rest of the world	123	108	13.9
Total Renewable business	2,361	2,034	16.1

The main causes of this trend are:

- A lower production in Spain (-9.9%) offset by a recovery of prices (EUR +8, +14%), given that they were exceptionally low in 2014 due to the weather conditions and the impact of a regulatory reform during the first part of the year, means that the gross margin rose to EUR 751 million (+3.2%).
- An improved Gross Margin in the United Kingdom of EUR 572 million, due to the entry of new capacity (contribution of the offshore wind farm of at West of Duddon Sands) and the good wind conditions (production: +19.3%).

- A greater contribution from the US of EUR 822 million (+11.7%), due to the effect of the exchange rate, which offsets a lower wind power resource (production: -4.1%) and lower sale prices reached as a result of milder weather conditions than the previous year.
- A contribution from Latin America and the Rest of the World of EUR 216 million, the result of greater production and an improvement of wind power.

- **Other businesses**

The contribution of Other Businesses reached EUR 235 million, a 8.8% decrease (EUR 216 million in 2014).

2.2.1.2 Gross Operating result – EBITDA

Consolidated EBITDA increased by 4.9% up to EUR 7,306 million (EUR 6,965 million in 2014), where all businesses improved, with increases in Networks (+1.9%), Renewables (+18.6%) and Generation and Retail (+1.2%).

Millions of euros	2015	2014	% change
Network Business	3,602	3,535	1.9
Deregulated Business	2,320	2,292	1.2
Renewable Business	1,572	1,326	18.6
Other Businesses	-11	-17	35.3
Corporation and adjustments	-177	-171	-3.5
EBITDA	7,306	6,965	4.9

- **Net operating expenses**

In addition to the already explained Gross Margin, Net Operating Expenses increased by 5.4% to EUR 3,830 million (EUR 3,634 million in 2014), affected by the exchange rate, given that excluding this effect, it would have dropped by 1.6%. This item was affected by non-recurrent positive impacts (favourable decisions accounted in “External Services” heading), offset by higher non-recurrent costs related to the implementation of new IT systems in the United Kingdom and the increase in expenses generated from AVANGRID’s operation.

Millions of euros	2015	2014	% change
Network Business	1,413	1,275	10.8%
Deregulated Business	1,566	1,512	3.6%
Renewable Business	635	567	12.0%
Other Businesses	242	229	5.7%
Corporation and adjustments	-26	51	-151.0%
Net operating expenses	3,830	3,634	5.4%

- **Levies**

The Levies heading increased by 7.9% to EUR 1,706 million, mainly due to the positive impact of EUR 113 million recorded in 2014 due to the favourable decision regarding CO₂ rights deduction, which affects the year-on-year comparison, although it is partially offset by several positive legal decisions (EUR 48 million). Additionally, the Levies heading increased due to the impact of the exchange rate (EUR 85 million).

2.2.1.3. Net Operating result – EBIT

EBIT totalled EUR 3,829 million, a 2.8% decrease in comparison with 2014 (EUR 3,941 million).

Millions of euros	2015	2014	% change
Network Business	2,472	2,455	0.7
Liberalised Business	962	1,276	-24.6
Renewable Business	659	501	31.5
Other Businesses	-30	-24	25.0
Corporation and adjustments	-234	-267	-12.4
EBIT	3,829	3,941	-2.8

- **Amortisations and provisions**

Amortisations and Provisions increased by 15%, totalling EUR 3,477 million:

- Amortisation increased by 6.9%, to EUR 3,006 million. Its evolution is basically due to exchange rate, new assets put into operation in Network and Renewable businesses and the amortisation of new IT developments in the United Kingdom (FIS).
- The Provisions heading was EUR 471 million, with a greater expense of EUR 260 million, representing a 123.2% increase due mainly to non-recurring provisions in the United Kingdom deriving from the closure of the Longannet thermal power station (EUR 288 million), partially offset by the extension of the PTCs in the United States that reduce write-off of wind farms development costs (EUR 50 million).

2.2.1.4. Financial Result

Net financial result was EUR -1,023 million, which is 8.9% better than that achieved in the same period of the previous financial year (EUR -1,122 million in 2014), mainly resulting from the 8% decrease in the result associated to debt. The average cost was 4.05%, 30 bp lower than last year.

The negative impacts associated with the surplus generated in 2014 generated from the sale of the stake in EdP, the remuneration of the tariff shortfall and the derivatives result have been partially offset by the favourable result of several non-recurring contingencies which amount to EUR 101 million, including interest accrued in legal rulings, gains of FX hedging and the sale of the stake in Euskaltel.

2.2.1.5 Results of Companies Consolidated by the Equity Method

The “Results of companies consolidated by the equity method” heading reached EUR 55 million (-59.2% against EUR 135 million in 2014) as a result of the sale of the stake in BBE and the increase in book value of the stake in Gamesa registered in 2014, which affects the year-on-year comparison.

2.2.1.6 Income from Non-Current Assets

Income from Non-Current Assets amounted to EUR 125.1 million, EUR 247.8 million less than in 2014 (-49.5%). During 2015, the most significant operations have been the sale of direct holding of COELBA and COSERN (+EUR 74 million) to NEOENERGÍA and the proceeds of the arbitration in Bolivia (+EUR 32 million). During 2014, the sale of the portfolio of Itapebí (Brazil) and the NNB Development (Nuclear, United Kingdom), as well as the 25% equity share in BBE (CCGT in Spain) were the most significant operations amounting to EUR 244 million.

2.2.1.7 Net Profit

Lastly, Net Profit amounted to EUR 2,422 million, a 4.1% increase compared to the figure obtained in the same period of 2014 (EUR 2,327 million). Recurring Net Profit reached EUR 2,261.4 million (+7.0%) as the result of a good evolution of business and the year on-year comparison of specific items of each year.

With regard to the “Corporate tax” heading, it decreases by 37% and stands at EUR 527.1 million, as the result of the decline of the tax rate (from 30% to 28%) and the reversal of fiscal provisions of previous years, which brings about a positive impact of EUR 216 million, and to the positive impact due to the lower tax rate in the United Kingdom (EUR 168 million, of which EUR 163 are non-recurrent), which will stand at 18% tax rate in the year 2020.

2.3 Operative evolution of the period

2.3.1 Network business

A. Spain

IBERDROLA had almost 10.8 million supply points and its energy distribution for the year amounted to 94,113 GWh, a 2.2% increase compared to the previous year (92,131 GWh in 2014).

During 2015, the SAIFI indicator of supply quality was at 61.9 minutes against (55.7 minutes in 2014). It is important to note that this index was impacted by the strong rainstorm, wind and snow that affected the whole Iberian Peninsula at the end of January and that provoked many widespread incidents.

During this fiscal year, the investment made has made it possible to turn on the facilities included in the following table:

Physical units 2015		Total
Lines ⁽¹⁾	Overhead (km)	155
	Underground (km)	640
Substations	Transformer (units)	15
	Capacity increase (MVA)	1,229
	Substation (units)	11
Transformation centres	Centres (units) ⁽³⁾	-476
	Capacity increase (MVA) ⁽²⁾	54

(1) It includes the reduction occurred due to 132 kW lines changed into 220 kW, now owned by REE.

(2) 3 out of the 11 facilities have been fully renewed (STR Cáceres-3, STR Coria I and Móstoles). 4 facilities have been substituted (Gandía, Plasencia, Valle de Cárcer (Vilanova) and Villaverde PM) and the STRs Polígono-C and Legazpi have been dismantled.

(3) Reassignment of ownership of transformer substations.

In addition, during this year, 2.3 million smart meters with a remote management system were installed, within the STAR smart network project.

In line with this, at the end of 2015, IBERDROLA has completed the installation of 6,495 thousand smart meters in Spain. The Company has modernised the 62% of its metering fleet in Spain, overcoming the obligation of renovating 35% of their 10.5 million meters by the end of 2014. This initiative, carried out in ten regions, will conclude in 2018 and has an overall investment of EUR 2,000 million.

B. United Kingdom

IBERDROLA has approximately 3.5 million electricity distribution supply points. The volume of distributed electricity during 2015 was 34,009 GWh (34,217 GWh in 2014), a 0.6% drop compared to the previous year.

Customer Minutes Lost (CML) and the number of consumers affected by interruptions per every 100 customers (Customer Interruptions, CI) are:

	2015		2014	
	CML	CI	CML	CI
Scottish Power Distribution (SPD)	34.7	46.6	34.4	48.0
Scottish Power Manweb (SPM)	35.2	31.5	38.0	33.7

Both CI and CML meet the quality requirements established in the regulation.

C. United States

- **Distribution**

IBERDROLA USA has 2.203 thousand supply points in the United States. The distributed volume of electricity during the year has been 32,047 GWh, a 0.4% increase compared with the previous year (31,934 GWh).

The System Average Interruption Frequency Index (SAIFI) and the Customer Average Interruption Duration Index (CAIDI) are as follows:

	2015		2014	
	SAIFI	CAIDI	SAIFI	CAIDI
Central Maine Power (CMP)	0.72	1.70	1.80	1.86
NY State Electric & Gas (NYSEG)	0.56	2.08	1.03	1.97
Rochester Gas & Electric (RGE)	0.41	1.79	0.76	1.74

The indicators of the three companies meet with the objectives established under the relevant regulatory agreements.

- **Transmission**

Construction works for the transmission project in Maine finished with a total budget of USD 1,400 million. Construction works continue for a little further extension of this project, Lewiston Project, whose budget amounts to USD 41 million.

- **Gas**

The number of gas users in the states of New York and Maine at the end of 2015 was nearly 572 thousand, to whom 31,652 GWh have been supplied, a 5% drop compared to previous year. Taking into account the integration of UIL, the number of gas consumers amounts to 982 thousand.

D. Brazil

The demand evolution for the Brazilian distributors COELBA, COSERN, CELPE and ELEKTRO has remained similar to the previous year levels reaching 54,000 GWh (54,010 GWh in 2014) during 2015.

Energy distributed (GWh) 100% of business	2015	2014	% Change
COELBA	18,871	18,380	2.7
COSERN	5,512	5,462	0.9
CELPE	13,426	13,235	1.4
ELEKTRO	16,191	16,933	-4.4
Total	54,000	54,010	0.0

The number of customers served by the distributors at the end of the year reaches 13 million.

Number of customers (million)100%	2015	2014
COELBA	5.7	5.6
COSERN	1.3	1.3
CELPE	3.5	3.4
ELEKTRO	2.5	2.4
Total	13.0	12.7

With regard to regulated electricity generation, the capacity of the projects in operation at December 2015 is 3,585 MW (IBERDROLA's percentage 951 MW).

Regarding the projects under construction, the pace of construction is on schedule, so that the dates remain as planned.

Plant	MW	Attributable MW	Year
Baixo Iguaçu	350	137	2018
Belo Monte	11,233	438	2016-2018
Total	11,583	575	

2.3.2 Deregulated business

A. Spain and Portugal

A.1. Generation

IBERDROLA'S installed capacity in Spain (excluding the renewable business) totalled 19,745 MW (18,836 MW in 2014):

Installed capacity	2015	2014	Change
Hydroelectric	9,713	8,807	906
Nuclear	3,166	3,166	-
Coal	874	874	-
Gas combined cycles	5,694	5,694	-
Cogeneration	298	295	3
Total	19,745	18,836	909

In addition, the Spanish peninsular energy balance is characterized by a high renewable production (36.8% of the total) and a higher thermal production comparing to 2014, both coal production (+23.8%) and gas generation (+18.7%). The demand shows an increase of 1.8%, despite in terms adjusted to the number of working days and the temperature, the increase is 1.6%. It is worth noting the evolution of electricity consumption of the group of companies that in the last 12 months showed a 1.8% growth, broken down as +2.4% for industrial consumers and -1.0% for service consumers.

Regarding IBERDROLA, during 2015, the production increased by 8.1% to 43,338 GWh.

The yearly trend analysed by technology is as follows:

GWh	2015	2014	% Change
Hydroelectric	12,488	18,029	-30.7
Nuclear	23,082	24,370	-5.3
Coal	3,684	2,514	46.5
Gas combined cycles	2,293	633	262.2
Cogeneration	1,791	1,611	11.2
Total net production	43,338	47,157	-8.1

- Hydroelectric production decreased by 30.7% comparing to the previous year due to lower rainfall in the period.
- Hydroelectric reserve levels were 53% (equivalent to 6.008 GWh).

A.2 Retailing

Supplied energy (electricity and gas) in Spain came to 58,280 GWh (55,819 in 2014), 49,949 GWh of electricity y 8,364 GWh of gas.

Electricity sales on the deregulated market in 2015 increased by 7.1% amounting to 41,008 GWh compared to 38,300 GWh supplied in the same period of 2014. Regarding the electricity supplied at the PVPC, it amounts to 8,911 GWh.

The gas retailed in the free market in 2015 increased by 9.8% up to 8,364 GWh compared to 7,616 GWh supplied in 2014.

In Portugal, IBERDROLA supplied 6,718 GWh during 2014 compared to the 6,563 GWh supplied in 2014 (+2.4%), being the second seller in the Medium Voltage industrial clients.

B. United Kingdom

B.1. Generation

At 31 December 2014 and 2015, installed capacity in the UK amounted to 4,835 MW.

(MW)	2015	2014	% Change
Hydroelectric	563	563	-
Coal	2,304	2,304	-
Gas combined cycles	1,967	1,967	-
Cogeneration	1	1	-
Total United Kingdom	4,835	4,835	-

With regard to production from traditional electricity generation, it decreased by 5.6% to 14,754 GWh compared to 15,637 GWh in 2014.

Coal plant production dropped by 18% to 7,813 GWh compared to 9,523 GWh in the same period of the previous year, due to the high activity of ancillary services in Longannet lowering production and to the drop of the spreads due to the increase of costs derived from "Carbon Tax" and the low prices of electricity.

The highlights by generation technology are as follows:

GWh	2015	2014	% Change
Hydroelectric	704	730	-3.6
Coal	7,813	9,523	-18.0
Gas combined cycles	6,235	5,381	15.9
Cogeneration	2	3	-33.3
Total United Kingdom	14,754	15,637	-5.6

B.2. Retailing

Regarding sales, during 2015 customers have been supplied with 20,458 GWh of electricity and 32,055 GWh of gas (20,142 GWh of electricity and 30,826 GWh of gas supplied during 2014). At 31 December 2015, SCOTTISH POWER had 3.3 million electricity customers and 2.2 million gas customers.

C. Mexico

IBERDROLA remains the leading private producer in the country with 5,048 MW (4,987 MW in 2014) in installed capacity.

The electricity supplied from the combined cycle and cogeneration plants amounted to 38,128 GWh (35,175 GWh in 2014), equivalent to a load factor of 86% given that generation with natural gas is the basis for electricity generation in Mexico. Cumulative availability of the Mexico plants was 96%.

The award by the Federal Committee of Electricity (CFE) of Mexico of the North East plant under the Independent Energy Producer category stands out in 2015, with a 25-year contract for 857 MW in the municipality of El Carmen (Nuevo León). This plant, for which the project has already started, will be operational in 2018. Furthermore, two new cogeneration projects have started in construction in 2015, with a joint capacity of 106 MW.

In addition to the three previous projects, there are six new plants under construction. Three of them will be operational in 2016: the 300 MW combined cycle plant in Baja California III (25 years contract with CFE), a 50 MW cogeneration plant and a new 300 MW combined cycle unit in the Dulces Nombres plant in Monterrey for private customers.

With all of this, in 2018, IBERDROLA's operating thermal capacity in Mexico in fully consolidated projects will reach 6,700 MW.

Mexico's energy reform, and within it the reform of the electricity sector, continues following the calendar of planned events. With the basic regulatory phase having finished with the publication of the Electricity Market Guidelines, the Short Term Electricity Market entered into effect in January 2016, and the first auctions of capacity, energy, and clean energy certificates will be carried out in the first half of 2016. The reforms are a great opportunity for additional business growth in the coming years.

D. Gas storage in US and Canada

Gas storage facilities operated by the Company in 2015 totalled 2.4 bcm. In addition, the Company had 1.6 bcm of contracted or managed capacity.

2.3.3. Renewable business

At the end of 2015, the renewables business had an installed capacity of 14,184 MW (14,049 MW in 2014).

The renewable production decreased by 2.6% to 31,228 GWh (32,062 GWh in 2014).

During the last year, IBERDROLA installed 139 MW in new renewable installations.

Installed MW	2015	2014	MW change
Wind Energy Spain	5,508	5,508	-
Wind Energy USA	5,484	5,484	-
Wind Energy United Kingdom	1,614	1,611	3
<i>Onshore</i>	1,420	1,417	3
<i>Offshore</i>	194	194	-
Wind Energy Mexico	367	231	136
Wind Energy Brazil	187	187	-
Wind Energy Rest of the World	615	615	-
Total wind energy	13,775	13,636	139
Other renewables	409	413	-4
Total installed capacity	14,184	14,049	135

A. Onshore Wind Energy

After the addition of 139 MW during the last year, IBERDROLA reached a total installed onshore wind capacity of 13,581 MW.

- United States

The Company is present in 18 States with a total installed capacity of 5,484 MW.

- United Kingdom and Republic of Ireland

Installed capacity at the end of 2015 amounted to 1,405 MW in the United Kingdom and 15 MW in the Republic of Ireland after having installed 3 MW during the year.

- Brazil

Six projects for a total of 174 MW in wind energy won the 'Leilões' (tenders) that took place in 2014. Works are under way on the wind farms of Calango 6 (30 MW), Santana I (30 MW) and Santana II (24 MW).

- Mexico

During 2015, the installation of a wind farm of 70 MW in the Estate of Oaxaca and another wind farm of 66 MW in the Estate of Puebla are remarkable.

B. Offshore Wind Energy

Currently, the renewables business is developing offshore wind projects mainly in the United Kingdom, Germany and France.

In the United Kingdom, in 2014, the Company went into operation of the West of Duddon Sands project located in the Irish Sea with a capacity of 389 MW which is being jointly developed at 50% with Dong Energy (194.5 MW correspond to IBERDROLA).

IBERDROLA continues the Wikinger offshore project development, up to 350 MW in the Baltic Sea (Germany). The project is in the component manufacturing phase with a view to starting offshore works in 2016 and going into operation in late 2017.

IBERDROLA is developing in the United Kingdom the “East Anglia” project in the North Sea. In February 2015, the East Anglia I project secured a Contract for Difference in the first auction of its kind in the United Kingdom, for a maximum capacity of 714MW; the project has made progress during 2015, with a view to a final investment decision and the signing of the contract with Siemens for the supply of 102 wind turbines of 7MW.

In April 2012, the consortium formed by IBERDROLA and the French company EOLE-RES was awarded by the French Government the exclusive rights for the operation of the offshore wind farm of Saint-Brieuc, with a capacity of 500 MW. In 2013, the project was technically redefined with the aim of using a more modern machine, 8 MW of unit power, made by ADWEN (Joint venture between Areva and Gamesa). In October 2015, the project submitted its application for a construction license. In 2016, the Company will work towards answering the requests from the French administration within the process for approval of the license, as well as on the consolidation of the main supply agreements for the future farm.

C. Other technologies

The Renewable business has facilities of other renewable technologies in various countries making a total of 409 MW, which breakdown is presented in the following table:

MW installed	2015	2014	Country
Mini-hydraulic special regime	130	130	Spain
Mini-hydraulic ordinary regime	173	176	Spain
Solar thermal hybrid	50	50	Spain
Photovoltaic	56	56	USA (50MW) Greece (6MW)
Waves	-	1	UK
Other Renewables	409	413	

3. LIQUIDITY AND EQUITY RESOURCES

3.1 Leverage

Adjusted net financial debt at 31 December 2015 increased by EUR 2,448 million to EUR 28,067 million compared to the EUR 25,619 million at 31 December 2014, as a result of the acquisition of UIL in 16 December 2015. Excluding this effect, the net financial debt of 2015 would amount to EUR 25,661 million, a 0.2% increase comparing to the previous period. Financial leverage stood at 40.7% compared to 41.8% in the same period of the previous year, since the Equity Resources increase more than debt.

	2015	2014
Equity	40,956	35,705
Gross Debt	30,340	28,191
Cash	-1,153	-1,805
Asset Derivatives and others	-1,120	-767
Adjusted net debt	28,067	25,619
Leverage	40.7%	41.8%

3.2 Credit rating of IBERDROLA senior debt

Agency	Rating ⁽¹⁾	Outlook	Date
Moody's	Baa1	Stable	8 April 2015
Fitch	BBB+	Stable	25 March 2014
Standard & Poors	BBB	Positive	30 April 2015

⁽¹⁾ Warning: The above ratings may be revised, suspended or withdrawn by the rating agency at any time.

3.3 Debt structure

Regarding the evolution of the financing cost of the Company, at 31 December 2015 it stood at 3.57% compared to 4.14% in the same period of the previous year (Note 25 of the Consolidated financial statements).

The structure of the debt by interest rate and currency can be seen in Notes 5 and 25 of the Consolidated financial statements.

In accordance with the policy of minimizing the financial risks of the Company, foreign currency risk has continued to be mitigated through the financing of international businesses in local currencies (Sterling pound, Brazilian real, US dollar, etc.) or in their functional currencies (US dollar, in the case of Mexico). The percentage of the debt registered in USD increases up to 29.8%, caused, mainly, by the integration of UIL.

IBERDROLA has a strong liquidity position at the end of 2015 exceeding EUR 8,000 million, equivalent to more than 28 months of the Company's financing needs (Note 50 of the Consolidated financial statements).

Credit line maturities	(Millions of euros)
	Available
2016	915
2017	330
2018 and onwards	5,809
Total credit lines	7,054
Cash and Short Term Fin. Invest.	1,153
Total adjusted liquidity	8,207

IBERDROLA has a varied debt maturity profile, with an average maturity of approximately six years, as a result, among other factors, of the active management of liabilities carried out during this financial year. IBERDROLA's debt maturity profile at the end of 2015 can be seen in Note 25 of the Consolidated financial statements.

3.4 Working capital

Working capital shows a decrease of EUR 322 million since December 2014 as a result mainly due to several different effects partially offsetting one another:

- A decrease of "Current financial assets" mainly due to the proceeds of regulatory fees for tariff shortfall that amount to EUR 360 million.
- Asset and liability balances with Public Administrations amount to, all together, a reduction of working capital of EUR 201 million.
- The increase in both the Commercial debtors and creditors result, all together, in a decrease of working capital of EUR 21 million.

	Dec. 2015	Dec. 2014	Change
Assets held for sale	44	-	44
Nuclear fuel	350	320	30
Inventories	1,797	2,039	(242)
Current trade and other receivables	5,370	4,819	551
Current financial assets	687	1,047	(360)
Asset derivative financial instruments ⁽¹⁾	339	314	25
Public Administrations	678	700	(22)
CURRENT ASSETS ⁽¹⁾:	9,265	9,239	26
Provisions	245	221	24
Liability derivative financial instruments	324	349	(25)
Trades and other payables ⁽²⁾	7,332	6,760	572
Public Administrations	1,251	1,474	(223)
CURRENT LIABILITIES ⁽²⁾:	9,152	8,804	348
NETWORKING CAPITAL	113	435	(322)

⁽¹⁾ It does not include cash or debt asset derivatives.

⁽²⁾ It does not include financial debt and debt liabilities derivatives.

4. INDUSTRY REGULATION AND FUNCTIONING OF THE ELECTRICITY AND GAS SYSTEM

Both IBERDROLA and some of the fully or proportionately consolidated subsidiaries engage in electricity business activities in Spain and abroad (see the Appendix to these Consolidated financial statements) that are heavily affected by the respective regulatory frameworks. Following is a description of the main regulations affecting the IBERDROLA Group.

4.1 European Union

In the member states of the European Union in which IBERDROLA is present, particularly in the UK and Spain, it should comply with EU regulations.

The aim of the European legislation is the constitution of unique gas and electricity markets in order to facilitate the exchange of this type of energy and allow any consumer in the European Union to deal freely with any supplier in the EU. In this respect, there are two types of legislation: the directives, which set out common criteria to be observed in internal markets and which the member states should transpose into national legislation; and the Regulations, which establish norms for the supranational issues, especially those related to the transit of gas and electricity, and are applicable directly.

Another set of regulations that indirectly affects the energy sector are those arising from the energy and climate policy agreed in 2007. It involves the triple objective of reducing emissions of greenhouse gases (GHGs) by 20%, setting a quota of renewable energy of 20% and a target for reducing consumption by 20%, all by 2020. To meet these objectives by 2020 there have been four documents accompanying the legislation: the reform of the Emissions Trading System, EU (EU-ETS), the national targets for emissions from non-EU ETS, the national objectives on renewable energy and carbon capture and storage.

Since 2009, these institutions have worked to implement the regulation approved in that year related to, on the one hand, the internal gas and electricity markets and, on the other hand, to promote renewable energy and to combat climate change. This regulation will be reviewed from 2016 to 2020.

In October 2014, the European Council agreed new targets for 2030: a 40% reduction in GGE compared to 1990, a share of 27% for renewable energy and a reduction in consumption, also of 27%. It also agreed to ensure that in 2020 the electricity exchange capacity among countries was at least 10% of the installed capacity. The legislation arising from these agreements has yet to be developed.

The legislation on infrastructures is also relevant. The European Union has powers with regards to trans-European networks, specifically those of energy. During the last few years, various regulations and programmes have been created to promote a greater connectivity among the Member States. Specifically, programmes like the Trans-European Energy Networks (TEN-E), the European Energy Programme for Recovery (EEPR) and the Connecting Europe Facility (CEF). Lastly, in December 2014, the European Council approved the creation of a Strategic Investment Plan for the European Union, to mobilize EUR 315,000 million in 2015 – 2017. It will be structured as a European Fund for Strategic Investments allocated to investments in infrastructure, including energy and renewable energy networks. The regulations implementing the Plan will be developed during 2015. In January 2015, the European Commission submitted the proposal of a Regulation on the European Fund for Strategic Investments to create the required legal framework. On 27 May 2015, an agreement was reached between the Council, the Parliament and the European Commission on the proposed Regulation.

On 25 February 2015, the European Commission launched a framework strategy for a resistant Energy Union with a Forward-Looking Climate Change Policy, that includes fifteen action points to be implemented during the mandate of the current European Commission, including, among others, setting out the goals of an energy union and the steps the Commission will take to achieve it, a new legislation to redesign and reform the electricity market, ensure the supply for electricity and gas, EU funding for energy efficiency, a new renewables energy package and a structural reform of EU-ETS. On 18 November 2015, the European Commission presented its first State of Energy Union reporting advances achieved in 2015 and steps to be undertaken in 2016. A guidance on Governance of the Energy Union process was also provided.

On 15 July 2015, the European Commission has published a package of documents that anticipated legislative action in the field of energy markets. Among the numerous published documents, the following stand out for our interest:

- **Communication on market design:** analysis of the EC on the functioning of the market and their suggestions for improvement, which include removing price caps as well as a better integration of renewables in the market. Also, the EC raises proposals on capacity mechanisms.
- **Communication on retail market (“New Deal” for customers):** analyses the functioning of the retail market and makes proposals for improvement to facilitate greater interaction with the client (improvements on information issues and development of new products and agents). Linked to this communication, has published a document of "best practices" in self-consumption.
- **Reform of the ETS directive:** legislative proposal to be sent to the European Parliament and the Council for processing. Covers, inter alia, MSR, and the protection of sectors in leak of carbon.

Other EU regulation

The following regulations of significance to the energy sector were approved in 2015:

- The Regulation (EU) 2015/1222 of 24 July 2015 established a guideline on capacity allocation and the management of accumulations in the interconnection. This regulation lays down detailed guidelines on cross-zonal capacity allocation and congestion management in the day-ahead and intraday markets, including the requirements for the establishment of common methodologies for determining the volumes of capacity simultaneously available between bidding zones, criteria to assess efficiency and a review process for defining bidding zones. This Regulation shall apply to all transmission systems and interconnections in the Union, except for the transmission systems on islands which are not connected with others.

- On 9 October, the Decision 2015/1814 of the European Parliament and The Council was published, concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme, amending the Directive 2003/87/EC. The market stability reserve will be established in 2018 and the placing of allowances in the reserve must be operating from 1 January 2019. It was established with the aim of reducing the quantity of 900 million allowances from auctioning volumes during the period 2014-2016 that shall not be added to the volumes to be auctioned in 2019 and 2020 but shall instead be placed in the reserve. Each year, a number of allowances equal to 12% of the total number of allowances in circulation, shall be deducted from the volume of allowances to be auctioned by the Member States and shall be placed in the reserve over a period of 12 months beginning on 1 September of that year, unless the number of allowances to be placed in the reserve would be less than 100 million. In any year, if the total number of allowances in circulation is less than 400 million, 100 million allowances shall be released from the reserve and added to the volume of allowances to be auctioned by the Member States.
- On 28 November, the Directive 2015/2193 of the European Parliament and The Council, of 25 November 2015, was published, on the limitation of emissions of certain pollutants into the air from medium combustion plants. This Directive establishes the mandatory register of this units, specific limit for certain components (sulphur dioxide, nitrogen oxides, ammonia and volatile organic compounds) and rules to control other pollutants (carbon monoxide). The maximum deadline of adaptation contemplated in the Directive for certain existing plants is 2030.

Industry Regulation in Spain

The National Commission for Market and Competition (Comisión Nacional de Mercado y Competencia - CNMC) is as a public body attached to the Ministry of Economy and Competitiveness and is subject to parliamentary scrutiny. It has the functions of market regulation and supervision.

Industry regulation and functioning of the electricity system in Spain

Currently, the electricity sector is regulated by the Electricity Industry Law 24/2013, of 26 December.

This note describes the principles that govern the Law 24/2013.

1. Separation of activities:

The regulation establishes a separation between the activities carried out in the competitive sector and others that are considered to be regulated activities. Companies that carry out any activities defined by the law as regulated (economic and technical management of the system, transmission and distribution) must have these as their sole corporate purpose and cannot, therefore, engage in unregulated activities (generation, retailing, or other activities unrelated to electricity or activities abroad). However, in group of companies in compatible activities performance will be allowed provided that these are executed by different companies. In addition, it prescribes a separation between regulated and deregulated activities for accounting purposes.

2. Competition in the power generation activity through the following measures:

- The electricity production is developed in a free competence environment.

- Generation dispatch is established by daily market. Producers of electricity, other than the special cases and exceptions provided in the law, tender hourly bids for electricity sales of each of the production units owned by them. The operating order of the production units is established on the basis of the lowest bids made until demand is satisfied in each programming period and the energy produced in each programming period remunerated at the price matched between supply and demand. There is also the option of recourse to the intraday markets (six every day), where operators can adjust their positions in respect to their daily programmes. Meanwhile, the production facilities contribute to the provision of whatever additional services may be necessary to guarantee an adequate supply, obtaining additional remuneration for such services.
- In addition to the market remuneration, the Ministry of Industry, Energy and Tourism may establish remuneration entailing payment for capacity. In this regard, the orders ITC 2794/2007, ITC 3860/2007 and ITC 3127/2011 regulate capacity payments, which consist of an investment incentive, an environmental incentive and an of availability service. The Royal Decree-Law 13/2012 temporarily modifies the investment incentive and the environmental incentive until a new capacity payment system is developed.
- The installation of the new generating facilities is deemed to be deregulated, without prejudice to the obtainment of the necessary authorisations.
- Producers are entitled to use in their generating facilities the primary energy sources that they deem most appropriate, subject to such restrictions in respect to the environment, etc. as might be provided for in current legislation.
- In December 2014, the Royal Decree 134/2010 introduced an ongoing procedure until December 2014, called supply security restrictions, which encourages the use of local coal.
- On 10 June 2014, the Royal Decree 413/2014 was published, which regulates the electric energy production activity generated from renewable, cogeneration and waste resources and establishes the methodology for the specific remuneration regime which applies to facilities that do not meet the minimum necessary to cover the costs that allow them to compete on an equal level with other technologies in the market, obtaining "reasonable return" relating to the installation type applicable in each case. The new specific remuneration system consists of the sum of:
 - a "remuneration for investment" (EUR/MW) to cover, where applicable, the investment costs that cannot be recovered from the electricity sale in the market;
 - a "remuneration for the operation" (EUR/MWh) to cover, where applicable, the difference between the operation costs and income coming from the electricity market.
- This new specific remuneration system will be calculated on the basis of a standard installation during its regulatory lifetime and referenced to the activity carried out by an efficient and well-run company according to the following:
 - the standard revenues for selling the energy;
 - the standard operation costs needed for the activity; and
 - the standard value of the initial investment.

This remuneration regime will be based on a fair-rate of return of the investments, defined on the basis of 10 years Government bonds plus a differential, initially fixed on a 300 basis points for the first regulatory period that ends on 31 December 2019 (this is, 7.398% before taxes).

Six year regulatory periods and three year regulatory sub-periods have been set. The remuneration parameters related to the market price forecasts may be changed every three years, including the deviations produced in the sub period. The standard parameters of the installations may be changed every six years, except for the initial investment value and the regulatory lifetime, that will remain unchanged during the installations' regulatory lifetime. The investment return rate may be changed by law also every six years, but only for the remunerations in the future. The return on operation in circumstances where the operating cost of a technology is dependent on fuel prices may be changed at least once a year. The last order published regarding to update this operational costs is the Order IET/1345/2015.

The standard value of the investment for new installations will be defined through a competitive tendering process.

On the other hand, Royal Decree 413/2014 established that an order from the Ministry of Industry, Energy and Tourism will establish a classification of standard installations in terms of the technology, installed capacity or any another characteristic that may be considered necessary for the application of this remunerative scheme. Hence, on 20 June 2014, the Ministry published the Order IET/1045/2014, of 16 June 2014 approving the remuneration parameters for standard installations already in operation.

The Order IET/1345/2015 establishes the methodology for updating the remuneration to the operation of facilities with specific retribution regime for such facilities established in the Order IET/1045/2014 and which has been approved by the ministerial order a remuneration value of operation except zero and whose operating costs depend essentially on the price of fuel. Update methodology is based on the evolution of fuel prices and, in the case of technologies that mainly use natural gas, it is also considered the variation of tolls for access to the gas network.

The Royal Decree 947/2015 establishes a call for granting the specific remuneration system for new facilities producing electricity from biomass in the mainland electricity system and for wind technology. They will be allocated up to 200 MW and 500 MW for biomass and wind (new or repowering), respectively. The allocation procedure and compensation parameters are developed in the ministerial order IET/2212/2015 of 23 October. Finally, the resolution of 30 November 2015 the Ministry of Energy announces the auction.

In the Resolution of 18 December 2015, the Ministry of Energy establishes the criteria to participate in the system adjustment services and approves certain testing procedures and operating procedures for their adaptation to the Royal Decree 413/2014 of 6 June, by which the activity of electricity production is regulated from renewable energy, cogeneration and waste. With this Resolution renewable installations may participate in adjustment services of the electricity system effectively and on equal conditions with other conventional technologies, thus improving competition in these markets. This represents an unprecedented advance in Europe.

3. Guarantee of the proper functioning of the system, by using the following measures:

- System operation: Red Eléctrica de España, S.A. carries on the transmission management and system operation activities. As system operator, it is responsible for managing the adjustment markets to guarantee a balance between energy demand and generation.
- Functioning of the market: With the creation of the Iberian Electricity Market (*Mercado Ibérico de la Electricidad*, - MIBEL), since July 2006, the Portuguese and Spanish forward markets have operated on an integrated basis and, since July 2007, so have the short-term markets (daily and intra-day). Currently, the Iberian Market Operator (*Operador del Mercado Ibérico* - OMI) is responsible for the operation of MIBEL. OMI was originated in the merge of OMIE (OMI-Spain), responsible for the management of the daily and intra-day markets, and OMIP (OMI-Portugal), responsible for the forward market.

4. Legislation applying to regulated activities:

The Law 24/2013 established that distribution and transmission are classified as regulated activities that are not subject to the free competition and market regime.

The Royal Decree-Law 9/2013 fixes the transitory methodology that will govern the transmission and distribution activities until the new royal decrees related to transmission and distribution are approved. It established that, on the one hand, for the revenue of these activities, an "efficient and well-run company" will be considered applying uniform criteria throughout the Spanish territory. On the other hand, it established that these economic regimes allow adequate revenue of a low-risk activity. The methodology used to calculate the revenue for the distribution activity defines a "regulatory assets base" for the activity that evolves upwards, according to the investments made, and downwards, according to the related depreciation, in order to fix its revenue. In the application of these principles it established a rate of return on assets linked to Government bonds plus a spread.

Subsequently, the Law 24/2013, published on 26 December, introduced some modifications. The most relevant ones are the following:

- Introduction of the "efficient and well-run company" concept, considering these activities as low risk.
- The regulatory periods extend to six years.
- For regulatory purposes, the accrual and collection of the remuneration generated by the installations that entered into operation in the year n starts in the year $n+2$.
- The assets in operation not fully depreciated will receive an investment remuneration considering their net value for the financial remuneration. The financial remuneration rate will be based on ten year Government bonds plus an appropriate spread for a low risk activity.

Finally, on 30 December 2013, two royal decrees were published regulating the new remuneration methodology of the transmission (Royal Decree 1047/2013) and distribution (Royal Decree 1048/2013) activities were, developing the regulatory and tax measures that started on the second half of 2013.

The methodology set out in the Royal Decree is based on new standard investment and operating costs. The aim is to reduce costs, introducing efficiency mechanisms and limitations concerning the annual investment volume. The recalculation of the base remuneration will be carried out during its first year of implementation, which includes the initial regulatory asset of the companies, that can vary with respect to the one recognised on the Royal Decree-Law 9/2013. Investment limits are also established (sector's maximum 0.13% GDP). The financial remuneration rate of the asset embodies the principles established in the new Electricity Industry Law, referenced to the ten years Government bonds plus an appropriate spread for a low risk activity.

The Royal Decree 1048/2013 includes changes in the existing incentives, in quality (it may fluctuate between +2% and -3% of the Company's remuneration) and losses (it may fluctuate between +1% and -2%). A new incentive regarding fight against fraud is created, which may reach 1.5% of the Company's remuneration. For the application of the new remuneration model contained in the RD 1048/2013, its regulatory development must be published; until then, as established in the RD, the remuneration scheme of the RDL 9/2013 will be maintained.

The remuneration system culminates with orders IET/2659/2015 and IET/2660/2015, published on 12 December 2015, which determine the type installations and unit values to consider when calculating the remuneration for 2016 and following.

5. Tariffs or access tolls:

Access tolls are uniform across the country and are collected by the distributors and carriers, which act as the collection agents of the Electricity System.

The Royal Decree-Law 14/2010, of 23 December, extended the application of access tolls to electricity producers of both the ordinary and the special regime, and established that the producers would be regulated taking into consideration the energy fed into the grid. In addition, provided that the tolls to be paid by the electricity producers have not been implemented, this royal decree-law establishes that an access toll of EUR 0.5 per MWh fed into the grid will be applied to producers that are connected to the grid.

Subsequently, the Royal Decree 1544/2011, of 31 October implemented the aforementioned regulation of access tolls for electricity producers.

On 1 February 2014, the ministry published the Order IET/107/2014, of 31 January, which revised the electric power access tolls for 2014 and includes two main aspects: firstly, it changes the weighting of the fixed part of the access tolls (paid on the basis of the contracted capacity); secondly, the tolls were increased to cover the growth of the regulated costs.

Lastly, the Law 32/2014, of 22 December, on Metrology, modifies the Law 24/2013 on the Electricity Sector, clarifying that the legal authority to establish the structure and conditions applicable to the access tariffs for transportation and distribution networks corresponds to the Government.

Finally, the Order IET/2444/2014 continued access tolls established in 2014, and the pricing structure of power and energy defined in 2014.

6. Progressive deregulation of the electricity supply and introduction of the retailing activity

The supply of electric power is completely deregulated and all consumers must contract the supply of electricity with a retailer. From 1 July 2009, those consumers who fulfil certain criteria have been able to opt to contract electricity with a “Last Resort Retailer” (*Comercializadora de Último Recurso - CUR*), which from July 2014 will become a Reference Retailer (*Comercializadora de Referencia - COR*), with the Last Resort Rate, now the Voluntary Price for the Small Consumer (*Precio Voluntario para el Pequeño Consumidor - PVPC*). The Last Resort Rate (*Tarifa de Último Recurso - TUR*) has been kept for vulnerable consumers and those who do not fulfil the requirements for the PVPC, temporarily do not have a current contract with a free market distributor.

The Law 3/2014, of 27 March, obliges the reference distributors to offer contracts in which the price of electric power is fixed for a specific period for consumers with a right to the PVPC.

The Royal Decree 216/2014, of 28 March, establishes the methodology for calculating the voluntary prices of electric power for the small consumer and their legal regimen for contracting. It determines the structure of the PVPC that will be applicable to low voltage consumers with a contracted capacity up to 10 kW. Similarly, it determines the procedure for calculating the production cost of electric power on the basis of the hourly price in the daily market during the billing period. In addition, as established by Law 3/2014, it provides the alternative of the consumer to contracting an electricity price fixed for a year with the reference distributor.

This legislation provides the Spanish electricity sector with three forms in which distributors can supply power to consumers:

- Reference supply
 - PVPC: the method that applies by default from 1 July 2014 if the consumer was subject to the previous TUR.
 - Annual fixed price in a regulated market offered by the reference distributor.
- Contracting in the deregulated market by contracting freely with a distributor.
- Last Resort Supply: a form of supply applicable to vulnerable consumers and those who do not fulfil the requirements for the PVPC and temporarily do not have a current contract with a free market distributor.

The Resolution of 2 June 2015 of the State Secretariat for Energy approved six procedures necessary for billing hourly to those consumers covered by the PVPC. This resolution establishes a period of adaptation of IT systems until 1 October 2015. From this date onwards, all consumers having an hourly meter should be billed according to the hourly consumption and price.

A Supreme Court ruling of 3 November 2015 was published on 6 February 2016, cancelling the fixed sales margin used to calculate the PVPC as remuneration for main distributors. The Supreme Court withdrew the sum of 4 €/kW/year as of 1 April 2014, and ordered the government to set a new value after adopting a calculation methodology. Until then billing will continue at the current rate as a provisional value, as stipulated in the Ministerial Order IET/2735/2015 on electricity charges for 2016.

7. Price formation and tariff structure

The Law 24/2013 regulates the aspects relating to the PVPCs, which are defined as the maximum prices that the distributors that assume the reference supply obligations will be able to charge.

They will be calculated as the sum of the following items:

- The production cost of electricity, based on market mechanisms, taking account of the average price expected in the production market during the invoicing period.
- The corresponding access tariffs and charges, and
- The corresponding distribution costs.

8. Social Tariff

The Royal Decree-Law 9/2013 creates the social tariff for certain consumers with certain social, consumption and purchase power characteristics supplied at the TUR at their normal residence and the financing of the social tariff costs. This tariff is calculated as 75% of the PVPC. Until these social and economic indicators are developed for application, the social tariff will apply to individuals in their normal residence supplied under the last resort scheme with contracted capacity of less than 3 kW, to large families or families whose members are all unemployed and to certain pensioners 60 years old or older receiving minimum pensions.

Such costs shall be borne by the parent company of the vertically integrated companies. The allocation of the social tariff costs among such companies will be made according to the number of supplies connected to the distribution network and the number of customers of the retail business of the Group.

The Royal Decree 968/2014, of 21 November, develops the methodology for fixing the percentage shares of the amounts to be financed with regard to the social tariff. These percentages will be calculated annually by the CNMC for each business group, as the relation among (i) a figure that will be the sum of the annual averages of the number of feeds connected to the distribution networks of the distributors and of the number of customers of the distributors in which the group participates and (ii) another figure that will correspond to the sum of all the annual average values of feeds and customers of all the business groups that should be considered for the effects of this sharing.

On 20 October 2015, the Ministry published the Order IET/2182/2015, of 15 October, which sets the percentage shares of the amounts to be financed with regard to the social tariff for 2015. According to this order, IBERDROLA should finance the 38.26%.

9. Load Manager

The Royal Decree-Law 6/2010 introduced the figure of the load manager as another agent in the electric system.

The Royal Decree 647/2011, which was approved in May 2011, regulates the functions of these load managers that are defined as “*companies that, as consumers, are authorised to resell electricity for power recharging services. Load managers are the only subjects with wholesale customer character under the terms provided by the applicable Community regulations.*” The mentioned royal decree sets forth the requirements and obligations of these agents. It also created a new super off-peak tariff applicable to contracts of up to 15 kW, thereby creating a third hour period (from 1 a.m. to 7 a.m.) aimed at encouraging the charging of electric vehicles in this period.

10. Emission allowances

Regarding environment regulations, the Directive 2003/87/CE is remarkable, relating to the issuance of CO₂ emissions allowances, which affects the industry and electricity companies to deliver an emission allowance for each ton of CO₂ emitted by a plant. The goal for 2020 is that emissions from sectors covered by the EU ETS will be 21% lower than in 2005.

In 2009, within the European Union's Green Package for energy and climate change, the Directive 29/2009/EC was approved, introducing changes and extending the European Union emissions trading system beyond 2012. The phase 3 (2013-20), significantly different from previous phases, is based on rules which are far more harmonised than before. The main changes in the Directive were: the default method of allocating allowances is auctioning, instead of free allocation, although transitional free allocation is envisaged in some cases; extension of the periods of compliance to be followed by consecutive periods in which the amount of rights is determined on an European Union-wide scale; it also provides that allowances can be carried over one period to the next. As a result of the new rules, since 2013, IBERDROLA has no longer had the right to receive any free allocation.

The auctioning of allowances is governed by the EU ETS Auctioning Regulation. This covers the timing, administration and other aspects of auctioning to ensure it is conducted in an open, transparent, harmonised and non-discriminatory manner. Two auction platforms are in place: European Energy Exchange-EEX (common platform for the large majority of countries participating in the EU ETS) and Futures Europe - ICE (acts as the United Kingdom's platform). Member States' shares in the auctioning volume in 2013 to 2020 are distributed as follows: 80% on the basis of their share of verified emissions in 2005 or the average of the 2005-2007 period; 10% are allocated to the least wealthy EU member states as an additional source of revenue to help them invest in reducing the carbon intensity of their economies and adapting to climate change; the remaining 2% is given as a 'Kyoto bonus' to nine EU Member States which by 2005 had reduced their greenhouse gas emissions by at least 20% of levels in their Kyoto Protocol base year.

A surplus of emission allowances has built up in the EU ETS since 2009, largely due to the economic crisis (which has reduced emissions more than anticipated) and high imports of international credits. This has led to lower carbon prices and thus a weaker incentive to reduce emissions. The European Commission is addressing this through short- and long-term measures. As a short-term measure the European Commission postponed in February 2014 the auctioning of 900 million allowances until 2019-2020 (backloading).

As a long-term solution, a new stability reserve of the Market Stability Reserve (MSR) will be introduced in 2018, operating from 1 January 2019. The reserve will address the current surplus of allowances and improve the system's resilience to major shocks by adjusting the supply of allowances to be auctioned. It will operate entirely according to pre-defined rules. The backloading was also amended by MSR Decision, passed in October 2015: backloaded allowances will not return to the market, instead they will be introduced in MSR.

11. Revenue shortfall

Electricity Industry Law 54/1997, of 27 November 1997, introduced the liberalisation of electricity generation and electric power trading. The difference between the access tariff revenue established by the Government and real costs related to these tariffs resulted in a revenue shortfall which led to problems and modifications in the functioning of the system.

To fund this shortfall, which is deferred through the recognition of long-term collection rights recovered by the annuities incorporated in annual fees, a series of measures have been adopted.

The first measure was Royal Decree-Law 6/2009, of 30 April 2009, that set limits to the increase of the shortfall and defined a framework for the gradual sufficiency of the access tolls. It also addressed the mechanism for funding the tariff shortfall through a securitisation fund set up for this purpose, Electricity Deficit Redeeming Fund (*Fondo de Titulización del Déficit del Sistema Eléctrico* - FADE).

As measures adopted since 2009 proved to be insufficient throughout 2013, the Government carried out a process of regulatory and tax reform for the electricity sector. As a step prior to this reform, Law 15/2012 established new taxes and Royal Decree-Law 9/2013, was approved, adopting urgent measures to guarantee the financial stability of the electric system methodology for the calculation of the remuneration of the transmission and distribution activities, special regime and capacity payments, among other measures.

Finally, Law 24/2013 is governed by the principle of economic and financial sustainability of the electricity system, meaning that any regulatory measure which causes an increase in costs or a reduction in income for the electricity system should incorporate an equivalent reduction of other cost items or an equivalent increase in income that ensures the equilibrium of the system. Thus, the possibility of new shortfalls accumulating, as have occurred in the past, is ruled out.

This principle is reinforced with the obligation to automatically review the tolls and fees if the temporary imbalances between revenues and costs of the electricity system exceed the following limits from 2014 onwards:

- 2% of the income estimated for the system in a given year.
- The accumulated debt due to imbalances in preceding periods may not exceed 5% of the income estimated for the system in a given year.

The part of the imbalance that, without exceeding such limits, is not compensated by increases in tolls and fees will be financed by the parties to the settlement system in proportion to the remuneration that corresponds to them for their activities.

The amounts contributed by this concept will be returned in the corresponding settlements after five years with an interest rate.

In contrast to the previous system, these imbalances will not be financed exclusively by large companies and the collection rights corresponding to income shortfall may not be assigned to the Securitisation Fund of the Electricity System Debt after 1 January 2013.

With regard to the excess income that could arise, it will be used to compensate imbalances from previous years and, as long as there are debts pending from previous years, the access tolls and fees may not be revised downwards.

Royal Decree 680/2014, of 1 August, regulates the procedure of budgeting, recognition, settlement and control of the surcharges on the production of electric power in the isolated electricity systems of the non-peninsular territories charged to the central state budget, thus developing the provisions of Law 24/2013, which established that from 1 January 2014, 50% of these surcharges would be financed against the central state budget.

At the end all this measures have enabled that the final liquidation of 2014 closed with a surplus for EUR 550.3 million. This surplus will not be used as an income in the regulated settlement of the current financial year.

12. Self-supply

Self-consumption is regulated for the first time in the Law 24/2013 and defined as the electric energy provided by generation installations associated with a consumer. Self-consumers must pay the same access tariff for the consumed energy (either taken from the network or from its own installation) as other customers. In addition, a mandatory register for self-consumption installations is created.

Later, Royal Decree - Law 9/2015 of 10 of July modified Law 24/2013 to establish the possibility of setting reductions in tolls, fees and costs for certain categories of consumers for which the maximum contracted power consumption and generation installed shall not exceed 10 kW. This measure is exceptionally and it will be implemented as long as the safety and economic and financial sustainability of the system is ensured.

Finally, Royal Decree 900/2015 of 10 of October regulated the administrative, technical and financial conditions of the self-consumption modalities. It differences two types of self-consumption:

- Supply with self-consumption: in the case of a consumer in a single electricity supply point or installation that has inside a network of one or more installations to generate electricity for self-consumption and were not recognised in the administrative record of energy production facilities. In this case, there will be a single subject, which will be the consumer. The contracted power shall not exceed 100 kW and discharges energy to the grid will not receive monetary compensation.
- Production with self-consumption: in the case of a consumer in an electricity supply point or installation, which is associated with one or several production facilities duly registered in the administrative record of energy production facilities. In this case there will be two subjects, which will be the consumer and the producer.

Regarding the economic regime, and until charges associated with system costs are approved, the self-consumer must pay a fixed charge related to the maximum power generation for manageable generation facilities in the tariff period and a variable charge applicable to the self-consumed energy. Consumers included in the modality of supply with self-consumption which power contracted is less than or equal to 10 kW will be exempt from the temporal charge for the self-consumed energy. Apart from the charges for costs and system services, self-consumers also pay networks tolls for the networks' use like other consumers.

13. Interruptibility

The interruptibility service for a consumer consists of the reduction of its contracted capacity in response to a reduction order from the system operator. This order will be given taking account of the needs that arise in the operation of the electricity system, according to criteria of security and lowest cost.

The system operator will request the execution of the capacity reduction option, following economic and technical criteria:

- Economic criteria: In situations where the application of the service has a lower cost than that of the adjustment services of the system.
- Technical criteria: As a rapid response mechanism in emergency situations in the operation of the system.

To execute the option, the system operator will send a power reduction order to the service providers who will reduce their active power demanded until the committed residual power values are fulfilled.

The allocation of the interruptibility service will be carried out through an auction procedure managed by the system operator, as established in Order IET/2013/2013, therefore guaranteeing the effective provision of the service and its execution at the lowest cost for the electricity system.

The Resolution of 10 October 2014 of the State Secretariat for Energy, approves the characteristics of the competitive auction procedure for the allocation of the interruptibility demand management service for the 2015 electricity season (applicable from 1 January 2015 to 31 December 2015). Among others aspects, this resolution defines the maximum amounts to be auctioned for each type of product, the starting price, the period of delivery of the interruptible power and the date of each auction for the allocation of the interruptibility demand management service for the season (the auctions took place from 17 November 2014 to 21 November 2014). Subsequently, an extraordinary auction, approved by means of the Resolution of 17 December 2014, was carried out.

The Resolution of 9 July 2015 of the State Secretariat for Energy approves the calendar of the competitive auction for the allocation of the interruptibility demand management service for the 2016 electricity season. The auction took place between 3 August 2015 and 4 September 2015.

14. Energetic efficiency

Energetic efficiency is an essential aspect of the European 2020 strategy for sustainable growth and one of the most effective forms of strengthening the security of energy supply and reducing emissions of greenhouse gases and other pollutants. In this sense, the European Union has set itself the target of achieving a 20% improvement in energy efficiency by 2020.

Law 18/2014, of 15 October, approving measures for growth, competitiveness and efficiency, contains a set of mechanisms designed to achieve the energy saving targets established in the Energy Efficiency Directive. To this end, it created the National Energy Efficiency Fund, managed by the Institute for the Diversification and Saving of Energy (*Instituto para la Diversificación y Ahorro de la Energía* - IDAE) and financed by an annual contribution from all suppliers of gas and electricity, wholesalers of oil products and of liquid petroleum gases, according to their sales. Order IET/289/2015, of 20 February, established the contribution obligations for 2015.

Finally, Law 8/2015, of 21 May 2015, modified Law 18/2014 and established that the obliged entities must make an annual contribution from 2016 onwards to the National Energy Efficiency Fund in four instalments: on 31 March, 30 June, 30 September and 31 December of each year. In addition, in order to establish the annual contribution for each obliged entity, positive or negative adjustments can be made, resulting from data provided by the obliged entities, such as sales and other variables, and data set out by the relevant ministerial order of the previous year.

Industry regulation and functioning of the gas system in Spain

The natural gas sector in Spain has undergone significant changes in its structure and operation in the last ten years, from a monopoly to a fully open market, driven mainly by the deregulation measures in European Directives (2009/73/EC is currently in force) aimed at opening up markets and creating a single European gas market.

These liberalised principles have been incorporated and developed in Spanish law through Law 34/1998 of the Hydrocarbon Sector, which began the deregulation process and, more recently, through the Law 12/2007 and the Royal Decree-Law 13/2012 which completed the process.

The Hydrocarbon Industry Law (1998) laid the foundations for the new gas system, particularly with regard to the separation of activities (regulated and deregulated), the introduction of third-party access to the regulated network, the abolition of the former concessions for piped gas supply and their conversion into regulated administrative permits, and the establishment of a timetable for progressive market deregulation.

In line with these principles, the gas system has been structured around two types of activities: regulated activities (regasification, storage, transmission and distribution) and deregulated activities (trading and supply).

The Hydrocarbon Industry Law 34/1998 provided for the legal separation of deregulated and regulated activities and the segregation for accounting purposes of the various regulated activities. In addition, with the publication of Law 12/2007, Spain moved a step closer to achieving functional separation between network activities and deregulated activities and between network activities and technical system management. In 2012, Royal Decree-Law 13/2012 was approved, transposing Directive 2009/73/EC, and established further measures of separation in management of the transmission network.

Although the Hydrocarbon Industry Law established the general principles underpinning the new Spanish gas system, the sector's deregulation did not come into practice until 2001, following publication of Royal Decree-Law 6/2000, on urgent measures to intensify competition in the goods and services markets, and Royal Decree 949/2001, regulating third party access to gas installations and establishing an integrated economic system for the natural gas sector.

The first of these decrees enacted certain elements of the Hydrocarbon Industry Law with the aim of fostering measures that would facilitate the elimination of entry barriers for new supply companies. In particular, it created the technical system manager (ENAGAS, S.A.), provided for a 25% gas release under the contract for natural gas brought from Algeria through the Maghreb pipeline, and brought forward the timetable for deregulation.

The second, Royal Decree 949/2001, established firstly the specific terms and conditions for third-party network access and, secondly, a remuneration system for regulated activities and a cost-based system of tariffs, tolls and fees structured according to pressure levels and consumption bands.

The remuneration assigned to each company as well as the tariffs, tolls and fees are updated periodically by ministerial orders and resolutions.

The economic system also established a settlement procedure that would allow for redistribution of revenues collected in the form of tariffs, tolls and fees between the various regulated activities in accordance with the remuneration method established. The body responsible for effecting this redistribution is the Ministry of Industry, Energy and Tourism.

Other issues related to the regulation of the transmission, distribution and supply businesses, the administrative authorisation procedures for natural gas facilities and the regulation of certain aspects of the supply business are dealt with in Royal Decree 1434/2002.

As for the technical operation of the system, the operating regulations are established in Order ITC 3126/2005 enacting the gas system technical management rules. Inter alia, these regulations established that each operator is individually responsible for maintaining its liquidity and enacts specific protocols for the conduct of the technical system manager in exceptional operating circumstances.

Despite the sector's progressive deregulation, prevailing regulations uphold the state's obligation to ensure the safety and continuity of supply. To this end, Royal Decree 1766/2007 stipulates that direct market suppliers and consumers must maintain minimum security stocks equivalent to 20 days' consumption. In addition, it limits the maximum percentage of gas supplies that may be sourced from a single country to 50%.

The State also maintains responsibility for obligatory planning work for certain infrastructures (for example, gas pipelines forming the core transmission network, the secondary transmission network, the determination of the total liquid natural gas regasification capacity necessary to supply the system and core natural gas storage facilities). For all other infrastructures, the state's planning work is provisional only. In 2012, Royal Decree-Law 13/2012 enacted a series of measures to halt the construction of new infrastructure in a context of falling demand for gas.

As mentioned above, in Spain the deregulation process was completed with Law 12/2007 transposing Directive 2003/55/EC. The two key changes enacted by this law were the elimination of regulated supply and the functional separation between network activities and deregulated activities.

As in the electricity sector, from 1 July 2008, all customers in Spain are free to choose their supplier of gas, although there is a tariff of last resort, a regulated price eligible for customers of low pressure natural gas with an annual consumption of less than 50,000 kWh. The price is automatically calculated additively and is called tariff of last resort.

The Law 18/2014, on measures for growth, competitiveness and efficiency, and previously the Royal Decree-Law 8/2014, established the principle of economic and financial sustainability for the gas system. This principle is reinforced with the obligation to automatically review tolls and fees if the annual imbalance between revenues and costs of the gas system exceeds the following limits:

- 10% of the income receivable for the year; or
- 15% of the sum of the annual imbalance plus annual payments recognised and pending amortisation.

The part of the imbalance that, without exceeding the above limits, is not compensated by the increase in tolls and fees will be financed by the parties to the settlement system in proportion to their remuneration. The amounts contributed will be returned in the following five years and will earn an interest rate equivalent to the market rate.

The shortfall accumulated at 31 December 2014 will be financed by the owners of the installations during a period of 15 years.

On the other hand, the remuneration of the regulated activities will be based on the costs necessary for an efficient and well-managed company to carry out the relevant activity, following the principle of performing the relevant activity at the lowest cost for the gas system. In addition, the remuneration of regulated activities will be on the basis of six-year regulatory periods. However, it is possible to adjust every three years the remuneration parameters in exceptional circumstances. The first regulatory period ends on 31 December 2020.

The remuneration system for distribution is based on the remuneration of the previous year, adjusted for changes in productivity and new customers.

The remuneration system for transmission, storage facilities and regasification is based on the net value of the associated assets. In addition, the associated operating and maintenance costs and premiums for continuity of service are also factored in to calculate the remuneration system.

The Hydrocarbon Industry Law has been modified by Law 8/2015, of 21 May 2015.

The main aspects introduced by Law 8/2015 regarding the gas system are:

- The creation of an organised wholesale gas market.
- The designation of the operator of the regulated gas market.
- Some measures relating to minimum security stock levels are adopted.
- CORES (*Corporación de Reservas Estratégicas de Productos Petrolíferos*) is enabled to constitute, maintain or manage natural gas and liquefied natural gas strategic stocks.
- Pursuant to the Efficiency Fund (*Fondo Nacional de Eficiencia Energética*) the law permits the refund of contributions when necessary (in case of mistake, for example).
- Incentives established, benefiting the landowners and regions where the activities of exploration and production with conventional and non-conventional (including fracking) techniques are developed.
- Inspections may be carried out by any natural gas installation company (not only distribution companies).

Finally, Royal Decree 984/2015 of 30 October 2015 **regulates the organised wholesale gas market and the third party access to the facilities of the natural gas system**. This market will initially include the negotiation of short-term standardized products by an electronic platform managed by the market operator (MIBGAS-OMEL), with a centralised collateral management. In addition, this market will centralize the hiring capacity through an electronic platform managed by the Technical System Operator (ENAGAS), with standardized products and auction procedures.

Industry regulation in the UK

The principal laws that govern Scottish Power Ltd.'s (hereinafter, **SCOTTISH POWER**) activities are the Electricity Act 1989 (**Electricity Act**) and the Gas Act 1986 (**Gas Act**), as substantially amended and supplemented by numerous subsequent enactments, including the Gas Act 1995, the Utilities Act 2000, the Energy Act 2004, the Energy Act 2008, the Energy Act 2010, the Energy Act 2011, the Energy Act 2013 and various EU directives. These specific energy laws are supplemented by UK and the EU legislation relating to competition and consumer protection.

1. The Regulatory Authorities

The principal regulatory authority for utilities is the Gas and Electricity Markets Authority (**GEMA**), comprising a chairman and other members appointed by the Secretary of State for Energy and Climate Change. GEMA is supported by the Office of Gas and Electricity Markets (**OFGEM**). The main instrument of regulation used by GEMA is the licencing regime which in most cases requires the various aspects of the energy industry to be carried out under a licence to which standard conditions apply. In addition, there are a number of statutory obligations, known as relevant requirements, which are enforced by GEMA as if they were licence conditions.

GEMA's principal objective is to promote the interests of present and future consumers and promote effective competition. Under the Energy Act 2010, the interests of such consumers must be taken as a whole, including their interests in the reduction of greenhouse gases and in the security of the supply of gas and electricity to them.

In furthering this objective GEMA must ensure that all reasonable demands for electricity and gas are met, ensure that licence holders are able to finance the activities they are obliged to undertake, and contribute to the achievement of sustainable development. Further provision concerning the duties of GEMA has been made by the Energy Act 2013, but the provisions in question are yet to be implemented.

GEMA's functions include the granting of licences (and their revocation in certain limited circumstances), the making of changes to licence conditions (including the operation of price controls for the monopoly network functions), the review of industry code modifications, operating schemes for promoting renewable electricity and energy efficiency, and the enforcement of the industry's obligations.

GEMA has the power to impose monetary penalties for past and ongoing breaches of licence conditions and relevant requirements and it can order that redress is provided to consumers. Fines and redress orders for a particular breach can in aggregate be up to 10% of the licensee's applicable turnover.

The principal Regulatory Authority for competition matters is the Competition and Markets Authority (**CMA**). They can undertake general market investigations and, working concurrently with GEMA, can investigate potential breaches of competition law in the utility field. Consumer protection matters are enforced by the CMA, OFGEM and Local Authority Trading Standards departments.

a) Licences

Companies within the SCOTTISH POWER Group hold licences for various functions including:

- the supply of electricity;
- the generation of electricity;
- the distribution of electricity in the South Scotland area, in the Merseyside and North of Wales area;
- the supply of gas;
- the shipping of gas (that is, arranging for the insertion, the transmission, and the removal of it from the public network); and
- the transportation of gas to certain specific sites (such as proposed new gas fired power stations).

The third package of European Union Directives on electricity (2009/72/EC) established additional restrictions to the ownership of transmission companies. On 19 June 2012, Scottish Power Transmission Limited (SPTL) was certified by OFGEM, in accordance with the Directive's Article 9, with the European Commission approval, on the basis that SPTL's arrangements guarantee more efficient independence than the ITO provisions under the Directive's Chapter V. As a result, the provisions relating ownership separation do not apply to SPTL.

The conditions of licences regulate such matters as:

- for network licences: the quality of service and the charges that can be made.
- for supply to domestic consumers: consumer protection provisions including rules on standards of conduct, simpler tariffs, provision of information, debt and disconnection, cost reflective pricing, in relation to payment methods, information supply to customers and on fair trading.
- for most types of licence: rules requiring adherence to industry codes that set down the detailed technical rules for operating the industry, and providing for OFGEM to determine whether proposed changes to the codes should go ahead.

The Gas Act 1995 and Utilities Act 2000 introduced standard licence conditions to ensure that all holders of a particular licence type are subject to the same conditions. Under the Electricity and Gas Regulations 2011 (Internal Markets), modifications of individual or standard licencing terms no longer require the holders' consent. However, affected licence holders and other parties can appeal to the Competition Commission (CMA since April 2014) on both procedure and substance, except where legislation allows the Secretary of State to modify licence conditions for certain specified purposes (typically the delivery of industry wide reforms). In most cases, these powers are time limited. Changes to licence conditions can also be made without the right of appeal in pursuance of a European Union obligation, using powers in the European Communities Act 1972.

When OFGEM makes a decision on modifying an industry code which runs contrary to the views of the relevant industry governance body, the decision can, with certain exceptions, be appealed to the CMA.

2. Competition Legislation

GEMA also has concurrent powers with the CMA to apply the Competition Act 1998, the Fair Trading Act 1973 and the Enterprise Act 2002 to the energy sector in Great Britain. Accordingly, GEMA can levy fines of up to 10% of turnover for breaches of the prohibitions of anticompetitive agreements or the abuse of a dominant position.

Under the Enterprise Act, GEMA and the CMA have powers to initiate a market investigation where it appears that competition has been prevented, restricted or distorted by any feature of a market, so far as it relates to commercial activities connected with the generation, transmission and supply of gas and electricity (and where it would not be appropriate to operate by the provisions of the Competition Act 1998 or using any other powers). If the GEMA or CMA finds such adverse effects on competition, it is required to take proportionate steps to remedy them. The CMA's powers are extensive and can range from changes to licences to forced divestments, if they are justified by the evidence and findings.

b) CMA market investigation into energy

A market investigation was initiated on 26 June 2014 by GEMA. The investigation is into the operation of retail gas and electricity markets for domestic and small business consumers, and the wholesale markets that support such supply. On 7 July 2015, the CMA published its provisional findings and a "remedies notice" containing suggested remedies. The provisional findings concluded that competition in the wholesale gas and electricity markets works well and that the presence of vertically integrated firms does not have a detrimental impact on competition. No strong case was found for returning to the old "pool" system for the Wholesale Electric Market (*Mercado Eléctrico Mayorista* – MEM).

However, a number of adverse effects on competence were identified in the retail market, some due to over-regulation, but mainly focussed on the possibility that people on standard variable tariffs may be losing out through lack of engagement in the market. The CMA has put forward a number of remedies for consideration. Most are focussed on increasing competition in this segment, but they have also suggested (while recognising the difficulties) a transitional safeguard regulated tariff to apply while other changes take effect. This would be set above the "efficient" level of pricing, with the aim of mitigating the damage to competition that might otherwise arise. The CMA has also made a number of wider proposals including zonal charging for transmission losses, tighter control of non-competitive low carbon contracts, changes to industry code governance, and reforms to regulatory policy including GEMA's duties.

After an extension of the deadline, the investigation must be completed by 25 June 2016.

c) *EU Regulation on Energy Market Integrity and Transparency (REMIT)*

GEMA also enforces REMIT in the United Kingdom. It has the power to levy unlimited fines for breaches and since 13 April 2015 can initiate criminal prosecutions for breach of the market manipulation element of REMIT against both companies and the individual employees involved. In the case of individuals, the penalty can include imprisonment for up to two years.

d) *Price controls*

Prices for the sale of electricity and gas by utilities to final consumers are not currently controlled in the United Kingdom. Nowadays, there is no controlled tariff for certain categories of consumer, although all the major suppliers must offer special discounts for certain disadvantaged customers under the Warm Homes Discount programme. The total cost of discounts of the Warm Home Discount programme for SCOTTISH POWER in 2014-2015 was 6 Sterling pounds per customer account (counting gas and electricity separately) and, like any other costs, suppliers are free to pass on the cost to their tariffs. OFGEM has implemented licence modifications requiring any price variation by payment method to be cost reflective.

In 2014 and 2015, suppliers must pay 12 Sterling pounds to each person who is a domestic electricity customer on a specified date in each year, and the United Kingdom Government in turn repays that sum from taxpayer funds to the suppliers upon production of suitable evidence. This arrangement effectively takes the cost, but not the administration of the Warm Home Discount programme in relation to the public purse in those two years. This requirement expires after 2015.

Similarly, there are currently no controls other than those established in the Competition Act 1998 and the Transmission Constraint Licence Condition (TCLC), on prices charged to commercial customers or on other prices in the wholesale electricity and gas markets.

TCLC prohibits electricity generators from making excessive profits resulting from balancing actions. OFGEM has published guidelines on the interpretation and application of the TCLC. Enforcement decisions under the framework of the TCLC are subject to review by the Competition Appeal Tribunal, rather than the review by the courts applicable to other GEMA enforcement decisions. The condition expires five years after its enactment, having been implemented on 29 October 2012, and is renewable for another two years.

OFGEM has implemented electricity market liquidity obligations for large integrated supply and generation businesses, including SCOTTISH POWER. These include obligations to facilitate trading with smaller companies and also an obligation to market make in a number of wholesale products during two specified "windows" in each business day. Although the prices of bids and offers are not regulated, the licence condition limits the spread between them. There are rules designed to give some protection to obligated licences in fast or volatile markets. To date, no material costs have arisen from this obligation.

Following the Retail Market Review, OFGEM has implemented limits on the products that can be sold in the domestic energy market.

These include restrictions on the number and composition of tariffs (with a maximum of four basic tariffs plus variations according to parameters such as form of payment, meter type and region). The CMA has proposed removing these restrictions. There are also information requirements and requirements for notifying customers of lower tariffs. OFGEM has also implemented code of conduct for customer treatment which covers all aspects of the supplier-client relationship.

The networks are considered to be a natural monopoly. Therefore, their prices have been controlled and this is now achieved through the new RIIO framework (Revenue = Incentives + Innovation + Outputs). This involves setting a revenue profile for an eight year period (with a limited revision every four years) based on the regulator's assessment of the costs of an efficient network operator and the likely capital programme (aided by a business plan submitted by the Company) in order to calculate the revenue needed to meet a target return on investments. The formula uses a Market Indicator for setting the debt cost, and phases in (for electricity) an asset depreciation period of 45 years, replacing the 20 year period used previously. Various incentives have been added to the formula which also takes account of inflation in order to calculate the permissible revenues for the network.

Under the RIIO framework, there is a greater emphasis on outputs and innovation, as well as on the role that network companies can play in developing a sustainable energy sector.

In the transmission business, SPTL's new RIIO1 framework became effective from April 2013. In distribution, the new RIIO for the Scottish Power network in the south of Scotland and in the Manweb area was accepted on 3 March 2015 by Scottish Power Energy Networks and came into force on 1 April 2015. An appeal made to the CMA by British Gas Trading Ltd, alleging that the controls are too generous, was determined by the CMA on 29 September 2015, rejecting most of the British Gas appeal, but a small adjustment was allowed, which affected the prices set for 2016/17 and later years. The net effect on Scottish Power's distribution licensees is a revenue reduction of GBP 19 million over the 8 years RIIO ED1 period. The parallel appeal by NPG had no impact on the Scottish Power licenses.

OFGEM has brought forward proposals for competitively tendering the construction of large, new and separable transmission projects. This may lead to a few transmission developments being taken forward by others.

3. Other issues

Other key elements of the regulatory regime in the United Kingdom include:

The Renewables Obligation (RO)

The United Kingdom Government intends to source 30% of electricity from renewable sources by 2020. To this end, the RO Orders (which apply separately to different parts of the United Kingdom within a unified scheme) place obligations on suppliers of electricity to source an increasing proportion of their electricity from renewable sources (based on the expected level of renewable energy production in each year plus a 10 per cent spread in order to prevent certificate prices from falling sharply). Suppliers meet their obligations by presenting sufficient Renewables Obligation Certificates (ROCs) or by paying an equivalent amount into a fund.

The proceeds of the fund are paid back to those suppliers that have presented ROCs in proportion to the number of ROCs presented. Since April 2009, the RO has been banded so that differing technologies receive different levels of support depending on the expected costs. The revision of this framework concluded in 2012 and, as a result, projects starting after 1 April 2013 (or later for some technologies) will receive revised levels of support.

The RO will close for new projects no later than 31 March 2017 and it will be replaced by a new help system based in Contracts for differences (CFDs) that is part of the Electricity Market Reform (EMR). For solar photovoltaic generation plants above 5MW, the RO closed in April 2015. The Government has also proposed to close the RO in April 2016 for onshore wind and solar photovoltaic plants at 5 MW or below, in both cases subject to grace periods. The RO will remain in place for facilities entering the scheme before the relevant closure date; payments will continue until 31 March 2027 for projects that started generation before 1 April 2009 and for 20 years after entry into the RO for later projects. The Energy Act 2013 envisages changing the RO in due course to payment of a premium on substantially similar terms.

Electricity Market Reform

The United Kingdom Government's EMR programme was substantially implemented during 2014. The principal elements are:

- a new incentive scheme, based on CFDs to support low carbon generation; and
- a capacity mechanism to support security of supply (market-wide auction mechanism).

The CFD allocations will take place within the constraints of a budget for low carbon support measures known as the Levy Control Framework (LCF). An initial tranche of contracts were approved during 2014 by the United Kingdom Government as part of a transitional "Final Investment Decision Enabling Process". The first allocation round took place on 4 February 2015 in two "pots"; one for established technologies (mainly onshore wind and solar) and a second one for less established technologies (mainly offshore wind). Scottish Power's 714 MW East Anglia ONE offshore Wind Farm achieved a contract in the auction at a price of GBP 119 per MWh.

Annual capacity mechanism auctions took place in December 2014 and 2015, for capacity delivery in winter 2018, 2019 and 2020, respectively. The auctions cleared at prices of GBP 19.40 per kW/year.

Revised figures for spending under the LCF were published on 25 November 2015 alongside the Autumn Statement. These indicated that the available funds to the end of the decade were projected to be overspent. While the announcements on early closure of the Renewables Obligation and other measures can be expected to limit costs, the Government has not at this stage come forward with revised projections that take these policy changes into account. Further details on the future levels of the LCF are likely to be published in 2016.

EU-ETS and United Kingdom Carbon Price Support

As in all EU Member States, generators in the United Kingdom participate in the EU-ETS. Since 2013, the Government is required to auction all allocations to the power sector. The Climate Change Act 2008 set out a trajectory towards reducing CO₂ emissions from 1990 levels by at least 80% by 2050, with interim reduction targets. The Carbon Price Support mechanism is a United Kingdom tax imposed on fossil fuels used for electricity generation at differential rates which simulate a charge on the CO₂ emissions. It was intended to smooth the path of carbon prices in the United Kingdom power sector in the event of instability in the EU-ETS, by topping up the EU-ETS price to a pre-set trajectory. In practice, the EU-ETS price is much lower than expected and in order to mitigate the impact on electricity prices, the United Kingdom Government has capped the Carbon Price Support tax at GBP 18 per tonne CO₂ until at least 2020.

Climate Change Levy (CCL) exemption

As announced in summer budget 2015 the exemption for renewable electricity from the Climate Change Levy (a tax on non-domestic electricity users) ended on 1 August 2015. This has removed a small additional revenue stream for renewable generators though its value was expected to decline in any event around 2020.

The Energy Companies Obligation (ECO)

Energy suppliers who supply over 250,000 domestic customers are required to achieve energy efficiency improvements among their customers. As with any other cost, the costs of making those improvements can be factored by suppliers into tariffs, subject to the need to remain competitive in the market. ECO ran from 1 January 2013 to 31 March 2015. A separate phase runs from 1 April 2015 to 31 March 2017. The Government has said that from April 2017, ECO will be replaced by a cheaper scheme costing GBP 640 million a year. Details are yet to be announced.

Coal closure

In November 2015, Secretary of State Amber Rudd announced plans to consult on requirements for all coal power stations without CCS to close by 2025. The detail of any proposed measures here is not available yet, but the impact on Scottish Power is assessed to be limited, given the planned closure of Longannet.

Pollution Control

The Integrated Pollution Prevention and Control (IPPC), the Large Combustion Plant Directive (LCPD) and the Industrial Emissions Directive (IED) cover the regulatory regime for controlling the pollution from certain industrial activities, including thermal combustion generation, and impose limits on various categories of emissions. In particular, the LCPD limits the emission of sulphur dioxide (SO₂), oxides of nitrogen (NO_x) and particles from power stations, whereby operators of such plant had the option of meeting those requirements or accepting a limited hour derogation prior to closure by the end of 2015. The IED puts in place a similar regime for 2016 and beyond, with more stringent standards. The IED is transposed into United Kingdom law through the Pollution Prevention and Control (Scotland) Regulations 2012 and amendments to the Environmental Permitting (England and Wales) Regulations 2010. These controls are enforced by the Environment Agency or, in Scotland, the Scottish Environmental Protection Agency.

4.2 Industry regulation in USA

1. Electricity and natural gas distribution

Some of the most important specific regulatory processes that affect Iberdrola USA Networks, Inc. (hereinafter, IBERDROLA USA NETWORKS) include the Maine distribution tariff stipulation, the Maine transmission Federal Energy Regulatory Commission (FERC) Return on Equity (ROE) case, Reforming Energy Vision (REV) of New York.

The revenues of IBERDROLA USA NETWORKS 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 one reflects the Company's capital ratio and the reasonable return on equity.

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 delivery profit from New York that means a service company exceeds its profitability objectives (usually due to a better than expected cost efficiency), is shared among the service company and its clients, resulting in a decrease in the future tariff.

Each of the six supply companies in IBERDROLA USA NETWORKS, 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 (three in New York) and provide for reasonable returns on equity, protection and automatic adjustments for exceptional costs incurred and efficiency incentives.

1.1 Maine

Central Maine Power (CMP) Distribution rate stipulation

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

The tariff stipulation agreement provided for an annual CMP distribution tariff increase of 10.7% (USD 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 tariffs a storm allowance and to defer actual storm costs when such storm events exceed USD 3.5 million. CMP and customers share on a 50/50 basis the storm costs that exceed a certain balance, with CMP's exposure limited to USD 3 million annually. Storm costs and RDM adjustments are reconciled annually and tariff rates are adjusted accordingly to recover or return adjustment balances.

CMP's distribution stipulation provided for 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 made its filing on 27 February 2015 and is requesting a separate rate recovery mechanism. On 20 October 2015, the PUC issued an order approving a stipulation agreement authorizing CMP to proceed with the customer billing system investment. The approved stipulation allows CMP to recover the system costs effective with its implementation (currently expected in mid-2017).

The tariff stipulation does not have a pre-determined tariff term; CMP has the option to file for new distribution tariffs at its own discretion.

The tariff stipulation does not contain service quality targets or penalties and the rate stipulation also does not contain any earning sharing requirements.

Transmission – FERC ROE proceeding

CMP's transmission tariffs are determined by a tariff regulated by the FERC and administered by ISO New England (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 the return on assets invested. Prior to 16 October 2014, the FERC provided a base return on equity (ROE) of 11.14% and additional ROE incentives 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 saying that the New England transmission ROE was too high and should be lowered by 1.94%, to a value of 9.2%. On 16 October 2014, the FERC issued an order in the ROE case which concluded:

- The "base" ROE was set at 10.57% effective since 16 October 2014.
- There is a ROE cap on total ROE (base ROE plus incentive ROEs) of 11.74%, also effective since 16 October 2014.
- FERC changed its DCF approach from a single-step to a two-step. FERC determined that the long-term growth rate used in the two-step discounted cash flow analysis should be the gross domestic product deflator estimated at 4.39%. This aspect of their decision results from the "paper hearing" that FERC initiated in its June 2014 decision.
- During 2014 and 2015, CMP provided refunds for the period from October 2011 to December 2012 with a base ROE of 10.57% and an ROE cap of 11.74%.

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

- The parties entered settlement negotiations which ended in late October 2014 when the parties were unable to reach agreement.
- Hearings before a FERC Administrative Court took place between 25 June 2015 and 2 July 2015. FERC delayed the timetable but it still expects to make its final decision by 3Q 2016.

Complaint III: Filed in August 2014, reiterates the same position as in Complaint II. FERC consolidated Complaints II and III (see Complaint II for information).

CMP reserved for refunds in 2013 and 2014. The 2013 reserve was USD 6.6 million associated with Complaint I. In 2014, CMP recorded an additional reserve of USD 29.9 million associated with Complaints I, II, and III.

1.2 New York

New York State Electric & Gas Corporation (NYSEG) and Rochester Gas and Electric Corporation (RG&E) Tariff Plans:

On 16 September 2010, the New York Public Service Commission (NYPSC) approved a new tariff plan for electric and natural gas service provided by the companies effective between 26 August 2010 and 31 December 2013. The tariff plans contained continuation provisions beyond 2013 if NYSEG and RG&E did not request new tariffs to come into effect, in which case the then current base tariffs would 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) would capture a portion of the excess for the benefit of customers. The ESM is subject to specified downward adjustments if the companies fail to meet certain reliability and customer service measures. Key components of the tariff plan include electric reliability performance mechanisms, natural gas safety performance measures, customer service quality metrics and targets, and electric distribution vegetation management programmes that established threshold performance targets. There will be downward revenue adjustments if the companies fail to meet the targets. The companies met all of the service quality targets through 2014 but missed a customer service metric in 2015 due to severe weather in February 2015.

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).

2015 NY Rate Filings

On 20 May 2015, NYSEG and RG&E filed electric and gas rate cases with the NYPSC. The companies are requesting rate increases for NYSEG Electric, NYSEG Gas and RG&E Gas, while for RG&E Electric are requesting rate decreases.

NYSEG Electric is requesting USD 126 million (7% overall) in additional annual delivery revenue to recover prior storm costs, move to a full cycle vegetation management trim programme in line with best industry practice, and earn an adequate return on its investment. RG&E Electric is proposing a USD 10 million rate decrease (1% overall) reflecting the return to customers of funds collected during its 2010 rate plan associated with management efficiencies and costs lower than set levels. NYSEG Gas and RG&E Gas are requesting additional revenues of USD 38 million (8% overall) and USD 20 million (5% overall), respectively.

The companies are requesting a 10.06% return on equity and a 50% equity ratio. The rate filings are for one year but the companies have indicated their interest in pursuing a multi-year settlement.

The NYPSC Staff and other parties filed testimony in September 2015 opposing the rate increase requests. The NYPSC Staff proposed a delivery increase of USD 11.8 million for NYSEG electric and delivery rate decreases for RG&E Electric of USD 23.4 million, delivery decrease of USD 2.8 million for NYSEG gas and a delivery decrease of USD 2.9 million for RG&E gas. The NYPSC proposed an 8.7% ROE and a 48% equity ratio. NYPSC also proposed to offset the NYSEG electric storm deferral balance of USD 262 million with excess depreciation reserve amounts which NYPSC Staff claims is USD 665 million at NYSEG Electric and USD 129 million at RG&E Electric. The NYPSC stated it was open to discussing a multi-year rate plan for the companies.

Other parties including the Division of Consumer Protection, Utility Intervention Unit, the New York State Office of General Services, Multiple Intervenors, Nucor Steel Auburn, Ince., Pace Energy and Climate Center, WalMart Stores, Upstate New York Laborers' District Council, Greenidge Generation, LLC and International Brotherhood of Electrical Workers, Local Union 10 also filed direct and responsive testimony opposing certain aspects of the companies' rate requests.

In October 2015, the companies filed rebuttal testimony opposing the NYPSC Staff's adjustments including their proposal to offset deferred storm costs with excess depreciation reserve values. The companies also updated their rate request values to USD 166 million for the two electric businesses and USD 59 million for the gas businesses.

In October 2015, the parties agreed to commence settlement negotiations. The companies agreed to extend the suspension period through August 2016 in order for settlement discussions to take place. The companies' suspension agreement was subject to a make-whole provision. Settlement negotiations have occurred since October and have continued into February 2016.

The companies are unable to predict the outcome of the proceeding but would expect any decision to occur by the second quarter of 2016.

Reforming the Energy Vision:

April 2014, the NYPSC commenced a proceeding titled Reforming the Energy Vision (REV), which is an initiative to reform New York State's energy industry and regulatory practices. REV has followed several simultaneous paths: Track 1 deals with market design and platform technology and Track 2 deals with the regulatory reform. REV's objectives include the promotion of more efficient use of energy, increasing the utilization of renewable energy resources such as wind and solar power (in support of New York State's renewable energy goals) and a wider deployment of "distributed" energy resources, such as micro-grids, in-situ power supplies, and storage.

Track 1 of this initiative involves the examination of the role that distributors will have in the enablement of market-based deployment of distributed energy resources to promote load management, system efficiency, and peak load reductions. NYSEG and RG&E are participating in all aspects of the REV initiative with other New York utilities, as well as providing their unique perspective. NYPSC Staff has conducted public statement hearings across New York State regarding REV.

Other REV-related proceedings have also been initiated by the NYPSC, each of which follow its own schedule. These proceedings include the Clean Energy Fund, Demand Response Tariffs, Community Choice Aggregation, Large Scale Renewables, and Community Distributed Generation.

Track 2 of the REV initiative is also under development, and through a NYPSC Staff's Whitepaper review process, is examining potential changes in current regulation, tariff, market design and incentive structures which could better align utility interests with achieving New York State's and NYPSC's objectives. New York's utilities will also be addressing related regulatory issues in their individual rate cases.

Reliability Support Service Agreement in the Ginna Nuclear Power Plant

The Ginna Nuclear Power Plant (GNPP), which is a subsidiary of Constellation Energy Nuclear Group, LLC (CENG), owns and operates the R.E. Ginna Nuclear Power Plant, a 581 MW single-unit pressurised water reactor located in Ontario, New York. In May 2014, the NYISO did a reliability study, confirming that the Ginna Facility needs to remain in operation to avoid bulk transmission and non-bulk local distribution system reliability violations in 2015 and 2018.

On 11 July 2014, GNPP filed a petition requesting that the NYPSC would initiate a proceeding to examine a proposal for the continued operating. Ginna asserted that in the two preceding years (i.e., 2012 and 2013), it had sustained cumulative losses of nearly USD 100 million (including the allocation of CENG corporate overhead) and that "CENG has not been compensated for any operational risk or an appropriate return on its investment over this period." Based on the results of the 2014 Reliability Study, GNPP requested that: 1) the NYPSC determine that the continued operation of the Ginna Facility is required to preserve system reliability; and 2) the NYPSC issue an Order directing RG&E to negotiate and file an RSSA for the continued operation of the Ginna Facility.

In November 2014, the NYPSC ruled that GNPP had demonstrated that the Ginna Facility is required to maintain system reliability and that its actions with respect to meeting the relevant retirement notice requirements were satisfactory. The NYPSC also accepted the findings of the 2014 Reliability Study and stated that it established "the reliability need for continued operation of the Ginna Facility that is the essential prerequisite to negotiating an RSSA." As such, the NYPSC ordered RG&E and GNPP to negotiate an RSSA.

On 13 February 2015, RG&E submitted to the NYPSC an executed Reliability Support Services Agreement (RSSA) between RG&E and R.E. Ginna Nuclear Power Plant, LLC (GNPP). RG&E requested that the NYPSC accept the RSSA and approve cost recovery by RG&E from its customers of all amounts payable to GNPP under the RSSA utilising the cost recovery surcharge mechanism.

On 21 October 2015, RG&E, Ginna Nuclear Power Plant, LLC, New York Department of Public Service, Utility Intervention Unit and Multiple Inspectors filed a Joint Proposal with the NYPSC for approval of the RSSA, as modified. The Joint Proposal provides a term of the RSSA from 1 April 2015 through 31 March 2017. RG&E shall make monthly payments to Ginna in the amount of USD 15.42 million RG&E will be entitled to 70% of revenues from Ginna's sales into the New York Independent System Operator ("NYISO") energy and capacity markets, while Ginna will be entitled to 30% of such revenues. The signatory parties recommend that the NYPSC authorize RG&E to implement a rate surcharge (referred to herein as the "rate surcharge" or "RSSA surcharge") effective 1 January 2016 to recover amounts paid to Ginna pursuant to the RSSA. RG&E's payment obligation to Ginna shall not begin until the rate surcharge is in effect and FERC has issued an order authorizing the agreement. RG&E will use deferred rate credit amounts (regulatory liabilities) to offset the full amount of the Deferred Collection Amount (including carrying costs), plus credit amounts to offset all RSSA costs that exceed USD 2.25 million per month, not to exceed a total use of credits in the amount of USD 110 million, applicable through 30 June 2017. To the extent that the available credits are insufficient to satisfy the final payment from RG&E to Ginna then the RSSA surcharge may continue past 31 March 2017 to recover up to USD 2.25 million per month until the final payment has been recovered by RG&E from ratepayers. The commission has not ruled on the settlement agreement and the companies expect a ruling in the second quarter 2016.

NY Transco

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

NY Transco members are requesting regulatory approval for a group of transmission projects expected to cost USD 1,700 million, with NYSEG/RG&E allocated an equity contribution of USD 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 an Iberdrola USA Networks subsidiary, Iberdrola USA Networks New York Transco, LLC, constituted on 3 November 2014.

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% leverage for five years. Various parties, including the NYPSC, have protested the filing at FERC. NY Transco anticipates a FERC decision in 2015.

On 2 April 2015, the FERC issued an order granting, inter alia, applicants' request for a 50 basis point adder for NY Transco's membership in the New York Independent System Operator, Inc. ("NYISO"), subject to the adder being capped within the zone of reasonableness after a determination of where within that zone its base level ROE should be set. The Commission also set the formula rate and base ROE issue for hearing and settlement judge procedures. In addition, the FERC rejected the applicants' cost allocation method for the TOTS Projects because it would allocate costs to LIPA and NYPA that they did not voluntarily agree to pay.

After several months of negotiations, on 5 November 2015, applicants, on behalf of the settling parties, filed the settlement with the FERC, which reflects the agreement of the settling parties to resolve all outstanding issues associated with the TOTS Projects, including issues related to the TOTS Projects that were set for hearing and issues pending on rehearing before the FERC in file number ER15-572-000. The settling parties agreed that the FERC file number ER15-572-000 shall remain open but held in abeyance with respect to the applicants' AC Projects, as they may be modified during the NYPSC/NYISO selection process. Within 30 days after the NYISO's viability and sufficiency assessment, the settling parties will agree in good faith on a date not more than three months later to resume settlement negotiations in file number ER15-572-000 to resolve the rates, terms, and conditions to be approved by the Commission for the applicants' AC Projects. On or after that date, the applicants will file a new Section 205 filing to address the cost allocation methodology to be applied to the AC Projects. The FERC is expected to rule on the settlement in the first quarter of 2016.

2. 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 programmes 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 for 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 the generation by 2025. The requirements are typically implemented through a system of tradable renewable energy certificates that verify that a kWh of electricity has been generated from a renewable resource. Several state legislatures have debated whether to repeal or roll back significantly their RPS requirements. In 2014 Ohio enacted legislation to freeze its RPS programme until 2017; in 2015, Kansas replaced its mandatory RPS with a 20% voluntary standard as part of a compromise that retained existing property tax exemptions. In contrast, California in 2015 enacted legislation to increase the state RPS to 50%.

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 property tax in lieu of fix production tax. Other states, such as Texas, boost the construction of electrical infrastructure (Competitive Renewable Energy Zones) to ease the transportation of renewable electricity towards load points.

In 1992, the US Congress enacted legislation that established a Production Tax Credit (PTC) of USD 15 per MWh (adjusted for inflation) for the production of electricity from wind power facilities for the first ten years of a project's operation. This programme has been renewed on several occasions and has been expanded to include the production of electricity from several other renewable resources, including biomass, geothermal, solid urban wastes and hydroelectric power. In 2005, Congress established a 30% investment tax credit (ITC) for solar power projects. The PTC, which is currently valued at USD 23 per MWh, was extended and phased out by the Congress on 18 December. Developers that start construction on a wind project before 2017 will qualify for the full credit, while those starting construction between 2017 and 2019 will qualify for a reduced-value credit. These qualifying facilities may also elect to take a 30% ITC rather than the PTC. Solar ITC was also extended and phased out by Congress on December 18. Developers that start construction on a solar project before 2020 will qualify for a 30% investment tax credit (ITC). Projects for which construction begins after 2019 are eligible for a lower ITC. The purposes of the PTC and ITC are 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 programme is known as the Modified Accelerated Cost Recovery System. 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 50% depreciation deduction in the year a facility was placed in service. On December, Congress enacted legislation to extend and phase out bonus depreciation. Companies can through 2017 deduct 50% of certain capital investments during the year the investment is made. If the investment occurs in 2018, companies can deduct 40% and if it occurs in 2019 only 30% of deduction is allowed.

With respect to interstate transmission networks, the FERC has adopted a series of requirements on transmission operators to improve access and reduce costs for variable generation like wind and solar power. 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.

3. Integration of UIL

The most important issue from a regulatory point of view has been the merger approval by the competent authorities.

The merger took place on 16 December 2015 and from then until the end of the year there is nothing to emphasize in regulatory matters.

4.3 Industry regulation in Mexico

The Mexican electric regulatory framework is currently under a deep transformation, due to the energy reform that began at the end of 2013 with the amendment of the Mexican Constitution, continued with the issuance of a set of new laws and rulings for hydrocarbons and electricity and is now at the level of regulatory provisions being issued thus transforming the energy sector as a whole. Although the energy reform is aimed mainly at the hydrocarbons sector, it will also offer new business opportunities in the generation, transmission, distribution and management of electricity infrastructure. This transformation has the purpose of opening up the energy sector to private investment in the activities that were previously reserved to the Government.

Activities like petroleum treatment and refinement; natural gas processing; exporting and importing hydrocarbons and petroleum products; the transport, storage, distribution, compression, liquefaction, decompression, re-gasification, marketing and sale to the public of natural gas, hydrocarbons, petroleum products and petrochemicals, along with the management of integrated systems are now open to private investment, and governed by the regulations the Hydrocarbons Law.

As a consequence of this constitutional reform, nine new laws were enacted during 2014 and 2015 and 25 regulations were either created or reformed. Concurrently with the COP 21 in Paris, the Mexican Congress and Senate passed the Energy Transition Law (*Ley de Transición Energética* - LTE), which creates binding obligations for clean energy generation and emission reductions targets for the future, which brings a strong legal framework to the development of clean energy projects in Mexico.

Through transitory provisions, the previous regulatory framework will continue being applicable to IBERDROLA's existing businesses and facilities, which provides stability and legal certainty in the Mexican regulatory context.

1. The Electric Reform

The Mexican Constitution, amended in December 2013, states that the planning and control of the national electrical system, as well as the energy distribution and transmission public service are competency of the Government of Mexico. Power generation, except for the nuclear one, and its retail are opened to private investment.

Regarding the transmission and distribution network, the Mexican Government may grant contracts to private companies to perform services, including owning and operating infrastructure under the terms established by the Law.

The Electricity Industry Law (*Ley de la Industria Eléctrica* - LIE) regulates activities in the electricity sector in Mexico. According to the LIE, the private companies can now generate and sell electricity under an organised Wholesale Electric Market, and also invest in transmission and distribution infrastructure, under specific Public-Private Associations and other legal structures described therein.

2. Energy Secretariat

As part of the Energy Reform, the Energy Secretariat (*Secretaría de Energía* - SENER) has been empowered to coordinate the centralised planning and coordination of the energy policy, both for hydrocarbon and electric subsectors. SENER is also in charge of guaranteeing the implementation of the laws derived from the reform including the LTE issued recently for the transition to clean energy and emission reduction.

During the first half of 2015, SENER issued the mandatory requirement of Renewable Energy Certificates (RECs) for year 2018, with a target of 5% of the total consumption. During the second half of 2015, SENER published the Wholesale Electric Market guidelines and called for the first long term auction for RECs, capacity and energy, to be completed by the first half of 2016.

Regarding the coordination and planning of the national electric network, SENER issued the National Electric Grid Development Programme (*Programa de Desarrollo del Sector Eléctrico Nacional* - PRODESEN).

3. Regulatory Body

As part of the energy reform in Mexico, the country enacted the new regulatory bodies law in August 2014 (the Regulatory Body Law) that established that the regulatory bodies in charge of coordinating activities in the energy field are the National Hydrocarbons Commission (*Comisión Nacional de Hidrocarburos* - CNH) and the Energy Regulatory Commission (*Comisión Reguladora de Energía* - CRE).

By means of this law, the CRE and the CNH are granted the most power and authority as regulatory bodies in the energy sector. They have their own legal status, as well as budgetary, technical and governance autonomy. Both commissions have a similar governance authority of seven commissioners and an executive secretary.

The CNH and the CRE hold substantial power and authority over the hydrocarbons and electricity industry regulation.

CRE has existed since 1995 as a public body with power and authority to grant permits and publish administrative provisions in the fields of electricity, gas transport and some regulated tariffs for natural gas and liquefied petroleum gas.

As a result of the Energy Reform, the CRE's powers were increased significantly to transportation and commercialisation of hydrocarbon and derivatives, such as gasoline, petrol, diesel fuel oil, etc.

Regarding the electricity sector, CRE regulates the issuance of future changes to the MEM; defines the terms and conditions of auctions and bidding processes; supervises the MEM operation; SENER develops the first bases rules the transactions between generators and energy providers; authorises the contract and auction models; regulates reliability, capacity requirements and operational costs; determines the regulated tariffs and contract models for services involving transmission, distribution and basic supply of electricity, authorises models related to technical specifications for connecting power stations and users, intelligent networks, etc. Other roles of CRE include granting permits to market participant and RECs registry, resolution of controversies and enforcing fines related to non-compliance of market participants.

Regarding the hydrocarbon sector, the CRE regulates and promotes the development of transportation, storage, distribution, compression, liquefaction and regasification activities. It must also supply the public with fuel, natural gas, liquefied petroleum gas, oil wells, petrochemicals as well as the transmission through pipelines, storage, distribution and supply of renewable energies to the public.

The CNH has the fundamental objective of regulating and supervising the exploration and extraction of hydrocarbons. It is responsible for the promotion, tendering and undersigning of contracts for this activity.

4. National Agency for Energy Control (CENACE)

Mexico has created the National Agency for Energy Control (*Centro Nacional de Control de Energía* - CENACE) as a decentralised public body with authority to perform the operational control of the national electricity grid and the Wholesale Electric Market. CENACE has full autonomy and acts under the authority of SENER and CRE, in order to control the participation of generators and suppliers in the market, acquire and provide electricity and capacity under competitive basis, summon and manage the auctions of capacity, energy and RECs.

CENACE guarantees open access to the transmission and distribution facilities to all market participants, public and private.

CENACE also operates and oversees the preparation of proposals for planning and expansion of the entire national electricity grid through its development programme (PRODESEN), which is then supervised and issued by SENER and thereafter by CRE.

During the first half of 2015, CENACE received from CFE all the relevant assets related to its roles, issued its internal organisational by-laws, delivered the draft of the PRODESEN to SENER and issued the first version of interconnection criteria.

During the second half of 2015, CENACE issued de bidding package for the first long term auction for capacity, RECs and clean energy.

5. CFE's Law

The CFE's Law, issued in August 2014, states that CFE becomes a productive state-owned production company wholly owned by the Federal Government. The new CFE has budgetary and governance autonomy, with Board of Directors formed by members of the incumbent secretariats (SENER, Hacienda, etc...) and independent board members. This law aims to regulate the organisation, administration, operation, control, evaluation and accountability of CFE and to establish the special regime for productive enterprises subsidiaries and subsidiaries, compensations, acquisitions, leases, services and works, assets, liabilities, state dividend, budget and debt.

During the first half of 2016, the CFE is expected to undergo a legal separation of its generation, transmission, distribution and sales activities so that other parties will have open access to the grid and levelled play roles for the wholesale electricity market.

6. Transmission and Distribution

As per the LIE, the Mexican Government will continue performing the transmission and distribution activities (“T&D”) for electricity as a strategic regulated public service through state-owned production companies (EPE) or their subsidiaries. CFE’s legal separation will allow it to create these entities as regulated open access companies. The LIE provides opportunity for T&D activities and related services to be subcontracted with private companies through public-private agreements, so that financing, installation, maintenance, management, operation, expansion, rehabilitation, surveillance and preservation of the required infrastructure can be performed as services provided to the T&D regulated companies.

7. Generation and Retail

The LIE provides that generation and retail can be performed by any private or public entities subject to the compliance of permitting and market rules. Generation plants 0.5 MW or larger require a permit from the CRE.

The LIE provides that electric retail requires a permit and may have two modes: 1- basic supply with regulated tariff (for those consumers with a lower demand of 1 MW from August 2016) or 2- qualified supply through the wholesale electricity market at liberalized conditions for consumers with a demand of 1 MW or more.

SENER may revise and reduce the threshold of 1 MW for the possibility of qualifying consumers for the liberalised conditions. However, becoming a qualified consumer is optional and only mandatory for new costumers.

8. Geothermal energy

The Geothermal Energy Law and its corresponding ruling regulate the exploration and use of underground geothermal resources to generate electricity. The private sector can participate through auctions to obtain exploitation rights of geothermal resources. Additionally, the National Water Law was also amended in order to provide special status to the “geothermal water” compatibly with the Geothermal Energy Law.

9. Wholesale electricity market

The LIE foresees the creation of the Wholesale Electric Market where generators and suppliers can interact to buy and sale the energy, capacity, ancillary services, CECs and financial transmission rights according to market rules. CENACE will operate this market and control the national electricity grid.

CENACE will determine the transaction prices based on the bids and offers it receives within the market. Energy prices will be nodal and marginal.

Finally, the wholesale electricity markets started at the end of January 2016.

10. National content

The LIE will not demand a minimum percentage of national content. However, it points out that SENER will establish the minimum percentages and other conditions for national content in terms of contracts it generates. The Treasury Secretary will establish the criteria to measure the level of domestic content in the electricity sector.

11. Surface use and occupancy

The LIE provides that transmission and distribution, being for public service, must be treated as strategic activities in terms of rights of way. This allows greater access to the facilities and rights of way to the national electricity grid. The CRE will issue provisions that will secure access to the power lines and fair compensation to the land owners.

12. Previous regime for permits, centrals and electric industry contracts

All the permits and contracts granted and executed under the repealed Public Power Service Law (*Ley del Servicio Público de Energía Eléctrica* - LSPEE) will remain under the same terms and conditions, and can be amended as provided there. Once the MEM starts operating, the holders of these legacy contracts - self supply and Independent Power Producers ("IPP") will have the alternative to migrate partially or completely to the new LIE, provided that the existing IPP will remain in effect to the end of their contractual term prior to the migration and that Legacy Connection Contracts (*Contratos de Interconexión Legados* - CIL) of the self-supply projects will not be renewed upon their termination.

Permit requests for self-supply, co-generation, small-scale production, imports or exports made before August 2014 will be resolved under the LSPEE terms and conditions, provided that their facilities must start operating before 31 December 2019.

13. Electricity tariffs

Since 2016, the CRE will assume the responsibility of issuing the regulated electricity tariffs (transport, distribution, basic supply and last reserve supply). Tariffs will be based on the recovery of generation costs, connection services, transport and distribution costs, clean energy certificates and other recoverable costs and collection targets. It is expected that these tariffs will use the same or similar formulas as the previous regime during a transitory period from 2016 to 2018. The adjustments starting in 2016 will be based primarily on the legal separation of CFE entities and the contracts for basic supply based on regulated profitability of CFE subsidiaries. As the main mechanism to promote the reduction of non-technical losses arising from customer's fraud, CRE will impose collection targets on the distribution companies.

14. Natural Gas Transportation System

As part of the Energy Reform, the former owner of the Natural Gas Transportation System, PEMEX, has been split in the following subsidiaries: Pemex exploration and production, Pemex industrial transformation, Pemex perforation, Pemex logistics, Pemex co-generation and services, Pemex fertilisers and Pemex ethylene, as provided under the PEMEX Law enacted in August 2014.

This law transformed PEMEX into a state-owned production company which performs business activities and aims to profitability goals.

Concurrently with this transformation, the natural gas transportation system has been transferred from PEMEX to CENAGAS, the National Operator of the Natural Gas Pipeline Grid in order to promote an open market for transportation, distribution and commercialisation of the gas. According to the principle of asymmetrical regulation, PEMEX cannot integrate transportation and commercialisation of gas under the same company anymore.

CENAGAS has issued the 5 year strategic natural gas development programme. As part of this programme, and in order to promote the reduction of fuel oil consumption, CFE has called for several bidding processes to contract natural gas transportation service from pipelines to be owned by private companies. It is expected that the vast majority of these pipelines will be operational by 2018, thus increasing the natural gas fired power generation, and reducing CO₂ emissions from the fuel oil based generation. Simultaneously, the Government is promoting multiple gas pipelines intended to expand the existing gas transportation system through CENAGAS.

The natural gas transport and storage systems incorporated into the new integrated tariff scheme must meet the criteria of forming part of an interconnected system, thus providing benefits, improving the safety, continuity, redundancy levels and efficiency of integrated systems.

The legacy transportation permits (permits given before the electric reform) for self-supply and the long term natural gas supply contracts with Pemex required by the electric plants will remain in effect and will not be adversely affected by these changes in the regulatory framework.

4.4 Industry regulation in Brazil

1. Tariffs

Electricity distribution activity carried out by joint ventures, such as Companhia de Eletricidade do Estado da Bahia, S.A. (COELBA), Companhia Eletricidade do Rio Grande do Norte, S.A. (COSERN), Companhia Energética de Pernambuco, S.A (CELPE) and Elektro Eletricidade e Serviços, S.A. (ELEKTRO), which operate in Sao Paulo and Mato Grosso do Sul, is subjected to federal regulation in Brazil.

The Brazilian regulatory framework is based on a system of price cap that is revised every four or five years, depending on each company's concession contract and is updated annually by the regulator. COELBA and COSERN have a five-year term and CELPE and ELEKTRO have a four-year term.

Tariffs are updated annually by the National Energy Agency (*Agência Nacional de Energia Elétrica* - ANEEL), through the annual adjustment process that considers inflation, an ex-ante efficiency factor and variations on non-manageable costs components, such as energy purchase costs and transmission tolls.

Tariffs have two components:

- **Component A:** corresponding to energy purchases, power transmission services contracts and to other costs that are out of a distributor company administration and passed through to the end tariff.
- **Component B:** determined as the sum of (i) the return on the non-depreciated regulatory remuneration base (regulatory WACC applied to the replacement cost of non-depreciated distribution installations and other assets), (ii) the return on capital (a depreciation index applied to the gross asset base) and (iii) the operation and maintenance expenses, and the expense for the uncollectible turnover (the regulator defines late payment rates depending on the kind of grant). This last subcomponent is calculated through a benchmarking model which compares all power distributors in the country and determinates efficient cost levels.

In June 2014, ANEEL opened the first debate on the fourth cycle of tariff review in a public hearing, discussing proposals to change the methodology used to calculate operating costs, cost of capital (WACC), regulatory asset base (RAB), along with uncollectable revenues and distribution losses.

In May 2015, methodologies dealing with Fourth Tariff Review Cycle were approved and applied to ELEKTRO in its tariff review in August 2015. The main points, in summary, are:

- **WACC:** approved regulatory WACC for Fourth Cycle is 8.09% real after taxes. This is higher than Third Cycle's 7.5%.
- **OPEX:** The OPEX to be used in the first year of the cycle was confirmed and represents a positive margin to efficient companies.
- **Non-technical losses:** In the case of efficient companies, the target will be defined by the historical average instead of the historical minimum.
- **Uncollectable revenues:** benchmarking approach defines the uncollectable, wherein it is used the bad debt database of 49-60 months. Pass through of uncollectable revenues related to sector fees and tariff flags revenues. The result represented an improvement from what was proposed.
- **Third-party assets (special obligations):** inclusion of a fee to operate third-party assets. This is an important improvement compared with previous cycles.
- **X Factor:** The approved X factor for the sector is 1.53% (versus 1.91% from ANEEL's first proposal).
- **Regulatory Asset Base (RAB) and Non-Electrical Assets:** The new methodology for RAB was not applied in ELEKTRO's review but will be applied to NEOENERGIA's distribution companies. According to the new methodology, the values of assets' additional costs and minor components are now given by a reference price database. Also, Non-Electrical Assets' methodology had a data update and it is expected to better reflect companies' costs.

On 25 August 2015, ANEEL approved ELEKTRO's Fourth tariff review, which raised its tariffs in 4.2% on average (0.68% for residential clients and 9.32% for industrial clients). Some highlights of Fourth Cycle are: all investments made were recognized in the RAB, higher remuneration rate (from 7.5% to 8.09%, after taxes), positive OPEX margins, third party asset's remuneration and smaller x Factor.

The aim of the annual review is to ensure that component A's costs are passed on to consumers and that component B's costs perform in line with inflation and with the pre-determined efficiency factor. An annual tracking account mechanism is used to register component A's unbalances, which should be passed through to tariffs in the following tariff process.

Also regarding distributors' financial exposure due to a rise in costs in early 2015, an extraordinary tariff review occurred in order to preserve financial and economical balance.

2. Energy Purchase

For the business of power generation, the review of the sector model introduced in 2004 brought new guidelines for planning responsibilities and expansion generation fleet, significantly reducing risk of further rationing. This expansion is being pursued via public tendering of generation projects in which the successful bidder is the supplier that offers the lowest price in Brazilian Reais per MWh generated, in exchange the successful bidder is awarded a concession or permit of 20 to 35 years (depending on the technology) to operate a power station under a Power Purchase Agreement (PPA) at a price that is an outcome of the tender.

Since 2013, Brazil has undergone some important structural changes in electricity regulation.

In Law 12.783 (the former Provisional Act 579) of 11 January 2013, the Federal Government made official a decrease in electricity tariffs (which led to an extraordinary tariff revision applied on 24 January 2013) and established standards for the renewal of concessions for generation, transmission and distribution expiring between 2015 and 2017. This law allowed power companies to extend their concessions by early renewal of their contracts under specific conditions. As a result of these new rules some generators decided not to renew their concessions. The energy from generators that decided to renew concessions was allocated to Distribution System Operators (DSOs) through quotas, which, however, were not sufficient to meet market needs. Additionally, some PPAs from new energy auctions were suspended or postponed due to delay of construction schedules or revocation by ANEEL.

Thus, mismatches between energy requirements (load) and resources (PPAs) led DSOs to purchase energy in the spot market, raising their costs and significantly affecting their cash flow. In addition, hydrologic conditions have been unfavourable since the final quarter of 2012, with low reservoir levels together with poor performance of rainfalls and inflows, which increased substantially the spot price and thermoelectric generation. The corollary was a significant increase in energy costs, which temporarily impacted earnings of distributors.

Part of this rise in costs was compensated for using funds managed by Government through energy development account and by means of loans underwritten by various financial institutions, centralised in ACR (Account for Regulated Environment) Accounts. These resources were approximately BRL 10 billion to cover non-recurring expenses incurred in 2013 and BRL 18.8 billion to cover those during 2014. The remaining part of non-recurring costs, which wasn't covered by these funds, was passed through to consumers in the annual adjustment of the tariffs.

These financial resources helped to minimise distributors' liquidity problems in 2013 and 2014, but according to International Financial Reporting Standards (IFRS), DSOs were not allowed to recognise regulatory assets and liabilities on their balance sheets. ANEEL therefore opened Public Hearing 61/2014 to discuss whether distributors' concession agreements should be amended allowing the compensation of regulatory assets and liabilities at the end of the concession period, in order to allow its recognition in the distributors' financial statements. This amendment was signed by distributors in November 2014, and these assets and liabilities are presently recognised according to IFRS.

During Public Hearing 64/2014, ANEEL discussed quotas allocation criterion, regarding the energy from generators whose concessions had expired. Federal Decree 7805/2012 established the allocation of new energy quotas in conformity with the size of the market (except the allocation that happened in 2013, which didn't follow this guideline in order to achieve equal tariff reductions between DSOs). As a result, ANEEL approved an allocation criterion that favours exposure to the spot market in 2015 but that follows the proportion of market size in the following years.

In 2015, minimum and maximum limits for spot prices were changed, after discussion within the Public Hearing, these values went from BRL 15.62 and BRL 822.83 per MWh in 2014 to BRL 30.26 and BRL 388.48 per MWh respectively. This change allowed a significant reduction in the exposure of DSOs' cash flows.

On 15 May 2015, MME (Ministry of Mines and Energy) instructed ANEEL to promote auction for bidding 29 hydroelectric concessions located in the states of Goiás, Paraná, São Paulo, Minas Gerais and Santa Catarina. The Provisional Measure 688 was published in August and established a "bonus" for the generation's grant to be pay to Federal Union by the winning bidder of each lot of power plants. By signing the contract, concessionaire shall receive in its Annual Revenue Generation (RAG) a portion of bonus grant's return.

The auction was held on 25 November, and the biggest buyer agent was China Three Gorges, which successfully bid the plants Jupia and Ilha Solteira. The auction had an average discount of 0.32% and the average price was BRL 125 MWh, without the additional costs of connection and fees. Government collected through bonus for the generation grant BRL 17 billion. The quotas average price has increased in relation to the practiced prior to the auction, given the incorporation of bonus grant's return in the revenue of generators.

After great tensions related to the lack of rainfall in 2014 and early 2015 (which raised the imminent possibility of rationing), storage reservoirs, especially in Southeast and Midwest, were able to recover and close the month of November at 27.55% of capacity, well above the recorded for the same period of 2014. The year's closing forecast is 33.8% of its capacity.

Despite improved hydrological conditions, economic slowdown observed for three consecutive quarters had significant negative effects on the distribution market. Given that prospects for 2016 are a negative growth of Brazilian GDP, it is expected that the decline in the energy sector's market continues, especially affected by the drop in industrial demand. Thus, the distributors are facing a plausible scenario of overcontracting (above 105%) for the next year. By December 2013, all energy contracts for the year 2016 had already been carried out with completely different projections of the ones checked today, and therefore variations on events outside the managerial scope of distribution combined with unfavorable market conditions have resulted in overcontracting (despite the Company's efforts to mitigate them). The main factors responsible for this scenario are the quotas, migration of potentially free and special customers to free market and other variations resulting from higher market fall than frustration of the energy auctions. Once DSOs have identified difficulties, negotiations have started with MME and ANEEL to counteract the unmanageable effects and neutralize the risks.

3. Other Regulatory Changes

On 29 December 2014, by virtue of Resolution 4947/2014, the introduction of the system of tariff flags was approved starting in January 2015. The procedure provides for short-term adjustments to be made to tariffs through the use of triggering indicators in the energy cost component in final tariffs. Tariff flags are determined on a monthly basis and their purpose is to mitigate the exposure of distributors' cash flows to high energy prices by reducing the difference between the price paid for energy by distributors and the price paid by consumers to distributors through tariff. A green flag signals low energy purchasing costs and does not change tariffs paid by consumers. A yellow flag signals that power generation costs are rising due to use of thermal energy in the generation mix and leads to a BRL 25 MWh increase in price. A red flag signals a situation where the costs of providing electrical utilities are becoming even more expensive due to the use of inefficient thermal power stations and results in a BRL 55 MWh increase in tariff. The values of each tariff flag are revised annually or when necessary. On 28 August 2015, since the most expensive thermal plants were shut down, therefore lowering generation costs, ANEEL ruled that this flag would have its additional cost reduced from BRL 55 MWh to BRL 45 MWh.

In order to equalize impact of high energy costs for all DSOs in 2015, revenues due to tariff flags have been shared among DSOs. Decree 8401/2015 created an account for centralising resources from tariff flags and commanded that monthly ANEEL must calculate the required amount to be transferred among DSOs, through this account. By Resolution 689/2015, ANEEL approved a new regulation to deal with flags resources' surplus. In the case when revenues are higher than costs, surplus is kept by distributors and then returned to customers as lower tariffs in next tariffary event.

Resolution 687/2015 introduced changes in Resolution 482/2012, which regulates micro and mini distributed generation. It defines micro and mini DG as a renewable or combined cycle power plant, limiting micro DG to 75 kW, and mini DG to 3 MW for hydraulic generation, and 5 MW for renewables. By this resolution, virtual energy compensation is now allowed between different consumption points. The amount of compensation depends on the distance between generation and consumption points. It also introduced the concept of "shared" energy contracts that allow consumers to form groups. These groups are able to invest in a distributed generation plant and define the way this energy will be shared among its members.

On 27 August 2015, the Public Hearing to set **ABRACE's** associates' tariffs (Brazilian Large Industrial Energy Consumers and Free Consumers Association). CDE ("*Conta de Desenvolvimento Energético*") charge is calculated proportionally to the level of consumption for all the consumers, which means that the largest consumers pay consequently more. ABRACE disagrees with CDE's calculation method and has won an injunction that allows the association not to pay a part of the charge. The result of this Public Hearing will not have impacts in ELEKTRO's results, but is a temporally cash flow mismatch. On September 24, ANEEL's board meeting discussed the results of the Public Hearing. ANEEL's decision is to publish the new tariff value of ABRACE's associates according the injunction determines. The impacts will be retroactive to the injunction date; 3 July 2015. ANEEL is trying to revert the judicial decision. **ABRADEE** (Brazilian Electricity Distributors) has filled an injunction in order to protect DSOs from any effects. There is still no judicial decision; therefore ABRACE's injunction still in play.

In 2015, several concession contracts will be renewed. ANEEL discussed this topic in a Public Hearing and formulated a new contract. The DSOs must accomplish the following criteria:

- I. Efficiency in quality of service;
- II. Efficiency in economic and financial management;
- III. Operating and economic rationality;
- IV. Reasonable and affordable prices.

Non-compliance with annual targets may result in capital contribution obligations for the shareholders controlling the concession. The concessionaire's failure to reach the annual targets for two consecutive years during the first five-year period may result in the termination of the concession. If the current concessionaire does not meet the new conditions, the concession will be auctioned.

With regard to the sub-transmission assets transfer, in 2015, a Public Hearing was opened in order to collect subsidies from agents to the proposal designed by ANEEL. It was expected that the subject would be collecting subsidies until the end of the first half of 2016. However, the proposal placed by ANEEL displeased many of the agents involved, and there is still strong resistance to the transfer by the transmission agents. Thus, the regulatory agency has suspended the proposal to improve it, which will come back to debate in 2016.

Regarding the structural projects, Energia Sustentável do Brasil S.A. (ESBR), the consortium responsible for the UHE Jirau plant, is immersed in legal battles with ANEEL and ABRADÉE for the delay of the project, caused, among other reasons, by workers' strikes and conflicts in construction sites. In April 2015, ANEEL decided that the Company would be entitled to claim only 52 days of "non-responsibility" for the delay, despite the request of the Company for 535 days. The Court decision of May 2015, however, ratified an injunction of ESBR, exempting ESBR from a penalty and granting a postponement in the work schedule of 535 days.

Due to the amendment of Jirau's contract, there is more than one schedule for the construction of the hydroelectric plant, what makes any interpretation of legal decisions very complex.

In September 2015, ANEEL presented a request for suspension of the Court decision, and ABRADÉE presented an appeal pleading the invalidity of Jirau's sentence for the fact that DSOs were not represent in the Court proceedings, being the signatories of the PPAs and being directly affected by the process, since the application of the exempt of responsibility can make them exposed to the spot market. At the end of the month, ABRADÉE obtained an injunction to the Court decision to protect DSOs from the financial effects.

ABRADÉE's injunction was nullified in late November 2015, leaving distributors as debtors of BRL 3.7 billion against ESBR. On 1 December 2015, another legal decision was issued. However, CCEE (*Câmara de Comercialização de Energia Elétrica*) and ABRADÉE have divergent approaches, the first one considering that Jirau has a credit and the second one considering that Jirau has a debt. ANEEL has already been required by ABRADÉE to assist in the interpretation of the decision.

5. MAIN RISKS AND UNCERTAINTIES

5.1 Risk Management System

The IBERDROLA Group is exposed to various inherent risks in the countries, industries and markets in which it operates and the businesses it carries out, which could prevent it from achieving its objectives and executing its strategies successfully.

The Company's Board of Directors, aware of the importance of this matter, promotes the necessary mechanisms so that the risks relevant to all of the Group's activities and businesses are appropriately identified, measured, managed and controlled, and has established, through the Group's general risk control and management policy, the basic mechanisms and principles necessary for the appropriate management of risk-opportunity with a level of risk which allows:

- attain the strategic objectives formulated by the Group with controlled volatility;
- provide the maximum level of assurance to the shareholders;
- protect the results and reputation of the Group;
- defend the interests of shareholders, customers, other groups interested in the progress of the Company, and of the society in general; and
- ensure corporate stability and financial strength in a sustained manner over time.

For the development of the aforementioned commitment, the Board of Directors and its Executive Committee have the cooperation of the Audit and Risk Supervision Committee, which, as a consultative body, monitors and reports upon the appropriateness of the assessment system and internal control of significant risks, acting in coordination with the audit committees existing in other companies of the Group.

Every action aimed at controlling and mitigating risks will consider the following basic action principles:

- a) Integrate the risk-opportunity vision into the Company's management, through a definition of the strategy and the risk appetite and the incorporation of this variable into strategic and operating decisions.
- b) Segregate functions, at the operating level, between risk-taking areas and areas responsible for the analysis, control, and monitoring of such risks, ensuring an appropriate level of independence.
- c) Guarantee the proper use of risk-hedging instruments and the maintenance of records thereof as required by applicable law.
- d) Inform regulatory agencies and principal external players, in a transparent way, regarding the Group risks and the operation of the systems developed to monitor such risks, maintaining suitable channels that favour communication.
- e) Ensure appropriate compliance with the corporate governance rules established by the Company through its Corporate governance system and the update and continuous improvement of such system within the framework of the best international practices for transparency and good governance, and implement the monitoring and measurement thereof.

- f) Act at all times in compliance with the law and the Company's corporate governance system and, specifically, with the values and standards of conduct established in the *Code of Ethics*, and pursuant to the principle of zero tolerance of illegal acts and fraud set forth in the *Crime Prevention and Anti-Fraud Policy*.

The *Risk control and management general policy* and its basic principles are implemented by means of a comprehensive risk control and management system, supported by a Corporate Risk Committee and based upon a proper definition and allocation of duties and responsibilities at the operating level and upon procedures, system methodologies and tools suitable for the various system stages and activities including:

- a) The ongoing identification of significant risks and threats based on their possible impact on key management objectives and the financial statements (including contingent liabilities and other off-balance risks).
- b) The analysis of such risks, both at each corporate business or function and taking into account their combined effect on the Group as a whole.
- c) The establishment of a structure of policies, guidelines, and limits, as well as of the corresponding mechanisms for its approval and implementation, which effectively contribute to risk management being performed in accordance with the Company's risk appetite.
- d) The measurement and controlling of risks by following procedures and standards which are homogeneous and common to the Group as a whole.
- e) The analysis of risks associated with new investments, as an essential element of decision-making based upon profitability-risk.
- f) The maintenance of a system for internal controlling of compliance with policies, guidelines and limits, by means of appropriate procedures and systems, including the contingency plans needed to mitigate the impact of the materialisation of risks.
- g) The periodic monitoring and control of profit and loss account risks in order to control the volatility of the annual income of the Group.
- h) The ongoing evaluation of the suitability and efficiency of applying the system and the best practices and recommendations in the area of risks for its eventual inclusion in the model.
- i) The audit of the system by the Internal Audit.

In addition, the *Risk control and management general policy* is further developed and supplemented by the *Corporate risk policies* and the *Specific risk policies* established in connection with certain businesses and/or companies of the Group, which are listed below and are also subject to approval by the Company's Board of Directors.

Corporate risk policies structure:

- a) Corporate risk policies:
 - Corporate credit risk policy
 - Corporate market risk policy
 - Operational risk policy in market transactions
 - Insurance policy
 - Investment policy
 - Financing and financial risk policy
 - Treasury share policy
 - Risk policy for equity interests in listed companies

- Reputational risk framework policy
- Purchasing policy
- IT policy
- Cybersecurity risk policy

b) Risk policies for the various businesses of the Group:

- Risk policy for the deregulated business of the IBERDROLA Group
- Risk policy for the renewables business of the IBERDROLA Group
- Risk policy for the network business of the IBERDROLA Group
- Risk Policy for the non-energetic business of the IBERDROLA Group

The *Risk control and management general policy*, as well as the *Summary of the corporate risk policies* and the *Summary of the specific risk policies* for the various businesses of the Group are available on the corporate website (www.iberdrola.com).

In order to align the risk impact with the established risk appetite, the Executive Committee of the Board of Directors, acting at the proposal of the business or corporate divisions involved and upon a prior report from the Group's Risk Committee, annually reviews and approves specific guidelines regarding the Group's risk limits.

Pursuant to established guidelines, the competent administrative bodies of each company of the Group, within such company's area of responsibility, reviews and approves the specific risk limits applicable to each of them.

The companies and corporate functions of the Group are responsible for implementing, within their areas of activity, the control systems required for compliance with the *Risk control and management general policy* and with the limits thereunder.

The risk factors to which the Group is generally subject are listed below:

- a) Corporate Governance Risks: the Company assumes the need to safeguard the social interest of the Company and the strategy of sustained maximisation of the economic value of the Company and its long-term success, in accordance with social interest, culture and the Group's corporate vision, taking into account the legitimate public and private interests that converge in the conduct of all business activities, particularly those of the various stakeholders and communities and regions in which the Company and its employees act. A fundamental requirement for the foregoing is compliance with the Company's Corporate governance system, comprising the By-Laws, the Corporate policies, the internal corporate governance rules and the other internal codes and procedures approved by the competent decision-making bodies of the Company and inspired by the good governance recommendations generally recognised in international markets.
- b) Market risks: defined as the exposure of the Group's results and assets to changes in market prices and variables, such as exchange rates, interest rates, commodity prices (electricity, gas, CO₂ emission rights, other fuel, etc.), prices of financial assets and others.
- c) Credit risks: defined as the possibility that a counterparty fails to perform its contractual obligations, thus causing an economic or financial loss to the Group. Counterparties can be final customers, counterparties in financial or energy markets, partners, suppliers, or contractors.

- d) Business risks: defined as the uncertainty regarding the performance of key variables inherent in the business, such as the characteristics of demand, weather conditions, the strategies of different players, and others.
- e) Regulatory risks: defined as those arising from regulatory changes made by the various regulators, such as changes in compensation of regulated activities or in the required conditions of supply, environmental regulation, tax regulation including risks relating to political changes that might affect legal security and the legal framework applicable to the businesses of the Group in each jurisdiction, the nationalisation or expropriation of assets, the cancelation of operating licenses and the early termination of contracts with Government.
- f) Operational, technological, environmental, social and legal risks: defined as those related to direct or indirect economic losses resulting from inadequate internal procedures, technical failures, human error, or as a consequence of certain external events, including the economic, social, environmental, and reputational impact thereof, as well as legal and fraud risks. The said risks include those associated with information technology and cybersecurity, as well as the risk of technological obsolescence, among others.
- g) Reputational risks: potential negative impact on the value of the Company resulting from Company's behaviour below the expectations created among various stakeholders: shareholders, customers, media, analysts, Government, employees, and society in general.

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

The Audit and Risk Supervision Committee of the Board of Directors periodically monitors the evolution of the Company's risks:

- It reviews the Group's risk quarterly reports, which include monitoring compliance with risk limits and indicators and updated key risk maps, submitted by the Group's director of corporate risks.
- It coordinates and reviews risk reports sent periodically, at least semi-annually, by the audit and compliance committees of the main subsidiaries of the Group, being included the subholding companies of the main countries where the Group operates that, along with the risk director appearances are used to prepare a risk report for the Board of Directors at least semi-annually.

For further details, see the section *Control systems and risk management of the Corporate Governance Report 2015*.

5.2 Credit risk

The IBERDROLA Group is exposed to credit risk arising from its counterparties (customers, suppliers, financial institutions, partners, etc.) default on their contractual obligations. The exposure may arise with regard to unsettled amounts, the cost of substituting products not supplied and also, in the case of dedicated plants, outstanding amounts.

The credit risk is managed and limited in accordance with the type of transaction and the creditworthiness of the counterparties. A specific corporate credit risk policy is in place which establishes criteria for admission, approval systems, authorisation levels, scoring tools, exposure measurement methodologies, etc.

With regard to credit risk on trade receivables, the historical cost of defaults has remained moderate and stable at close to 1% of total turnover of this activity, despite the current difficult economic environment. Regarding other exposure (counterparties in transactions with financial derivatives, placement of cash surpluses, transactions involving energy and guarantees received from third parties), no significant defaults or losses were incurred in 2015 or 2014.

At 31 December 2015 and 2014, there is no significant credit risk concentration in the IBERDROLA Group.

5.3 Financial risk

5.3.1 Interest rate risk

The IBERDROLA Group is exposed to the risk of fluctuations in interest rates affecting cash flows and market value in respect of items in the balance sheet (debt and derivatives). In order to adequately manage and limit this risk, the IBERDROLA Group manages annually the proportion of fixed and variable debt and establishes the actions to be carried out throughout the year: new sources of financing (at a fixed, floating or indexed rate) and/or the use of interest rate derivatives.

Debt arranged at floating interest rates is basically tied to Euribor, Libor-GBP and Libor-USD and to the most liquid local reference indexes in the case of the borrowings of the Latin American subsidiaries.

The debt structure at 31 December 2015, once considered the hedge provided by the derivatives traded, is included in the Note 5 of the Consolidated financial statements.

Given the composition of the IBERDROLA Group's debt at year end, between fixed and floating interest rate (46% fixed / 54% floating), and assuming it remains the same in the future, the impact on profit and loss of a potential rise of 25 basis points (0.25%) in the benchmark rates mentioned in the previous paragraph would be EUR 40 million (higher finance cost).

5.3.2 Foreign currency risk

As the IBERDROLA Group's presentation currency is the euro, fluctuations in the value of the currencies in which borrowings are instrumented and transactions are carried out with respect to the euro, mainly the Sterling pound, the US dollar and the Brazilian real, may have an effect on the finance costs, profit and equity of the Group.

The following items could be affected by foreign currency risk:

- Proceeds from energy supplies and payment for energy supplies and raw materials purchased in currencies other than the euro.
- Settlement of financial operations to hedge the price of energy commodities.
- Debt denominated in currencies other than the local or functional currency of the IBERDROLA Group companies.
- Collections and payments for supplies, services or equipment acquisition in currencies other than the local or functional currency.

- Income and expenses of certain foreign subsidiaries indexed in currencies other than the local or functional currency.
- Profit or loss on consolidation of foreign subsidiaries.
- Consolidated carrying amount of net investments in foreign subsidiaries.

The IBERDROLA Group reduces this risk by

- Ensuring that all its economic flows are carried out in the currency of each Group company, provided that this is possible and economically viable and efficient, through the use of derivatives if not.
- As far as possible, this covers the risk of transfer of earnings scheduled for the current year, thereby limiting the ultimate impact on Group earnings.
- Mitigating the impact on the consolidated net asset value of a hypothetical depreciation of currencies due to Group's investment in foreign subsidiaries by maintaining foreign currency debt, as well as through financial derivatives.

The debt structure at 31 December 2015, once considered the hedge provided by the derivatives traded, is included in the Note 5 of the Consolidated financial statements.

Considering the composition of the finance cost in foreign currency in 2015 (59% EUR, 21% USD, 15% GBP, 5% BRL), a 5% rise in the main currencies and assuming it remains the same in the future would have a negative impact on profit and loss of EUR 24 million (higher consolidated finance cost in euros).

5.3.3 Liquidity risk

Exposure to adverse situations in the debt or capital markets or in relation to the IBERDROLA Group's own economic/financial situation may hinder or prevent the IBERDROLA Group from obtaining the financing required to properly carry on its business activities.

The IBERDROLA Group's liquidity policy is aimed at ensuring that it can meet its payment obligations without having to obtain financing under unfavourable terms. For this purpose, various management measures are used such as the arrangement of committed credit facilities of sufficient amount, deadline and flexibility, diversification of the coverage of financing needs through access to different markets and geographical areas, and diversification of the maturities of the debt issued.

The sum of cash, liquid assets and committed undrawn credit facilities would sufficiently cover the Group's expected liquidity requirements for a period of over 24 months, excluding the arrangement of any new credit.

The figures relating to changes in the Company's debt are included in Notes 25 and 50 to the Consolidated financial statements.

5.4 Country risk

The activities of the different businesses that the IBERDROLA Group developed are submitted, in greater or lesser extent depending on their characteristics, to various risks inherent to the country where they operate:

- Imposition of monetary and other restrictions on the movement of capital
- Changes in the market
- Economic crises, political instability and social unrest affecting operations
- Nationalisation or expropriation of assets.
- Exchange rate fluctuations
- The cancelation of operating licenses
- The termination of Government contracts
- Changes to administrative policies and regulations in the country

The results of our international subsidiaries, their market value and their contribution to the Group may be affected by such risks.

The IBERDROLA Group's main operations are focused on Spain, United Kingdom, USA, Brazil and Mexico, countries with low or moderate risk, whose credit ratings are as follows:

Country	Moody's	S&P	Fitch
Spain	Baa2	BBB	BBB+
United Kingdom	Aa1	AAA	AA+
United States	Aaa	AA+	AAA
Brazil	Baa3	BB+	BB+
Mexico	A3	BBB+	BBB+

The presence in countries other than the ones mentioned above is not significant at Group level from an economic point of view.

5.5 Activity risks

The activities of the various businesses developed by the IBERDROLA Group are subject to various risks including market, credit, operational, business, regulatory and reputational risks arising from the uncertainty of the main variables that affect them.

5.5.1 Regulatory and politic risks

Companies in the IBERDROLA Group are subject to laws and regulations concerning prices and other aspects of their activities in each of the countries in which they operate. The introduction of new laws and regulations or amendments to the already existing ones may have an adverse effect on the Group's operations annual results and economic value of businesses.

The following paragraphs are a few of the new major regulatory measures that were approved in 2015 or are due to be implemented in 2016:

- Spain:
Approval of Ministerial Order IET/2660/2015 of 11 December 2015 approving unit remuneration for electricity distributors, establishing the first regulation period up to 31 December 2019.

- United Kingdom:

The approval of the new remuneration framework for electricity distributors in the UK, RIIO-ED1, which will regulate income over an eight-year period between April 2015 and March 2023.

There is uncertainty concerning potential measures approved as a result of the analysis of the electricity retail market performed by the CMA, the UK's competition authority, and the measures approved to finalise regulation of the obligation to fit smart electricity and gas meters.

- United States:

Approval of the new PTC tax incentive scheme for renewable energies, valid up to the year 2020.

There is uncertainty concerning the forthcoming review of tariffs for the gas and electricity distribution companies NYSEG and RG&E.

- Brazil:

Approval of Elektro's four-year tariff review, which came into force on 27 August 2015, by Brazilian regulator ANEEL, valid up to August 2019.

- Mexico:

Uncertainties about the Energy Market Reform currently being drawn up which, according to the best information available, could affect the profitability of assets dedicated to selling electricity to private partners and the outlook for plants currently under construction.

5.5.2 Network business risk

The regulations of each country in which the IBERDROLA Group's network businesses operate establish regularly revised frameworks, guaranteeing that these businesses will receive reasonable and predictable returns. These frameworks include penalties and bonuses for efficiency, service quality and, eventually, for default management, which have a minor, immaterial impact overall. Significant structural amendments to these regulations could pose a risk to these businesses.

In general, the profitability of the IBERDROLA Group's network businesses is not exposed to demand risk, except for the Brazilian subsidiaries.

The IBERDROLA Group's network businesses in Spain and the United Kingdom do not sell energy and, therefore, they are not exposed to any market risk associated with energy prices.

The network businesses in Brazil and some USA sell energy to regulated customers at a price determined by certain previously approved tariffs. In the event a prudent management policy is followed regarding supply and in accordance with that established by the regulator, the regulatory frameworks in both countries guarantee sums will be collected in subsequent tariff readjustment reviews for possible purchase price deviations from those previously recognised in the tariff.

Given the above, in the case of extraordinary events (extreme drought in Brazil as happened in 2014, catastrophic storms in USA, etc.), occasional temporary gaps between payments and collections may arise with an impact on the cash flows of some of these businesses and ultimately on profits recognised under IFRS.

5.5.3 Renewable business

The regulations of each country in which the Group operates establish regulatory frameworks aimed at promoting the development of renewable energies based on formulas which may include premiums, green certificates, tax or regulated tariff deductions, which allow investors to obtain sufficient and reasonable return. Any change to the aforementioned regulation may represent a risk for said business.

In addition to the aforementioned regulatory risk, Group's renewable energy businesses may be subject, to a greater or lesser extent, to wind resource risk and market risk.

The Group considers that the wind resource risk is mitigated through the high number of wind power farms available and their geographic diversification, and the trend to compensate less wind energy periods with those with high wind energy on the medium term.

Regarding the electricity price risk the following should be mentioned:

- **Renewables business – Spain**

Subsequent to the approval of the new regulatory framework (Royal Decree-Law 9/2013, of 12 July, Law 24/2013, of 26 December, Royal Decree 413/2014, of 6 June, and Ministerial Order IET/1045/2014, of 16 June), all renewable energy generated is remunerated at market price plus a premium per MW. This guarantees a reasonable regulated return based on a recognised standard investment. This return is readjusted every three years within predetermined bands to cover any possible deviation in market price. This premium per MW is not applicable for wind farms brought on line during and before 2004. As a result, initially all output would be fully or partially exposed to market risk.

- **Renewables business – United Kingdom**

The renewables business in the UK is partially exposed to the risk of fluctuations in the market price of electricity in the UK, since the obtained revenue comprise income from the energy sold and income from the sale of renewable energy certificates.

- **Renewables business – United States and other countries**

The renewables businesses in the other countries in which the Group operates sell their energy, preferably at a fixed price, whether through regulated tariffs or through long-term power purchase agreements (PPAs).

However, in the USA, 33% of the energy produced is sold to the market in more or less short terms.

With electricity prices around USD 30 per MWh, a 5% change in prices could give rise to an impact of EUR ±8 million in operating results.

The positions exposed to market risk of the renewables businesses in Spain and the UK are managed and included in their position in the Deregulated businesses in these countries, to be hedged in the most efficient manner possible.

5.5.4 Deregulated electricity and gas generation and retailing businesses Commodity price risk

The activities of the Group's deregulated businesses are subject to a range of market, credit, operating, business and regulatory risks, coming from the uncertainty of the main variables that affect them, such as: fluctuations in commodity prices, changes in hydroelectric and wind energy production (of both the Group's and of third parties), changes in electricity and gas demand, and plant availability.

The main variable that affects IBERDROLA's result in terms of raw materials' market price, is the electricity price. However, in many countries, electricity prices are strongly correlated with the price of the fuels used in its production. Therefore, risk studies are carried out on fuel price trends.

In the case of fuel and CO₂ emission allowances, these risks are evident in:

- The electricity generation and retailing business, in which the IBERDROLA Group is exposed to variations in the price of CO₂ emission rights and in the sale price of electricity, as well as to variations in fuel costs (mainly gas and coal).
- The gas retailing business, in which a large portion of the IBERDROLA Group's operating expenses relate to the purchase of gas for customer supplies. The IBERDROLA Group is therefore exposed to the risk of variations in the price of gas.
- Unhedged energy transactions (discretionary trading).

To a large extent, the mutual closing out of positions by the generation business and retailing business mitigates the market risk to which the Group is exposed. The remaining risk is mitigated by diversifying sale and purchase agreements, and specific clauses therein, as well as by arranging derivatives.

- **Deregulated business in Spain**

- Commodities' Price risk*

- Given current market conditions, the production price of the coal-fired power plants defines, to a large extent, the price of electricity in Spain since coal is the marginal technology necessary to cover electricity demand. Consequently, the price of coal conditions revenues from the other less expensive technologies which are used to cover demand. With coal prices around USD 45 per t, a 5% change in the prices could give rise to an impact of EUR -20/+20 million on operating results.

- The price of CO₂ influences the cost of production in coal-fired power plants. With coal prices around EUR 8.5 per t, a 5% change in the prices could give rise to an impact of EUR -10/+10 million on operating results.

The majority of gas supplied in Spain is paid indexed to the price of oil by means of complex formulas. IBERDROLA has these types of agreements for the supply of gas, as well as other types of fixed-price supply and with prices not indexed to the market price of oil. These agreements are used for electricity generation, for the consumption of its final customers and for sale to other intermediaries. Due to the fact that the electricity generation margin is covered by the contracting formulas of the system operator, only residual risk remains in sales to final customers and third parties. The risk assumed is reduced and depends on the correlation between the price of oil and the European and international gas prices. In the event of a 5% fluctuation in the oil price, the risk would be EUR -3/+2 million.

Hydraulic risk

Despite having a large water storage capacity, IBERDROLA's results depend significantly on the flow contributions. The changes in output with respect to the average value can be up to -4,000 GWh in a dry year and +5,000 GWh in a wet year, the variability would be between EUR -150/+100 million. The loss of profit is not covered as it is an IBERDROLA's inherent risk.

Demand risk

Given the current market condition, where price is primarily determined by the generation cost of coal-fired plants, which make up around 15% of the generation mix, it is not considered that demand fluctuations will impact on marginal technology in the market. The impact on the market price of a 1% change in demand is therefore limited, amounting to approximately EUR 0.25 per MWh.

A moderate drop in demand in Spain does not affect the scheduled output of the Group's nuclear, hydroelectric and wind power plants, since there is a mandatory electricity market in Spain guaranteeing the efficient dispatch of output from all technologies.

Nevertheless, there could be an impact if a drop in electricity demand entails an equivalent reduction in the Group's retail sales and consequent narrowing of margin. This is mitigated to some extent by increasing sales of own energy on the wholesale market.

Taking both effects into account, it is estimated that a 1% fluctuation in demand would have an impact of EUR ±15 million overall.

Operational risk

From the perspective of its impact on business results, the main risk arises from nuclear power plant outages (due to stoppages for fuel reloading, in accordance with a pre-established schedule) and hydroelectric power plant outages which are not associated with a large storage reservoir (flow facilities, in which water is not storable). As a result of such outages, production and, therefore, the margin associated with this production are lost. This risk is managed through excellence in the operating and maintenance practices of the plants and a culture focused on total quality and the reduction of operational risks, which allow the impact of this risk to be kept low.

- **Deregulated business – United Kingdom**

Commodity price risk

The IBERDROLA Group will not count on having coal plants in the UK after the closure of current plant Longannet planned for the end of March 2016.

In the British market, geared towards thermal power generation, the clean spark spread has become the appropriate index to follow the uncertainty of the margins of coal-fired power plants. Despite the fact that commodities (coal, CO₂ and electricity) are listed separately, the uncertainty of the unit margin is studied since it has been detected that it is a better indicator of the uncertainty of the results. With clean spark spread levels around GBP 3 per MWh, a 5% change in the spreads could give rise to an impact of EUR ±1 million on operating results.

In addition to its use as fuel in combined cycle power plants, IBERDROLA sells gas to customers in the United Kingdom and has long-term gas agreements to do so. A portion of the aforementioned agreements has their price linked to the British wholesale markets and, therefore, they do not represent any risk for the Company. However, there are agreements for which the price is fixed and which are linked to other indexes. These represent a risk if the price of gas changes. At the current levels, a 5% change to the price would have an impact of EUR ±8 million on results.

Demand risk

Electricity consumption demand is usually one of the most significant risk factors for any company. However, IBERDROLA currently purchases from third parties a significant portion of the energy it sells (1,800, 2,500 and 4,100 GWh in 2015, 2014 and 2013, respectively, of a total amount of electricity sold of 22,000 GWh/year), since it is more profitable to do so under current market conditions than IBERDROLA producing it and using its own thermal power plants. From a business perspective, fluctuations in electricity demand mean that additional amounts of electricity need to be purchased or that these acquisitions need to be reduced. In any case, the profit or loss IBERDROLA obtains from this intermediation is low and much lower than that obtained from its own output. Thus, demand fluctuations have a small impact on profit or loss of EUR ±10 million for every 1% fluctuation in customer demand.

Operational risk

From the perspective of its impact on business results, the main risk arises from outages at the Longannet coal-fire plant and the combined cycle power plants. With regard to these outages, all profit or loss obtained from production is committed, although the high operating and maintenance standards of the plants and a culture focused on total quality and the reduction of operational risks, allow the impact on this risk to be kept low. Loss of profit from this type of events (material damages or machinery malfunctions) is covered by an insurance policy after a certain deductible level, which is marked by the risk retention level that IBERDROLA can assume and the insurance conditions that the market offers for risks of these types.

• **Deregulated business – Mexico**

Commodity price risk

Electricity generation at Iberdrola Generación Mexico is gas-intensive. Gas prices therefore comprise an essential component of this risk.

Approximately 85% of the electricity generated in Mexico is sold through long-term sales agreements (to CFE and, to a lesser extent, other major industrial customers), whereby the risk associated with the price of gas for generating this electricity is passed on.

The remaining energy is sold to customers at a price linked to the official tariffs published by CFE. These tariffs depend on the price of the various fuels, specially fuel-oil, diesel, natural gas and coal.

As a result, there is a risk associated with the price of these fuels on the international markets:

- A 5% change in fuel-oil or diesel prices (which are closely linked) would give rise to a EUR ±3 million change in results.
- A 5% change in the natural gas price would give rise to a EUR ±1 million change in results.
- A 5% change in the price of coal would give rise to a EUR ±1 million change in results.

Demand risk

The structure of the agreements IBERDROLA has entered into in Mexico isolates the business results from electricity demand fluctuations. Revenues come mainly from plant availability and only the sales indexed at the official Mexican tariff are subject to a certain extent by the fluctuation in demand. Nonetheless, most of the plants have committed sales exceeding their production capacity and therefore a shift in demand would not have an impact on their operations or results as the electricity generated would be sold to another customer. Changes in electricity demand in Mexico therefore have no effect on results.

Operational risk

From the perspective of its impact on business results, the main risk arises from combined cycle power plant outages. With regard to these outages, all profit or loss obtained from production is compromised, although the high operating and maintenance standards of the plants and a culture focused on total quality and the reduction of operational risks, allow the impact of this risk to be kept low. Loss of profit from this type of event (material damages or machinery malfunctions) is covered by an insurance policy after a certain deductible level, which is marked by the risk retention level that IBERDROLA can assume, and the insurance conditions that the market offers for risks of these types.

- **Deregulated business – United States and Canada**

Commodity price risk

IBERDROLA's business in the United States and Canada is geared towards natural gas transport and storage. As a result, the risk assumed mainly arises from fluctuations in the price of natural gas over time. There is no risk arising from the price levels but rather from the difference in the price of natural gas between the period of high prices (winter) and the period of low prices (summer). In the event the difference between both periods is USD 0.35 per MWh, if the aforementioned difference were to fluctuate by 5%, the uncertainty of the results would be EUR ±3 million.

Operational risk

The business's gas storage facilities are exposed to operational risks associated with outages impeding the injection or extraction of gas, gas storage leaks and shifts in geological structures that hinder recovering injected gas.

IBERDROLA mitigates such risk by conforming to the highest standards of predictive and corrective maintenance, and permanently monitoring the geological parameters of the storage facilities. This will enable it to respond quickly to any potential threats that may be identified.

- **Gas supply operations**

The IBERDROLA Group maintains an adequate balance in the global mix, both in terms of the number of supplier countries and the type of supply (gas via pipelines or GNL), which is demonstrated in that it has five suppliers from different areas (Norway, Nigeria, Algeria and Qatar, among others).

In the Spanish case, gas supply is guaranteed through long-term agreements. The 13% of this mix of agreements is at a fixed price and the remainder is linked to the prices of various fuels on international markets.

Approximately the 25% of long-term gas agreements in the United Kingdom are at a fixed price, while the others are indexed to electricity, gas and other petroleum products on international markets, and to inflation in the UK.

Gas supply in Mexico is secured through long-term agreements with PEMEX and CFE at a price linked to international natural gas prices in the US.

The gas business in the United States and Canada involves natural gas storage, whereby net gas purchases are not necessary over and above the fuel needed for the transfer, injection and extraction thereof. These quantities are small and procured gradually on local gas markets without the existence of long-term supply agreements.

- **Unhedged energy transactions (discretionary trading)**

Discretionary trading of electricity, gas, emissions allowances and other fuels and associated products performed by some of the Group's businesses is residual and the overall risk thereof is mitigated using individual stop-loss limits, whose total aggregate can never exceed 2% of the consolidated net profit for the period, pursuant to the market risk policy approved by Iberdrola, S.A.'s Board of Directors.

IBERDROLA has reduced discretionary trading in recent years in line with the widespread move away from market speculation. At 31 December 2015, the notional value of derivatives used in speculative trading (calculated in accordance with the criteria set forth in the European Market Infrastructure Regulation (EMIR)) was below EUR 150 million versus EUR 200 million at 31 December 2014.

5.5.5 Other operational risks

During 2015, all of the IBERDROLA Group's activities, direct or indirect losses may arise as a result of inadequate internal procedures, technical failures, human error or external factors.

Any of these risks could cause damage or destruction to the IBERDROLA Group's facilities, as well as injuries to third parties or damage to the environment, along with the ensuing lawsuits, especially in the event of power outages caused by accidents at our distribution networks and possible penalties imposed by the authorities.

Although many of these risks are unpredictable, the IBERDROLA Group mitigates them by carrying out the necessary investments, implementing operation and maintenance procedures and programmes (supported by quality control systems), planning appropriate employee training, and taking out the required insurance covering both material damages and civil liability.

In relation to the insurance cover, IBERDROLA has international insurance programmes to cover equity (insurance for material damages, machinery breakdowns, loss of profits, damages from natural disasters and risks arising from construction work) and third-party liabilities (general civil liability, liability for environmental risks, professional civil liability, etc.).

However, this insurance does not completely eliminate operational risk, since it is not always possible, or it is not in its interest to pass such risk on to insurance companies and, in addition, cover is always subject to certain limitations.

Specifically, the IBERDROLA Group is also exposed to the following operational risks:

- Risk of malfunctions, explosions, fire, toxic spillages or polluted emissions in gas and electricity distribution networks and generating plants. Risks in connection with cybersecurity. Threats or vulnerabilities concerning data, control systems or Group information and communications systems, and any consequences arising from access to, use, disclosure, deterioration, interruption, unauthorised modification or destruction of information or information systems.
- Risks concerning extreme meteorological conditions and other instances of force majeure.
- Risk of sabotage and/or terrorism.

- **Risks in connection with nuclear business**

The IBERDROLA Group's nuclear power plants in Spain are also exposed to risks relating to their operations and risks arising from the storage and handling of radioactive materials.

- Constitutional Spanish law caps the liability of nuclear power plant operators in the event of a nuclear accident at EUR 700 million. This liability for a nuclear accident must be compulsorily insured by the operator of Spanish nuclear power plants. The IBERDROLA Group meets this obligation by taking out Nuclear Civil Liability insurance policies for each plant. However, Law 12/2011, of 27 May, concerning civil liability for nuclear damage or damage caused by radioactive materials, will increase the operator's liability ceiling and the consequent ceiling on mandatory insurance to EUR 1,200 million for nuclear power plants. The law will enter into force when all signatories of the Paris and Brussels Agreements ratify the 2004 Amendment Protocols, as established in these agreements.
- Accordingly, it is important to point out the indirect economic risk to which the aforementioned power plants are exposed as a result of a possible serious incident in Spain or in other country could affect the periodic renewals of their compulsory operating licences and the increase in their safety investments.

- **Operational risk of operations in markets**

Market trading conducted by the Group's various energy trading desks and treasury dealers is also exposed to operational risk due to possible inappropriate processes, technological faults, human error, fraud or any other external or internal event.

This risk is mitigated by following the operational risk policy when trading on the market based on a robust risk control culture, a proper segregation of duties, the publication of clear processes and policies and secure and flexible information systems. This policy sets specific thresholds and guidelines applicable to all trades performed in accordance with the principle of proportionality.

- **Environmental risks**

IBERDROLA accepts that the environment places constraints on all human activities and is a factor of companies' competitiveness, and it is committed to promoting innovation in this field and also ecoefficiency, to gradually reducing the environmental impact of its activities, facilities, products and services, and striving to ensure that its activities' development is congruent with future generations' legitimate right to an appropriate environment.

The Group undertakes and promotes this commitment through its policies. IBERDROLA currently has three specific policies in order to manage environmental issues: environmental policy, anti-climate change policy and biodiversity policy, which set forth the principles through which the Company will continue to improve its environmental management.

IBERDROLA was also included, for the twelfth consecutive year, on the global Dow Jones Sustainability Index, a worldwide benchmark for recognition of companies' contributions to sustainable development, as well as on other prestigious international sustainability indexes. It is the only utility company to have earned this distinction since the index since was created in 1999.

5.5.6 Legal risks

The IBERDROLA Group companies are part of a certain in-court and out-of-court disputes within the ordinary course of their activities, the final result of which, in general, is uncertain. An adverse result, or an out-of-court resolution thereof or other proceedings in the future could have a material adverse effect on our business, financial situation, operating results and cash flows. However, the Group's legal advisers believe that the outcome of the aforementioned disputes will not have a significant effect.

Note 43 of the Consolidated financial statements contains a more detailed description of the most significant matters regarding "Contingent assets and liabilities".

5.6 Risks materialised during the year

See *Risk management and control systems* of the 2015 Corporate governance report.

6. SIGNIFICANT SUBSEQUENT EVENTS TO YEAR END

Subsequent events to year end are described in Note 50 of the Consolidated financial statements.

7. RESEARCH AND DEVELOPMENT ACTIVITIES

For the IBERDROLA Group innovation is the most important toll in order to ensure the sustainability, the efficiency and competitiveness. The R&D&I efforts are directed at optimising operating conditions, improving safety, reducing environmental impact and developing technologies which permit future energy challenges to be met. IBERDROLA also opens up new business opportunities in the energy sector through innovation. During 2015, projects related to smart grids, clean energy generation, offshore wind and new technologies and business models are the ones that highlight.

Thanks to the ongoing commitment to innovation, it was recognised as the most innovative Spanish utility company and the fourth most innovative in Europe according to the European Commission.

IBERDROLA Ventures – PERSEO is IBERDROLA's corporate venture capital programme for investing in innovative technologies and business models that guarantee a sustainable energy model. In 2015 the company and CDTI took up a stake in the Basque company Atten2, a spin-off from IK4-Tekniker designing, manufacturing and selling sensors to monitor the status of fluids in industrial applications. On its social investment programme, the company has invested in SunFunder, which funds off-grid solar energy projects in emerging countries in Africa, Latin America and Asia.

As part of a clear strategy, set out in the 2015-2017 Innovation Plan, innovation is IBERDROLA's primary tool to guarantee the Company's sustainability, efficiency and competitiveness, focusing on three main issues:

- Efficiency, geared towards a continuous streamlining of our operations, managing the useful lives of facilities and equipment, cutting operation and maintenance costs, and reducing our environmental footprint with the aim of adapting to an environment which is more and more demanding and strives to improve constantly from the technological, processes and operations point of view. More than 200 R&D&I, all of which are expected to have an effect on business in the short/medium term, are now ongoing thanks to the involvement of all the IBERDROLA Group employees.
- New products and services, in response to customers' needs in an increasingly global and competitive market. These projects deploy existing technology to produce business models offering power supply, facilities and technologies that are increasingly more efficient and environment-friendly such as energy efficiency, electric vehicles, smart grids and distributed energy resources.
- Disruptive business models and technologies that assist us in undertaking the energy challenges ahead. And adapting to the changes that are arising from the electric sector. Through PERSEO, IBERDROLA's corporate venture capital programme, we invest in new disruptive technologies and areas of business focusing on making the energy model sustainable.

Thanks to our human and economic resources allocated to innovation – EUR 3,747 thousand at IBERDROLA and EUR 196,450 thousand at Group level – we are now at the forefront of development of new products, services and business models that are transforming the energy sector.

Some of the most innovative ventures by major area are as follows.

7.1 Renewable energies

In 2015, Innovation activities in Renewables have focused primarily on:

- Improving the efficiency of our operating assets,
- Improving the integration of renewable energies,
- Developing new designs or processes for construction in progress or for future or ongoing projects associated with offshore wind power.

Efficiency improvement in Wind Farms is aimed at reducing operating and maintenance costs and improving production.

The field of energy resources continues with the development of an internal model for the design of wind farms based on fluid dynamics and the use of supercomputers. The works are focused on the parameterization of the orographic conditions and the implementation of a model with forest, which allow a further progress regarding current business models.

The best use of the oils used in the gearbox of wind turbines is being analysed in order to extend its useful life and optimize the maintenance operations.

Among the available tools to manage the exploitation of the wind farms, it is working on the continuous optimization of the production prediction to reduce the deviations from the actual production (Meteoflow). Also it is enhancing the monitoring of the main equipment of the turbines and their yields by an alerts interface and Indicators in order to diagnose anomalies and / or prevent future failures (Diagnosis Matrix). Finally, some tools have been implemented to optimize the scheduling maintenance work and the use of mobile devices for the completion of work orders.

Among the projects to promote the integration of renewable energy highlights Smartwind project, which aim is the implementation of models and simulations for storage use associated to a wind farm in order to provide auxiliary services such as reducing production deviations offered. Newplavol project focuses on photovoltaic storage.

Innovation in offshore wind projects is essential to reduce costs and to limit risks in ongoing and future projects. In Wikinger wind farm it has been realized a validation campaign of the design of the jacket foundation pile (responsible for setting the foundations to the ground) because of the special characteristics of the bottom of the sea with significant improvements achieved. Also it is important to mention the innovative design of the offshore substation for that park on their consistent in its execution in two pieces with limitations of weight and size to be transported. In the MARINEL project alternatives have been analysed for these types of difficulties, such as self-installable substations. Another project of special interest is the replacement of offshore meteorological towers which require costly foundations for their installation by floating stations with an alternative measuring system known as LIDAR (Light Detection and Ranging). Leanwind project's main objective is to reduce costs over the park's life and the supply chain by the principles of "lean" application and the development of innovative solutions and tools. The Best Paths project analyses the HVDC (High Voltage Direct Current) multiterminal networks and from different suppliers to see interactions with electric equipment of wind turbines in a scenario in which the offshore wind will be connected to the network.

Finally, initiatives specifically orientated to sustainability such as BRIO project, should be highlighted, which aims to analyse the wind farm after its useful life and the valuation of the high value-added components of the wind turbine blades.

7.2 Clean generation technologies

During 2015, efforts in the area of generation focused on operating efficiency and flexibility, environmental protection, and improved plant safety.

Operating efficiency and flexibility, and improved plant safety: the FILTRACIONES project has been launched to develop a new methodology for efficiently inspecting waterways. In the field of installation safety, the INSROCA, SIRO and ECRIGEN projects drew to a close with the development of experimental prototypes and new methodologies in order to contribute to the structural integrity of generation assets and lengthen their life cycle.

MIGRES and RESONUC were the stand-out nuclear projects. The first involves identifying and developing a new end-to-end process for managing control bars and channels in order to ensure they are more sustainably managed. The RESONUC project focuses on identifying and developing a technological solution for mitigating resonance in critical systems at nuclear facilities, thereby ensuring they perform as well as possible as a significant contributor to nuclear plant safety and reliability.

Environmental: Iberdrola remains firmly committed to reducing the environmental impact of its generating plants, backing an ambitious project entitled CO2FORMARE to find a solution to the problem of macrofouling in the cooling systems of electricity generating plants in a sustainable manner and mitigating the environmental impact both emissions into the atmosphere and the aquatic environment. During 2015, the technical know-how obtained in the COEBEN-II project, conducted at the Velilla del Rio Carrión thermal power plant are being incorporated to the plant in Lada and Longannet in order to adequate them to the environmental requirements which are more and more restrictive, offering an alternative to high cost commercial solutions.

7.3 Commercial Area - New projects and services

Innovation is essential in commercial activity, in order to offer customers the products and services best adapted to their needs. Thus in 2015 IBERDROLA has launched:

- New products such as "*Planes a tu Medida*" (Plans to suit you): a new category of products that lets customers choose the plan best suited to their lifestyles, with no need to make any changes to their consumption habits. To date 7 plans have been created with a range of alternatives: *Contigo Elige 8 horas*, *Contigo Noche*, *Contigo Fin de Semana*, *Plan Estable*, *Contigo Verano*, *Contigo Invierno* and *Plan 8.760 horas*.
- New services such as:
 - o Smart Solar Iberdrola: comprehensive package that will include the design, assembly and connection of a fully customised solar installation, as well as a finance plan, advice, all-inclusive maintenance, and the possibility to manage and supervise their facilities using web tools and innovative applications. The Company will also be offering all the back-up energy that may be needed. Customers will then be able to generate and consume their own electricity, thereby optimising consumption and improving the energy efficiency of their facilities.

- "*Hogar Inteligente Iberdrola*" or Iberdrola's Smart Home: a product focusing on efficient heating management, consisting of a smart thermostat with an Internet connection, easily programmed and controlled by a mobile phone, enabling our household customers to save up to 37% on their annual heating bills.
- Moreover, IBERDROLA continues working on its initiative in electric mobility, consistent with its strategy in support of sustainable development and its commitment with innovation, developing new recharging services and participating in programmes of R&D&I, financed with community and regional funds, such as Remourban and Azkarga. Also notable is its participation in the European GRID4EU innovation project on smart networks, providing the customers with real-time information on their electricity consumption, together with flexible rates by time periods so that they can manage their consumption more efficiently.

7.4 Smart grids

During 2015, Iberdrola Distribution has continued to increase its efforts in R&D projects, related to smart grids in the Spanish and European field. The Group's R&D activity in the Networks area focuses on optimizing the distribution grid, with an emphasis on worker safety, environmental issues, and the improvement in the quality of supply. In Europe, Iberdrola heads up the UPGRID project through which it intends to strengthen its capability as an integrator of active demand and low-voltage distributed generation. The IGREENGrid and DISCERN projects continue. The former aims to develop precise methodologies for integrating renewable assets into the electricity distribution grid, while the latter is benchmarking the different smart grid solutions and looking for the best combination of architectures and that will put end in 2016. The projects ADVANCED and GRID+ have concluded and the European Commission decided to continue this activity through the new project GRID++ (with EASE), participating through EDSO4SG. In Spain, IBERDROLA finished in 2015 PRICE project aims to cover the needs identified for the development of an intelligent network within a framework of efficiency, safety and sustainability. In the area of overhead line maintenance and normalisation, IBERDROLA leads MATUSALEN to develop a tool for determining the ageing of medium-voltage cables in underground lines and SILECTRIC projects to develop new insulators for high-voltage overhead lines and equipment which will be finished in 2017. TABON project finished at the end of 2015 to develop a line inspection and verification solution.

Along the same lines, projects are underway in UK to drive the development of smart grids. Three mayor projects are currently being developed: ARC project, which aims to speed up the process of connecting renewable assets to the distribution grid; FLEXNET project, in order to develop solutions and technologies which improve and increase network capacity by 20% and VISOR project that implements a monitoring system of transmission network to know the capability and the dynamic performance during the planning and operation. It is important to mention ROAMES project, which objective is to look for optimize the use of LIDAR technology for network management and surrounding vegetation, which allows savings of 20-60% on the cost of deforestation. In Brazil, there are ongoing innovative projects for the inspection of distribution networks like VANTS and ROBÔ; projects for the installation of underground networks in the cities, in order to reduce the impact of air lines and projects to improve protection among others. It is important to mention, ELEKTROBUS project, which aim is to develop a prototype vehicle with an electric propulsion system through ultra-capacitors.

In USA, the INTEGRATED AERIAL DAMAGE ASSESSMENT SYSTEM Project, which objective is to develop an aerial system for evaluating damage to the electricity grid caused by severe storms.

7.5 IBERDROLA Ventures – PERSEO

IBERDROLA Ventures – PERSEO is IBERDROLA's Corporate Venture Capital programme, which has a budget of EUR 70 million for investing in innovative technologies and business models that guarantee a sustainable energy model. Since it was established in 2008, over EUR 50 million has been invested in start-ups which are developing technologies and new businesses in the global energy industry. Through this programme, IBERDROLA offers entrepreneurs, especially in the UK, the US and Spain, its investor support, its expertise, its base of 32 million customers and more than 45 GW of installed capacity. Additionally, it contributes to develop an innovative and dynamic business network in the energy sector.

The programme focuses on several areas of interest including:

- Customer oriented solutions: energy efficiency, active demand management, Green mobility, etc.
- Distributed Energy Resources: generation and storage innovative solutions.
- Renewable energies: technology linked to renewable generation (solar, eolic, offshore), etc.
- New technologies for the O&M of energy infrastructures (robotics, sensors, software, etc.).

The current investment portfolio covers a wide and diverse range of projects under the umbrella IBERDROLA Ventures-Perseus, together with other funding programmes for technology suppliers and projects with a high social component.

The most notable activities in 2015 included:

- An investment together with CDTI within the programme “INNVIERTE” from the basque company Atten2, spin-off of IK4-TEKNIKER and headquartered in the Technology Park in Eibar, Gipuzkoa .The company focuses on designing, manufacturing and marketing of sensors for monitoring the status of fluids, primarily oil, in industrial applications. Its first products, OilHealth and OilWear are sensors with applications in monitoring oil in wind turbines.
- Within the area of social investment, an investment in the company SunFunder which has created a financing platform for financial and corporate investors to participate in a diversified portfolio of solar projects with no connection to the network in emerging countries in Africa, Latin America and Asia. To date, SunFunder has financed projects worth more than USD 5 million benefiting more than 360,000 users.

8 ACQUISITION AND DISPOSAL OF TREASURY SHARES

The Group's treasury share policy establishes the following:

Treasury share transactions are considered those transactions carried out by the Company, whether directly or through any of the Group's companies, the object of which are Company shares, as well as financial instruments or agreements of any type, traded or not in the stock market or other organised secondary markets, which grant the right to acquire from, or the underlying security of which are, Company shares.

Treasury share transactions will always have legitimate purposes, such as, among others, to provide investors with liquidity and sufficient depth in the trading of Company shares, to execute treasury share purchase programmes approved by the Board of Directors or General Shareholders' Meeting resolutions, to fulfil legitimate commitments undertaken in advance or any other acceptable purposes in accordance with applicable regulations. Under no circumstances shall the purpose of the treasury share transaction be to interfere with the free establishment of prices. In particular, any conduct referred to in article 83.ter.1 of the Securities Market Law and article 2 of Royal Decree 1333/2005, of 11 November, implementing the Securities Market Law related to matters of market abuse.

The Group's treasury share transactions will not be carried out, under any circumstances, based on insider information.

Treasury shares will be managed providing full transparency as regards relationships with market supervisors and regulatory organisations.

Note 20 of the Consolidated financial statements presents the movements of IBERDROLA's shares in the Group companies' portfolios in the last years. Likewise, other information on transactions in 2015 and 2014 is presented in the following chart:

Treasury shares	Number of shares	Nominal value (thousands of euros)	Cost (thousands of euros)	Average price (euros)	Total outstanding shares	% shareholding
Balance at 1 December 2013	34,519,418	25,890	137,559	3.98	6,239,975,000	0.55
Acquisitions	176,365,850	132,274	896,183	5.08		
Disposals	(16,432,991)	(12,325)	(82,842)	5.04		
Redemption	(133,467,000)	(100,100)	(616,886)	4.62		
Balance at 31 December 2014	60,985,277	45,739	334,014	5.48	6,388,483,000	0.95
Acquisitions	162,118,086	121,589	938,283	5.79		
Disposals	(148,483,000)	(111,362)	(827,884)	5.58		
Redemption	(6,984,197)	(5,238)	(38,955)	5.58		
Balance at 31 December 2015	67,636,166	50,728	405,458	5.99	6,336,870,000	1.07

Treasury shares of Scottish Power	Number of shares	Nominal value (thousands of euros)	Cost (thousands of euros)	Average Price (euros)	Total outstanding shares	% shareholding
Balance at 1 December 2013	2,191,332	1,643	12,472	5.69	6,239,975,000	0.04
Acquisitions	503,448	378	2,688	5.34		
Scrip	89,616	67	-	-		
Redemption	(787,974)	(591)	(3,455)	4.38		
Balance at 31 December 2014	1,996,422	1,497	11,705	5.86	6,388,483,000	0.03
Acquisitions	438,580	329	2,759	6.29		
Scrip	66,375	50	-	-		
Redemption	(862,814)	(647)	(4,301)	4.98		
Balance at 31 December 2015	1,638,563	1,229	10,163	6.20	6,336,870,000	0.03

In 2015 and 2014, treasury shares held by the IBERDROLA Group were below the legal limit established.

Lastly, the conditions and time periods of the current mandate of the Board of Directors to acquire or transfer treasury shares are detailed below.

At the General Shareholders' Meeting on 26 March 2010, shareholders expressly agreed to delegate powers to the Board of Directors, with powers of substitution, pursuant to the provisions of the Spanish Corporations Law, to carry out derivative acquisition of shares in Iberdrola, S.A. under the following conditions:

- a) Acquisitions may be made directly by IBERDROLA or indirectly through its subsidiaries. The process excludes any subsidiaries carrying out regulated business pursuant to the provisions of the Electricity Sector Law and the Hydrocarbons Law.
- b) Acquisitions may be made by purchase transactions, swaps or any other form permitted by law.
- c) Acquisitions may be made up to the maximum legal threshold (i.e. 10% of share capital).
- d) Such acquisitions may not be made at a price higher than the market price or lower than the nominal value of the share.
- e) Authorisation was granted for a maximum period of five years since approval of the resolution.
- f) A restricted reserve shall be created in equity in the purchasing company equivalent to the value of the parent's shares under assets. This reserve must be maintained as long as the shares are not disposed of or cancelled in accordance with the Spanish Corporations Law.

Shares acquired under these powers can be transferred or cancelled or used for the compensation systems as provided for in the Spanish Corporations Law. They may also be used to develop programmes that encourage participation in the Company's share capital such as the dividend reinvestment plan, loyalty bonuses and other similar instruments.

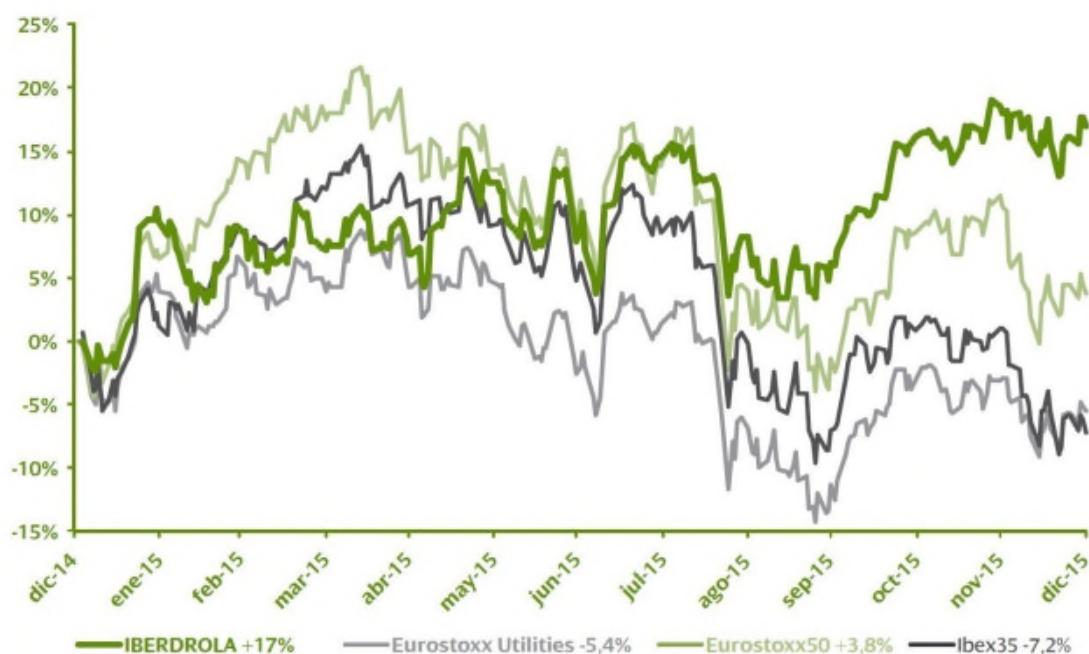
- **Stock market data**

		2015	2014
Stock market capitalisation (*)	Millions of euros	41,506	35,756
Earnings per share	Euros	0.381	0.359
P.E.R. (share price at year end/profit per share)	Times	17.19	15.59
Price / Carrying amount (capitalisation on carrying amount at year end)	Times	1.12	1.02

(*) 6,336,870,000 shares at 12/31/2015 and 6,388,483,000 shares at 12/31/2014

- **The IBERDROLA share**

Stock market performance of IBERDROLA compared to the indexes:



	2015	2014
Number of shares outstanding	6,336,870,000	6,388,483,000
Share price at year end	6.550	5.597
Average share price for the year	6.12	5.27
Average daily volume	31,140,116	39,916,924
Maximum volume (06/26/2015 – 04/10/2014)	90,216,773	422,630,657
Minimum volume (12/24/2014 – 12/24/2014)	4,571,334	8,042,962
Dividends paid (euros)	0.276	0.275
- Gross interim dividend (12/19/2014 – 01/30/2014) ⁽¹⁾	0.127	0.126
- Gross complementary dividend (07/03 y 07/22/2015 - 07/03 y 07/22/2014) ⁽²⁾	0.144	0.144
Attendance bonus	0.005	0.005
Dividend yield ⁽³⁾	4.21%	4.91%

⁽¹⁾ Purchase price of rights guaranteed by IBERDROLA.

⁽²⁾ Complementary dividend in cash (07/03/2015 and 07/03/2014 = EUR 0.03 and purchase price of rights guaranteed by IBERDROLA: 07/22/2015 and 07/22/14 = EUR 0.114).

⁽³⁾ Interim dividend, complementary dividend and attendance bonus for attending the General Shareholders' Meeting/share price at period end (not including the purchase price of rights guaranteed by IBERDROLA over the 2014 interim dividend paid on 12/19/2014 of EUR 0.127 per share gross.

9 FURTHER RELEVANT INFORMATION

9.1 Environmental issues and sustainability

9.1.1 Environmental issues

IBERDROLA accepts that the environment places constraints on all human activities and is a factor of companies' competitiveness, and it is committed to promoting innovation in this field and also eco-efficiency, to gradually reducing the environmental impact of its activities, facilities, products and services, and striving to ensure that its activities are congruent with future generations' legitimate right to an appropriate environment.

The Group undertakes and promotes this commitment through its policies, IBERDROLA currently has three specific policies in place to manage environmental issues: its environmental policy, its anti-climate change policy and its biodiversity policy, which set forth the principles through which the Company will continue to improve its environmental management.

Moreover, for the thirteenth consecutive year IBERDROLA featured on the global Dow Jones Sustainability Index, a worldwide benchmark for recognising corporate contributions to sustainable development, and also on other internationally renowned sustainability indexes. It is the only utility to have earned this distinction since the Index was created in 1999.

9.1.2 Sustainability

IBERDROLA's contribution to sustainable development takes form in certain social responsibility practices which address the needs and expectations of their stakeholders, with which the Company maintains a series of lines of communication and dialogue open through which it is able to: communicate objectives, initiatives and achievements obtained in the three areas of sustainable development (economic, environmental and social) and receive evaluations and requests from the interested parties.

Sustainability indicators	2015	2014
Contribution to GDP (Gross Margin) (*)	0.55%	0.57%
Contribution to GDP (Revenue) (*)	1.39%	1.42%
Net profit (millions of euros)	2,422	2,327
CO ₂ Emissions in the period (gr. CO ₂ /kWh): Total	225	212
CO ₂ Emissions in the period (gr. CO ₂ /kWh): Spain	103	58
CO ₂ Emissions in the period (gr. CO ₂ /kWh): SPW	530	596
Total production free of emissions (GWh)	67,868	75,585
Production in Spain free of emissions (GWh)	46,658	54,655
Production free of emissions out of total production (%)	52%	57%
Production in Spain free of emissions out of total production (%)	86%	91%
Total installed capacity free of emissions (MW)	27,744	26,702
Total installed capacity in Spain free of emissions (MW)	18,741	17,838
Total installed capacity free of emissions (%)	62%	62%
Total installed capacity in Spain free of emissions (%)	73%	72%
Specific SO ₂ emission Global mix (g/kWh)	0.125	0.154
Specific particles emission Global mix (g/kWh)	0.011	0.011
Specific NO _x emission Global mix (g/kWh)	0.230	0.236

(*) Source: IBERDROLA's results and Quarterly Spanish National Accounting - Spanish National Institute of Statistics – INE (Database 2010, Last data published 3Q 2015).

9.2 Iberdrola Foundation

In 2015, the Group allocated EUR 11,645 thousand to financing the various foundations (EUR 8,406 thousand to Group foundations and EUR 3,239 thousand to associations and entities whose goals are in the interest of the general public).

The main recipient of the funding was Iberdrola Foundation, which received EUR 6,169 thousand. Information on its goals and activities is available at: www.fundacioniberdrola.org. Iberdrola Foundation is a private, non-profit, cultural foundation, founded by the Company. Its mission is to develop initiatives which effectively contribute to improving the quality of life of the people in the regions and countries where the Group acts, especially in the areas of energy sustainability, art and culture, as well as solidarity and social initiatives. The foundation may act independently to achieve its goals and is fully functional and autonomous. Without prejudice to its collaboration with other entities, Iberdrola Foundation coordinates and executes the Group's corporate social responsibility strategy, so that it is in line with the purpose for which it was created and as assigned thereto by the Board of Directors.

Iberdrola Foundation coordinates its welfare work in the United Kingdom through the Scottish Power Foundation, which was granted EUR 1,022 thousand. In the United States, this work is carried out through the Avangrid Foundation with a budget of EUR 919 thousand, and in Brazil through the Instituto Iberdrola Brasil, receiving EUR 296 thousand.

In 2016, the Group intends to follow a policy aimed at financing activities of interest to the general public in line with that followed in 2015 as regards amount and allocation.

**SPECIMEN ANNEX I
ANNUAL CORPORATE GOVERNANCE REPORT
OF LISTED COMPANIES**

Data identifying issuer

Ending date of reference financial year	31/12/2015
Tax Identification Code	A-48010615
Registered name	IBERDROLA, S.A.
Registered address	Plaza Euskadi número 5, Bilbao 48009 Biscay Spain

A. OWNERSHIP STRUCTURE

A.1. Complete the following table about the share capital of the company:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
20/07/2015	4,752,652,500	6,336,870,000	6,336,870,000

State whether there are different classes of shares with different rights attaching thereto:

Yes No

Class	Number of shares	Nominal value per share	Number of voting rights per share	Different rights

A.2. Breakdown of direct and indirect holders of significant shareholdings in the company as of the end of the financial year, excluding directors:

Individual or company name of the shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct holder of the interest	Number of voting rights	
QATAR INVESTMENT AUTHORITY	-	QATAR HOLDING LUXEMBOURG II, S.À.R.L.	599,911,474	9.73
QATAR INVESTMENT AUTHORITY	-	DGIC LUXEMBOURG, S.À.R.L.	16,395,153	
KUTXABANK, S.A.	-	KARTERA 1, S.L.	220,034,187	3.47
BLACKROCK, INC.	-	BLACKROCK GROUP	191,563,600	3.02
NORGES BANK	191,233,638	-	-	3.02

State the most significant changes in the shareholding structure that have occurred during the financial year:

Individual or company name of the shareholder	Date of transaction	Description of transaction
ACTIVIDADES DE CONSTRUCCIÓN Y SERVICIOS, S.A.	26/03/2015	Decrease to below 3% of share capital
NORGES BANK	15/12/2015	Increase to above 3% of share capital

NORGES BANK	16/12/2015	Decrease to below 3% of share capital
NORGES BANK	23/12/2015	Increase to above 3% of share capital

A.3. Complete the following tables about members of the board of directors of the company who have voting rights attaching to shares of the company:

Individual or company name of the director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct holder of the interest	Number of voting rights	
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	3,958,115	-	-	0.12
	-	MS ISABEL GARCÍA-TABERNERO RAMOS	244,385	
	-	MR PABLO SÁNCHEZ-GALÁN GARCÍA-TABERNERO	34,942	
	-	ROYAL PARK 2000, S.L.	3,264,000	
MR XABIER DE IRALA ESTÉVEZ	241,350	-	-	0.00
MR IÑIGO VÍCTOR DE ORIOL IBARRA	1,223,862	-	-	0.02
MS INÉS MACHO STADLER	59,146	-	-	0.00
MR BRAULIO MEDEL CÁMARA	26,633	-	-	0.00
MS SAMANTHA BARBER	1,697	-	-	0.00
MS MARÍA HELENA ANTOLÍN RAYBAUD	2,979	-	-	0.00
MR SANTIAGO MARTÍNEZ LAGE	15,566	-	-	0.00
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	658,144	-	-	0.01
MR ÁNGEL JESÚS ACEBES PANIAGUA	5,850	-	-	0.00
MS GEORGINA KESSEL MARTÍNEZ	2,050	-	-	0.00
MS DENISE MARY HOLT	211	-	-	0.00

MR JOSÉ WALFREDO FERNÁNDEZ	0	-	-	0.00
MR MANUEL MOREU MUNAIZ	21,733	-	-	0.00
	-	MS MARÍA GAMAZO TRUEBA	21,733	

Total percentage of voting rights held by the board of directors	0.15
--	------

Complete the following tables about members of the company's board of directors who hold rights to shares of the company:

Individual or company name of the director	Number of direct rights	Indirect rights		Number of equivalent shares	% of total voting rights
		Number of	voting rights		

A.4. State, if applicable, the family, commercial, contractual, or corporate relationships between significant shareholders, to the extent known to the company, unless they are immaterial or result from the ordinary course of business:

Related individual or company name	Type of relationship	Brief description

A.5. State, if applicable, the commercial, contractual, or corporate relationships between significant shareholders and the company and/or its group, unless they are immaterial or result from the ordinary course of business:

Related individual or company name	Type of relationship	Brief description
KUTXABANK, S.A.	Corporate	<p>1) Iberdrola and Kutxabank, S.A. both hold interests in Fiuna, S.A. (70% and 30%, respectively).</p> <p>2) Iberdrola and Kutxabank, S.A. both hold interests in Operador del Mercado Ibérico de Energía-Polo Español, S.A. (5.5% and 0.76%, respectively).</p> <p>3) Iberdrola and Kutxabank, S.A. both hold interests in Seed Capital de Bizkaia, SGEIC, S.A. (5% and 10%, respectively).</p> <p>4) Iberdrola and Kutxabank, S.A. both hold interests in Torre Iberdrola, A.I.E. (68.1% and 31.9%, respectively).</p> <p>5) Iberdrola and Kutxabank, S.A. both hold interests in Sociedad Bilbao Gas Hub, S.A.</p>

		(5.71% and 21.71%, respectively). 6) Iberdrola and Kutxabank, S.A. both hold indirect interests in Sociedad de Gestión de Activos Procedentes de la Reestructuración Bancaria, S.A. (0.2% and 2.61%, respectively).
--	--	--

A.6. State whether any private (paracorporate) shareholders' agreements affecting the company pursuant to the provisions of sections 530 and 531 of the Companies Act (*Ley de Sociedades de Capital*) have been reported to the company. If so, briefly describe them and list the shareholders bound by the agreement:

Yes No

Participants in the private shareholders' agreement	% of share capital affected	Brief description of the agreement

State whether the company is aware of the existence of concerted actions among its shareholders. If so, briefly describe them:

Yes No

Participants in concerted action	% of share capital affected	Brief description of the concerted action

Expressly state whether any of such agreements, arrangements, or concerted actions have been modified or terminated during the financial year:

Not applicable.

A.7. State whether there is any individual or legal entity that exercises or may exercise control over the company pursuant to section 5 of the Securities Market Act (*Ley del Mercado de Valores*). If so, identify it:

Yes No

Individual or company name

Comments

A.8. Complete the following tables about the company's treasury shares:

As of year-end:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
67,636,166	0	1.06

(*) Through:

Individual or company name of direct holder of the interest	Number of direct shares
Total:	

Explain any significant changes, pursuant to the provisions of Royal Decree 1362/2007, that have occurred during the financial year:

Explain any significant changes
<p>The Company made two changes in its treasury share position in 2015 as a result of a change in the number of voting rights arising from corporate transactions:</p> <ul style="list-style-type: none"> - notices of direct acquisitions of a total of 33,474,607 shares (0.536%) were provided on 7 May, coinciding with the reduction in capital; and - notices of direct acquisitions of a total of 11,034,252 shares (0.174%) were provided on 15 July, coinciding with the increase in capital resulting from the "Iberdrola Flexible Dividend" programme. <p>Two additional notices were also provided arising from consecutive direct acquisitions of own shares due to said acquisitions exceeding 1% of voting rights:</p> <ul style="list-style-type: none"> - notices of direct acquisitions of a total of 65,843,749 shares (1.031%) were provided on 11 February 2015; and - notices of direct acquisitions of a total of 56,603,780 shares (0.893%) were provided on 4 January 2016.

A.9. Describe the terms and conditions and the duration of the powers currently in force given by the shareholders to the board of directors in order to issue, repurchase, or transfer own shares of the company:

<p>The shareholders acting at the General Shareholders' Meeting held on 28 March 2014 resolved to expressly authorise the Board of Directors, with the power of substitution, pursuant to the Companies Act (<i>Ley de Sociedades de Capital</i>), to carry out the derivative acquisition of the shares of Iberdrola on the following terms:</p> <ol style="list-style-type: none"> a) Purchases may be made by Iberdrola directly, or indirectly through its subsidiaries. Subsidiaries carrying out regulated activities are excluded pursuant to the provisions of the Electricity Industry Act (<i>Ley del Sector Eléctrico</i>) and the Hydrocarbons Act (<i>Ley de Hidrocarburos</i>). b) Purchases shall be made by means of a purchase and sale agreement, a swap arrangement, or any other transaction permitted by law. c) Purchases may be made up to the maximum sum permitted by law (i.e. 10% of the share capital). d) Purchases may not be made at a higher price than that quoted on the Stock Exchange or at a price lower than the share's nominal value. e) The authorisation was granted for a period not to exceed five years as from the approval of the resolution. f) The acquiring company shall establish a restricted reserve in shareholders' equity equal to the amount of the shares of the controlling company recorded under assets. Such reserve shall be maintained for so long as the shares are not transferred or retired, in compliance with the provisions of the Companies Act. <p>The shares, if any, purchased as a result of the aforementioned authorisation could be used for either transfer or retirement or could be applied to the remuneration systems provided for in the Companies Act;</p>

added to the foregoing alternatives was the possible development of programmes fostering the acquisition of interests in the Company such as, for example, dividend reinvestment plans, loyalty bonds, or similar instruments.

A.9.bis Estimated free-float:

	%
Estimated free-float:	79.54

A.10. State whether there are any restrictions on the transfer of securities and/or any restrictions on voting rights. In particular, disclose the existence of any restrictions that might hinder a takeover of the company through the acquisition of its shares in the market.

Yes No

Description of restrictions
<p>Those having an interest equal to or greater than 3% of the capital or voting rights of two or more companies that have the status of Principal Operator in certain markets or sectors (including the generation and supply of electricity) may not exercise rights in excess of such percentage in more than one entity.</p> <p>Article 29.2 of the By-Laws provides that no shareholder may cast a number of votes greater than those corresponding to shares representing 10% of the share capital.</p> <p>According to article 28, a shareholder may not exercise their right to vote at the General Shareholders' Meeting if it deals with a resolution intended to: (a) relieve the shareholder of an obligation or grant the shareholder a right; (b) provide the shareholder with any kind of financial assistance, including the provision of guarantees in favour thereof; (c) release the shareholder, if a director, from obligations arising from the duty of loyalty established in accordance with the provisions of law.</p> <p>Article 50 of the By-Laws provides that the by-law restrictions against the exercise of voting rights by shareholders affected by conflicts established in article 28 above and the limitation on the maximum number of votes that may be cast by a single shareholder contained in sections 2 and 4 of article 29 above shall be deprived of effect upon the occurrence of certain circumstances in the case of a takeover bid:</p> <p>Furthermore, section 527 of the restated text of the Companies Act provides that at listed companies (<i>sociedades anónimas cotizadas</i>), the by-law provisions that directly or indirectly set, as a general rule, the maximum number of votes that may be cast by the same shareholder, by the companies belonging to the same group, or by those acting in concert with the foregoing shall be of no effect when, following a takeover bid, the bidder has reached a percentage that is equal to or greater than 70% of the voting share capital, unless such bidder is not subject to equivalent breakthrough measures or has not adopted them.</p> <p>Pursuant to U.S. law, due to the business carried out by Avangrid, Inc. (a company belonging to the Iberdrola Group) in that country, the acquisition of an interest giving rise to the holding of 10% or more of the share capital of Iberdrola will be subject to the prior approval of certain U.S. regulatory authorities.</p>

A.11. State whether the shareholders acting at a general shareholders' meeting have approved the adoption of breakthrough measures in the event of a takeover bid pursuant to the provisions of Law 6/2007:

Yes No

If applicable, explain the approved measures and the terms on which the restrictions will become ineffective.

A.12. State whether the company has issued securities that are not traded on a regulated market within the European Community.

Yes No

If applicable, specify the different classes of shares, if any, and the rights and obligations attaching to each class of shares.

B. GENERAL SHAREHOLDERS' MEETING

B.1. State and, if applicable, describe whether there are differences with the minimum requirements set out in the Companies Act in connection with the quorum needed to hold a valid general shareholders' meeting.

Yes No

	Quorum % different from that established in section 193 of the Companies Act generally	Quorum % different from that established in section 194 of the Companies Act for the special circumstances described in section 194.
Required quorum upon 1st call	-	66.67
Required quorum upon 2nd call	-	60.00

Description of differences
As the only exception to the rules provided for in the Companies Act, article 21.2 of the By-Laws increases the quorum required to hold a valid meeting "in order to adopt resolutions regarding a change in the object of the Company, transformation, total split-off, dissolution of the Company, and the amendment of this section 2", in which case "shareholders representing two-thirds (2/3) of subscribed share capital with voting rights must be in attendance at the first call to the General Shareholders' Meeting, and shareholders representing sixty (60%) per cent of such share capital must be in attendance at the second call".

B.2. State and, if applicable, describe any differences from the rules set out in the Companies Act for the adoption of corporate resolutions:

Yes No

Describe how they differ from the rules provided by the Companies Act.

	Qualified majority other than that established in section 201.2 of the Companies Act for the cases set forth in section 194.1 of the Companies Act	Other instances in which a qualified majority is required
% established by the entity for the adoption of resolutions	75.00%	75.00%

Describe the differences
Article 52 of the By-Laws provides that all resolutions intended to eliminate or amend the provisions contained in title IV (breakthrough of restrictions in the event of takeover bids), in article 28 (conflicts of interest), and in sections 2 to 4 of article 29 (limitation upon the maximum number of votes that a shareholder may cast), shall require the affirmative vote of three-fourths (3/4) of the share capital present in person or by proxy at a General Shareholders' Meeting.

B.3. State the rules applicable to the amendment of the by-laws of the company. In particular, disclose the majorities provided for amending the by-laws, and any rules provided for the protection of the rights of the shareholders in the amendment of the by-laws.

In addition to the provisions of section 285 *et seq.* of the Companies Act, the *By-Laws* of Iberdrola contain articles 21.2 (qualified quorum) and 52 (qualified majority) mentioned in sections B.1 and B.2 above.

B.4 State the data on attendance at the general shareholders' meetings held during the financial year referred to in this report and those of the prior financial year:

Attendance data					
Date of general shareholders Meeting	% of shareholders present in person	% of shareholders represented by proxy	% absentee voting		Total
			Electronic voting	Other	
28/03/2014	5.99	76.14	0.06	0.05	82.24
27/03/2015	21.45	57.04	0.11	0.05	78.65

B.5. State whether there are any by-law restrictions requiring a minimum number of shares to attend the general shareholders' meeting.

Yes No

Number of shares required to attend the general shareholders' meeting	1
---	---

B.6. Section deleted.

B.7. State the address and method for accessing the company's website to access information regarding corporate governance and other information regarding general shareholders' meetings that must be made available to the shareholders through the company's website.

www.iberdrola.com > Information for Shareholders and Investors > Corporate Governance.
 Information regarding past general shareholders' meetings of the Company can be accessed at the same address: www.iberdrola.com > Information for Shareholders and Investors > Corporate Governance > General Shareholders' Meeting.

C. STRUCTURE OF THE COMPANY'S MANAGEMENT

C.1 Board of directors

C.1.1. Maximum and minimum number of directors set forth in the by-laws:

Maximum number of directors	14
Minimum number of directors	9

C.1.2. Complete the following table identifying the members of the board:

Individual or company name of the director	Representative	Type of director	Position on the board	Date of first appointment	Date of last appointment	Election procedure
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	-	EXECUTIVE	CHAIRMAN/CEO	21/05/2001	27/03/2015	GENERAL SHAREHOLDERS' MEETING
MR XABIER DE IRALA ESTÉVEZ	-	PROPRIETARY	DIRECTOR	20/04/2005	22/06/2012	GENERAL SHAREHOLDERS' MEETING
MR ÍÑIGO VÍCTOR DE ORIOL IBARRA	-	OTHER EXTERNAL	DIRECTOR	26/04/2006	22/06/2012	GENERAL SHAREHOLDERS' MEETING
MS INÉS MACHO STADLER	-	INDEPENDENT	DIRECTOR	07/06/2006	22/06/2012	GENERAL SHAREHOLDERS' MEETING
MR BRAULIO MEDEL CÁMARA	-	INDEPENDENT	DIRECTOR	07/06/2006	22/06/2012	GENERAL SHAREHOLDERS' MEETING
MS SAMANTHA BARBER	-	INDEPENDENT	DIRECTOR	31/07/2008	22/06/2012	GENERAL SHAREHOLDERS' MEETING
MS MARÍA HELENA ANTOLÍN RAYBAUD	-	INDEPENDENT	DIRECTOR	26/03/2010	27/03/2015	GENERAL SHAREHOLDERS' MEETING
MR SANTIAGO MARTÍNEZ LAGE	-	INDEPENDENT	DIRECTOR	26/03/2010	27/03/2015	GENERAL SHAREHOLDERS' MEETING
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	-	OTHER EXTERNAL	DIRECTOR	24/04/2012	27/03/2015	GENERAL SHAREHOLDERS' MEETING
MR ÁNGEL JESÚS ACEBES PANIAGUA	-	INDEPENDENT	DIRECTOR	24/04/2012	27/03/2015	GENERAL SHAREHOLDERS' MEETING
MS GEORGINA KESSEL MARTÍNEZ	-	INDEPENDENT	DIRECTOR	23/04/2013	28/03/2014	GENERAL SHAREHOLDERS' MEETING
MS DENISE MARY HOLT	-	INDEPENDENT	DIRECTOR	24/06/2014	27/03/2015	GENERAL SHAREHOLDERS' MEETING
MR JOSÉ WALFREDO FERNÁNDEZ	-	INDEPENDENT	DIRECTOR	17/02/2015	27/03/2015	GENERAL SHAREHOLDERS' MEETING
MR MANUEL	-	OTHER	DIRECTOR	17/02/2015	27/03/2015	GENERAL

MOREU MUNAIZ		EXTERNAL				SHAREHOLDERS' MEETING
--------------	--	----------	--	--	--	-----------------------

Total number of directors	14
----------------------------------	----

State the vacancies on the board of directors during the reporting period:

Individual or company name of director	Class of director at time of vacancy	Date of vacancy
MR JULIO DE MIGUEL AYNAT	Independent director	17/02/2015
MR SEBASTIÁN BATTANER ARIAS	Independent director	17/02/2015

C.1.3. Complete the following tables about the members of the board and each member's status:

EXECUTIVE DIRECTORS

Individual or company name of director	Position within the company's structure
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	Chairman & CEO

Total number of executive directors	1
Total % of the board	7.14

EXTERNAL PROPRIETARY DIRECTORS

Individual or company name of director	Individual or company name of the significant shareholder represented by the director or that has proposed the director's appointment
MR XABIER DE IRALA ESTÉVEZ	Kutxabank, S.A.

Total number of proprietary directors	1
Total % of the board	7.14

EXTERNAL INDEPENDENT DIRECTORS

Individual or company name of director	Profile
MS INÉS MACHO STADLER	Bilbao, 1959 Background and professional experience Other activities: professor of Economics in the Economics and Economic History Department of Universidad Autónoma de Barcelona, professor of the Barcelona Graduate School of Economics, member of the Council of the

	<p>French Economic Observatory (<i>Observatoire Français des Conjonctures Économiques</i>) (OFCE), and honorary member of the European Economic Association and of the Spanish Economic Association (<i>Asociación Española de Economía</i>).</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 7 June 2006, 29 March 2007, and 22 June 2012.</p> <p>Academic training</p> <p>Degree in Economics from Universidad del País Vasco, Master in Economics from l'École des Hautes Études en Sciences Sociales, and Doctor in Economics (Ph.D.) from the same academic institution and from l'École Nationale de la Statistique et de l'Administration Économique (ENSAE) (Paris, France).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has been a member of the International Scientific Advisory Committee of the Basque Centre for Climate Change (bc3) and has served as chair of the Scientific Committee of the 2011 Conference of the Spanish Association for Energy Economics (<i>Asociación Española para la Economía Energética</i>).</p> <p>Noteworthy experience in other industries</p> <p>She has been president of the Spanish Economic Association, coordinator of the National Agency for Quality Evaluation and Accreditation (<i>Agencia Nacional de Evaluación y Prospectiva</i>), and representative at the European Science Foundation, as well as a member-elect of the Council of the European Economic Association and a member of the Executive Committee of the European Association for Research in Industrial Economics. She has been a member of the Advisory Board of the Research Service of Caja de Ahorros y Pensiones de Barcelona, "la Caixa".</p> <p>She has taught at universities in Germany, Belgium, Brazil, Denmark, France, Portugal, and Spain.</p>
<p>MR BRAULIO MEDEL CÁMARA</p>	<p>Marchena, Seville, 1947</p> <p>Background and professional experience</p> <p>Other activities: executive chair of Unicaja Banco, S.A. and chair of Fundación Bancaria Unicaja, Hidralia, S.A., Alteria Corporación Unicaja, and Federación de Cajas de Ahorros de Andalucía, vice-chair of Confederación Española de Cajas de Ahorros (CECA), and a member of the board of directors of the listed company Acerinox, S.A. and of Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. and Professor of Public Finance at Universidad de Málaga.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 7 June 2006, 29 March 2007, and 22 June 2012.</p> <p>Academic training</p> <p>Degree in Economics and Business Administration from Universidad Complutense de Madrid and Doctorate in Economics and Business Administration from Universidad de Málaga.</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has been a member of the board of Compañía Sevillana de Electricidad, S.A., Retevisión and of Abertis Infraestructuras, S.A.</p> <p>Noteworthy experience in other industries</p> <p>He has been chair of Ahorro Corporación, S.A. and a member of the board of Centros Comerciales Carrefour, S.A., and has been a member of the governance bodies of the World Savings and Retail Banking Institute and of the European Savings and Retail Banking Group, of which he was vice-chair.</p> <p>He has also served as Deputy Minister for Economy and Finance of the Autonomous Government of Andalusia and as chair of Consejo Andaluz de Colegios de Economistas. He has also been a member of the board of trustees of the following foundations: Tres Culturas del Mediterráneo, El</p>

	<p>Legado Andalusi, Doñana 21 and CIEDES (Centro de Investigaciones Estratégicas y Desarrollo Económico y Social).</p>
<p>MS SAMANTHA BARBER</p>	<p>Dunfermline, Fife, Scotland, 1969</p> <p>Background and professional experience</p> <p>Other activities: chair of Scottish Ensemble, vice-chair of Scotland's 2020 Climate Group, member of the Advisory Board for Breakthrough Breast Cancer, of the GlobalScot network, and of the Advisory Board for the Imperial College London MBA, and performs advisory and business coaching work.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 31 July 2008, 20 March 2009, and 22 June 2012.</p> <p>Academic training</p> <p>Bachelor of Arts in Applied Foreign Languages and European Politics from the University of Northumbria, Newcastle (England, United Kingdom) and Post-Graduate degree in EU Law from the University of Nancy (France).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has been a member of the Advisory Council of Scottish Power following the integration of the Scottish company into the Iberdrola Group.</p> <p>Noteworthy experience in other industries</p> <p>She has been a consultant within the European Parliament, where she provided support to the Economic and Monetary Affairs Committee, a board member of Business for Scotland, and the chief executive of Scottish Business in the Community.</p> <p>She has also been a member of the Board of Directors of Right Track Scotland, an organisation dedicated to advancing educational, training, and employment opportunities for youths at risk of social exclusion.</p> <p>She was chosen as one of the "Top 100 Women to Watch" according to the FTSE list and Cranfield University, and was a finalist and earned second place in the annual Director of the Year Awards 2012 of IoD Scotland NED.</p>
<p>MS MARÍA HELENA ANTOLÍN RAYBAUD</p>	<p>Toulon, France, 1966</p> <p>Background and professional experience</p> <p>Other activities: vice-chair of the Board of Directors and member of the Management Committee of Grupo Antolin Irausa, S.A., vice president of Excellence in Management Club (<i>Club de Excelencia en la Gestión</i>), member of the Governing Board of the Spanish Association of Automotive Equipment and Component Manufacturers (<i>Asociación Española de Fabricantes de Equipos y Componentes para Automoción</i>) (Sernauto), and a board member of France Foreign Trade (<i>Comercio Exterior de Francia</i>), Spain section.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 26 March 2010 and 27 March 2015.</p> <p>Academic training</p> <p>Degree in International Business and Business Administration from Eckerd College, St. Petersburg, Florida (United States of America), and Master in Business Administration from Anglia University, Cambridge (United Kingdom) and from Escuela Politécnica de Valencia (Spain).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has served as an external independent director of Iberdrola Renovables, S.A. and a member of its Related-Party Transactions Committee.</p> <p>She has been in charge of the corporate Industrial and Strategy Divisions of Grupo Antolin Irausa, S.A., where she has also been a director of Human Resources and the head of Total Quality for the Group.</p>
<p>MR SANTIAGO MARTÍNEZ LAGE</p>	<p>Betanzos, A Coruña, 1946</p>

	<p>Background and professional experience</p> <p>Other activities: chair of the law firm Martínez Lage, Allendesalazar & Brokelmann, secretary of the board of directors of SKF Española, S.A., vice-chair of the Spanish Association for the Study of European Law (<i>Asociación Española para el Estudio del Derecho Europeo</i>) and the European Law Section of the Royal Academy of Jurisprudence and Legislation (<i>Real Academia de Jurisprudencia y Legislación</i>), a trustee of Fundación España México, and a member of the Arbitrator Appointment Committee of the Spanish Court of Arbitration.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 26 March 2010 and 27 March 2015.</p> <p>Academic training</p> <p>Degree in Law from Universidad Complutense de Madrid. He continued his studies at the Escuela de Funcionarios Internacionales de Madrid, the Escuela Diplomática, The Hague Academy of International Law, the “Europa Instituut” in Amsterdam (The Netherlands), and the INSEAD in Fontainebleau (France). Career diplomat on leave.</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has served as an external independent director of Iberdrola Renovables, S.A. and chair of its Appointments and Remuneration Committee, and secretary of the boards of directors of Fujitsu Services, S.A. and Telettra España, S.A.</p> <p>He has also been a member of the Appointments and Remuneration Committee and of the Audit and Risk Supervision Committee of Iberdrola, S.A.</p> <p>Noteworthy experience in other industries</p> <p>He has been secretary of the Board of Directors of Empresa Nacional Elcano de la Marina Mercante, S.A. and founder and director of the Gaceta Jurídica de la Unión Europea y de la Competencia.</p> <p>He has also been general secretary of the International Federation for European Law (<i>Fédération Internationale pour le Droit Européen</i>) (FIDE) and member of the managing committee of Círculo de Empresarios.</p> <p>As a diplomat, he was posted to Algiers (Algeria), Libreville (Gabon), Sofia (Bulgaria), and Paris (France), and has also served at the Office of the Secretary of State for Relations with the European Community.</p>
<p>MR ÁNGEL JESÚS ACEBES PANIAGUA</p>	<p>Ávila, 1958</p> <p>Background and professional experience</p> <p>Other activities: chairman and founding partner of Grupo MA Abogados Estudio Jurídico, S.L., sole director and professional partner of Doble A Estudios y Análisis, S.L.P., member of the Advisory Board of Wolters Kluwer España, and a trustee of Fundación para el Análisis y Estudios Sociales (FAES) and of Fundación Universitaria de Ávila, UCAV. He gives courses, workshops, and lectures on various matters relating to law, politics, and social matters.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 24 April 2012 and 27 March 2015.</p> <p>Academic training</p> <p>Degree in Law from Universidad de Salamanca.</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>As a lawyer, he has advised companies in the energy and technological/industrial sectors, among others. He also has significant knowledge of the regulatory area due to his work as a member of the Council of Ministers of the Government of Spain, a senator, and a national deputy.</p> <p>Noteworthy experience in other industries</p>

	<p>He has served on the board of Caja Madrid Cibeles, S.A., which manages the investments of Grupo Caja Madrid in other companies with activities in the financial and insurance sectors (like Mapfre Internacional, S.A.) as well as the retail banking sector outside of Spain. After the public listing of Bankia, S.A., he was a member of the board of Banco Financiero y de Ahorros, S.A. ("BFA"), chairing its Audit and Compliance Committee.</p> <p>In the institutional arena, he has been Minister for Public Administrations, Minister of Justice, and Minister of the Interior of the Spanish Government.</p>
<p>MS GEORGINA KESSEL MARTÍNEZ</p>	<p>Mexico, 1950</p> <p>Background and professional experience</p> <p>Other activities: independent director and chair of the Audit Committee of Grupo Financiero Scotiabank Inverlat, and a partner of Spectron E&I.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 23 April 2013 and 28 March 2014.</p> <p>Academic training</p> <p>Holder of a degree in Economics from Instituto Autónomo de México and of a Master's and Doctor's degree in Economics from Columbia University (New York).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has been chair of the Energy Regulatory Commission (<i>Comisión Reguladora de Energía</i>) and Energy Secretary of the Government of Mexico.</p> <p>She has also been chair of the Board of Directors of Pemex (Petróleos Mexicanos) and of the Board of Directors of the Federal Electricity Commission (<i>Comisión Federal de Electricidad</i>) (CFE).</p> <p>She has participated in the Energy Council of the World Economic Forum and in the United Nations Organization Secretary General's advisory group (Sustainable Energy for All).</p> <p>Noteworthy experience in other industries</p> <p>She has been an adviser to the chair of the Federal Competition Commission (<i>Comisión Federal de Competencia</i>), head of the Quasi-Autonomous Non-Governmental Organisations Investment and Divestment Unit (<i>Unidad de Inversiones y Desincorporación de Entidades Paraestatales</i>) of the Office of the Secretary of Finance and Public Credit of Mexico, general manager of the National Mint of Mexico (<i>Casa de Moneda de México</i>), member of the boards of Nacional Financiera (Nafinsa) and of Banco Nacional de Comercio Exterior (Bancomext), and general manager of Banco Nacional de Obras y Servicios Públicos.</p> <p>In the academic field, she has been a professor in the Economics Department of Instituto Tecnológico Autónomo de México, deputy chair of the course towards a Degree in Economics, and chair of the Alumni Association. She was also holder of the Quintana Chair for Research in International Trade and is the author of many papers and specialised articles.</p>
<p>MS DENISE MARY HOLT</p>	<p>Vienna, Austria, 1949</p> <p>Background and professional experience</p> <p>Other activities: independent director and member of the Risk Committee of HSBC Bank plc., chair and independent director of M&S Financial Services Ltd., and independent director and member of the Quality and Safety and Compensation Committees of the Board of Directors of Nuffield Health, member of the governing board of the University of Bristol, and chair of the Appointments Committee of the British Alzheimer's Society.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 24 June 2014 and 27 March 2015.</p> <p>Academic training</p> <p>Degrees in Spanish Philology, French Philology, and Political Sciences from</p>

	<p>the University of Bristol and Doctor of Laws from the same university (England, United Kingdom).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>She has been a director of Scottish Power Renewable Energy Ltd. and of Scottish Power Energy Networks Holdings Ltd.</p> <p>Noteworthy experience in other industries</p> <p>In her diplomatic career, she has been first secretary of the Embassy of the United Kingdom in Brazil, director of Human Resources, of Migration and of the Overseas Territories at the UK Foreign and Commonwealth Office, and ambassador of the United Kingdom to Mexico, Spain, and Andorra. For her contribution to the British diplomatic service, she was elevated to Dame Commander of the Order of St Michael and St George (DCMG).</p> <p>She has also served as chair of the Anglo-Spanish Society and of the Institute of Latin American Studies at the University of London.</p>
MR JOSÉ WALFREDO FERNÁNDEZ	<p>Cienfuegos, Cuba, 1955</p> <p>Background and professional experience</p> <p>Other activities: partner of Gibson, Dunn & Crutcher, member of the board of directors of the Council of the Americas and the Center for American Progress.</p> <p>Dates of appointment and re-election as director of Iberdrola, S.A.: 17 February 2015 and 27 March 2015.</p> <p>Academic training</p> <p>Degree in History from Dartmouth College (New Hampshire, United States of America), and Juris Doctor from Columbia University (New York, United States of America).</p> <p>Noteworthy experience in the energy and industrial engineering sector</p> <p>He has been Assistant Secretary of State for Economic, Energy and Business Affairs for the United States of America.</p> <p>He has also been an independent director of Iberdrola USA, Inc.</p> <p>Noteworthy experience in other industries</p> <p>He has served on the boards of Dartmouth College, NPR Station WBGO-FM, the Middle East Institute, and Ballet Hispanico of New York and of non-governmental institutions such as Acción Internacional. He has also been the State Department's representative on the Committee on Foreign Investment in the United States.</p> <p>In addition, he was named one of the "World's Leading Lawyers" by Chambers Global for his M&A work, an "Expert" by the International Financial Law Review, one of the "World's Leading Privatization Lawyers" by Euromoney, and "Embajador de la Marca España" (Ambassador of the Spain Brand).</p>

Total number of independent directors	9
Total % of the board	64.29

State whether any director classified as independent receives from the company or its group any amount or benefit for items other than director remuneration, or maintains or has maintained during the last financial year a business relationship with the company or with any company of its group, whether in the director's own name or as a significant shareholder, director, or senior officer of an entity that maintains or has maintained such relationship. If applicable, include a reasoned statement of the director regarding the reasons for which it is believed that such director can carry out the duties thereof as an independent director.

Not applicable.

OTHER EXTERNAL DIRECTORS

Identify the other external directors and describe the reasons why they cannot be considered proprietary or independent directors as well as their ties, whether with the company, its management, or its shareholders:

Individual or company name of director	Reasons	Company, officer, or shareholder with which the director has ties
MR IÑIGO VÍCTOR DE ORIOL IBARRA	A company tied to the director was awarded a contract with a company of the Iberdrola Group in 2014.	IBERDROLA
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	Mr San Pedro Guerenabarrena held the position of chief operating officer (<i>consejero-director general</i>) until 24 June 2014, the date on which he voluntarily ceased executive duties, but continues to serve as a member of the Board of Directors and of the Executive Committee.	IBERDROLA
MR MANUEL MOREU MUNAIZ	Companies tied to the director maintained commercial relations with the Iberdrola Group during 2015, as reflected in section D.3 of this Report.	IBERDROLA

Total number of other external directors	3
Total % of the board	21.43

State the changes, if any, in the class of each director during the period:

Individual or company name of director	Date of change	Former class	Current class
MR IÑIGO VÍCTOR DE ORIOL IBARRA	22/06/2015	Independent director	Other external director

C.1.4. Complete the following table with information regarding the number of female directors for the last 4 financial years, as well as the status of such directors:

	Number of female directors				% of total directors of each class			
	Year t	Year t-1	Year t-2	Year t-3	Year t	Year t-1	Year t-2	Year t-3
Executive	-	-	-	-	-	-	-	-
Proprietary	-	-	-	-	-	-	-	-
Independent	5	5	4	3	55.55	55.55	40	33.33

Other external	-	-	-	-	-	-	-	-
Total	5	5	4	3	35.71	35.71	28.57	21.42

C.1.5. Explain any measures adopted to include on the board of directors a number of women that allows for a balanced presence of men and women.

Explanation of measures
<p>The Company's Corporate Governance System, and particularly the <i>Director Candidate Selection Policy</i>, entrusts the Appointments Committee with the duty to ensure that when new vacancies are filled or new directors are appointed, the selection procedures are free from any implied bias entailing any kind of discrimination and, in particular, that such procedures do not hinder the selection of female directors. The goals thereof include ensuring that female directors continue to account for at least 30% of the Board of Directors by 2020.</p> <p>Iberdrola has consistently increased the number of female directors on its Board of Directors since 2006.</p> <p>Five of the fourteen members of the Board of Directors are currently women.</p> <p>On 7 June 2006, the Board of Directors appointed Ms Inés Macho Stadler as independent director on an interim basis to fill a vacancy; such appointment was ratified by the shareholders at the General Shareholders' Meeting held on 29 March 2007, where the shareholders also approved her re-election for a five-year period. It should also be noted that on 22 September 2009, Ms Inés Macho Stadler was appointed as lead independent director (<i>consejera coordinadora</i>), a position governed by the provisions of article 45 of the By-Laws and article 21 of the Regulations of the Board of Directors.</p> <p>Thereafter, at its meeting of 31 July 2008, the Board of Directors resolved to appoint Ms Samantha Barber as an independent director on an interim basis to fill a vacancy; such appointment was ratified by the shareholders at the General Shareholders' Meeting held on 20 March 2009. Ms Barber has also chaired the Corporate Social Responsibility Committee since 24 April 2012, replacing Mr. Braulio Medel Cámara.</p> <p>The shareholders at the General Shareholders' Meeting held on 26 March 2010 approved the proposed appointment of Ms María Helena Antolín Raybaud, with the classification of external independent director.</p> <p>On 23 April 2013, Iberdrola's Board of Directors approved the interim appointment of Ms Georgina Kessel Martínez as an external independent director, which was subsequently ratified by the shareholders at the General Shareholders' Meeting held on 28 March 2014. Furthermore, Ms Kessel Martínez was appointed chair of the Audit and Risk Supervision Committee on 17 February 2015, replacing Mr Julio de Miguel Aynat.</p> <p>On 24 June 2014, the Board of Directors approved the interim appointment of Ms Denise Mary Holt as an external independent director. This appointment was ratified by the shareholders at the General Shareholders' Meeting held on 27 March 2015.</p> <p>Finally, the Appointments and Remuneration Committee was split into two separate committees on 27 March 2015. The appointment of Ms María Helena Antolín Raybaud and of Ms Inés Macho Stadler as chairs of the Appointments Committee and the Remuneration Committee, respectively, was approved for these purposes.</p> <p>As a result of the foregoing, all consultative committees of the Board of Directors are chaired by women.</p>

C.1.6. Explain any measures approved by the appointments committee in order for selection procedures to be free of any implied bias that hinders the selection of female directors, and in order for the company to deliberately search for women who meet the professional profile that is sought and include them among potential candidates:

Explanation of measures
<p>Iberdrola approved a new Director Candidate Selection Policy on 25 March 2015 (updated on 15 December 2015) to ensure that the proposed appointments of directors are based on a prior analysis of the needs of the Board of Directors. In particular, the candidates must be respectable and qualified</p>

persons, widely recognised for their expertise, competence, experience, qualifications, training, availability, and commitment to their duties. They must be true professionals, whose professional conduct and background are aligned with the principles set forth in the Directors' Code of Ethics and with the mission, vision, and values of the Group. Efforts should also be made to ensure that there is an appropriate balance on the Board of Directors that enriches decision-making and the contribution of plural viewpoints to the discussion of matters within its purview.

In turn, the Board has entrusted to the Appointments Committee the responsibility of ensuring that when new vacancies are filled or new directors are appointed, the selection procedures are free from any implied bias entailing any kind of discrimination and, in particular, from any bias that may hinder the selection of female directors. This is expressly provided by articles 27.6.c) of the Regulations of the Board of Directors and 3.e) of the Regulations of the Appointments Committee.

If there are few or no female directors despite any measures adopted, describe the reasons for such result:

Explanation of reasons
Not applicable.

C.1.6.bis Explain the conclusions of the appointments committee regarding verification of compliance with the director selection policy. Particularly explain how said policy is promoting the goal that the number of female directors represents at least 30% of all members of the board of directors by 2020.

The Policy conforms to the most stringent domestic and international corporate governance practices regarding appointments, seeking diversity of knowledge, experience, origin, nationality, and gender within the Board of Directors. The Policy specifies the commitment to avoid implicit bias that hinders the selection of female directors, who currently represent more than thirty per cent of the members of the Board of Directors. Along these lines, the Policy includes a commitment that the number of female directors will continue to account for at least said thirty per cent of the total number of members of the Board of Directors by the year 2020. Finally, the Policy promotes the inclusion within the Board of candidates with experience on boards of directors of subsidiaries of the Group, with the contribution of value contributed by their knowledge of the Company's business through such subsidiaries.

C.1.7. Explain the form of representation on the board of shareholders with significant holdings.

Mr Xabier de Irala Estévez has been a director since 24 April 2005 at the proposal of the significant shareholder Bilbao Bizkaia Kutxa, Aurrezki Kutxa eta Bahitetxea - BBK (now Kutxabank, S.A.) and was last re-elected by the shareholders at the General Shareholders' Meeting held on 22 June 2012.

C.1.8. Explain, if applicable, the reasons why proprietary directors have been appointed at the proposal of shareholders whose shareholding interest is less than 3% of share capital.

Individual or company name of the shareholder	Reason

State whether there has been no answer to formal petitions for presence on the board received from shareholders whose shareholding interest is equal to or greater than that of others at whose proposal proprietary directors have been appointed. If so, describe the reasons why such petitions have not been answered:

Yes No

Individual or company name of the shareholder	Explanation

C.1.9. State whether any director has withdrawn from the position as such before the expiration of the director's term of office, whether the director has given reasons to the board and by what means, and in the event that the director gave reasons in writing, describe at least the reasons given thereby:

Name of director	Reason for withdrawal
MR JULIO DE MIGUEL AYNAT	Personal reasons.
MR SEBATIÁN BATTANER ARIAS	Personal reasons.

C.1.10. State any powers delegated to the CEO(s):

Individual or company name of director	Brief description
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	The chairman & chief executive officer, as an individual decision-making body, has all the powers that may be delegated under the law and the <i>By-Laws</i> .

C.1.11. Identify any members of the board who are directors or officers of companies within the listed company's group:

Individual or company name of director	Name of entity within the group	Position	Do he/she have executive duties?
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	SCOTTISH POWER, LTD.	Chairman	NO
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	AVANGRID, INC.	Chairman	NO
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	IBERDROLA ESPAÑA, S.A.	Chairman	NO

C.1.12. Identify the directors of your company, if any, who are members of the board of directors of other companies listed on official stock exchanges other than those of your group, which have been reported to your company:

Individual or company name of the director	Name of listed company	Position
MR BRAULIO MEDEL CÁMARA	ACERINOX, S.A.	Director
MS GEORGINA KESSEL MARTÍNEZ	GRUPO FINANCIERO SCOTIABANK INVERLAT, S.A. DE C.V.	Director
MS DENISE MARY HOLT	HSBC BANK PLC.	Director
MR MANUEL MOREU MUNAIZ	TUBACEX, S.A.	Director

C.1.13. State and, if applicable, explain whether the regulations of the board have established rules regarding the maximum number of boards of which its directors may be members:

Yes No

Explanation of rules
Pursuant to the provisions of article 13.b) of the Regulations of the Board of Directors, individuals or legal entities serving as directors in more than five companies, of which no more than three may have shares trading on domestic or foreign stock exchanges, may not be appointed as directors. Positions within holding companies are excluded from the calculation. Furthermore, companies belonging to the same group shall be deemed to be a single company.

C.1.14. Section deleted.

C.1.15. State the overall remuneration of the board of directors:

Remuneration of the board of directors (thousands of euros)	14,730
Amount of pension rights accumulated by the directors (thousands of euros)	0
Amount of pension rights accumulated by former directors (thousands of euros)	0

C.1.16. Identify the members of the company's senior management who are not executive directors and state the total remuneration accruing to them during the financial year:

Individual or company name	Position(s)
MR FRANCISCO MARTÍNEZ CÓRCOLES	Business CEO of the Group
MR JOSÉ SAINZ ARMADA	CFO
MR JULIÁN MARTÍNEZ-SIMANCAS SÁNCHEZ	General secretary and secretary of the Board of Directors
MR LUIS JAVIER ARANAZ ZUZA	Director of Internal Audit
MR PEDRO AZAGRA BLÁZQUEZ	Director of Corporate Development

MR JUAN CARLOS REBOLLO LICEAGA	Director of administration and control
--------------------------------	--

Total senior management remuneration (in thousands of euros)	11,874
---	--------

C.1.17. State the identity of the members of the board, if any, who are also members of the board of directors of significant shareholders and/or in entities of their group:

Individual or company name of director	Company name of the significant shareholder	Position
MR XABIER DE IRALA ESTÉVEZ	CAJASUR BANCO, S.A.	Director

Describe any significant relationships, other than the ones contemplated in the prior item, of the members of the board of directors linking them to significant shareholders and/or companies within their group:

Individual or company name of related director	Individual or company name of related significant shareholder	Description of relationship

C.1.18. State whether the regulations of the board have been amended during the financial year:

Yes No

Description of amendments
<p>On 25 March, the Board of Directors of the Company approved an amendment of the Regulations of the Board of Directors, the new provisions of which were as follows:</p> <ul style="list-style-type: none"> - After the Appointments and Remuneration Committee was split into two separate committees, the duties of each were defined. - There was an update of the disqualification relating to a director not being able to hold the position of director in more than five companies, of which no more than three may have shares trading on domestic or foreign stock exchanges. - In the case of a director who ceases to hold office due to resignation or other reasons prior to the end of the period for which the director was appointed, the director shall explain the reasons for their withdrawal in a letter. - The lead independent director shall chair the meetings of the Board of Directors in the absence of the chairman and of the vice-chairs. - As regards the duties of the secretary of the Board of Directors, the secretary must expressly state for the record his opposition to resolutions that are contrary to law, to the Corporate Governance System, or to the corporate interest. - As regards the conduct of meetings of the Board of Directors, if directors or the secretary state their concern regarding a proposal or, in the case of directors, regarding the status of the Company, and such concerns are not resolved at the meeting of the Board of Directors, a description thereof shall be reflected in the minutes at the request of those stating their concerns. In particular, if significant or repeated decisions are made on matters with respect to which a director has made serious reservations and such director tenders their resignation, the director must explain the reasons for their resignation by letter. - It is provided that the Board of Directors shall meet with the auditors at least once per year in order to

receive information regarding the work performed and regarding the accounting status and risks of the Company.

According to the amendment approved on 21 July, the structure of the corporate website is determined by the provisions of the General Corporate Governance Policy and the other internal rules of the Company.

On 20 October 2015, the Board of Directors approved the following changes:

- The powers of the Board of Directors were updated, adding the duty to define the mission, vision, and values of the Group.
- New references to the corporate structure of the Group were introduced as regards the country subholding companies and head of business companies of the Group.
- Modifications were also made to the powers of the Corporate Social Responsibility Committee.

Finally, the *Regulations of the Board of Directors* were amended on 15 December 2015 to make the following changes:

- Amendments were made arising from the admission to trading of the shares of Avangrid, Inc. on the New York Stock Exchange. In particular, specific statements were inserted regarding the strengthened autonomy of the listed country subholding companies in the articles relating to the powers of the Board of Directors and of the Remuneration Committee.

C.1.19. State the procedures for the selection, appointment, re-election, evaluation, and removal of directors. Describe the competent bodies, the procedures to be followed, and the criteria applied in each of such procedures.

1. APPOINTMENT AND RE-ELECTION OF DIRECTORS

The appointment, re-election, and removal of directors is within the purview of the shareholders at the General Shareholders' Meeting.

Vacancies that occur may be filled by the Board of Directors on an interim basis until the next General Shareholders' Meeting.

The Appointments Committee must advise the Board of Directors regarding the most appropriate configuration thereof and of its committees as regards size and equilibrium among the various classes of directors existing at any time. This is in any event based on the conditions that candidates for director must meet pursuant to the Director Candidate Selection Policy.

The following may not be appointed as directors or as individuals representing a corporate director:

- a) Domestic or foreign companies competing with the Company in the energy industry or other industries, or the directors or senior officers thereof, or such persons, if any, as are proposed by them in their capacity as shareholders.
- b) Individuals or legal entities serving as directors in more than five companies, of which no more than three may have shares trading on domestic or foreign stock exchanges.
- c) For purposes of the provisions of the preceding paragraph, positions within holding companies are excluded from the calculation. Furthermore, companies belonging to the same group shall be deemed to be a single company.
- d) Persons who, during the two years prior to their appointment, have occupied high-level positions in Spanish government administrations that are incompatible with the simultaneous performance of the duties of a director of a listed company under Spanish national or autonomous community law, or positions of responsibility with entities regulating the energy industry, the securities markets, or other industries in which the Group operates.

Individuals or legal entities that are under any other circumstance of disqualification or prohibition governed by provisions of a general nature, including those that have interests in any way opposed to those of the Company or the Group.

The Board of Directors and the Appointments Committee, within the scope of their powers, shall endeavour to ensure that the candidates proposed are respectable and qualified persons, widely recognised for their expertise, competence, experience, qualifications, training, availability, and commitment to their duties.

It falls upon the Appointments Committee to propose the independent directors, as well as to report upon

the proposals relating to the other classes of directors.

If the Board of Directors deviates from the proposals and reports of the Appointments Committee, it shall give reasons for so acting and shall record such reasons in the minutes.

2. EVALUATION OF DIRECTORS

The Board of Directors shall annually evaluate: (i) its operation and the quality of its work; (ii) the performance of their duties by the chairman of the Board of Directors and by the chief executive officer, based on the report submitted thereto by the Appointments Committee; and (iii) the operation of its committees, in view of the report submitted thereto by such committees. For such purpose, the chairman of the Board of Directors shall organise and coordinate the aforementioned evaluation process with the chair of each committee. The following section reports on the evaluation process during financial year 2015.

3. REMOVAL OF DIRECTORS

Directors "shall serve in their position for a term of four (4) years, so long as the shareholders acting at the General Shareholders' Meeting do not resolve to remove them and they do not resign from their position".

The Appointments Committee shall inform the Board of Directors regarding proposed removals due to breach of the duties inherent to the position of director or due to a director becoming affected by supervening circumstances of mandatory resignation or withdrawal. In addition, the Committee may propose the removal of directors in the event of disqualification, structural conflict of interest, or any other reason for resignation or withdrawal, pursuant to law or the Company's Corporate Governance System.

The Board of Directors may propose the removal of an independent director before the passage of the period provided for in the By-Laws only upon sufficient grounds, evaluated by the Board of Directors after a report from the Appointments Committee, or as a consequence of takeover bids, mergers, or other similar corporate transactions resulting in a significant change in the structure of the Company's share capital, as recommended by the Good Governance Code of Listed Companies.

C.1.20 Explain the extent to which the self-evaluation of the board has given rise to significant changes in its internal organisation and regarding the procedures applicable to its activities:

Description of amendments
<p>The annual evaluation of 2014 was derived from a 2015 Action Plan that identified various areas for improvement. There was continued development of the Corporate Governance System during the most recent financial year, significantly advancing on the majority of them. Specifically, this includes:</p> <ol style="list-style-type: none">1. Separation of duties and checks and balances:<ul style="list-style-type: none">- Consideration of Iberdrola, S.A. as a supervisory holding company in the <i>By-Laws</i>.- Split-up of the Appointments and Remuneration Committee.- Expansion of the powers of the lead independent director.2. Suitable composition of the Board of Directors and effective operation:<ul style="list-style-type: none">- Continuous renewal of the Board of Directors with the inclusion of directors with knowledge and experience in key international markets and businesses for the group.- Inclusion of a sole transitional provision in the <i>Regulations of the Board of Directors</i> anticipating the progressive renewal of the Board in coming years.- Publication of guidelines for the Succession Plan.- Improvements in the monitoring of the <i>Tax Risk Control and Management Policy</i>.- Publication of reports supporting the re-election and appointment of directors.3. Shareholder engagement:<ul style="list-style-type: none">- Holding of the first Shareholder Day, in addition to the customary Investor Day.- Approval of the <i>Shareholder Engagement Policy</i>.4. Social return:

- Approval of the mission and modification of the vision and values of the Iberdrola group.
- Approval of the *Stakeholder Relations Policy*.

C.1.20 bis Describe the process of self-evaluation and the areas evaluated by the board of directors, as it may be assisted by an external consultant, regarding diversity in its composition and powers, the operation and composition of its committees, the performance of the chairman of the board and chief executive officer, and the performance and contribution of each director.

The Board of Directors of Iberdrola, S.A. evaluates its performance on an annual basis. On 20 October 2015 the Board of Directors approved the commencement of the process of evaluation, including that of the Board of Directors itself, the Executive Committee, its consultative committees, the directors individually, and the chairman & CEO. This last evaluation was led by the lead independent director. The process concluded at the 23 February 2016 meeting of the Board.

In order to align the Company with best international practices, it was decided to hire PricewaterhouseCoopers Asesores de Negocios, S.L. ("PwC") as an external adviser.

The evaluation process covered approximately 500 objectively quantifiable and measurable indicators, which are updated each year with the latest trends and regulatory changes. The areas analysed in each of the reports were: (i) composition; (ii) operation; (iii) exercise of powers and performance of duties; and (iv) relations with other bodies.

The conclusions of the evaluation process reflected a high level of compliance with almost all of the critical indicators relating to mandatory legal rules and regulations and the recommendations of the new *Good Governance Code of Listed Companies*, and an alignment of more than 85% with the latest international trends and with advancement on the areas for improvement identified during prior years.

Pursuant to the 2016 Action Plan, Iberdrola will continue to develop good governance best practices this year in the following areas:

1. Board and strategy: ensure that the Board of Directors and the directors continue to dedicate sufficient time to planning and supervision of the strategy.
2. Transparency: continue progress on the key processes of the governance model.
3. Corporate social responsibility: increase interaction with socially responsible investors and have the governance bodies monitor the corporate social responsibility strategy of the group.
4. Remuneration: continuously compare to best market practices.
5. Shareholder engagement: improve the information disclosed by the consultative committees to the market and expand the universe of shareholder contacts.

C.1.20 ter List any business relationships of the consultant or any company of its group with the company or any company of its group.

The business relationships of the consultant and the companies of its group with the Company and the group in 2015 came to the aggregate amount of 4.2 million euros, and were mainly focused on the following:

- Advice to the management of Business Development.
- Advice and support to the Office of the Secretary of the Board of Directors.
- Work in the area of Human Resources.
- Advice on Regulation and on tax matters.

C.1.21. State the circumstances under which the resignation of directors is mandatory.

Directors must submit their resignation from the position and formally resign from their position upon the occurrence of any of the instances of disqualification from or prohibition against performing the duties of

director provided by law or by Iberdrola's Corporate Governance System.

In this connection, article 16.3 of the Regulations of the Board of Directors provides that the directors must submit their resignation to the Board of Directors in the following cases:

- a) When, due to supervening circumstances, they are involved in any circumstance of disqualification or prohibition provided by law or the Corporate Governance System.
- b) When, as a result of any acts or conduct attributable to the director, serious damage is caused to the value or reputation of the Company or there is a risk of criminal liability for the Company or any of the companies of the Group.
- c) When they cease to deserve the respectability or to have the capability, expertise, competence, availability, or commitment to their duties required to be a director of the Company.

In particular, when the activities carried out by the director, or the companies directly or indirectly controlled by the director, or the individuals or legal entities that are shareholders of or related to any of them, or the individual representing a corporate director, may compromise the competence of the director.

- d) When they are seriously reprimanded by the Board of Directors because they have breached any of their duties as directors, by resolution adopted by a two-thirds majority of the directors.
- e) When their continuance in office on the Board of Directors may for any reason, either directly, indirectly, or through persons related thereto, jeopardise the faithful and diligent performance of their duties in furtherance of the corporate interest.
- f) When the reasons why the director was appointed cease to exist and, in particular, in the case of proprietary directors, when the shareholder or shareholders who proposed, requested, or decided the appointment thereof totally or partially sell or transfer their equity interest, with the result that such equity interest ceases to be significant or sufficient to justify the appointment.
- g) When an independent director unexpectedly falls under supervening circumstances that prevent the director from being considered as such pursuant to the provisions of law.

The resignation provisions set forth under f) and g) above shall not apply when, after a report from the Appointments Committee, the Board of Directors believes that there are reasons that justify the director's continuance in office, without prejudice to the effect that the new supervening circumstances may have on the classification of the director.

C.1.22. Section deleted.

C.1.23. Are qualified majorities, different from the statutory majorities, required to adopt any type of decision?

Yes No

If so, describe the differences.

Description of differences
The Regulations of the Board of Directors (article 5.1 of the Regulations of the Board of Directors) require a majority of at least two-thirds of the directors present at the meeting in person or by proxy to approve the amendment thereof.
The serious reprimand of a director for having breached any of the duties entrusted thereto as director (article 16.3.d) of the Regulations of the Board of Directors) requires a majority of two-thirds of the directors.

C.1.24. Explain whether there are specific requirements, other than the requirements relating to directors, to be appointed chairman of the board of directors.

Yes No

Description of requirements

C.1.25. State whether the chair has a tie-breaking vote:

Yes No

Matters on which a tie-breaking vote may be cast
In the event of a tie, the chairman has a tie-breaking vote on any matter unless he becomes subject to a conflict of interest, in which case he must abstain from participating in the deliberation and voting stages of the respective resolution.

C.1.26. State whether the by-laws or the regulations of the board set forth any age limit for directors:

Yes No

Age limit for the chair	-
Age limit for the CEO	-
Age limit for directors	-

C.1.27. State whether the by-laws or the regulations of the Board establish any limit on the term of office for independent directors that is different than the term provided by regulatory provisions:

Yes No

Maximum number of terms	
-------------------------	--

C.1.28. State whether there are formal rules for proxy-voting at meetings of the board of directors, the manner of doing so, and especially the maximum number of proxies that a director may hold, as well as whether any restriction has been established regarding the categories of directors to whom proxies may be granted beyond the restrictions imposed by law. If so, briefly describe such rules.

<p>Pursuant to article 36.2 of the By-Laws, all of the directors may cast their vote and give their proxy in favour of another director, provided, however, that non-executive directors may only do so in favour of another non-executive director. Articles 32.2 and 36.2.b) of the Regulations of the Board of Directors require that directors attend the meetings of the Board of Directors. When directors are unable to attend in person for well-founded reasons, they shall endeavour to give a proxy to another director, to whom they shall give any appropriate instructions, but may not grant a proxy in connection with matters in respect of which they are involved in a conflict of interest.</p> <p>The proxy granted shall be a special proxy for the Board meeting in question and may be communicated by any means allowing for the receipt thereof.</p> <p>There is no maximum number of proxies provided per director.</p>
--

C.1.29. State the number of meetings that the board of directors has held during the financial year. In addition, specify the number of times the board has met, if any, at which the chair was not in attendance. Proxies granted with specific instructions shall be counted as attendance.

Number of meetings of the board	8
Number of meetings of the board at which the chair was not in attendance	0

If the chair is an executive director, state the number of meetings held without the presence in person or by proxy of any executive director and chaired by the lead independent director.

Number of meetings	0
---------------------------	---

State the number of meetings held by the different committees of the board of directors during the financial year:

Number of meetings of the Executive Committee	14
Number of meetings of the Audit and Risk Supervision Committee	15
Number of meetings of the Appointments Committee	14
Number of meetings of the Remuneration Committee	10
Number of meetings of the Corporate Social Responsibility Committee	7

C.1.30. State the number of meetings that the board of directors has held during the financial year with the attendance of all of its members. Proxies granted with specific instructions shall be counted as attendance:

Number of meetings with the attendance of the directors	8
% in attendance of total votes during the financial year	100%

C.1.31. State whether the annual individual accounts and the annual consolidated accounts that are submitted to the board for approval are previously certified:

Yes No

Identify, if applicable, the person/persons that has/have certified the annual individual and consolidated accounts of the company for preparation by the board:

Name	Position
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	Chairman & CEO
MR JUAN CARLOS REBOLLO LICEAGA	Director of Administration and Control

C.1.32. Explain the mechanisms, if any, adopted by the board of directors to avoid any qualifications in the audit report on the annual individual and consolidated accounts prepared by the board of directors and submitted to the shareholders at the general shareholders' meeting.

Articles 3 and 6 of the *Regulations of the Audit and Risk Supervision Committee* provide that it has the following duties, among others:

- Supervise the process of preparing and presenting regulated financial information relating to the Company, both individual and consolidated with its subsidiaries, reviewing compliance with legal requirements, the proper delimitation of the scope of consolidation, and the correct application of accounting standards.
- Establish appropriate relationships with the auditor to receive information regarding matters that might risk the independence thereof, for examination by the Committee, and any other information related to the development of the audit procedure as well as such other communications as are provided for in the laws on auditing of accounts and in other legal provisions on auditing. The Committee must receive written confirmation from the auditor on an annual basis of their independence vis-à-vis the Company or entities directly or indirectly related thereto, as well as information on additional services of any kind provided to such entities by such auditor or by persons or entities related thereto, pursuant to the laws on auditing of accounts.
- On an annual basis, prior to the audit report, issue a report containing an opinion on the independence of the auditor. This report must in any case pass upon the provision of the additional services referred to in the preceding point.
- Report in advance to the Board of Directors regarding the financial information that the Company must disclose on a regular basis because of its status as a listed company; the Committee shall make sure that the interim accounts are prepared in accordance with the same accounting standards as the annual accounts and, for such purpose, it shall consider the appropriateness of a limited review by the auditor.
- Review the contents of the audit reports on the accounts and of the reports on the limited review of interim accounts, if any, as well as other mandatory reports to be prepared by the auditor, prior to the issuance thereof, in order to avoid qualified reports.
- Act as a channel of communication between the Board of Directors and the auditors, causing them to hold an annual meeting with the Board of Directors to report thereto on the work performed and the accounting status and risks of the Company.

Article 51 of the *Regulations of the Board of Directors* provides, among other things, that:

- The Board of Directors shall meet with the auditors at least once per year in order to receive information regarding the work performed and regarding the accounting status and risks of the Company.
- The Board of Directors shall use its best efforts to definitively prepare the accounts such that there is no room for qualifications by the auditors. However, when the Board of Directors believes that its opinion must prevail, it shall provide a public explanation of the content and scope of the discrepancy.

Pursuant to the above-cited articles, the Audit and Risk Supervision Committee reports on the financial information of the Company throughout the financial year and prior to the approval thereof by the Board of Directors and its submission to the National Securities Market Commission (*Comisión Nacional del Mercado de Valores*). The reports of the Committee, which the chair thereof presents to the full Board of Directors, are mainly intended to disclose such aspects, if any, as may give rise to qualifications in the audit report of Iberdrola and its consolidated group, making the appropriate recommendations to avoid any such qualifications.

Accordingly, the Committee submitted to the Board of Directors the following reports regarding the annual and half-yearly financial reports and the interim management statements of the Company for financial year 2015:

- Report dated 27 April 2015 on the interim management statement for the first quarter of 2015.
- Report dated 20 July 2015 on the economic/financial report for the first half of 2015.
- Report dated 19 October 2015 on the interim management statement for the third quarter of 2015.
- Report dated 22 February 2016 on the annual accounts of Iberdrola and its consolidated group for financial year 2015.

As disclosed in the information about Iberdrola posted on the website of the National Securities Market Commission (www.cnmv.es), the audit reports on the individual and consolidated annual accounts prepared by the Board of Directors have historically been issued without qualifications.

C.1.33. Is the secretary of the board a director?

Yes No

If the secretary is not a director, complete the following table.

Individual or company name of the secretary	Representative
MR JULIÁN MARTÍNEZ-SIMANCAS SÁNCHEZ	-

C.1.34. Section deleted.

C.1.35. State the mechanisms, if any, used by the company to preserve the independence of auditors, financial analysts, investment banks, and rating agencies.

1. MECHANISMS TO PRESERVE THE INDEPENDENCE OF THE AUDITOR

The Company's Corporate Governance System, and the *Auditor Hiring Policy* as part thereof, provide that:

- The Audit and Risk Supervision Committee shall receive information from the auditor regarding matters that might risk the independence thereof.
- The Committee shall receive from the auditor, on an annual basis, written confirmation of its independence as well as information on additional services provided to the Company or entities related thereto.
- The auditor shall provide to the Committee annual information regarding the profiles and the track record of the persons making up the audit teams, stating the changes in the composition of such teams compared to the preceding financial year and persons added to the Iberdrola Group.
- The Committee shall issue, on an annual basis and prior to the issuance of the audit report, a report setting forth an opinion on the independence of the auditor. This report shall in any case pass upon the provision of the additional services referred to above and shall attach a reasoned assessment thereof.
- The Committee shall monitor the quality assurance and independence safeguarding internal procedures implemented by the auditor.
- The Committee shall not submit a proposal to the Board of Directors, and the Board of Directors shall not submit a proposal to the shareholders at a General Shareholders' Meeting, for appointment of firms as auditor when it has evidence that they are affected by grounds for disqualification or do not satisfy the independence requirements established by the Company's Corporate Governance System.

As regards 2015:

- Iberdrola's auditor appeared on eight occasions before the Audit and Risk Supervision Committee and on one occasion before the Board of Directors to report on various matters relating to the audit process. During these appearances, the auditor did not report issues that might put its independence at risk.
- On 10 February 2015 the auditor sent written confirmation of its independence with regard to the audit of financial information for financial year 2014.
- On 14 July 2015 the auditor sent written confirmation of its independence with regard to the limited review of financial information through 30 June 2015.
- On 13 November 2015 the auditor sent confirmation of its independence with regard to the proposed re-election of the auditor to audit the individual and consolidated annual accounts for financial year 2016 to be submitted at the General Shareholders' Meeting.
- The auditor represented in the aforementioned letters that it had implemented the internal procedures necessary to ensure its independence.
- The hiring of the auditor for services other than auditing is authorised in advance by the Committee.

The hiring is supported by the respective letters of the partner responsible for the audit confirming the non-existence of restrictions on independence to perform this work.

- In its written confirmation of 10 February 2015, the auditor reported that there were no hirings of professionals from the auditor at the Company or its group, except in the case of Iberdrola México, where one person was hired. The Audit and Risk Supervision Committee believes that this hiring does not affect the independence of the auditor, as it involves a professional with only three years of experience at the audit firm.
- On 16 February 2015 the Committee issued its report to the Board of Directors regarding the independence of the Company's auditor. The Committee concluded that the auditor performed its audit work with independence from the Company or entities related thereto.
- On 16 February 2015 the Committee proposed to the Company's Board of Directors, for submission to the shareholders at the General Shareholders' Meeting, the re-election of Ernst & Young as the Company's auditor for financial year 2015.
- On 14 February 2015 the Committee proposed to the Company's Board of Directors, for submission to the shareholders at the General Shareholders' Meeting, the appointment of KPMG Auditores, S.L. as auditor of the annual accounts of the Company and its consolidated group for financial years 2017 to 2019. This proposal was adopted after the holding of a tender among well-known audit firms, in compliance with the provisions on rotation of auditors established in the new Audit Law 22/2015 of 20 July 2015.

2. MECHANISMS TO PRESERVE THE INDEPENDENCE OF FINANCIAL ANALYSTS, INVESTMENT BANKS, AND RATING AGENCIES

The principles which form the basis of the relations of the Company with financial analysts, investment banks, and rating agencies are transparency, non-discrimination, truthfulness, and trustworthiness of the information supplied. The Finance and Resource Division, through the Investor Relations Division, manages their requests for information and requests submitted by institutional or retail investors (in the case of retail investors, through the Office of the Shareholder). The Finance and Resource Division gives mandates to investment banks. The Development Division gives the appropriate advisory mandates to investment banks within the scope of its activities, in coordination with the Finance and Resource Division.

The independence of financial analysts is protected by the Investor Relations Division, which ensures the objective, fair, and non-discriminatory treatment thereof.

To actualise the principles of transparency and non-discrimination, always in strict compliance with regulations regarding the Securities Market, the Company has a number of communication channels:

- Personalised assistance for analysts, investors, and rating agencies.
- Publication of the information relating to quarterly results and other specific events, such as those relating to the submission of the Business Prospects or to corporate transactions.
- E-mail through the corporate website (accionistas@iberdrola.com) and a toll-free line for shareholders (+34 900 100 019).
- In-person and broadcasted presentations.
- Release of announcements and news.
- Visits to Company facilities.

C.1.36. State whether the Company has changed the external auditor during the financial year. If so, identify the incoming and the outgoing auditor:

Yes No

Outgoing auditor	Incoming auditor

If there has been any disagreement with the outgoing auditor, provide an explanation thereof:

Yes No

Description of the disagreement

C.1.37. State whether the audit firm performs other non-audit work for the company and/or its group. If so, state the amount of the fees paid for such work and the percentage they represent of the aggregate fees charged to the company and/or its group:

Yes No

	Company	Group	Total
Amount of other non-audit work (thousands of euros)	0	75	75
Amount of non-audit work / Aggregate amount billed by the audit firm (%)	0	0.3	0.3

C.1.38. State whether the audit report on the annual accounts for the prior financial year has observations or qualifications. If so, state the reasons given by the chair of the audit committee to explain the content and scope of such observations or qualifications.

Y e s No

Explanation of reasons

C.1.39. State the consecutive number of years for which the current audit firm has been auditing the annual accounts of the company and/or its group. In addition, state the percentage represented by such number of financial years audited by the current audit firm with respect to the total number of financial years in which the annual accounts have been audited:

	Company	Group
Number of continuous financial years	10	10

	Company	Group
Number of years audited by the current audit firm / Number of years in which the company has been audited (%)	43	43

C.1.40. State whether there is any procedure for directors to hire external advisory services, and if so, describe it:

Yes No

Describe the procedure

Pursuant to the provisions of article 35 of the Regulations of the Board of Directors, in order to be assisted in the performance of the duties entrusted thereto, any director may request the hiring of legal, accounting, technical, financial, commercial, or other expert advisers, whose services shall be paid for by the Company.

The assignment must deal with specific issues of certain significance and complexity arising during the performance of the director's duties.

The request for an expert to be hired shall be channelled through the secretary of the Board of Directors, who may subject it to the prior approval of the Board of Directors; such approval may be denied in well-founded instances, including the following circumstances:

- a) That it is not necessary for the proper performance of the duties entrusted to the directors.
- b) That the cost thereof is not reasonable in light of the significance of the issues and the assets and income of the Company.
- c) That the technical assistance sought may be adequately provided by the Company's own experts and technical personnel.
- d) That it may entail a risk to the confidentiality of the information that must be made available to the expert.

Furthermore, article 25.2 of the Regulations of the Audit and Risk Supervision Committee, article 18.2 of the Regulations of the Appointments Committee, article 14.2 of the Regulations of the Remuneration Committee, and article 17.3 of the Regulations of the Corporate Social Responsibility Committee provide that such committees may seek advice from outside professionals, who shall submit their reports directly to the chair of the relevant committee.

C.1.41. State whether there is any procedure for directors to obtain sufficiently in advance the information required to prepare for meetings of management-level decision-making bodies and, if so, describe it:

Yes No

Describe the procedure

Section 16 of the General Corporate Governance Policy provides that "the Company has a programme to provide directors with information and updates in response to the need for professionalisation, diversification, and qualification of the Board of Directors.

In order to improve their knowledge of the Group, presentations are made to the directors regarding the businesses of the Group. In addition, a portion of each meeting of the Board of Directors tends to be dedicated to a presentation on economic, legal, or political/social issues of importance to the Group.

The directors have access to a specific application, the directors' website, that facilitates performance of their duties and the exercise of their right to receive information. This website includes information deemed appropriate for preparation of the meetings of the Board of Directors and the committees thereof in accordance with the agenda, as well as materials relating to director training programmes and the presentations made to the Board of Directors.

In addition, the minutes of the meetings of the Board of Directors and the committees thereof, or an extract or summary thereof, are also included on the directors' website, after they have been approved".

Pursuant to article 34.4 of the Regulations of the Board of Directors, there shall be an inclusion of such information as is deemed appropriate for preparation of the meetings of the Board of Directors and the committees thereof, in accordance with the agenda included in the calls to meeting, as well as materials relating to director training programmes.

In addition, article 36.3.a) of the Regulations of the Board of Directors provides that a director is specifically required to "properly prepare the meetings of the Board of Directors and, if applicable, the meetings of the Executive Committee or of the committees of which the director is a member, for which purposes the director must diligently become apprised of the running of the Company and the matters to be discussed at such meetings".

In order to facilitate the directors' discharge of their duties, the following initiatives have been implemented:

- The approval by the Board of Directors of the Directors' Code of Ethics of Iberdrola, which provides the directors with an overall view of the rights and duties inherent in their position and is continuously updated.
- The directors' website, on which the call to and the documents for preparation of each meeting of the Board of Directors are published.
- The development of the update training programme for directors of Iberdrola pursuant to article 12.5 of the Regulations of the Board of Directors, which seeks to achieve the ongoing update of directors and consists of presentations, informational notes, and posts that are included in the directors' website regarding matters of interest to the directors of the Company, issues of general interest, and specific information on corporate governance and corporate social responsibility.
- The holding of informational meetings led by officers and employees of the Group, at which information is provided regarding activities related to the various business and corporate areas of the Company, as well as training presentations delivered by well-known professionals from outside the Company, at which the directors receive information on matters of topical interest.

C.1.42. State whether the company has established any rules requiring directors to inform the company—and, if applicable, resign from their position—in cases in which the credit and reputation of the company may be damaged, and if so provide a detailed description:

Yes No

Explain the rules

Section 17 of the General Corporate Governance Policy sets out the obligations and duties of the directors, including, as a statement of the duty of loyalty, the duty to submit their resignation to the Board of Directors in the event of supervening disqualification, lack of competence, prohibition against holding office as a director, and other instances provided for in the Company's Corporate Governance System.

As provided by subsections c) and d) of article 44.2 of the Regulations of the Board of Directors, a director must inform the Company of any judicial, administrative, or other proceedings instituted against the director which, because of their significance or characteristics, may seriously reflect upon the reputation of the Company. In particular, if a director becomes subject to criminal charges or to an order for further criminal prosecution upon indictment (*resultar procesado*), or if an order for the commencement of an oral trial is issued against the director for the commission of any of the crimes contemplated in section 213 of the Companies Act, such director shall give notice thereof to the Company, in the person of its president. In such instance, the Board of Directors shall review the case as soon as practicable and shall adopt the decisions it deems fit taking into account the interests of the Company.

In addition, the director must inform the Company of any fact or event that may be relevant to the holding of office as a director.

Directors must also submit their resignation to the Board of Directors and formally resign from their position in the events set forth in article 16.3 of the Regulations of the Board of Directors, particularly:

- a) When, due to supervening circumstances, they are involved in any circumstance of disqualification or prohibition provided by law or the Corporate Governance System.
- b) When, as a result of any acts or conduct attributable to the director, serious damage is caused to the value or reputation of the Company or there is a risk of criminal liability for the Company or any of the companies of the Group.
- c) When they cease to deserve the respectability or to have the capability, expertise, competence, availability, or commitment to their duties required to be a director of the Company.

In particular, when the activities carried out by the director, or the companies directly or indirectly controlled by the director, or the individuals or legal entities that are shareholders of or related to any of them, or the individual representing a corporate director, may compromise the competence of the director.

- d) When they are seriously reprimanded by the Board of Directors because they have breached any of their duties as directors, by resolution adopted by a two-thirds majority of the directors.
- e) When their continuance in office on the Board of Directors may for any reason, either directly, indirectly, or through persons related thereto, jeopardise the faithful and diligent performance of their

duties in furtherance of the corporate interest.

- f) When the reasons why the director was appointed cease to exist and, in particular, in the case of proprietary directors, when the shareholder or shareholders who proposed, requested, or decided the appointment thereof totally or partially sell or transfer their equity interest, with the result that such equity interest ceases to be significant or sufficient to justify the appointment.
- g) When an independent director unexpectedly falls under supervening circumstances that prevent the director from being considered as such pursuant to the provisions of law.

In any of the instances set forth in section 3 of article 16 of the Regulations of the Board of Directors, the Board of Directors shall request the director to resign from such position and, if applicable, shall propose the director's removal from office to the shareholders at the General Shareholders' Meeting.

By way of exception, the resignation provisions set forth in letters f) and g) of article 16.3 of the Regulations of the Board of Directors cited above shall not apply when, after a report from the Appointments Committee, the Board of Directors believes that there are reasons that justify the director's continuance in office, without prejudice to the effect that the new supervening circumstances may have on the classification of the director.

C.1.43. State whether any member of the board of directors has informed the company that such member has become subject to an order for further criminal prosecution upon indictment or that an order for the commencement of an oral trial has been issued against such member for the commission of any of the crimes contemplated in section 213 of the Companies Act:

Yes No

Name of director	Criminal case	Comments

State whether the board of directors has analysed the case. If so, provide a duly substantiated explanation of the decision adopted regarding whether or not the director should remain in office or, if applicable, describe the actions taken by the board of directors through the date of this report or that it plans to take.

Yes No

Decision made / action taken	Duly substantiated explanation

C.1.44. Describe the significant agreements entered into by the company that go into effect, are amended, or terminate in the event of a change in control at the company as a result of a takeover bid, and effects thereof.

Not applicable.

C.1.45. Identify on an aggregate basis and provide a detailed description of the agreements between the company and its management level and decision-making positions or employees that provide for indemnities, guarantee or “golden parachute” clauses upon resignation or termination without cause, or if the contractual relationship is terminated as a result of a takeover bid or other type of transaction.

Number of beneficiaries	52
Type of beneficiary	Executive directors, senior officers, and employees

Description of agreement
<p>1. EXECUTIVE DIRECTORS</p> <p>Pursuant to the provisions of his contract, the chairman & chief executive officer has the right to receive a severance payment in the event of termination of his relationship with the Company, provided that such termination is not the consequence of a breach attributable thereto or exclusively due to his own decision to withdraw. The amount of the severance payment is three times annual salary.</p> <p>Furthermore, in consideration for his two-year non-compete commitment, the chairman & chief executive officer is entitled to severance equal to the remuneration for that period.</p> <p>Since 2011, the Director Remuneration Policy provides that the limit on the amount of such severance under new contracts with executive directors shall be two times their annual salary.</p>
<p>2. SENIOR OFFICERS</p> <p>Contracts with senior officers of Iberdrola include specific severance clauses. The purpose of such clauses is to obtain an effective and sufficient level of loyalty from senior officers who are necessary for the management of the Company and thus avoid a loss of experience and knowledge that might jeopardise the achievement of strategic objectives. The amount of the severance is determined based on length of service and the reasons for the senior officer's withdrawal from office, up to a maximum of five times annual salary.</p> <p>Notwithstanding the foregoing, the Senior Officer Remuneration Policy provides since 2011 that the limit on the amount of the severance under new contracts with senior officers shall be two times their annual salary.</p>
<p>3. EMPLOYEES</p> <p>The contracts of employees linked to Iberdrola by an ordinary employment relationship do not generally include specific severance clauses and, accordingly, the general provisions of labour law shall apply in the event of termination of the employment relationship.</p>

State whether such agreements must be reported to and/or approved by the decision-making bodies of the company or its group:

	Board of directors	General Shareholders' Meeting
Decision-making body approving the provisions	X	

	Yes	No
Is information about these provisions provided to the shareholders at the general shareholders' meeting?	x	

C.2. Committees of the board of directors

C.2.1. Describe all of the committees of the board of directors, the members thereof, and the proportion of executive, proprietary, independent, and other external directors of which they are comprised:

EXECUTIVE COMMITTEE

Name	Position	Class
MR JOSÉ IGNACIO SÁNCHEZ GALÁN	CHAIRMAN	Executive director
MR XABIER DE IRALA ESTÉVEZ	MEMBER	Proprietary director
MS INÉS MACHO STADLER	MEMBER	Independent director
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	MEMBER	Other external director
MR ÁNGEL JESÚS ACEBES PANIAGUA	MEMBER	Independent director

% executive directors	20.00
% proprietary directors	20.00
% independent directors	40.00
% other external	20.00

Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.

The Executive Committee is assigned all the powers of the Board of Directors, except for those powers that may not be delegated pursuant to legal or by-law restrictions. The chairman of the Board of Directors, and the chief executive officer, if any, are members in any case. The secretary of the Board of Directors acts as secretary of the Committee.

The Executive Committee shall meet as many times as deemed necessary by the chair thereof. It shall also meet when so requested by a minimum of two of the directors forming part thereof.

Resolutions of the Committee shall be adopted by absolute majority of its members who are present at the meeting in person or by proxy.

The duties of this Committee consist of making proposals to the Board regarding strategic decisions, investments, and divestitures that are significant for the Company or the Group, assessing their conformity to the budget and the strategic plans and analysing and monitoring business risks.

The duties of the Committee are provided in article 38 of the By-Laws and are further developed in article 25 of the Regulations of the Board of Directors.

State whether the composition of the executive committee reflects the participation of the different directors within the board based on their class:

Yes No

If no, explain the composition of your executive committee

The Executive Committee of Iberdrola is made up of five directors, one being an executive director, one being a proprietary director, two being independent directors, and finally one classified as other external director.

Iberdrola believes it is essential for both the executive directors and the proprietary director to be part of the Executive Committee. The presence of two independent directors, including the lead independent director (*consejera coordinadora*), provides an appropriate balance in the composition thereof, with representation of the various classes of directors of the Company, and also ensures that the duties of the Executive Committee may not be performed along lines different from those reflected by the composition of the Board of Directors.

AUDIT AND RISK SUPERVISION COMMITTEE

Name	Position	Class
MS GEORGINA KESSEL MARTÍNEZ	CHAIR	Independent director
MS DENISE MARY HOLT	MEMBER	Independent director
MR JOSÉ WALFREDO FERNÁNDEZ	MEMBER	Independent director

% executive directors	0
% proprietary directors	0
% independent directors	100.00
% other external	0

Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.

The Audit and Risk Supervision Committee is an internal informational and consultative body.

A majority of its members shall be independent, and at least one of them shall be appointed taking into account the knowledge and experience thereof in the areas of accounting, audit, and risk management.

The Board of Directors shall appoint a chair of the Committee from among the independent directors forming part thereof, as well as its secretary, who need not be a director.

The members of the Audit and Risk Supervision Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length. The chair shall hold office for a maximum period of four years, after which period the director who has held office as such may not be re-elected until the passage of at least one year from ceasing to act as such.

A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.

The duties of the Committee are provided in article 39 of the By-Laws and are further developed in article 26 of the Regulations of the Board of Directors, as well as in the Regulations of the Audit and Risk Supervision Committee.

Identify the director who is a member of the audit committee and who has been appointed taking into account the director's knowledge and experience in the

areas of accounting, audit, or both, and report the number of years that the chair of this committee has held office.

Name of director with experience	MS GEORGINA KESSEL MARTÍNEZ
Number of years during which chair has held the position	1

APPOINTMENTS COMMITTEE

Name	Position	Class
MS MARÍA HELENA ANTOLÍN RAYBAUD	CHAIR	Independent director
MR IÑIGO VÍCTOR DE ORIOL IBARRA	MEMBER	Other external director
MR ÁNGEL JESÚS ACEBES PANIAGUA	MEMBER	Independent director

% executive directors	0
% proprietary directors	0
% independent directors	66.67
% other external	33.33

Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.

The Appointments Committee is an internal informational and consultative body.

A majority of the members of the Appointments Committee must be classified as independent. The Board also appoints the chair thereof from among the independent directors forming part thereof, as well as its secretary, who need not be a director.

The members of the Appointments Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length.

A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.

The duties of the Committee are set out in article 27 of the *Regulations of the Board of Directors*, as well as in the *Regulations of the Appointments Committee*.

REMUNERATION COMMITTEE

Name	Position	Class
MS INÉS MACHO STADLER	CHAIR	Independent director
MR IÑIGO VÍCTOR DE ORIOL IBARRA	MEMBER	Other external director

MR SANTIAGO MARTÍNEZ LAGE	MEMBER	Independent director
---------------------------	--------	----------------------

% executive directors	0
% proprietary directors	0
% independent directors	66.67
% other external	33.33

Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.

<p>The Remuneration Committee is an internal informational and consultative body.</p> <p>A majority of the members of the Remuneration Committee must be classified as independent. The Board also appoints the chair thereof from among the independent directors forming part thereof, as well as its secretary, who need not be a director.</p> <p>The members of the Remuneration Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length.</p> <p>A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.</p> <p>The duties of the Committee are set out in article 28 of the Regulations of the Board of Directors, as well as in the Regulations of the Remuneration Committee.</p>

CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

Name	Position	Class
MS SAMANTHA BARBER	CHAIR	Independent director
MR BRAULIO MEDEL CÁMARA	MEMBER	Independent director
MR MANUEL MOREU MUNAIZ	MEMBER	Other external director

% executive directors	0
% proprietary directors	0
% independent directors	66.67
% other external	33.33

Explain the duties assigned to this committee, describe the procedures and rules of organisation and operation thereof, and summarise the most significant activities thereof during the year.

<p>The Corporate Social Responsibility Committee is an internal informational and consultative body.</p> <p>A majority of the members of the Corporate Social Responsibility Committee must be classified as</p>
--

independent. The Board of Directors shall appoint a chair of the Committee from among the members forming part thereof, as well as its secretary, who need not be a director.

The members of the Corporate Social Responsibility Committee shall be appointed for a maximum term of four years and may be re-elected on one or more occasions for terms of the same maximum length.

A valid quorum shall be established with the attendance at the meeting, in person or by proxy, of a majority of its members, and resolutions shall be adopted by an absolute majority of votes of the members present at the meeting in person or by proxy.

The duties of the Committee are provided in article 41 of the By-Laws and are further developed in article 29 of the Regulations of the Board of Directors, as well as in the Regulations of the Corporate Social Responsibility Committee.

C.2.2. Complete the following table with information regarding the number of female directors comprising the committees of the board of directors for the last four financial years:

	Number of female directors							
	Financial Year 2015		Financial Year 2014		Financial Year 2013		Financial Year 2012	
	Number	%	Number	%	Number	%	Number	%
Executive Committee	1	20.00	1	20.00	1	20.00	1	16.66
Audit and Risk Supervision Committee	2	66.66	2	50.00	1	33.33	0	0.00
Appointments Committee	1	33.33	1	33.33	1	33.33	1	33.33
Remuneration Committee	1	33.33	1	33.33	1	33.33	1	33.33
Corporate Social Responsibility Committee	1	33.33	2	66.66	2	66.66	2	66.66

C.2.3. Section deleted.

C.2.4. Section deleted.

C.2.5. State, if applicable, the existence of regulations of the board committees, where such regulations may be consulted, and the amendments made during the financial year. Also state if any annual report of the activities performed by each committee has been voluntarily prepared.

1. AUDIT AND RISK SUPERVISION COMMITTEE

The Audit and Risk Supervision Committee has its own Regulations, which may be viewed by interested parties on the Company's website (www.iberdrola.com).

Article 20.2 of the Regulations of the Audit and Risk Supervision Committee provides that within three months following the end of each financial year of the Company, the Audit and Risk Supervision Committee shall submit to the Board of Directors for approval a Report describing its work during the financial year covered thereby, which shall be made available to the shareholders on occasion of the call to the Annual General Shareholders' Meeting.

The Report for financial year 2015 was prepared by the Audit and Risk Supervision Committee at its

meeting of 13 January 2016.

2. APPOINTMENTS COMMITTEE

The Appointments Committee has its own Regulations, which may be viewed by interested parties on the Company's corporate website (www.iberdrola.com).

Article 20.2 of the Regulations of the Appointments Committee provides that within three months following the end of the Company's financial year, the Committee shall submit to the Board of Directors for approval a report detailing its work for the financial year covered by the report.

The Report for financial year 2015 was prepared by the Appointments Committee at its meeting of 12 January 2016.

3. REMUNERATION COMMITTEE

The Remuneration Committee has its own Regulations, which may be viewed by interested parties on the Company's corporate website (www.iberdrola.com).

Article 16.2 of the Regulations of the Remuneration Committee provides that within three months following the end of the Company's financial year, the Committee shall submit to the Board of Directors for approval a report detailing its work for the financial year covered by the report.

The Report for financial year 2015 was prepared by the Remuneration Committee at its meeting of 1 February 2016.

4. CORPORATE SOCIAL RESPONSIBILITY COMMITTEE

The Corporate Social Responsibility Committee has its own Regulations, which may be viewed by interested parties on the Company's corporate website (www.iberdrola.com).

Article 19.2 of the Regulations of the Corporate Social Responsibility Committee provides that within three months following the end of each financial year of the Company, the Committee shall submit to the Board of Directors for approval a report on its activities during the financial year covered by the report.

The Report for financial year 2015 was prepared by the Corporate Social Responsibility Committee at its meeting of 12 January 2016.

An Activities Report of the Consultative Committees is published for purposes of the call to the General Shareholders' Meeting.

C.2.6. Section deleted.

D. RELATED-PARTY TRANSACTIONS AND INTRAGROUP TRANSACTIONS

D.1. Explain any procedures for approving related-party and intragroup transactions.

Procedure for the approval of related-party transactions
<p>Article 43 of the Regulations of the Board of Directors provides that:</p> <ol style="list-style-type: none"> Any transaction by the Company or the companies forming part of its Group with directors, with shareholders that own a shareholding interest that is equal to or greater than that legally regarded as significant at any time or that have proposed the appointment of any of the directors of the Company, or with the respective related persons, shall be subject to the approval of the Board of Directors, or in urgent cases, of the Executive Committee, following a report from the Appointments Committee. In the event that authorisation has been granted by the Executive Committee due to the urgency of the matter, the Executive Committee shall give notice thereof at the next meeting of the Board of Directors in order for it to be ratified. The Board of Directors, through the Appointments Committee, shall ensure that transactions between the Company or the companies forming part of its Group and the directors, the shareholders mentioned in the preceding section, or the respective related persons are carried out under arm's length conditions and with due observance of the principle of equal treatment of shareholders in the same situation. In the case of customary and recurring transactions in the ordinary course of business, it shall be sufficient for the Board of Directors to give prior generic approval of the kind of transaction and of the conditions for performance thereof, following a report from the Appointments Committee. The authorisation shall not be required in connection with transactions that simultaneously satisfy the following three conditions: that they are conducted under contracts whose terms and conditions are standardised and apply on an across-the-board basis to a large number of customers; that they are conducted at prices or rates established generally by the party acting as supplier of the goods or services in question, and that the amount thereof does not exceed one per cent of the consolidated annual income of the Group. The authorisation must be approved by the shareholders at the General Shareholders' Meeting in the instances provided by law, and particularly if it affects a transaction having a value of more than ten per cent of the corporate assets. The Company shall report the transaction referred to in this article in the Half-Yearly Financial Report and in the Annual Corporate Governance Report, in the cases and to the extent provided by law. Likewise, the Company shall include in the notes accompanying the annual accounts information regarding the transactions by the Company or by the companies of the Group with the directors and those persons who act for the account of the latter when such transactions are conducted other than in the ordinary course of the Company's business or other than under normal arm's length conditions. <p>Similar terms are provided in article 12 of the Procedure for Conflicts of Interest and Related-Party Transactions with Directors, Significant Shareholders, and Senior Officers. Articles 15 and 16 of this Procedure govern transactions with related persons other than directors and significant shareholders. In such cases, authorisation of the related-party transaction is within the purview of the Corporate Resources Division.</p>

D.2. Describe those transactions that are significant due to the amount or subject-matter thereof between the company or entities of its group and the company's significant shareholders:

Individual or company name of the significant shareholder	Individual or company name of the company or entity within its group	Nature of the relationship	Type of transaction	Amount (thousands of euros)
KUTXABANK, S.A.	IBERDROLA, S.A.	Corporate	Dividends and other distributed benefits	32,835
KUTXABANK, S.A.	IBERDROLA, S.A.	Contractual	Interest charged	15

Individual or company name of the significant shareholder	Individual or company name of the company or entity within its group	Nature of the relationship	Type of transaction	Amount (thousands of euros)
KUTXABANK, S.A.	IBERDROLA, S.A.	Contractual	Interest paid	28
KUTXABANK, S.A.	IBERDROLA GROUP	Contractual	Interest charged	223
KUTXABANK, S.A.	IBERDROLA GROUP	Contractual	Receipt of services	24
KUTXABANK, S.A.	IBERDROLA GROUP	Contractual	Financing agreements: loans	6,962
KUTXABANK, S.A.	IBERDROLA GROUP	Contractual	Security and bonds	2,246
QATAR INVESTMENT AUTHORITY	IBERDROLA, S.A.	Corporate	Dividends and other distributed benefits	21,571

D.3. Describe those transactions that are significant due to the amount or subject-matter thereof between the company or entities of its group and the company's directors or officers:

Individual or company name of directors or officers	Individual or company name of related party	Relation	Nature of the relationship	Amount (thousands of euros)
MR MANUEL MOREU MUNAIZ	SEAPLACE, S.L.	Chairman	Provision of services	312

D.4. Report the significant transactions made by the company with other entities belonging to the same group, provided they are not eliminated in the preparation of the consolidated accounts and they are not part of the ordinary course of business of the company as to their purpose and conditions.

Name of the entity within the group	Brief description of the transaction	Amount (thousands of euros)
GRUPO GAMESA	Receipt of services	61,852
GRUPO GAMESA	Purchase of goods (finished or in progress)	275,436
GRUPO GAMESA	Leases	4
GRUPO GAMESA	Provision of services	715
GRUPO GAMESA	Sale of goods (finished or in progress)	34,553

In any case, report any intragroup transaction with entities established in countries or territories considered to be tax havens:

Name of the	Brief description of the	Amount
-------------	--------------------------	--------

entity within the group	transaction	(thousands of euros)

D.5. State the amount of transactions with other related parties.

Amount (thousands of euros)

D.6. Describe the mechanisms used to detect, determine, and resolve potential conflicts of interest between the company and/or its group, and its directors, officers, or significant shareholders.

<p>1. CONFLICTS OF INTEREST GENERALLY</p> <p>As part of its Corporate Governance System, Iberdrola has adopted a Procedure for Conflicts of Interest and Related-Party Transactions with Directors, Significant Shareholders, and Senior Officers (in this section, the "Procedure").</p> <p>The Procedure further develops the provisions of the Regulations of the Board of Directors and the Internal Regulations for Conduct in the Securities Markets, in order to specify the rules to be observed in conflict of interest situations. It applies to directors, significant shareholders, senior officers, other persons designated by the Compliance Unit, and their related persons, upon the terms expressly defined in the Procedure itself.</p> <p>2. CONFLICTS OF INTEREST BETWEEN THE COMPANY AND THE DIRECTORS</p> <p>Article 39 of the Regulations of the Board of Directors defines a conflict of interest as those cases in which there is a conflict, whether direct or indirect, between the interests of the Company or of the companies of the Group and (i) the personal interest of the director, (ii) the interest of a person related thereto, and (iii) in the case of a proprietary director, the interest of the shareholder or shareholders that proposed or made the director's appointment or persons directly or indirectly related thereto.</p> <p>Such article contains a list of persons deemed to be related for such purposes, distinguishing between an individual and a corporate director.</p> <p>Conflicts of interest shall be governed by the following rules:</p> <p>a) Communication: the director must give notice to the Board of Directors, in the person of the chairman or the secretary thereof, of any conflict of interest in which the director is involved.</p> <p>b) Abstention: the director shall leave the meeting during the deliberation and voting on those matters in which the director is affected by a conflict of interest, and shall not be counted in the number of members attending for purposes of the calculation of a quorum and majorities.</p> <p>c) Transparency: whenever required by law, the Company shall report any cases of conflict of interest in which the directors have been involved during the financial year in question and of which the Company is aware by reason of notice given thereto by the director affected by such conflict or by any other means.</p> <p>However, if the conflict of interest situation is, or may reasonably be expected to be, of a structural and permanent nature, it shall be deemed that there is a loss of the competence required to hold office. In this regard, article 16 of the Regulations of the Board of Directors provides that a loss of competence is an event of resignation, removal, and withdrawal of the director.</p> <p>3. CONFLICTS OF INTEREST BETWEEN THE COMPANY AND THE SENIOR OFFICERS AND OTHER PERSONS SUBJECT TO CONFLICT OF INTEREST RULES</p> <p>The Procedure also governs conflicts of interest with respect to senior officers, and subjects them to the same rules of reporting, abstention, and transparency applicable to directors.</p>

4. CONFLICTS OF INTEREST BETWEEN THE COMPANY AND SIGNIFICANT SHAREHOLDERS

Transactions between companies forming part of the Group with significant shareholders or shareholders that have proposed the appointment of any of the directors and their respective related persons are dealt with in article 43 of the Regulations of the Board of Directors mentioned in section D.1. They must be carried out on arm's-length conditions and be previously approved by the Board of Directors. Approval by the shareholders at a General Shareholders' Meeting shall be required if the value of the transaction exceeds 10% of the corporate assets. All transactions shall be reported in the *Annual Corporate Governance Report* and in the *Annual Financial Report*.

5. CONFLICTS OF INTEREST WITH OTHER EMPLOYEES

The Code of Ethics, which dedicates a specific section to conflicts of interest, applies to all professionals within the Group, regardless of rank.

D.7. Is more than one company of the group listed in Spain?

Yes No

Identify the subsidiaries listed in Spain:

Listed subsidiaries

State whether they have publicly and accurately defined their respective areas of activity and any possible business relationships among them, as well as those between the listed dependent company and the other companies within the group:

Yes No

Describe the possible business relationships between the parent company and the listed subsidiary, and between the subsidiary and the other companies within the group

Identify the mechanisms established to resolve possible conflicts of interest between the listed subsidiary and the other companies within the group:

Mechanisms for the resolution of possible conflicts of interest

E. RISK CONTROL AND MANAGEMENT SYSTEMS

E.1. Explain the scope of the company's Risk Management System, including the system for managing tax risks.

The *General Risk Control and Management Policy* and the *Risk Policies* that further develop it apply to all companies over which the Company has effective control, within the limits established by the laws applicable to the regulated activities carried out by the Group in the various countries in which it operates.

The *General Risk Control and Management Policy* and the basic principles underpinning it are implemented by means of a Comprehensive Risk Control and Management System, supported by a Risk Committee of the Group and based upon a proper definition and allocation of duties and responsibilities at the operating level and upon supporting procedures, methodologies, and tools, covering the following stages:

- a) The ongoing identification of significant risks and threats based on their possible impact on key management objectives and the accounts (including contingent liabilities and other off-balance sheet risks).
- b) The analysis of such risks, both at each corporate business or function and taking into account their combined effect on the Group as a whole.
- c) The establishment of a structure of policies, guidelines, and limits, as well as of the corresponding mechanisms for the approval and implementation thereof, which effectively contribute to risk management being performed in accordance with the Company's risk appetite.
- d) The measurement and monitoring of risks, by following consistent procedures and standards that are common to the Group as a whole
- e) The analysis of risks associated with new investments, as an essential element of decision-making based upon profitability/risk.
- f) The maintenance of an internal system for monitoring compliance with policies, guidelines, and limits, by means of appropriate procedures and systems, including the contingency plans needed to mitigate the impact of the materialisation of risks.
- g) The periodic monitoring and control of profit-and-loss account risks in order to control the volatility of the annual income of the Group.
- h) The ongoing evaluation of the suitability and efficiency of applying the system and the best practices and recommendations in the area of risks for eventual inclusion thereof in the model.
- i) The audit of the system by the Internal Audit Division.

Developed in accordance with the following basic action principles:

- a) Integrate the risk/opportunity vision into the Company's management, through a definition of the strategy and the risk appetite and the incorporation of this variable into strategic and operating decisions.
- b) Segregate functions, at the operating level, between risk-taking areas and areas responsible for the analysis, control, and monitoring of such risks, ensuring an appropriate level of independence.
- c) Guarantee the proper use of risk-hedging instruments and the maintenance of records thereof as required by applicable law.
- d) Inform regulatory agencies and the principal external players, in a transparent fashion, regarding the risks facing the Group and the operation of the systems developed to monitor such risks, maintaining suitable channels that favour communication.
- e) Ensure appropriate compliance with the corporate governance rules established by the Company through its Corporate Governance System and the update and continuous improvement of such system within the framework of the best international practices as to transparency and good governance, and implement the monitoring and measurement thereof.
- f) Act at all times in compliance with the law and the Company's Corporate Governance System and, specifically, with due observance of the values and standards of conduct reflected in the *Code of Ethics* and the principles and good practices reflected in the *Corporate Tax Policy*, under the principle of zero tolerance towards the commission of unlawful acts and situations of fraud set forth in the *Crime Prevention and Anti-Fraud Policy*.

Excluded from the scope of this policy are listed country subholding companies and the subsidiaries thereof which, pursuant to their own special framework of strengthened autonomy, have their own risk

policies approved by their competent bodies. In any event, said risk policies must be in accord with the principles set forth in this *General Risk Control and Management Policy* and in the other *Risk Policies* of the Company.

At those companies in which the Company has an interest but which do not belong to the Group, the Company shall promote principles, guidelines, and risk limits consistent with those established in the *General Risk Control and Management Policy* and in its supplemental *Risk Policies* and shall maintain appropriate channels of information to ensure a proper understanding of risks.

E.2. Identify the decision-making bodies of the company responsible for preparing and implementing the Risk Management System, including the system for managing tax risks.

The Board of Directors of the Company undertakes to develop all of its capabilities in order for the significant risks to all the activities and businesses of the Group to be adequately identified, measured, managed, and controlled, and establishes through the *General Risk Control and Management Policy* the mechanisms and basic principles for appropriate management of the risk/opportunity ratio, at a risk level that makes it possible to:

- a) attain the strategic objectives formulated by the Group with controlled volatility;
- b) provide the maximum level of assurance to the shareholders;
- c) protect the results and reputation of the Group;
- d) defend the interests of customers, shareholders, other groups interested in the progress of the Company, and society in general; and
- e) ensure corporate stability and financial strength in a sustained fashion over time.

1. BOARD OF DIRECTORS

Within its area of authority, and with the support of the Audit and Risk Supervision Committee, it promotes the implementation of the mechanisms required to ensure the adequate identification, measurement, management, and control of all significant risks, defines the strategy and profile of the Company's risks, including tax risks, and approves the Group's *Risk Policies*.

2. EXECUTIVE COMMITTEE

In order to align the risk impact with the established risk appetite, the Executive Committee of the Board of Directors, acting at the proposal of the business or corporate divisions involved and upon a prior report from the Group's Risk Committee, annually reviews and approves specific guidelines regarding the risk limits from the *Corporate Policies* of the Group.

Pursuant to established guidelines, competent management decision-making bodies of the country subholding companies and each of the principal companies of the Group, within their area of responsibility, annually review and approve the specific risk policies and limits applicable to each of them and implement the control systems required to ensure compliance with the *General Risk Control and Management Policy* and with the limits thereunder.

3. AUDIT AND RISK SUPERVISION COMMITTEE

As a consultative body of the Board of Directors, it is charged with the following duties:

- Directly supervise the unit vested with the power to actively participate in the preparation of the Company's risk strategy and in significant decisions affecting the management thereof.
- Continuously review the internal control and risk management systems, such that the principal risks are properly identified, managed, and reported.
- Ensure that the Group's risk control and management system identifies at least:
 - The different types of risk (operational, technological, financial, legal, reputational, etc.) the Company is exposed to, including contingent liabilities and other off-balance sheet risks among financial or economic risks.
 - The establishment and review of the risk map and levels that the Company deems acceptable.
 - The measures planned in order to mitigate the impact of identified risks in the event that they materialise.
 - The information and internal control systems that will be used to monitor and manage the

aforementioned risks, including contingent liabilities and other off-balance sheet risks.

- (Specifically in the tax area) Receive from the Company's tax director information on the tax guidelines used by the Company during the financial year and, in particular, on the level of compliance with the *Corporate Tax Policy*, and report to the Board of Directors on the tax policies applied and, in the case of transactions or matters that must be submitted to the Board of Directors for approval, regarding the tax consequences thereof when such consequences represent a significant issue.
- Maintain appropriate relationships with the Risk Division and with the audit and compliance committees of the other companies of the Group.
- Report in advance on the risks of the Group to be included in the Company's *Annual Corporate Governance Report* and give notice thereof to the Board of Directors, through the Corporate Social Responsibility Committee, for an assessment of its conclusions.

4. BOARDS OF DIRECTORS OF COUNTRY SUBHOLDING COMPANIES OF THE PRINCIPAL COUNTRIES IN WHICH THE GROUP OPERATES

They are assigned the power to approve the *Risk Policies* for the various businesses of the Group in the country in question as well as to establish the limits and specific risk indicators applicable to such businesses, based on the nature and unique aspects of each country.

5. RISK COMMITTEE OF THE GROUP

The Risk Committee of the Iberdrola Group is a technical body chaired by the chief financial officer, which performs executive duties in connection with customary risk management and gives advice to the Group's governance bodies.

The Committee meets, at a minimum, one time per month, with the participation of the Group's director of Risk Management, those responsible for risks at the corporate businesses and areas that have a Risk Management function, the Internal Audit Division, and the Administration and Control Division.

The Group's Risk Committee is complemented with the Credit Risk and Market Risk Committees of the Group, which report to said Risk Committee and which meet on a fortnightly and monthly basis, respectively, to discuss and decide on credit and market (financial and commodities) risk issues.

E.3. Point out the principal risks, including tax risks, that could affect the achievement of business goals.

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

The section entitled "Main risk factors associated with the activities of the Iberdrola Group" of the Management Report within the Annual Report for financial year 2015 provides a detailed description of the principal risks associated with the activities carried out by the main businesses of the Group, as well as the risks of the corporation.

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

Pursuant to the definitions established by the *General Risk Control and Management Policy*, at the Group level, risks are classified as follows:

- a) Corporate Governance Risks: the Company assumes the need to safeguard the interests of the Company and the strategy of sustained maximisation of the economic value of the Company and its long-term success, in accordance with the Group's corporate interest, culture, and corporate vision, taking into account the legitimate public and private interests that converge in the conduct of all business activities, particularly those of the various stakeholders and communities and regions in which the Company and its employees act. A fundamental requirement for the foregoing is compliance with the Company's Corporate Governance System, made up of the *By-Laws*, the *Corporate Policies*, the internal corporate governance rules, and the other internal codes and procedures approved by the competent decision-making bodies of the Company and inspired by the good governance recommendations generally recognised in international markets.
- b) Market Risks: defined as the exposure of the Group's results and assets to changes in market prices

and variables, such as exchange rates, interest rates, commodity prices (electricity, gas, CO2 emission allowances, other fuel, etc.), prices of financial assets, and others.

- c) Credit Risks: defined as the possibility that a counterparty fails to perform its contractual obligations, thus causing an economic or financial loss to the Group. Counterparties can be end customers, counterparties in financial or energy markets, partners, suppliers, or contractors.
- d) Business Risks: defined as the uncertainty regarding the performance of key variables inherent in the business, such as the characteristics of demand, weather conditions, the strategies of different players, and others.
- e) Regulatory and Political Risks: defined as those arising from regulatory changes made by the various regulators, such as changes in compensation of regulated activities or in the required conditions of supply, or in environmental or tax regulations, including risks relating to political changes that might affect legal security and the legal framework applicable to the businesses of the Group in each jurisdiction, nationalisation or expropriation of assets, the cancellation of operating licences, and the early termination of government contracts.
- f) Operational, Technological, Environmental, Social, and Legal Risks: defined as those related to direct or indirect economic losses resulting from inadequate internal procedures, technical failures, human error, or as a consequence of certain external events, including the economic, social, environmental, and reputational impact thereof, as well as legal and fraud risks. Said risks include those associated with information technology and cybersecurity, as well as the risk of technological obsolescence, among others.
- g) Reputational Risks: potential negative impact on the value of the Company resulting from conduct on the part of the Company that is below the expectations created among various stakeholders, as defined in the *Stakeholder Relations Policy*.

E.4. Identify whether the entity has a risk tolerance level, including one for tax risk.

The Company's Board of Directors annually reviews and approves the acceptable risk tolerance level for the Group.

The *General Risk Control and Management Policy*, together with the specific *Risk Policies* and limits that develop it, qualitatively and quantitatively establish, in sufficiently detailed form, the risk appetite that is annually accepted at the Group level and at the level of each of its main businesses.

By way of complement, once such limits and guidelines are considered in order to verify the risk assumed globally in the annual profit and loss account, there is a comprehensive probability analysis of the remaining global risk for the year at the time of approving the annual budget.

In addition, all new multi-year plans are accompanied by their associated risk analysis.

Corporate risk policies and limits reviewed and approved annually:

- Corporate Credit Risk Policy
- Corporate Market Risk Policy
- Operational Risk in Market Transactions Policy
- Insurance Policy
- Investment Policy
- Financing and Financial Risk Policy
- Treasury Share Policy
- Risk Policy for Equity Interests in Listed Companies
- Reputational Risk Framework Policy
- Procurement Policy
- Information Technologies Policy
- Cybersecurity Risk Policy

Risk policies of the various businesses of the Group reviewed and approved annually:

- Risk Policy for the Liberalised Businesses of the Iberdrola Group

- Risk Policy for the Renewable Energy Businesses of the Iberdrola Group
- Risk Policy for the Networks Businesses of the Iberdrola Group
- Risk Policy for the Engineering and Construction Business
- Risk Policy for the Real Estate Business

In general terms, the *Corporate Policies*, applicable to all of the Group's businesses, establish the framework and the proper practices for the control, management, and mitigation of the various types of risks and establish overall risk limits to be distributed among the various businesses, measured in the form of physical, notional, and/or probability figures (VaR, CVaR, etc.), through measures such as:

- Limits on maximum global credit risk exposure by type of counterparty
- Limits on market risk proportional to the volume of activity of each business
- Strict global limit on discretionary energy trading
- Limits on operational risk through preventive maintenance programmes and insurance programmes
- Strict limits on activities not associated with the main energy business
- Other

The *Risk Policies* of each of the main businesses of the Group establish the framework and the authorised activities for each of them, together with the qualitative and quantitative risk guidelines, limits, and indicators that should be applicable thereto, adjusted to the specific nature of each of them.

The *Corporate Tax Policy* establishes the limits on tax risk by setting the tax strategy, principles of conduct, and good tax practices assumed by the Company.

The *General Risk Control and Management Policy*, as well as a summary of the *Corporate Risk Policies* and another summary of the Specific Risk Policies for the Various Businesses of the Group, are available on the corporate website (www.iberdrola.com).

E.5. State what risks, including tax risks, have materialised during the financial year.

During 2015, the activities of the Iberdrola Group were subject to various risk factors in the countries and markets in which it does business and which, from a global standpoint, did not have a significant impact on the income for the financial year, thanks to the diversification of activities, markets, and geographical areas of the Group, which made it possible for the negative effects of some businesses to be offset by a favourable performance in others.

Before listing the risks that materialised during the year, note should be taken of the following positive events that have eliminated risks or threats:

- Improvement in the economic situation in Spain, translating into: (i) an increase in the demand for electricity, with 1.8% growth in 2015 (1.6% adjusted for seasonality and temperature), and (ii) an improvement in the credit risk environment and the Spanish banking system in particular.
- The approval of Order IET/2660/2015 of 11 December 2015, authorising the unit values for remuneration of Spanish electricity distribution companies and establishing the first period of regulation, in effect through 31 December 2019.
- Approval of the new remuneration framework for electricity distributors in the United Kingdom, RIIO-ED1, which will govern revenues from April 2015 to March 2023.
- Approval in the United States of Production Tax Credits, a new tax incentive regime to develop renewable energy, in effect through 2020.
- Approval by the Brazilian regulator ANEEL of the four-year tariff review of our subsidiary Elektro, on terms satisfactory to the company, in force through August 2019.
- Satisfactory closing of the agreement reached with the Bolivian government, after the litigation commenced due to the expropriation of our subsidiaries in 2012, with the collection of 31 million euros.
- The 26 May 2015 decision of the Supreme Court in favour of Iberdrola Distribución Eléctrica regarding the application of Biscay tax regulations for the tax periods 2010 onwards.

Risks that have materialised include:

- A sanction proceeding brought against Iberdrola Generación by the CNMC for “fraudulent manipulation tending to alter the price of electrical energy” ending with a sanction of 25 million euros due to a serious infringement.

Iberdrola Generación has appealed this sanction to the National High Court (*Audiencia Nacional*) because it believes that the requirements to impose a sanction for fraudulent pricing have not been met, as it has at all times engaged in rational and prudent management of the plants under investigation.

- The low international prices for petroleum and other commodities, with a particular impact on:
 - Our business of selling electricity to private partners in Mexico, offset at the overall business level in Mexico due to the favourable movement in the USD/EUR exchange rate.
 - Our business of producing electricity in the United Kingdom, where a decision has been made to move forward the closing of our Longannet coal plant, with an after-tax writedown of 230 million euros.
- A progressive increase in Renewables USA’s exposure to market prices, and thus to volatility, as a result of the expiration of long-term fixed-price power purchase agreements.

Finally, it should be noted that in the opinion of the Company, activities in 2016 will be subject to the following risk factors:

- Possible new international financial turbulence with an impact on exchange and interest rates as a result of economic changes in the People’s Republic of China or a change in monetary policy by the U.S. Federal Reserve.
- The low international prices for energy commodities, with a possible impact on the final sales price of electricity.
- Low spreads between winter and summer prices for gas in the United States, with an impact on our gas storage and transportation business in that country.
- Uncertainty associated with possible measures approved as a result of the analysis of the retail electricity and gas market by the Competition Market Authority in the United Kingdom, although the preliminary conclusions published in 2015 reduce the risks and threats to retail activities.
- Implementation of a new retail system at Scottish Power has led to customer billing and service incidents that are being resolved. These actions are being analysed by the British regulator Ofgem.
- Uncertainty associated with the current tariff review process for the NYSEG and RG&E electricity and gas distribution companies, applicable beginning in April 2016.
- Possible impact associated with the Mexican energy reforms.
- The political and macroeconomic situation in Brazil, characterised by stagnant GDP, rising inflation, and unemployment, increasing the risk of higher depreciation of the Brazilian real.
- The final results of the tax inspection commenced in 2014 by the National Tax Administration Agency (*Agencia Estatal de Administración Tributaria*) regarding the 2008-2011 Corporate Income Tax of the Iberdrola tax Group, 2010-2011 VAT for this tax Group, and other taxes, to be completed during the first half of 2016. No liabilities additional to those already booked at 31 December 2015 are expected to arise.
- The conclusion of the OECD’s work with respect to the Base Erosion and Profit Shifting Action Plan, pushed by the G20. No significant impacts are expected on the Group, although the principles inspiring these works and documents are being considered by the Group as regards reporting, transparency, and corporate reputation.

E.6. Explain the plans for responding to and supervising the entity’s main risks, including tax risks.

The Comprehensive Risk System, together with the Company’s control and management policies and systems that develop it, including the Group’s Risk Committee and Operating Committee, have allowed for the identification of new risks and threats sufficiently in advance, and to establish appropriate mitigation plans.

The Group’s Operating Committee meets on close to a weekly basis.

The Group’s Risk Committee meets on a monthly basis, reviews the various risks, and on a quarterly

basis approves a Quarterly Risk Report of the Group, which includes the main risk positions, a report on compliance with policies and limits, and an update of the key risk maps.

The Audit and Risk Supervision Committee of the Board of Directors periodically monitors the evolution of the Company's risks at least on a quarterly basis:

- It reviews the Quarterly Risk Reports of the Group, which include monitoring compliance with risk limits and indicators and updated key risk maps, submitted by the Group's director of Corporate Risks.
- It coordinates and reviews Risk Reports sent periodically (at least half-yearly) by the audit and compliance committees of the country subholding companies and head of business companies of the Group.
- It prepares a Risk Report for the Board of Directors at least half-yearly.

F. INTERNAL RISK CONTROL AND MANAGEMENT SYSTEMS IN CONNECTION WITH THE PROCESS OF ISSUING FINANCIAL INFORMATION (ICFRS)

Describe the mechanisms making up the risk control and management systems with respect to the process of issuing the entity's financial information (ICFRS)

F.1 Control environment at the entity

Indicate at least the following, specifying the main features thereof:

F.1.1. What bodies and/or functions are responsible for: (i) the existence and maintenance of an adequate and effective internal control over financial reporting system (ICFRS); (ii) the implementation thereof; and (iii) oversight thereof.

The Board of Directors has the ultimate responsibility for the existence of an adequate and effective internal control over financial reporting system (ICFRS) lies with the Board of Directors of Iberdrola. The Boards of Directors of the country subholding companies and the head of business companies also have this responsibility within their various purviews.

The persons in charge of the country subholding companies and the head of business companies, together with the respective control officers, as well as the directors of the global corporate areas, are responsible for the design and implementation of the ICFRS. Such responsibility is expressly set forth in the certifications signed by such persons on a half-yearly basis in connection with the financial information for their respective areas of responsibility.

Pursuant to article 26.7.d of the Regulations of the Board of Directors, the Audit and Risk Supervision Committee has the power to monitor the effectiveness of the internal control of the Company and its Group. The Committee draws on the support of the Internal Audit Division to discharge such responsibility. Any Audit and Compliance committees at the country subholding and head of business companies have this power within their respective purviews.

F.1.2. Whether any of the following are in place, particularly as regards the financial information preparation process:

- **Departments and/or mechanisms in charge of: (i) the design and revision of the organisational structure; (ii) clearly defining the lines of responsibility and authority, with an appropriate distribution of work and duties; and (iii) ensuring that there are sufficient procedures for the proper dissemination thereof at the entity.**

The Board of Directors of Iberdrola defines the top-level organisational structure. The heads of such top-level organisations, together with the Human Resources Division, are responsible for deployment within their respective areas.

Each top-level division prepares a proposed organisation structure, including a description of the mission, duties, and responsibilities of the various organisations deployed, which must then be validated by the Human Resources Division and the Finance and Resources Division.

Primary responsibility for the preparation of financial information lies with the corporate Administration and Control Division. This division proposes the structure of those responsible for Control at the country subholding companies and head of business companies and is in charge of coordinating and supervising their activities.

- **Code of conduct, body that approves it, degree of dissemination and instruction, principles and values included (indicating whether the**

recording of transactions and the preparation of financial information are specifically mentioned), body in charge of reviewing breaches and of proposing corrective actions and penalties.

The Iberdrola Group has a Code of Ethics, approved by the Board of Directors.

According to article 2.1 thereof, “the principles and guidelines for conduct contained in the Code of Ethics apply to all of the Group’s professionals, regardless of seniority, geographic or functional location, or the company of the Group for which they provide their services”. The Code of Ethics is communicated to and disseminated among the professionals of the Iberdrola Group in accordance with the plan approved for such purpose by the Compliance Unit.

Article 32.5 of the Code of Ethics expressly provides as follows:

“The Group shall provide true, proper, useful, and consistent information regarding its programmes and actions. Transparency of information is a basic principle that must govern the actions of Group professionals.

The economic/financial information of the Group (especially the annual accounts) shall faithfully reflect its economic and financial position and its net worth, in accordance with generally accepted accounting principles and applicable international financial reporting standards. For such purposes, no professional shall conceal or distort the information set forth in the accounting records and reports of the Group, which shall be complete, accurate, and truthful.

A lack of honesty in the communication of information, whether internally within the Group (to employees, subsidiaries, departments, internal bodies, management decision-making bodies, etc.) or outside the Group (to auditors, shareholders and investors, regulatory entities, the media, etc.), is a breach of this Code of Ethics. This includes delivering incorrect information, organising it in an incorrect manner, or seeking to confuse those who receive it”.

Control of the application of the Code of Ethics is a duty of the Compliance Unit, a body linked to the Corporate Social Responsibility Committee of the Company’s Board of Directors, with duties in the area of regulatory compliance and the Company’s Corporate Governance System. This Unit evaluates and prepares an annual report on the level of compliance with the Code of Ethics. The report is transmitted to the Human Resources Division, to the Company’s Internal Audit Area Division, and to the Corporate Social Responsibility Committee. In turn, the latter transmits it to the competent governance bodies, to the Company’s chairman & chief executive officer, and to the Audit and Risk Supervision Committee.

The Compliance Unit also has the duty to determine whether a Group professional has conducted activities in violation of the law or of the Code of Ethics and, if applicable, to direct the Human Resources Division, or the Division responsible for the human resources function at the relevant Group company, to apply disciplinary measures in accordance with the rules on breach of duties and penalties contained in the collective bargaining agreement to which the professional belongs or in applicable labour law provisions.

Pursuant to article 41.1 of the Code of Ethics, the professionals of the Group expressly accept the vision, values, and rules of conduct established therein.

In addition, pursuant to article 41.2, professionals who join or become part of the Group in the future shall expressly accept the vision, values, and rules of action set forth in the Code of Ethics, which document shall be attached to their respective employment contracts.

- **Reporting channel that makes it possible to report any irregularities of a financial or accounting nature to the audit committee, as well as any possible breach of the code of conduct and irregular activities at the organisation, specifying, if appropriate, whether it is confidential.**

Iberdrola has a procedure in place that must be followed by all employees of the Group who wish to report potentially significant irregularities of a financial and accounting nature and that allows them to report such irregularities, by e-mail or regular mail, to the chair of the Audit and Risk Supervision Committee.

As established in the procedure itself, the Company’s Board of Directors guarantees that the name of the reporting person and the irregularity reported shall be treated in the strictest confidence, both in the reporting process and in any process for the assessment and clarification of the facts conducted by the Audit and Risk Supervision Committee and the organisations of the Company or third parties participating

at the request of such Committee.

In accordance with the above-mentioned procedure, the chair of the Audit and Risk Supervision Committee receives and admits the report for further processing. Such admission is made on the basis of the requirements established in the procedure (name of the sender, sufficiently detailed information on the situation reported, need for the report to fall within the scope of the channel, confidentiality guarantee, personal data protection, etc.).

No reports were received during financial year 2015.

- **Regular training and update programmes for personnel involved in the preparation and review of financial information, as well as in the evaluation of the internal control over financial reporting system, covering at least accounting standards, auditing, internal control, and risk management.**

Personnel involved in the preparation and review of financial information, as well as in the evaluation of the internal control over financial reporting system, receives regular training on accounting standards, auditing, internal control, and risk management, according to its specific responsibilities.

In accordance with the organisational structure of the Iberdrola Group, the divisions that have a direct relationship with these types of duties are the Internal Audit Division, the Administration and Control Division, and the Finance and Resources Division.

During 2015, the personnel involved in these duties in Spain received 13,116 hours of training, of which 4,335 hours were dedicated to technical training directly related to the responsibilities discharged by such personnel, which accounts for 33% of the training they receive, with 447 professionals participating in these courses. In the case of Elektro, there were 2,450 hours, of which 1,034 were dedicated to training directly related to the duties they perform, which accounts for 42% of the training they receive, with 92 employees attending these courses.

Mexico gave 1,677 hours of technical training for the personnel belonging to these areas. At ScottishPower, there were 1,537 hours of training, of which 708 were directly related to the duties performed, accounting for 46%. And in there United States there were 245 hours of specific training for this group.

There are more than 200 technical courses taken by the employees of these organisations, most of them taught by external entities (business schools, universities, or specialist consulting firms). There were 115 training activities in Spain, 59 at Elektro, 11 in the USA, 7 at ScottishPower, and 11 in Mexico.

Especially noteworthy is the receipt of various professional certificates by Iberdrola professionals in these functional areas:

- Certified Internal Auditor (CIA), by one professional in Spain.
- CIMA Professional Qualification, ACT Certificate in Risk Management, CIMA Strategic Level and CIA Qualification, by 5 professionals in the United Kingdom.

The technical training activities in which these professionals engaged include the following in Spain:

- Tax updates for companies
- Consolidation of financial statements
- Energy and treasury counterparties
- Financial information internal control
- Internal control and risk management
- Data analysis techniques for fraud examiner
- Financial criminal law
- Enterprise risk management workshop
- Energy project financing
- Taxation of restructurings
- How to detect and prevent financial statement fraud

- Corporate tax
- Reform of the corporate income tax
- New tax issues of interest
- Reform of the Companies Act
- Internal regulations for conduct in securities markets
- Venture capital: investing and fundraising

In Brazil:

- Credit risk financial analysis
- Financial analysis of feasibility projects
- Regulatory assets and liabilities
- Accounts payable
- Accounting training
- Financial planning
- Accounting for income taxes
- Update on rate structure
- Investor relations training
- Financial budget management
- Tax update for the company
- Training on project financial analysis
- Financial mathematics
- Training on negotiation
- Update on treasury and financing products
- IFRIC training
- Federal taxes

In Mexico

- Update on financial information standards
- Update on international financial information standards
- Tax Updates
- Licensing in Accounting and Finance
- Foreign trade forum

In the United States:

- EEI/AGA Utility Internal Auditors Training
- EEI/AGA Advanced Utility Accounting Course
- Association of Certified Fraud Examiners
- Anti-Market Manipulation Training

In the United Kingdom

- Accounting development course
- Credit Risk Analysis
- Risk based internal audit

Generally, these professionals have also taken courses to improve their qualifications in the use of the office automation tools required to perform their duties, mainly Excel.

It should be noted that several international meetings were organised during 2015 among the professionals in these areas, like the IX Global Internal Audit Days and the annual meetings of the risk

management and treasury teams.

F.2 Risk assessment of financial information

Indicate at least the following:

F.2.1. What are the main features of the risk identification process, including the process of identifying the risks of error or fraud, with respect to:

- **Whether the process exists and is documented.**

The process for the identification of risks of error in financial information is one of the most important steps in the method for the development of internal control of the financial information of Iberdrola, and the goals, implementation, and results thereof are documented.

The method starts with a review of the consolidated financial information of the Iberdrola Group and of the various country subholding companies in order to select the most significant accounts and notes to the accounts, in accordance with both quantitative (materiality) and qualitative (business risk and visibility to third parties) standards. The selected accounts and notes are grouped into management cycles or large processes in which the selected information is generated. The cycles are analysed and a description of each is prepared, as a way of identifying possible risks of error in the financial information, in connection with attributes such as completeness, presentation, assessment, cut-off, recording, and validity. The identified risks are submitted to a process of prioritisation, such that the most significant ones are selected by applying professional judgement on a number of indicators (existence of documented processes and controls, existence of systems that automate the processes, whether there have been any incidents in the past, whether the process is known and mature, or whether judgements need to be made to make estimates). The risks of fraud are not explicitly identified, although they are taken into account to the extent that they might generate material errors in financial information.

Once the most significant risks have been selected, the controls needed to mitigate or manage them are selected and designed; such controls are monitored, documented, and systematically reviewed by internal audit.

The risks selected are reviewed at least on an annual basis, within the framework of the assessment of the effectiveness of internal control carried out by the persons or divisions responsible therefor. The purpose of such review is to adjust the risks to the changing circumstances in which the Company operates, particularly in the event of changes in the organisation, information technology systems, regulations, products, or the situation of the markets.

- **Whether the process covers all the objectives of financial information (existence and occurrence; completeness; assessment; presentation, breakdown and comparability, and rights and obligations), whether it is updated, and how often.**

As mentioned above, the cycles or large processes in which financial information is generated are reviewed at least on an annual basis in order to identify possible risks of error, in connection with attributes such as validity (existence and authorisation), completeness, assessment, presentation, cut-off, and recording.

- **The existence of a process for the identification of the scope of consolidation, taking into account, among other matters, the possible existence of complex corporate structures, holding entities, or special purpose entities.**

The scope of consolidation is identified on a monthly basis, and the result thereof is the updated corporate map, which expressly identifies the changes that occurred in each period.

This review covers all companies in which Iberdrola or any of its subsidiaries has an interest, no matter how small.

In accordance with the provisions of section 529 of the Companies Act, the Regulations of the Board of Directors provide that the Board of Directors has the power to, among other things, approve the creation or acquisition of equity interests in special purpose entities or entities registered in countries or territories that are considered to be tax havens, as well as any other transactions or operations of a similar nature that, due to their complexity, might diminish the transparency of the Group.

In accordance with the same law, the Regulations of the Audit and Risk Supervision Committee of Iberdrola provide that the Audit Committee must report to the Board of Directors prior to such decisions being adopted.

Accordingly, whenever the Company intends to create a special purpose entity or an entity registered in a tax haven, or to acquire an interest in one, the transaction must first be submitted to the Audit and Risk Supervision Committee for it to issue a report and then to the Board of Directors for approval.

There are specific procedures for such purpose, tailored to the current corporate governance model, according to which such initiative is to be taken by the Division of the Group or country subholding company, head of business company, or company in which an interest is held through them, that intends to create or acquire a special purpose company or a company registered in a tax haven. In the case of companies that have a board of directors and an audit committee, their corporate governance bodies must first review the proposed transaction.

- **Whether the process takes into account the effects of other types of risks (operational, technological, financial, legal, tax, reputational, environmental, etc.) to the extent that they affect the financial statements.**

The process for the identification of risks of error in financial information takes into account the effects of other types of risks (operational, technological, legal, tax, reputational, environmental, etc.) to the extent that they affect the accounts; such risks are assessed and managed by different corporate units such as the Risk Division or Legal Services, among others. However, no express identification of such other types of risks is carried out to identify financial information risks.

- **What governance body of the entity supervises the process.**

The governance body that supervises the process is the Audit and Risk Supervision Committee, which draws on the support of the Internal Audit Division to discharge this responsibility.

F.3 Control activities

Indicate whether at least the following are in place and describe their main features:

- F.3.1. Procedures for review and authorisation of financial information, and description of the internal control over financial reporting system to be published in the securities market, indicating the persons or divisions responsible therefor, as well as documentation describing the flows of activities and controls (including those relating to risk of fraud) of the various types of transactions that could materially affect the financial statements, including the closing process and the specific review of significant judgements, estimates, assessments, and projections.**

The process or structure of certification of financial information, conducted formally on a half-yearly basis, on the dates of the year-end and interim closing processes, reflects the manner in which financial information is generated in the Group.

In such structure, the persons in charge of the country subholding companies and those responsible for

the head of business companies, together with the respective directors of control, and the heads of the global corporate areas, certify both the reliability of the financial information in the areas under their responsibility (which is the information they provide for purposes of consolidation at the Group level) and the effectiveness of the internal control system established to reasonably ensure such reliability. Finally, the chairman & chief executive officer, as the highest executive authority, and the director of Administration and Control, as the person responsible for the preparation of financial information, certify the reliability of the consolidated accounts to the Board of Directors.

The Audit and Risk Supervision Committee, with the support of the Internal Audit Division, supervises the entire certification process, and submits the conclusions of such review to the Board of Directors at the meetings at which the accounts are formally approved.

As regards the description of the internal control over financial reporting system (ICFRS) to be published in the securities markets, the review and authorisation procedure is the same as that used for all contents of an economic and financial nature of the Annual Corporate Governance Report.

The documentation of the internal control over financial reporting system includes high-level descriptions of the cycles of generation of selected significant financial information, as well as detailed descriptions of the prioritised risks of error and of the controls designed to mitigate or manage them. The description of the controls includes the evidence to be obtained in the implementation thereof, which is necessary for its review.

Each of the closing processes performed at the business units is regarded as a cycle, and the same is true of all the closing activities performed at the corporate level, of the global consolidation process, and of the process for preparation of the notes to the accounts. As a result, all such activities are subject to the methodological process described in the section relating to risks.

The specific review of critical accounting judgements and significant estimates, assessments, and projections is subject to specific controls within the model, since this type of matter entails the identification of risks of error in the different cycles in which they are made. In many cases, the evidence of such specific controls is the media supporting such reviews.

Independently of the certification process followed in the countries, businesses, and corporate areas, the Audit and Risk Supervision Committee, again with the support of the Internal Audit Division, performs an overall review of financial information on a quarterly basis, ensuring that the half-yearly financial reports and the quarterly management statements are prepared using the same accounting standards as the annual financial reports, verifying the proper delimitation of the scope of consolidation as well as the proper application of generally accepted accounting principles and international financial reporting standards.

F.3.2. Policies and procedures of internal control over reporting systems (including, among others, security of access, control of changes, operation thereof, operational continuity, and segregation of duties) that provide support for the significant processes of the entity in connection with the preparation and publication of financial information.

The controls used to mitigate or manage the risks of error in financial information include controls relating to the most significant computer applications, such as controls of user access permissions or of the integrity of the transfer of information between applications.

In addition, the Iberdrola Group has guidelines or regulations as well as procedures for internal control over reporting systems in connection with software acquisition and development, the acquisition of system infrastructure, software installation and testing, change management, service level management, management of the services provided by third parties, system security and access thereto, management of incidents, operation management, continuity of operations, and segregation of duties.

Such guidelines and procedures (which, in some cases, differ according to geographical area or type of solution and are in the process of progressive standardisation) are applied across all information systems supporting significant financial information generation processes, and on the infrastructure required for the operation thereof.

The Systems director of Iberdrola certifies the effectiveness of the internal controls established on information systems on an annual basis.

F.3.3. Internal control policies and procedures designed to supervise the management of activities outsourced to third parties, as well as those

aspects of assessment, calculation, or valuation entrusted to independent experts, which may materially affect the accounts.

Generally speaking, the Iberdrola Group has no significant duties outsourced to third parties that have a direct impact on financial information. The assessments, calculations, or valuations entrusted to third parties that may materially affect the accounts are regarded as significant financial information generating activities that lead, if appropriate, to the identification of high-priority risks of error, which, in turn, entails the design of associated internal controls. Such controls cover the review and internal approval of the basic assumptions to be used, as well as the review of the assessments, calculations, or valuations made by outside parties, by verifying them against calculations made internally.

F.4 Information and communication

Indicate whether at least the following are in place and describe their main features:

F.4.1. A specific function charged with defining and updating accounting policies (accounting policy area or department) and with resolving questions or conflicts arising from the interpretation thereof, maintaining fluid communications with those responsible for operations at the organisation, as well as an updated accounting policy manual that has been communicated to the units through which the entity operates.

The Accounting Regulations Division, reporting directly to the director of Administration and Control, is responsible for defining and updating accounting policies, as well as for resolving questions or conflicts stemming from the interpretation thereof. It maintains fluid communications with those responsible for the operation of the organisation and, especially, with those responsible for accounting functions. It publishes a quarterly newsletter, widely disseminated within the Group, on new accounting developments in connection with IFRS, which includes regulation updates (laws and regulations that come into force, drafts issued, laws and regulations enacted, laws approved and pending approval by the European Union, and expected future laws and regulations) as well as accounting questions asked internally, together with the conclusions in respect thereof.

The Accounting Regulations Division is also responsible for continuously updating the Group's accounting practices manual and for the appropriate dissemination thereof.

The accounting manual is updated continuously. For this purpose, the Accounting Regulations Division analyses whether new developments or changes in accounting matters have an effect on the Group's accounting policies, as well as the effective date of each of such laws or regulations. When a new law or regulation, or interpretation thereof, is identified as having an effect on the Group's accounting policies, it is included in the manual and is also communicated to those responsible for preparing the Group's financial information by means of the quarterly newsletters mentioned above, and there is an update of the application in which the manual is maintained.

The updated version of the manual is available in an application on the Group's internal network. This application is also accessible by VPN over the internet and can be linked to e-mail. Any change or the inclusion of a document within the manual generates a notice by e-mail to all users.

F.4.2. Mechanisms to capture and prepare financial information with standardised formats, to be applied and used by all units of the entity or the group, supporting the principal accounts and the notes thereto, as well as the information provided on the internal control over financial reporting system.

The mechanism to capture and prepare the information supporting the principal accounts of the Iberdrola Group is based primarily on the use of a unified management consolidation tool (known as BPC) accessible from all geographical areas, currently deployed across the entire Group.

A large portion of the information supporting the breakdowns in and notes to the financial information is included in the consolidation tool, and the rest is captured on standardised spreadsheets known as reporting packages, which are prepared for the half-year and year-end closing processes.

F.5 Supervision of the operation of the system

Indicate and describe the main features of at least the following:

F.5.1. The activities of supervision of the internal control over financial reporting system (ICFRS) performed by the audit committee, as well as whether the entity has an internal audit function whose duties include providing support to the committee in its work of supervising the internal control system, including the internal control over financial reporting system. Information is also to be provided concerning the scope of the assessment of the internal control over financial reporting system performed during the financial year and on the procedure whereby the person or division charged with performing the assessment reports the results thereof, whether the entity has an action plan in place describing possible corrective measures, and whether the impact thereof on financial information has been considered.

The activities of supervision of the internal control over financial reporting system carried out by the Audit and Risk Supervision Committee include basically: (i) monitoring compliance with the certification process by the various persons or divisions responsible for financial information, (ii) reviewing the design and operation of the internal control system, with the support of the Internal Audit Division, to assess the effectiveness thereof, and (iii) periodic meetings with external auditors, internal auditors, and senior management to review, analyse, and discuss financial information, the group companies covered, and the accounting standards applied, as well as, where appropriate, the significant internal control weaknesses detected.

It should be noted that on an annual basis, those responsible for the preparation of the financial information of each country subholding company, each head of business company, and each corporate area carry out a review of the design and operation of the internal control system within their area of responsibility in order to assess the effectiveness thereof, in a process coordinated by the Internal Control Division.

To that end, an analysis is made of whether, as a result of the changing circumstances in which the Group operates (changes in organisation, systems, processes, products, regulation, etc.), changes in identified risks need to be included and prioritised. A review is also made of whether the design of the controls to mitigate or manage the risks that may have changed is appropriate, as well as whether the controls have functioned properly, in accordance with their design.

The conclusions of this annual review, both as regards the deficiencies detected (which are classified as serious, medium, or slight, according precisely to their possible impact on financial information) and with respect to the action plans to correct them, are submitted at an annual seminar session chaired by the director of Administration and Control, at which the Internal Audit Division is also in attendance. At such meeting, conclusions are reached concerning the effectiveness of the internal control system at each of the different areas for which they are responsible and, overall, at the Group as a whole.

The most significant conclusions of the review performed are subsequently submitted to the Audit and Risk Supervision Committee within the framework of the periodic meetings with the director of Administration and Control.

Independently of the foregoing, the Internal Audit Area (which reports to the chairman & chief executive officer and is functionally controlled by the Audit and Risk Supervision Committee, and which, as provided in the Basic Internal Audit Regulations of Iberdrola, S.A. and the Companies of its Group, has the primary roles of working with the Audit and Risk Supervision Committee to further develop the powers thereof and to proactively ensure the proper operation of the information technology, internal control, and risk management systems of the Company), conducts an independent review of the design and operation of the internal control system in support of said Committee, identifies deficiencies, and draws up recommendations for improvement.

As a result thereof, the Internal Audit Division continuously monitors the various action plans agreed with the different organisations to correct the deficiencies detected and to implement the suggestions for improvement agreed with the organisations.

The period that the Internal Audit Division plans for an in-depth review of the entire internal control system is three years.

Specifically, during financial year 2015, more than 40 cycles of the companies Iberdrola Ingeniería y Construcción S.A., Iberdrola España S.A., Scottish Power, Ltd., Iberdrola USA, Inc., Iberdrola Energía, S.A., and Iberdrola México S.A. de C.V. were reviewed, as were the corporate areas of Administration and Control and Finance and Resources.

In addition, the Internal Audit Division performs a review of the operation of the internal controls regarded as most critical on a half-yearly basis, on the dates of the half-year and year-end closing.

The combination of the three-year reviews and the half-yearly reviews of the most critical controls enables the Internal Audit Division to perform an assessment of the internal control system, as regards the design and operation thereof, and to issue an opinion on the effectiveness of the internal controls established to ensure the reliability of financial information, which it submits to the Audit and Risk Supervision Committee within the framework of their periodic meetings.

F.5.2. Whether it has a discussion procedure whereby the auditor (as provided in the Technical Auditing Standards), the internal audit function, and other experts can inform senior management and the audit committee or the directors of the entity of the significant internal control weaknesses detected during the review of the annual accounts or such other reviews as may have been entrusted to them. Information shall also be provided on whether it has an action plan to seek to correct or mitigate the weaknesses found.

Generally speaking, the procedure for discussion of significant internal control weaknesses detected is based on periodic meetings of the various agents.

Thus, the Audit and Risk Supervision Committee holds meetings, both at the half-year and at the year-end closing, with the external auditors, the internal auditors, and the division responsible for preparing financial information, in order to discuss any significant aspect of the preparation process and of the resulting financial information.

Specifically, pursuant to the provisions of its Regulations (scope of authority), the Audit and Risk Supervision Committee of Iberdrola has, among other duties, the duty of reviewing, together with the auditors, the significant weaknesses of the internal control system detected in the course of the audit. To such end, the auditor appears before such Committee on an annual basis to submit recommendations in connection with the internal control weaknesses identified during the review of the accounts. Any weaknesses described by the auditor are monitored on an ongoing basis by the Committee, with the support of the Internal Audit Division. The auditors did not highlight any significant internal control weaknesses during financial year 2015.

Furthermore, the division responsible for preparing the consolidated accounts also holds meetings with the external auditors and with the internal auditors, both at the half-year and at the year-end closing, to discuss significant issues relating to financial information.

F.6 Other significant information.

Iberdrola has an internal model or system for control over financial reporting, the purpose of which is to reasonably ensure the reliability of the financial information. It is important to note that the development of this model, which commenced in 2006, was not the product of a legal requirement, but rather derived from the firm belief of both the Board of Directors and the senior management of the Company that in a context of growth and internationalisation as the one that could already be envisaged for the Group, an explicit and auditable internal control system would contribute to maintaining and improving its control environment and the quality of financial information; it would also boost investors' trust because of its effects on the transparency, reputation, and good governance of Iberdrola and of the subsidiaries making up the Iberdrola Group.

The Internal Control over Financial Reporting Model or System (ICFRS) of the Iberdrola Group rests on two main pillars: certification and internal control proper.

Certification is a half-yearly process in which those responsible for financial information in the different areas of the Company certify that: (i) the financial information they deliver to Iberdrola for purposes of consolidation does not contain any material errors or omissions and provides a fair view of the results and the financial condition within their area of responsibility, and (ii) they are responsible for establishing the ICFRS within their area of responsibility and have found, upon evaluation, that the system is effective. The text of these certifications is inspired by the form of certification established in section 302 of the U.S. Sarbanes-Oxley Act.

The culmination of the half-yearly process is a joint certification that the chairman & chief executive officer and the director of Administration and Control submit to the Board of Directors.

The other pillar supporting this model, i.e. internal control proper, is patterned on the reference framework described in the report entitled "Internal Control Integrated Framework" of the Committee of Sponsoring Organisations of the Treadway Commission (COSO), and is primarily aimed at providing a reasonable level of security in achieving the aim of reliability of the financial information.

The methodology used by Iberdrola for the development and continuous update of internal control consists of the following stages or steps: (i) analysis and selection of significant financial information, (ii) grouping such information into cycles or large processes in which it is generated, (iii) identification, assessment, and prioritisation of risks of error in financial information within selected cycles, (iv) design and operation of controls in order to mitigate or manage selected risks, and (v) monitoring and update of the previous steps in order to continuously adapt the model to the circumstances of corporate activities.

One of the salient features of the design of this model is that it seeks to guarantee the quality of financial information during all months of the year, such that it is not limited only to the periods of year-end or half-year closings.

This feature is strengthened through the use of a specific software application developed in-house by the Group that allows for monitoring of the status of controls at all times.

Another important feature of the model is that it extends the culture of internal control to all of the organisations, both corporate and business, that significantly contribute to generating financial information, by assigning personal responsibility for the implementation and documentation of controls.

All relevant documents in connection with Iberdrola's ICFRS, both regarding the certification process and internal control proper, are contained in the aforementioned computer application.

Those responsible for implementing the controls enter into the computer application evidence of such controls having been performed, and then evaluate the results obtained, which they rate as satisfactory or non-satisfactory. This allows for the internal control situation to be monitored in real time, and also makes it possible to act promptly on any deficiencies detected.

In addition, those responsible for control at the country subholding and business subholding companies, as well as those responsible for the corporate areas, carry out an annual review of the design and operation of the SCIF, as a systematic process for updating such model in order to adapt it to the changing circumstances of corporate activities.

The annual review is coordinated by the Internal Control Division, which is also responsible for managing the computer application and coordinating the development of the ICFRS in the various business units and corporate areas of the Group.

Moreover, the Internal Audit Division, which is responsible for supervising internal control as part of its duty of support of the Audit and Risk Supervision Committee, performs an independent review of the design and operation of the ICFRS, identifying deficiencies and formulating recommendations for improvement. Such review is carried out in accordance with an established policy of rotation among the different cycles within the model over a period of three years.

The Internal Audit Division also performs a half-yearly independent review of the effectiveness of the internal controls established to guarantee the reliability of financial information. It also reviews the process for certification of financial information on a half-yearly basis. The conclusions of such reviews are submitted to the Audit and Risk Supervision Committee, which, if appropriate, adopts such conclusions and submits them in turn to the Board of Directors.

The current scope of the ICFRS is such that, based on materiality standards, it covers the entire Iberdrola Group. At present, more than 1,000 persons within the Group use the software application, both to document evidence of the performance of more than 2,200 controls (which mitigate or manage more than 900 risks of error in financial information that have been prioritised) and to monitor, analyse, adjust, and assess the ICFRS.

Furthermore, approximately 60 officers who participate in the process of certification of the accuracy of

information under their responsibility do so by using an electronic signature directly on the computer application.

As a consequence of all of the foregoing, the final result of the certification process, which is based on the situation of internal control proper, can be reviewed by the Board of Directors of Iberdrola as one of the significant guarantees of reliability in connection with the preparation of the Group's annual and interim financial information.

F.7 External audit report

Report on:

F.7.1. Whether the information on the internal control over financial reporting system has been reviewed by the external auditor, in which case the entity should include the respective report as an exhibit. Otherwise, it should provide the reasons therefor.

The information on the internal control over financial reporting system sent to the markets has not been reviewed by the external editor for reasons of consistency with the fact that the rest of the information set forth in the Annual Corporate Governance Report is only reviewed by the auditor in connection with the accounting information contained in said Report. It is also believed that having the information on the internal control over financial reporting system reviewed externally would in a certain manner overlap the internal control review to be performed by the external auditor, according to technical auditing standards, within the context of the audit of the accounts.

G. DEGREE TO WHICH CORPORATE GOVERNANCE RECOMMENDATIONS ARE FOLLOWED

State the company's degree of compliance with the recommendations of the Good Governance Code of Listed Companies.

If the company does not comply with any recommendation or follows it partially, there must be a detailed explanation of the reasons providing shareholders, investors, and the market in general with sufficient information to assess the company's course of action. Generalised explanations will not be acceptable.

- 1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market**

Complies Explain

Article 29.2 of the *By-Laws* provides that "No shareholder may cast a number of votes greater than those corresponding to shares representing ten (10%) per cent of share capital, even if the number of shares held exceeds such percentage of the share capital. This limitation does not affect votes corresponding to shares with respect to which a shareholder is holding a proxy as a result of the provisions of article 23 above, provided, however, that with respect to the number of votes corresponding to the shares of each shareholder represented by proxy, the limitation set forth above shall apply".

Section 3 of such article adds: "The limitation set forth in the preceding section shall also apply to the maximum number of votes that may be collectively or individually cast by two or more shareholders that are entities or companies belonging to the same group. Such limitation shall also apply to the number of votes that may be cast collectively or individually by an individual and the shareholder entity, entities, or companies controlled by such individual. A group shall be deemed to exist under the circumstances provided by law, and also when a person controls one or more entities or companies".

Iberdrola believes that the limitation on the maximum number of votes that may be cast by a single shareholder, or by several shareholders belonging to the same group or, if applicable, acting in concert, is a measure to protect the many minority shareholders, whose investment is thus guarded from any transaction that is contrary to the corporate interest of Iberdrola. In this regard, it should be noted that approximately one-fourth of Iberdrola's capital is held by retail investors, who thus have little room to manoeuvre and respond to a possible influence-seeking shareholder that owns a non-controlling interest and does not reach the threshold requiring a takeover bid, and whose interest is not totally in line with the corporate interest.

It should also be noted that such voting limitation has been in effect since 16 June 1990, the date on which the General Shareholders' Meeting was held at which it was resolved, by unanimous vote of the attendees, to bring the *By-Laws* of the Company (then doing business as Iberduero, S.A.) into line with the restated text of the Companies Act approved by Royal Legislative Decree 1564/1989 of 22 December. This shows the level of corporate consensus that has existed on such voting limitation from the very beginning, which has been confirmed by the fact that such limitation has remained unchanged through various by-law amendments passed by the shareholders at General Shareholders' Meetings. In turn, it reflects the will of the shareholders to increase their bargaining power in the event of hostile offers or transactions.

In any event, article 50 of the current *By-Laws* establishes the instances of removal of such voting limitation in the event that the Company is the target of a takeover bid that receives the required shareholder approval, in which case the provisions of section 527 of the Companies Act prevail. Pursuant to the foregoing, it cannot be deemed that the limitation on the maximum number of votes that may be cast by a shareholder constitutes an obstacle to a takeover bid.

- 2. When a dominant and subsidiary company are both listed, they should provide detailed disclosure on:**

- a) The activity they engage in and any business dealings between them, as well as between the listed subsidiary and other group companies.**

b) The mechanisms in place to resolve possible conflicts of interest.

Complies Complies in part Explain Not applicable

- 3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular,**

a) Changes taking place since the previous annual general meeting.

b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Complies Complies in part Explain

- 4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.**

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Complies Complies in part Explain

- 5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.**

When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Complies Complies in part Explain

- 6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory.**

a) Report on auditor independence.

b) Reviews of the operation of the audit committee and the nomination and remuneration committee.

c) Audit committee report on third-party transactions.

d) Report on the corporate social responsibility policy.

Complies Complies in part Explain

- 7. The committee should broadcast its general meetings live on the corporate website.**

Complies Explain

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Complies Complies in part Explain

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Complies Complies in part Explain

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

- a) Immediately circulate the supplementary items and new proposals.
- b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.
- c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.
- d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Complies Complies in part Explain Not applicable

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Complies Complies in part Explain Not applicable

12. The board of directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies Complies in part Explain

13. **The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.**

Complies Explain

14. **The board of directors should approve a director selection policy that:**

- a) **Is concrete and verifiable.**
- b) **Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs; and**
- c) **Favours a diversity of knowledge, experience and gender.**

The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Complies Complies in part Explain

15. **Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.**

Complies Complies in part Explain

16. **The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.**

This criterion can be relaxed:

- a) **In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.**
- b) **In companies with a plurality of shareholders represented on the board but not otherwise related.**

Complies Explain

17. **Independent directors should be at least half of all board members.**

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.

Complies Explain

18. Companies should disclose the following director particulars on their websites and keep them regularly updated:

a) Background and professional experience.

b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.

d) Dates of their first appointment as a board member and subsequent re-elections.

e) Shares held in the company, and any options on the same.

Complies Complies in part Explain

19. Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Complies Complies in part Explain Not applicable

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Complies Complies in part Explain Not applicable

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

Complies Explain

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Complies Complies in part Explain

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Complies Complies in part Explain Not applicable

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Complies Complies in part Explain Not applicable

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations should lay down the maximum number of company boards on which directors can serve:

Complies Complies in part Explain

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Complies Complies in part Explain

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

Complies Complies in part Explain

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

Complies Complies in part Explain Not applicable

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Complies Complies in part Explain

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Complies Explain Not applicable

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Complies Complies in part Explain

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Complies Complies in part Explain

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Complies Complies in part Explain

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice chairmen give voice to the concerns of non-executive directors; maintain

contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

Complies Complies in part Explain Not applicable

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Complies Explain

36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

- a) The quality and efficiency of the board's operation.
- b) The performance and membership of its committees.
- c) The diversity of board membership and competences.
- d) The performance of the chairman of the board of directors and the company's chief executive.
- e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nomination committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Complies Complies in part Explain

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

Complies Complies in part Explain Not applicable

There is a single executive director and a single proprietary director on the Company's Board of Directors. The Executive Committee of Iberdrola is made up of five directors, one of which is an executive director and another a proprietary director. Their membership on the Executive Committee causes their relative weight therein to be necessarily greater than that on the Board of Directors. However, Iberdrola believes that it is essential for them to be a part of the Executive Committee. In any event, the Executive Committee also has an external director and two independent directors, one

of which is the lead independent director (*consejera coordinadora*), which provides a proper balance in the composition thereof, with representation of the various classes of directors of the Company, and ensures that their duties may not be performed along lines different from those reflected by the composition of the Board of Directors.

- 38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.**

Complies Complies in part Explain Not applicable

- 39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.**

Complies Complies in part Explain

- 40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.**

Complies Complies in part Explain

- 41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.**

Complies Complies in part Explain Not applicable

- 42. The audit committee should have the following functions over and above those legally assigned:**

1. With respect to internal control and reporting systems

- a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.
- b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.
- c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

- a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.
- b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.
- c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
- d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.
- e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Complies Complies in part Explain

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies Explain

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Complies Complies in part Explain Not applicable

45. The risk control and management policy should identify at least:

- a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off- balance-sheet risks.
- b) The determination of the risk level the company sees as acceptable.
- c) The measures in place to mitigate the impact of identified risk events should they occur.
- d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance- sheet risks.

Complies Complies in part Explain

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

- a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.
- b) Participate actively in the preparation of risk strategies and in key decisions about their management.
- c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Complies Complies in part Explain

47. Appointees to the nomination and remuneration committee - or of the nomination committee and remuneration committee, if separately constituted - should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Complies Complies in part Explain

48. Large cap companies should operate separately constituted nomination and remuneration committees.

Complies Complies in part Explain

49. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the nomination committee to propose candidates that it might consider suitable.

Complies Complies in part Explain

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

- a) Propose to the board the standard conditions for senior officer contracts.
- b) Monitor compliance with the remuneration policy set by the company.
- c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.
- d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.
- e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Complies Complies in part Explain

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies Complies in part Explain

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

- a) Committees should be formed exclusively by non-executive directors, with a majority of independents.
- b) They should be chaired by independent directors.
- c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.
- d) They may engage external advice, when they feel it necessary for the discharge of their functions.
- e) Meeting proceedings should be minuted and a copy made available to all board members.

Complies Complies in part Explain Not applicable

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established *ad hoc* by the board under its powers of self-organisation, with at the least the following functions:

- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.
- b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.
- c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
- d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.
- e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.
- f) Monitor and evaluate the company's interaction with its stakeholder groups.
- g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Complies Complies in part Explain

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.

d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Complies Complies in part Explain

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Complies Explain

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Complies Explain

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.

Complies Complies in part Explain

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.
- c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies Complies in part Explain Not applicable

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Complies Complies in part Explain Not applicable

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Complies Complies in part Explain Not applicable

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Complies Complies in part Explain Not applicable

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Complies Complies in part Explain Not applicable

A significant portion of the remuneration of the directors and officers of Iberdrola is received on a deferred basis in shares upon the terms approved by the shareholders. Specifically, the second

delivery of the Strategic Bonus 2011-2013, approved by the shareholders at the General Shareholders' Meeting held on 27 March 2011, was paid in 2015.

This Strategic Bonus, as well as the one approved at the General Shareholders' Meeting held on 28 March 2014, is an instrument of multi-year variable remuneration linked to the long-term performance of the Company and aligned with the shareholders' interest, given that it is paid in shares and each beneficiary's allocated a maximum theoretical amount.

The evaluation period covers three years, and payment occurs over the next three years. Recommendation 62 is made on the basis of "specify an element of deferment that allows the delivery of objectives to be confirmed". This purpose serves the Director Remuneration Policy which, as was explained, contemplates share-based remuneration instruments that are delivered on a deferred basis, for which reason the remuneration is withheld for several years.

Furthermore, it should be noted that the chairman & chief executive officer, the only executive director, has not sold shares of the Company since his appointment, and is and has for many years been the owner of a number of shares that is much higher than that provided for by this recommendation.

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Complies Complies in part Explain Not applicable

As already explained in the previous recommendation, the purpose of this recommendation 63 is also that the Remuneration Policy specify "an element of deferment that allows the delivery of objectives to be confirmed".

The Director Remuneration Policy specifies said deferral in the Strategic Bonds approved at the General Shareholders' Meetings. The delivery of shares is subject to three-year evaluation periods, and implementation occurs over the next three years. In sum, this structure allows for verification of the long-term effectiveness of satisfying the targets to which the variable remuneration is linked.

Furthermore, prior to the payment of any deferred variable remuneration, there must be a report of the Remuneration Committee confirming the effectiveness of the grounds supporting said deferred variable remuneration. If there is a circumstance that subsequently requires a correction of the parameters taken into consideration during the initial evaluation, the Board of Directors will decide whether to cancel payment of the deferred variable remuneration in whole or in part (*malus* clause).

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Complies Complies in part Explain Not applicable

Contracts with new executive directors and senior officers include, as from 2011, maximum severance equal to two times annual salary in the event of termination of their relationship with the Company, provided that termination of the relationship is not the result of a breach attributable thereto or solely due to a voluntary decision thereof.

The Company included guarantee clauses of up to five years in contracts with its key officers 16 years ago. Subsequently, in 2001, when the current chairman joined Iberdrola, he received the treatment in effect for such officers, in order to achieve an effective and sufficient level of loyalty. As chairman & chief executive officer, he is currently entitled to three times annual salary.

The Board of Directors has analysed this situation, the treatment of which is necessarily collective in nature. Any reduction in the salary multiples would carry high costs for the Company, for which reason the Board of Directors believes that it is most appropriate not to change the status quo. Any proposed reduction in the salary multiples would have a higher cost for the Company, as the amount of the contingency would gradually decrease due to the passage of time, resulting in payments far smaller than any possible reduction in the agreed termination benefit, taking into account the average age of the affected group and the low likelihood of the guarantees being enforced. In this regard, it should be

pointed out that at year-end 2014, there were 62 officers in this group. At year-end 2015, the number decreased to 52 without the enforcement of any guarantee.

H. OTHER INFORMATION OF INTEREST

1. **If there are any significant aspects regarding corporate governance at the company or at entities of the group that is not included in the other sections of this report, but should be included in order to provide more complete and well-reasoned information regarding the corporate governance structure and practices at the entity or its group, briefly describe them.**
2. **In this section, you may also include any other information, clarification, or comment relating to the prior sections of this report to the extent they are relevant and not repetitive.**

Specifically, state whether the company is subject to laws other than Spanish laws regarding corporate governance and, if applicable, include such information as the company is required to provide that is different from the information required in this report.

3. **The company may also state whether it has voluntarily adhered to other international, industrial, or other codes of ethical principles or good practices. If so, identify the code in question and the date of adherence thereto. In particular, mention whether there has been adherence to the Code of Good Tax Practices of 20 July 2010.**

MISSION, VISION, AND VALUES

Iberdrola is fully aware of its importance as a business, institutional, and social reality, and cannot nor does it want to be estranged from the challenges entailed in its position as the controlling company of one of the leading global groups in the electricity sector. The responsibilities arising from all of the above go beyond the strictly economic arena, fully reaching the social level.

Along these lines, the efforts of Iberdrola's Board of Directors since the General Shareholders' Meeting held in 2015 have been directed towards a consideration of the relations that the Company and the Group should maintain with its stakeholders, beyond its shareholders and the financial community - its workforce, regulatory entities, its customers, its suppliers, the media, society in general, and the environment, among others.

Specifically, during the month of October 2015, the Board of Directors engaged in a profound review of the mission, vision, and values of the Group to better conform them to a complex business group, with the goal of leadership in all facets of its business (both economically and especially socially) using a new focus that stresses the sustainable creation of value and emphasises the social impact of its activities.

The content of the new mission, vision, and values of the Group have been incorporated into a new rule within the Corporate Governance System: the Mission, Vision, and Values of the Iberdrola group, which contains the corporate philosophy of the Group, inspires and takes form in the Corporate Policies and in the other rules of the Corporate Governance System, governing the day-to-day activities of all companies of the Group and guiding their strategy and all of their actions.

The Company seeks a social return on all of its activities. Its corporate values reflect its commitment to the sustainable creation of value, ethical principles, transparency and good corporate governance, the development of human resources, social commitment, a sense of belonging, safety and reliability, quality, innovation, protection of the environment, customer focus, and institutional loyalty.

The Company and the other entities belonging to the Group seek to engage all stakeholders in its business enterprise in accordance with a policy on relations with all of them based on two-way communication and the principles of transparency, active listening and equal treatment, which allows for all of their legitimate interests to be taken into consideration and to effectively disclose information regarding the activities and businesses of the Group.

SECTION A.1

The shareholders acting at the General Shareholders' Meeting of the Company held on 28 March 2014 approved two increases in share capital by means of scrip issues in order to implement, for the fourth consecutive year, the shareholder compensation system called "Iberdrola Flexible Dividend" ("Iberdrola Dividendo Flexible"), which allows the shareholders to decide whether they prefer to receive all or part of their compensation in cash or in Iberdrola bonus shares.

The second increase in capital took place in December 2014, when the traditional interim dividend for financial year 2014 would otherwise have been paid, and the number of new shares that were issued and floated came to 81,244,000, par value 0.75 euro each, without a share premium, representing approximately 1.29% of the share capital prior to the increase.

The shareholders acting at the General Shareholders' Meeting held on 27 March 2015, under item 10 on the agenda, approved a reduction in share capital by means of the retirement of 135,768,494 treasury shares of Iberdrola representing 2.125% of the share capital, and the acquisition of the Company's own shares representing a maximum of 0.199% of the share capital through a buy-back programme for the retirement thereof.

As a result of such resolution, the share capital of Iberdrola was reduced by the amount of 111,362,250.00 euros in May 2015 through the retirement of 148,483,000 treasury shares (135,768,494 own shares already in treasury and 12,714,506 shares acquired from the shareholders through the buy-back programme), representing approximately 2.324% of the share capital prior to the reduction. The share capital resulting from the reduction was set at 4,680,000,000.00 euros, corresponding to 6,240,000,000 shares.

The purpose of the reduction in capital was to retire treasury shares, for which reason there was no return of contributions as the Company itself was the holder of the retired shares.

In addition, the shareholders acting at the General Shareholders' Meeting of the Company held on 27 March 2015 approved, under item six on the agenda, two increases in share capital by means of a scrip issue in order to implement, for the sixth consecutive year, the shareholder remuneration system known as Iberdrola Flexible Dividend.

The first increase in capital took place in July 2015, when the traditional supplementary dividend for financial year 2014 would otherwise have been paid, and the number of new shares that were issued and floated came to 96,870,000, par value 0.75 euro each, without a share premium, representing approximately 1.55% of the share capital prior to the increase. The share capital of the Company came to 6,336,870,000 shares after this increase in capital.

The second increase in capital took place in January 2016, when the traditional dividend for financial year 2015 would have been paid. The number of new shares issued and floated came to 60,327,000, par value 0.75 euro each, without a share premium, representing approximately 0.95% of the share capital prior to the increase. After said increase in capital, the share capital of the Company was 6,397,197,000 shares.

SECTION A.2

Given that the shares are represented by book entries, no information is available on a daily basis about the interest of shareholders in the share capital. However, since 7 May 2014, Iberdrola is a member within Iberclear of the Communication Service for securities holdings and the balanced list of buyers and sellers upon the terms set forth in Circular No 5/2013 of 27 November. The sources of the information provided are the notices sent by the shareholders to the CNMV and to the Company itself, and the information contained in their respective annual reports and press releases, as well as the information that the Company obtains from Iberclear.

Pursuant to the provisions of section 23.1 of Royal Decree 1362/2007 of 19 October, further developing Law 24/1988 of 28 July on the Securities Market, in connection with the transparency requirements relating to the information on issuers whose securities have been admitted to trading on an official secondary market or other regulated market in the European Union, it is deemed that significant shareholders are the holders of at least 3% of voting rights.

According to available information, the approximate breakdown of the interests in the share capital by type of shareholder is as follows:

- Foreign investors	62.9%
- Domestic entities	13.7%
- Domestic retail investors	23.4%

SECTION A.3

Data at the date of approval of this Report.

SECTION A.8

As of the end of financial year 2015, the number of own shares and derivatives on treasury shares at Iberdrola is 92,464,082, representing 1.459% of share capital.

Of such amount, Iberdrola has 67,636,166 own shares and 17,027,195 shares accumulated through derivatives pending settlement and that are recorded as treasury shares in the consolidated financial statements at 31 December 2015, and 7,800,721 shares corresponding to share swaps.

Pursuant to the authorisations granted to the Board of Directors by the shareholders at the General Shareholders' Meeting, during financial year 2015 Iberdrola acquired 76,341,337 own shares for 451,332 thousand euros, and 102,803,944 shares for 588,713 thousand euros, through derivatives, although the latter are included in the derivatives pending settlement as mentioned above.

In addition, 6,984,197 own shares were sold for 43,133 thousand euros. Under such authorisations, Iberdrola has retired 148,483,000 own shares.

Due to the change in the number of voting rights as a result of the increase in capital for the Iberdrola Flexible Dividend scheme, on 4 February 2016 the Company announced direct acquisitions of 41,537,228 treasury shares (0.649%).

Furthermore, at year-end 2015 there are 1,638,563 treasury shares of Scottish Power corresponding to the matching shares held in trust for the Share Incentive Plan.

SECTION C.1.3

Pursuant to information held by the Company, it is foreseeable that the circumstances leading to the classification of Mr Iñigo Víctor de Oriol Ibarra and Mr Manuel Moreu Munaiz as other external directors do not occur during 2016 and that they become classified as independent directors.

The complete professional profiles of all the directors are available on the Company's corporate website (www.iberdrola.com).

SECTION C.1.16

Mr Julián Martínez-Simancas Sánchez has ceased to hold office as a senior officer since 9 January 2016 due to his retirement. On 19 January 2016, Mr Santiago Martínez Garrido was appointed as director of Group's Legal Affairs.

SECTION C.1.29

In December 2014, under the chairmanship of the lead independent director, there was a meeting without the presence of the chairman & CEO to deliberate on his proposed re-election as director at the General Shareholders' Meeting of 27 March 2015.

Furthermore, within the framework of the process of evaluation of the Board of Directors, the lead independent director met individually with each of the directors in order to identify possible improvements in the operation thereof.

The Appointments and Remuneration Committee was split into two separate committees on 27 March 2015.

SECTION C.1.30

Below is the data on attendance of each and every one of the directors at the meetings of the Board of Directors and its committees during financial year 2015:

Directors	Board	Committees					
		EC	ARSC	ARC	AC	RC	CSRC

MR JOSÉ IGNACIO SÁNCHEZ GALÁN	8/8	14/14	--	--	--	--	--
MR JULIO DE MIGUEL AYNAT	1/1	--	3/3	--	--	--	--
MR SEBASTIÁN BATTANER ARIAS	1/1	--	3/3	--	--	--	--
MR XABIER DE IRALA ESTÉVEZ	8/8	14/14	--	--	--	--	--
MR IÑIGO VÍCTOR DE ORIOL IBARRA	8/8	--	--	6/6	8/8	4/4	--
MS INÉS MACHO STADLER	8/8	14/14	--	6/6	--	4/4	--
MR BRAULIO MEDEL CÁMARA	8/8	--	--	--	--	--	7/7
MS SAMANTHA BARBER	8/8	--	--	--	--	--	7/7
MS MARÍA HELENA ANTOLÍN RAYBAUD	8/8	--	--	--	8/8	--	2/2
MR SANTIAGO MARTÍNEZ LAGE	8/8	--	--	6/6	--	4/4	--
MR JOSÉ LUIS SAN PEDRO GUERENABARRENA	8/8	13/14	--	--	--	--	--
MR ÁNGEL JESÚS ACEBES PANIAGUA	8/8	14/14	--	--	8/8	--	--
MS GEORGINA KESSEL MARTÍNEZ	8/8	--	15/15	--	--	--	--
MS DENISE MARY HOLT	8/8	--	14/15	--	--	--	--
MR JOSÉ WALFREDO FERNÁNDEZ	7/7	--	11/12	--	--	--	--
MR MANUEL MOREU MUNAIZ	7/7	--	--	--	--	--	5/5

Notes:

- The denominator indicates the number of meetings held during the period of the year in which the director served as such or as a member of the respective Committee.
- EC: Executive Committee.
- ARSC: Audit and Risk Supervision Committee.
- ARC: Appointments and Remuneration Committee.
- AC: Appointments Committee.
- RC: Remuneration Committee
- CSRC: Corporate Social Responsibility Committee.

SECTION C.1.31

The Iberdrola Group has established a certification process by which those responsible for financial information in the different areas of the Company certify that: (i) the financial information they deliver to Iberdrola for purposes of consolidation does not contain any material errors or omissions and provides a fair view of the results and the financial condition within their area of responsibility, and (ii) they are responsible for establishing the ICFRS within their area of responsibility and have found, upon evaluation, that the system is effective. The text of these certifications is inspired by the form of certification established in section 302 of the U.S. Sarbanes-Oxley Act.

The culmination of the process is a joint certification that the chairman & chief executive officer and the director of Administration and Control submit to the Board of Directors.

The process is carried out by means of electronic signature in a software application which manages the areas of responsibility and time periods and which serves as a repository of all the documentation generated, allowing for periodic review by the supervisory bodies of the Group.

SECTION C.1.36

On 15 December 2015 the Board of Directors approved the selection of KPMG Auditores, S.L. as the auditor of the annual accounts of the Company and of its consolidated group for financial years 2017 to 2019, upon a proposal of the Audit and Risk Supervision Committee. The Board of Directors will submit this proposal to the shareholders at the General Shareholders' Meeting to be held in 2017.

SECTION D

All information regarding related-party transactions included in this Annual Corporate Governance Report 2015 is consistent with that contained in the Company's Annual Financial Report for financial year 2015.

SECTION D.2

Contracts for financial instruments are made in competition with various entities, with the one most beneficial for the Company at any time being selected. The Financing and Financial Risk Policy establishes a number of limits on derivatives contracts with a single financial institution in order to avoid excessive risk concentration, as well as to ensure a minimum creditworthiness level below which no contracts could be made. Such limits are complied with in respect of all counterparties, including the significant shareholders of the Company.

The amounts set forth as "profits and other dividends paid" correspond to the cash dividend distributed by the Company and to the free-of-charge allocation rights stemming from the two increases in share capital by means of a scrip issue approved by the shareholders at the General Shareholders' Meetings, which were sold to the Company at a guaranteed fixed price pursuant to the terms and conditions of such increases.

This information includes transactions with the shareholders Qatar Investment Authority and Kutxabank, S.A., holders of significant interests at the close of financial year 2015.

All of these transactions were made in the ordinary course of business, were carried out on an arm's-length basis, and the information about them is not needed to give a true and fair view of the assets, the financial condition, and the results of operations of the Company.

The Iberdrola Group optimises its banking transactions management by selecting financial institutions based on their solvency, presence in the Group's markets, and capacity to provide the best service in terms of costs and quality. The selection of suitable financial institutions for each bank product is supplemented by a balanced allocation based on the financial institution's risk exposure toward the Iberdrola Group and the volume of business granted.

Kutxabank provides banking services to the Group in the management of the domestic and international business.

Kutxabank corresponds in terms of how it ranks in profits and risk exposure towards the Iberdrola Group, which shows Iberdrola's commitment to achieving a balanced risk/business distribution. Kutxabank ranks below 30th as to both risk exposure and profits; therefore, it does not have a significant position as a provider of financial services to the Iberdrola Group.

SECTION D.4

Transactions with subsidiaries and companies in which the Company has an interest that have not been eliminated in the process of consolidation were made in the ordinary course of business of the

Company, were carried out under arm's-length conditions, and are of little significance to accurately reflect the assets, financial condition, and results of operations of the Company.

On 20 July 2010, the Company adhered to the Code of Good Tax Practices, a document approved at the full Forum of Large Businesses (*Foro de Grandes Empresas*) created by the National Tax Administration Agency (*Agencia Estatal de Administración Tributaria*) and certain large companies, and which was held on that date.

Pursuant to the provisions of section 2 of the annex of adherence to the Good Tax Practices Code and of subsection 5.b) of the Corporate Tax Policy, the Company reports that it has complied with the provisions of such Code as from the time of approval thereof.

Specifically, it is reported that, during financial year 2015, the Company's head of tax matters appeared on 16 February and 20 July before Iberdrola's Audit and Risk Supervision Committee to report on compliance with the Corporate Tax Policy, which includes the good tax practices contained in the aforementioned Code, all of which was reported to the Board of Directors.

This annual corporate governance report was approved by the Board of Directors of the company at its meeting of 23 February 2016.

State whether any directors voted against or abstained in connection with the approval of this Report.

Yes No

Individual or company name of director that did not vote in favour of the approval of this report	Reasons (opposed, abstained, absent)	Explain the reasons



ANNUAL FINANCIAL REPORT STATEMENT OF RESPONSIBILITY

The members of the Board of Directors of IBERDROLA, S.A. state that, to the best of their knowledge, the individual annual accounts of IBERDROLA, S.A. (balance sheet, profit and loss statement, statement of change in shareholders' equity, statement of cash flows and notes), as well as the consolidated annual accounts of IBERDROLA, S.A. and its subsidiaries (balance sheet, profit and loss statement, statement of changes in shareholders' equity, statement of cash flows and notes) for the fiscal year ended on December 31, 2015, issued by the Board of Directors at its meeting of February 23, 2016, and prepared in accordance with applicable accounting standards, present a fair view of the assets, financial condition and results of operations of IBERDROLA, S.A. as well as of the subsidiaries included within its scope of consolidation, taken as a whole, and that the management reports supplementing the individual and consolidated annual accounts contain a fair assessment of the corporate performance and results and the position of IBERDROLA, S.A. and of the subsidiaries included within its scope of consolidation, taken as a whole, as well as a description of the principal risks and uncertainties facing them.

Bilbao, February 23, 2016

Mr José Ignacio Sánchez Galán
Chairman & Chief Executive Officer

Mr Xabier de Irala Estévez
Director

Mr Iñigo Víctor de Oriol Ibarra
Director

Ms Inés Macho Stadler
Director

Mr Braulio Medel Cámara
Director

Ms Samantha Barber
Director

Ms Maria Helena Antolín Raybaud
Director

Mr Santiago Martínez Lage
Director

Mr José Luis San Pedro
Guerenabarrena
Director

Mr Ángel Jesús Acebes Paniagua
Director

Ms Georgina Yamilet Kessel Martínez
Director

Ms Denise Mary Holt
Director

Mr José Walfredo Fernández
Director

Mr Manuel Moreu Munaiz
Director